FBNHoldings

Transcript for the FY 2018 and Q1 2019

Financial Results Conference Call

Operator

Good morning and good afternoon, ladies and gentlemen, and welcome to the FBNHoldings full-year 2018 and first quarter 2019 financial results conference call. This call is being recorded. Following an overview by the GMD of FBNHoldings, an interactive question and answer session will be available. I would now like to hand the call over to Mr UK Eke, Group Managing Director of FBNHoldings. Please go ahead, sir.

UK Eke

Group Managing Director, FBNHoldings.

Thank you very much. Good morning and good afternoon, ladies and gentlemen. Thanks for joining us on this investor and analyst presentation for the FBNHoldings full-year 2018 and first quarter 2019 results. My name is UK Eke, the Group Managing Director, and on this call with me are my colleagues, from the Commercial Bank the Managing Director Dr Sola Adeduntan, and we have Ini Ebong the Group Treasurer. The CFO of the Commercial Bank is also here, Patrick Iyamabo. The CRO of the Commercial Bank, Olusegun Alebiosu, is here, and I have my colleagues from the Merchant Bank, Kayode Akinkugbe, the Managing Director, and finally I have the CFO of FBNHoldings Plc, Oyewale Ariyibi.

We have already posted this presentation to our website, and I hope you have found time to look through the presentation. I'd like to start on slide 6. Which basically provides the context on the macro environment that prevailed during the year under review, though we have stretched it to 2016, when we took charge as management. I think there's broad consensus and agreement that 2018 was challenging overall, with inflationary pressure particularly in the first half of 2018, even though it moderated in the second half of 2018.

On the oil production, this was steady at 1.7 million barrels per day, and also aided by a very stable oil price, above the projected benchmark price of $60, resulting in a significant increase in our foreign reserves, which peaked at about $48 billion in the second quarter of last year. Now, the combined effect of this is that the Central Bank of Nigeria was able to maintain a relatively stable FX regime, at the NAFEX and also the Central Bank window.

Moving on to slide 7, we have indicated some of the regulatory developments during 2018. We have discussed extensively some of these points in the previous calls, so I will just restrict myself to one or two developments that impacted us or will still impact us going forward.

By the fourth quarter of 2018, the Central Bank issued guidelines for licensing of payment service banks. We believe this will change significantly the competitive environment in the medium to long term, but as a Group we are fully ready and prepared, and we do think that we will continue to defend our market share in that space based on the platforms we have built over time.

Now, because we also play in the insurance space, I'd like to call out the NAICOM prescription for tier based minimum solvency capital framework. Even though this was suspended by the fourth quarter of 2018, I can confirm that we were also ready to fully comply with the capital requirements.

Now, for 2019, Central Bank signalled a change in direction, and I'm speaking to the MPR, which was reduced by 50 bps to 13.5%, and I think this was simply to align with fiscal policy expectations of economic growth.

Now, I'll move to slide 9, and from here I want to highlight the commitments that we made to the market in the context of our three-year strategic planning program, which we published in 2017, and ending in 2019. In the year under review, 2018, represents therefore the penultimate year of our three-year Strategic Planning Plan (SPP), and we anchored the plans on three major pillars.

The first one was about revenue generation and, in particular, diversification, taking into account the broad offering of the Group. The second was around asset quality, where we made a commitment to completely overhaul the risk architecture and deliver a very sound loan book, or portfolio. The third was around costs and capital efficiency, where we made a commitment to rein in costs, and review our capital buffers.

Right on that slide you will see the enablers we identified, and have also leveraged to deliver on these commitments, the people, processes, innovations, synergies, and technologies. I will get into more details in subsequent slides.

Now, on slide 10, we are beginning to see the improvements in credit risk governance in the Commercial Bank, which now operates in line with best-in-class standards, and we are proud to report that the vintage NPL, i.e. loans we have booked in the last two years, represent less than 1% NPL, and the overall cost of risk is now around about 2.5%.

Again, to emphasise, we have completely overhauled our entire risk management architecture. We have achieved a coverage ratio of about 89%, and a cost of risk of about 2.5%.

I am happy to report that we have fully resolved and fully provisioned, and indeed written off, our largest and most difficult NPLs, particularly Ontario and Atlantic Energy. For us, this is a major landmark, which markets should be aware of and we do think it will signpost the beginning of great things that will happen, not just in terms of loan book growth, but also revenue generation.

Slide 11 speaks to our revenue generation capabilities. We have recorded very good success in our quest to drive non-interest revenues through our digital offerings, and also to increase income from non-commercial banking subsidiaries. We are currently the undisputed leader in digital solutions and agency banking and this is happening in Africa’s largest retail market.

We do believe that this represents for us a strong bragging right, and we are going to leverage through these assets to improve profitability. Specifically, I would like to confirm that our digital channel customer base currently exceeds 10 million, again underpinning our strengths in that space. We are the only bank in Nigeria today that’s fully operational in every state, in every local government across the country, and operating with over 20,000 agents. This is on the Firstmonie Agent offering, and the target for us by end of 2019 is to exceed 30,000 agents.

Now, the FirstBank Digital Lab was established in 2018, and this is basically to harness the opportunities that exist in the fintech space. We are looking at collaboration and partnership with the fintechs, and I would like to confirm also that we have successfully crossed over 85% of all customer-generated transactions into automated platforms, so they no longer have to transact through bricks and mortar. Again, these are extraordinary achievements in a very challenging and competitive environment.

Moving on to slide 12, around operational efficiency. We continue to do very well in liability generation, and we are proud that we have an excellent funding platform, which obviously results in low-cost, diversified, and stable funding base.

The results which we are showcasing today show the 2018 full-year deposits grew 10.9% but, more importantly, low-cost deposits continued to grow, and currently represent about 86% of total deposits as at end of March 2019 in the Commercial Bank. Again, we are proud to say that our savings deposit base is about NGN1.2 trillion, which makes us clearly the biggest in that space in Nigeria.

Now, asset quality and capital, I'd like to combine that on slide 13, where we have discussed what we have done in terms of restructuring the balance sheet without diluting existing shareholders. So, we have demonstrated very clearly best-in-class capital management capability. We made a promise to the market three years ago, and even though it was challenging, we are accreting capital through profit retention outside the Commercial Bank, and therefore we have kept that promise.

To the right, you will see the capital ratios, and by year-end we closed at 17.3%, and for Q1 19 we are at 16.5%. Again, these are strong capital buffers sufficient for the growth that we intend to achieve for current year, even as we expect to ramp up profitability, and accrete further capital.

So, we will like to reassure that we will continue to sustain our best-in-class operations, we will continue to accrete organically without costs to the market, and we would remain focused on building a fortress balance sheet, capable of supporting our future when risk assets enabled growth resumes.

I will then go to slide 15. Here, we want to show that even though we have covered sufficient ground and delivered on the promises we made to a large extent, there are still a few areas we need to improve on. Specifically, I'd like to take you to slide 16, and the first point to call out there is on the costs, where we saw a spike year-on-year, but we are committed absolutely to reining in costs, even as we significantly invest for the future.

The point being made is that we will not shy away from investing in sustainable growth, even though that may result in one-time cost increases. We believe this ensures the future for us. So, if you look at the presentation, operating expenses grew by 9.7% year-on-year, clearly below inflation. If you normalise for non-recurrent costs, OpEx growth in first quarter of 2019 was 12.1%, translating to an effective cost to income ratio, again for 2019 first quarter, of 60.6%.

I need to emphasise that, given the sheer size and scale of our platform, it is very difficult to fall within a range that we would have expected all within just one year. The combination of revenue, growth, and a clear and sustainable cost-containment measure or steps will result in a more normalised cost to income ratio, and I will give you the guidance when we get to that slide.

Now, on slide 17, the second area of focus for us which is priority is the NPL. Clearly, NPL ratio of 25.9% exceeded the guidance we gave for 2018 full-year, but then we have the path as we will show you further down the presentation or during the Q&A. We have a path that will result in a single-digit NPL by 2019. This is a commitment we are giving, and we will stand by that.

On that same slide, we made a commitment that we will continue to improve on the coverage ratio, which currently is indeed above 100% under IFRS9 rules. So, 2019 remains a critical watershed for us at FBNHoldings, in line with the commitments we have made. We are not shifting the goalposts. We are committed to delivering on all the numbers we gave.

So, we reiterate our commitment to addressing all the structural issues, the balance sheet repairs, aggressively growing the revenue base and diversifying same and also, we undertake, to fast track initiatives around human capital transformation, even though this may result in one-time costs.

The key thing to take away from this slide is that we are not going to carry forward legacy issues into 2020. All of those issues will end in 2019, in line with commitments we've made.

Slide 19 gives the effects or the results of all the initiatives that we have highlighted. So, we are happy to report that profit before tax for 2018 was NGN65.3 billion, up nearly 20% year-on-year, and profit after tax was also up 31% year-on-year to NGN59.7 billion. Earnings per share inched up by 43% to NGN1.65. Non-interest income increased by 15.8% year-on-year, closing at NGN132 billion, and electronic banking revenue contribution to non-interest revenue was also up 22% to 25.8%.

Our credit impairment was down 42% year-on-year, which underscores our strong focus on resolving all the legacy issues highlighted previously. We are improving the capital absorbing capacity, with NPL coverage at 78%. Again, I emphasise, with Atlantic Energy now fully provisioned.

For 2019 first quarter, profits before tax was NGN19.3 billion, up 2.6%, and profit after tax was up also by 6.9% to NGN15.8 billion. Now, non-interest income was up 21.8%, closing at NGN30.2 billion. The electronic banking portion of that is about 33.3%. Again, sustaining the reduction in impairment charges, we are seeing a 45.3% year-on-year decline in impairment charge, reinforcing our commitment and drive to improving the asset quality.

Now, if you normalise for associated costs as listed previously, operating expenses grew by 12.2% y-o-y.

In summary, ours has been a recovery story achieved through a very difficult period, so we are delighted that we have turned the corner and taken out all the impediments to growth, and we are optimistic that we will deliver the commitments we make.

What are those commitments? I'll take you to slide 27 where we have listed the guidance for the 2019 financial year. We believe that we can deliver ROE of between 12% to 14%. The ROA, 1% to 1.5%. Our cost to income ratio will be within the band of 58% to 62%. Cost of risk, 3.5% to 4%. Of course, you'll understand why, because we have adopted the IFRS9 on expected loss basis. Cost of funds, we will continue to maintain a very decent cost of funds, between 3% and 4%, and our NIM will be within the band of 7% to 8%, and then deposit growth, we will sustain growth in that area, above 10%.

Net loans, I think we were all wrong last year. The market was completely wrong. We thought we were going to record growth, but across the industry it was either flattish, or reduction or negative. But we do believe that this year, we are going to achieve about 5% growth in the loan book, and NPL ratio, for emphasis, we will be able to deliver sub-10%. This will be achieved through a combination of loan restructuring, recovery, write-off, and loan growth.

I would like to end my presentation here and open it up for question and answers.

Thank you very much.

Q&A Session

Operator

Ladies and gentlemen, if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause now to allow everyone an opportunity to signal for questions.

We will now take our first question from Tolu Alamutu of Tellimer. Please go ahead.

Tolu Alamutu – Tellimer

Good afternoon and thank you for hosting today's call. I have a few questions on asset quality, capital, liquidity, and costs.

So, first on asset quality. Thank you for the guidance on Atlantic Energy. Can you just confirm that the loan was fully provisioned and not fully written off? In previous calls, you'd mentioned that it was possible that you might write off all or part of that loan by the end of this year if there was no resolution to the ongoing court cases and so on. Can you give us an update on that, please?

Also related to asset quality, can you please tell us how Ontario was resolved? Were the assets sold? Just for my benefit on Aiteo, can you confirm that it's no longer classified as a non-performing loan?

Then, on capital, again, thank you for being very clear on the need for no fresh capital, but does that include tier 2 as well as tier 1? Does FBN intend to call the tier 2 $450 million bond, which is callable later this year? Could you maybe give us your tier 1 and total capital ratios at the end of March without the transitional arrangements from the CBN?

Then, on liquidity, is there any plan to return to the Dollar-Eurobond market?

Then, finally, on costs, any detail you can give on the increases in non-regulatory costs in the quarter would be really appreciated, especially the operating and other losses, and professional fees. Were those all related to digital banking and IT, or were there other drivers behind those costs? Thank you.

UK Eke – GMD, FBNHoldings

Thank you. Can we take another set of questions, please?

Operator

We will now take our next question from Toyosi Oni of Renaissance Capital. Please go ahead.

Toyosi Oni - Renaissance Capital

Hi, and thank you very much for hosting this call. My first question is also on asset quality. Please can you provide a detailed explanation on what's going on with the asset quality at the Bank? The expectation was that with the resolution of these high-profile NPLs there would be a marked improvement in the asset quality, especially when we consider how much was actually written off.

Further to that, is there a risk that the bank will not deliver on the 2019 promise of a single digit NPL ratio? Can you please explain this path that has been identified for us so that we have a better understanding of where the Bank is going as regards asset quality?

My second question is on the recent appointment of Michael Anyimah, who played a significant role in driving profits for your competitor. Will we likely see similar earnings from FBN going forward?

My final question is regarding an update on senior management, and any changes that are to come, and the continuity plans for the Bank going forward. Thank you very much.

UK Eke – GMD, FBNHoldings

Sorry, the last question, can you repeat it, please?

Toyosi Oni - Renaissance Capital

So, the last question was an update on any senior management changes to come, and what the continuity plan for the Bank is currently.

UK Eke – GMD, FBNHoldings

Alright. We will respond to the questions now.

Segun Alebiosu – CRO, FirstBank

Thank you for the questions. On Atlantic Energy, we confirm that this have been fully provisioned, but not written off. We continue to engage with the government for active resolution of the issues.

As confirmed last time, the Board of FBNHoldings and the Bank will take the appropriate decision at the right time but will remain committed to the resolution of Atlantic Energy.

On Ontario assets, Ontario was resolved through a combination of asset realisation and haircuts. We did not go to court. It was a mutual understanding and exit, so we have the assets. These are currently being realised. In the last one and a half years, we had a difficult macroeconomic environment that has affected timely realisation. However, that is on course.

We confirm that Aiteo is not an NPL. Indeed, Aiteo produces about 100,000 barrels per day, so for a company that is producing that quantity in this economy, it is considered a big player, and looking at an oil price above $60 per barrel in the last 12 months, you will appreciate the quantum of cash flow that passes through Aiteo.

We’ve seen the evolution of NPL, and movement from 22.8% in 2017 to 25.9% in 2019, and that is because we adopted a more aggressive IFRS 9 outlook and framework. We are perhaps one of the two banks that adopted the Moody’s analytics model. If I’m not wrong, I think it’s only one international bank that also has this model in the market.

We decided as a Bank to remain conservative in resolving the asset quality issue as such we went ahead with Moody’s. So, you have some accounts that missed payments, maybe a day or two, but because it does not meet the IFRS 9 strict definition, we have moved to stage 3

Now, going through the year, many of them will fall back to stage 2, because we have a clear line of sight into that cash flow, and how the cash flow will impact the books, and over two quarters we expect they will be reversed.

We note the fact that there is no risk to the single-digit NPL we have committed.

Ini Ebong - Group Executive, Treasury & FI, FirstBank

Okay, speaking to liquidity and the tier 2 instrument we have out there, arguably, aggregate US dollar liquidity for the Bank has improved in the course of the last two years, and that was evident by our call and repayment of our earlier bond last year. Now, given the range of financing options available to the Bank, the fact that the Bank still retains significant market access, we'll continue to explore all options available as it relates to the instrument in question.

As you know, given that it was issued as an old-style, seven and half year format, the capital benefit will drop off anyway in the course of this year. So, the risk of capital is negligible there. So, at this stage, we are looking at the comparable options available to the Bank, and in the course of the next couple of months, well before the call date, we will take the necessary steps with regards to what we need to do for long-term financing.

Patrick Iyamabo – CFO, FirstBank

Good day, everyone. This is Patrick. So, there are a couple of questions that I'll respond to. The first has to do with tier 1, and we reiterate our commitment to the fact that there is no need to raise tier 1 capital. As explained earlier, and as you would have seen from our results, looking at the Bank at the current CAR level, we are comfortable.

More on top of that, is the guidance we have given for loan growth. The effective capital that will be consumed is less than 0.5%. So, again, coming out of the business needs for 2019, we do not see any capital pressure.

Thirdly, as you would have noticed from our financials, the level of provisions we're making every quarter, when projected for the whole year would accrete about 200 basis points of CAR. That would be strictly dedicated to managing the impairment charge.

On top of that, there's an additional 200 basis points that would accrete to retained earnings, again that's a capital buffer. So, our viewpoint, frankly, is from the business needs for this year, our current capital level, the rate at which we are accreting earnings, plus the impairment charges taken on our books, which again reflects the organic capital generating capacity of the balance sheet, we are very comfortable with our capital solution.

This is the same story we've always said the last three years. We are committed to it, and we don't see anything changing that this year.

The second question, around what our CAR levels would be without the accommodation, it is north of 10%. So, again, we are still very comfortable. The amortization process, we’re taking about NGN30 billion each year. Like I just explained, our earnings capacity, what we accrete within earnings, will be able to take care of that. On our business needs nonetheless, we’re in a very comfortable place.

The last question has to do with our OpEx, and the growth noted year-on-year, and perhaps some insight into what is driving those costs. So, there are a couple of things that have driven our OpEx growth, but I think most of them have been touched on in the earlier discussion by the Group Managing Director.

The first is really around regulatory. Between the expected cost increase, our planned deposits and growth for this year, plus the change to AMCON rules, when you look at things on a year-on-year basis, you can easily understand how our OpEx will grow anything between NGN2.5 billion and NGN3 billion.

If you lay on top of that just the sheer act of inflation, and you assume, for example, a 10% inflation impact, you can annualise that, and then translate that to quarterly levels. You recognise how you can easily add each year additional NGN5 billion increase in OpEx.

Now, something we’ve consistently said throughout is that we’re making strategic investments. Yes, we’re restructuring the business. Yes, we are growing the business, but we are also reining in cost. As a result, we are making investment in IT, and cost of consultants, and those are showing up here. But as we’ve done the last couple of years, we have tried to keep them under control.

Finally, I really want to dwell on the last bit. As part of our restructuring efforts, and also related to HR, we’ve recognised certain one-time restructuring costs in this quarter. So, these are really the gamut of things that increase our OpEx. We understand where the OpEx is coming from, but all this growth points towards positioning the institution for much better growth in the future. Thank you.

Sola Adeduntan – MD/CEO, FirstBank

To answer the last question on senior management. All that we can say is that the leadership of our institution will remain essentially intact. Periodically, depending on opportunity to enrich and enhance the team, we will go to the market and we will hire good people. The fact that we were able to attract Mr Anyimah that you referred to clearly signals the fact that we have the capacity to attract good people.

Like I said, we are always ready and have the capacity to attract good people. So, overall, while the leadership team that has taken us this far remains intact, we would continually enrich and enhance on need basis.

UK Eke – GMD, FBNHoldings

Okay. Thank you. Can we take additional questions, please?

Operator

Our next question comes from Ronak Gadhia of EFG Hermes. Please go ahead.

Ronak Gadhia - EFG Hermes

Thanks for the presentation and taking our questions. My first question - well, most of my questions are now really just a follow up on the previous callers. Firstly, on Aiteo, like you said, the loan remains performing but, from what we read in the press, it seems like there's some uncertainty about the underlying licence for that asset. So, could you just confirm if the licence has been renewed? So, that's my first question.

My second question has to do with your NPLs. I mean, I get your point, that the increase in NPLs was driven by IFRS9, but based on the conversations that we were having throughout last year, starting from the first quarter, management were consistent that IFRS9 was fully implemented from the first quarter.

So, could you just highlight why there was a surprising increase in the fourth quarter relating to IFRS9, especially since, once I take into consideration the amount of loans that you wrote off, it seems like the underlying NPL ratio was as high as 30%, if not slightly higher, which is much, much higher than what management guidance was throughout the year.

So, I'm just trying to understand where the surprise came from in the fourth quarter.

Lastly, on your NPL ratio guidance for this year, 10%, again, this is just going back to last year. There was a big surprise, there was a big negative. So, how confident should we be that this NPL ratio will be achieved this year?

Sorry, there's just one final one. On your CAR ratio, Patrick, you mentioned that on a fully-adjusted IFRS9 basis, we should knock off the capital adequacy ratio by 10%. Your CAR ratio in the presentation is 16.5%, so if we knock off 10% should we say that the CAR ratio at the Bank level is now almost as high as 15% or so? If you could just confirm what the actual number is, that would be helpful.

Segun Alebiosu – CRO, FirstBank

Thank you, Ronak. On Aiteo, we are aware that all royalty payments have been made by Aiteo, and so we await licence renewal. But we don't see any threats to the licence renewal, because the conditions for renewal of licence have been met.

Ronak Gadhia - EFG Hermes

Sure, but isn’t there some court challenge to the licence being renewed? Some environmental case?

Segun Alebiosu – CRO, FirstBank

No, because the environmental cases were caused by sabotage from the environs, not by the company. So, the Nembe Creek is not used alone by Aiteo, there are other Oil majors. So, when Nembe Creek is tampered with it also affects Shell, because this goes to Shell export terminal.

So, Shell also use Nembe Creek. So, if Nembe Creek is affected, it’s not only Aiteo. So, when you have that, it’s not because they failed to comply with environmental issues, but because of the environment itself and the vulnerability of Nembe trunk terminal.

On the single-digit NPL, please be confident. I’m being confident that the single-digit NPL will be achieved in 2019. We have clear line of sight as to how we are going to do that, and if you look at the fact that coverage ratio was 82% in Q1 19 at the Group level, so if we decide, you know, in there, to realise assets and take a logical haircut, it means it is just possible that we are going to have single-digit NPL working through that.

Now, on what happened between Q3 18 and year-end, and we’re consistent with our commitment that IFRS9 will not throw up surprises, however the model that we’re using earlier in estimating variables were different from Moody’s. In Q4 2018 when Moody’s template model came on board and we ran our numbers, we saw that movement and timing were more important, and could shape things. So, we decided to be conservative, and kicked them in, knowing fully well that they’re timing issues. These are not capacity issues. For timing issues, they can only be healed by time.

So, over time, we believe that, what you impair at year-end, within two quarters of the following year, you can get yourself back. It’s a better and conservative approach than to pack it in Stage 2 and assume it will not be classified and then it will be.

For us, with that practise, it was better, it was more transparent, conservative and decisive, for us to put it in Stage 3 and come back to Stage 2 when they’re running well.

Ronak Gadhia - EFG Hermes

Okay, but if you could just elaborate some of the major differences between the model you are using and some of the other Banks are using, because you say it’s only two Banks in Nigeria that are using the stringent model.

UK Eke – GMD, FBNHoldings

Sorry, Ronak, we can only speak to our model, as you know. We cannot speculate on the robustness of the models used by other Banks. The reference that should be germane for this conversation is that we have adopted best-in-class approach, and even though it threw up numbers that were, in quotes, adverse to our own preferred position, we are quick to adopt it regardless. That is because we wanted to fully resolve all these legacy issues, so they would not bother us or derail us post-2019. I believe that is a very prudent way to look at it.

Ronak Gadhia - EFG Hermes

Okay.

UK Eke – GMD, FBNHoldings

Okay. Patrick will take the question on CAR.

Patrick Iyamabo – CFO, FirstBank

Yeah. So, Ronak, you asked the question on CAR. I guess you were trying to understand exactly the full impact on our CAR. So, what I said earlier on was, our CAR was roughly about 16.5%, and with full impact it's north of 10%. So, in other words, without the transition adjustments, we are still north of 10%.

Just to add to that, and you may have noticed this, if you take a look at our financials, we did have about NGN32 billion locked out of retained earnings into regulatory risk reserve. Indeed, we actually think and in relative terms, doing that is consistent with Expected Credit Losses (ECL) but that's the case with us.

If you release that, that in itself is at least 100bps of capital just sitting there.

So, like I said earlier on, we are pretty comfortable from a capital position.

Ronak Gadhia - EFG Hermes

Okay. I mean my view is, obviously you've got four years to regularise this. You've got the moratorium from the CBN. But obviously, that's a ratio that the management will have to keep an eye on, and in the short term we're not seeing any significant pick-up in loan growth within the economy due to various reasons. But if they were to pick up, it seems like FirstBank could further continue to lose market share because you're still in the mode of repairing your balance sheet, whereas everybody else could start gaining market share because their capital ratios are much stronger. Is that something that you're concerned about?

Patrick Iyamabo – CFO, FirstBank

No, and I'll explain why. So, we've got three years, and if you look at our figures, that's about NGN30 billion each year. NGN30 billion each year is capital that we generate in three to six months.

So, from an earnings perspective, after taking out 200bps worth of CAR through impairment charge, I can still take care of that in six months. Now, if we look at 2019 specifically, my risk weighted asset group projections are really limited.

So, in summary, the capital position is solid. We have the ability to grow the business in ways we want to, and we are quite comfortable where we are. Think about it. By next year, when our impairment charge will drop, that 200bps of CAR we are talking about, which is NGN60 billion, will basically take us out of everything. So, we're quite comfortable.

Ronak Gadhia - EFG Hermes

Okay. Just one quick final - maybe this one's for Ini. If I look at your investment securities yield, the blended average yield last year was, by my estimate, around 8.3%, and in the first quarter it was about 9.3%, which is significantly lower than what the treasury bill yields are right now, which is anywhere between 12% to, let's say, as high as 15%.

So, why is the effective yield for you so much lower?

Ini Ebong - Group Executive, Treasury & FI, FirstBank

Well, I guess it's a function of the portfolio mix that we have at this point in time. Again, we've had to build significant flexibility into our investment securities bucket, because of the need to be relatively nimble as we deal with a number of issues working through the balance sheet.

But again, it's more environmental, and as we get better clarity around the monetary policy direction of the Central Bank, we move away from balance sheet repair mode to more investing, then we'll be in a better position to take advantage of market opportunities.

UK Eke – GMD, FBNHoldings

Thank you, Ronak. Let's take more questions, please.

Operator

Thank you. We will now take our next question from Michael Oloyede of Stanbic IBTC Pensions. Please go ahead.

Michael Oloyede - Stanbic IBTC Pensions

Thank you very much for the presentation. My questions are first of all on 9 mobile If you could give us updates on where that is, and what level of provision the account is taking.

My second question is on, what are the potential risks that you see to meeting your single-digit NPL guidance for 2019? Then, my third question is, if you could, or if it's possible to give us a breakdown, a rundown, or what was the write-off that was taken in 2018. Then, my fourth question is, what level of CAR - when you take the full impact, what level of CAR would you see as sustaining a comfortable level of dividend payments from the Commercial Bank? Thank you very much.

Segun Alebiosu – CRO, FirstBank

9 mobile was resolved in 2018. We got payment like other banks, and we took haircuts like other banks and so restructuring was completed. We don't see any heightened risks to attainment of single-digit NPL ratio. The biggest risk was then Atlantic Energy, and we confronted that in 2018 and fully provided for it. Once Atlantic Energy is out, there's no other material NPL that can actually take us out of course.

On the breakdown of written-off assets, I would say that you would permit us not to go by name, because we also need to protect the customers. But on a bilateral basis, we might be able to discuss.

Michael Oloyede - Stanbic IBTC Pensions

Okay, thank you.

Patrick Iyamabo – CFO, FirstBank

Okay. Then, I think you asked a question around CAR, what you think of the sustainable CAR. Is that correct?

Michael Oloyede - Stanbic IBTC Pensions

Yes, on full impact of IFRS9 for the Commercial Bank.

Patrick Iyamabo – CFO, FirstBank

Okay. We're currently at 16.5%. The growth projected in terms of the risk-weighted assets, cannot consume up to 0.5%. So, we are pretty comfortable. Layered on top of that the profits we plan to make this year, we are easily anywhere between 17.5% and 18%.

How much CAR do we really need to drive the business? Quite frankly, regulatory says 15% or 16%, depending on how you want to spin it. We are comfortable with anything north of 17%.

As we've consistently explained to the investment community, we've made the decisions around dividend payment as necessary to ensure that the Commercial Bank has all the capital it needs to drive business, and to ensure a robust balance sheet, and we still maintain that.

So, in summary, CAR to grow the business, frankly, we are comfortable with anything more than 17%. For this year, we would easily accrete more than that by the end of the year.

UK Eke – GMD, FBNHoldings

Okay, thank you. Let's take more questions.

Michael Oloyede - Stanbic IBTC Pensions

Thank you very much.

UK Eke – GMD, FBNHoldings

Alright.

Operator

Thank you. We will now take our next question from Kaitlyn Byrne. Please go ahead, Kaitlyn.

Kaitlyn Byrne – Prudential Investment Managers

Hi, thanks very much for the call. I just want to find out why your cost of risk guidance at 3.5% to 4% is still so high, given how many - you know, how much provision you've already taken, and your NPL on your legacy book is so low? I would think 3.5% to 4% seems quite high.

The other question is, the asset management business in Q1 2019 seems to have gone backwards. Maybe you could just give us some colour on what's happening in that division.

Then, on your increased agency and digital banking, can you give us some insights into how that's going to drive cost reduction going forward on a three-to-five-year basis? Will you be able to reduce branch sizes? Will you be able to reduce number of branches? Or, is it more that it drives the non-interest revenue side? Thanks.

Segun Alebiosu – CRO, FirstBank

Thanks. The cost of risk guidance should be between 3.5% to 4%. Just to give you two things. One, clean up. Our intention that 2019 single digit NPL ratio must be achieved. So, we clean up. At 82% coverage, we want to move close to 100%, so we are in a better position to clean and still have buffers and the implication of this is there will be impairment charges to the P&L for the year. That also signals that we will make more money in the year for us to be able to book the impairment.

Two is that we will grow loans, and looking at our model, there are few investment-grade names in the industry. So, if you have few investment-grade names, it means that many will be moderate-risk assets, and the impairment charge might also be modest, or moderate, also, which means that we need to also make provision for that in the cost of risk for the year, which we have done.

UK Eke – GMD, FBNHoldings

Okay?

Kaitlyn Byrne – Prudential Investment Managers

Yeah.

Operator

We will now take our next question from Muyiwa Oni. Please go ahead.

Muyiwa Oni - SBG Securities

Hello, and good afternoon, gentlemen. Thank you for the presentation and taking questions. So, I have three questions. First, just trying to understand if there - so, I know you highlighted clean up as a key driver for where your cost of risk is right now. I want to understand if there are other pressures you see, and then where you expect cost of risk to settle in the medium term. So, once we've gone past this clean up, how should we be modelling your impairment ratios?

Secondly, on your e-banking contribution, that has been growing steadily, I want to understand where you expect that figure to settle. i.e. e-banking as a contribution to your non-interest revenues.

Then, trying to understand what kind of risks you see to that income line. So, beyond potential competition from payment service banks, do you see regulatory risks such as potential downward moderation of fees by the Central Bank as a risk? So, more like with Commission on Turnover (CoT) as well, just to see how we should be considering risk to that income line.

Then, thirdly, on your credit growth figure, I want to understand the drivers of that 5%. So, where do you expect that loan growth to come from? But secondly as well, just looking at the Nigerian economy, how do you expect - what kind of levers do you expect to stimulate loan growth going forward, and what kind of credit growth levels do you expect as a business going forward?

Those are my questions.

Segun Alebiosu – CRO, FirstBank

Okay. Well, the cost of risk, we guided earlier, that post-2019, that we will see - that cost of risk will be below 2%, and if you’ve seen where we’ve been in 2018, we’`ve moved substantially from 6.4% in 2017 to 3.5%, almost 50% reduction, and what we’ve planned for 2019, being the clean-up year, the final clean-up year. That is why we are saying 3.5% to 4%, because we just want to ensure that we don’t leave anything behind, or at least we don’t leave anything that could pose any risk to us post-2019.

On the loan growth, yeah, we said around 5%. We believe that would be in the manufacturing sector, the non-oil export as the government is promoting same, general commerce, and consumer loans. These are the areas or sectors of growth. You will agree with me that if minimum wage as is being put forward is actualised, then the economy will flourish, and that will affect aggregate demand that will also allow the manufacturing company to be able to invest. They all have implications for the entire economy, and - because purchasing power will be enhanced, and the circular flow of funds will take the natural course.

UK Eke – GMD, FBNHoldings

I’d like to introduce my colleague Chuma Ezirim, who is the Group Executive, E-Business and Retail Products, to respond to the question on e-banking, and what our expectations are, particularly the threat of payment service banks and possibly Central Bank’s regulation charges or costs. Chuma.

Chuma Ezirim - Group Executive, E-Business and Retail Products, FirstBank

Thank you, good afternoon. Last year, we grew our digital banking revenue by about 30%. This year, we are targeting a minimum of 50%. The growth will come largely from what we are doing around agency banking. There, we have about 20,000 agents in our network. We plan to grow that by a minimum of 50% which is about 30,000 before the end of the year. If we achieve that, we will see at a minimum about 50% growth in revenue.

Secondly, we are also going to be very aggressive in growing our customer accounts. We also see that will lead to growth in revenue. Thirdly, we've been approached by several stakeholders in industry for collaboration and we've also approached some for starting a partnership. One of the things we're implementing this year is our open banking strategy which would help us leverage the assets we've made and investment in the assets to grow revenue. Fourthly, on digital channels, especially the USSD and our app, mobile app, we are enhancing the offerings by introducing additional services. So, we believe that by the time we effectively deploy all these we should grow the revenue and meet our revenue target.

On the payment services banks, we are part of the organisation that went to India, where we copied the model. It will depend on how the Central Bank regulates that scheme. If it is regulated the way it is done in India, it might be a challenge. The new banks might struggle. But having said that, we see opportunities for strategic partnership and we have been approached by major Telcos and some of the companies have applied for licence for strategic partnership based on our strategic positioning in the industry.

We also agree that there may be pressure on the fee structure especially on the digital channels. But we feel there are opportunities on the pressures that may be exerted on their digital acceptance channels. The Telcos are allowed to issue wallet. They do not have the acceptance structure to manage the increase in the number of wallets they are going to issue. So, we also see that as a revenue opportunity.

Finally, we also see maybe some pressure on deposits. If, they are allowed in to issue wallets without BVN, that might affect our deposits, otherwise, we don't foresee any threats.

UK Eke – GMD, FBNHoldings

Thank you very much Chuma. Can we take more questions please?

Operator

Thank you. Our next question comes from Segun Akinwale of ARM Securities. Please go ahead,

Oluwasegun Akinwale – ARM Securities

Hello, good afternoon. Thanks for taking my call. I have just a few questions as regards NPL. I know it's been flogged, but I just want to get some clarity. So, you mentioned that you're looking at NPL dropping to below 10% by the end of the year, which by my own calculation means that you are looking at your NPL settling at about NGN207 billion by the end of the year from current levels. So, if my calculation is right, you're looking at wiping about NGN315 billion off your NPL. So, my question relates to this. How much - because I am seeing your Atlantic Energy exposure, this is my own calculation is about NGN160 billion, but the calculation I'm seeing for what you're likely to wipe off your loans is about NGN316 billion. Can you guide to which other part of your loans that will be part of these loans that you're looking at writing off before the end of the year that will take your NPL to less than 10%?

Also, that's one, number two, you mentioned that you're looking at growing loans this year. I'm wondering, the loans you're planning to grow, is it post this write-off from your gross loans or with the loans you are planning to grow? Where would they come from? So, I'm not clear how you plan to grow loans when you're looking at writing off as much as NGN300 billion from your loan book. Can you just give me clarity to these and how you plan to make this up please?

Segun Alebiosu – CRO, FirstBank

Let me start off with the write-off. The write-off does not affect loan growth. Provision is there in other liabilities. It's actually adjusted for it. So, in the real sense, you can actually add the provision to capital because it's there. You can set it off. It doesn't affect write-off of Atlantic Energy, or that of Atlantic Energy does not affect loan creation. So, if you have at the back of your mind net loans is what now becomes the driver and not gross loan.

On how we would get to less than 10% NPL ratio, it would be a combination of loan recovery, loan restructuring, loan growth and loan write-off. We appreciate that in resolving the assets there will be a realisation of the assets where you have collaterals. Now you still take, or might likely take haircuts in the resolution of that. So, we've taken that into consideration.

We have a number of assets that might - that we believe that we will be resolved within 2019. Apart from Atlantic Energy, there are no other NPLs that is more than 1.5% of loan book. So, it's easier for us to bite the bullet on each of those ones if we decide to. It's also easier for us to realise those assets because they are not too big for us to sell. So, in doing that, we have clear line of sights on what we will do to get to where we would like. We appreciate the loan growth issue and we know that Q1 19 is gone, but for the remaining three-quarters of the year, there are opportunities for loan growth.

Today, because of IFRS9 all loans don't have the same risk weight. So, if I decide to go for an investment grade name and I have a Probability of Default (PD) of 0.02, even if I do a NGN100 billion there, it doesn't have so much impact on my capital or on my risk-weighted assets materially, because it is not exactly before, were all loans, have the same weight of 100%. So, we have clear line of sights on how we will achieve what we have guided.

Oluwasegun Akinwale – ARM Securities

So you mentioned that you're looking at costs of risk of between 3.5 to 4%. I'm wondering how much are you looking at growing your profitability that now you think - having costs of risk of about 3.5 to 4% will not affect your retained earnings or your overall earnings at the end of the year or that it will not impact your capital adequacy ratio. I'm just trying to gauge how much are you looking at growing your operating profit that it will not offset any additional provisioning.

Segun Alebiosu – CRO, FirstBank

Okay. Again, loan growth is not synonymous with profitability.

Oluwasegun Akinwale – ARM Securities

No, no. I'm saying you say you're looking at doing additional provisioning of 3.5% to 4% and at the same time you say you are looking at capital ratios coming down. So, I'm now wondering how much profitability are you looking at making that having a 4% cost of risk will still give you enough to retain for the year that it will now support your capital adequacy ratio. Or are you saying that your risk-weighted asset is going to decline faster than the decline you're going to see in your risk weighted asset?

Patrick Iyamabo – CFO, FirstBank

Okay, this is Patrick. The presentation we shared actually provided guidance. I think from the guidance there you will be able to see most of your questions are actually answered in there. So, in there, there are ROE, ROA and those ratios reflects the cost of risk assumptions that we've made.

Oluwasegun Akinwale – ARM Securities

Okay, all right, thanks. During the presentation, you mentioned something about amortisation of IFRS9. You mentioned it's going to take you between NGN30 billion annually. Is that correct? Can you please provide updates?

Patrick Iyamabo – CFO, FirstBank

Okay, so a couple of things. Yes, if we we're to go through the full cycle, NGN30 billion annually over the next three years, I also said something alongside which is we actually have NGN32 billion ring-fenced as a regulatory risk reserve

Oluwasegun Akinwale – ARM Securities

So, NGN32 billion is ring-fenced, okay.

Patrick Iyamabo – CFO, FirstBank

So, if that was released our CAR would not even be 16.5% now it would be 17.5%. Just to put the CAR in perspective, every percentage translates into about NGN80 billion in risk-weighted assets. The other thing I said was in spite of the impairment charge we plan to take, the accretion to earnings will translate into 2% CAR every six months.

Oluwasegun Akinwale – ARM Securities

Okay.

Patrick Iyamabo – CFO, FirstBank

What that means is 2% CAR is north of NGN60 billion. So, again, easily, this year, if I wanted to take care of that, I'd take care of that by middle of the year.

I also mentioned that effective next year when we expect our cost of risk to normalise, all this impairment charge actually adds back to the capital replenishment. So, if we want to even just take everything out next year, we can easily do that. I hope that helps.

Oluwasegun Akinwale – ARM Securities

Also, just for the last time, I just want to get your current exposure to both Aiteo and Ontario. What's the current value of exposure please?

Segun Alebiosu – CRO, FirstBank

For Aiteo, because we also need to protect the customer and customer information, so permit us to skip that. On Ontario, the exposure has been written down and no longer in our books we only realising

Oluwasegun Akinwale – ARM Securities

So, can you give me the value of that please?

Segun Alebiosu – CRO, FirstBank

Also permit us to skip that because we guided on exposure to Ontario before. We guided on what we're expecting as recovery and so the assets are there, and they are being recovered. But the most important thing is, looking at the fact that it is no longer in our books and therefore doesn’t post any threat to us.

Oluwasegun Akinwale – ARM Securities

Okay, thank you.

UK Eke – GMD, FBN Holdings

Okay, thank you. Let's progress with other questions if we have any.

Operator

As a reminder ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. We will now take our next question from Kaitlyn Byrne of Prudential Investment Managers. Please go ahead.

Kaitlyn Byrne – Prudential Investment Managers

Sorry, I just wanted to follow-up on the question I asked earlier on how the agency banking in digital is going to affect your costs going forward. So, yeah, how is this going to help drive your cost income lower? The second question I had asked was about the reason for the asset management division going backwards in Q1 19. Thanks.

UK Eke – GMD, FBN Holdings

Sorry, the reason for - the second question?

Kaitlyn Byrne – Prudential Investment Managers

The reason for the asset management division, the MBAM division, going backwards in profit terms in Q1 19.

Patrick Iyamabo – CFO, FirstBank

Okay, thank you. The question around digital and our agency, there are two bits to it. So, there is the revenue bits and then there is the cost bits. I think you focussed on the cost bits. The primary benefit of our cross into digital and agency is about growing our revenues, our non-interest income revenue. So, diversifying our revenue streams. Now, in terms of what it means for costs, the earnings from digital or agency is very profitable, so to look at the revenue we make versus the costs that we charge, we are looking at a cost income ratio of less than 40%. So, indeed, the efficiency benefit from our push into digital and agency is significant. Layer that on top of the revenue potential, layer that on top of the diversification benefit and the fact it's not capital for most part, the financial upside is significant.

Kayode Akinkugbe – MD/CEO FBNQuest Merchant Bank

Good afternoon, this is Kayode Akinkugbe speaking on the MBAM business. The primary reason for the drop in PBT between Q1 2018 and 2019 relates to further depreciation on some of our technology investments. About three years ago we made major investments in overhauling our technology and we rolled out the applications over a period of about two or three years. So, since 2018 and a little bit into 2019, we will start seeing the peak of the depreciation coming through. So, that's the primary reason.

UK Eke – GMD, FBN Holdings

Thank you Kayode. Do we have more questions?

Kaitlyn Byrne – Prudential Investment Managers

Thanks.

Operator

We will now take our next question from Tolu Alamutu of Tellimer. Please go ahead.

Tolu Alamutu – Tellimer

Good afternoon again. I just have a follow-up question please. Could you give us the figures for stage one, two and three loans as of the March 2019 if possible? Thank you.

Segun Alebiosu – CRO, FirstBank

The figure as at year end and that of March 2019 are same.

Tolu Alamutu – Tellimer

Okay, thank you.

UK Eke – GMD, FBN Holdings

Okay, next question please.

Operator

We will now take our next question from Segun Akinwale of ARM Securities. Please go ahead.

Oluwasegun Akinwale – ARM Securities

Hi, sorry, I'm back. I just want to clarify something on these - under your operating expenses called operational and other losses. It's about NGN5 billion from NGN926 million last year. I just want to know is it a one off in going into the rest of the year?

Patrick Iyamabo – CFO, FirstBank

The bulk of what you have there relates to one-time charges around certain transformational initiatives that are ongoing. The program itself hasn't yet ended. But what that means however while we might still incur some cost this year, these would be one-time charges relating to 2019. We also believe whatever it is you think that you have in there reflects, I mean, the most likely or worst-case scenario.

Oluwasegun Akinwale – ARM Securities

Okay, so you mean we cannot go far higher than this anymore. This is the worst-case scenario.

Patrick Iyamabo – CFO, FirstBank

What you have in there, what has been incurred as at Q1 19. You know one-time charges you recognise them as you incur them

Oluwasegun Akinwale –ARM Securities]

Okay.

Patrick Iyamabo – CFO, FirstBank

But these are one-time charges

Oluwasegun Akinwale –ARM Securities

More details on what this program is about so it's easier for us to estimate how much is likely to come from it.

Patrick Iyamabo – CFO, FirstBank

I think I can touch on part of it which is we are going through a HR transformation exercise and a part of that process we've given staff the opportunity to leave on a voluntary basis and we've paid them off in doing that. That cost is partly what it is you're seeing there.

Oluwasegun Akinwale –ARM Securities

Okay. So, if I'm going to take this, what's the number of staff you think are going to benefit from this program and how much are you looking at further settling

Patrick Iyamabo – CFO, FirstBank

There is a possibility that will still increase. But like I said, these are one-time charges. I dealt with the cost about the HR component. But there are other things that can come in. But overall, if you annualise what you see in Q1 19, it cannot get worse when you extrapolate to the end of the year.

Oluwasegun Akinwale –ARM Securities

Okay.

Patrick Iyamabo – CFO, FirstBank

In terms of specifics around the number of people, I'm afraid I can't share that, if you don't mind.

Oluwasegun Akinwale –ARM Securities

Okay, thank you.

Operator

There are no questions at this time. I would like to hand the call back to Mr UK Eke for any closing remarks. Please go ahead, Sir.

UK Eke – GMD, FBN Holdings

Okay, let me thank you all for your sustained interest in FBN Holdings Plc. We have shown very clearly by the numbers that we remain very resilient. We've also shown that we've got the courage to confront the legacy issues that we have highlighted three years ago. We have shown the result of that courage and determination to excel. We have also shown how we resolved all of them which gives indication of our commitment to keep the promises we have made. We are certain that we have the resources and we have the capacity to deliver. What is more important I'd like to emphasise, there is a whole lot more happening in the Group that you'll begin to see through P&L in the course of 2019, now we have fully resolved the legacy issues particularly around NPLs. Again, I'd like to thank you and will promise that the next call for Q2 2019 results you'll begin to see better results from FBN Holdings Plc. Thank you very much.

Operator

This concludes the FBN Holdings Plc financial results call. Thank you for your participation. You may now disconnect.

[End]