FBN Holdings PLC

Full Year 2019 Financial Results

[Operator]

Good morning and good afternoon ladies and gentlemen and welcome to FBN Holdings Full Year 2019 financial results conference call. Following an overview by the Group Managing Director of FBNHoldings, an interactive Q&A 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

Good afternoon and good morning ladies and gentlemen, and welcome to the FBNHoldings Investor and Analyst Results Presentation for the year ended December 31, 2019.

My name is UK Eke, the Group Managing Director of FBNHoldings. I'd like to introduce very quickly my colleagues that are on this call, Dr Sola, Adeduntan, the CEO of FBNL, Kayode Akinkugbe the CEO of FBNQuest Merchant Bank, Val Ojumah CEO of FBN Life Insurance, Wale Ariyibi the CFO at the Holding company, Patrick Iyamabo is the CFO of FirstBank, Segun Alebiosu, the CRO of FirstBank, and we also have Ini Ebong who is the FirstBank Group's Treasurer and Head of International Banking Business.

I guess you are all aware that certain states in Nigeria including Lagos State are under a 14-day lockdown on account of the COVID-19 pandemic. So, all of us on this call are joining from our homes, I guess some of you are also joining from your homes. Certainly, we will have the chance to discuss the implications of COVID-19 pandemic in some detail on this call.

Let me also confirm that we published our results two days ago on April 6th and then posted the presentation this morning on our website, so I hope you've had a chance to look through the postings. As usual, I will start by running through the presentation with a clear focus on some slides, after which we will go straight to Q&A.

I will start straight from slide seven. As you may be aware, 2019 marked the end of the three-year strategic planning program (SPP), which ran from 2017 to 2019. So, we thought it was important to highlight the key regulatory and macro developments over those three years and starting from 2017 where we adopted the IFRS and we saw recovery from recession which was kind of slow. Then into 2018 when the Central Bank introduced some stringent capital rules and dividend pay-out policy for banks.

Finally, to 2019, when there were a number of intervention funds launched by the Central Bank, in addition to the introduction of a minimum loan to deposits ratio by the CBN to stimulate lending by deposit money banks. Against this background we are pleased with our performance over the three-year period, as we will begin to see from slide seven of our presentation.

So, slide seven, our 2017 to 2019 business plan was basically focused around three strategic pillars. The first was about enhancing our revenue generating capabilities and we are pleased to report that we successfully ramped up our digital business which now represents about 30.2% of our non-interest income.

We have also expanded our agent banking network, to over 53,000 agents across 772 local governments of the country. Only two local governments are left out at this time because of security concerns.

Finally, as you see in the details on our presentation, we are clearly the industry leader in digital banking solutions, with 30% market share of transactions processed by the most dominant switching company and 22% market share of interbank transfers on the NIBSS platform.

The second pillar that we had to work on was about strengthening our asset quality and improving our risk culture. In line with our promise to the market we delivered on our target of a single digit NPL from 25% in 2019 to just about 9.9% in - sorry, 2018 it was 25% and then in 2019 it was 9.9%. More importantly, just being forward looking, our vintage book remains below 1%.

Finally, the third pillar was about strengthening the balance sheet and improving our operating efficiency. Our balance sheet is definitely in a stronger position now that we have solved the asset quality issues. Our liquidity ratios, both local currency and foreign currency, remain very robust, leading to the prepayments of our Eurobond commitments, cumulatively of about $750 million. Therefore, we are proud to say one more time, that we have a fortress balance sheet to support our growth aspirations.

In terms of costs, there has been progress clearly despite the appearance on paper, as we have been investing strategically to drive our various platforms and initiatives. We are going to see some of the results coming through in operational efficiency and incomes, moving up in the right direction through the next strategic cycle as well as to help us to generate more revenues over the medium term.

On slide seven we provide the key numbers for the year ended 31 December 2019. We have also provided comparative figures 2018. We are happy to report significant improvement across virtually all metrics, particularly the asset quality side of things and profitability. Clearly, we have improved our top-line performance despite what was a very challenging economic environment. We are reporting increase in our profit after tax by about 27%.

This was not only as a result of the decrease in impairment charge but also a direct consequence of our top-line growth, in particular non-interest revenue was up 20.6% year-on-year as we fast tracked our transition towards becoming transaction-led rather than an asset-led institution.

Slide eight. Looking at the key ratios a lot more closely, we see improvements in the trends of performance. A few issues to call out here on this slide include the improvement in our profitability over the years resulting in the steady progress in the return on equity at 12.4% post-tax ROE. We have delivered above inflation yields to shareholders and we are happy that this has happened, and we have also been able to bring down the NPL, like I said before, to below 10% as we guided the market.

Now, achieving a single digits NPL ratio was our biggest focus in 2019 arguably, and we are happy, very happy indeed to have finally cleaned off the books. Now, the improvement in asset quality has also resulted in the lower cost of risk which is now 2.5% against 3.5% in prior year, while our cost of funds improved to 3.1% from 3.4% in prior year.

We have mentioned to you before both at the H1 2019 and nine months 2019 calls that our cost to income ratio would remain elevated for the 2019 financial year. Therefore, the increase we are reporting should not really come as a surprise. However, this has been driven by the investments in projects that we believe are income accretive and will also expand our dominance in the digital space. So, we are going to have some more details around the projects we are focusing on over the next three years.

I think we need to spend a bit of time on slide nine just reviewing the recent developments, speaking to COVID-19. These are very challenging times, to be honest, and we acknowledge that this pandemic is something major and that this generation has not seen anything close to it. What is clear also is the clear existential threat that it poses for some nations, corporate and individuals. We have responded along three lines as an institution.

First, our staff remain our greatest asset and so we have activated our remote work mode to ensure that the staff are safe and healthy. Meaning that except those that are on critical assignments, every staff is working from home. As I said when we started this call, we all dialled in from our homes.

We have also provided necessary work tools and created connectivity among groups and departments to ensure minimal disruptions to work. We are happy with the success we have recorded so far and of course we are also monitoring productivity to be sure that staff continue to generate the required outputs.

The second strand of our response is around the customers. We remain committed to excellent customer service, and again we have activated our business continuity plans and all our channels remain open since most of the branches are closed. Also keep in mind the fact that we have about 53,000 agents across the federation providing support to our customers.

If you go back two years ago, perhaps three years, we have consistently reported that over 85% of all customer-initiated transactions are conducted through alternative channels. We are so confident about the stability of our channels and platforms that we impose charges for customers that prefer in-branch service or transactions within a band.

So long before now our customers had migrated to our e-channels and we can see the numbers, dominance in the digital space, with 30% market share of transactions processed by the most dominant switching company and 22% market share of interbank transfers on NIBSS.

I will also say that the customers are happy so far. Finally, we recognise our place in the corporate world and we are proud to be a major player in the corporate coalition to fight COVID-19, aligning with government and other corporates.

Here our engagements are in two parts. First we donated into a pool of funds and also we have the bilateral working arrangement with one of the state governments, specifically Lagos where we are providing supports to pupils and students, providing them with pre-loaded tablets or learning tools so that they can continue to do their studies during and after the crisis.

We think the Central Bank and the federal government's stimulus package should assist in restarting the economy immediately after this pandemic. I will quickly jump to slide 22 and before we go to Q&A and I want to just mention a few things. One, we have decided to not provide guidance at this time given the uncertainty around the impact of the pandemic on markets and business activities.

As we say, we are studying the environment, COVID-19 was nothing that was in envisaged or planned, when we are cutting our budget and estimates for 2020. Being the last one, the impacts will take a bit more time to dimension. So, we will ask that we provide guidance at the next call. Hopefully by the second quarter of the year that is commencing from April.

However, if we assume normality and a return to business as usual at some stage, we believe that we can actually point you towards some of the things that we want to do under our 2020 to 2022 SPP. Some of the things that will guide our progression of beginning our leadership in the marketplace.

This plan is built around four strategic pillars of performance, I will quickly run through them. First is our commitment to bring our non-funded revenues with a clear focus on digital banking. At the same time, we recognise the need to improve efficiency and productivity across the Group, and so we plan to do that through a focused cost optimisation program as well as partnerships with Fintechs.

The second pillar of our 2020 to 2022 strategic planning program is around optimising our portfolio. Here we will focus on synergy extraction which is central to our strategy of delivering quality returns to shareholders. We would like to continue to diversify our revenue streams and improve revenue synergies across sectors and across markets.

In this connection, we believe that within the three years we are looking at we should be interested in certain African countries so we will be looking at opportunities beyond Nigeria to deepen our market penetration.

Thirdly, we are committed to leading the market in delivering innovative financial solutions. We also believe that customers will remain first in our priority and then they in turn will consider us as their preferred and go to the institution for all their

transactions. Finally, the investments in our talent will be the critical enabler that will pull together all of these initiatives that will underpin our 2020 to 2022 SPP.
So that is basically the summary of our report card for 2019. Also projecting into the next three years. With that, I will now ask the operator to open the Q&A session.
Thank you very much.

Q&A Session

Operator: Thank you. If you wish to ask a question, please press star one on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press star one to ask a question. We will pause for a moment to allow everyone's signal.

We will now take our first question from Gloria Fadipe. Your line is open, please go ahead.

Gloria Fadipe - CSL
Hello, good afternoon. I understand that you can't give detailed forecast now, but if you could just speak to the lines of your - profit lines already showing some stress during this lockdown and the ones that you think will do well. So that we can at least get just an idea of the whole impact on your profits this quarter and next quarter, possibly hoping that the COVID-19 pandemic will not stretch beyond.

Then again on capital, I just want to understand what your plans are, we see you are very close to the minimum and if you could also tell us what your current LDR ratio is and then have you done any simulation in the terms of Naira devaluation, how do you expect that to impact your capital and what your plans in general regarding capital improvement this year.

Also, your OpEx, if we can get an idea of the run rates for Q1 that can guidance us towards Q2, Q3 and Q4.

Finally, if you can just tell us in general what the loan book look like, as you see it now, can we say that all bad loans have been completely dealt with and are there any stress you are seeing considering how things are happening now and the drop in oil price and the pandemic, what part of your loan book seem to be showing some stress. Thank you.

Operator: We will now take our next from Mr Wale from Sigma Pensions. Please go ahead.

Mr Wale – Sigma Pensions
Thank you for the presentation. Finally, we start to see improvements in your numbers as you've guided to, I think that was a very good set of numbers.

My question is largely on your oil and gas book, what would be the breakeven of your oil and gas - your upstream oil and gas book on current oil prices or the breakeven price for your structured loans that is in the oil and gas book. Secondly, have you hedged or what is the state of your oil and gas upstream book that has been hedged and at what prices were they hedged at?

Thirdly, I would also like to know what from an FCY position perspective, are you net long or net short or where are you? So, in case of a devaluation, what does that translate to in terms of earnings for FirstBank.

On your costs, in 2019 we saw a big jump you said about making investments in digital space. Do we expect that continue to 2020 or do you think 2019 was just a one off in 2019 and that's just the end of it, or is this something we're going to look forward to another round of high OpEx in 2020 or what's your - just comments around that.

Then the last question is about your CAR: what happens to your CAR in the event of the Naira devaluation to say, ₦400.

Operator: We will now take our next question from Jerry Nnebue from Cardinal Stone. Please go ahead.

Jerry Nnebue – Cardinal Stone
Thank you for taking my question. So I think a couple of my questions have been asked already but still on the oil and gas exposure, I understand that in 2019 you also restructured some of those exposures, I'd like to know how much of your restructured loans are in the upstream oil and gas segments.

Then also speaking to the cross initiative that you invested in 2019, how would they be of potential earnings accretive in 2020. Can you be more specific in terms of the areas where there would be earnings accretive, and that's assuming the COVID-19 issues goes away. Those are my questions.

UK Eke – GMD, FBNHoldings
Okay, I think we can give responses to some of the questions. Gloria asked five questions. Wale had five questions and Jerrie has two. I would request the CFO of the

Commercial Bank, Patrick to take all the questions related to capital and devaluation, OpEx, and a few other questions around costs, while Segun will come in to take questions around the loan book including hedging that we have adopted. Patrick, please.

Patrick Iyamabo – CFO, FirstBank
Okay, thank you very much. This is Patrick, good day everyone. So, a couple of questions were asked, and I would start with the question that pertains to profits and which is really the impact of the lockdown and associated issues on profits.

There are two bits to it. Obviously following the lockdown, business momentum as we typically know it, either in terms of trading, international trading and the typical manufacturing scale and all that during this period, will drop, and so that will filter into the financial.

It has implications for interest income as well as non-interest income, but frankly the bigger consideration for interest income has to do with CRR that the CBN continues to debit the bank as well as the low rates environment. That speaking to the downside.

The flipside however of this lockdown is that, more than any bank in the country, it plays a lot to our competitive advantage and two areas, e-business, as you would have observed over the last couple of years, we have been growing that franchise aggressively. What this lockdown has meant is that lots of transactions that the customers will typically walk into the branch to do, they are tapping into the alternate channels, to be specific here, this is either their mobile, or online.

Our competitive advantage in e-business coupled with the investments that have positioned us to scale at a time like this are turning out well for us. The longer this lockdown lasts, the greater that you see momentum and adoption and the beauty of this is that, again, depending on how long this lockdown lasts, when this is all over customers which have gotten used to this new way of banking, which again plays to our advantage.

The other point to stress in terms of upside here is really around our agency and so where cash has to be transacted, where people have to operate in remote areas, the best opportunity in the absence of being able to walk into a branch is to look for an agent. They do cash-in-cash-out and do some of their transactions. We have grown our agent network to about 53,000 agents. We are really the only viable bank agency network out there and we are seeing momentum pick up.

Initially things slowed down following the shutdown, but with all the processes in place now we are beginning to see a ramp up. So, the way the lockdown has played is a strategic priority to drive transactional business as well as alternative banking are coming to full play, and those are our competitive advantage.

There was a question around capital and CAR, specific to the bank, we were about 15.5% at the end of 2019. At this level, we are above the regulatory requirement and we are not concerned about our capital levies and for a couple of reasons. The first is apart from meeting the regulatory requirements on capital, the operating environment in the immediate term and toward the end of the year would require better risk consideration.

UK Eke – GMD, FBNHoldings
Patrick, go ahead. I suspect his line went out.

Okay, while we are waiting for Patrick to get back online, I think I will just continue from where he stopped. I think the key message as far as the COVID and the lockdown is concerned is that what we are seeing is that these events are playing to the strengths of the institution and we are happy that we concluded the investment in our IT and digital infrastructure.

We have seen volumes ramp up on our various digital channels and we are quite pleased with this. But generally, like he mentioned, we have seen that the economy itself, not just in Nigeria, globally, things have dramatically slowed down. But the expectation at this point in time is that the trajectory of COVID in Nigeria may not exactly follow what we are seeing in the western world and we might see gradual reopening of the economy earlier than we are seeing in other jurisdictions.

But the key message is that our channels are working, our agency banking where we are quite the dominant player, has picked up significantly and we're very pleased with what we have seen as far as this is concerned.

So, I will pass the call to our CRO who will answer the question related to the loan deposit ratio, the loan portfolio and how we expect that to evolve in the course of time.

Olusegun Alebiosu – CRO, First Bank
Thank you. Let me start by saying that following the outbreak of COVID-19, the international accounting standards board on March 20 issued guidelines on applying IFRS, accounting consideration of the coronavirus outbreak. Following that PRA [Prudential Regulatory Authority], EBA [European Banking Association] and ECB

also published guidelines on regulatory requirements and accounting implications of the pandemic.

The IFRS is based on principles and judgement and a high degree of judgement will be required.

Secondly, the significant increase in credit risk cannot be determined by short-term cashflow issues, but throughout the life of the asset.

Let me also clarify that if you operate in an emerging market like in Nigeria it will be prudent to also factor in currency adjustments in your plan. Our 2020 portfolio plan did that, so there is no surprise.

Now, going to your questions, sustainable oil and gas financing, relies on three variables: oil price, level of reserves and life of the operating licence.

For reserves, we are fine. Brent today is $32, so that is the worry. However, these clients also just got their licensing renewed for the next 20 years, so they have 19 years left to operate with the oil and gas reserves. Now if you look at this way, the issue of break-even point becomes a non-issue because we can always use time to balance out whatever price could not deliver.

Two, our oil and gas portfolio, in the upstream - you will observe that it reduced from 24.2% in 2018 to 17.9% in 2019. We have been careful not to grow that beyond limits. We do have hedge or hedges and we are in the money now, but it would not be prudent for the bank looking at the long-term to think about hedge alone, other than looking at sustainable oil and gas financing.

We are long on foreign currency and it’s also shown in the financials that you have seen. So, coming back now, we don't foresee any material risk or variation in our oil and gas portfolio. What will happen is under the rebuttal policies, loan tenure will be elongated to accommodate all orderly repayments and they are all fine inasmuch as we have good reserves that can pay us out. Thank you very much.

UK Eke – GMD, FBNHoldings
Okay. Patrick you we want to go back to your response, First, I think we have to apologise for the loss in communication. Patrick will continue, please.

Patrick Iyamabo – CFO, FirstBank

Okay, thank you very much. Apologies as well. This is Patrick. I was speaking to the capital bit when the call dropped, so just a couple of quick things. First of all, current level is at regulatory requirement, the business outlook till the end of the year would not put pressure on our capital position given the economic outlook and the way we see business momentum playing out.

We also have the opportunity to accrete capital coming out of earnings, we've been doing that every year for successfully and we think through earnings we can easily accrete an addition 300 basis points. So, this is really 300 basis points on top of our current capital position, which is above regulatory requirement in the market where business momentum will not accrete more capital.

We have excess Tier 2 which can bring to bear to whatever we accrete organically we also leverage with the tier two we have in place. So overall we are comfortable with our capital position. We've done the analysis, the simulations against additional FX devaluation and we are good on capital for 2020.

Now, the question around FCY position and what that - and the link back to the current environment and potential devaluation. So yes, we are currently long on our FCY books and based on our figures at the end of 2019, a 9% currency devaluation will translate into 21 billion profit for us. If you leverage that against our tier two you are looking at capital positions of around 27 billion, 28 billion. At that level we can easily take risks weighted assets in excess of 300 billion, so we are good frankly in a currency devaluation environment.

The last question I would like to take has to do with costs. The observation was a cost spike last year and whether we expect to see similar spikes this year. No, we don't. We expect our cost growth to return to our historical norms under normal circumstances. We appreciate that the devaluation of the naira, will translate into increased costs. Whatever measures the government wants to take to address the COVID-19 or currency situation, if it leads into inflation, will result in overall price increases.

Before this we expect our costs to be under control. If we layer this on, based on the projections we are seeing, we do not see a spike happening this year but rather trending back to our historical norm in spite of these two challenging situations, i.e. COVID and potential inflation coming out of the currency devaluation.

You would recall that the two key drivers, and I'm putting them in two big buckets our spike last year where one, operational losses, we explained those in full and some of the investments that we had to make to drive business. In terms of our internal processes, our external processes and as well as some marketing spend.

We speak about the e-business growth. 2018 to 2019 we saw about 60% growth. 2017 to 2018 about 60%. The whole of 2019 we saw about 40% growth in revenue. If you look at it in terms of net revenue, it's almost 50% growth. These kinds of growth, these kinds of business momentum are a reflection of some of the improvements we are making, and we are already seeing this investment pan out in our figures.

So short answer to your question, expect our cost growth to return to historical trends and then secondly, the investments we've made we are seeing them pan out and the timing could not be better. Thank you.

UK Eke – GMD, FBNHoldings
Thank you very much Patrick and Olusegun. Can we go to the next set of questions please?

Operator: As a reminder, to ask a question please press star one on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press star one to ask a question.

We will take our next question from Mr Muyiwa from SBG Securities. Please go ahead.

Mr Muyiwa Oni – SBG Securities
Good afternoon gentlemen and thank you for your call and the guidance you provided. The first is on the impact margins, are you trying to use the intervention funds by the Central Bank to grow loans which could reduce rates on your yields as well. Then secondly, I know the Central Bank is talking about giving banks room to restructure oil and gas and a few other sectors exposures, what's your risk management perspective in terms of this arrangements by the Central Bank.

Then secondly on your NPL coverage, it's down to about 40% – which is considered a low level given your peers are a lot higher than this rate. That was my question.

UK Eke – GMD, FBNHoldings
I'm really sorry but we didn't get your questions very clearly. It would be nice to understand those three questions, you asked great questions, but it wasn't very clear.

So, if you don't mind could you repeat the questions please, and if you could speak a little louder, I would appreciate it. Thank you.

Mr Muyiwa – SBG Securities
Okay, the first question is - and I want to understand what management coverage level is, particularly when you consider that your peers are in a much higher level, so how quickly do you think you will get to 100% level NPL coverage.

Then the second is on this recent CBN intervention, I want to understand how you are looking at it as a business, so the likely impact, what kind of, should I say, forbearance or comfort it gives you as a bank.

Then I think within your exposure - what you think - what are your thoughts around restructuring right now because the Central Bank is already given room for banks to restructure a few of their exposures. How are you looking at that?

Then I think with it’s the CBN intervention funds, the yields have been reduced and so - the rate used to be 9%, now down to 5%, I want to understand how that affects your interest income from earnings perspective.

Operator: We will now take the next question from Ada Ag from Agusto and Company. Please go ahead.

Ada Aga – Agusto and Company
Thank you. So, I just wanted to ask what percentage of your FX orders by filled by CBN before the lockdown period. That's one.

The second question is I would like to get an idea of is there any discussion with CBN on FX controls, especially for external repayments on loans and on trade. Thank you.

Operator: We will now take our next question from Jerry Nnebue from Cardinal Stone. Please go ahead.

Jerry Nnebue – Cardinal Stone
Hi, I just have follow-up questions to the questions I asked before. You were speaking about your capital adequacy, you said even when you simulated certain FX rates in a potential devaluation, you still feel that you're in a comfortable position.

I'd like to know what worst case FX rate scenario did you use in this simulation for your capital positioning?

Secondly, in respect to your Africa expansion strategy, so what are we looking at, are you trying to deepen your process in countries where you are already operating or are you looking at other countries? Are these some kind of organic or inorganic projects, especially for the countries where you already have presence.

Then also on the oil and gas exposures. You have said that you are comfortable, but if you can give a sense of the oil price with which you benchmark some of these loans. Just for us to have an idea of the worst-case scenario and how you are positioned. Yes, I know that you can restructure, you can elongate terms for business but just to help us understand the extent of the true nature of the exposure, that would be helpful. Thank you.

UK Eke – GMD, FBNHoldings
Okay, thank you very much. I would like to request CFO of the Commercial Bank to take the questions from the callers. Patrick, please.

Patrick Iyamabo – CFO, FirstBank
Okay. So, the question was really with the currency devaluation simulation, what loss norm did we consider. The response would be this was done on a case-by-case basis. We have the data of our customers, their propensity to manage the current situation is, individualistic to them. We also plan to tap into rather we also plan to work with them to tap into these 3 trillion plus overall bailouts provided by the CBN to help them through. So again, the specific loss cases applied was on a case-by-case basis.

Now, having said that, we're also alert to two things, which gives us the firepower from a capital perspective. The first is our FX position, which is long, and I had commented earlier on that the currency devaluation, every 9% devaluation translates into 21 billion profit, which, if leveraged, takes us to about 28 billion, which has the capacity just to cover about 300 billion in risk-weighted assets, that's one.

Two, we will accrete profits organically, easily - and we are not trying to give guidance here, because on this call, we will not give any guidance, but our expectation is we can easily accrete more than 300 basis points, and if you think about that in terms of profit capacity, to take financial heat, or you translate that earnings into Tier 1 and leverage with the excess Tier 2, we are comfortable.

To the question about coverage ratio, the CRO will respond to that. To the question about the - about African expansion, the CEO FirstBank will respond to that.

UK Eke – GMD, FBNHoldings
Okay, thank you very much. I will also ask that Ini take the question around CBN – engagement with CBN, and around the repayments on trades. But before then Segun, the CRO will take the questions around risk. Segun please

Olusegun Alebiosu – CRO, FirstBank
We will start by laying the facts that regulators across the world have been responding the COVID-19 pandemic issues, and cashflow that could follow. So, what CBN did was in alignment with all what the global banks have done clearly. So, for us we are comfortable that we don't have so much intervention funds, I mean, that are high. But even at that, what you will actually find is that we consider the totality of yield from our customers, in applying for intervention fund right from the outset, but what is more important to us is not just the interest we earn from that customer, but also the totality of the yield that customer will bring to us.

But what is paramount to that, because we consider the credit risk, quality at entry is so important, so automatically, any candidate we are presenting to Central Bank, must be that candidate that we are ordinarily willing to give our funds gladly, and we can live with the consequences. So that satisfies that position, so we don't have any concerns and we are fine, and it's okay for us to do.

On the issue of coverage, we see anything between 60% to 70% as comfortable for us, and I can assure you that we'll get there even before the end of 2020. If you flip back, and check last year, we were by 80%, but as part of our resolution plan, we needed to take care of the books, and that took a portion of the provision, which was good enough. Here it's for us to do it, and the capacity to do so is strong. Before the end of 2020, we will be within the band of 60% to 70%, we give assurance.

On the oil price and benchmark. Oil price is only useful if you have limited time, or where you reserve is not there, but for us, the benchmark no longer matters. What matters is the capacity for them to repay, as if you catch in there, you're fine, and temporary setback, actually, in cashflow, does not mean that everything about that business has gone down. The reality is that you have only to reflect.

We have some of our counterparties producing at $30 a barrel. We have some at $25, and so, even for those producing at $25, to me, they are not under water. Those who you are $30 are back to profit even at $32, so that's not an issue for us.

The most important thing is one, level of reserves, two, that we have the licence for the next 19 years of more and that we continue, because if you use the benchmark, we'll have lost the fact that we also need to reinvest continuously, from the same cash flow.

So, even if you use benchmark, and you said you are covered, you will have left behind the fact that you need to continually reinvest to gain the assets up and running. Thank you.

UK Eke – GMD, FBNHoldings
I will call on the Group Treasurer to speak about our engagement with the CBN before the CEO of the Commercial Bank comes to discuss the African expansion. Ini please

Ini Ebong – Group Treasurer, FirstBank
Okay, speaking to the questions around the FX restrictions or anything of that sort being planned. No, we don't believe that is the case. The Central Bank has been clear in its communication around market and its activities. Indeed, they've been a lot more responsive this time, as opposed to the last time we came under such an oil price shock, in that regard.

In terms of outstanding transactions, CBN is settling its obligations. I know there have been a couple of what we deem administrative delays, once in a while, but they are settling those obligations and we remain convinced that they will continue to back-stop the market in the segments and windows they continue to operate. Thank you.

UK Eke – GMD, FBNHoldings
Sorry. No, sorry, before we go to the next question, we have to take the question around the African expansion plan, please.

Adesola Adeduntan – CEO, FirstBank
I will take the question on the African subsidiaries, the expansion plan. Our focus over the next three years is to optimise our footprint across the continent, starting with entrenching ourselves more, in the countries where we currently operate, and we are actually open to both organic and inorganic considerations. Over and above that, we are also looking at other critical markets, where we believe our presence will add to our pan-African strategy.

Again, I draw attention to the imminent implementation of the African Continental Free Trade Agreement, which we believe is quite significant and will change the operating landscape across the continent. On the back of that, this is an area of focus for the Bank. Thank you.

UK Eke – GMD, FBNHoldings
Thank you very much. Let’s go to the next set of questions, please.

Operator: We will now take our next question from Kaitlin Byrne from Prudential. Please go ahead.

Kaitlin Byrne – Prudential
Hi. Thanks for taking the call. I've got a few questions. One is there's a rumour going around that you're selling your insurance business to Sanlam, so I just want to confirm whether that's true or not.

Then I wanted to ask around how you're juggling the requirements that the Central Bank has put in place, such as the increased loan to deposit, or loan to funding requirements, because this is a very tough environment to have to handle those sort of things as well.

Then I wanted to ask you, on the impact on the regulation change on that e-banking income, where there was a cap to the amount you could charge - what impact with that have for you?

Then I just want to ask whether you're doing any swaps of the Central Bank? Thanks.

Operator: We will now take the next question from Mr Wale, from Sigma Pensions. Please go ahead.

Mr Wale – Sigma Pensions
Yeah, okay. My question really was on your insurance. I see, in your annual report, you put there that you're planning to sell to the - or I think it’s part of your strategic outlook, or you're looking to dispose of your 65% interest. When do you think this transaction will be concluded?

My second question is on the oil book again. I don't know why the CRO is a bit - it appears the CRO is reluctant to state the oil price breakeven cost. What's the average breakeven cost? I mean, yeah, I agree that level reserves, but other banks disclose this number, I think it would be fair if you could disclose it, because everybody is worried about the oil price now.

Secondly, So if you're extending the duration of your loan book, because of trying to ensure that oil and gas loans, what would be the average tenure you'd say you extend your oil and gas loans out - to how far out are you going to push it out, to be able to ensure that cashflows still work out at the prices you've worked out?

Then also, on the hedges, what percentage of your upstream oil and gas loan book is hedged, or not hedged? At what prices have you hedged it?

Yes, then lastly, where do you see interest rates going over the rest of the year?
Thank you.

Operator: We will now take our next question from Kato Mukuru from EFG Hermes. Please go ahead

Kato Mukuru – EFG Hermes
Hi. Thanks for the presentation, and a very good set of results. Congratulations on achieving your target.

My first question is on your net open position. Can you just tell me what your on-balance sheet open position is, in dollars?

Also, on the insurance business, what I'd like to understand is will there be a gain? How much are you selling? Is it controlled, or are you selling a 30% stake? If you give us a little more detail on that transaction that would be appreciated.

Then, my last question is I'm still trying to understand what we should be thinking in terms of provisions this year. I understand the judgement-based decisions, but how should we even begin to model it? What should we be thinking in terms of risk charge? How should we be interpreting all of this into real numbers? Thank you very much.

UK Eke – GMD, FBNHoldings
Okay. I would start off with the responses. I will take the question on the insurance, and then we have questions on the loan book, so Segun will take those questions. There's also a question for Patrick, again you have to take the question on the e-business and Central Bank's attempts to regulate the pricing of the FX market.

Let's be very clear, please, on the insurance. If you read the statements to the market, we did not say that we have made the deal on the insurance business. In keeping with the finest tenets of transparency and full disclosure, the directors of the Holding Company considered it right to tell the market that we are in discussions with our partner, Sanlam, on that business. That was as far as we disclosed. We also said were engaging with regulators. We have not made any deal. We haven't signed any sale, and at the right time, we'll make announcements to the market.

So, at this point, there is no further comments to make on that. We only disclosed what we thought was appropriate, given that we are going to publish our accounts and post balance sheet date events - we just highlighted it as a matter of full disclosure, so if you can please permit us to remain silent on that? At the right time, if there's a deal, we definitely make that position available to the market. Thank you.

Let me invite the CFO to speak on the areas that are pertinent to him.

Patrick Iyamabo – CFO, FirstBank
Okay, thank you very much. I think there are a couple of questions - the first is digital business and the question posed was really around the impact of regulation on e-bank earnings. You're right, effective January this year, the CBN introduced policies, essentially regulated the rate downwards, in a way, similar to what they did in 2019, where it regulated downwards as well.

Now, the key areas where - that were impacted by this are really maintenance fees were we typically benefit that has gone from monthly to once every quarter, transfer fees, ATM fees – there were a couple of lines were impacted, but the implication of this, as well, is our e-business-related cost also benefited from that, specifically the Remote on Us, which is a key cost in our e-business.

So, net-net, we've simulated what this means for us. It means a reduction in our e-business income. In other words, the 50% year-on-year growth we saw in our net e-business income will take a hit if the status quo is maintained.

However, we are countering this in a number of ways. The first is we are growing the business. We plan to grow the business this year. We also plan to introduce products, because this business is not about scale, but the types and availability of the products through which we can accrete income. So those two will happen this year.

Also, we will benefit from the current operating environment, where the lockdown implies limited mobility, and depending on how this last, we will see commensurate impact on the upside in our e-business.
We are in a lucky position which I spoke on earlier, which is we've been making significant investment, so the capacity to scale, as well as the capacity - the ability to introduce those products we have then in place.

The other thing that will help counter the impact of e-business is our agency banking, which we spoke about earlier on, and we said we have about 53,000 agents. We have the capacity to stack their cash management needs. Their solutions run, on, in part, by digital platforms, so all these, combined, we expect an increased volume, coupled in our product, to help offset this operating environment that - the reduced rates that the regulator had to enforce.

To the question about interest rate for the rest of the year, I think the first thing is that this are unusual times, and the regulators approach to monetary policy will be unique. Ordinarily, we expect rates to move up this year, given everything on the table, and if rates move up, we will be a chief beneficiary.

Just to put that in perspective, a 7% increase in rates, based on our books as at 31 December 2019, we'll accrete about 30 billion more profit for us. So, we look forward to a higher rates environment, and would respond to what the regulator does.
Thank you.

UK Eke – GMD, FBNHoldings
Ok, Segun, you want to respond to some of the issues

Olusegun Alebiosu – CRO, FirstBank
Yes. The first one was on the LDR. The CFO clarified that based on the structure of our balance sheet, and the revenue opportunities that we have, that we can support up to 300 billion in risk weighted assets.

In responding to LDR, in 2019 we grew the net loan book by 11%, but we chose the clients/business we were willing to grow with. We will continue to abide by our RAC [Risk Acceptance Criteria] knowing fully well that the credit risk will sit with us. We will have LDR in mind but also have quality at entry in mind. If we balance both, we have capital to grow, and then we are fine.

On oil price break-even point , I hinted that some of our customers' are producing at $25 per barrel and some at $30 and if you look a company that has been operating for 40 years in oil and gas and then they are producing at $10, so they produce a different rates and they have different level of profitability. Also, I alluded to the fact that we have a different hedge and in the money. I'll try to clarify that.
If you check 20 years' average, oil price average is $40, so that will give you a hint that is my customers, are even producing below 40 years' average price, it tells you that we have the good customers that we can deal with. Even if they are producing at

$25 and they need to also reinvest, and therefore we can just record their cash flow, so we need to have that in mind.

On the provisions, we are evolving. I put forward the IFRS guidelines and responding to COVID-19, and accounting issues. We are evaluating those. We do know that it's likely that we might have impairment, not necessarily, NPL, but because the lifetime PD [Probability of Default] will change with the operating environment, we might have less than 5% increase in impairment charge. But events are unfolding, and I'm sure in subsequent calls, we will be able to put numbers to that. Thank you.

UK Eke – GMD, FBNHoldings
Okay, so Ini, I think there was a question on our swap book. If we had any swaps with CBN. Can you just go through with that?

Ini Ebong – Group Treasurer, FirstBank
Okay, I would just say that we have swaps and other kinds of derivative kinds with a wide range of counterparts, not just with the Central Bank, and as they mature, we deal with a wide range of counterparts in the market.

UK Eke – GMD, FBNHoldings
Do we have more questions in queue please?

Operator: As a reminder to ask a question please press *1. We will pause for a moment to allow everyone’s signal.

We will now take our next question from Ronak Ghadia, from EFG Hermes. Please go ahead.

Ronak Ghadia– EFG Hermes
Good afternoon, gents. Thanks for the presentation and again, just to echo what our Kato said, congratulations on the NPLs. That's been a long road, it's been a tortuous road, but glad to see you're finally there. Having said that, one of the effects of that NPL road is that your capital adequacy - if I look at the full IFRS 9 capital adequacy ratio, it's at 11.3%.

If I were to take the conversation back to three months ago, when you were doing your nine months' call, I think Patrick or Segun had mentioned that by the end of the year that ratio would be as high as 17%, so could you just share your thoughts on why that capital adequacy ratio did not increase during the last year?

If you could provide a clear roadmap on how that will be achieved, over the next two, three years? I know we talked briefly about the capital you could generate from a re-evaluation, internal capital, but it seems all that capital that you will be generating could be consumed by the devaluation of the Naira, by the increase in LDR requirements, et cetera. So, it'll because good if you can provide some clarity on that.

The second question, again, to echo what Kato mentioned, and that I don't think it was answered, was that the FX net open position - if you could just clarify what that net open position is - the exact number - at the Bank level and at the Group level, and how much risk is on balance sheet and how much of it is off balance sheet?

Third question is on your oil and gas exposure. I totally understand what Segun is saying, if the underlying borrower has reserves, you can continue to extend the duration of that loan, and he could continue to make payments, however, I'd like to understand what implications that has, in terms of the duration of the assets, versus the duration of liabilities, what mismatch does that cause, and is that something of a concern?

Finally, something that never really gets talked about in any of your calls, presentations, et cetera, is your UK subsidiary, it's 20% of your assets, so it would be good if management can talk about the underlying performance of this bank. What kind of ROEs is it achieving? What kind of growth is it achieving? What's the outlook for that subsidiary?
Thank you.

Operator: We will now take your next question from Mr Dimeji Adeyanju, from Standard Chartered Bank. Please go ahead.

Dimeji Adeyanju– Standard Chartered Bank
Hi. Thanks for the call. Just to re-echo the questions by the previous caller, wanted to know what plans you have to improve your Tier 1 capital, given that now it is low, and it could be a little more costly to acquire funds and to get investors as it was before. And knowing that this time is also not very good time to acquire new equity, so what plans do you have maybe to improve it from the 15.5%, which is really close to the regulatory minimum?

Also, on the oil and gas onstream facility that has been hedged, would want to know, if FirstBank owns the final payment liability in the event of, I mean given the oil price has gone down, who has the final payment liability FirstBank, or is there another entity who is also - who is FirstBank has hedged with? Thank you.

Operator: Your next question from Adesoji Solanke from Rencap. Please go ahead.

Adesoji Solanke – Renaissance Capital
Hi, yeah, this is Adesoji Solanke from Renaissance Capital. Thank you for the call. I just have a few questions. The first one is you have said quite a bit about the digital investments you've been making. Can you just shed some colour on what exactly these are?

The second question is, if we get away from oil and gas - I know that's what everyone is talking about. For the other sectors on your loan book, where have you seen pressure coming from, separate from oil and gas. What kind of conversations are you having with them so far?

My third question is with respect to agent banking, how do you think about what you're rolling out viz- a-viz SANEF? Better said, are you part of the SANEF, or are you building a parallel network there so you can benefit from both, eventually?

My next question is on the cost base. If you look at that number, which is just about NGN300 billion, what portion of that is one-off? Essentially, the number that should fall, because it's not going to repeat, going forward.

Then, just in terms of NPL, if the CRO could just talk a bit about this in terms of how you addressed it in 2019, what's the split between what was written off, restructured, et cetera?

My final question is, can you just tell us what the breakdown of the loan book is in Stage one, Stage two and Stage three in 2019 versus 2018? Thank you.

UK Eke – GMD, FBNHoldings
Okay, that's quite a lot, and we'll try to take all of them. From EFG Hermes we have another question from Standard Chartered and then Rencap, the last one, so Adesoji Solanke. If I can ask Patrick to kick off, with the responses, the question around Tier 1 capital came back again. Then the other question around agent banking. Do you want to take those questions, Patrick and then Sola will take the question on FBNBank UK, and then Segun will come back to take the questions on oil and gas, please? Patrick.

Patrick Iyamabo – CFO, FirstBank
Okay, thank you very much. The question around capital, now, I think a lot of the discussions we've historically had is that giving all the significant impairment charges that we had to take, coupled with our confirmation to the market that we would get

into single-digit NPL, the market concern was that we would either not have enough capital to deliver the single-digit NPL, or we were to demonstrate enough capital, we will not meet the single-digit NPL. That has been the constant discussion point.

We delivered both of them, as assured the market, so we have single-digit NPL and we took all the charges, as we have said, plus, if you recall, part of what we said last year, despite our OpEx, where operational losses, we decided to take to settle dispute with governmental agencies, and we still came out with our CAR at 15.5%.

Some of the things we gave assurances last year that would be utilised to deliver this were (1) organically accreting capital, and we did that. We also said we will complement by strengthening Tier 2. We delivered that. We also made mention of the fact that within regulatory risk reserves was actually 100 basis points in capital that we could tap into, and if you look at our result at the end of 2019, based on our loan book clean-up we're able to extract about NGN19 billion. We delivered that. We still have some cushion there, and will be released as we complete the clean-up, and demonstrate to the regulator that based on our IFRS provision, there is no need for an additional regulatory charge.

Let's talk about our long position and how that can accrete to profit. That did not happen last year, and so the earnings benefits coming from a devaluation - the earnings benefits and the CAR impact didn't show then but it is showing up this year.

So, to the question around our CAR last year. We gave assurances about a couple of things. We delivered a good number of them. We delivered the single-digit NPL, and took the charges through P&L, cleaned up our book, and still came out with 15.5% CAR.

We are in 2020 and we spoke earlier about what we again we plan to do for CAR in 2020. Between the capital that meets the regulatory requirement – regulatory requirement is 15%. The fact that the business environment would not create business growth pressures on our existing capital, the fact that we will organically accrete capital, which we will capitalise during the year, as well. The fact that we have excess Tier 2 that we can leverage and that we can use to leverage our Tier 1.

Again, similar to some of the discussions we had last year, looking at 2020, we are comfortable that we have the capital we require to take the business through this year, in addition to any pressure that will come out from currency devaluation. Don't forget, every time there's currency devaluation, we're actually better off, because we accrete more profit than is consumed by the risk-weighted assets, so our capital is fine.

There was a question around agency banking, and whether we're part of SANEF, or whether we're running our thing in parallel. We are part of SANEF. We are on that board. We are part of that consortium, and we will leverage or benefits equally or better than most of the parties in SANEF. But here is our experience, but in addition to that, we continue to do our network.

Here are our observations. For agency business to be very successful, a couple of things need to be on the table. First, the decision-making process needs to be swift. With our agency banking business, we can have meetings and make decisions that SANEF would spend three months or six months, still trying to figure out, because it's a consortium of lots of banks.

(2) At the heart of agency banking are two critical things (1) how you manage those agents and (2) your - the cash management service you offer to those agents, because they are generating cash. To be able to do that very well, you need to have branches that can act as hubs for groups of agents, and this is where our distribution network is a competitive advantage, because we are really the only bank with that kind of access that positions our branches to act as hubs for these agents, and because there's a single command and control within the bank, everything required to manage those agents, we can easily execute.

SANEF will have to go through a long process to come to that same landing. We have the structure right now. We are making decisions internally about how to provide the cash management needs of those agents under the circumstances we are, on a daily basis, interacting with them and dealing - addressing their issues. SANEF can't respond that way, because all the banks need to come together, and those discussions are not happening.

So, short answer to your question, we are part of SANEF, we also have our agent banking network, however, we see clear competitive advantages coming out of our model, and ensuring, not just in terms of volumes.

UK Eke – GMD, FBNHoldings
Segun you want to continue with the response

Adesola Adeduntan – CEO, FirstBank
UK let me just round off the points that Patrick was making. To summarise, on SANEF, we are an integral part of SANEF - in fact, we sit on the Board of SANEF - but because agent banking is a key part of the strategy of FirstBank, we have decided

to roll out our separate network, but in collaboration with SANEF, and I think that is very important.

I will move on to take the question on FBNBank UK, which, as you rightly highlighted, is a very, very important part of our franchise - 20% of the loan book. Today, we are very happy - we are very happy with the kind of results that we're getting out of that particular franchise. It remains our flagship franchise - our window into the international financial market.

The ROE expectation is different from our expectation from our other businesses, given the fact that it's operating in a developed world, even though it's an African-focused business, so our ROE target and expectation is much lower. The way we look at it, FBNBank UK in the portfolio our investments, it that it helps us to reduce the risk profile of our client business. Long and short, we are very happy, with what we are seeing, what is coming out of that franchise, it's doing well from that perspective.

The last question I will take before I yield the floor, is someone asked the question around what are the nature of the digital investments we've spoken about?

When we set out in 2017, that we want to re-orientate our institution from the credit-led institution to transaction-led institution. That entailed significant investment in our processing capacity. Some of the investment that we've made over the last three years include new investment in the core banking applications. We've enhanced the processing capacity of the core banking applications. Today our core banking applications is planned to handle up to about 40 to 45 million customers, given our expectations in terms of our growth trajectory.

We've also made significant investments in various channels. I don't know whether you're aware, recently our mobile banking app, the FirstMobile, won the best mobile banking app in this part of the world. So, we continuously we're improving on it, we're working on it.

Given the fact that innovation is also central to what it is that we're trying to achieve with the institution, we've actually set up the digital innovation laboratory, where we're continuously looking at customers' needs, their expectations, and we're continuously investing, finetuning our products, and indeed, launching new products.

The other thing and we've also made significant investment in our transaction banking platform. Today we have an integrated cost management and trade management - trade finance management platform that we call FirstDirect, which allows our corporate customers to initiate transaction from the comfort of their home. It allows them to manage liquidity. It allows them to also do actual pooling from different banks.

Those are just some of the investments that have been made, and because of the kind of volume growth that we have experienced and we expect to continue to experience, we've also made significant investments in the back office, in terms of storage, in terms of the quality of our links, to ensure that we deliver on our promise to our customers.

I will round of this particular section by highlighting the fact that today over 85% of our customer-induced transactions are conducted on alternative channels. We currently control over 30% of the volume of digital transactions processed in the market, and if you look at the NIBSS platform, we control over 22% of transactions that are processed through that.

So, if there is any area where we believe in terms of our leadership is in the area of digital transformation, and that's just on the customer interface. We also made significant investments internally for cost - on cost side, in terms of what we need in the area of risk management. What we're doing is in the area of finance, human capital, and our procurement processes. All of them digitised, and we are bringing in the kind of efficiency that we expect, and we expect the impact to begin to filter through our financial statement - we have from now, going forward.
Thank you.

UK Eke – GMD, FBNHoldings
Thank you very much. I don't know if you want to just say one or two lines Segun, on the loan book, or the question around staging?

Olusegun Alebiosu – CRO, FirstBank
The oil and gas book, as we said, is just 17.9% of the loan book. Two, is that extension may be between one to three years. The good thing is that some of these assets, the off takers of these products are also investors, so it makes it very easy for us to see cash flow, so we can determine, that we're extending is just something that is logical, and principled, because you can see the cashflow and can see the reality and the investment they are making.

On the issue of what other areas will worry us based on devaluation of issues in the economy, this will be exposures to staff of state governments. We saw the last time, that some states where unable to pay for several months, so we quickly look at our books and we discovered that what we have is about 0.6% of our loan book is what we have as employees of state governments. For that, we look the books and considered it not significant.

About to the question on what proportion of our NPL book was written off, restructured, recovered and loan growth. Loan growth you will discovered played a lot, but we also wrote off about 60%. Atlantic Energy alone was about 50% of our NPL then. So, with Atlantic Energy alone was about 50% and then there were some other haircuts that also needed to be taken to resolve some NPLs, then recovery was about 20%.

On the movement of stages, movement in NPL alone from 25 NPL to 9.9 means that you have a level, and you look over the figure last year, just fell into the bucket. If you check 2018, you had about 45% in Stage 1. Now you have about 55.1% in Stage 1. Stage 2 remains 35% because of project finance in that bucket, and then Stage 3 is 9.9% so, this shows the movement we've seen on the stages.

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.

UK Eke – GMD, FBNHoldings
Okay, thank you very much. We'd like to start by thanking all participants on this call for your sustained interest in our story. We are excited and indeed proud of what we achieved over the last three years, as you'll agree. It is a new beginning, as we begin to execute our 2020 to 2022 strategic planning programme. We would like to assure the market that we have indeed repositioned this Group for sustained growth. We believe that the heavy lifting has been done and accomplished. The task ahead is for us to now take our leadership position in the industry.
We would be addressing you in our next quarter numbers, also, hopefully provide the guidance for the 2020 financial year.

Before then, if you have questions, we request that you get in touch with us. Tolu, the Head of Investor Relations, will be available, to also the executives to take your questions. On that note, I'd like to thank you, and we're signing off now. Bye-bye.

Operator: This concludes the FBNHoldings financial results call. Thank you for your participation. You may now disconnect.

[End]