FBN HOLDINGS PLC

TRANSCRIPT FOR THE HALF YEAR 2018

FINANCIAL RESULTS CONFERENECE CALL

Operator

Good morning and good afternoon, ladies and gentlemen, and welcome to the FBNHoldings Half Year 2018 Financial Results conference call. Following an overview by the GMD 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, FBNHoldings

Thank you very much. Good afternoon and good morning, ladies and gentlemen, and thanks for joining us on this investor and analyst presentation for our half year 2018 results. My name is UK Eke, the Group Managing Director of FBNHoldings. As usual, I have my colleagues here with me and I wish to introduce a few of them to you.

First is the CEO of the Commercial Bank, Dr Sola Adeduntan, I also have the Managing Director of FBNQuest Merchant Bank, Kayode Akinkugbe. I have the Group CFO, Oyewale Ariyibi. From the bank, I have the Chief Risk Officer, Olusegun Alebiosu. I also have the CFO of the Commercial Bank, Patrick Iyamabo. Finally, I want to introduce Ini Ebong, who is the Treasurer of the Commercial Bank.

We had earlier posted the presentation. It's already uploaded. So, the plan is to spend just a few minutes to run through the presentation and then we will take more time on Q&A. So, I would go straight to Slide 5 and kick off by saying that we are pleased with the progress we've made over the last three months. Interestingly, this report cuts across all the operating entities. The businesses are all running very well. We have provided a summary there.

Gross earnings are up 1.6% year on year, and this is driven largely by 21.4% increase in non-interest income. I also want to say that this increase was offset by a decline in interest income, due largely to lower yields on investment securities and also a drop in the loans and advances and this is on account of pay downs we recorded during the quarter. Of course, our focus remains on the higher quality obligors and fresh loans made to them which typically takes time to document and disburse. So, that will explain the drop in the loan book.

I also want to spend perhaps a little more time to talk about the increase in the non-interest income because, if you recall, we had announced to you at the last presentation that we are moving away from a credit-led model to more of transaction based and digital banking. So, we are seeing excellent results arising from that re-focus in our business model. Within non-interest income, we are seeing a 13% year-on-year growth in fees and commission. Specifically, revenues from electronic banking channels were up 72% quarter-on-quarter, and on a year-on-year basis we are up 41%. So, by the half year of 2018, electronic banking fees account for 36% of total fees and commissions, and this is up from 29% in June 2017.

I'm on Slide 6. In addition to what I have said, we would like to highlight that we recorded about ₦5billion FX translation gain. This is due to the increase in translation rate from ₦336.29 to a dollar in the first quarter, to ₦344.94 in Q2 of 2018. Of course, this amount is also included in non-interest income.

Slide 7. We have made very good progress with respect to resolving the loan book issues, which you continue to track, I am sure. This is reflected in a 15.4% decline in impairment charge. We are happy to report a drop in the NPL ratio from 22.8% in the first half of 2017 to 20.8% in the first half of 2018. This is despite the contraction in the loan book, which I have mentioned earlier, by 7%.

Still on Slide 7, we are also pleased to report an increase in the NPL coverage ratio from 61.9% in the first half of 2017 to the current ratio of 82.3% in the first half of 2018. I think this should give comfort to all concerned, because this has been a major issue at every call that we have made.

Another critical pillar that we track, also on Slide 7, is the cost to income ratio. We remain very committed to delivering numbers we have promised, and we are seeing operational efficiencies improve despite our very large network and also the amortisation that we are seeing through our P&L arising from investments we are making on digital banking and our ERM/ERP projects. Essentially, we managed our costs very well and we are reporting 2.3% growth year-on-year only, and this compares very, very well with headline inflation rates of 11.2% for June 2018. Although on the face of it, the cost to income ratio inched up slightly to 56.5%, we are confident that we will close within the guidance rate we gave you, which is 55% by end of the year.

With respect to capital - still on Slide 7 - the operating entities that are regulated by capital continue to be above regulatory thresholds, specifically the Commercial Bank. If we adjust for the first half profits, the Commercial Bank will have about 19.1% in

Capital Adequacy Ratio, and the Merchant Bank will have 14.5%. ROAE is also improving. Return on average equity is now 10%, and if you look at the note we put there, on a pre-provision return on average equity basis, we are clearly tending towards 30%, specifically 27.4%.

Slide 8. All considered, we are seeing improving operating environment despite continued volatility in the marketplace. You can see on the slide, sustained drop in the inflation rate over the last 17 months. We are also seeing stable currency and growing reserves, rising crude oil prices, and also steady production and export. These macros are all supportive of our quest to regain our dominance in the marketplace, given our strategies.

Slide 9 basically speaks to the pathway to a stable economy. I think there is only one point to call out, which is the fact that in June, PenCom introduced a new RSA multi-fund structure, which basically creates multiple asset allocation, targeting different demographic and age profiles and risk appetites of contributors. The reason I mention this is that effective July, PFAs who are underweight on the stock, they have a window to enter the stock and therefore we expect to see increased appetites for FBNH stocks.

Moving to Slide 10, we have updated you on the initiatives we are executing which underpin our ambition to achieve set goals and I think the key message on that slide is the fact that FirstBank, the largest subsidiary of the Group, exercised its option to call the $300million 8.25% sub notes, reflecting clearly the strength of the bank's foreign currency liquidity and of course, the resilience of the balance sheet. So, by August, we are going to make that payment on due date.

I think I will just say one more thing on Slide 11 and then we will open it up for questions. We are making steady progress on the guidance we gave the market at the beginning of the year and also at the last call. We are on track to deliver the promise we made across all metrics we track. The only revision we would like to make is with respect to the net loan growth rate. We are reducing our guidance from 7 to 10%, to 5 to 7% on account of the points I made earlier: a drop in the loan growth of 7.1% year to date and also the drag in onboarding and disbursing loans already approved to quality obligors. We believe that the impact will be felt largely in Q3 and Q4, but the effect of that will be about 5 to 7% growth in the loan book instead of 7 to 10% we had guided at the beginning of the year.

So, I want to thank you for your attention. We would like to then take questions.

Q&A Session

Operator

We will now take our first question for Tolu Alamutu of Exotix. Please go ahead.

Tolu Alamutu - Exotix

Good afternoon and thank you for hosting today's call. I just have three questions, please. The first is on the cost of borrowing. It looks like your deposits at other banks and your non-deposit borrowing went up in the second quarter. Can you maybe explain why that was?

The second question is about bond issuance. Obviously, as you have said, you called the $300 million bond. I just wanted to know whether you would consider coming back to the market at some point, potentially with a senior bond. Is that something that FBN has thought about? Or is it something you'll maybe look at after the Nigerian elections? Related to that, can you just confirm that the decision to call that subordinated instrument won't have a material impact on your capital ratios?

Finally, on asset quality, would it be possible to please get an update on the large NPL exposures, like Atlantic Energy, Aiteo, and 9mobile? Thank you,

UK Eke – GMD, FBNHoldings

Thank you. Can we take one or two more calls and then we will do the responses?

Operator

Our next question comes from Jerry Nnebue of CardinalStone. Please go ahead.

Jerry Nnebue - CardinalStone

Good afternoon. Thank you for taking my question. First of all, why did you use ₦344.54 to value your FX exposures in your balance sheet? What drove that value?

Secondly, what is your guidance for full year in terms of the rate at which you are going to value your balance sheet?

Thirdly, from the guidance you have given us here, you said to expect loans to grow by an average of between 5 to 7%. How do you intend to achieve that? Because, from my estimate that means that you have to grow loan by 7.5% in next two quarters. What particular sectors are you looking at to pursue this?

Finally, I need you to help clarify what is the tenure for the CEOs for the Commercial Bank and the Holding company. Is it five years or three years? If it is three years, what are your plans? Because I envisage then that the tenure should be expiring very soon, so what are your plans to ensure seamless continuity in the bank's leadership for both the Holding company and the Commercial Bank. Thank you.

UK Eke – GMD, FBNHoldings

Thank you very much. I think we can provide responses. Ini - the Treasurer, will kick off with questions on borrowing and, of course the bond. There is also a question on asset quality, which the CRO will take. The CFO will take the question on exchange rates.

Ini Ebong – Treasurer, FirstBank

Okay, the question on bond issuance, a couple of years back when we issued the bonds we did so for three reasons:

First, was adding duration into our foreign currency liability pool. Second was for diversification and then the third bit was for capital benefit. That's why we issued a subordinated instrument. Yes, we have called this bond and we do intend to pre-pay next month. Now, we can do so because clearly our foreign currency liquidity is a lot stronger and in the course of the last 12 to 18 months we have deliberately built up foreign currency deposits, largely from corporates, to deal with this.

In addition to that, there is absolutely no impact on capital because we have surplus Tier 2 capital and, as such, we are able to redeem this with zero impact. Also noting that being 7 non-call 5, you will be aware that the capital will amortised away anyway.

With respect to cost of borrowing, yes, we have seen some tick up but that has been in line with an overall rise in rates, largely on the foreign currency side. On the local currency side, we have seen - if you will recall, all of last year, we had a very high rate environment, so we had significant deposits - customer deposits - that were held off balance sheet in investments in government securities. We started seeing some of that migrate back on balance sheet, given that with lower treasury yields you're getting deposits which are within the Bank's tolerance level. So, to that extent, we have seen a bit of that feed through, but we are monitoring it and we are - at these current levels, we are relatively comfortable with what we have seen.

Thank you.

Olusegun Alebiosu – CRO, FirstBank

The first one is on the loan growth. Yes, we revised our guidance from 7 to 10%, to 5 to 7%, and our target sectors still remain manufacturing, export, trade and retail. You will appreciate the fact that most export activities are between October and March, so Q4 offers a lot of opportunities for growth in the export segment. Manufacturing, being the focus of the economy now, we see a lot of growth in that sector. Based on the pipeline of transactions we have today, we believe the targets are achievable.

The question on the big three names, we guided earlier that Aiteo is no longer a non-performing loan. Aiteo is a performing loan. On Atlantic Energy, we are optimistic about the progress we have made since the last call. We have made more progress and we believe that resolution is not far away. On 9mobile, lenders are working with the regulators and financiers to conclude the transaction. We are optimistic that in this Q3, the 9mobile issue will be resolved.

Patrick Iyamabo – CFO, FirstBank

So, the books were closed at NiFEX rate because we believe that best reflects the rate at which our customers are transacting and we booked most of the transactions in the period.

Oyewale Ariyibi – CFO, FBNHoldings

My name is Wale. We have used 345, as Patrick said, because that's the rate available for most, not all, of our transactions and that of our customers that are on the books. We expect that at the end of the year, that NiFEX rate will still be the rate that we're going to use. Whatever the NiFEX rate is at that point in time, will be the rate that we use to translate - the balances in our books, on the balance sheet.

UK Eke – GMD, FBNHoldings

Okay, there was a question around tenure for executives. I'd like to confirm that executives are on a three-year contract in the first instance, renewable for a maximum of two additional terms of three years each. So, cumulatively, the maximum is nine years for the executives that elect to stay that long, or if the board wants the execs to stay. So, it is on mutual consent and the board is aware of the current situation and will make an announcement imminently. Thank you.

Operator

Our next question comes from Ola Ogunsanya of Rencap. Please go ahead.

Ola Ogunsanya - Rencap

Hi, good afternoon and thank you for the presentation. My first question is really around the three-year tenure. So, if executive’s tenure is for three years, what are the current succession plans? Because the tenure of many of the members of senior management will be ending this year, so could you give us a bit more clarity on what the succession plans are and how that affects the NPL clean-up process?

Secondly, if you could please give us an update on Ontario? And my final question is on the funding cost side so - I think Ini mentioned it's based around deposits coming back into the bank, but if you put it in the context of the lower interest rate environment, the spike in 2Q seems a bit concerning.

Those are all my questions for now.

UK Eke – GMD, FBNHoldings

Thank you. More questions, please.

Operator

We will now take our next question from Ola Warikoru of SBG. Please go ahead.

Ola Warikoru – SBG Securities

Hello. So, my question is also on credit growth. Someone had mentioned that - so, you've given the areas where we could see credit growth, but then in terms of Q2 2018, what is the outlook for, looking into the rest of the year, given the weakness that happened in Q2? So, with the 5-7%, is it achievable for the rest of the year?

Also, on NIMs, looking at Q2, it was below management guidance, so where does management see opportunity to close the gap to the 8 to 8.5% range?

Also, on cost growth drivers, I was wondering if you could elaborate on what drove costs in the last quarter, and then are there any risks to NPL ratio guidance of less than 15% for 2018? Thank you.

UK Eke – GMD, FBNHoldings

Okay. Let's give you responses to the questions, and then we will continue with the next batch.

Olusegun Alebiosu – CRO, FirstBank

On credit growth, we believe the 5 to 7% is achievable. We believe the economy is able to absorb them and now that most corporates are now coming out to borrow, of course we expect that Q3 loan growth will be positive and then we will be able to see more growth in Q4.

The guidance on the NPL, as you said, we will keep to our guidance of 15% or lower for the year. We believe that based on the work that we have done and projections made, we should achieve our target NPL.

Ontario - the process of sale of Ontario assets is ongoing. Documentation is about to be concluded and for us to finalise sales of some of them. Not all the assets will be sold at once, but we expect that there will be material progress in Q3 and the cash flow will be in.

UK Eke – GMD, FBNHoldings

Okay, the question on succession planning, let me address it again. Across all operating entities of the Group, we have very robust succession plans and it follows a process, which is driven by the boards of each of the operating entities. Of course, at the HoldCo level, the board also drives the process. Let me say, as you know very well, we have a very deep management bench, very strong, and we have never had gaps. For each critical role we have C-suite officers that are available to take up opportunities when they emerge. We are dealing with a group that has multiple touchpoints from the insurance to the merchant bank and asset management and, of course, the commercial bank. So, it's a very strong management bandwidth which we can tap to fill vacancies when they do arise.

The process is obviously driven by the board of each operating entity and that process is currently on. We will make the announcements when the process is completed. There have never been gaps in management at the operating entities and there will not be any gap whatsoever. We have an incumbent that is doing a great job and we believe that the task at hand is sufficiently tasking and he has to deliver on the targets set.

Next questions, please.

Operator

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

Ronak Gadhia - EFG Hermes

Thank you, gentlemen, for the presentation and taking the questions. Mine, I guess, would just be a follow-up on some of the questions that have already been asked.

Firstly, on your NPL, I take your guidance of 15% by the end of the year, but from my point of view it seems that the rate of NPL decline has been quite frustratingly low. As you rightly mentioned, the provisioning levels over the last two to three years have significantly increased, but I would like to know what is stopping the bank from writing off the sum of the loans that they have potentially fully provisioned for? Why haven't these loans been written off? Or what is the holdback?

The second question is on your IFRS 9 provisions. If I compared the incremental provisions that FBNHoldings made relative to some of your peers, it seems that the impact of IFRS 9 was relatively mute for yourselve. So, would you be able to guide us to - are you expecting more provisions to be made through the rest of the year? Or have we seen the full impact being undertaken in the first half?

My third question is on your subsidiary capital levels. Based on my own analysis and views, it seems that your UK and your Ghana subsidiaries needed a capital injection, although for different reasons. Has the capital been injected into these subsidiaries? If not, when would that happen and what impact would that have on FBN Nigeria's capital adequacy ratio? Thank you.

UK Eke - FBNHoldings

Okay. Can we take a few more questions, please?

Operator

Our next question comes from Caitlin Byrne of Prudential. Please go ahead.

Caitlin Byrne - Prudential

Hi, thanks for the call. I just want to follow up on the cost of risk. So, you have got guided 6 to 7% cost of risk, with H1 being at 4.7%. So, if you can just confirm whether you expect more impairments to come through and also just to confirm how you're going to get your NIM to within the guided range from where it's sitting at the moment?

Can you explain the weakness in the merchant bank and why the capital adequacy ratio has dropped so much there? Also, how much the Etisalat loan is that's sitting in your NPL and what percentage you have provisioned on it? Thanks.

UK Eke – GMD, FBNHoldings

Thank you. Okay, let's provide our responses.

Olusegun Alebiosu – CRO, FirstBank

Yes. Our 15% NPL guidance stays and we expect that target to be achieved by the end of the year. We appreciate the fact that NPL reduction has not been as fast as expected, but the fact is that most of the increases you have seen – or relatively sticky NPL positions that you have seen - were the result of translation impact of foreign currency NPLs. So, the foreign currency NPLs, based on the increase in translation rate, has also been going up. So, otherwise you would have seen more improvement in NPLs than what we are seeing.

You have raised the issue of write-off. Write-off, yes, but that will be done at an appropriate time. We must exhaust all options. We must see how we can restructure some of the NPLs. We must see how we can get them to cash flow rather than just writing off. I mean, generally speaking, some of the accounts can also go back to cash flow. I mean, if the businesses are able to pick up. We have seen progress in oil and gas and we believe that by Q3, as we have said, some of the restructured loans will be going off NPL and then we can see progress on the NPL side. But at the appropriate time write-off will be considered.

On IFRS 9 provision, yes, we guided in Q1 that IFSR 9 implication impact would be about ₦45billion - ₦50billion. We have taken part in Q1 and the balance will be taken in Q2. That is exactly what you have seen. Now, looking at the cost of risk that we guided, at about 6 to 7%, we said, that based on the new loans that will be created, there will be capital charge from day one, rather than general provisions, this time around you will create more loans. In creating those loans, you will take impairment charge from day one based on the probability of default (PD) and loss given default (LGD) that you have.

We anticipate that when that happens, the cost of risk will go up and likely get to the level that we anticipated. If you see the movement between Q1 and Q2, you will discover that it's almost flat, because the loan growth we expected did not come through, so there was nothing to charge into the books. So, we still have that at the back of our mind and we believe that will happen.

Patrick Iyamabo – CFO, FirstBank

There is a question around capitalisation of our UK subsidiary as well as the Ghana subsidiary. I think the good news is that UK is very well capitalised, about 19%. We are very happy with the capital level and it has got enough capital to grow and do business in the immediate future. In terms of Ghana, Ghana is an over capitalised entity, in terms of - when you think about capital adequacy ratio, north of 30%. However, you would appreciate the new regulations that came out that requires increase in minimum regulatory capital to approximately $100 million. We are working on that. There is a clear path to it. We are happy with where we are, and we expect that to be fully addressed this financial year.

Kayode Akinkugbe – MD/CEO FBNQuest Merchant

I wouldn't describe it as a weakness in the merchant bank. I would describe it as a decline in the capital adequacy ratio. That is substantially because of the growth in risk-weighted assets. If you actually - as mentioned earlier, if you track the CAR based on - if you accrete the income that has been generated this year - we are actually back to about 14%, which is 450 bps above the regulatory minimum, which we feel is for a growing business quite a decent amount of capital to have available. So, we certainly don't consider it to be a weakness at all.

UK Eke – GMD, FBNHoldings

Indeed, we are happy with the capital position of the merchant bank, because at a very high level then the bank will obviously be inefficient, you have to deploy and sweat your capital. So, this is a company in a growth stage and they are taking opportunities and advantage of opportunities that are out there in the marketplace, which speaks to the strength of the brand. So, internally, they are well above our internal guidance and, of course, they are also well ahead of regulatory guidance.

Dr. Adesola Adeduntan – MD/CEO FirstBank

I think the only other clarification is around the issue of loans write-off. A number of assets that have been fully provisioned and for which the chances of remedial recovery are quite low have been written off in previous periods. So, as we come to a full determination in terms of overall recoverability of those balances, decisions on whether to write-off or not are being taken and we will take them based on the parameters that were set internally for each of the credit.

UK Eke - FBNHoldings

Can we then go to the next set of questions, please?

Operator

Our next question comes from Oyenike Oluwa of ARM Investment Managers. Please go ahead.

Caller, please unmute your microphone if it is muted.

It appears that Ms Oluwa has stepped away. We will take our next question from Gloria Fadipe of CSL Stockbrokers. Please go ahead.

Gloria Fadipe - CSL Stock Brokers

Hello. Good afternoon and thanks for taking my question. I only have a follow-up question on Ontario. It appears the realisation of that assets has taken more time than scheduled and it has been a moving target. I just want to clarify, in previous calls you have said we will be expecting an amount north of ₦20billion from the realisation of the assets. So, I just want to clarify that the amount is still being expected and when we can realistically expect this loan to be written back?

UK Eke – GMD, FBNHoldings

Okay, thank you. More questions please?

Operator

We will now take our next question from Jerry Nnebue of CardinalStone. Please go ahead.

Jerry Nnebue - CardinalStone

Yes, thank you. I have some follow-up questions. My follow-up question is on Atlantic Energy. Previously, you told us that you would expect the account to be resolved by year end, so I want to ask is this still feasible? If this is not feasible, are you willing to bite the bullet and make the provision? Just by way of confirmation, I would also like to have information on the outstanding balance and the percentage of impairment already taken.

Also, on the issue of continuity and management, should we expect some shakeup or some changes? Or is it likely to be more continuation or continuity in management? Thank you.

UK Eke – GMD, FBNHoldings

If I can just speak to the management issues so that we can close this. I don't think we are at the stage where we would begin to speculate on the continuity and lack of continuity. I think the key thing is that management teams we have across the operating entities are focused on delivering targets for 2018. All the executives still have their valid contracts. There is no overrun. Therefore, the primary objectives of management today is to deliver targets. The board will deal with the issue of succession. That is clearly a board call and the process is on, like I said. Any other things around this table may be speculative. The assurance we are giving is that we have a very strong management team across the operating entities. Very strong management teams.

We also have very strong management bandwidth to sustain us in business over the long-term. That is the strength of the brand and of the group, and it will not change. So, please rest assured that the group is in safe hands and all the operating entities are also in safe hands to deliver the numbers we promised the market. I believe the results you are seeing on a quarter-on-quarter basis justify the confidence we have in the teams across the operating entities. Thank you.

Let's respond to the questions.

Olusegun Alebiosu – CRO, FirstBank

On Ontario we guided that we are expecting recovery north of ₦20billion. That is still intact, and we expect that this financial year. On Atlantic Energy, we have made 30% provision and we believe that resolution is also this financial year. As we guided earlier, we believe that the level of provision we have made is sufficient to cater for whatever haircut that might arise in the course of resolution of the asset, and we believe that 2018 will be it. However, we said clearly earlier that if by 2019 - if we are unable to resolve it, the Bank will take the appropriate decision at that time.

UK Eke – GMD, FBNHoldings

Okay, I think we have taken all the questions so far in this batch. Can we move on to the next batch of questions?

Olaoluwa Bobade – ValueAlliance

Hello, thank you for the call. I just wanted to ask if you have the figures, if you strip out the top two, three problem loans that you have, what would your NPL ratio and cost of risk look like on a normal basis? Thank you.

UK Eke – GMD, FBNHoldings

Next question.

Operator

Our next question comes from Oyenike Oluwa of ARM Investment Managers. Please go ahead.

Kayode Omosebi - ARM Investment Managers

Hello. This is Kayode Omosebi from ARM. I just want to ask a question - a follow-up. I am just looking at your e-banking income and I want to find out if you can give us, in terms of context, the types of volume and value of transactions that go on your e-banking platform, and also the number of accounts that transact on the e-banking platform.

UK Eke – GMD, FBNHoldings

Okay, any other questions on this batch before we respond? We've got two questions.

Operator

Our next question comes from Gloria Fadipe of CSL Stockbrokers. Please go ahead.

Gloria Fadipe - CSL Stock Brokers

Yeah, I think the previous caller asked how much provision is taken on 9mobile. I'm not sure I got the response there.

UK Eke – GMD, FBNHoldings

Okay, we will give you that. Give a response to that. Okay, let's respond then.

Olusegun Alebiosu – CRO, FirstBank

On 9mobile, we have taken 35% provision.

You asked – on the question of if we resolved the top three NPLs, what would our NPL ratio look like? Our NPL ratio would be 9.8% if we resolved the top three NPLs. The driver, actually, is Atlantic Energy and we said that between 15% we guided for the year and single digit that we guided for 2019 is Atlantic Energy. That was why we said that this was about 6% of our loan book and that if we resolve that 6% of our loan book it will take us to single digit after the financial year.

UK Eke – GMD, FBNHoldings

Okay, we are going to give a response on the volumes e-business, which came from Kayode, ARM. I invite Chuma Ezirim, who drives the e-business of the bank to provide a response.

Chuma Ezirim – Group Head, E-Business, FirstBank

Thank you. On daily basis across all our channels, we process in excess of about 10 million transactions worth over ₦20billion.

UK Eke – GMD, FBNHoldings

Okay, and I would draw your attention to Slide - I think it's 14. You have the details for e-business operations and that slide, for us, represents the major initiatives we are driving and that is the game changer for us, as I had announced in the opening comments.

Chuma Ezirim – Group Head, E-Business, FirstBank

Okay, just to also add that we are recording significant growth across our digital channels, the USSD and the mobile banking. Okay, so the USSD, for example, what we did in the first half of this year, was more than what we did in the entirety 2017. This also shows significant growth. Similar on our mobile banking, FirstMobile. We also, with our rolled-out the agent banking scheme and we are also proud to say that within the first six months, we have exceeded the targets that we set for ourselves in terms of the number of agents deployed and the volume of transactions processed.

Okay, so we are also hoping that before the end of the year we are also going to see significant growth across these three digital channels.

UK Eke – GMD, FBNHoldings

Okay. Other questions, please.

Operator

We will now take our next question from Ola Warikoru of SBG. Please go ahead.

Ola Warikoru - SBG

Hello. The question I wanted to follow up on had to do with NIMs. So, I was asking whether the management see the opportunity to close the gap to current guidance of 8-8.5%.

Ini Ebong – Treasurer, FirstBank

Okay. On NIMs, I think the real lag has been the fact that we haven't grown loans as quickly as we expected. The CRO outlined earlier on that as we push towards the end of the year and we start to book some of the undrawn commitments that we have, we expect to see NIMs a bit more supported. Indeed, one of the reasons why we have not been aggressive in repricing or turning down some of the deposits that we have built up has been in anticipation of that, so that we will have the necessary liquidity to back these loans as they are drawn. So, we expect to see some recovery as we get into the second half of this year.

UK Eke – GMD, FBNHoldings

Okay, thank you. Next question, please.

Operator

Our next question comes from Sahil Kumar of Moody's Analytics. Please go ahead.

Sahil Kumar - Moody's Analytics

Hi, this is Sahil. Most of my questions have already been answered. I have just one question. What would be your effective tax rate for this year, 2018?

UK Eke – GMD, FBNHoldings

The effective tax rate for 2018. Okay.

Patrick Iyamabo – CFO, FirstBank

For the Bank, specifically, it's going to be minimum tax. That is kind of what we see playing out.

Oyewale Ariyibi – CFO, FBNHoldings

Overall, for the Group, we do not expect effective tax rate to be more than 20%. So, it's less than or equal 20% for the full year for the entire Group.

Sahil Kumar - Moody's Analytics

Okay. Understood. Thank you.

UK Eke – GMD, FBNHoldings

Next question, please. Proceed.

Operator

Our next question comes from Tunde Olaifa of Leadway Assurance. Please go ahead.

Tunde Olaifa - Leadway Assurance

Thank you. Good afternoon. Thank you for the call. My question is from your Slide 27, where you have your digital banking channels, conclusion from the digital banking channels. It's currently standing at about 22.2% of your non-interest revenue. I was just wondering what the target is for you in your strategic plan.

UK Eke – GMD, FBNHoldings

Okay. Another question.

Operator

Our next question comes from Oyenike Oluwa of ARM Investment Managers. Please go ahead.

Kayode Omosebi - ARM Investment Managers

Thank you. This is Kayode Omosebi again from ARM. Three questions I want to ask you. The first is in terms of Atlantic Energy, can we have an idea of how much has been provided for so far?

Also, you talked about bringing down your cost to income ratio down to 55%. That I believe is one discussion we have had about streamlining operational costs. Are you looking to reduce some branches? Are you looking to lay off some workers?

Thirdly, what is your current FCY position like? Can you just give us a range of what it is currently? I'm sorry, the FCY position is after redeeming the Eurobond. I want to know that the value would be.

UK Eke – GMD, FBNHoldings

Okay. Thank you. We will provide our responses. Ini, you can kick off.

Ini Ebong – Treasurer, FirstBank

Well, as you know, paying off the Eurobond will be position neutral. We are not selling any FX. The Bank is still long and we have maintained that net long position for some time. But we are still in a very comfortable position based on what we see in terms of where the currency appears to be headed in the short-term.

Olusegun Alebiosu – CRO, FirstBank

On AE, we have made 30% provision.

Patrick Iyamabo - CFO, FirstBank

In terms of our digital revenue contribution to non-interest income, we easily see that hitting 40%

Now in terms of our cost income ratio, it's a little ahead of guidance but we see that coming under control before the year runs out. We have a good handle of our costs and we are confident that we can keep it at those levels. So, over the next half of the year, with expected growth in revenue, especially our digital channels and interest revenues as we create loans and our cost control, we are quite confident that we will bring cost to income ratio within guidance.

Adesola Adeduntan – MD/CEO FirstBank

Just to put that question in proper context, if you look at the cumulative annual growth rate on opex for all the Tier 1 banks over the last five years, we've actually had the lowest CAGR - while the other banks have grown double digits, we have actually grown in single digit at the very low end. So, if there is anything that has been achieved over the last three or four years, it's actually to rein in costs. That explains why where we are today at 56% is not materially far from where we have guided we would be which is at 55%. If we just do what we need to do between now and year-end, we will fall squarely within the number that has been guided. So, we are quite comfortable with where we are.

UK Eke – GMD, FBNHoldings

Okay. Thank you.

Kayode Omosebi - ARM Investment Managers

Thank you. For the CAGR you talked about, is it not just a function of the high base of your operating expense? But I still asked the question about the streamlining of branches. Is that still happening this year?

Adesola Adeduntan – MD/CEO FirstBank

A number of initiatives have been ongoing over the last three years. We started from a high cost to income base of about 65% in 2014 and we've worked it down to where it is now. All those initiatives are still ongoing. Some are quick wins. Some are short term. Some are medium term in nature. So - but we are not taking our eyes off the ball, so that’s the most important thing. A couple of things that we are doing, the most important thing is that we will fall squarely within the 55% cost to income ratio guidance.

UK Eke – GMD, FBNHoldings

Do you have more questions, please?

Operator

Our next question from Aderonke Akinsola of Chapel Hill. Please go ahead.

Aderonke Akinsola - Chapel Hill

Good afternoon. Thanks very much for the question. My question is on the pricing of your loan book, so I would like to know if you've repriced the loans downwards so far this year. Considering that rates are lower, would you consider any further downward repricing and if so, by how much would you re-price downwards. Thank you.

UK Eke – GMD, FBNHoldings

Next question.

Operator

Our next question comes from Olaoluwa Bobade of ValueAlliance. Please go ahead.

Olaoluwa Bobade- ValueAlliance

Thank you. I just wanted to ask about your agent banking scheme. You have seen significant growth over the quarter, can you speak to the profitability. You've grown your agents significantly and do you expect to increase the number of agents going forward as well?

UK Eke – GMD, FBNHoldings

Okay.

Chuma Ezirim – Group Head, E-Business, FirstBank

Okay, on agent banking, we are in the seventh month of the commercial roll-out and we have over 7,000 agents that have already been deployed. So, your first question, which is on the revenue side. We have seen over 1000% growth between January and June when we rolled out. So, today, we are doing an average of close to 100 million every month.

Then, for the rollout, what we are focusing on now is coverage. There are 774 local government councils in Nigeria. As of today, we have covered over 720 and our target is to cover the entire country before the end of the year. So, for us, it's not really about the number of agents that have been deployed. It's about coverage.

Once we achieve this, two other things will follow in quick succession. One is to extend coverage in each of these local government councils. Then, of course, deepen our product offerings. Okay, so we expect that when we get these two right, we are going to see significant growth in the number of agents.

Olusegun Alebiosu - CRO, FirstBank

On the pricing of loan book, the pricing of our loan book is dynamic and we have seen corporates coming in - I mean, for introduction and all that across sectors. What we have seen also is that - looking at the second half of the year, rates might not be as low as we all think it might be. But whatever the rate is, we will all adjust, knowing fully well that it is also a matter of demand and supply for credit and the pricing will work for both parties.

UK Eke – GMD, FBNHoldings

Thank you. Do we have more questions to take?

Operator

There are no further 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, FBNHoldings

Okay. First, I want to thank you for participating in this call today. You will agree that we have delivered solid performance for the first half of 2018, despite the very tough operating environment. We are confident that we will also deliver the numbers we promised for the full year. So, we thank you for your sustained interest and we look forward to posting another call when we announce our third quarter results.

In the meantime, if there are questions that you need additional clarifications on, please feel free to contact us bilaterally. We will be glad to provide more information.

I thank you once again. Goodbye.

Operator

This concludes the FBNHoldings Financial Results call. Thank you for your participation. You may now disconnect.

[End]