FBNHoldings

Half-Year 2019 Results Conference Call

Operator

Good morning and good afternoon, ladies and gentlemen, and welcome to the FBNHoldings Half Year 2019 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. We would like to welcome you to the FBNHoldings investor and analyst presentation for the six months ended 30 June 2019. I have the pleasure to introduce my colleagues that are on this call with me, starting with the CEO of the Commercial Bank, Dr Sola Adeduntan; the CEO of the FBNQuest Merchant Bank; Kayode Akinkugbe; the CRO of the Commercial Bank Olusegun Alebiosu; the CFO of the Commercial Bank, Patrick Iyamabo; the CEO of FBN Life Insurance, Val Ojumah. Also present on this call is Ini Ebong, the Treasurer of the Commercial Bank; and Oyewale Ariyibi the CFO of FBNHoldings. My name is UK Eke, as previously introduced.

We thought it was important for us to commence this presentation by highlighting the progress made towards achieving our 2019 goals as communicated during the 2018 full year and first quarter 2019 Conference Call. This is the result of our work over the last three years.

I believe the biggest news of the quarter is the significant improvement in the asset quality with Atlantic Energy now fully written-off. This has resulted in the NPL ratio reduction to 14.5% as at June 2019 from 25.9% as at December 2018. Furthermore, we have seen credit impairment charge down by 58.1% year-on-year to ₦22.1 billion. This is an indication of our aggressive focus on the resolution of the legacy NPLs.

The write-off, of Atlantic Energy creates significant headroom to increase our exposure in the oil and gas sector which we have avoided in the last three years. It also enhances our earnings potential as this allows us to channel liquidity into quality loans thereby increasing our earnings capacity particularly in the second half of the year.

In addition, our flagship, First Bank of Nigeria Ltd successfully prepaid a cumulative $750 million of the subordinated notes in the last 12 months. This speaks to the strength of the balance sheet and strong FCY liquidity. It also highlights the efficiency of the balance sheet.

During the period, we achieved a very strong profitability. Annualised return on average equity before tax at 14.7%, this compared very favourably with the corresponding period of 2018 at 11.7%. This is trending in the right direction and in line with our expectations. It is also on the back of non-interest revenue which is up by 3.6% year-on-year, closing at ₦63.6 billion, and this was driven by an increase in our digital offerings.

Electronic Banking revenue further demonstrates our strength, contributing 34.4% to non-interest revenue up from 24.3% in the prior year. It is important to emphasise that this justifies the investment consistently made in our connective channels. More can be seen in the presentation.

Headline growth in operating expense; we are facing headwinds in our operating expense, mainly due to our deliberate focus on Information Technology and digital platforms as well as initiatives earlier mentioned. We also witnessed an increase in operational costs and brand management expenses. We expect cost to income ratio to remain elevated for the rest of the year as we push to close business and balance sheet issues. We also think that in the course of this second half of the year there will be big support coming from increased earnings and therefore the costs to income ratio will not be as high as it is for the first half.

Moving to Slide 6, across the metrics highlighted, there have been significant improvement in the performance metrics compared to the previous periods and previous quarter. As seen, earnings yield inched up 11.7% from 10.7% from the corresponding period of last year. Net interest margin has also improved to 7.7% from 7.1%. Post-tax ROE 11.6% compared to 10.0% for the first half of 2018. Cost of funds at 3.2% is down from 3.5% in the corresponding period of 2018. In addition, cost of risk has come down from 4.7% in 2018 to 2.2%. I am going to speak more on that when we get into the detailed presentation.

Non-performing loans: again, for emphasis, NPLs are trending in the right direction from 25.9% in the first half of 2018 to 14.5%. As a result, the NPL coverage ratio dropped to about 64.5%, largely attributable to the Atlantic Energy write-offs. We also did good on capital adequacy ratio, closing at 15.6% for the first half of 2019. If we adjust for our profit for the first half of the year, the capital adequacy ratio at the Commercial Bank level inches up to about 16.8%. At the Merchant Bank we are okay at about 13.4%, 340bps above the regulatory limits.

Slide 8 highlights the operating environment in which we operated. Obviously, it is still very challenging with inflation still high and stagnation in the GDP growth rate. However, the good news is that oil production inched up to about 1.9 million barrels per day and we continue to maintain very healthy reserves at US$45 billion though we had lower oil prices.

To the lower right of the presentation, we see exchange rates remaining stable. The Central Bank has sustained the policy stance it maintained over the period. Overall, across all the windows, you see stability in the exchange rates.

Slide 9 relates to the recent regulatory developments. There are two points to mention, which relates to two of our portfolio companies in the insurance sector, FBN General Insurance and FBN Life. I would like to highlight the new capital rules which were announced by the regulator, NAICOM. In addition, I want to confirm that we are in a very comfortable position and will continue to expand our market share. We shall be sending our letter of confirmation of this position to the regulator as required before the end of August 2019.

You are aware of the new policy by The Central Bank on loan to deposit ratio of 60% and you also know that we are very active in the SME as well as in the real sector spaces, therefore, we are pushing to remain compliant with the requirement by The Central Bank.

Slide 11 highlights the critical pillars presented to you during the full year 2018 and first quarter 2019, these are in line with our 2017 - 2019 strategic planning programme. Our strategic thrust is anchored on three pillars: asset quality, enhancing revenue generation and improving balance sheet as well as operational efficiencies.

Again, we want to confirm that Atlantic Energy is fully written off, this has resulted in a reduction of the NPL ratio to 14.5%. Impairment charge is down by 58.1% and cost of risk at 2.2%. Clearly, our vintage NPL remains within respectable limits which is less than 1%, to be specific, it is less than 0.5%. This speaks to the strength of our revamped risk management architecture which we had earlier communicated as well as the tightening of our risk acceptance criteria. We are on course to deliver as promised, a single-digit NPL ratio by the end of 2019 financial year.

Speaking to the second strategic thrust, which is enhancing revenue generation, although we saw an increase of about 4% in the loan book, we remain focused on delivering our strategic plan which is not being aggressive in the loan book but more focused on transaction-led growth. This is very important, as you will see when we discuss the E-business numbers.

We have seen increased revenue from Electronic Banking at 34% of non-interest income. Furthermore, we are delighted to report that we are ahead of the guidance provided on the Agent Banking, where at half year we enrolled over 27,000 agents on the Firstmonie platform therefore, we are most likely to exceed the 30,000 guidance.

We are progressing very aggressively in deploying initiatives and platforms. We have deployed our Finacle future-ready digital platform and we believe that these investments are critical and necessary for sustainable growth and profitability. We are also glad to report that the strength of the franchise is highlighted through improved revenue synergies across the Group.

Overall, there is improvement in the ROE as previously reported at 14.7% from 11.7%. We believe, we are at the threshold of delivering a fortress balance sheet and will continue to rein in costs to enable us to confirm at the end of the year that all of the legacy issues have been substantially and conclusively resolved.

Slide 12 provides a graphic presentation of the NPL and the cost of risk evolution as well as the trend in 2018 and 2019 just to emphasise that we are on course to deliver the single-digit NPL we committed to. This will be through recoveries, restructure, write-offs and new loans. Again, we will continue to maintain best-in-class risk management practices to sustain the vintage NPL Group at less than 1%.

The key enablers to achieving this are; 1. assuring quality at entry, therefore, we would only book loans or extend balance sheet to names that are low-risk. 2. accountability and ownership, which implies that we will not in the near to long-term see any boom or bust as seen in time past.

Slide 13 provides more details on what has been done in the Electronic Banking business space. From what was presented last year, we have seen an improvement in the Agent Banking proposition at 6,300 agents in the first half of 2018 ramping up very aggressively to 27,475. This implies that we are present in all local governments of the Federation and literally all over the villages in the country. This makes us clearly the undisputed leader in Agency Banking and Digital Banking, and we are proud of what we have accomplished over the last one year.

To underscore that, we would like to confirm that we will continue to push transactions to alternate channels. To date, we have pushed about 85% of all customer-initiated transactions to alternate channels. This has obviously brought down our cost to serve. We are also happy to report that we remain the industry leader when it comes to E-Banking and we have 30% share of transactions processed by the most dominant switching company. In addition, we have about 24% market share of interbank transfers on the NIBBS platform. We are strengthening our partnership with major players in the ecosystem which makes us unique in terms of expanding the scale of our operations working with our strategic partners.

Slide 15 highlights the evolution of the coverage ratio and capital ratios. The key take away from this slide highlights our commitment to improving our NPL coverage. We will continue to maintain very good capital positions for all regulated entities. This will be done largely through accretion from profits and managing our risk-weighted assets in a very prudent manner.

Slide 16 highlights the quality, the consistency and diversity of our funding base. If you refer to the total deposits, we grew by 2.8% year-to-date and at FirstBank alone the low-cost deposits represent about 86.8% of total deposits as at June 2019, which is an improvement from the 85% reported at the end of 2018. Correspondingly, the cost of funds improved from 3.5% in the prior period to about 3.2% - we are clearly a low-cost producer in the industry.

FCY deposits continue to grow and it closed at 20% of deposits, this is up from 17% as at December 2018. Again, it is important to reiterate that we successfully repaid the $750 million Eurobond in 12 months, reflecting the resilience of our balance sheet.

As I conclude, I would like to spend more time to talk about the OpEx. A lot of work is still to be done regarding the cost to income ratio and we have a clear focus on the cost drivers. These include investments made on digital platforms, payments relating to legacy AMCON issues i.e. the accounts transferred some years ago and as a result of the growing balance sheet size which elevated regulatory costs as well as the one-off staff-related costs incurred during the period under review.

Clearly, we believe that the investments being made are important for future growth. The sustainability of our business is key and therefore, we would not sacrifice efficiency for immediate profits, that is what is driving our investments in alternate channels. As soon as these costs are absorbed through the P&L, the incremental gains that will come through will enhance revenue in the second half of the year and the subsequent periods to justify the investments made that created the high cost base.

I think it is important to highlight the fact that the Central Bank gave us approval to commence the Group-shared services and the Commercial Bank is the centre of excellence therefore, they will provide support services to the operating entities. This investment translates to cost in the immediate, but overall at the Group level, we expect this will minimise the investment and spend made by the entities then the cost to income ratio at the Group level will begin to trend in the right direction. This will be in the near to medium term.

At this point, I would like to end by thanking you for your attention. We will now take questions. Thank you.

Q&A Session

Operator

Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star one to ask a question. We will pause now for just a moment to allow everyone an opportunity to signal for questions.

We will now take our first question from Tolu Alamutu. Please go ahead, your line is open.

Tolu Alamutu – Tellimer

Good afternoon. Thank you for the call today. I have two questions. The first is, what would we need to see for FBN to consider returning to the Eurobond market? Related to that question, has the Bank been involved in providing financing to Sterling Oil or Green Energy or Seplat in recent deals? Thank you.

UK Eke – GMD, FBNHoldings

Okay. Can I ask for one more question, please?

Toyosi Oni - Renaissance Capital

Good afternoon and thank you very much for taking my questions. My first question is on asset quality. From our estimates, FirstBank wrote-off about ₦700 million in the first half of the year and we know that Atlantic Energy was a chunk of this. Can you please provide more details on the other loans written-off?

Secondly, on the last conference call the Management indicated that reaching 10% will be on a combination of loan growth, recovery, restructuring and write-off. The write-offs have now come through. Can we get an update on the other drivers of bringing down the NPL ratio?

The third question is on your guidance on gross loans for FY 2019. How much more decline should be expected? Should an uptick be expected on this line?

Then finally on cost, if you could provide more details on the growth in OpEx, especially on the nature of the operational and other losses line, that would be very helpful. Thank you very much.

Ini Ebong – Treasurer, FirstBank

In responding to your question on returning to the Eurobond market. You will recall that when we went to the Eurobond market, we went for three reasons. First, to diversify the funding base. Second to add duration and third for capital purposes.

Given where we see anticipated needs for funding, the developmental needs of the country still suggest that there will be appetite for some hard currency financing in the future. It will be a combination of a number of things. First, will be need, second would be market conditions and pricing. Important to know that a Bank like us still have access to financing across a number of options beyond just the Eurobond market. We will consider all our options. It just depends on what is optimal for us and then we will seek to tap.

Olusegun Alebiosu – CRO, FirstBank

We did not participate in Sterling Oil, Green Energy and Seplat because at the time the deals were on, we were balancing the portfolio. For us, that was important because of our commitment to reduce concentration in oil and gas and that was on at that time. With Atlantic Energy written-off, we will review future requests in the market and be able to take a share in line with our risk appetite?

On asset quality and other variables which are recoveries and restructuring, currently about 11% of the NPL have been restructured; however, we need to watch over two quarters before we can declassify. Recoveries are ongoing, and more traction is expected in the second half of the year that will positively impact our NPL.

The guidance for loan growth remains 5%. We will grow the gross loan; however, the most important thing is to grow loans that will provide the best remuneration. As a Bank, we will be willing to match both revenue and risk.

Patrick Iyamabo – CFO, FirstBank

To the question on cost. A couple of things drove the cost increases during the period. The first was regulatory, as earlier mentioned, the revision of the rates and the application to the off-balance sheet items had about ₦2.5 billion impact on the OpEx increase.

Secondly, we have been making investments in technology to drive our competitive advantage. Some of which are already playing out in the digital and agency banking status as can be seen as well as some of the core operational efficiencies that are coming through. The result of those investments in technology also implies an increased maintenance costs in IT as well as depreciation. The impact of those two alone is about ₦3 billion.

Thirdly, as part of the transformation exercise, we have communicated investments being made in our people, not just to upskill them but to ensure we have the best people in the market in the Bank. During the period, we did some level of human capital optimisation and there was a charge associated with that.

In addition, we did incur one-time charges, and these have to do with transactions involving government agencies, one of them AMCON. These were really negotiation points to close out some of the lingering issues as we prepared to completely transform our balance sheet this year. A bit of charge was involved in that as well.

You would also notice that on our advert and promotion lines, there was an increase in cost. Two things drove that. The first was in respect of the renewal of contractual agreements that became effective this year and they would last for a number of years. Those came in at higher rates and investment in the brand, not just in Lagos but also nine different countries where we are present and in addition was also the cost related to the 125th anniversary.

Between the investments in our brand, operational losses consequent on settling certain things with the regulatory agencies, investment in solutions to drive business growth and stability, our HR transformation exercise to refresh and strengthen human capital for the next growth phase, those costs did come in. These were costs to deal with regulatory considerations as well as tactical decision to strengthen the business for the future.

Kaitlyn Byrne - Prudential Investment Managers

Hi. Thanks so much for the call. I just wanted you to talk more about your CAR and the new rule with the loan to deposits. It looks like, now that Atlantic Energy is written-off you are going to have to increase your loan as a proportion of your deposits to get to that 60%, however, your capital adequacy ratio looks quite tight.

I just want you to go through how you can increase your risk-weighted assets and still manage your CAR at the same time, bearing in mind that you have got the additional IFRS 9 charge coming in at the end of the year because of that amortisation of the IFRS 9. Thanks.

Patrick Iyamabo – CFO, FirstBank

I guess your question relates to the availability of capital not just to support the business growth but also accommodate the transitional adjustment that amortises at the end of the year as well address the regulatory considerations around loan to deposit ratio.

If we start with the consideration around the loan to deposit ratio, we have two options. To either grow loans or deposits. We have the flexibility to grow loans and this is in the plan for the year. However, to close this gap, we need less than ₦200 billion in loan growth this year, which we can do. We also have the flexibility to handle our purchased funds as we choose to. Between the two options, we do not require more than 0.5% CAR to achieve this.

The second question has to do with the amortisation of the transitional adjustment. On the last call, we had explained that we do have an amount of capital ring-fenced as part of regulatory risk reserve. If we achieve our loan clean-up plan this year, that amount of capital should be available for release. This largely addresses the transitional adjustments that would arise at the end of the year.

Two more things. We are accreting profits organically. As at half year we would done about ₦33 billion in the Bank, we expect the momentum to be at the minimum sustained in the second half of the year. We think it is 200bps, which again provides enough capital for our needs. In addition, is the balance sheet restructuring efforts we are working on to basically take off some non-earning assets and liquified goods off the balance sheets. However, we are in a comfortable position in terms of CAR at the end of the year. You may recall, we did provide guidance around loan growth, if you walk back from that and link that to all the things I just said, our CAR is in a good place.

Kaitlyn Byrne - Prudential Investment Managers

If you need to release any of your more expensive deposits in order to manage that loan to deposit ratio could that have a negative impact on your profitability for the second half of the year?

Patrick Iyamabo – CFO, FirstBank

The impact of that against the other things we need to do, would not be significant. You will recall that the rate environment is kind of low right now.

Ronak Gadhia - EFG Hermes

Good afternoon, gentlemen, and firstly congratulation on the asset quality. It has been a long road but glad to see that you are finally getting there. My question is just a follow up of what Kaitlyn was asking. Regarding your CAR, can you disclose what the CAR is on a full IFRS 9 basis as at the end of the first half?

Regarding the LDR requirement, do you think you can meet the 60% minimum by growing your loan book by about 5% as per the guidance?

My final question is on your lending rate, it seems like there is a big drop in your lending rate during the quarter. If you could provide clarification on what was driving this and what should be expected for the rest of the year? Thank you.

Patrick Iyamabo – CFO, FirstBank

Can you clarify the question on CAR?

Ronak Gadhia - EFG Hermes

As at full year, you had reported full CAR, one of them on a fully IFRS 9 adopted basis and one was including the moratorium from the CBN. What you have disclosed in the first half, I believe includes the moratorium. I just wanted to know what the CAR ratio is once you take away the moratorium.

Patrick Iyamabo – CFO, FirstBank

If you back out the moratorium for this year, you are looking at about ₦38 billion capital, and if you note the regulatory risk reserve ring-fenced, that is about ₦32 billion. There is a ₦6 billion differential. A ₦30 billion roughly translates into about 100 bps in CAR.

Ronak Gadhia - EFG Hermes

I guess what you are saying is the big difference that was there at the beginning or at the end of last year should now be a lot less, if I understand you correct?

Patrick Iyamabo – CFO, FirstBank

Yes. If we do all the things we are planning to do this year, in terms of the balance sheet clean-up, the regulatory risk reserve would no longer be necessary and will be available to accrete back to our capital position. This is before considering any profit we want to capitalise.

Ronak Gadhia - EFG Hermes

On the LDR?

Olusegun Alebiosu – CRO, FirstBank

The guidelines made provision for retail consumer and SME business being restricted to 150%. Looking at our books today, our size of SME loans, retail and consumer is about 11% to 12%. Restricting within that 150% will give us a good number and we do not have to do the volume for us to achieve the LDR of 60%. As explained, we have sufficient capital to grow the loans to ensure we meet the LDR and still make a lot of money.

Ola Warikoru – SBG Securities

Hello and thank you very much for the call. I also wanted to follow up on capital. Given the discussion so far, I was wondering with the mention of capitalising earnings by the end of the year and with plans to also grow loans, just wondering where the dividend pay-out outlook looks like? In addition, what would be the ideal guidance for CAR for the end of this year?

In relation to operating expenses, given all that is happening currently with what we see in the half year numbers, when should we expect to see some kind of normalisation of costs? Furthermore, there was a mention of human capital optimisation. I was just wondering if you could provide more details on what exactly is happening on that front.

Finally, I wanted to ask, apart from what we have seen so far in terms of the LDR on circular, what is the Management's view on regulatory headwinds because it seems like the market is pricing additional risk for the banks in general? Thank you.

UK Eke – GMD, FBNHoldings

I am going to take the first set of questions on dividend pay-out and then the guidance forecast and then Patrick, the CFO, FirstBank will take the questions relating to costs and hopefully attend to the question on regulatory headwind. You recall that about four years ago we confirmed that the Commercial Bank would retain all profits made to rebuild capital buffers. Over the last four years they have been making profits and therefore accreting to their capital.

Within this period, the Holding Company has continued to pay dividend to the ultimate shareholders. That is the benefit of having a diversified portfolio of investments, namely the Insurance business and the Merchant Bank and Asset Management businesses. These entities remain well capitalised and very profitable.

If you look at the presentation, the Life Insurance business today is the fastest growing insurance company in Nigeria. We have seen nearly 50% ROE and on a compounded annual growth rate basis, we are looking at about 45%, 47%. That is strong, and the business is doing very well. We expect that they will continue to upstream dividend to the Holding Company. We expect that the Quest group will continue to upstream dividends to the Holding Company.

We did unbundle the Merchant Bank Asset Management Group and there are a couple of businesses there. Within the Quest group is the Capital, Trustees, Asset Management businesses etc. On an aggregate basis, they would remain relevant in the dividend upstream to the Holding Company. We have no doubt whatsoever that all the legacy issues at the Commercial Bank will be fully resolved by 2019 and then they can begin to upstream dividend to the Holding Company.

If you capitalise the half year earnings, we will have CAR at 16.8% which is already above our internal capital adequacy ratio guidance without accounting for the second half of the year earnings. Whereas CBN says 15% as regulatory minimum, we have got more at 150 bps above regulatory limits as internal guidance for the Commercial Bank. i.e.16.5%.

At the Merchant Bank, the CAR requirement is 10%, we are 13.4%. That gives about 350 bps above the regulatory limit. As such, the business is well capitalised. We have always stated that we do not want to run an inefficient Bank. At a certain point, unless you are contemplating M&A, you need to be careful that you do not build up higher than needed capital buffers.

With respect to the guidance, I believe I have provided responses to both the regulatory requirement and the internal guidance. Overall, we will not breach the regulatory capital postulations.

Patrick Iyamabo – CFO, FirstBank

The two questions around OpEx and the human capital optimisation. If we start with the human capital optimisation, a chunk of that spend was in incentivising target staff to consider early retirement and that was funded.

In terms of OpEx normalisation, we still see OpEx being elevated in the second half of this year because we view this year as essentially to clean up and ensure that the committed balance sheet structure pans out by the end of the year.

The good thing is that by the second half of the year, we expect our earnings trajectory to continue to improve relative to the first half of the year and we should see a better second half. To the question relating to OpEx normalisation, I think it is safe to expect costs to remain elevated in the second half of the year.

Temmy Ode – HSBC

Good afternoon, gentlemen, and thank you very much for hosting the call today. Just a few margin questions from me please. Firstly, can you please provide some guidance around the expected margin trajectory through the rest of 2019 and potentially 2020, given the almost 500bps decline in T-bill yields year to date?

The second question is, how much further do you think yields in government securities and OMO instruments need to decline before loans become relatively more attractive than government securities that are risk free?

Finally, if you could please give us a sense for FirstBank spreads on prime loans relative to one-year treasury bills please? Thank you.

Ini Ebong – Treasurer, FirstBank

Speaking to the margin environment, basically what you are asking is what is our view on the direction of interest rates. Clearly, the overall trajectory appears to be that interest rates will decline. Given some of the recent Central Bank actions, it then suggests that we maybe bifurcating the market between what is available to customers and to banks. It is a little unclear at this point.

It appears that T-bill rates have bottomed out at about this level. We do not think the Central Bank are going to encourage them to go much lower than it is. However, we need to get a bit more clarity around what rules or what new structure will be imposed on banks as it relates to what we can or cannot do with treasury bills or OMO instruments.

Overall, we have seen that rates have declined. Again, for banks like ourselves, we will defend margins as much as we can. We could see from the presentation, if you look at the composition of our local currency funding it is significantly weighted more to CASA as opposed to purchase funds. Clearly, we will sacrifice whatever purchase funds we need to at this point to defend that. I hope I have answered you.

Temmy Ode – HSBC

A quick follow up question on that please. The potential differentiated yields on banks versus customers, I guess how likely does FirstBank think that is to pass through the CBN?

Ini Ebong – Treasurer, FirstBank

It would appear apparent at this point but again if you listen to the comments made post the MPC, the Central Bank kind of debunked that. Though, we did see an attempt to do it. It is still in flux. I think it is still a possibility and it will be a function of how much traction I think the industry makes towards increasing lending. My sense is that if they see the lending numbers go up, in line with this new 60% LDR, then there will be less likelihood that that will occur. Fundamentally, you see that OMO instrument rates has already started to taper off, so we are just looking at a lower rate environment.

Temmy Ode – HSBC

Thank you. Then the internal breakeven between government securities and loan yields please?

Ini Ebong – Treasurer, FirstBank

I am not sure I understand what you mean by breakeven there?

Temmy Ode – HSBC

At what point does it become relatively more profitable to go into loans than keep purchasing treasury bills and OMO securities for FirstBank?

Ini Ebong – Treasurer, FirstBank

Fundamentally OMO instrument will always yield more than government securities. It is just really a function availability.

Patrick Iyamabo – CFO, FirstBank

If you consider the fact that with respect to loans, apart from the interest income, you have non-interest income. Depending on how you play it, it could be anywhere between 20% and 35%. Effectively the yield on loans will always be better than gilt edge instruments. The question really is how you want to balance that against the capital consumption and your strategic choices.

Temmy Ode – HSBC

Considering tax and risk adjusted returns, at some point loan starts to look relatively less attractive than investment securities. That is the point I am trying to understand and what is FirstBank's breakeven?

Ini Ebong – Treasurer, FirstBank

Can I suggest we take this discussion off line?

Jerry Nnebue – CardinalStone

Thank you for taking my question. I want to ask regarding your costs, you said that we will probably see this same kind of intensity in the second half of the year. I would like to find out are there any chances that there will be a spill over of this in 2020 as well?

Secondly, I would like to have a breakdown of your loans in different stages: stage 1, stage 2 and stage 3.

Third question is on your digital business. We have seen it ramped up significantly, over 34% of non-interest income, but I would like to know if you are worried about any major disruptions in that business given the huge investments you have made? By disruptions, I mean on the back of the PSBs that the CBN is likely going to give licences to also play in the digital space. Are you worried about any major disruptions in your business? Thank you.

Patrick Iyamabo – CFO, FirstBank

In terms of the OpEx, the whole idea behind this is to contain most of the one-off charges this year. Once achieved then we should be good.

Olusegun Alebiosu – CRO, FirstBank

Stage 1, stage 2, stage 3 are actually similar to 31st December numbers except for recoveries and write-offs that took place on stage 3 loans in Q2.

Sola Adeduntan – CEO, FirstBank

The way our digital business is positioned, and our ambition in that particular space is such that we believe that it will take considerable effort for any new player to catch up with what we are doing. We had earlier mentioned in the presentation of how far we have come with our Agency Banking. Our strategy is well-crafted, and we have been diligent and ruthless in our execution. We are also open for opportunities to collaborate with new entrants into the space, we believe our dominance in this area at least in the short to medium term is relatively assured.

Oluwasegun Akinwale – ARM Securities

Good afternoon. Thanks for the call. I have a follow up question based on what was previously asked. First, I would like clarity on the stages of the loans. Though you mentioned that some are not so much changed from full year, however, can you please provide the numbers to let us know what they really are? We have the estimate but would like to know where they currently sit especially stage 1, stage 2, stage 3? Beyond just the stages, can you give us what the coverage level is across the stages please?

You mentioned that your retail loans are about 11% to 12% of your total loans which means that then by the time you adjust for them you might be above the minimum LDR that was set up. Can you give us the value of where you will be if those adjustments are made so that we have a better concrete value to estimate?

On regulatory reserve, you mentioned that if your regulatory reserve is adjusted or if you achieve what you are doing, your regulatory has partially been unlocked through means of with some of your capital. Can you give us an idea of where your current regulatory reserve sits? How much is it exactly? If you unlock that, how much is that going to add? If you unlock that, how much percentage point will that add to your capital adequacy ratio? If it is something which you can tell us.

I think a question was asked on where your capital adequacy ratio sits if you remove the forbearance by CBN and IFRS 9. I would like to get the actual number. Where will your capital adequacy ratio be exactly? What percentage will it be if you remove the forbearance on IFRS 9.

Olusegun Alebiosu – CRO, FirstBank

On the staging, if you do not mind, we would like to take this offline and we can provide more details. As we mentioned earlier, it is similar to 31st December except for the write off and recoveries on stage 3 loans. Details of the recoveries can also be provided offline.

On the written loans, we do know that looking at our retail franchise in material figure, however we would still have to grow within our 5% forecast to meet the LDR. However, this will not have material impact on capital. Again, details of that can also be provided offline.

Oluwasegun Akinwale – ARM Securities

Okay, on the regulatory capital?

Patrick Iyamabo – CFO, FirstBank

It is about ₦32 billion.

Oluwasegun Akinwale – ARM Securities

If you remove the forbearance for one-off and on IFRS 9, how much will your current CAR be?

Patrick Iyamabo – CFO, FirstBank

Impact this year from the transition adjustment is ₦38 billion.

Oluwasegun Akinwale – ARM Securities

What will be the percentage of your capital adequacy ratio?

Patrick Iyamabo – CFO, FirstBank

We can come back to you on the specifics but here is a quick rationalisation you can work with. Approximately ₦30 billion translates into about 100 bps, so ₦38 billion would be about 1.25bps thereabout, 1.3bps then back that out of 15.6bps and you have your figure. These are before capitalising the profits for this year. Our expectation is capitalisation of that profit will produce about 200 bps.

Oluwasegun Akinwale – ARM Securities

You mentioned that part of the cost in operational and other losses was a transaction involving government agencies and you mention something about AMCON? I did not really get that part clearly?

Patrick Iyamabo – CFO, FirstBank

We will share as much as we can on the call, given the counterparty, but there are two items relating to two separate government agents. The one that relates to AMCON has to do with a transaction dated eight to 10 years ago in respect to some assets transferred to AMCON at that point in time. Following certain developments and the counterpart being a government agency, we made a call to take a charge to put that issue to rest.

Oluwaseyi Adeosun – PAL Pensions

Good afternoon. Thank you for this call. I guess the questions I would have asked has been answered so I will pass on this, thank you.

Gloria Fadipe – CSL Research

Good afternoon and thank you for taking my questions. A bit of clarification required on loan to deposit ratio. If you apply the risk weighting of 150% on your retail risk assets, what is the LDR as at H1 2019?

On CAR, I notice that everyone talks about a 15% regulatory minimum. The story around the 1% maintained overall regulatory minimum for SIBs not going to be in effect anymore. Should we now consider 15% as regulatory minimum for SIBs and every other bank?

On your asset quality, just to get a bit more clarity. With 14% NPL ratio, are there loans within this that have been fully provided for which are yet to be written off and what percentage of that is accounted for here?

Your coverage ratio appears a bit low now. What would it be at the end of the year? What do you intend to do to achieve whatever it is at that time?

Olusegun Alebiosu – CRO, FirstBank

Let me start with the coverage ratio. Yes, as at today it is 64.5% but by year end we do not expect it to be lower than 70%. If you model our half year provision and you layer on the NPL that we have today, you will observe that you might end up at about 75, 73% coverage ratio, just taking half year 2019 and assume the same for second half.

Yes, there are some NPLs that have been fully provided for and that would be approximately 10% of the NPL. There are also some that are 60% provided for depending on the LGD i.e. the collateral that supports it and the time to realisation modelled into it etc. I guess you are looking to see potentials for further write off that could bring down the NPL. We did guide earlier to say, single-digit NPL would be achieved through a combination of loan recovery, restructuring, remediation and loan growth. Loan growth and write-offs have been observed. Restructuring as we said earlier is 11% of the NPL has been restructured awaiting the two quarter provisions for us to re-classify. We believe that the single-digit will be achieved.

Patrick Iyamabo – CFO, FirstBank

The question relating to CAR. The regulatory requirement is 15%. We have a higher internal threshold and if the various things we just discussed on this call play out, we should be good.

Sola Adeduntan – MD, FirstBank

The question on the incremental 1% as it relates to Systemically Important Banks, that has been suspended by the Central Bank, I think about two years ago. The simple rationale for that was that banks were able to explain that at 15% minimum capital adequacy requirement, Nigeria has one of the highest capital ratios in the world. That might be putting the industry itself in a position where banks might need to take exceptional risk in order to achieve the kind of returns that would be commensurate with the level of capital needed to be held in the business.

I believe the CBN had listened carefully to what the operators have said and that 1% remain suspended.

Kaitlin Byrne- Prudential

Just a follow up on the release of that regulatory reserve that you mentioned. Is there a specific NPL ratio that you have to get to in order for that ₦30 billion to be released out of the regulatory reserve?

With loan to deposit ratio, given that it is based on gross loans to deposits, every time you write off a loan, even if it is fully provided for, it affects that gross loan number bringing it down. Is there not an incentive to almost keep your fully written down loans in your NPLs in order to boost the gross loan number or not?

Olusegun Alebiosu – CRO, FirstBank

The first principle is for us to be prudent and obey the principles of banking. If loans are fully provided for and the chances of recovering them are very low, the Bank may decide to write off. That will have nothing to do with loan deposit ratio or not. For us, all options towards resolution of good NPL and loan deposit ratio are on the table.

The Bank wants to grow loans to make more money. The Bank will not make money by writing off NPL. The Bank wants to grow the loans. Therefore, both options are on the table. The Bank is committed to achieving the single digit NPL.

Kaitlin Byrne- Prudential

Just a follow up regarding the release of that regulatory reserve, is there a specific NPL you need to get to?

Patrick Iyamabo – CFO, FirstBank

Two quick comment around the regulatory risk reserve. What you have in there is really the viewpoints around the level and not NPL. The level of provision as viewed by the regulator and what IFRS 9 says, that is one. 2. Built in there are certain considerations like sectoral limit violations and all that. That all comes together.

We have been ticking the boxes in the course of this year, and so for example we have dealt with Atlantic Energy so that puts that bit to rest. We are providing as necessary and doing the write-offs as necessary. Our expectation is with these tactical initiatives being executed by the end of the year, the basis for that reserve should likely fall away.

Kaitlin Byrne- Prudential

Understood. Thanks very much.

Toyosi Oni – Renaissance Capital

Thank you. I have a follow up question on the first two questions. I asked earlier that FBN would talk about ₦700 million and we know that Atlantic Energy is a chunk of this, but can you provide further clarification on the other loans that were written off? Thank you very much.

UK Eke – GMD, FBNHoldings

First of all, apologies for the break. Patrick, the CFO, FirstBank was responding to the question. You wanted to ask a follow up question. Can you please proceed?

Toyosi Oni – Renaissance Capital

Following up on the first question I asked. We know that Atlantic Energy is a chunk of that, but from our estimation there are still other loans in the bucket and I would like to find out what there are?

Olusegun Alebiosu – CRO, FirstBank

Yes, there are some loans, but they are small figures, these are retail loans in the bucket that we decided to set aside while we follow up on recovery.

UK Eke – GMD, FBNHoldings

Thank you very much. Again, let me thank you all for your participation on today's call. For us it is been a long journey to where we are today, but we are certainly very confident that we are on the right path to deliver the commitment we made to you at the beginning of the year. As we proceed into the second half of 2019, we believe we are going to see a better result than the first half and so we ask that you expect a cleaner and stronger balance sheet as we resolve all the legacy issues. Definitely we would see the end of the legacy issues by end of 2019.

We also ask that you expect enhanced earnings, arising from the increase in the loan book which we guided at 5% and the strong showing we have demonstrated today from the E-business. Expect to see a better cost to income ratio, even though we have said we will continue to make investments that would take us to a very enviable position heading to the future. It is not about today, it is about sustainability of our business.

I believe we have demonstrated even by the numbers we have shown that the commitment to single digit NPL ratio at the end of the year is absolute and we are going to deliver on that. I want to thank you and we look forward to hosting you again in October.

[End]