FBNHoldings

Transcript for the FY 2017 and Q1 2018

Financial Results Conference Call

Operator

Good morning and good afternoon, ladies and gentlemen, and welcome to the FBNHoldings full year 2017 and first quarter 2018 financial results conference call. Following an overview by FBNHoldings' management team, 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

Thank you very much. Good morning and good afternoon, ladies and gentlemen. Thanks for joining us on this investor and analyst presentation for our full year 2017 and first quarter 2018 results. My name is UK Eke, the Group Managing Director, FBNHoldings. Also, on this call with me today are; Dr Sola Adeduntan, who is the Managing Director of First Bank of Nigeria Limited. I also have Kayode Akinkugbe, the CEO of the FBNQuest Merchant Bank.

I have Wale Ariyibi, the CFO at FBNHoldings, Patrick Iyamabo, CFO at the Commercial Bank and Segun Alebiosu, the CRO at the Commercial Bank. I confirm that we have posted this presentation earlier today, and I hope you've had time to look through the presentation. On that basis, I would start from slide five and run through to slide eight.

The key headlines will be gross earnings of NGN595 billion, which is a 2.3% growth year on year, and this is driven largely by interest income on the back of enhanced yields and volumes growth in investment securities. Conversely, for Q1 2018, we saw a reduction year on year on gross earnings at NGN138.9 billion. This is down 1.6%, due to declining yields on investment securities. The net interest income recorded 8.9% growth year on year for the full year, closing at NGN331.5 billion, and I can also confirm that for first quarter of 2018, interest income declined marginally by

3.4%. This is due to a constrained lending environment, as well as lower yields in treasury assets.

If you exclude FX reval gains, which we booked for 2016, non-interest income grew 17.6% year on year, and we sustained that pattern in the first quarter of 2018, as we saw an increase of 2.5% year on year to NGN24.8 billion. This basically underscores our diversified earnings base, largely from non-commercial banking businesses. Specifically, we are seeing an increase on a quarter-on-quarter basis from the insurance business to the Group profits, and for the first quarter of 2018, the insurance business contributed 9% of Group profits. For the similar quarter in 2017, it was 3.4%.

Now, we are glad to report a deceleration in credit impairment charge by 3.5% year on year, closing the year at NGN150 billion. This is on the back of improved risk governance, and we'll speak to that in greater detail when we get to the risk management section. Again, we see that the reduction in impairment charge continued even for the first quarter of 2018, declining by 12.1% to NGN25.3 billion. Again, it reflects the steady improvement in asset quality at the group level and the operating entities.

For 2017 financial year, operating expenses increased by 7.7% year on year. This is far lower than the inflation rate, which average about 15%, and in total, the cost to income ratio closed at 53.5%. On the back of enhanced earnings and improving efficiency, the profit before tax and profit after tax were up 147% and 179%, respectively, at full year. However, it was down 6% and 9%, respectively, in Q1 2018.

I'll talk about the cost-to-income ratio in more detail when we get to how we will do business going forward, because there are efficiencies we are driving across the Group.

But let me quickly say we’ve recorded sustained progress on NPL remediation and recovery. We are beginning to see improvement in our NPL ratios. For 2017 full year, NPL ratio was 22.8%, and this compares very favourably with 24.4% we achieved in 2016. For the first quarter of 2018, the NPL was down further to 21.5%. Indeed, if you look through slide 7 you will see that NPL, cost of risk and NPL coverage, continued to impress quarter on quarter and year on year.

Non-performing loan ratio was largely in line with guidance, except for additional impairment charge taken on 9mobile, as well as the impact of FCY translation on legacy loans.

I will talk about the capital positions at the operating entities. The commercial bank and the merchant bank remain adequately capitalised at 17.7% and 15.7% for full year, and if you adjust for first quarter of 2018 profits, the CAR at the commercial bank will inch up to 18.5%. Overall, the return on average equity inched up in 2017 to 7.6% from 3.0% in 2016, while the return on average assets was up 1% from 0.4% in 2016.

I will move very quickly to slide eight, where we have indicated the improving macroeconomic environment. I think the point to make here is that in general, we see improvement in macro indicators, and this is on the back of growing reserves, stable oil production volumes and also rising prices. However, the market remains volatile, and we think that this volatility may persist in the current year. However, we do believe that we are sturdy and we are surefooted, and in our quest to reposition this Group for long-term growth, we think we are on the right path.

I would very quickly hand over to Wale Ariyibi, the CFO at the holding company, to take us through the financial review slides. Thank you.

Wale Ariyibi

CFO, FBNHoldings

My name is Wale Ariyibi, CFO, FBN Holdings PLC. I will be briefing you on slides 11 to 14. Starting from slide 11, first and foremost, I'd like to give a general overview of the financial performance. If we check slide 34, that is the snapshot of the result of operations of the Group for full year 2017 and first quarter of 2018. That gives all of the analysis as well as the snapshot of the financial position. Now, slide 31 is about the guidance and on slide 21 to 23, we'll be speaking to the performance of strategic business units of FBN Holdings PLC.

In summary, from slide 11 to 14, what we see is resilient earnings potential of the Group, because the Group, as we say, it's a cash-generating machine. We see the resilience in our earnings, a strong retail franchise and stable, steady funding as well as diversification of earnings. If you check the financial statements, on note six, we have the segment report of various contributions of the entities towards the holdings result for the full year, and on a summarised basis, the entities apart from the Commercial Banking Group represent 27% of PBT and 25% of PAT in 2017, which is a testament to the fact that the decision to go the holding company route was well thought out and the directors were clairvoyant in taking this position.

On slide 11, which is speaking to the resilient earnings despite declining yields in the market. You'll notice that across full-year 2016 and Q1 2018, if you focus on the graphical analysis of electronic banking fees, as a percentage of non-interest income, from the Commercial Banking Group, this has increased in terms of proportion from 13% in full year 2016 to 22% in Q1 2018. Similarly, income from insurance premium, another aspect of income in our Group, has increased from 5% in 2016 to 14% in 2018. Therefore, we have identified clear opportunities and areas for growth within the Group, and we think this will ramp up, and we are sure that revenues in subsequent periods will improve and increase as we complete projects that have been undertaken across the Group.

Slide 12, continuous focus on realising further efficiencies within the Group, and you will see the way our interest and our OpEx have moved. Essentially, the increase in operating cost is coming from regulatory cost which constitutes 14.3% of OpEx. Regulatory cost is comprised of AMCON levy, as well as NDIC premium. You will know that AMCON levy is computed as 0.5% of total assets plus 0.5% of one-third of credit related off balance sheet items, and that is why that has picked up, but the important thing to note on this slide is that we remain resilient and focused on ensuring that we contain costs and keep within our guidance, which is below 55%.

Slide 13 is talking to the strong retail franchise of the Group as well as well-diversified funding base. The top-most slide speak to the type of funding we have, and other liabilities represent only 6% of funding base, but the real funding is on deposits from customers, which speaks to the strong franchise and the fact that the customers and the investing public have very strong belief in this strong franchise.

So, deposits from customers represents 61%, and from banks, 13%. This is talking to stable funding of the Group. In terms of deposit by currency, LCY represents 85%, while FCY is 15%, and in terms of type of deposit, again, as usual with us as a strong retail franchise, CASA, - i.e., current and savings accounts represent about 70% at the Group, and this we’ve maintained.

Currently, in Q1 2018, it's 69% to 31% between term deposits and CASA. If you do a deep dive into FirstBank itself, you will see how the deposits have been gathered from retail banking, essentially.

I move to slide 14, which is the concluding slide for my presentation. This is talking about optimising the balance sheet of the Group, and we have managed the balance sheet effectively, such that over the course of the period, you will see the number of times we have leveraged the balance sheet and the gross loans to deposit, as well as our capital ratios, which the GMD has spoken about earlier on.

In terms of capital adequacy, for the commercial banking business, it's 18% as of Q1 2018, well above 15% that is the regulatory minimum. For FBNQuest Merchant Bank it's 15.7% full year, 15.1% in Q1 2018, against 10% regulatory requirement. We believe at this level of capital adequacy ratio, that without factoring profit of three months ended 31 March 2018, this is adequate for the business that we want to pursue.

So, the bottom-left side of the slide is talking about risk-weighted assets, and the components for FirstBank, as well as the capital ratios. At this point, I will hand over to Segun Alebiosu, the CRO of First Bank Nigeria Limited.

Olusegun Alebiosu

CRO, First Bank Nigeria Limited

Olusegun Alebiosu, Chief Risk Officer, FirstBank. We have continued our strategy of improving the risk environment within our business - more importantly, credit culture and governance. Based on what we have done in the last 18 months, we have seen vintage NPL less than 1%, while we accelerate recovery and remedial actions on legacy assets. We are focused on cleaning up the legacy assets, as we have our eyes set on our 2019 target for single-digit NPL.

We are convinced that with the strategy we have in place - we will not find ourselves in a situation of high NPLs in the medium term, and going forward, we will be able to define our risk appetite and risk asset criteria. In 2017, we met our cost of risk target. We guided on between 6% and 7%, and ended at 6.4%. But we missed our target on NPL and on loan growth.

On NPL, it was because of an impairment on 9mobile and foreign currency translation impact on legacy foreign currency impaired loans, and you'll appreciate the fact that the entire market was affected by the 9mobile impact, and that NPL at year end for most competitors also moved up almost 200 to 300basis points.

Well, we missed our loan growth target for 2017 because of the operating environment, it was basically a treasury play and in 2018, we are set to grow looking at what the market dictates. We believe that at the end of 2018, we will be on course towards our NPL guidance, and that the risk environment would have improved appreciably in such a way that the health of institutions would have improved further.

I'll pass back to the Group Managing Director.

UK Eke

Group Managing Director

Thank you very much, Segun. I just want to pick up briefly on the market-specific information we provided on slides 21 to 23. Essentially, we want to do a deeper dive on the various operating entities, and we can see with respect to the commercial bank, a sustained profitability - indeed, growth in profitability year on year - resulting from efficient balance sheet management. This underscores the fact of the franchise being a cash machine, and we do believe that the processes are being retooled right now and with the points made by the CRO around the risk culture, we do think that we will continue to see profitability increase year on year.

We also want to call out the very strong funding base with low cost deposits at 83%, about the highest in the industry, and that also resulted in low funding cost of 3.1% for full year 2017. For first quarter of 2018, we are seeing funding costs at 3%. This obviously has impact on our NIMs. The key drivers of growth for this business area will be retail banking business, commercial bank and increased treasury activity, not to forget digital banking solutions, which we are deploying, as you will see in the presentation.

For the Merchant Bank, I think the key theme there to call out on slide 22 would be the acquisition of FBNQuest Securities and FBNQuest Asset Management by the FBNQuest Merchant Bank. Obviously, this is to broaden the suite of products that are available to our existing clients and potential clients. It will also enhance the quality of income. The natural consequence of that acquisition is the growth in OpEx. It is not unexpected, but it occurred in 2017, and we will see a ramp up of activities by those operating entities, which will obviously result in higher ROEs for 2018.

Now, with respect to the insurance business, this is a very profitable business for us. It has remained so since we entered that market, and we are seeing 29% CAGR over four years in terms of gross written premiums. For 2017, we saw a 51% year-on-year growth in gross written premium, and this is coming largely from the retail segment, which is sustainable with respect to the life insurance business. Of course, we are doing well on the corporate insurance and also the brokerage business.

In summary, the insurance franchise is returning a high ROE of 38.8%. This is for the full year 2017, and for 2018, we have already crossed the 45% mark, with respect to ROE. So, we will maintain the growth trajectory we are seeing in insurance. We think it's a very good space for us to sustain growth and distinct advantage from it.

As we conclude, I want to draw attention to our priorities. This is basically anchored on the three-year planning cycle which we announced last year and we have done a full year, and are very happy with the results we are seeing. As stated on slide 25, we are pursuing new revenue sources and enhanced non-interest income sources. Digital banking is a critical play for us, and the commercial bank will lead the market in this regard.

Insurance will also be a very strong contributor, even as we push for efficiency. So overall, there are three strategic priorities we are pursuing. One of which is, enhancing the revenue-generating capacity, and this will be achieved organically at the operating entities and by collaboration and synergy at the Group level. We are seeing improvements in this regard. Secondly, we will be driving operational efficiency, to keep pushing costs down, and we believe that the cost to serve will keep coming down so that our margins can be enhanced.

Also, we will focus very clearly on enhancing our risk governance, as the CRO of the Commercial Bank mentioned. So overall, we expect to increase our pace of customer acquisition and deploy technology to serve our clients, and you will see the details of what we have done in this regard on slide 27. But we think that the greatest lever that we have for the 2018 will be sustained improvement in the risk governance and processes, which will ensure that the new credit culture, which we have institutionalised remains embedded in our various operations. So, on this basis, we are delighted to provide guidance on 2019, which is really what we are driving towards.

ROE for 2019, we should be looking at 20%. On cost to income ratio, we believe for 2019, we should be around 50%, and for the NPL, we expect to be in single digit. This is for 2019.

Slide 31 gives specific guidance for 2018 financial year, and we believe that we should be able to achieve these numbers, based on where we are currently. So, on this note, I will thank you for listening, and I will then open the lines for questions. Thank you very much.

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. Once again, that's star-one to ask a question. We will take our first question from Tolu Alamutu of Exotix Capital. Please go ahead.

Tolu Alamutu - Exotix Capital

Good afternoon, and thank you for hosting the call.

UK Eke – GMD, FBNHoldings

Good afternoon. Please go ahead.

Tolu Alamutu - Exotic Capital

I just have a few questions for you. First, what FX rate are you using to convert your balance sheet as of the end of last year and also the end of March?

Secondly, on risk-weighted assets, on slide 14 of the presentation, it looks like risk-weighted assets fell to NGN2.5 trillion from NGN3 trillion in the first quarter. Is that correct, and if it is, can you maybe tell us how that was achieved?

Third question is on the large problem loans that you've mentioned on previous calls. Can you maybe give us an update on the level of coverage and on recoveries on 9mobile, on Aiteo, on Atlantic Energy and also Ontario, please?

Finally, can you maybe give us an update on your issuance plans and on what you intend to do with the bond that's callable in August of this year? Thank you.

UK Eke – GMD, FBNHoldings

Thank you very much, and I think we've got four questions. Perhaps, we'll just clear these four and go to the next one. So, CFO, please?

Wale Ariyibi – CFO, FBNHoldings

The first question, is what FX rate was used to convert as at end of 2017. We used the FX rate where we are certain that we play in. So, at the end of 2017, we used NGN330.

Tolu Alamutu - Exotix Capital

Okay.

Wale Ariyibi – CFO, FBNHoldings

That does not change for Q1 2018. We used NGN330 against naira to dollar. I will allow my other colleagues from commercial bank to take the questions on risk weighted assets as well as bond calling and issuance.

Olusegun Alebiosu – CRO, FirstBank

On the risk-weighted asset, it fell in Q1 2018, because we have some aggressive repayments, all of which, as I'm sure you are aware, Seplat paying the entire industry underlying exposure, so we have aggressive repayment in Q1 on our loan book. The second one is on key accounts, and coverage and recovery. You mentioned 9mobile, for 9mobile, there's 35% impairment, and then the industry is going through the adjustment on these, and when Telelogy finishes with the acquisition of course we expect the account to go back to performing.

On Aiteo, that is back to performing. It's now off the NPL book. Atlantic Energy remain in the NPL book. We are still going through the bureaucracy towards resolution of Atlantic Energy. As we've said earlier, the resolution of Atlantic Energy remains political, and although the assets are producing, but resolution remains political, and we are going through that to ensure a resolution. The provision on Atlantic Energy is 30%.

UK Eke – GMD, FBNHoldings

The Treasurer is with us on this call. He is going to take the next question.

Ini Ebong – Group Treasurer, FirstBank

In terms of our callable bond that falls due, the good thing, it's the smaller of our two issues out there - it's NGN300 million. So, we are still at this point exploring the options that are available to us. Either, we choose to call it, or otherwise refinance it, in either by new issuance or any other means. So, we are running through that process. We still have a fair bit of time ahead of when we need to make that determination, and depending on market conditions, we will do what is in the best interest of the institution.

UK Eke – GMD, FBNHoldings

Thank you very much, can we have next questions, please?

Operator

Thank you. We will take or next question from Muyiwa Oni of SBG Securities. Please go ahead.

Muyiwa Oni - SBG Securities

Good afternoon, gentlemen. Thank you for the presentation. I have a few questions. The first is a follow-up question on your Atlantic Energy exposure. Just wanted to understand how critical that resolution is to your NPL guidance of 15% by the end of 2018, so assuming the political impasse continues, do you [technical difficulty].

UK Eke – GMD, FBNHoldings

Can we take the next question, please, if we've lost Muyiwa.

Operator

We will take our next question from Clement Adewuyi of CardinalStone. Please go ahead.

Clement Adewuyi - CardinalStone

Good afternoon. Thanks for the call. My first question is on your IFRS 9 implementation. I wanted to find out whether you took additional provisions on Atlantic Energy based on IFRS 9 or whether the current position is still adequate currently. So that's my first question.

I also noticed that you guided toward the loan growth of about 7% to 9%, and I'm also thinking that do you think that the new rule of IFRS 9 is going to impede your loan growth or accelerate your 12-month NPL, if you aggressively grow your loans, do you see that affecting your risk margin framework or do you see that affecting your ability to grow loans in 2018?

Also, we are aware that you mentioned, I think last Q3 2017, that you are expecting a write-back of about NGN20 billion, I think from Ontario. I would like to get a sense of what the status of that asset is - should we expect the recovery? When should we expect the recovery?

Lastly, I think what Muyiwa was trying to ask was that your NPL guidance of 15%, is the resolution of Atlantic Energy factored in or barring the resolution of Atlantic Energy? Thank you.

UK Eke – GMD, FBNHoldings

Thank you very much, Clement, and particularly for clarifying the question Muyiwa wanted to raise. Again, we've got four questions, so let's just deal with them, and then we'll take the fourth caller.

Olusegun Alebiosu – CRO, FirstBank

Let me start with the question that Muyiwa was trying to ask, if the 15% guidance took account of Atlantic Energy. The answer is no. So, if we resolve Atlantic Energy this year, the NPL resolution will accelerate.

The other issue is on Ontario. The Ontario NGN20 billion coming for last year has not come in, but for 2018, plan to make it in. There were administrative issues in there to be resolved, and we are going through that. You need to get that done before you book it, because it's big enough for something to - something to ensure that proper things are done before they are recognised.

IFRS 9 on loan growth, we don't expect IFRS 9 to actually impact loan growth. What is going to happen is that you will now prioritise what type of loan you want to book? Is it Trade? You know that capital charge on trade loans is 0.2. It's about 20%, so your capital charge will be low, so the impact on it will be minimal - again, if you also look at our target that we wanted to increase our investment grade exposure from what we have now to 40% over a three-year period, that would tell you the probability of default for investment grade would be low.

So, the impact on our capital charge will not be all that too high. But if you now look at the environment, and see how you might want to also accommodate some SMEs, then you now see what target of SME you will build into it, and these fed into our guidance for the year. When would have said we're going to take our cost of risk guidance to about 4%, but we have maintained 6-7% because we have IFRS 9 at the back of our mind.

Lastly is the issue of IFRS 9 implementation. Yes, we did take additional provisions, and for Atlantic Energy, well, we looked at it, because Atlantic Energy itself, based on tenor, has not expired. What has expired is just the process, the tenor of Atlantic Energy still has about two years to go. So, if you look at Atlantic Energy we've made provision based on what has expired in the book, and then we are taking 30% on the entire, so if you aggregate on what has expired in the books, we have taking almost 50% on what has expired in the books. The question to determine is that are we able to suffer more than 30% haircut on Atlantic Energy? To us, the answer is no, because the resolution is political and the asset itself is producing. So, we're not looking at the cash flow we are going to suffer from but the political issues that we are going to resolve.

UK Eke – GMD, FBNHoldings

Thank you very much, Segun. Can we move on to the next questions, please?

Operator

Thank you, as a reminder, to signal for a question, please press star-one. We will take our next question from Ola Ogunsanya of RenCap. Please go ahead.

Ola Ogunsanya - Renaissance Capital

Hello, good afternoon, and thank you for the presentation. I have a number of questions, but firstly, on the cost of risk guidance of 6% to 7%, it seems really high, considering how long the clean-up process has been going on for, and I know there was some mention of the impact of IFRS 9, but is it also correct to infer that this 15% guidance is really largely based on write-offs and no recoveries or write-backs this year?

Secondly, on the sale of Rainbow Town Development, so I understand the transaction was expected to close in October 2017, but that doesn't seem to be the case. What happened there and how does that affect the numbers? So, if the sale is concluded this year, does it translate to the cost of risk line, or would it just be profit from the sale of an asset?

Thirdly, on the COR guidance for 2018, I see it's higher relative to what you did in 1Q, so what really is driving that guidance, and then I would imagine that the risk will be more to the downside given the direction of rates over the past couple of weeks.

My final question is on higher oil prices, and to what extent that has helped with the recovery process, and I ask this because of specific news flow on an oil and gas company going bust. So, if you could please give instances of when you've actually seen any improvement in the ability of some of your oil and gas customers to repay their loans, that will be very helpful. I think those are all my questions. Thank you.

UK Eke – GMD, FBNHoldings

CRO of the Bank.

Olusegun Alebiosu – CRO, FirstBank

Thank you. Let me start with last one on high oil prices and how that will affect our portfolio. If you observed, about 42% of our NPL is in oil and gas, and so with the rising oil price, what we've done, and in last quarter Q4, is that we've been able to restructure most of our oil and gas exposures. However, we will need to wait for another two quarters before we can declassify.

So, we have many in oil and gas services firms going to work, and then cash flow will start coming in as from Q2. So, most of what you are going to see is that oil price for us at $50, even at $45, we will be able to push through our restructuring, and that feeds into the first question you raised, that our NPL reduction isn't going to come from write-off or from recoveries, and I will say to you it's going to come from recoveries and restructured loans, because we discovered people with tank farms for two years that were not able to do much business can now do so much from throughputs. So, we've seen development in the market, and we're seeing improvement that we believe will be able to achieve this improvement in asset quality.

Now, looking at the company that you said went bust in the US, FirstBank does not have exposure to that, and so we are out of that. So, whatever oil price is, we are not guided by that. Basically, our cost of risk of 6% to 7% was based on the fact that we appreciate that creating new loans might also require some impairment charge immediately, which is what IFRS 9 is talking about. So, if we build that into it, our cost, the cost of risk will go up - I mean for the first year, and so this is different from general provision and you only do impairment when the loan is impaired. So we factored that in our cost of risk guidance.

Wale Ariyibi – CFO, FBNHoldings

For Rainbow Town, we are optimistic that in the course of 2018, we will conclude the sale of Rainbow Town. It's an equity investment in the holding company. However, at this point, the balance of the equity investment of NGN1.7 billion was fully impaired in 2016 account, and that's why you if you review the financial statements, you will see in terms of investment, it's zero this year in 2017 but NGN1.7 in 2016. When we sell, whatever we get will be gain from this sale of investment.

UK Eke – GMD, FBNHoldings

The question on NIMs guidance, and the CFO of the Commercial Bank will take that question.

Patrick Iyamabo – CFO, FirstBank

Okay, this is Patrick. The NIM for the commercial bank was about 8.8% for 2017 and 8.5% for 1Q 2018. At a Group level, that came to about 8.4% for the whole Group. We guided between 8% and 8.5%, 8.5% being the higher end and 8% being the lower end, from where we think NIM will pan out.

Part of what we expect to play out in the course of the year that was not fully manifest in the first quarter was our loan growth, which we expect will further improve yield and strengthen the NIM, so we're comfortable with the 8% to 8.5% guidance that we’ve shared.

UK Eke – GMD, FBNHoldings

Thank you. Next question, please.

Operator

We will take our next question from Aderonke Akinsola of Chapel Hill. Please go ahead.

Aderonke Akinsola - Chapel Hill

Good afternoon. Thank you very much for your call today. My first question is a follow up on IFRS 9. I would like to know the particular impact that will have on your capital adequacy ratio, so if you'll be specific on how much IFRS 9 would deplete your capital ratio that would be really helpful.

My second question is on dividends, so I would like to know if you would continue to pay dividends from your subsidiaries in 2018, and if that is not expected to continue in 2018, what sort of pay-out ratio guidance would you give, and if you expect it to persist, at what point should we expect dividends to be paid by the bank itself? Those are my questions. Thank you.

UK Eke – GMD, FBNHoldings

Thank you very much, Aderonke. Let's take another question, please.

Operator

We will take our next question from Ronak Gadhia of EFG Hermes. Please go ahead.

Ronak Gadhia - EFG Hermes

Hi. Good afternoon, guys. Thanks for the presentation and thanks for taking my questions. Mine is just really a follow up of some of what's been asked earlier. First, on the FX rate, you said you used an FX rate of NGN330. If you were to use an FX rate of NGN360, what impact does that have on your capital, and what sort of FX revaluation gains would that crystallise to?

My second question is on 9mobile. You said you've taken 35% provision. If you could just highlight or mention what the total exposure to that loan is? From what I understand there is a direct and an indirect exposure, so is that 35% provision just on the direct exposure, or is that on aggregate?

My last question, I guess is a follow up from the previous callers, is IFRS 9. If I look at the level of provisions you've made, it seems comparatively less relative to what some of your peers have taken. So, is that something that will increase through the rest of the year or how do you quantify or what would you say is the key difference as to why your provisioning level is relatively less compared to peers? Thank you.

UK Eke – GMD, FBNHoldings

Thank you very much. We will give the responses to the questions, starting with the CRO.

Olusegun Alebiosu – CRO, FirstBank

Yes, 9mobile we have taken 35% and the exposure is 1.25% of the loan book, and we all know that in reality, impairment should be lower than that, but the market was conservative, and they're looking forward to Teleology such that when the acquisition is concluded, probably in Q2 or Q3, the acquisition by Teleology will become rectified, and then the loan itself becomes rectified, and then the impairment will disappear and we won't have to take impairment and the NPL will go away.

Now, on IFRS 9, being less than competitors, impairment we have taken for us - it is aggressive, because we are right about NGN150 billion for the year. I'm not sure there's any competitor in the market assuming that level of provision. Q1 the provision was about NGN25billion, I'm not sure there is any competitors in the market with that level of provision. What we are trying to do is to say we need to be conservative and we put forward and say this is IFRS 9, and also looking forward that if you create loan this year, you're also going to book impairment, and we did not shy away from the fact that that will be the reality and it will pull forward 6% to 7% guidance on cost of risk.

UK Eke – GMD, FBNHoldings

Okay, I will take the question on dividend. This is UK Eke. So I think the short answer to the question is that, yes, Holdco will continue to distribute dividends to shareholders. To the extent that the operating entities are able to upstream dividend to us. As you know, Holdco is just an investment vehicle, and we have no need to retain capital at the Holdco level.

The second point to make is that our present entities that are regulated by capital remain very, very well capitalised. As I mentioned in my presentation, if you capitalise first quarter earnings at the commercial bank, we are at about 18.5% CAR, which is about 350 bps above regulatory requirements, and at the merchant bank level, they've got about nearly 16%, which again, are 600 bps above the regulatory requirement. So, these entities are well capitalised and there is no pressure.

Now, the second point to make is that the commercial bank is still working through the loan book, and we do think that they need a bit of more time to clean up. But the good news is while this is completed, they would meet two requirements that would allow them to upstream dividend. One, the NPL ratio will come below 5%, right, and of course we are going to have a composite risk rating of moderate, perhaps lower, and so these are the two principal criteria that the CBN will look at in approving dividend. We are optimistic that the commercial bank is nearly there, but to the extent that we will continue to run profitable franchises in insurance and the merchant bank and asset management sectors, we will continue to pay dividend to our shareholders. Thank you.

There are a few other questions we need to clear.

Patrick Iyamabo – CFO, FirstBank

Okay, I think there's a question around the impact of using NAFEX as opposed to NiFEX to revalue our books. As most of you know, we are long on FCY, and we estimate that the impact of that move from NiFEX to NAFEX is about 9%, thereabout, should translate into about NGN36 billion in revaluation gain with a reasonable amount in risk weighted assets. So, we're good with that.

UK Eke – GMD, FBNHoldings

Next question, please

Operator

We will take our next question from Jumai Mohammed of Exotix Capital. Please go ahead.

Jumai Mohammed – Exotix Capital

Thank you very much for taking my question. Still on asset quality, I wanted to ask, please, what percentage of your NPLs are FCY currently? On Ontario, what is the timeline for resolution of that loan? What will be the percentage contribution to NPL improvement that you talk about - that you guide to, 15%. Still on the topic, what is in your view normalised cost of risk for the bank under IFRS 9? Thank you.

UK Eke – GMD, FBNHoldings

Thank you. We'll take another question please.

Operator

We will take our next question from Kaitlyn Byrne of Prudential. Please go ahead.

Kaitlyn Byrne – Prudential

Thanks for taking my call. I don’t think you gave the number for the impact of IFRS 9 on the capital adequacy ratio. My next question is on why the merchant bank's capital adequacy ratio came down so much in 2017. If you could talk specifically to how you will improve your cost to income, given that cost-to-income ratio has come up in Q1. We expected that cost of income to continue to tick down. Thanks very much.

UK Eke – GMD, FBNHoldings

Thank you. Let's take the questions.

Olusegun Alebiosu – CRO, FirstBank

Oil and gas NPL in our books were 50%. Upstream oil and gas, alone is 42%. That is why the current improvement in oil price is good news for us as we will restructure our loans and see them come back to performing.

Ontario and the cost of asset realisation, for which we promised NGN20 billion last year, well, that process is yet to be concluded and at the close of 2018 that will be resolved.

On normalised cost of risk, we did say that by 2019 that our cost of risk will be lower than 2%. That for us will be normalised cost of risk.

Wale Ariyibi– CFO, FBNHoldings

On the issue of reduction or decline in capital adequacy ratio at FBNQuest Merchant Bank Limited. On slide 14, you will see where we were at nine months and the resulting effect of payment of dividend by the entity, upstreaming of dividend to HoldCo.

In 2017, FBNQuest Merchant Bank upstreamed a total sum of NGN8.7 billion, which is reflected on financial statements in note 15. If you will check note 15 on financial statements, you will see analysis of the entities that have paid dividend to the holding company. That is the reason why retained earnings declined, because that is where ultimately results of operation will go for the year and dividends are paid. That's why retained earnings which is a Tier 1 component of CAR has gone down.

However, the regulatory requirement for FBNQuest Merchant Bank is 10%. At 15.7% or 15.1%, we are still well above the regulatory requirement and we are confident that this is adequate for the operations.

Patrick Iyamabo – CFO, FirstBank

There was a question around cost/income ratio. We expect cost/income ratio to moderate around what it is we've guided. We're comfortable with that.

Dr Adesola Adeduntan – MD/ CEO FirstBank

I think the most important thing to say is that if you see our track record dealing with our cost base, with all the initiatives that we have on the table today, we are pretty comfortable that we're going to rein in costs like we have done in the recent past and by full year end we should fall within the number that we have guided.

UK Eke – GMD, FBNHoldings

Can we take more questions, please?

Operator

We will take our next question from Omotola Abimbola of Afrinvest. Please go ahead.

Omatola Abimbola – Afrinvest

Good afternoon. My question would be a follow-up to the question earlier asked on NIM. I think you responded by saying that you are going to grow your loan book in 2018, no doubt to reduce the impact of the declining yields investment securities. I would like to know the sectors you've been looking to increase your risk assets, which sectors are growing right now that you think would be able to create some very good assets?

My second question is on your deposit mix. I think in Q1 2018 there was a spike in term deposits. I'd like to know if there is a strategic intent to this or just a way of managing liquidity. That would be all.

UK Eke – GMD, FBNHoldings

Thank you. Let's take a couple of additional questions.

Operator

We will take our next question from Tolu Alamutu of Exotix Capital. Please go ahead.

Tolu Alamutu – Exotix Capital

I have a quick follow-up question, please. Can you maybe shed some light on the close to NGN200 billion, I think it was, of loan write-offs that we had in 2017? Because it looks like that figure is up from NGN53 billion in the previous year. So, if you could tell us maybe what sectors those loans were in, that would be helpful. Thank you.

UK Eke – GMD, FBNHoldings

Can we take one more question, please?

Operator

We will take your next question from Aderonke Akinsola of Chapel Hill. Please go ahead.

Aderonke Akinsola – Chapel Hill Dunham

Good afternoon. My question again is on the impact of IFRS 9 on your capital adequacy ratio. I think you put this question into proper context. Your peers disclosed say 150 - 200bps impact of IFRS 9 on CAR for first quarter. For FirstBank, what is that impact on your CAR. I think it would be really helpful if you can disclose that figure for us. Thank you.

UK Eke – GMD, FBNHoldings

Let's respond and then we'll take another set.

Patrick Iyamabo – CFO, FirstBank

To the question around IFRS 9 impact on CAR, we estimate less than 1% CAR impact from IFRS 9 in 2018. We've already taken NGN11 billion through, and it is post that we still posted - at least for the bank - a capital adequacy ratio of about 18%. So, we're essentially looking at taking through additional NGN36 billion throughout the year.

But as you know, we already booked impairment charges of about NGN23 billion or thereabouts in the bank, so the differential, we are really looking to deal with comes in at less than 1% CAR impact.

Olusegun Alebiosu – CRO, FirstBank

We guided on loan growth for 2018 and our focus will be on manufacturing, agro-processing, trade and consumer loans. You can see that the FX environment always dictates were the next market will look like. So, for manufacturers, the FX environment is positive for them to be able to import. So, they will be able to do more, getting more of the raw materials and all that and so also trade will move.

You're going to see more salaries being paid and of course, Nigeria being an oil story and a lot of money in circulation, consumers are able to spend more and so consumers are able to take more loans. That is exactly what we're going to do. On the loan write-offs, that was majorly in oil and gas sector. Thank you.

UK Eke – GMD, FBNHoldings

I think we've addressed the issues, so perhaps we'll take additional questions.

Operator

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

Muyiwa Oni – SBG Securities

Good afternoon, gentlemen. Thank you for your presentation. I wanted to ask if you could elaborate on what you think would be contributions from e-business and insurance premium over the next five years, because I know you highlight those as two strong areas for NIR growth going forward, so what kind of composition or percentage contributions are you expecting.

Also, in your presentation you talked about FCY costs being responsible for some of the increase in costs. So, if you could give a composition of cost in percentage terms, foreign currency versus local currency.

Also, in your presentation, talking to risk management you talked about redefined target markets, talking about strengthening credit culture and governance. If you could elaborate on what you mean by that.

Lastly, you have a vision to consolidate position as a leading financial services group in middle Africa. I wanted to understand where you are in terms of that and what kind of opportunities or growth opportunities you see across the continent? Do you see opportunities to grow or expand in Ghana, for example, given the events happening in that market currently? Those are my questions.

UK Eke – GMD, FBNHoldings

Thank you very much. We will respond to the questions.

Olusegun Alebiosu – CRO, FirstBank

On redefining target markets that we set, we mentioned earlier that we are now pursuing moderate risk appetite. Our focus are sectors with historical low NPL, which you will see in manufacturing; you will see in trade and likely to see in large agro-processing.

That is the first one on the target market. Two is, we are moving more to investment grade. Prior to now, our portfolio of investment grade exposure was less than 20%. We've said that in three years we will move to between 42% to 45%. So, looking at investment grade counterparties you hardly see one dropping in 10 years. So, you are likely to have a good loan book that will allow you to do more business while expanding your loan portfolio.

Wale Ariyibi – CFO, FBNHoldings

This is Wale Ariyibi, the CFO of FBNHoldings. In the long term, we expect increased contributions from other aspects of the group, i.e. ex-commercial banking group in the long term. Doing a deep dive, we expect that non-interest income as a percentage of net revenue to be above 25%.

Dr Adesola Adeduntan – MD/ CEO FirstBank

Let me speak about e-business. That is one area where we are quite excited with the progress we have made and we are still making. For the quantum of opportunities that we see there have informed our type of investment that we're making and our expectation in terms of future cashflows that will come from this particular line of business.

We are currently ramping up on our agent banking. As I speak today, we already have close to 5,000 agents and we expect that to ramp up rapidly. We've also set up our own digital laboratory where we are experimenting with new products and also creating partnership and alliances with Fintechs.

Given that platform, on the back of what we've also carried out in Nigeria, we are also extending our e-business products to all our African subsidiaries, especially DRC Congo, Ghana and Senegal, where we intend to leverage our core competence in e-business to grow our market share in those markets.

So, in the fullness of time, this is the future. This is where we see significant growth for our franchise going forward. That is mainly on the retail side.

We've also made significant investment, and we have made good progress in digitising our transaction banking offering, which is what we offer to our corporate and other wholesale businesses. We are implementing an integrated cash management solution that is world-class and will compete with any of the best platforms or solutions that is out there.

We are equally implementing our trade finance platform to give our wholesale businesses one single view either from their trade finance or their corporate cash management solution.

If you put this together, what we are doing around our transaction banking and our e-business platform, and you also look into what we intend to do by extending the same solution to our African subsidiary, clearly the future of our business is in digital banking, transaction banking, both in Nigeria and outside of Nigeria. That's quite significant.

That takes me automatically to your question around our vision of being the dominant player in middle Africa. We currently have significant footprint in Ghana, Senegal, Gambia, DRC Congo, Sierra Leone and Guinea. We do see significant opportunities in Ghana, Senegal, DRC Congo and Guinea, most especially.

We expect significant growth in the medium term, being the next three years, around what we can bring to the table around e-business, transaction banking and agent banking. We are also significantly leveraging our corporate banking platform and the fact that a number of our customers also do have significant business play in those locations.

So, those subsidiaries that we currently have, we will move them from being net consumer of capital, which is where they are today, to begin to bring that optimal return on capital that have been invested over time.

While harvesting those investments and making them work better, we will be alert to opportunities to also expand our footprint on a very opportunistic basis. But in the short run, the critical markets for us is Ghana, DRC Congo, Guinea and Senegal.

To answer your question on Ghana, we find the markets to be - we think the market is quite exciting and is a market we do not intend to exit. We are currently looking at different options in terms of ensuring that our franchise gets strengthened in that particular market. Thank you.

UK Eke – GMD, FBNHoldings

Thank you very much. Other questions, please.

Operator

We take our next question from Christine Philpotts of Alliance Bernstein. Please go ahead.

Christine Philpotts – Alliance Bernstein

Good afternoon. Thank you very much for organising this call. I had a couple of questions specifically on cost of risk and NPL ratios. First of all, just on a previous question, can you indicate what your cost of risk guidance would be for FY18 if you exclude the impact of IFRS 9? You mentioned the 6% or 7% per cent includes additional impact from IFRS 9, so I just want to get a sense of what that would have been without the IFRS 9 impact for the FY18 guidance.

The second question is on Ontario. If you could provide a little more colour on what has been driving the delay in the resolution process. If you could provide maybe more specifics on what are the next steps towards getting the recovery finalised.

My third question is on your NPL ratios for the upstream oil and gas book. I want to get a little more clarity on why we haven’t seen a faster improvement in the asset quality of that book given that the improvement in oil prices has been happening throughout FY17.

You mentioned that there were some loan write-offs in that sector, so I want to understand what is driving the underlying performance of those assets given that the oil prices have rebounded so strongly. What else is going on that is still making these assets underperform?

Lastly, in terms of your ICT NPLs, if I look at the growth in NPLs from Q4 2017 relative to Q3 2017, it looks like it increased by NGN184 billion, but the 9Mobile loan exposure is just NGN22 billion. So, I just want to understand what also is driving that significant increase in the ICT book for FY17. Thank you.

UK Eke – GMD, FBNHoldings

Can you clarify the figure you quoted? Where did you get that from? What slide?

Christine Philpotts – AllianceBernstein

I was looking at your - this is on the slide with the NPL and metrics. I was looking at slide 16 and slide 19. I was comparing the split of the NPL exposure for Q1 2018, end of year FY17 and then the previously reported NPL split in Q3 2017. It looks like, this based on my calculation, the increase in the growth NPL for information and communication sector is much higher than the 9Mobile exposure, so I just want to understand what else is driving that.

UK Eke – GMD, FBNHoldings

Let's take the questions now, starting from the cost of risk.

Olusegun Alebiosu – CRO, FirstBank

Starting from the cost of risk, if we exclude IFRS 9, we'll be looking at about 4% to 4.5%. For Ontario, we did say that the delays were caused by documentation and administrative issues which we will be resolved in 2018. So, we are positive on that.

Again, the amount is material enough that you don’t want a situation where documentation is holding you back and you reverse. So, for us, we'll get everything sorted out. That is what we are doing and 2018 that will be in the books.

For the oil and gas, you appreciate the fact that the recent oil price movement was in Q3 and Q4, more Q4, because we saw it rising from $45, $55 and now $67, even four, five months after. So, you see that the multinationals started mobilising their assets back to float late December and the cashflow we'll be seeing will be 90 days after, which is likely to be last month of Q1 or first month of Q2.

Based on IFRS, you need two quarters of continued cashflow before you can declassify. That's why you still have that in the oil and gas NPL still elevated. Don’t also forget that oil and gas also includes Atlantic Energy. That is why the real bucket is higher than the orders.

On the ICT, you will see that if you check for FirstBank for ICT it was 4.9%. You mentioned some billions. I'm not sure we have that in this presentation. So, 9mobile being the key one that we have and which is already impaired.

Christine Philpotts – AllianceBernstein

Just to follow up, based on what you mentioned earlier, I think the 9mobile loan exposure is NGN22 billion. Is that correct?

Olusegun Alebiosu – CRO, FirstBank

It's 1.25% of our loan book. I'm sure RenCap presented something in respect of that. The market late last year, which I'm sure was a good guidance for the market.

Christine Philpotts – AllianceBernstein

Ok maybe I can follow up separately but it seems like the NPL increase was much more significant than that. Maybe I could follow up with you offline on that.

UK Eke – GMD, FBNHoldings

Thank you very much for that accommodation. Any other questions, please?

Operator

We will take our next question from Tunde Ojo of Harding Loevner. Please go ahead.

Tunde Ojo – Harding Loevner

Thank you very much. This is Tunde from Harding Loevner here. Can you please give me the size of your restructured loan book? In addition to that, how much of that is in NPL already? That's my first question.

The other question I have is on Aiteo. I heard the CRO mention earlier that this has been reclassified as performing. Did I hear that right? If that's the case, has that happened as at the end of March? Because the Aiteo loan is quite sizeable, so if it has already been performing at the end of March, why is the NPL ratio still quite high if Aiteo is already out of it? if you can please clarify that statement you made earlier.

The last on asset quality is, does your cost of risk guidance for the full year, which is 6%-7%, include the recovery that you're expecting from Ontario?

Olusegun Alebiosu – CRO, FirstBank

Aiteo has been reclassified. If you observe, you will discover that the loan book in Q1 fell materially. In fact, in FirstBank Nigeria, we had over NGN120 billion paydown in Q1 alone.

So, if you look at the NPL ratio as a combination of both the NPL itself and loan book, so the NPL ratio would have improved better than that if we held loans constant or at least 1% growth in loans. But because the loans fell materially in Lagos alone over NGN120 billion and across we also saw some repayments, so almost NGN150 billion that ordinarily we would have had on our loan book. That tells you how that would have impacted the NPL ratio.

Of course, NPL would have been 20% or less than that. That's why the impact of Aiteo was not felt materially as you would have loved to see it.

We said restructured loan is actually 6% of the loan book with Aiteo dropping out. Then we expect that in the course of the year, the restructured loans will also fall in place. We're likely to see improved cashflows from the assets. We've seen some of them, it might have to be for two, three years for us to have complete full repayment, but the good thing is there is visibility on repayment.

The last one is Ontario. We gave guidance. If you look at NGN20 billion coming in and you look at my average - don’t forget that it's also based on average loan book. My average loan book today is low and I will have to move across before I will get to the end. I'm looking at 10%.

So, even if I achieve 10% maximum and I factor that into my opening and my closing and I look at what the average would look like, it's clear that the average loan book will not be too big. So, if you're looking at my cost of risk, you're going to see how that's going to manifest in it and that was why we came to that conclusion.

Again, we look at the fact that if I am going to create loans of about NGN220 billion for the year, which is about 10%, and I factor in the fact that this is IFRS 9 environment and I will expect impairment charge from day one, so if I factor that into it, I'm looking at something like this. That you can see - as you move throughout the year, you will see how those things will pan out.

Tunde Ojo

I get it. Can I follow up? I just wanted to know if your cost of risk guidance includes the recovery you're expecting from Ontario. That's what I wanted to know, if it's in it or excluded from that guidance.

Olusegun Alebiosu – CRO, FirstBank

It's excluded from the guidance.

Tunde Ojo

Thank you.

Operator

I would like to hand the ball back to Mr UK Eke for the closing remarks. Please go ahead, sir.

UK Eke – GMD, FBNHoldings

I'd like to thank you for your sustained interest in FBNHoldings. You will agree that over the last two years we have consistently delivered on the promises we made to you with respect to capital, with respect to cost efficiency and of course with respect to asset quality.

We do believe that we can sustain this momentum into 2018 and beyond. The guidance we have provided, we are committing to them. Also, we do think that 2018 will be a far better year for us as a Group on the back of the improving macro.

Finally, I would like to also say that our view is that the stock remains undervalued, significantly so if you take the individual businesses as we have presented rather than the conglomerate view of the entity. So, we would invite you to look through the numbers again and feel free to come back to us for additional clarifications.

Finally, I look forward to addressing you again when we release our second quarter results. Thank you very much for participating.

Operator

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

[End]