FBN HOLDINGS PLC

HALF YEAR 2020 FINANCIAL RESULTS

Investor and Analysts Presentation

Tolu Oluwole

FBNHoldings, Head of Investor Relations

Good day ladies and gentlemen. Welcome to the FBNHoldings Half Year 2020 Financial Results conference call. Thank you for taking time to join us on the call today and for your continuous interest in FBNHoldings. My name is Tolu Oluwole, Head, Investor Relations at FBNHoldings.

Following an overview by the Group Managing Director of FBNHoldings, an interactive Q&A session will be available. But before I hand over the call to the Group Managing Director, I would like to go through a few conference protocols.

Participants are encouraged to use the raise hand functionality to ask questions and microphones will be unmuted once called upon to speak. For efficiency of the process, questions will be taken in batches of two or three before responding, and then after asking questions, microphones must always be put on mute except when speaking.

In addition, once your questions have been taken, please lower the hand after asking the questions. Questions can also be submitted via the Q&A functionality where we will take questions intermittently. That said, I would like to hand over the call to the Group Managing Director of FBNHoldings, Mr UK Eke, MFR, please go-ahead sir.

UK Eke

FBNHoldings, Group Managing Director (GMD)

Thank you very much Tolu. Good afternoon and good morning ladies and gentlemen. I would like to add my warm welcome to you all. This is the FBNHoldings Investor and Analysts results presentation for half year ended June 30, 2020. As previously announced my name is UK Eke, the Group Managing Director of FBN Holdings Plc.

It is my pleasure to introduce my colleagues that are on this call with me today. As always Dr Sola Adeduntan, the CEO of FirstBank, the Commercial Bank. We also have Kayode Akinkugbe, the CEO of FBNQuest Merchant Bank, Wale Ariyibi, the Chief Financial Officer of FBNHoldings, Patrick Iyamabo, the CFO of FirstBank, Segun Alebiosu, the Chief Risk Officer of FirstBank is also here. Ini Ebong, the Group Executive, Treasury and Financial Institutions, and International Banking, FirstBank is also here on the call.

By way of background and I am sure you all have the statistics, but across the globe, 2020 has been a very challenging and I guess I should say unprecedented year as we continue to deal with the health, financial and economic impacts of the COVID-19 pandemic. Early indications from the data available have shown monumental contraction across the globe. In the US, Europe and other economic blocks have all been impacted. I think the only good news coming out of the global economy is China which by Q2 of 2020 presented the globe with a semblance of, I would say, a V-shaped recovery trajectory. Otherwise, it has been one challenging sector or industry or region to the other.

We do believe that the Q2 economic data for Nigeria itself will not be different. The global trend should also impact Nigeria for obvious reasons particularly on the back of the lockdown that we experienced for the most part of Q2 in Nigeria. Notwithstanding these challenges, we are pleased to report a strong performance which for us is a testament to the resilience and the inherent strength of our institution.

Having laid that background, again I confirm that we released our financial statements on Wednesday, 29 July 2020 to the market and we have also posted today's presentation on our website. I hope that you have taken time to look through because we would like for this to be interactive as much as possible. I will go straight through slide 5 of the deck. I am delighted to report that despite the very tough operating environment, which I already alluded to, our gross earnings was up 5.8% year-on-year as you can see.

The profit after tax for the period was up 56.3% on the back of very strong growth in non-interest income and I will give you the statistics momentarily. The progress we made in our non-interest income was driven largely by treasury activities, so we benefited from increased volatility in the marketplace. Of course, as well as increasing market share in our e-banking segment. For us to understand the scale or impact of the progress we made year-on-year, the non-interest income line was up 47%.

Interest income obviously was impacted by the low yield environment and relative to the first half of 2019, net interest margin was down but we are reporting very gladly 110 bps growth in net interest margin from 6.3% in Q1 of 2020 to 7.4% in Q2 of 2020, supported by a drop in our cost of funds which was as low at 2.3% in Q2 of 2020.

I think it is appropriate to emphasise the progress we have made on our Agent Banking which was the major contributor to the non-interest income. Our Agent Banking network increased by over 100% year-on-year. We ended June with over 59,000 agents.

In terms of value of transactions processed, we are glad to report that we were able to achieve about NGN5.71 trillion in value terms compared to NGN1.61 trillion for prior period 2019. This is phenomenal, if you imagine that we were able to grow both count and value by over 250% in one year. Clearly, we are monetising the Agent banking proposition and its revenue contribution to the total e-business income and this continues to grow.

The growth and the volume and value across the e-channels continues to offset the reduction in regulated fees, which has allowed us to keep the revenues on that line flat year-on-year. You recall that in January this year Central Bank of Nigeria came up with a regulation which slashed fees on e-banking products as high as 50%. We would have expected a drop significantly on that revenue line but based on the scale we have built we were able to maintain very high revenue from that line, and therefore we are glad about the progress we are making on that platform.

In the second quarter under review, I also want to confirm as you may have read already in the papers and watched the news, we successfully completed the sale of our insurance subsidiary, the FBN Insurance Limited to our partners Sanlam of South Africa. That created the platform and the lever for us to inject additional Tier 1 capital into our flagship, FirstBank, effectively taking the CAR to over 16.5%, and this is before capitalising the profit year to date.

This divestment is clearly in line with our mandate of delivering greater value to shareholders and strengthening the core business of the Group. The idea remains that we want to regain our leadership of the banking sector. That remains our grand ambition.

I will then move onto slide 6, and as you can see, we grew our top line and bottom line while strengthening our balance sheet. Earlier I mentioned the positive performance in gross earnings and profit. I think it’s noteworthy at this point to say that despite the adjustment of the exchange rate, despite the rising inflation, and the impact of the current pandemic, we were able to maintain the cost profile flat year-on-year. This is a clear indication of the commitments we made and that we are on track to keep our costs going down with a view to achieving over the next three years cost-to-income ratio about 55%. We are on track on that line.

We have also strengthened our balance and grown the loan book. We grew the loan book about 8% from a very high base and then the increase in the impediment charge which we are reporting was driven by translation impact on foreign currency loans on our books and of course the weak macro environment which was not unexpected during the period under review.

Slide 7 shows very clearly the increasing shareholder return. It also demonstrates improved non-performing loans (NPL) ratio and strengthened capital position across our entities or businesses, which then gives us the capacity to deliver on the long-term ambitions we have set for ourselves. Again, to emphasise on the NPL line we are happy that the NPL ratio has remained in single digit territory and continues to trend downwards. What we see is 8.8% as at June 2020.

You will recall that we closed December 2019 at 9.9%. The trending down will continue until we are able to achieve sub five. That is not the guidance for this year by the way, but we see that ratio continuing to go down as we build our loan book and improve on loan quality. To provide insight into the loan quality, the vintage NPL loans made out in the last three years have remained below 1% - we are on track. Finally, on slide 7, we continue to rebuild our capital buffer as I said for the Commercial Bank and for the Merchant Bank, they all were capitalised.

Slide 8, provides a summary of what we have delivered to the market during this quarter under review. A very robust financial performance and I think it speaks to the resilience again of our Group on how successfully and deliberately we have continued our strategy, and this is across all subsidiaries. We have delivered earnings growth, we have strengthened our balance sheet, we have maintained a very strong liquidity profile on both the local currency and foreign currency, and our dominance in the e-banking space we re-enforced it during the first half of 2020.

We have also succeeded in keeping our costs under control. All these achieved in a most challenging period of the economy but gives us confidence that, yes, we are on track to deliver the commitments we have made to the shareholders and to all stakeholders. Now I would skip slides 10 to 19, they basically provide in greater detail the numbers that support the summary I have provided to you.

I will go quickly to slide 21 which basically provides the outlook. Now the outlook remains uncertain. To be honest we see headwinds. We think that the remaining half of the year will also be challenged. There are broader macroeconomic concerns beyond the pandemic that we appear to be dealing with successfully in Nigeria at least. However, we remain very steadfast and we are focused on controlling those elements that are within our capacity. We will control them, and we would deliver.

We will continue to innovate and maintain our distinctive advantage in the digital and agent banking space to build scale. That is what is important for us, scale up aggressively and significantly. We will continue to drive our transaction-led banking model. This is very important to us and we believe that this will all translate to better financial outcomes at the end of this year.

As recent events have shown, we have successfully navigated and managed the storms and so what is left for us is to maintain the momentum for the second half of 2020 and then close with a very strong result which we are proud to share with you. I would like to pause at this point having provided a high-level summary, but we will then proceed to the next segment of this presentation, which is the questions and answer session. Tolu please moderate this segment. Tolu please go ahead. Thank you.

Q&A Session

Tolu Oluwole – Head, Investor Relations, FBNHoldings

Thank you very much UK. We are in the Q&A section now. But just before we commence, I will go through the protocols yet again. Please participants are encouraged to use the raise hand function to ask questions and then microphones will be unmuted once called upon to ask questions. Again, for efficiency we will take two or three questions before responding.

After asking the questions, please make sure your microphones are on mute and lower the hand as well, so that we will be sure of taking your questions. Questions will be taken intermittently in the Q&A room. Again, if you wish to ask a question, we encourage you to raise hand, and please ensure again that your microphones are on mute once you are not speaking. We will now take the first question from Martin, please go ahead.

Martin – RMB Nigeria Stockbrokers

Congratulations on your numbers especially within these times, they are really impressive. My first question is on your loan growth outlook. Given the environment it is not far-fetched to believe that loan growth is not something banks would be looking at strongly. However, do you see opportunities where you can expand loan book and try and claw back some of your sterilised funds with the CBN i.e. the CRR? Do you have any strategy looking at that? For loan growth also would you be considering an investment in the CBN infrastructure initiative that we have proposed?

That is for loans and the second question, for the impairments going forward also on loan book, I know the CBN has expressed interest to accommodate restructuring of up to 60%, 65% of industry loan book. What are you considering restructuring, what percentage of your loan book if you could give us that guidance? Thank you.

Tolu Oluwole –Head, Investor Relations, FBNHoldings

We would take the next question, as previously mentioned, in batches of two or three before responding. We would take the next question from Soji Solanke, please state your name again and the organisation once called upon to ask questions. Thank you. Soji, please go ahead.

Soji Solanke – Renaissance Capital

Thank you for the call. I am Soji Solanke from Renaissance Capital. I have a couple of questions which I would run through. The first question, I would like you to spend some time discussing the Agent Banking channel. Can you take me though the economics, i.e. the cost of setting it up, is it per agents on average? What would you say your average take rate is per transaction? What is the average transaction size and how do you share revenue with the agents?

My second question, can you walk me through what happened on your FX income line? You have gone from a NGN2.6 billion gains in Q1 to a loss of NGN6.2 billion in second quarter.

The third question, you have also made losses in Q2 on financing instruments fair value through P&L, and a 50% reversal of dividend income reported in Q1 and Q2, so why is this the case?

My fourth question is around costs. You have some cost savings in Q2, can you run us through where you have been able to save on costs and to what extent do you think the savings are sustainable over the rest of the year? Finally, on asset quality, what percentage of loans have you restructured year-to-date post-COVID-19? Do you have a target for year end and what sort of terms are you giving to customers? On your NPL what percentage is in foreign currency given that you said it would be cost of risk pick up is partly driven by the FX component. Thank you.

UK Eke – GMD, FBNHoldings

Okay, I think we can provide responses. I am going to request Olusegun to take the questions by Martin but there are also two questions from Soji on asset quality and NPL, If you can handle Martin's question and also Soji's question first and we will then invite Patrick to address the question raised by Soji on Agent Banking and costs. Then Ini can help us tackle the question on FX. If you can kick off, please Segun, CRO.

Segun Alebiosu – CRO, FirstBank

This is Segun Alebiosu. In responding to your first question on loan growth, our outlook for the year is not aggressive. Looking at the determination of the government to reflate the economy, and if you consider manufacturing, a lot of opportunities are inherent in manufacturing, and we can see the government trying to promote the businesses. We see opportunities in healthcare and agro-processing. We see what is happening in the rice, wheat and maize business. In addition, there are a lot of opportunities in telecoms and infrastructure. But you also mentioned these are big things that are coming, so we believe that we would participate in that and these will be very good credit. As we stand here today, we have a lot coming through and we believe we would be able to underwrite that.

On the impairment, as earlier guided, we do not expect the impairment to be ahead of 2019 numbers in aggregate at the end of the year. For the loan restructured, so far 15% of the loan book. To the question on what we expect by the end of the year, the Nigeria economy has opened, and the only difficulty that we see here is the foreign currency impact, which is the transmission mechanism of COVID-19 into the economy. Going through the Nigerian markets and on the streets of Lagos, we see a lot of people already carrying out their businesses.

For us businesses have opened, and we do not see so much deterioration. For the sectors affected, our exposures are limited. For example, the tourism and aviation sector, our exposure is less than $10 million. Whatever happens post-COVID-19, we can only be impacted to the extent of what we are exposed, and if you look at what the State government has done in the last five years, once you have your allocation from the local and federal government you are secured.

The employees of State government that would have been impacted and the maximum on our books is less than NGN10 billion. If I pack everything in aggregate, I do not see anything material to impact our NPL. The foreign currency portion of our NPL is about 40%, so the transition impact of that came through in Q2 and we accounted for this immediately plus the weak macro which the ECL (expected credit loss) model reflected. Thank you.

UK Eke – GMD, FBNHoldings

Thank you very much, Patrick you may now take the questions on Agent Banking. I think you can continue with the response to the FX and the costs. Thank you, Patrick.

Patrick Iyamabo – CFO, FirstBank

Thank you very much. In terms of Agent Banking, the question specifically asked by Soji is quite detailed and goes into very specific elements of our business model that you will typically not announce in a general environment. But here is what we would say about our Agent Banking. The model is a fee share arrangement, the customer gets charged a fee and the agent gets a portion and the Bank gets the balance. So technically, we earn fees on a par transaction basis and the greater the transaction volume, the greater the fees we earn.

In terms of the products we have there right now, we do not have credit products right there so these are non-capital consuming income sources coming through our agent network. In terms of the cost, we can just share high level information in terms of the cost structure. What does an agent have? For most parts the agent owns the infrastructure, so if the agent is a pharmacy, the pharmacy is there, the agent really owns the infrastructure itself, pays its power, does everything.

The agent gets a POS, they also get collateral support from the Bank. From a cost perspective it is really that POS machine which is really where the transactions are done, as well as the collateral support. The other costs elements are really the software on which it rides and the IT infrastructure but then again, the infrastructure itself is scalable. Over a certain threshold the margin of costs actually keeps dropping as you increase your volume.

Overall, if you think about it, the revenue model is scalable, and it grows with our business volume. The cost model is much less scalable because you have a fixed cost component and you continue to drop your marginal cost to sell. The POS and all that does not really drive up costs. I mean the POS is what 70k, 90k, 100k, so that is it in total? Which is why our Agent Banking business has been very interesting and as we have scaled the business not only have we seen business deposits grow but we have also an income we have been able to monetise the income and make profit.

Why have we been successful this far and why do we believe that this success is sustainable? First, we are a retail Bank, we have got corporate and commercial businesses and have a wide distribution network, we have got all these large customers base in the country. We have the greatest penetration where you have the underserved, we understand that business better than most of our peers.

You are not going to find many banks that are willing to make that infrastructure investment in terms of having business outposts in those locations especially today. However, our history, our DNA, gives us that advantage. Secondly, to do Agent Banking successfully and it has a strong relationship to the economics, you need to be able to service those agents. What does that mean?

They are going to need cash management requirements, they build cash, they need a bank to deposit the cash, they have got problems with their POS, and other issues. They need someone that would engage them, someone needs to be speaking with them and then we find the agents that are not the most productive and working with them to improve productivity. To do that, you need a hub for all these agents. We have what over 59,000 agents right now and hubs for those agents means you must have outposts in those locations.

There isn’t any other bank in the country that has the number of outposts, which is why, we more than most of our peers, have been very successful with the agents because we are in the position to manage those agents for productivity and for service. What is the cost of doing that? It is really one person from a hub branch who hops around to manage a couple of agents. Again, the contribution to the cost is limited. That cost element is highly scalable. In total we have a business model that is very scalable from a cost perspective and so it helps to drop our marginal cost to serve. We also have a business model that is very scalable from the revenue perspective because we are riding off the infrastructure.

As we grow business and the business momentum, we can grow revenue. The bulk of what we are aiming through that is non-capital consuming right now. From a product introduction perspective, we still have lots of opportunities to introduce products that can be used to customise and utilise that channel. Agency today contributes about 29% of our e-business revenue from next to zero less than three years ago and we still see significant growth potential.

That is the bit about the agent channel, and we are excited about it. For us it is a low-cost way of growing our branch network and very importantly leverages on distinctive competencies we have to achieve that growth. We believe that that advantage is indeed sustainable.

The other bit about cost savings, how sustainable? We believe that the cost savings demonstrated in H1 can be largely sustained into H2 or should I say the cost profile delivered in H1 can be largely sustained into H2? We expect there will be increased cost pressures but overall, our OpEx will come in below what you should expect given inflation rates and given Naira devaluation.

Why have we been able to achieve this? We have been able to achieve this partly through some investments we made in the past years where we made investments in technology, and so that is allowing us scale and do things efficiently even with COVID-19 in place. Secondly, some of the one-off costs we needed to deal with then i.e. our 125-year anniversary and some of those charges to settle things, have fallen away. In other words, we are back to our previous track record of very disciplined and cost management.

I know last year is still very fresh in lots of people's minds because of the way the OpEx grew but if you look at our financials going four years' back, we have – if you look at the OpEx growth year-on-year or in terms of CAGR from 2016 you would notice that we are consistently growing OpEx below our peers. We have historically had disciplined cost management but last year we had things we needed to do, and we had to take them in. Would we have some surprises this year in terms of maybe exceptional costs? Yes, we can have some. We have COVID-19.

We have contributed to the COVID-19 and there are one or two other things we will still do. We are FirstBank, we are interwoven with the society in which we operate, and we will do what we have to do to support from a corporate social responsibility perspective this year. That said, would we confront one or two other surprises? Yes, potential, yes, this is an unusual year but having said all that we are very comfortable that our OpEx discipline will be largely maintained until the end of the year. We are not too worried about that.

In terms of the FX income, I think the point was made about a loss recorded during the period. The way to summarise it is that we entered into structured currency transactions that necessitated an FX loss in the period. Overall, we were very comfortable about the commercial and attractiveness of the transaction. A lot of the income reports into the net interest income line.

The transaction was really with one party, however, we would not want to go into the details of the transaction, but it is something we were deliberated about, we saw, we liked and the overall commercial consideration irrespective of which line this reports to, the overall commercial consideration for FirstBank and FBNHoldings is attractive to why we did that.

There was a point around dividend income reversal. The way to summarise that is that was a shareholder COVID-19 response to dividend payment by an investee company that the shareholders thought should be dealt with differently, given how we saw COVID-19 playing out and with that investee company. Thank you very much.

UK Eke – GMD, FBNHoldings

Okay Tolu, I think you may proceed to the next batch of questions.

Tolu Oluwole – Head, Investor Relations, FBNHoldings

The next question we are taking is from Miriam Dabiri, please go ahead.

Miriam Dabiri – Agusto & Co

Good afternoon. I just have one question. Just wondering how much exactly was injected into the Bank based on the divestment from FBN Insurance. That will be all, thank you.

Tolu Oluwole – Head, Investor Relations, FBNHoldings

Thank you, Miriam. In line with the protocol we will group one more question before we respond. The next question will be taken from Jerry Nnebue. Please go ahead

Jerry Nnebue – Cardinal Stone

This is Jerry Nnebue from Cardinal Stone. I just have a couple of questions and some of them are follow up questions to the previous caller. The first question relates to costs, yes, I appreciate the fact that we have seen an efficiency ratio improved so far. But it would seem from my assessments of the numbers that my expectation was much higher than that. Because last year like you have stated there was a lot of concerns regarding costs. If you look at the absolute numbers, it looks like costs are still hovering along those levels.

Whereas I would have thought that we would have seen a much better improvement in terms of absolute costs. If you can speak to that specifically, are we still seeing some of those drags from some of the one-offs maybe in relation to the HR optimisation that you talked about on costs, that would be helpful.

Secondly, I want to envision a scenario where the lockdown measures may have also impacted how you do business. For example, cost savings from stationeries, travels and all of those things. Are you seeing them, really because I feel like if you aggregate all of these into your numbers then we probably would have seen much better improvements in terms of costs for the period? Also related, I notice there was a NGN2.6 billion reversals in operational losses. If you can give some sort of clarity towards that, it would be helpful.

Speaking to loan growth, I just want to have a sense of what organic loan growth was like in Q2, if you can just give a sense of what that was? In terms of your conversations with obligors especially following the partial easing of lockdown cross different cities. Are you seeing some sort of respite or relief especially when you talk to them, compared to the initial fears that we had when the virus was at its peak and everyone was really concerned? Any sort of relief in terms of easing of lockdown and going about their normal businesses, especially on the credit side of things. Then if you can also help with liquidity ratio as at H1, that would also be helpful. Those are my questions for now, thank you.

Tolu Oluwole – Head, Investor Relations, FBNHoldings

Shall we go ahead responding to these and then Muyiwa we will come back to you in the next batch of questions.

UK Eke – GMD, FBNHoldings

We would have to request Patrick to come in again and address the questions around costs and liquidity ratio. Then there is also a question around capital injection into the Commercial Bank and that question will be handled by the CFO of FBNHoldings Wale, and Segun I think you need to clarify on the loan growth for Q2. That will be after Wale has spoken. Patrick, please go ahead.

Patrick Iyamabo – CFO, FirstBank

A couple of questions have been asked. The first relates to OpEx where he expected OpEx will be this year. A couple of things to note. The first is really around the fact that this year is an unusual year. Between currency devaluation and inflation, that is quite significant pressure on OpEx, that is the first point to note. The second is, we dealt with some residual exit cases earlier in the year and certain payments were made. We also in the earlier part of the year we went through a process of salary adjustments and so that showed up in OpEx as well.

In all, we have been managing OpEx in a way that has not undermined our strategic capability to compete or to continue to make investments, or to continue to support our people. Now having said all that, you would notice, approximately about NGN5 billion from two lines, the increase in our maintenance costs and maintenance costs really reflects the investments we have made in IT because you have to pay for those licenses.

Perhaps one of the biggest jump is around regulatory costs. You might probably notice about NGN3 billion there. The increase in the regulatory costs really reflect the growth in our business. As the business grows, we have to pay more to AMCON, we have to pay more to NDIC, and you accrue for these things. What are we saying? About NGN7 billion of OpEx in the period can be ascribed to three things, maintenance which is not unexpected, the things we had to do with our staff regarding redundancy payments or the reviews we had to do, and regulatory costs.

If you make adjustments for those and then you factor in the fact that you are dealing with inflation, you are dealing with currency movements, you can see how well this cost is managed. By the way throw in all the COVID-19 support we have had to do which will be for us a one-off but in our view point we are convinced it is the right thing to do. I hope that helps put the OpEx in perspective. When you sit back, and you look at the core business, the OpEx is indeed under very good control.

Our liquidity ratio is technically or theoretically under pressure and I use the words technical or theoretical because a lot of it just reflects the CRR debits by the CBN. The CRR quarantined or our funds quarantined, or our liquidity quarantined with the CBN has gone from about NGN800 billion to about NGN1.6 trillion. Theoretically, we do not compute that as part of liquidity ratio. If we were to compute that then our liquidity ratio is in the region of about 40%, and the reality is if a bank does need the liquidity, it is the first thing the CBN makes available to banks.

It is part of a liquidity ratio but technically, theoretically it's not, so our liquidity ratio is still strong but under a lot of pressure primarily, primarily because of the CBN CRR quarantine. If you look at our actual deposits you will notice that our deposits have grown more than NGN300 billion year-to-date. The deposit mobilisation engine is still strong, and we are restraining the level of deposit uptick that is coming through the system.

In terms of operational losses, that reflected conservative position around a loss situation that did not fully materialise or played out differently in Q2 and that charge in itself was no longer necessary during the period. I think that answers the questions around OpEx savings. I think the second point is around operational loss savings and liquidity ratio. The question relating to capital injection, Wale Ariyibi, the CFO of FBNHoldings, will speak to that, thank you.

UK Eke – GMD, FBNHoldings

Thank you very much Patrick. Just before Wale comes in just to clarify. I think Patrick meant to say NGN1.6 trillion CRR in liquidity quarantined, NGN 1.6 trillion not NGN1.6 billion so just note the doubling of that number year-on-year. Wale please go ahead.

Wale Ariyibi – CFO, FBNHoldings

Thank you. Good afternoon everybody. My name is Wale Ariyibi, CFO of FBNHoldings. We injected from the Holding Company point of view, we injected NGN25 billion into First Bank of Nigeria Limited and this injection has cleared all regulatory hurdles and approval.

Now that was not the amount or the consideration for selling our 65% investment/holding in FBN Insurance. But that was part of the net proceeds because from the gross proceeds, we will pay some charges, fees and taxes and things like that. We then added own funds to make up the NGN25 billion that was injected into FirstBank.

With the injection, FirstBank leveraged this and the capital adequacy ratio improved from 15.3% as at Q1 to 16.53% as at Q2 2020. Be that as it may, we have also issued to the market some press release to say precisely what we injected into the FirstBank for the markets to be aware. Thank you very much.

UK Eke – GMD, FBNHoldings

Thank you very much, Wale. Before we bring in Segun to talk about the loan growth, Jerry, I am sorry, I did not specifically acknowledge the question you raised around the business outlook and feedback from customers. That is a very brilliant question and Ini will handle that after Segun has responded to the question around loan growth. Segun, please go ahead.

Segun Alebiosu – CRO, FirstBank

Thank you. For H1, organic loan growth was 70% of total loan growth. For H2, depending on what happened to currency, and if the currency remained where it is of course, what we will see in H2 would be almost 100% from organic. The opportunities are actually there. Thank you.

UK Eke – GMD, FBNHoldings

Okay, Ini please go ahead

Ini Ebong – Treasurer, FirstBank

In terms business outlook, generally speaking what is preoccupying most customers now is the current FX environment but that said what we are seeing is an increased demand on the trade side, so clearly where banks like ourselves have strong market access to FX, good line availability from corresponding banks, we see an upsurge in trade volumes.

At times like this we typically see the Central Bank of Nigeria revert to its play book where there’s an increased focus on import substitution, backward integration, and the like. Clearly the players that have domestic manufacturing capacity are the ones that have a much more upbeat or a much more optimistic view on the current environment. If you think back to what happened five years ago those are largely the players that ended up being the winners in that period.

We are seeing incremental demand for trade finance facilities; we are seeing incremental demand in terms of orders as people try to ensure their supply chain over this period. It remains strong, especially around the trade finance side and having capacity to do that becomes a competitive advantage. We are seeing that in terms of our volumes grow because access to FX and ability to keep trade flows going becomes a clear advantage and a tool to use to build and gain some degree of market share.

On the liability side we are seeing growth associated with that because the cash flows will typically follow the trade volumes. The momentum generally looks a lot more encouraging at this point. Thank you.

Jerry Nnebue - Cardinal Stone

Sorry, this is a follow up question, if I may. Still on the outlook, do we have obligors that are sounding more confident in terms of the ability to meet obligations versus the initial fear that we had when all these crises started, again based on partial easing of the lockdown and the fact that people are becoming more comfortable or adapting better to the situation at hand? That is one.

Then also if I may take you back to the question on the OpEx, you talk about the redundancy payment and the sense that we got last year was that this is not likely to recur in the following year, but we are still seeing that information now. Is it safe to say now that it is likely going to recur for the rest of the year, some of these pressures you are seeing on cost?

Also, if you can just help with what the actual liquidity number is, excluding what you have with the CBN, just to have a sense of the pressure that the monetary authorities are putting when it comes to their CRR debit whether discretionary or LDR related. That would be helpful.

UK Eke – GMD, FBNHoldings

Patrick, do you want to clarify?

Patrick Iyamabo – CFO, FirstBank

I think he asked two questions, one around OpEx, the second around liquidity ratio. Yes, we did make significant redundancy payments last year. We made some more this year, but the amount made this year compared to last year is much smaller. We are a business; we will continue to do these things. In the context of my total OpEx, that does not move the dial much. In explaining how my OpEx has moved, I thought it was important you know.

I also mentioned the bit about salary reviews so that layered into the OpEx. If you look at my personnel costs year-on-year, my personnel costs year-on-year has not really moved that much. Again, it is worth noting what has happened in personnel costs.

Again, to the OpEx, the OpEx is under control and you can tell that in two ways. You can tell that from what is happening year-on-year. You can also tell that from what our cost to income ratio is. Our cost to income ratio is in the mid-60s in spite of the significant pressures we are seeing on the net interest income end which is very unusual.

We spoke just now, NGN1.6 trillion in CRR, let's even assume 50% of that should have been there NGN800 billion and you did have to liquidate your bills to make those payments. If any of those bills are at just 10% that is 80 billion right, there. It is not so much a cost - a problem we have now because that itself is under control, it is pulling everything together and having to deal with a macro-economic environment to further boost revenue for you to fully appreciate on this scale of business how much improvement there is in the cost to income ratio.

Again, this is what we have shared for Half Year. Our viewpoint is that up to the end of the year we are comfortable, we have a good lead on that and we do not expect cost to income ratio to be materially different from prior year in spite of all the other things going on.

In terms of liquidity ratio, it is shy of 31%, it is about 30.6% thereabout after we backed out of the CRR considerations. Like I said, we have to focus on the substance and not the technical issue, particularly in an environment and a time like this. In terms of the substance, that CRR we have with the CBN is really liquidity for banks, only that it would be made available on the other circumstances.

We can continue to improve our LR by doing more to encourage all the deposits that want to come in. But we made a tactical decision to restrain the depositing inflow, we are benefiting from flight to safety at a time like this. We have made a conscious decision to control the liquidity that comes in because at the other end of the spectrum there is a tactical bid that has to do with the Regulator and that we do not have full control over. I mean you could take the liquidity now, with the ratio moves much higher and then you get an additional CRR debit.

From an operational viewpoint we are balancing all these things. Liquidity we have, access to that liquidity we have. We are not excited that we have NGN1.6 trillion trapped in CBN. We have no intention of doing anything that will increase the amount of CRR, that the CBN is going to have to quarantine. These are the considerations where are balancing and you need to see this in the context of the LR discussion that we're having. Thank you.

UK Eke – GMD, FBNHoldings

I hope you are okay with the responses Jerry that came back to clarify. With that we can move onto the next set of questions. Tolu?

Tolu Oluwole, Head, Investor Relations, FBNHoldings

Thank you, sir. Muyiwa you have your hand raised. Please go ahead with the question.

Muyiwa Oni- SBG Securities

Thank you very much Tolu and good afternoon gentlemen. Thank you for the time I have many questions.

I think the first is around your loan book. In the slides you highlighted some opportunities in the FCY loan book. I need to understand what sectors you see the opportunities. Then also around your restructured loans, you highlighted about 15% of the loans were restructured from 6% historically. I suppose there is 9% that is related to COVID-19.

I just need to understand how you see that evolving until the end of the year. If I recall, there is been interaction from the CBN highlighting a likely 60% of the sector loans being restructured. I just want to see how from the FirstBank point of view how things are evolving.

On NPLs as well, because you highlighted opportunities in the agriculture sector, but we also see that the agricultural sector accounts for a reasonable component of the NPL book. I just wanted to understand within the agricultural sector where the opportunities are, where you see less risk given that steady interest.

Then on liquidity, or shall I saw monetary policy, just want to get a sense of when you think we get back to a more normalised monetary policy environment. If you think about the CRR you have highlighted from your Bank, I think the Central Bank highlights close to about NGN10 trillion of stabilised funds. I just trying to understand from your view when you think that will be reversed and when you think of the potential impact from an interest income point of view for the sector, for your Bank as well.

Then lastly, on guidance. Just trying to understand at what point you'd be comfortable giving guidance again. If I recall in the last two interactions, you have had with investors you have not given guidance numbers. I suppose it is because of the uncertainties, because of the pandemic. Just trying to understand at what point you will be comfortable giving guidance given the more positive feedback you seem to be presenting from a client interaction point of view. Those are my questions.

Tolu Oluwole, Head, Investor Relations, FBNHoldings

In line with our protocol I will take the next question from Kaitlyn Byrne and I will take the response to questions after the question from Kaitlyn. Kaitlyn, please go ahead.

Kaitlyn Byrne – Prudential Investment Managers

Hi, thanks for taking the call. I have just got a few short questions. Could you give us some comfort around the coverage ratio being below 50% so if you just compare that coverage to your peers, who are close to 100%. How do we get comfort that that is high enough?

Then you mentioned the structured Forex transactions, would that also link to the large increase we see in the derivatives in your results? Maybe you could just give us a little bit more clarity around exactly which lines in your income statement are affected by this. You mentioned it comes through in your net interest, but does it come through non-interest revenue as well?

Then just a question around the e-banking income. I remember last time that there were issues with Forex, e-banking income received exceptional income, well I think the money could not get transferred to Visa or something linked to that. If you could just clarify if there is any exceptional non-interest revenue coming from the issues with Forex in the country. Thanks, that is it.

UK Eke – GMD, FBNHoldings

Thank you very much. Muyiwa and Kaitlyn for those excellent questions. We will have to bring Segun back to answer the questions around the loan book. There's also the question around the coverage but Ini will take the question on monetary policy. I think there's also the comment from - the question from Kaitlyn on derivatives. Let me spend time to talk about the question on guidance.

You are right, we, in announcing the Full Year 2019 Results, we did indication that we will be providing guidance on this call. You will agree that between the time we made the announcement and now so much has happened. Whether you are looking at the American market or you are looking at Europe or Asia, it is difficult to really identify any company that has fully dimensioned and understood the financial impact of the COVID-19 pandemic. Nobody seems to have fully understood it, not any country, not any company.

What we have decided to do was to provide a kind of forward-looking commentary, on how we see the market evolving. I did say that only China has given the globe a V shaped recovery trajectory. Which countries are our trading partners? You look at America, you look at China, then you come down to Europe. If it is difficult for us to estimate how those countries will recover?

I mean America and Europe are down underwater. As a matter of fact, GDP growth for Europe will be negative 8%. America will be down by 3% so we do not know. China only managed to grow about 2.6% in the Second Quarter of this year. If the macro is that challenged it would be difficult for us to make any projection with a high degree of certainty and we should be able to defend the guidance that we will give you.

Regrettably, we are unable to slice and give you the numbers that we cannot obviously influence. I did say in my introductory comment that there are certain controllables, we will be able to drive our business. Agent Banking is an area – e-business is an area, there are things we are doing, cost is an area, capital is area. All of those things that are within our control we will definitely deliver.

How the bigger macro issue plays out, we do not know. Monetary policy, we do not know what Central Bank may decide to do. Whether on the part of CRR or regulating charges on bank products or the fiscal policies. You will have to sympathise with players in this market and those running businesses. There are so many moving parts.

When you do not have control of all the variables then you must exercise caution so that you continue to believe, what we want is to be believed in the marketplace. When we give you numbers, we should be able to defend the numbers at the end of the trading year. Unfortunately, again I say, we do not have control over so many levers and they just are not adding up.

Now will our results be better than 2019? We believe so. We believe we will do better than we did in 2019 and the numbers are there. Look at the ratios we gave out. On any metric, on any basis, just look at what we have delivered despite the challenged macroeconomic environments, we have delivered.

Now, pin it down to specific ratios and numbers, I am afraid we might not be able to be that precise. We can assure you that at the end of the year you are going to see a much more improved Group. The Commercial Bank and the Merchant Bank are all looking very good in terms of projections but just let's see what happens as we wind down this year. Thank you.

Segun, if you are ready, you can take the questions on the loan book and also the coverage. Thanks.

Segun Alebiosu – CRO, FirstBank

Thank you. On the loan book Muyiwa, we said we will grow our loan book in manufacturing, health care, agro-processing, trade, and of course, with the current liberalisation of oil and gas downstream, we should expect that LCs for importation of petroleum products will now be more, coming through banks and that will have to be done, of course the cycles are short, but instead of NNPC taking everything, we will now see a lot of that coming through the banks. We see growth along this path, but more importantly in manufacturing, looking at what the government are trying to do.

But have it mind that before you can develop as a country you must import capital to export capital. All the machineries that will come in for the manufacturing firms, medical equipment expecting for the hospitals will all have to be imported with foreign currency. The petroleum products will have to be imported with foreign currency because we do not have a refinery here. Even for agro-processing, all the equipment you will use in the factories, they all also have to be imported. At the end of the day, we will end up importing them.

When they are in your trade books, of course, they will show up in foreign currency. But not that you go ahead and look foreign currency but of course those are trade that you need to do and then bring in those improvements and they will form part of what you would do. Then again it would be the manufacturing companies will also import raw materials.

On the restructured loans, the jump from 6% to 15%, is basically because of public sector. The government came out and said loans to State government for the next one year, we restructured it, allow them to pay principal interest for the next one year. That does not mean the government didn’t have the capacity to pay but just being very smart, because the last time, 2015/2016, the State government were unable to pay salaries and that affected aggregate demand. The recovery of the economy took longer than necessarily.

This time around they were fast and smarter, and they are already saying, do not pay, leave them so they can continue to pay salaries, Of course, the demand in the economy will continue and they're recovering faster. States do not die, whatever happens they will be there to pay the loans as long as the loans are properly contracted so we see that.

On the agric sector you saw the NPL, there are two sectors of agric. The food and agro- processing are doing well. We funded, and we continue to fund many of the participants in the rice business, for example. The type of volume we see in these businesses are heavy. You can imagine the number of people eating rice in this country. Participants cannot meet orders and the demand is growing by day.

We have seen growth in cotton, people coming into cotton, people are trying to grow a lot of massive maize program because they need to buy maize for poultry. However, we do have some NPL in poultry and animal husbandry, but these were loans originated in the past, not new loans, I mean that was about five or six years ago, some of them were loans to set up abattoirs that went bad.

Again, there are opportunities to revive them because with the dairy program those locations are now available for people to use and cash will be coming. The real problem was in poultry and you know that the poultry business is where we have the bottlenecks.

Of course, insurance will be there, but we do know the environment we operate and so most times once we get that we will clearly be able to take care. of course, we need to start over again and then see how best and that was what led to the NPL you saw in agric. Otherwise agric is a very, very good sector and we are going into cashew processing. We have seen a lot of that because there is a lot of value to be added and a lot of money to be made in that sector.

On the coverage ratio, IFRS 9 did not specify 100% provision. There is loss given default (LGD) and so you have collateral. Our collateral policy is protective. We do 130% forced sale value. To do 100% provision, it means we would not realise anything from the collateral we hold – this is not correct. Because for every loan that originates, it is only our investment grade names that we lend to on negative pledge. All other loans must provide collateral.

Even our retail loans, our personal loans, we have insurance on them so if they lose their job, I'll be paid at least one year's salary of that borrower. If the borrower should die, I get my entire loan balance on the date of the person's death. In disability I get my full money on the date of the accident. The review shows that in the worst of situation, you lose 47% which means that is what we should be providing for, even for personal loans that are unsecured, because the way loans are originated and how we plan our risk is such that we enlist good counter parties – so the first rule of governance is from the principals, so if we have the right type of principals (what type of employees does an organisation employ?, what type of governance exist in such an organisation?, how does that protect us?) that puts us in a very comfortable situation that we can get our money back, as there will be terminal benefits etc to help reduce the risk. Having said that, the reality is that we do not have to have a 100% coverage except we are assuming we will not be getting anything from the collateral position – which is not right.

However, for the year it is our plan to have coverage of about 60% because we want to give more comfort, not because today we are not protected - we are more than covered. At 130% collateral coverage, it means that I would have lost 70% of the value of that collateral, for me to be at 50%. I mean property of 1 million dollars, I would have lost 700,000 dollars, I will be saving that for 300,000 dollars and that is exactly what my coverage has been talking about. That is not going to happen. Thank you very much.

UK Eke – GMD, FBNHoldings

Okay. Ini, please can you come in on the monetary policies and derivatives?

Ini Ebong – Treasurer, FirstBank

There are two questions and I will take the two questions.

On monetary policy when does it normalise? I think we will all agree that the Central Bank's policy has generally been described as being unorthodox at this time. Unfortunately, at least in the near term, we do not seem to believe there will be an unwind of that. We think fundamentally, domestic interest rates need to rise. We think that despite what they say with respect to what they have done on the policy rate and other things, their policy bias remains extremely tight. It is not likely that that will change near or medium-term.

I think what is more fundamental is that there needs to be a correction on domestic interest rates. Where we have domestic interest rates in low single digits it is just simply unsustainable, given where inflation is and more importantly given where the FX rates are. We think that the key driver will be around what they ultimately intend to do with their foreign exchange policy. They have stated they want to unify the rate and, in some ways, have taken some steps towards that in some of their windows.

Now as they seek to reopen markets, which we believe will happen, perhaps later in the year, there then should be some scope for some unwinding in the current policy morass we find ourselves in. Will it fundamentally change their bias? We do not think so because the pressures on foreign exchange will remain. Again, all this in the ambit of oil prices still remaining where we are. It looks like more or less this or through the near term maybe slightly more medium-term but probably towards the end of the year we start to see a bit of the unwind.

Now there were questions around what we are doing in derivatives and other things. I think the GMD highlighted in his overall presentation that there have been unpresented levels of volatility, both domestically and globally. I can't recall, I believe the last time we had interest rates at these kinds of levels in Nigeria was way back in the early days of the Sanusi era as the Central Bank Governor, so it has presented opportunities, right, both in interest rate space, whether it is in terms of government securities, and their prices as well as FX opportunities as well.

Fundamentally whatever derivatives we have entered into are largely playing on these differentials on this price, interest rates or exchange rates. In terms of where the revenues will sit the underlying economics make sense wherein it is net accretive to the bank. Sometimes you give up some on foreign exchange to get the benefit on the interest rate or net interest income end. This will translate either in the gains or losses on securities or vis a vis, vice versa on foreign exchange. You will see an offset in either the foreign or the interest income securities line, depending on what kind of transaction you have done.

You also had another question around any other extraordinary FX related income as it relates to - I think you were thinking back to the kinds of spreads we made four, five years ago when we had an opportunity around pricing on card usage.

This question's not the same so that opportunity actually does not quite exist, bear in mind we are actually locked down. The incremental card usage or volumes that were created historically and the opportunity to maximise incremental spreads on those card usage is not an opportunity we are seeing at this time, rather there is more benefit that is being seen in growth in underlying trade business. It is not quite the same so that opportunity is not something that is been replicated in this crisis. Thank you.

Tolu Oluwole, Head, Investor Relations, FBNHoldings

Thank you very much Ini. At this point there are no questions and no hands raised. I will go through the questions we have on Q&A and those are from Randolph from Old Mutual.

He asked what the potential risks of Agency Banking are? – that is one question. The second question is when in our view do we think AMCON will stop? Those are the questions we have in Q&A.

UK Eke – GMD, FBNHoldings

I think Patrick will have to take the two questions, potential risks, and the Agent Banking model and AMCON. Patrick please go ahead.

Patrick Iyamabo – CFO, FirstBank

Thank you. I am not sure I quite got the AMCON question, Tolu?

UK Eke – GMD, FBNHoldings

It was around the possible sunset for AMCON. I guess it is been linked to the regulatory costs which you clearly mentioned, we also eating into our revenues and profits, so the question was around this sunset date for AMCON and how soon that will happen.

Patrick Iyamabo – CFO, FirstBank

Okay. Thank you very much. If we start with the AMCON question, I think the bit on the AMCON should expire in maybe two, three years' time - I am not sure I quite remember now. However, no one is holding his or her breath for that, given where things are with AMCON. Yes, the regulatory cost is quite high for us, between AMCON and NDIC we are incurring about NGN40 billion in OpEx. We certainly want it to expire quickly. AMCON is about half of that.

In terms of Agent Banking, the risk depends on the products you have on the channel. As it is right now, we do not have credit products yet on the channel. The risks can really be summarised as operational risks. Operational risks from having someone who pretends to be your agent and is not your agent and creates maybe reputational risk. Or your agent collecting funds from, for example, customers and not exactly transferring or placing the funds the way the customers expect those should be handled and a couple of other things.

Frankly, we have looked at that whole thing end to end. The operational risks we see are risks we can largely/significantly manage. We have been on this for about three years now. We know we understand it. We are not saying everything is guaranteed but again this is retail play – over 59,000 agents, something goes wrong here and there. We have actually diversified the risk by virtue of the number of people you have in there.

Now, I had mentioned something and maybe we will speak to two things that address some of the potential biggest exposures there. Everywhere in the world, and we are seeing that play out here, how you manage your agent network from a capability and an intensive viewpoint is so critical to managing operational risk. We have hubs from which these agents are managed, you have people whose primary responsibility is to manage these agents.

If things begin to fall between the crack, they are quick to pick these things up. If there are concerns the agents might have that could crystallise risks because you manage a hub of agents, you're getting that feedback and you can respond quickly. It really comes down to how quickly you want to respond to these things.

Whether it is cash in, cash out, cash movements and all that, we have that sufficiently managed, should I say managed to an acceptable level for us. The other thing we are very alert to is really the relationship between the agents and the people that come to transact with the agents. There are two big things we do around that.

The selection process for the agents is really critical. We do not on-board you because you say you want to be an agent or you have what it takes to be an agent, we go through the full KYC. Very importantly the agents we select, so if you go to a village or a locality, it will typically be someone who is operating a business, you cannot just uproot, someone who from a reputational standpoint is largely trustworthy.

It could be the only chemist in the village. It could be the only supermarket or only shop, not supermarket, but do you understand what I mean, in that locality. These are people that everyone knows, and you can easily to a KYC around and you can have comfort that they cannot just get up and leave. In any case they already have communal trust built-in them. That also helps manage the risk significantly.

The relationship is with the customers and the agent that it is subtle, but it makes a huge difference. The POS we use with our agent networks are POS that generate receipts and the receipts are printed and the software is written - they're printed in a way that the customers actually take the receipts and for them is their deposit slip. You would be surprised how seriously they take those; they hold onto those slips as if those slips represent, and they actually do, the monies they have in the Bank.

Since they are just an POS transaction that okay someone said yes it has happened, it has gone, you actually have a slip that the customer has, and the customer knows that this money has gone, or this money has been deposited if it is a cash in transaction. Again, it is convenient, and it is an experience for the customer but it is also managing operational risks.

The third big risk bucket is really around the IT/security domain and our partner selection and their arrangement we have with the developer of the software is distinct from what most parties will have with such a strategic partner. From a security perspective it goes through the full vetting process of standards for FirstBank.

In summary there are different risk points but part of why we have been successful is not just the things we spoke about, branch network, hubs, you can grow revenues, you know the customers, you have different set up proposition. Frankly, the various risk points we have largely managed to an acceptable level. Do things go wrong now and then? Yes, things go wrong now and then, just the way things can go wrong even within your physical branches. Are there things we can typically manage? Yes. Are they occurring at acceptable levels? Certainly so.

Do we have track records to demonstrate or give us comfort that we are managing the operational and associated risks in our agent network and structure? Yes, we have been doing this for three years, we have grown aggressively we are monetising what is coming out of it and we are managing those risks at levels that we are comfortable with. Thank you.

Tolu Oluwole, Head, Investor Relations, FBNHoldings

Thank you, Patrick. At this point there are no further questions. In the absence of any question, I will now invite the GMD for the closing remark. Go ahead sir.

UK Eke – GMD, FBNHoldings

Thank you very much Tolu. We have spent over 1 hour 45 minutes on this call and we had over 100 participants, we are delighted that you are following our story. We thank you for being part of this presentation.

Our lines remain open if there are further engagements you would like to have or follow up questions or comments you would like us to provide please feel free to reach us. Tolu remains the key contact person, but the Executives are available to attend to any of your enquiries.

We would like to thank you again and then to say that we will be ready to present our Third Quarter Results sometime in October, we will be advising you on the specific date. We thank you for your participation and we wish you a very productive August. Bye-bye.

Tolu Oluwole, Head, Investor Relations, FBNHoldings

This concludes the FBNHoldings Half Year 2020 Financial Results Conference Call. Thank you for your participation. You may now disconnect.

[End]