Company: **First Bank of Nigeria**

Conference Title: **Full Year 2011 & First Quarter 2012 Financial Results**

Presenter: **Bisi Onasanya**

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Operator: Good afternoon ladies and gentlemen and welcome to the First Bank of Nigeria Full Year 2011 and First Quarter 2012 Financial Results Conference Call. Following the formal presentation by the First Bank of Nigeria management team, an interactive Q&A session will be available. I would now like to hand the call over to Mr. Bisi Onasanya, Group Managing Director. Please go ahead sir.

Bisi Onasanya: Thank you very much and I would like to welcome everybody to this conference call. My name is Bisi Onasanya, the Group CEO. I have in the room with me today Remi Odunlami, the Chief Risk Officer; I have with me Bayo Adelabu, the CFO; I also have with me Onche Rajesh, the Chief Strategy Officer. I also have with me UK Eke who is an Executive Director. I have the treasurer with me, commenting on treasury activities This conference call would display and discuss numbers on our FYE 2011 accounts where were prepared in accordance with NGAAP, the Nigerian generally accepted accounting principles. We would also take time to run through our Q1 2012 numbers which were prepared in accordance with the IFRS, using the IFRS standard.

So we will start the presentation.
On slide 4, this is a brief overview of the First Bank Group. It is a very diversified financial services group with 12 subsidiaries including offices in South Africa, China, Abu Dhabi, we plan also to roll out into other parts of Africa. We also made advances into Democratic of Congo in addition to our presence in the United Kingdom. This therefore makes us one of the most diversified financial conglomerates on the African continent.

Moving into the next slide which is slide 5, we are happy to announce that in 2011 we made very good progress towards achieving our broader strategic imperatives. The highlights of the results are provided. We achieved in 2011 very strong deposit growth of 34.3% year on year which is above industry growth rate average. We also were able to expand our net interest margin from 6% to 8% in spite of the challenges in the Nigerian interest rate environment. We also improved on our efficiency levels with our cost income ratio, dropping 10 percentage points from 67% in 2010 to 57% at the end of 2011. We were also able due to very, very deliberate strategic steps to increase our business volumes and our share of the market. As at FYE 2011 we had 14% market share of total assets and 16% share of the loan book in the Nigerian banking sector. Going forward our strategic focus includes specific areas meant to drive up growth and efficiency whilst also improving on service excellence. These two pillars of our strategic objectives are anchored on performance management and talent management. The results are beginning to be evidenced from our 2012 numbers which will be discussed later.

On the outlook for the Nigerian economy, we think it's very positive. The banking industry made significant changes in the reporting requirements by moving into Q1 2012 into the IFRS reporting format which makes it easier for comparative data between Nigeria and other parts of the world. We also witnessed the improvement and reduction in non-performing loans which reduced from 18% in 2009 to an average of 9% at the end of 2011. This arose mainly from some of the activities of the central bank in cleaning up the banking sector.

We expect that with the resolution of the banking crisis, competition will be stiffer in 2012 but we are prepared. The whole essence of our transformation which we started about two or three years ago was aimed at ensuring that when competition begins to be tougher we are on top of our game and also able to defend our market leadership.

On this note I will hand over to the CFO Bayo to take us through the full year 2011 numbers and talk briefly also on our Q1 2012 numbers. Bayo, over to you.

Bayo Adelabu: Good afternoon. My name is Bayo Adelabu, the CFO. I will be taking you through the presentation on the financial results for the two periods, that is the audited results for 31st December 2011 and the unaudited IFRS results for the first quarter of 2012 financial year. The presentation for the full year numbers run from slide 8 to 17, while that of the Q1 numbers run from slide 19 to 25.

On slide 8 where we have the highlight of the building blocks of the income statement for the year 2011. The slide shows an impressive traction in revenue with gross earnings growing by 28% and operating income growing by 46% year on year, reduction in cost of funds boosted the operating income growth. There was growth in our operating expenses due to staff cost increase, despite this cost to income ratio reduced significantly to 56.8% from 67% that we recorded last year. Impairment provision was also large compared to prior year in a bid to further clean up our loan book. Despite impairment provisions and an exceptional charge of 15.5 billion on our AMCON transaction, we still returned with a profit growth of 48% compared to 2010.

On slide 9 you can see that we had consistent quarterly growth in earnings at an average of 25% per quarter. This was due to the increase in volume of underlying earning assets and of course we also had some higher yeilding assets. The growth in revenue cuts across the two lines of revenue which is the interest income and the non-interest income. The mix also improved in favour of non-interest income, growing from the 76-24 mix to 74-26 mix in favour of non-interest income. This was due to an increase in fees due to increased transaction velocity from improved customer services from transformed processes and some tailor made products that we introduced and offered to customers during this period. The split by business still largely favours retail and corporate banking activities of the group contributing by 95% and of course we had encouraging growth in our investment banking revenue from the recent reorganisation and rejuvenation of that arm our business and we know that this will continue in future periods.

Moving to slide 10, there was 72% interest income from loans coming from the volume increase mentioned earlier and fact that we re-priced some of the assets to give us higher yields. In addition, due to the fact that the loan book is actually about 55% of our total balance sheet size it is expected that it will represent a chunk of our income contribution. There was also a 19% contribution to interest income from income on treasury bills and government bonds, at the detriment of interbank placements which was not as stable during the period in terms of the yields on these instruments.

On non-interest revenue, commission on turnover, remittance fees, credit related fees and other fees and commissions represent about 70% of our fees and commissions and we can see the trend in yields here, there was an upward trend in the yields on earning assets to the bank growing significantly from 8.8% in 2010 to 9.6% in 2011. The same goes for the net interest margin which moved from 6.1% in 2010 to 8.0% in 2011, a growth of 1.9% which is over 30% growth in net interest margin and this was actually facilitated not only by the increase in yield on assets but by the reduction we were able to achieve in the cost of funds of the bank which also moved downwards during the period from 3.2% that we recorded in 2010 down to 1.6% which is actually one of the major strengths of the bank.

On slide 11 you can see that there's operating income growth which is growing at a higher pace than our operating expense. That is a 13.6% quarterly growth in revenue as against 3.3% quarterly growth in operating expenses. These were actually responsible for the lowest cost income ratio the bank has achieved in recent times. The breakdown of income by business unit reflects a diversified income base with income coming from all parts of our businesses. Expense breakdown shows a major contribution coming from staff costs, depreciation, deposit premium and admin and general expenses. The drivers of admin and general expenses are the newly introduced AMCON levies where the banks actually charged the sum of N6.1 billion to P&L during the period just ended. There was also an increase in our deposit insurance premium which of course was driven by the growth that we recorded in deposit liabilities over the period. And of course the growth in our activities also led to some increase in cost even though it was properly controlled. We had our branch network rise to about 738 and we also added 111 ATMs to close the year with 2,411 ATMs. The same goes for point of sales terminals.

Moving to slide 12 like I mentioned earlier in the presentation that provision for losses doubled year on year from N21 billion in 2010 to N45 billion. Out of this loan loss provisions was N35 billion, with the balance relating to mark to market adjustments on our government instruments as well as provisions for impaired other assets. Cost to income ratio had a strong decline from 67% in 2010 to 57% in 2011. That is a 10 percentage point drop year on year and we hope to sustain this in the periods to come. What led to this? We had an 89% ATM migration rate up from 50% in 2010 with 300% growth in our e-product sign-off in branded branches and we had a 67% reduction in our cost to serve as we grew volumes faster than operating expense and lastly there is an expected 1 billion in annual savings from centralised processing and branch process re-engineering. We also promise to sustain this in the periods to come.

Moving to slide 13, profit by the year grew by 48%. Pre-exceptional items growth in profitability was 93% and this was due to the solid income growth that the bank recorded during this period. The declining cost of funds of the bank despite growth recorded in deposit liabilities. We had efficiency gains in our operating expense despite activity growth and we also migrated significant numbers of customers into our alternative channels. The exceptional item leads to losses sustained on our transaction with AMCON during this period.

Moving to slide 14 which shows the performance statistics which are extremely positive for the period under review. Return on average equity post tax return grew from 10.3% to 13%, a 30% growth in a period of one year. The post tax return on average assets also grew from 1.5% to 1.8% and of course the dividend parameters, the earnings per share grew from 90 kobo per share to N1.40 per share, a 56% growth in earnings per share in the bank. The dividend per share also grew by 33.33% from 60 kobo per share to 80 kobo per share while of course we ended the year with the highest dividend yield, declared by any player in the industry for the year 2011 at 9% coming from a low of 4% in 2010.

Moving to slide 15 which shows the mix of our deposits, the funding base and our earnings base. We see that deposits and capital form 83% of the bank's funding base which depicts a stable funding base for First Bank of Nigeria plc. In the same vein we have sustainable earning capacity with loans, investments, treasury bills and bonds constituting over 75% of the bank's earning assets and these are assets of course with good yields as reflected in our earnings for the period. In terms of deposit mix we still have over 85% of total deposits as usual in current and saving accounts with tenored deposits responsible for less than 15% of the bank's deposit base.

Moving quickly to slide 16 we see that business unit contribution is diversified showing a robust mix of retail and corporate customers with reasonable stability cutting across all business segments. We have improved balance sheet leverage to 7.8% compared to 6.8% achieved last year while loan to deposit ratio closed at 65.5% as against 83% in prior year leaving more funds in liquid instruments thus a stronger and stable brand.

I'm on slide 17 which shows the capital and liquidity ratios for the bank. It shows group liquidity ratio floating at 68.2%, up from 64.9% of the prior year while the bank's liquidity ratio closed at 61%, up by 5% from 55% in 2010. Total capital adequacy ratio for the group closed at 20.4% which depicts strong capitalisation from 20.2% of 2010, while tier 1 ratio is 18.1% up from 17.8% last year.

That slide ends my presentation on the full year audited accounts prepared under NGAAP. I will use the next few minutes to give an overview of our first quarter results for 2012 prepared under International Financial Report Standards (IFRS) as required by the Financial Reporting Council of the Central Bank of Nigeria for the 2012 financial year.

I am on slide 19 which is a summary of the statistics coming from the performance of the first quarter. We will see there was a 42.5% growth in gross earnings in continuation of the performance of 2011, to N92.3 billion as against the N48.4 billion in the first quarter of 2011. There was also a 50.2% growth in operating income to 74.2 billion as against N49.4 billion for Q1 2011. Meanwhile there was a drop in the contribution of non-interest income from 25% in 2011 to 21% in the first quarter 2012. This is one of the expectations of IFRS which relates to the migration of some fee related credit revenue into interest income as opposed to where we originally classified it in 2011 which is in non-interest income, so we had to migrate that.

In terms of profitability there was a 101% growth in profit before tax to N28.9 billion in the first quarter compared to the first quarter 2011 where we recorded a profit of N14.3 billion. Cost to income ratio was 60% as against 70% from last year. Then we have an after tax return on equity of 27% up from 12% declared last year. The same goes for return on average assets which grew to 3.3% from 1.9% last year. In terms of earnings per share, we had N3 per share for the first quarter in 2012 as against N1.49 in Q1 2011. Net interest margin also inched up to 9.5% from 6.7%. This is also one of the impacts of IFRS where effective interest rate is used with the addition of the credit related fees into our interest income. In terms of strength and liquidity of the balance sheet, there was a capital adequacy ratio of 19.9% which is in line with what we had in 2011. Tier 1 ratio as at 31st March 2012 dipped to 16.3% from 18% of 2011 December, this was due to increase in our risk weighted assets mainly from loan growth, foreign placements and off-balance sheet transactions. We believe this will improve before the end of the year. Gross loan to deposit ratio was at 64.3% as against 81% for the first quarter last year, signifying our liquidity position. The liquidity ratio of 54.7% as against 57.9% for Q1 2011.

I will move to slide 20 which shows the movement in our income statement for the first quarter 2012. There was a 52% increase in interest income which was actually due to increasing volume and yields. We also had a 35% increase in interest expense which came from volume increase in deposits and rising trends in interest rates as we witnessed in Q1 2012 compared to Q1 2011. There was a 17% growth in our impairment charges, charges for credit losses and a 16% growth in non-interest income and a 23% growth in our operating expense. All these still led to a 100% growth in our profit before tax for the first quarter 2012 and a portion of this goes to restricted reserves as will be explained further under the IFRS classification.

I am on slide 21 which shows the 42% growth in earnings, interest constituting a higher proportion of earnings due to the IFRS adoption. We also witnessed improved yield moving to 10.7% yield on earning asset from 8.3% of last year, an improved net interest margin of 9.5% from 6.7% as of last year and there was a marginal rise to the cost of funds moving to 2.1% from 2% of last year. Lastly we had more revenues coming from higher yielding treasury bills and bonds for the first quarter 2012. Quickly moving to slide 22 which shows the profile of our operating expenses and impairments for credits and losses, we see that the cost to income ratio reduced from 70% of last year to 60% in Q1 2012 and the profitability statistics showed our return on average equity at 27% for the first quarter of 2012 from 12% recorded last year and the same goes for return on average assets at 3.3% compared to 1.9%

On slide 23 we see the mix of the bank's balance sheet in terms of funding and earnings which is actually in line with what we closed with in December 2011 and also I'd like to mention the fact that the mix of our deposit liabilities still remains 84% and about 15% in deposits.

That ends the presentation on the Q1 results prepared under IFRS but I would like to take one or two minutes to highlight a few of the differences between what we prepared under Nigerian GAAP for the first quarter and what we are showing under IFRS. This highlights the major adjustments to our NGAAP numbers that gave us the IFRS numbers. The first area is interest income which has a difference of N8.39 billion between NGAAP and IFRS, this is on slide 25 and the adjustments is for interest in suspense which we had to write back as allowed under IFRS and credit related fees added back to interest income which are now treated as part of effective interest rate and interest subsidy on staff loans grossed up into interest income. We have the fees and commission which is a reduction from N18.8 billion shown under NGAAP to 15.57

billion under IFRS and the main adjustments here are the credits related fees which are now part of EIR and the contract is in interest income. Then we have the loan impairment provisions. Under NGAAP we adopted the prudential guidelines for licensed bank to make our provisions, but using IFRS standards there was a difference and this difference is required not to be distributed by the Central Bank of Nigeria under the newly released prudential guidelines and a reserve called the statutory credit reserve has been created under our equity as well where this difference is, so it is not distributable. This recognition of impairment charge under the IFRS model using the accepted accounted cash flow from impaired assets mainly from collateral values which means that we considered collateral in making this provision. The next major adjustment there is the mark to market adjustment on our available for sale bonds where we fully charged this to P&L under NGAAP, but we adopted IAS 39 as required by the Financial Reporting Council whereby we are allowed to make adjustments to mark to market AFS through the equity and not the P&L. Of course it has the same impact as the release is not available for restriction, this is for first time adoption of IFRS. Then operating expenses, there are a number of adjustment needs to operating expenses which are stated here. Number one is the subsidies on staff loans which is included as well as depreciation on the stock of unused fixed assets which are available for use but not yet deployed – we made adjustments for that. Coming to the balance sheet, the adjustments are very minimal. On deposits it's actually interest paid added to the deposit balance which is where you see the minimal difference while interest on loans is added back to the loan balance principal and we have a different of 204 million which is why our risk management presentation is based on NGAAP for the first quarter 2012.

That's the end of the presentation. I will hand over to the Chief Risk Officer, Mrs Remi Odunlami for the presentation on risk management.

Remi Odunlami: Good afternoon. I will be very brief. Basically our portfolio has continued to improve over the last year and starting with slide 26 you will note that the loan portfolio has grown through the year and into the end of the first quarter. Year on year growth of December is 10.5% but that doesn't recognise the fact that we exchanged N147 billion of money market lines and N99 billion of the Seawolf loan exposure into other commercial loans, so we actually had customer loan growth in the region of 40%, 41% which is very healthy and when we gave guidance last year on our portfolio growth we were mindful of the fact that we had committed to winding down our money market lines.

You will also notice that speaking about the money market lines we have worked them down over the years to 0% with the growth as I said going into consumer loans, but the bulk of the growth and the bulk of our portfolio remains in term lending which to us is anything over 12 months. We have a stable position in our overdraft lines but a lot of our trade lending is in the term exposure and commercial paper exposure which balances out our portfolio.

Looking at our performing loan book you will note that the quality of the portfolio has improved. We went from 10.5% in the 61-90 day bracket to 1.2% at the year end. The balance would have been transferred into non-performing loans, however there is a slight deterioration in the first quarter which is basically a function of delayed collections relating to projects, mainly real estate projects that were financed that have come to fruition but the cash flows are not quite as robust as originally expected, but they are beginning to show, in the second quarter it's beginning to turn around. By maturity, I've very comfortable with the quality of the dispensation of our loan book. We've got 41% over 12 months and the balance of the portfolio which is 60% due in less than 12 months.

Moving on to slide 27 looking at the loans portfolio by significant diversified strategy business unit you will notice that we have been growing our portfolio in the corporate business which is where we believe the engine of the Nigerian economy resides. We've had some drop in the institutional banking and in the retail portfolios, so the bulk of our portfolio growth has come out of the corporate banking business which is in line with our plans and what we disclosed to you earlier on.

In terms of sector exposure there has been no material change except for the finance and insurance business where the winding down of the money market lines means that it has dropped from being 19% of our portfolio to more in the 3% range. Similarly our downstream oil and gas we have in the light of experiences last year tightened our portfolio criteria and that has dropped from 22% of our portfolio down to 10% of our portfolio today.

On the consumer products it's essentially the same. The major difference I would highlight is the fact that residential mortgages have dropped from 20% of our portfolio to 15%. That's not to speak to our reducing the quantum of residential mortgages that we're doing, nor to us moving out of that space but just to the fact that we are growing more significantly the asset backed portion of our portfolio.

Going quickly on to slide 28, asset quality, I am happy to say our year end NPL ratio was 2.6% and by the first quarter we had driven that down to 2.7%. The coverage which is something we have discussed many times on this call has improved to 113% from 104% at the end of last year. Sector exposure again pretty much on par with what we had in the prior comparatives with the only major different being the consumer section which has grown to 21% of our NPL portfolio from 13%. By SBU the bulk of our non-performing loans are in the retail banking sector which I think is expected given the sheer size and quantum of people involved in that segment and also the more risky nature of that segment. It carries an NPL ratio of 9.6% compared to 3.1% in the corporate banking entity. Against we price our retail loans accordingly and we recognise the fact that there is a much higher loss within this segment, however that's not to say that everything in this segment will be written off at the end of the year. It's just that in the retail segment you've seen people struggle a bit more to maintain their payments at the current level.

On page 29 we show you the age analysis of our non-performing loan portfolio. Above 360 days we've got 44%. You will ask me why we did not sell that portion to AMCON and it's something we thought about but the bulk of that portfolio that is outstanding now is unsecured loans or loans secured by affiliation where quite honestly we would get more out of recovery from our own efforts than from the 5% that AMCON is prepared to pay for it. The sector NPL ratio is just for information and I don't believe too much has changed over the period.

Slide 30 is information, it just gives you an idea of our risk management framework and the governance processes that go with it.

I will now hand over to Onche who's the Chief Strategy Officer to take you through the strategy.

Onche Rajesh: Thank you all. Moving to page 31, a very quick update on the restructuring that's occurring at the group level. First Bank as you are aware is moving to a group holding company structure. The fundamental changes that have occurred in the last few months we have been in this process have been as follows. There's an ongoing divestiture of our registrars business which is currently underway. There's also a move to push the first pension custodian business under the bank for regulator reasons and that has been vetted with the regulators as well. We also are definitely going to divest or rather exit the mortgage business, however this will be done over a time frame that will allow us to be out of that business by the middle of 2013 which is the Central Bank's mandated timeframe to get out of the real estate development part of that business, the mortgages part of that business will be folded into the bank. It should be noted that this gives us a significant competitive advantage, moving to the group structure, holding company structure allows us to be significantly more competitive relative to our peers. There are only four banks in Nigeria that will be doing this and this allows us to be very competitive on the corporate banking side with the ability to leverage the investment bank, give customers access to capital market products, equity market products etc, even principle investing where necessary, so we very much believe in this model and are moving forward.

Moving on to page 32, a quick update on subsidiaries. The largest subsidiaries in the First Bank portfolio are FBN Capital which is the mother ship if you will for the investment banking asset management subsidiaries as well as FBN Bank UK. FBN Capital had an impressive year. It was an issuing house for three sub-sovereign bonds in 2011 and a major participant in the AMCON bond as well as the Federal Government of Nigeria $500 million Eurobond. FBN Capital also launched a research business and has to great acclaim issued a number of notably research reports, held its first annual investor conference as well so it has really built its brand in this space and it's establishing itself via a primary player in the markets in Nigeria. The business has also nearly concluded its integration of the sub-businesses within it and has invested significantly in processes and systems and the risk management framework as well for the business. FBN Bank UK performed impressively despite a difficult macroeconomic environment in the UK and globally. During the year, the bank raised $120 million in a syndicated trade finance loan and also made very strong inroads on structured trade commodity finance both regaining some lost business and also expanding the range of commodities with which we participate in. The bank once again won the best West African Trade Finance Bank for the second year running and is continuing to integrate itself more tightly with the Nigerian operation and ensuring that we leverage the capabilities on both ends fully. FBN Life Assurance we should mention briefly is a joint venture with Sanlam from South Africa. Made over N1 billion in revenue in its first full year of operations and it is projected to break even in year two which is this year versus three years initially projected in the business plan, so we're very happy about the performance there and we continue to sell bank insurance through First Bank of Nigeria and it has had significant success in that respect.

On page 33 we map out our financial and non-financial priorities. These came out of a strategic planning exercise that occurred last year and as you can see we have five financial priorities: increasing fees and commissions; selective loan creation; pricing optimisation; low cost liability growth and opex containment; and five non-financial priorities: brand transformation, service excellence; credit quality and process excellence, performance management and talent management. As you can see at the bottom of the page we are well underway with respect to obtaining our 2013 strategic targets. We have already met the NPL target, total asset target and continue to push very closely on the cost income ratio target. We continue to push very heavily on capital efficiency and getting our return on equity up to 25%.

On page 34 you see a quick schematic of the new operating structure of the bank. The bank has previously operated with geography being the primary organising axis and made a radical shift last year with last year being the first full year of operation in this structure where we move to a market segment based model which has allowed for significantly more specialisation and focus around the customers. Just to give a few highlights from the different SBUs, retail consists – and I will just go through the next few page very quickly – retail consists of business with turnover of less than N500million and individual customers; basically it has been the traditional funding base for First Bank, presently contributing about 50% of deposits. We saw a strong shift towards loan growth in retail as we tap into a huge consider credit opportunity in retail; and also a strong push on channel expansion with significant growth in terms of POS terminal deployment, which has actually pushed even further this year as well as rollouts in new formats of branches that we call fixed service points, small format branches that are much lighter and much cheaper to deploy and much more ubiquitous. We also launched a number of new products targeting Nigerian diaspora as well. There continued to be a push this year on expansion of our alternate channels and QSPs as well as electronic banking including the mobile money franchise that we are launching this year.

Private banking is a new SBU that was launched last year. We previously had an under-appreciated model for serving the top end, our high net worth individuals. Presently we have set up a new franchise and it has gone very well. All accounts have been retained that were inherited and we've seen very strong growth in share of wallet, 47% growth in assets under management, some new products have been received to great acclaim including a VISA Internet Card that has been rolled out and all systems are positive and put in place. We see a very strong push this year towards integrating our franchise globally, bringing together the private bank in the UK with our private banking franchise in Nigeria and offering a seamless end to end solution to the customer.

In corporate banking, this has been traditionally an area that First Bank has not played in significantly. This is the mid-market corporates which is what we refer to as corporate banking. This is a continued focus area for us. We saw very strong growth last year in trade finance and LCs and also collections in this business. We saw loan growth of 56% and of course in this segment we also priced according to risk, so they are higher margin generally and we expect to continue to drive income from fee and commission income tied to lending, especially short term trade finance. We've also made strong inroads in nominal export business within that business. In the institutional banking business which is page 38, this has been traditionally the lending hub of the bank and has been focused on the large corporate structured businesses. We made very strong inroads in the telecoms and oil and gas sector, gaining share of wallet. We have significantly re-priced risk assets last year across the board which you saw in the increased net interest margin. Very strong growth, deposits of 178% and we have also introduced some new hedging products linked to our reserve based lending in oil and gas, dealer finance and distributor products and schemes for our customers there, so a very strong business. We continue to push hard on structured finance and project finance and to increase the transaction banking component of that business.

In public sector we have moved from being a non-participant in this business to the number one spot. This has been a very successful story and was a big driver of deposit growth as well. We have gained a number of state government accounts across the South South, South West and the North. We have managed to successfulyl introduce several PPP projects and state bond issuances in partnership with investment banks and are increasingly developing a model of partnering with a state fund economic development agenda and providing value adds beyond simply financial services which has gotten us in very good stead with some key states in Nigeria as well as the federal government. We continue to navigate that as this year could be a tricky year with consolidation of some federal government accounts with the Central Bank, but we have a number of initiatives ongoing that will more than compensate for lost business there.

On page 40 we just have a quick overview of some of the non-financial priorities. While the former part of the document is focused very much on like indicators and results. Many of these are things that effectively take care of our long term health of the business. Service excellence and operational excellence is one area that's worth highlighting. We had significant growth in our electronic business, component of that with 4.3 million cards issued, three quarters of our retail customers having a card and presently one out of three transactions run in Nigeria on cards being on a First Bank card. We expect a billion naira in annual savings from our centralised centre rollouts and we have seen a 60% reduction in turnaround times on key processes rather that are CPC enabled. We have also seen a 300% growth in e-products sign up at branches reflecting a strong increase in point of sale marketing that we are doing there as well. The unit cost per transaction as mentioned also has declined 15%, so this is again witness to the fact that as we grow transactions we are also bringing ourselves down the cost curve.

I will hand it over here to the Group Managing Director to summarise.

Bisi Onasanya: Thank you Onche. I would just like speak on the last slide on this presentation and then start to take questions. Having used the past two years and a half years to lay the foundations for the future we have been able to clean up our balance sheet and now will consolidate our leadership position as we move into 2012. Our Q1 result for 2012 is a testimony to this. We intend to continue along that line. Why do we believe this is achievable? We believe very strongly that we have enablers that put us in a fairly unique position. We have a robust corporate governance framework and a very strong management team. For me this is the strongest management team I have worked with in the bank and we are united to continue the transformation journey.

We also have a clear industry leadership position today with 14% of total industry assets and 16% of total loans and advances in the industry. This makes us the biggest lender by far in the Nigerian financial landscape. We believe also that our ongoing transformation of driving improvements in our business will be sustained and we are therefore geared to build sustainable and accelerating income streams for the benefit of all stakeholders including our shareholders. As we move into 2012 and beyond we will focus on improving and sustaining our funding base and performance. What we have seen in 2011 into 2012 are sustainable progress and I believe the best is yet to come as far as First Bank is concerned. The elephant is now awake and the rest of the industry should watch out.

In 2012 Q1 we had 83% of our total liabilities essentially on low cost deposits of savings accounts and current accounts. We also believe that we have improved our service delivery significantly but we still would not rest on our laurels. We will continue to re-engineer our processes and also look at the impact of our centralised processing centre in improving efficiency and also reducing our costs. As stated earlier on by the CFO we expect about N1 billion trading in our operating costs simply from the migration of some branches.

Our resilient asset quality is supported by a very strong risk management framework and we have cleaned especially our balance sheet and our loan books as we move into 2012. FirstBank presents a very good opportunity today for investing public. We are trading at 0.8 times price to book which is below the market average. We expect that this is the right time for anybody to move into the First Bank state out of share acquisition. First Bank is definitely underpriced at this moment. We expect that with continuous improvement in our performances which is sustainable we will be able to offer superior returns to shareholders starting from the financial year ending December 2012. We believe that our track record of sustained performance and business growth is something that speaks for us at this moment and should be noted and should not be discounted. We are trading like I said before at a significant discount and therefore there's a compelling value proposition for entry into First Bank shares today.

I will summarise our strategy going forward into 2012. We will defend our leadership position which we attained not by error, but a deliberate strategy, we believe size matters, balance sheet matters in supporting the Nigerian economy so we will defend that leadership. We will also extend our leadership to cover areas in which we are presently not regarded as being the most efficient including areas of profitability and returns to shareholders. We would however in all these balance our long term objectives with short term goals and make sure that we build and leave a legacy for the future duration of First Bank as we hand over in future. Most importantly we will defend and ensure that every business in which we choose to play in, we will be the market leader. Every business that First Bank Group is involved in, First Bnak will lead and dominate that market.

Thank you very much. This is the end of the presentation. We would like to take questions from you. Thank you.

Operator: Thank you very much sir. Ladies and gentlemen, if you would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off allowing your signal to reach our equipment. If you find your question has already been answered you may remove yourself from the queue by pressing *2. Once again ladies and gentlemen if you wish to ask a question please press *1 to ask a question. We'll pause for just a moment to assemble the queue. Thank you.

Abiola Rasaq, your line is open, please ask your question.

Abiola Rasaq: Good afternoon, thank you very much for your presentation. I must say I'm really impressed and congratulations on the performance. I have a couple of questions here. The first one has to do with your risk provisions coverage level. I note on page 28, on slide 28 you had mention a coverage ratio of around 113%. I'm just trying to think through because I know Q1 numbers are IFRS based, I'm trying to think whether it is inclusive of the collateral valuations that you've done or it's just the impairment charge reserve over the NPL? That's the first one. The second one has to do with your tax rate. I note that in the full year in 2011 your effective tax rate was something around the 10.5% and 15% in Q1 and I'm just wondering if the tax environment has become more accommodative than I think because you know that you did a lot in terms of treasury bills in Q1 and of course my expectation of your taxable income is actually something beyond 15% for Q1 and 10.5% for FY 2011. I would appreciate your guidance on this level of effective tax rate regime that you enjoy now and maybe we should begin to see these as something sustainable over the remaining quarters of the year? The third one has to do with your NPL target on slide 33. I think you have an NPL target for 2013 of around 6%. I'm just wondering if this is a typographical error or maybe you are expecting a deterioration in your asset quality because I'm looking at from 2% to 6% and I am beginning to wonder in my mind whether that' something to be worried about, any asset deterioration that you expect and maybe over the next few quarters. The fourth one has to do with your partnership with Sanlam. I'm very happy that it has been very successful but of course that's in the life business. I'm just wondering do you intend to have a point in time to go into the general insurance space considering we are beginning to see more and more consolidation in that segment of the market and we expect that as regulation continues to get better in that market, I don't know whether you are beginning to show interest in the general insurance segment of the business.

Bisi Onasanya: I will answer the last question and then pass on to Remi to answer the question on risk whilst Bayo will talk on the others. The partnership between First Bank and Sanlam is a very strong partnership and it's one which we are proud of. We intend to go into general insurance business however without breaching the Central Bank rules and regulations, so we are looking at all the options. Please note that we intend to go into the holdco mode, so invariably when we have all the necessary approvals for the hold co, the hold co is allowed to go into the general insurance business and at that time we will be in the general insurance business. We are already exploring the options. I will pass on to Remi to speak to the risk issues.

Remi Odunlami: Your first question was regarding our Q1 numbers and the provisions coverage. The Q1 numbers are showing you as Bayo said earlier on, the are NGAAP numbers, they are not IFRS numbers so you could take them as pure comparatives to the previous quarters. In terms of the NPLs on slide 33, we have given guidance over the last couple of years of 5-6% in the short term, i.e. up to 2013. We have managed to improve the quality of the portfolio faster than we anticipated and we are expecting to come in substantially below 6%, however we don't want to tamper with the guidance we've given already which is why we retained the 6%, but I am pretty sure we will come in below that number.

Bayo Adelabu: On the tax issue, of course this is the impact of two things. Number one it's the impact of our tax planning. We had a lot of income coming from FGN bond and treasury bills which is tax exempt; and also we had a lot of investments on fixed assets on which we were earning capital allowances against deprecation and also some relief which we gained and which were actually look up by professional consultants. Of course what you see in the accounts is a tax charge for the year, not tax payment for the year, it is in the note to the accounts you are going to see the movement in this tax So we had what we call deferred tax assets as against deferred tax liabilities which we have had in the past because of the timing differences this impact has reversed. In fact in the past it has added to our tax charge for the year which will have increase our effective tax rate to about 20%. For this year just ended it reversed and became a deferred tax asset. Of course this will reduce the tax charge for the year which is why we have an unusually low effective tax rate certified by our professional tax consultants.

Abiola Rasaq: Thank you.

Operator: Ladies and gentlemen, the next question is coming from Muyiwa Oni of Stanbic IBTC Bank. Please go ahead, your line is open.

Muyiwa Oni: Good afternoon ladies and gentlemen, thank you for your presentation. I have three questions for you, the first one is on competition. You highlighted in your presentation that you expect stiffer competition in 2012 and my question is really around this segment. I want to know what segments of your business you expect to see the strongest competition and also what measures you are taking to mitigate against or to maintain market share. My second question on your customer growth, it has been quite impressive. I think there were a few hundred thousand customers in Q1 and I think my question is really around the drivers of the customer growth so I would like to know what product is really pulling in the customer limit, the new mobile banking product? And also to have an idea of the demographic split as well because I know it has been management's strategy to bring in the younger demographic, so I want to know what if we are seeing gains and how much of the new customers are the new, younger demographic? Still around that question as well we want to know how much of your 8 million customers are actually active, so in terms of percentage how much of those are active customers? Then my third question is on your PPP. You highlighted in the strategy part of your presentation that you are currently going into PPPs with state governments. I want to know what sectors you are comfortable with or if it's really based on regions and not sectors, so more or less the drivers of that alliance. Thank you.

Bisi Onasanya: Thank you Muyiwa, these are essentially questions for me. This is Bisi on the line, the CEO. It's normal for anybody to expect that competition will come in and improve at some point. Don't forget that the crisis in the banking industry has at some point crippled some of the major competitors, so it's only wise for any player that this issue would be resolved and as they get resolved the banks will become cleaner and competition will improve. What have we done? We have stated that this was going to happen. We did gain market share and it's only normal for us to put in structures in place to ensure that we don't lose market share when the situation improves. We went on to implement major solution to improve our customer value and customer turnaround times and we also went on to introduce the central processing centre which would also increase the speed at which transactions are processed in branches, in addition to so many initiatives to make sure that we are bankable and the customers that we gain during that period do not walk out on us. So these are pro-active steps that we took believing very strongly that the competition will increase and we will defend that market share and that leadership as far as we are concerned at the strategic position we have taken.

We believe that the growth in our customer base is sustainable and also deliberate. We went on to improve the ambience of our branches and also improve the quality of our services with the deal attracting the younger generation of Nigerians into the banking world of First Bank. We did a lot of research into this and found out that we needed to appeal more to that segment of the market. This was one of the reasons why we also opted out of the acquisitions because we thought that we could achieve that movement into that state without necessarily incurring so much additional costs in terms of acquisition of a bank. I can confirm to you that a significant portion of our new customers belong to the youth segment of the market as a deliberate policy. In terms of demographic split we would tell you that a larger portion of our customer base now are in the younger, upwardly mobile market segment.

Now to answer your question on PPPs, essentially these are in areas of infrastructure and infrastructure development clearly and for us we believe that's a major driver of the Nigerian economy as we move on. Our challenge in terms of infrastructure, we see opportunities in those challenges and that's what we've been doing with some of the state governments in terms of improving the infrastructure space. Active rates of customers today is about 85% and dormant would be about 8% while inactive would be 7%. So 85% of our customers today are in fact active customers, 7% of them are inactive and we are working on reactivating those ones under a specific project; while about 8% of them are dormant. I hope I've answered your question, thank you. We're ready for the next question.

Operator: Yes sir. We will now go to Chris Varco of Montpellier Asset Management. Please go ahead.

Chris Varco: Hi, good afternoon gentlemen, thanks for the presentation and congratulations on a very strong quarter. I just have two technical questions on understanding the transition to IFRS and the first question is comparing the old Nigerian GAAP full 2011 numbers with the full 2011 IFRS numbers that you provided yesterday. The Nigerian GAAP numbers have 44.8 billion in provisions and the N15.5 billion exceptional on the AMCON transfer and the IFRS ones only had N15.6 billion of provisions so I couldn't really understand the difference, so some colour there. Then the second question was related to slide 25 where you discuss the quarterly difference between Nigerian GAAP and IFRS. Firstly on the interest income, the larger amount, if you could give the split between interest in suspense and what was more related to credit fees moving out of non-interest income; and then on the bottom bit, loans and advances, the movement to N1.5 billion is that correct because on the accounts it's still N1.3 billion because obviously otherwise the 0.2 billion interest receivable seems quite a large figure. Sorry, that was quite a lot, but thanks very much for the colour. That will be the questions.

Bayo Adelabu: Thank you very much for the question. To take your first question on the differences you noted in the accounts published both on Nigerian GAAP and the IFRS translation or conversion, you pointed out two areas. The first has to do with the exceptional items on our transaction with AMCON which is shown as N15.5 billion under NGAAP. Under IFRS this was not allowed so we had to disclose this as part of operating expenses which is more like a transaction log in terms of asset deals, so you'll see the operating expenses going north by almost the same amount. If you look at the impairment provisions under NGAAP which is about N35 billion and under IFRS it was about N15 billion, that was actually the consideration for the collateral value of the impaired asset which is more like the net present value of future realisation of these collaterals which are subjected to some statistical computations, and certified by our subject matter consultant. CBN released new prudential guidelines that shows some kind of gain when you do impairments under these two standards, but be cautioned, the difference should not be recognised as a distributable profit. You have to create a reserve under your equity reserves, we it will be restricted, so as we move on we will be releasing this into profit, so that's what we actually did and that was the explanation for that.

Then on slide 25 where you noticed the difference in interest income, IFRS showed N73.1 billion for the first quarter, while NGAAP showed 61.7 billion. I mentioned that this was actually a combined impact of three things, three major adjustments. The first was the write-back of interest in suspense which is not recognised under IFRS. Impairment is made on the combined sum of principal and interest, meanwhile under NGAAP impairment is made on the principal while interest is fully suspended, so for us to do an impairments on the combined sum we have to write back the interest in suspense and we will now computed impairment on the combined sum in the customer's account. That was number one. Number two, we talked about the effective interest rates. Which IFRS states that there are some credit facilities related fees, like processing fees, management fees and so on and so forth which we currently recognise as non-interest income. They should be considered as part of the effective interest rates and should be amortised over the lifetime of the facility, until the facility is fully paid IFRS is of the opinion these fees are not fully earned, so we have made adjustments for that. That has an implication of increasing our interest income and reducing our fees and commissions which is why you will see this as a contra adjustment.

The last one has to do with interest on staff loans which are given to staff at less than commercial rate. IFRS states that we need to gross up this to commercial rates, included as part of commercial income, to see how the business is performing. If you give a subsidy on interest to staff, it is actually a staff cost which should be recognised as an operating expense, so the contra of that is in operating expense. Those are actually the three major adjustments that went into there. This slide has essentially simplified the adjustment. It is more complex than what I have just explained, but just to give you an idea of the guidance of what constituted the difference between these two numbers. Thank you.

Operator: We will now go to Ronak Gadhia of Exotix. Your line is open, please go ahead.

Ronak Gadhia: Thanks, that's Ronak Gadhia from Exotix. Just continuing from the discussion you just had, if we take away the IFRS adjustments from your numbers and we take away 9.2 billion, is it correct to assume that on a Nigerian GAAP basis your profits would have been down by almost 30% on a year on year basis? My second question is again largely technical. On the interest income for last year, how much of that was write-back from interest suspended on accounts sold to AMCON? In total how much did you write back? Sorry, I've got about two more questions. The other thing I have is about your cost cutting. I think management has been talking about cost cutting measures for the best part of two years. I wonder if that is a bit of a red herring because if you compare your quarterly numbers, costs have been increasing at a cumulative rate of 8% per quarter. It doesn't seem like operating expenses are coming down, they are increasing quite rapidly, in fact they are increasing faster than inflation rates, so I wonder if your cost cutting measures are effective at all. Lastly how much mark to market loss do you expect on your available for sale securities for the full year? Thank you.

Bayo Adelabu: If I heard you well you actually asked three questions. The first has to do with the impact of IFRS. The table we provided here has shown the major adjustments, it's not exhausive like I mentioned in my presentation. You have a N9 billion upside based on adoption of IFRS. I can give you the numbers of the end GAAP which we did not published, as it was not required by law to be published. Our group profit for the year under NGAAP is actually about N21 billion. The first quarter profit under NGAAP compared to N16 billion of Q1 2011, so there is still about a 37-40% increase in profitability without IFRS. The question on the opex increase, the 30% quarter on quarter increase, there will be three things I will talk about. Despite the increase of 30% there has been a 30% drop in our cost to income ratio, from 70% to 60%. The first one, the driver is actually the deposit insurance premium, if you notice we grew our deposits by about 35% year on year 2010 to 2011. Our deposit insurance premium is computed on the closing balance of the previous year, so this has increased our premium insurance. Number two is the AMCON resolution cost fund which is also a function of our balance sheet size. You can see that we grew our balance sheet size significantly between 2010 and 2011 and we are required to make an accrual of 0.3% on our balance sheet size. The other driver are two, number one is the increase in the activities of the bank. I mentioned the incremental in our branch network which we grew by up to 40 locations in 2011 alone. We also grew our ATMs and POS terminals significantly. These increases are in business offices and transaction locations require infrastructure application and maintenance, which require a lot of other overheads including security of cash movement. All this coupled with the general inflation rate actually led to an increase in costs, but we have done all this as efficiently as possible which is what is reflected in our cost to income ratio. All these new additions to costs have generated more than proportionate increased in our revenue. Our strategy is not cost reduction. It's of cost optimisation. Where you restrict costs you are restricting business growth – we don't want to do that. We spend, but additional N1 we spend we must generate a more than proportionate increase in additional revenue. In terms of the mark to market losses that we expect for the rest of the year in our available for sale bonds, in terms of mark to market both for the year ended 2011 and Q1 2012. Under NGAAP we charge to P&L, under IFRS we take it through equity, both ways we have reduced our shareholders' funds and we don't expect given the current rate regime that we are going to pass any major mark to market loss for the rest of the year, at least not significant enough to impact our forecast for the rest of the year. Thank you.

Ronak Gadhia: Just going back to the IFRS thing, so is it fair to assume that there was a big bump in the first quarter in the interest income, it was just a one-off and it would not be sustained for the rest of the year; or will that continue for the rest of the year?

Bayo Adelabu: It will continue for the rest of the year.

Ronak Gadhia: The boost in interest income from interest in suspense?

Bayo Adelabu: Yes. Because the way it happens now is most banks are required to continue restating their NGAAP into IFRS until the systems, processes and everything is converted unto IFRS, until transactions are processed under IFRS. So we will continue our impairment of prudential guidelines on one side and on IFRS based on reporting. As we suspend interest income under NGAAP, as we are restating to IFRS we will be adding it back. So we see this trend continuing for the year but the impact is not distributable like I mentioned. It is restricted in what is called statutory credit reserves, so it continues for the rest of the year.

Ronak Gadhia: Ok, thank you.

Operator: Ladies and gentlemen, once again as a reminder if you have any questions please press *1. We will now go to Nothando Ndebele of Renaissance Capital. Please go ahead, your line is open.

Nothando Ndebele: Good afternoon, thank you for the call gentlemen. A couple of questions from me side. First of all is there scope for recoveries out of the N88 billion you wrote off on your book last year? So have you actually seen any recoveries in the first quarter of this year? Also I guess looking at your strong deposit growth, maybe you could just tell us a bit more about the drivers of that and the outlook and whether you will continue to grow at a similar rate? Then could you give us the figures for your gross loan book under IFRS for FY ’11 first quarter 2011 and the first quarter 2012 please? Thank you.

Remi Odunlami: I will take them in reverse as I recall them. You wanted to know what the gross loans were for the first quarter 2012, full year 2011 and first quarter 2011 in IFRS terms. Essentially there’s no real difference so I think you can work with the numbers that you actually have under end GAAP. There’s no major difference.

Nothando Ndebele: We don’t have them for the first quarter of this year. Can you give us a gross number then for the first quarter ’12?

Remi Odunlami: Hold on a minute. Ok, I see what you mean. Gross loans for the first quarter is N1.2 trillion. If you look at slide 27 on the pie chart that talks to gross loans and advances, March 2012, you’ve got N1.2 trillion and similarly in the SBU breakdown at the top of that page, the bar chat. You also asked about recoveries of the 88 billion that we wrote off last year and what recoveries we made in the first quarter. I don't generally disclose my recovery number but I will say that it's fair and much of what we wrote off in 2010 going into 2011, we recovered a fair amount both through AMCON and through recovery efforts. In the first quarter of 2012 we have made substantial recoveries but I really am not prepared to disclose the exact figure.

Nothando Ndebele: Could you give us a range at all of what fair means?

Remi Odunlami: Not really.

Bisi Onasanya: We will get back to you. And in any case at the end of the year when we have publishing the numbers, the recovery figure was an item that will be disclosed on the profit and loss account, so you would always have the information anyway. The Head of Investor Relations will provide the information which you asked after this conference call.

Remi Odunlami: The other question was on deposit growth.

Bisi Onasanya: Onche will take the question on drivers of deposit growth.

Onche: I think to start with there has been a lot of work in First Bank to really deliberately target deposits of the group. As the Group Managing Director said this has done hand in hand with our customer acquisition growth, so the redesigning of our branches, the introducing the specialisation that have occurred and products that have been tailored specifically to customers, for example we have a product that targets the mass market that allows them to open an account almost instantly with a very low balance. We have instant issuance cards. We're one of the only banks in which you can go into a branch and walk out of a branch literally with an ATM card that's functional, so a number of innovations have really enhanced our value proposition and allowed us to be the bank of first choice with a very large retail opportunity. In tandem with that we will see more of this this year than last year but we focus very strongly on network expansion and this was more of a phenomenon you will see manifesting this year, but that has also been tied very positively with respect to deposit growth. We've all got a favourable environment. Last year there was a quasi second flight to safety as well at the face of some of the intervening banks and some of the nationalised banks was uncertain. But we expect to sustain our very strong growth year on year.

Bisi Onasanya: Next question please.

Operator: Now we'll go to Emmanuel Boakye of Fairtree Capital. Please go ahead.

Emmanuel Boakye: Thanks guys for the presentation and for the opportunity to talk to you. Just two questions that I have. Considering that you guys are on a cost driving exercise and trying to maintain costs yet you have grown branches by 21 branches in the first quarter and obviously still look to grow more, perhaps you can explain the strategy behind that? Also my next question is considering now in the first quarter we saw the changing mix in deposits and we had an increase in term deposits, do you expect your cost of deposits, cost of funding to increase for the remainder of the year, because in that you're going to get a more expensive deposit profile as well.

Bisi Onasanya: Thank you. We do have a strategy to increase our touch points empirical studies have shown that there is direct positive correlation between your branches and the size of your deposits particularly for the retail segment of the market. We should always remember that First Bank is a brand that is loved and the reason why sometimes we don't have new customers in some areas is partly because we are not present in those areas. So we think this is a deliberate strategy to increase our presence in urban and semi-urban areas especially as a means of capturing new customers and increasing retail deposit growth and this has worked for us. Yes, there will be some increases in costs as a result of the increase in deposits but like the CFO said it's not necessarily a good strategy to defend costs. What's important is to make sure that for every deposit that you get you have a positive spread, after taking all costs into consideration, both direct and indirect costs of mobilising the deposit. We will increase our number of branches in 2012 by 130 branches, carefully selected locations where we are either not present or we are stretched. This is already working for us and we met the Q1 2012 target. We intend to continue with this strategy and deliver on this total number for 2012. It's a deliberate strategy aimed at increasing our market share and also improving our deposits. These are major focuses of low cost deposits of savings and current accounts. Thank you.

Emmanuel Boakye: Thanks.

Operator: We will now go to Brent Malahay of JP Morgan. Please go ahead.

Brent Malahay: Good afternoon guys, just two questions from me. Could you just highlight the two key risks to the current cost of funding level? Then secondly could you give us the number in terms of the lending you do via the debt capital markets i.e. the loans you subscribe of corporates and lower tier government? Thank you.

Bisi Onasanya: I will ask the Treasurer who is here to answer the question on lending whilst Bayo will take the question on the cost of funds.

Treasurer: With respect to lending to the public sector or state governments…

Brent Malahay: Lending via the debt capital markets rather than a straight loan, i.e. when you subscribe to bonds issued by corporates, giving them a direct loan?

Treasurer: Those are treated as treasury investments and quite frankly they are very, very limited. As you may be aware in the Nigerian market the corporate bond market is relatively underdeveloped, there are very few issues out there and in many cases the issue side is too small to be of interest to us from a treasury standpoint. So it's extremely limited in that regard for both the corporate and state government bond issues.

Brent Malahay: Would this be an avenue of opportunity for the banks depending on whether the risk mitigations are better via this way versus a straight loan or is that not the case?

Treasurer: The truth is it will be driven by to my mind two clear factors. One is where will it be issued in terms of what is the yield on the bond; and then two also its size because the truth is how many corporates can issue a bond today in this market of a meaningful size to grant liquidity, so that will always be an inhibitor so you're probably better off just getting it as a straight loan. Then if you look at the corporates today, the corporates will typically still tend to try to tap the loan market rather than the bond market because of the associated costs involved in issuing a bond. For the state it's purely a coupon gain. As long as they're issued over the sovereign why not if it makes sense. Some of the state has a capacity to issue in size – not all.

Brent Malahay: Ok, thank you. Then just the risks to the cost of funding.

Bayo Adelabu: There's no Tier 2 risks to our cost of funding. If you listened to my presentation I mentioned that between deposits and capital we have 85% of the bank's funding base and the Tier 2 to Tier 1 ratio is about 90-10. So what happened is our Tier 2 capital is mainly foreign currency holdings which we recently paid and is just 10% of our capital, so paying out $175 million does not really constitute any threat or risk to the bank because of our impressive base of domiciliary account balances. Given the fact that we just disposed our seawolf account to AMCON, a release of almost $600 million to the banks liquidity, we don't see much of the risk to our cost of funds coming from Tier 2.

Brent Malahay: The question was really because of the cost of deposits is currently around 1.6% as per slide 10. I am just questioning how sustainable that is at that relatively low level.

Bayo Adelabu: I misunderstood the question. If you look at the Q1 presentation you will see that the cost of funds inched up by 0.1% which is actually reflective of the high interest rate environment. In 2011 we were able to bring down our cost of funds from 3.2% in 2010 to 1.6%, of course from this year based on the interest rate regime on treasury bills and FGN bonds, depositors now have alternatives where they can put their money and they would earn higher yields. That has already impacted the bank's cost of funds. Because we have very little of our deposits in tenured funds, it doesn't really impact us so much and we intend to keep our focus on these low cost funds of current accounts and savings accounts even though there will still be some increases in tenured deposits. In the long run there's a mix of these cost of funds, so we don't see the cost of funds increasing significantly. I'm not assuring that we are going to sustain it at the level that it is today.

Brent Malahay: Is it fair to say if there is pressure it would most likely come from competition rather than regulation?

Bisi Onasanya: Yes, essentially so. We did say that we would defend our market leadership, so along that we continue to have specific threats on those deposits. We will not give up.

Brent Malahay: Thank you.

Operator: Thank you sir. We will now go to Oguche Agudah of Standard Chartered. Please go ahead.

Oguche Agudah: Good afternoon gentlemen and lady. I have a question concerning loan growth specifically in regards to the public sector. On slide 27 we noticed that the loan growth to the public sector was actually the highest between the full year 2010 and the first quarter 2012. I'm wondering if that is still a strategy. How far are we going to see the loan growth in the public sector and what specifically are you doing in terms of managing the risk in that sector?

Bisi Onasanya: We are a very strong bank in the public sector space and a critical driving factor in that segment is the ability to support the other various organs of government, however because of our very robust risk management framework we do have an internal limit of a certain percentage. The CBN limit of total public sector loans to total aggregate loans is 10%. I can confirm to you that we are well within that limit and we do not intend to burst that limit. The NPL in that sector is 0%. So we are within 10% of the deposit limit and guided by the central bank we will not exceed that limit but will also defend on our relationship in that segment of the market.

Oguche Agudah: Alright, that's all.

Operator: Thank you sir. We will now go to Rainer Orth of Kura Capital. Please go ahead.

Rainer Orth: Good afternoon. I've got two questions around the opex line. I just wanted to get a better view of how the financial year '12 will look. I look at the staff costs and I can see on your first quarter there's about N21.6 billion of staff costs and I compare it to last year's 59.8% so if I analyse those staff costs I get to about a 33% increase in staff costs for the year. Does that seem realistic? Then the second question I look at last year's other operating expenses and it's at about N93.9 billion and then first quarter this year you only did 18.7, so I'm thinking you at least do last year's other operating expenses as a minimum plus inflation. Is that also realistic? Thank you.

Bisi Onasanya: Let me take the question of staff costs. We have always believed that the staff are the greatest asset that we have and that well motivated staff are in line to deliver returns to you, we have moved away from a bank which was essentially not competitive in terms of modules, to a bank where virtually everybody in the bank wants to work. You can see this tremendous performance that we achieved in 2012. With a de-motivated workforce you can not sustain that, so quite frankly our staff costs are costs that we believe are relevant and that will deliver superior returns to us, but we intend to pick the best workforce in the industry and we intend to keep them well motivated. What's important however is to ensure that you sweat the workforce and ensure that they deliver improved returns. You can see the impact of this on our declining cost to income ratio and the growth in our business. This can only be done when you have a well motivated workforce. Quite frankly we think this strategy is deliberate and it's working for us. I think your next question is on the operating expenses. The CFO did mention also that we are in a growth mode essentially and we are spending money to expand our business – what's important is to ensure that every incremental amount of money in naira that is spent results in an improved higher rate of income so you make a spread on every naira of money that you spend, so quite frankly we think we are on the right path. We will be very efficient in our costs, we are not saying we will not be but what's important however is to make sure that we are very wise in every kobo that we spend, and so far it has worked for us. Achieving a 10% reduction in cost income ratio is not by accident but a deliberate strategy. It's much more important to drive up your revenue at this point in time to dilute the impact of the costs.

Rainer Orth: [*Speaking over each other*]…percent of last year's other operating expenses. Is there a reason for the low level of spending in the first quarter because I imagine you would at least do the 93.8 this year as well.

Bayo Adelabu: Let me just mention something briefly here. We also need to appreciate the seasonality of some of these things. We have just considered one quarter out of four, so if you want to do an extrapolation of our cost for the first quarter of 18 and multiply it by four, it's going to be lower than the N93.9 which you called the base for last year. I'm not saying we're going to surpass this but it is not a direct correlation. It's actually to our own benefit to incur less costs during the current year than last year. We are not promising that it's going to be lower by exact margins because 18 multiplied by four is about N76 billion compared to N93.9 billion. That is almost a 30% drop other operating costs. We are not promising that.

Rainer Orth: Do you have a guidance on what your opex growth will be for the year?

Bayo Adelabu: We will rather guide on what our cost to income ratio will be for the rest of the year which we have guided as below 60%. Costs are activity driven, as we open more branches expand our transaction location we will incur costs, in terms of manning, maintenance and security so they will be cost growth. So barring expansion, we guide on cost growth below the general inflation rate

Operator: Today's last question is coming from Mr. Mandela Otaru of Standard Chartered. Please go ahead sir.

Mandela Otaru: Hello, good evening everyone. Thanks for the presentation. My question, I have three questions. A quick one is do you hope to integrate your subsidiaries that you just acquired BIC? Secondly is where else do you see opportunities in Africa? Then the third question is would you be willing to go into a strategic alliance in the future?

Bisi Onasanya: Thank you. I would allow the Chief Strategy Officer to take the first one.

Onche Rajesh: Thank you. With respect to Bank International de Credit in the DRC, yes indeed there's an integration process that is ongoing, very carefully thought through and planned, and it's happening in phases. The first phase is getting them to realise the most obvious synergies both on the revenue and the cost side that exist with First Bank of Nigeria. The next phase is to harmonise our processes and systems across the board, so migrating them to an IP platform, the same platform pinnacle that we use, ensuring harmonised processes and approach this from a commercial and operational side. The third phase is when we move to centralised management of SBUs etc where you might have someone in Nigeria responsible for corporate banking globally which by that time would include a portfolio of countries, but the work is well underway and we are already seeing some of the benefits of that in the DRC. The second question was priority nations. We are not at liberty to disclose at this stage the big nations but rest assured we did a very detailed analysis of nations across Africa and we can say confidently that there's a portfolio of about 10 that we prioritised over the next five years and these are typically nations that have very strong and growing economies, sizeable enough to be meaningful to us and a strong opportunity in each of these nations to be a major Tier 1 player. We do not plan to be a marginal player in a lot of countries and the cost of entry itself makes it not worth our while. So you can expect us to continue to target these nations and enter on the premise of a very strong economic case to be made, typically using inorganic expansion in line with our strategy to be a multi-local bank and be relevant wherever we are with local participation in shareholder and in management and to put shareholder value above everything else that we do.

Mandela Otaru: The third question sorry is…

Onche Rajesh: What form of alliance were you talking about? You just mentioned strategic alliances.

Mandela Otaru: We've seen with Ecobank partnering with Nedbank and so on and so forth. As you migrate, as you go to all these countries…

Bisi Onasanya: Let me confirm to you that as far as Nigeria is concerned our strategy is to grow organically but in an accelerated mode. As far as the rest of Africa is concerned we will not go into any of those markets where we do not have majority control. If there are alliances that give us that majority control we are open to look at them, but clearly we must be in control. Our preference is to do brownfield entry because we want to be regarded as the most local bank, which is a local bank in multiple environments. We would like to partner with the locals in that environment and if those locals are into strategic relationships it is not a deal breaker. Does that answer your question?

Mandela Otaru: Yes, thank you so much.

Bisi Onasanya: Thank you very much to everybody. I think this has been a very wonderful call. We look forward to seeing you at the floor of the exchange. Thank you.

Operator: Ladies and gentlemen, that will conclude today's presentation. We thank you very much for your participation, you may now disconnect. Thank you.