Company:	**FBN Holdings Plc**
Conference Title:	**Full year 2012 and first quarter 2013 conference call**
Presenter:	**Bello Maccido**
Date:	**Friday 17th May 2013 - BST**

Operator: Good morning and good afternoon, ladies and gentlemen, and welcome to the FBN Holdings' full-year 2012 and first-quarter 2013 financial results conference call. Following the formal presentation by FBN Holdings' management team, an interactive Q&A session will be available. I would now like to hand the call over to Mr. Bello Maccido, Chief Executive Officer, FBN Holdings. Please go ahead, sir.

Bello Maccido: Ladies and gentlemen, let me thank you all for attending our conference call for the year ended December 31, 2012 and quarter 1, 2013. By way of background, let me say that I'm very delighted with the performance achieved by the Group in a very challenging and difficult business environment.

We are grateful to all investors who believe in our investment story and supported us during this period. As we will highlight, we are also very optimistic about the future outlook which will enable us to continue on our journey of providing you appreciable returns.

As can be seen from our slide number 5, our new holding structure is fully in place and fully operational with our four major business lines fully defined, as can be seen on the slide. The basis of this arrangement is to bring about increased specialisation across the grouping while, at the same time, enabling the Holding Company, as the corporate center, to assume the responsibility for group-wide oversight that is aimed at identifying and at the same time exploiting synergies across the Group. As you will see on the slide, the Commercial Banking group dominates the total assets and the profitability of the Group but we believe that with this new arrangement in the medium term, other business segments will also enhance their own contributions to the Group.

Now if you look at slide number 6, you will get a sense of the business as well as the macro operating environment in which we operated in the last 15 months. Starting with the global environments, we will say that even though global output has been very slow, the emerging markets have actually fared better, with Nigeria posting 6.6% GDP growth, which is quite in excess of global output.

At the same time, also we have seen very high and stable oil prices through the year and this has actually impacted positively on our achievement. Likewise, also the high interest rate environment that we have witnessed during the course of the year which has enabled us to achieve higher yields on our assets.

Now, on the banking side we witnessed enhanced regulation from the Central Bank of Nigeria with the increase of the cash reserve ratio from 8% to 12% and the reduction of the net open positions from 3% to 1%, making revenues come under significant downward pressure. At the same time, we have seen the overall revision of tariffs and charges that are also impacting on our revenue profile.

But, overall, one would say that with a combination of stable exchange rates, strong foreign reserve position, as well as improved performance of the Nigerian capital market that the overall economy is looking robust and also has an outlook for better performance in the year ahead.

Having said this, let me just say that we at First Bank Group have lived true to our name by being first in many indices that I will highlight. We are first in Nigeria by total assets of NGN3.5 trillion. We are first in Nigeria in total loans and advances of NGN1.6 trillion. We are first in Nigeria in total deposit base of NGN2.5 trillion. Again, also looking at the number of our customer profile across the country which is in the neighborhood of about 9 million customers accounts definitely one can conclude that we are a very strong franchise, not just retail but overall, in terms of banking.

Now, having given you this background, let me say, therefore, that it is no wonder why our net revenue has jumped tremendously. As you can see on slide 8, our net revenue over the period grew by 26% and, in spite of some growth in our cost-to-income ratio which will be explained in the course of the presentation, overall you can see that we have provided a very healthy return on average equity that has jumped from 5.1% to 18.8%, which is a triple just within the course of one operating year. Of course, during this period we have also been able to maintain our capital adequacy ratio above 20%.

At this point, I would like to bring the Chief Financial Officer of the Bank, Mr. Bayo Adelabu, to distill the numbers further.

Bayo Adelabu: Thank you very much. This is Bayo, the CFO for the Banking group. I will take the slide presentation from page 10, which actually gives us a snapshot of the P&L of the Holding Company. You will see that the 2012 gross earnings actually grew by 31% year-on-year to NGN360.3 billion. This is an average of NGN30 billion revenue, on a monthly basis. This is primarily driven by interest income from loans and advances as well as investment securities.

However in Q1 we have seen further growth of this revenue by about 10% to 11% to an average of NGN33 billion per month. Non-interest income, on the other hand, was actually driven by fee and commission growth which grew by 26% and growth in COT of 77.5% and other credit-related fees of 6%.

We'll see that our operating expenses actually went up by 32% in 2012 and by a marginal 1.5% in Q1, 2013. This was driven by personnel costs, regulatory costs, as well as maintenance and expansion costs and I want to be quick in mentioning that we had one-off costs of NGN21.5 billion in 2012 which actually got our operating expenses escalated. Details of this will be given to you in due course.

In terms of cost-to-income ratio we saw a growth of our cost-to-income ratio of 61.9% which is actually away from the norm of below 60% which we've always targeted. Adjusting for the one-off costs, we will see our cost income ratio at 55.0% which is actually in-line with our target cost-to-income ratio.

In terms of cost of risk, it was 0.9% below 1% in 2012 and there was a further improvement to half a percent (0.5%) in Q1 2013. This really is reflective of our ongoing improvements in the management of our portfolio and quality of collateral and process of recoveries and cash flow.

Before I move on to the next slide, I'd like to highlight a few of our P&L ratios. Number one is actually the net interest margin where we saw an improvement to 9.6% from 9.3% in 2011. Our non-interest revenue actually dipped to 24.5% of gross revenue. But we have seen a reversal of this trend to 29.1% in the first quarter of 2013. I just explained the movement in our cost-to-income ratio, cost of risk, and the return on average equity closed at 18.8% in 2012. We have seen an improvement of 24.7% in Q1 2013.

Moving on to slide 11 where we see a breakdown of our asset distribution and the mix of our funding sources. We can see that we have very healthy balance sheet ratios. There was actually good growth in our deposits liabilities, while the source of funding can be said to very stable during this period. In terms of breakdown of our assets between loans to customers, investment in government securities, i.e treasury bills and government bonds as well as interbank placement, we have 92% of our total assets which means that over 92% assets are actually in earning assets which we are very comfortable with.

In terms of funding, between deposit liabilities and capital, we have about 90% of our funding. With deposit contributing 75%, and capital contributing about 14% of our funding. This is quite stable and is actually reflective of the healthy ratios that we could generate from our balance sheet. Capital adequacy ratio stood at 21.9% as at year-end 2012 while it dipped slightly to 20.5% as at Q1

2013. This is far in excess of the minimum required by the Central Bank of Nigeria and basically consists mainly of Tier 1 capital which is about 19.4% at 31 December 2012 and 18.2% in Q1 2013.

Loan to deposit ratios stood at 65% in 2012 and they came down to 63% in Q1 2013. Just because of our reduced growth in loans and advances in the first quarter of 2013 and the deployment of majority of our incremental deposits into government securities which have very good yield and with minimal or no possibility of impairment. NPL stood at 2.6% while NPL coverage ratios 133%.

Let's move on to slide 12, we'll see the distribution of our deposits by type. I'm happy to still mention to you that the mix of our deposits consists mainly of low-cost deposits which stood at 78% of our total deposits liabilities, while tenored deposits only represent about 22%. Of course this is a bit higher than our target we actually targeted 80-20 but given the trends in the market we exceeded this targets or we are below the targets rather. Our deposit accounts for about 75% of total balance sheet like I mentioned earlier and 55% are current accounts and domiciliary accounts on which we are paying very minimal interest average of about 1%. And we have 22% in savings accounts where we are currently paying 3.6%. We used to pay 1% on this. In light of the high interest rate environment, we saw an increase in our tenored deposits to 22%, slightly above our 20% target. We believe this was market driven as the high interest rate environment encouraged more of fixed deposits and discourages customers keeping the money in the current account.

Now going to page 13 where we have our capital adequacy ratio like I mentioned earlier which stood at over 20% in Q1 2013, which is in excess of the 15% required by CBN and it's almost entirely composed of Tier 1 capital. Our leverage ratio is 8 times around the average of industry. We continue to monitor the growth of our balance sheet with the aim of maximising capital efficiency by deploying our capital to the most attractive opportunities for optimal return.

Liquidity also remained strong with 65% of liquid assets over deposits well above minimum regulatory level of 30% and this is also reflecting the repositioning of our securities portfolio towards the short end of the curve as previously discussed.

Slide 14 and 15 is our usual page where you see our waterfall chart to better represent our evolution of the profit after tax of the Group in both full year 2012 and the first quarter of 2013.

Moving to slide 16 we won't dwell much on slide 14 and 15 where we look at revenues. As discussed earlier, our gross earnings were NGN360 billion in 2012 which is driven more by increased interest rate environment, from loans and advances, investment securities benefitting from the high interest rate environment. Net interest income was the large majority with NGN 290 billion, while non- interest income totaled NGN73billion or 20% of gross earnings. Our focus on non-interest income generation has started yielding results and we can see this growing 29.1% of total revenue in Q1 2013. Again, looking at the other subsidiaries within the holding company we can see a strong increase in life assurance premiums, 127% growth over 2012 even though this is coming from a low basis but this is actually a sign that our cross-selling actions have started working. Our focus on increased contributions from subsidiaries to the overall earnings of FBN Holdings as we improve Group synergies, cross selling will be enhanced.

I am actually trying to roundup on slide 17 which shows our net interest margins as well as the yields on our various earning assets. I mentioned that we had an improvement in our yield from 9.3% to 9.6% which benefitted mainly from the high interest rate environment which saw an increase in average yield of earning assets to 12.2%.

My last slide, that's slide 18, where we have the breakdown of our operating costs. In 2012, like I mentioned at the beginning of the presentation, our cost were impacted by significant one-off's amounting to NGN21.5 billion. Excluding these one-off's, operating expenses would have been NGN171 billion as against the NGN192 billion that we showed with an increase of 19.7% compared to 2011. This growth rate compares with 26% growth in our revenues. This demonstrates that we continue to be very focused and disciplined about costs whilst efficiently investing to improve our market position and increase our market share with positive impact for the Group's top line.

The 2012 one-off's of NGN21.5 billion can actually be broken into two. Number one was the NGN12.5 billion incurred on redundancy costs of the attrition that took place in 2012 and secondly, we had an actuarial valuation of our employee gratuities at the end of the year and there was a NGN9 billion under provision which we had to make up for in 2012. As a result, the cost-to-income ratio of the Group was 61.9% or 55% when excluded for the one-off's. In Q1 2013 we have seen a normalisation of our cost-to-income ratio back to below 60% which stood at 57% Q1 2013.

At this stage I would like to hand over to Remi the Chief Risk Officer for the presentation on loans and advances.

Remi Odunlami: Good afternoon. I'm speaking to the HoldCo credit portfolio basically on the basis that the Banking group represents close to 90% or, in fact, over 90% of the total portfolio. You will see on slide 19 the spread between FBN Limited and the rest of the Group with FBN Limited representing NGN1.3 billion out of the NGN1.6 billion portfolio. The slide on the left-hand corner shows you the loan book spread by entities. Effectively, the Commercial Banking group represents all the loans with a few sitting in mortgage, or a very small percentage sitting in the Mortgage Bank.

Very briefly, on slide 20 you'll see that the portfolio remains largely corporate. 70% of the portfolio is corporate with 20% in retail and year-on-year there has been no major change in the structure of the portfolio. The retail portfolio similarly driven by personal loans remains structurally unchanged as to the sectoral breakdown. Basically, our loan book reflects the diversity of our portfolio and the fact that we are growing, not in any particular area, but across the board generally.

Slide 21 speaks to FBN UK, which many of you have asked questions about specifically and I think the information you've asked for is provided on that. It represents about 14.5% of the total portfolio of the group.

Moving on to slide 22, in terms of asset quality, I'm happy to report that the quality of the portfolio is improving. Cost of risk has declined to about 0.5%, less than 1%. The NPL ratio, similarly, is being held flat. We have seen a marginal increase in NPL but, as I say, a marginal and not of real significance. The only thing that's changed that you might want to think about is the coverage level in terms of the coverage of NPL by the provision and that's basically the function of the adoption of the IFRS, which takes collateral into consideration whereas in the past we really have not. We also have refined our collateral definition and, as we take on larger transactions, they are more and more collateral-based. So, that's also reflected in the coverage ratio.

Moving on to slide 23, we're looking at the NPL book, the allowance for impairments, largely flat quarter-on-quarter and declined nine months to full year. The evolution of credit impairment, noting in particular the pre-provision operating profit on credit impairment shows a dramatic increase to 18.9 times, reflecting the fact that our credit impairment level in the first quarter has been held flat, or held reasonably, whereas the profit level is rising.

I mentioned that our coverage ratio was improved by the collateral consideration. If you look at the slide 21, you'll see the fact that the bulk of our portfolio and an increasing amount are collateralised. That basically takes you through slides on the loan book.

I'll hand over to Mr. Onasanya, the Group Managing Director of the Banking group and I'll take questions later on.

Bisi Onasanya: Thank you very much and, once again, my name is Bisi Onasanya. I run First Bank. I would like to speak to the Commercial Banking side of the Holding Company. We were very resilient in 2012 and, in spite of the challenging environment; we were able to deliver very good returns by our own assessment.

We would like to put on record however that, whilst it’s easy to manage for the short-terms gain, what we’ve always considered as management in FirstBank is not just to look at short-term gain but to balance short-term gain with long-term objectives. We therefore spent the past two to three years, including 2012, on laying the foundation for the next phase of FirstBank. We spent time also defending our market share and laying the foundation for sustained and improved business buy and share of customers’ wallet in 2012. This to some extent has aggravated our costs but these were very strategic costs deliberately incurred for the purpose of making sure that we retain market leadership whilst also not losing sight of the need for us to balance short-term goals with long-term objectives.

The performance in 2012 was driven also by the conscious and very strategic implementation of our core objectives and strategies in 2012. These initiatives were transformational and they have helped us in laying the foundation for the new First Bank as we move into 2013.

As the CFO reported, we had some one-off costs which held us back from attaining this objective of being the most profitable bank in Nigeria. We retain our market leadership in terms of balance sheet size, in terms of loans, and in terms of the number of customers. It’s time as we move into 2013 for us to now hold back and begin to sweat the investments we’ve made in the past couple of years to attain and ensure that our shareholders and all stakeholders begin to reap the rewards of their investment in FirstBank.

Talking to the size of our deposits, we were able to retain about 78% of our total deposits in low-cost price bucket whilst also growing our total deposits by 23%.

We improved market penetration and our FBN UK Bank also increased significantly by moving deeper into the Corporate Banking market segment, particularly in the areas of trade and commodities finance. Our service offerings were also significantly enhanced by the reinvigoration of our e-channels and also ensuring that those channels are fine-tuned to make them efficient enough to be able to serve the new set of customer profiles, particularly the young and upwardly mobile set of customers that are now attracted to FirstBank because of the impact of the transformation that we have done.

As we move forward, also, we would like to say that, despite the performances in 2012, we believe that we would use the coming year including 2013 to now sweat the investments that we have made in infrastructure to ensure that in 2013 we will be managing for profitability and also ensuring that we defend investment that we have made in the past couple of years.

We would also ensure that we would continue along the lines of sustainable banking principles. We would always remain focused on the long-term objectives of running the bank and shying away from doing short-term transactions that would impair our ability to achieve and attain our long-term goals. At this point, I will pass on the baton to Kayode Akinkugbe who runs the Investment Banking and Asset Management Business of the Group.

Kayode Akinkugbe: Thank you very much. Just looking at 2012, it’s fair to say that you can characterize it as being a year of mixed fortunes, depending on what part of the FBN Capital business you sit in. The prevailing high interest rate environment enabled the Asset Management and Trustee business to really capitalise and make quite strong returns because of the prevailing high interest rate environment.

However, if you sit, for example, on the Investment Banking side, again, the high interest rate environment ended up crowding out the ability and making much more difficult for companies to actually raise capital. So, this obviously impacted revenues on the Investment Banking side in particular.

But, it's fair to say, ultimately, we had a profitable year compared to 2011 and on the operational side we've actually made very good progress in terms of integrating the various businesses that are coming together to form the IBAM group.

Looking into 2013, we've had a reasonable start to the year. Traditionally, the first quarter is typically slow but we've seen that our Investment Banking business has rebounded quite strongly. We have, looking forward, actually a very strong pipeline. So the Investment Banking business has come up strong but now, as the rates themselves have actually trended downward, we see that the Asset Management business is actually facing some challenges. One of our focuses is to ensure that we can grow the AuM as aggressively as possible to ultimately ensure we end up very profitably on the Asset Management side.

So, ultimately, I think Q1 has been a good start to the year. We've also seen on the Brokerage business a very strong performance. We ended 2012 as number 11 in the league tables and year-to-date 2013 we're actually number 4. So that shows, again, some manifestation of the investments we've made in improving our distribution platform.

Looking forward, we expect the Investment Banking and Asset Management segment to continue to grow, notwithstanding we also expect to see intensified competition. But, we really believe that some of the investments we've made over the last 12 to 18 months will begin to see fruit. Given certainly the very decent and strong pipeline of transactions we have, we expect to continue to see good return on our effort.

I will now hand over to Onche Ugbabe, who will run us through strategy and the performance of our Insurance business.

Onche Ugbabe: Good afternoon, all. I'm on slide 27, which is the slide on Insurance and I'll talk about this section. With respect to the Insurance group, we have two members of this group. The first is FBN Life Assurance, which is a joint venture with Sanlam from South Africa. It commenced operations in 2011 and also FBN Insurance Brokers.

The performance of FBN Life has been quite strong in the prior year. We saw our gross premium income grow by 127%, to NGN2.9 billion and it is also worthy to note this is the first year they've turned a profit, one year ahead of schedule, so we're quite pleased about that. We're continuing to build on our Bancassurance success in FBN Life, offering Credit Life and Group Life through the Bank but also extending our reach with respect to Individual Life, which is a big growth area.

With respect to FBN Insurance Brokers, this is a smaller subsidiary but one of our highest with respect to return on equity, routinely delivering a 50%-plus return on equity. We had modest 2% growth in top line but very strong 22% growth driven by a restructuring that was done and a very strong focus on cost efficiency.

We remain very bullish on insurance. This is a segment with very low penetration, 0.5% in Life Assurance, 1% in General Insurance. It's been a priority area by FSRCC, which is the umbrella group of regulators and they've put a lot of efforts around trying to facilitate the expansion of that sector, given the social benefits, of course, and there are very strong synergies with our existing business through clients, distribution, and the ability to bundle products which we're doing aggressively.

I'll mention briefly, turning to slide 30 to discuss the microfinance bank progress. This, as most of you are aware, is the subsidiary that came to the segments below our Retail Bank. This is, of course, still a very big opportunity with banking penetration only at 40% in Nigeria. The Company's done well in the prior year. We saw very strong top-line growth of 17% as we continue to grow this business. As we're in an investment stage, if you will, profits were mostly flat as costs continue to grow in this investment, pushed to build out the business.

We did see a slight dip in revenue in the first quarter and this was partially due to deliberate slowdown in loan growth as we have been restructuring the credit processes in the subsidiary. This is a very short tenure type facility that's issued here. The average tenure of facilities is six months. So, our loan growth is imperative to sustaining profitability here. But, there's also been a refocus around trade associations and trade groups where we have mutual guarantees versus just individuals who are, to some extent, also affected a little bit by the unrest in the North particularly with traders of those who deal with agricultural produce. But the prospects are still bright and we believe that we will outdo last year's performance this year in 2013.

Moving on to the strategy section, I'm going to speak from slide 33 to just discuss where we are on this. Effectively, our strategy is fundamentally unchanged. This is a framework that we've used repeatedly over the years because we have been quite consistent in terms of what we've set out to do. I mentioned the strategy over a multi-year period in three horizons.

The first is restructuring for growth. We are mostly through that period. This was the time period in which we set up the holding company structure to try and put more focus onto our subsidiaries to try to improve governance across them and reduce redundancies where we had them. We also did some restructuring in FBN Capital to pull together four different subsidiaries under one roof. The Bank restructured in 2010 to move from a geographic SBU model to a segment-based SBU model. This has been very successful. We're starting to see increased specialisation and very strong feedback from our clients, vastly improved ratings in customer service and customer satisfaction.

We also, at this point, we're relatively conservative in respect to international expansion; deployed a rep office in Abu Dhabi, one in Beijing, as well. And have stayed very true to what we said we would do while also focusing very strongly on the bank transformation which has also been quite a success.

The second phase of our journey is really about diversifying the Group and transforming the Bank. In this period we continue the transformation of the Bank at a much more granular level; seeking leadership of the product channel segment level while we also try to build scale in our Investment Banking Business and our Insurance Business. So, these become increasing focuses in this period. This is the period in which we are also commencing our sub-Saharan African expansion in earnest.

The third growth horizon, if you will, is building scale internationally. Once we’ve set up a much broader footprint, we will at that point, seek to centralise operations and have a corporate center that plays a much more active role across the regions. But, this is further in the future and we’re simply laying the groundwork for that today.

In the near term, we have a few strategic priorities. We continue to push on business-line expansion across the group. So, Life Assurance being one of the big successes, we also seek to enter General Insurance space as well, soon. Within the Commercial Bank, we’ve put a strong emphasis on retail and also certain segments within retail, such as the affluent segment and SME’s. We’ve also got a product focus and are increasing product focus around mortgages, one of our safest secured lending products and one that we think has tremendous potential in Nigeria. We’ve set up an Emerging Corporates division which deals with the segment just above the SMEs, the small corporate customers, if you will, where First Bank has traditionally been mostly absent but sees strong opportunity and we’ve put in place systems and the commercial model to go after this.

We continue to push on synergies and cross selling across the Group. There are numerous opportunities between the Investment Bank and the Corporate Bank and our institutional Bank where we have products such as structured finance products requiring equities as components and conventional loans. We see lots of opportunity in Insurance and Banking, as mentioned before, between our Asset Management division and our Private Bank. And even within the Banking group we've had a number of initiatives to pursue opportunities. For example, we have the strong Center of Excellence and structured trade commodity finance in the UK and we have increasingly worked more closely with this unit in First Bank of Nigeria and also in the DRC, where we're also present.

So, we see strong opportunities and we're starting to monetise some of these benefits. I've spoken about international expansion. Again, this becomes more of a priority in this phase. We've set out a modest set of countries that we aspire to be to. We operate on the policy that not every country is equal and that it should be led by a strong belief in the economics and the economic cases and shareholder value creation. So we continue to prudently survey the continent and where we do see opportunity we will make the move, as and when it's appropriate.

Thank you. I'm going to hand over, at this point, back to the Group CEO to wrap up.

Bello Maccido: Just to wrap up our presentation, I would like to take us to slide 38, just to highlight our conclusion. Basically, in concluding, I would say, number one, that we are going, as a group, to continue to push on top-line growth through; A, new customer acquisition as well as increased focus on high segments of the market that will provide superior returns.

In terms of customer acquisition, I will say that last year we doubled the number of new customers that we have within the Group from the numbers of previous year. So, new customer acquisition continues to be an area of focus.

At the same time, also driving cost efficiency is another and we intend to achieve this through leveraging shared distribution platforms across the entire Group; through the Commercial, through Insurance, and all other members of the grouping. We are also increasingly focusing in on capital efficiency through ensuring that we optimise our portfolio of risk-weighted assets across the Group and across geographies and overall we are going to, as a group, continue to drive Group-wide synergies that have the main objective of putting together the Bank Holding Company structure.

If you look at slide 39, you will see clearly the 2013 financial targets that we have set out for ourselves as a group. All the way up from deposits growth targets, cascading down to operating expenses growth, to cost to income ratio and, further down, to return on average equity. So, in conclusion, looking at the bottom-line returns that we expect to post as a group, you will see that we have put as our target a 20% expected return on average equity for the Group.

So, in conclusion, I would say that we have been on a momentum of growth and from the numbers we are also presenting as outlook for 2013, what we are essentially saying is that we are continuing on that journey of building the momentum through 2013 and beyond.

This brings us to the end of our presentation and, at this point, I would like to invite questions, comments, observations generally on our presentation as well as any questions regarding the Group. Thank you.

Operator: Thank you, sir. If any participant would like to ask a question, please press the * followed by the 1 on your telephone. If you wish to cancel this request, please press the * followed by the 2. There will be a short pause whilst participants register for a question.

Thank you. Our first question comes from Abbas Barkhordar from Schroders. Please go ahead with your question.

Abbas Barkhordar: Hello. Thank you for the presentation. My question is on your loan growth forecast, particularly the very, very minimal loan growth in Q1 and the 2013 target of 10%, which is quite a bit below the 2012 numbers. Given fixed income rates have come down quite a lot, why is the loan growth target so low and what could surprise that on the upside? Are there any sectors that could actually come in and the loan growth would be higher than that? Thanks.

Bisi Onasanya: I think it's a strategic question. In the presentation you would observe that our capital adequacy ratio is at about 21%. We do have the responsibility to make sure that we guide our capital at the capital adequacy ratio within limits that are within our own threshold. I believe very strongly that because of the decision that we have taken not to raise fresh Tier 1 capital in the short to medium term, it's important that we do manage capital efficiently and doing so also includes managing loan growth and balancing this with the business objectives. We still remain confident that the loan book growth guideline that we have provided is within the overall strategic objective that we have set for ourselves.

Remi Odunlami: I'll just pop in at that point and say that we're actually guiding on 10% to 15% loan growth. Yes, in the first quarter of the year we have been pretty much flat but that really is a factor of pay down and the fact that we're trying to move the book to a more short-term orientation which means that we churn that much more. But, I do believe with the transactions that we have in pipeline that we will very easily fit the 10% to 15% guidance. Watch out for the quarter two numbers and you'll begin to see the growth trending up.

Abbas Barkhordar: Okay, thank you.

Operator: Thank you. Our next question comes from Muyiwa Oni from SBG Securities. Please go ahead with your question.

Muyiwa Oni: Good afternoon, ladies and gentlemen. Thank you for the presentation. I have three questions for you. The first is on asset quality. I was looking through the financials and I observed that your AA-rated assets declined by about 54% while the BB and B increased by 65% and 54%. I know in the past you've highlighted maybe moving down the credit curve a bit because of possible increased yields.

I wanted to understand what drove this shift, if it was intentional or if there were other drivers for the movement.

Then, the second question is on your one-off regulatory cost just wanted you to elaborate on that a little bit more so we understand what it is.

Then the third question is still on loans but it's on your foreign currency loans. You highlighted that about 33% of your loans were in foreign currency and 52% were onshore so I just wanted some colour on the loans for the sectors and possibly tenures of the loans as well. Thank you.

Remi Odunlami: I'll start. Basically, the asset quality mix may be changing, not that we're driving the portfolio deliberately down market but some of those AA assets have paid off. They've been replaced by better-yielding BB assets. At this point, we're comfortable because, in terms of the weighted-average rating for the portfolio, we're within our target of a BB. I'd say basically that the mix is changing, yes, but not to a level where I have any real concerns. We are definitely not driving the portfolio rating down. We had said in the past and we will be continuing to drive the emerging corporate which, yes, are lower ratings but we are compensating with some of the larger AA, AAA kind of transactions. The thing though is that they tend to come in large chunks so you'll see that over the course of the year whereas you might not have seen it at the point in time at the end of the year.

Bayo will take the issue on the one-off regulatory cost but I'll just quickly talk to the foreign currency loans. Our foreign currency loans at 33% offshore, you must bear in mind the fact that we do have two subsidiaries sitting offshore. So, you will see foreign currency exposure in our books. Bayo?

Bayo Adelabu: Let me just take the question on the one-off cost. I want to make a correction here. It is not one-off regulatory cost. The one-off cost totaled NGN21.5 billion during the period which made our operating overhead to close at NGN192 billion. We said without this the overhead would have been NGN171 billion.

So what is the makeup of this one-off cost? They are just two. Number one has to do with personnel transformation that we did within the Bank during the period. Whereby close to 1000 staffs were actually relieved of their jobs and they were paid more like end of service benefits. This totals NGN12.5 billion during the period and we don't think that will recur in the current year or in the nearest future which is why it is tagged one-off.

The second had to with an under provisioning for gratuity benefit for existing staff. These actually came up because of the change in the basis of the computation of this gratuity and the resultant impact of this change in basis was about NGN9 billion which we made full provision for by the end of the year. That also will not recur in the current year or any time within the nearest future. So that's actually the makeup of ₦21.5 billion one-off cost, not the regulatory.

Muyiwa Oni: Okay, thank you. Thank you both. I also wanted to go back to the other question on the foreign currency transactions. I really just wanted to understand what the mix is for the onshore, so the foreign currency transactions sitting in Nigeria. What's the mix was? That's the loans that were lent to Nigerian corporates in USD terms in what sectors they were?

Remi Odunlami: Okay. I'm sorry, I missed that detail. The types of obligors, who we will lend foreign currency to onshore, tend to be the large corporates with very strong balance sheets and cash flows and who we have assessed are able, even in a depreciating economy scenario, to be able to meet their foreign currency obligation. Those facilities are, by and large, for infrastructural purposes; expansion and so on and so forth.

There is obviously also a portion of the oil and gas segment. I have in the past spoken about the fact that we are supporting upstream oil and gas and that, by and large, is a foreign currency denominated area. Does that answer your question?

Muyiwa Oni: Thank you. Yes it does. Thank you.

Operator: Thank you. As a reminder, if you would like to ask a question please press the * followed by the 1 on your telephone. Our next question comes from Adeolu Omotola from ARM Investment Management. Please go ahead.

Adeolu Omotola: Thank you. Good afternoon. This is Adeolu. Just two questions, really the regulatory costs, the AMCON and the NDIC in particular. I was just wondering if you could just clarify an accounting issue for me really, do you accrue for those on a quarterly basis or do you just take them at the end of the year when perhaps you have a clearer picture of what they will be?

Second question just relates to the international scale you're trying to build. Just a sense really of how fast you expect that to come through. I know you spoke about that some time before but you said it wasn’t a very rapid process. I am just wondering if anything has changed on that front. Thank you.

Bayo Adelabu: This is Bayo. I will answer the first question with regards to the issue of recognizing our regulatory costs with regard to NDIC and the AMCON levy. These are two different types of costs in terms of the bases. They have clearly different basis of computation. For AMCON regulatory cost which is AMCON levy it is 0.3% of our closing total assets in the previous period. So, on a monthly basis we accrue for this. So, it is held in our account until the end of the year before remittance to the CBN which is the payment made to AMCON. That’s for AMCON. It’s done on a monthly basis.

For NDIC premium, as we all know that at the end of January our auditors are expected to submit a statement of deposit classification to NDIC which will actually state the balance of deposit on which premium is chargeable as at the end of the previous period certified by the auditors. This is submitted to the NDIC but the NDIC actual levy does not come until end of March so to say. Before now, we knew that it was a straight 1% of 1/15 of total chargeable deposit liabilities when it was a straight-line charge. Now that it is risk based, you may need to wait for the NDIC to advise to you of your risk rating and the percentage that will be applicable to you as a Bank. But I'll tell you that at FirstBank we have been charged an average of 0.5%-0.55% of our chargeable deposits on a yearly basis.

So, what we do for the first three months before we receive the actual advice from NDIC was to accrue based on previous year charge for the first three months. When we are advised and the actual charge is made known we now adjust for the balance and spread it over next nine months. So the first three months is an accrual but the subsequent nine months is an amortization of actual advice from NDIC. I hope that is clear.

Adeolu Omotola: Yes, thanks.

Bisi Onasanya: On the international expansion, I would like to say that our objective still remains to be a dominant player in Nigeria if there are opportunities in countries outside Nigeria which fit perfectly into our own clearly defined countries we will take advantage of those opportunities in a brown field mode of entry. At this moment, we are not in a position to disclose any further details. But I believe that as time goes on if we have any announcements we will make the announcements.

Adeolu Omotola: Thank you. Thanks.

Operator: Thank you. Our next question comes from Ronak Gadhia from Exotix. Please go ahead with your question.

Ronak Gadhia: Thank you. Firstly, just a couple of straight-forward questions. What's your network expansion plans in Nigeria this year?

The second question is regarding staff cost. Your staff costs have been increasing quite rapidly over the last three, four years. That trend has continued in the first quarter. So, if you can give some colour as to why your staff costs are growing so rapidly and what the trend will be going forward.

Lastly, if you can just give a bit more detail into how you expect your revenue to grow by 10% to 15%. From your targets, you say loan growth is about 10% to 15% but your net interest margin, if you are to assume the midpoint, I estimate your net interest margin will be down by about 15% to 17%. So, on those bases, it's difficult to see how your net interest income will grow significantly unless your investment securities portfolio is growing but then, again, over there the yields are declining quite substantially so that would mean a bigger hit on your margins. So, just a bit more follow through on your revenue growth plans. Thanks.

Onche Ugbabe: With respect to network expansion, we are budgeting to grow somewhere between 30 to 40 branches this year. As you're aware we had a very big push out last year. This was a combination of a lot of work analysing our network, finding where there were gaps, and wide spaces and a strong push on quick service points which are small-format branches. This was actually a strategic push in this year. This year we've completed most of that work. We're going to continue -- this is a continuation, if you will, of some of the work that's left to be completed. This will round off this wave of expansion, if you will. But, as pointed out, this will not be as significant as last year.

Ronak Gadhia: Okay.

Bayo Adelabu: I will take the next two questions; the first on the staff costs and the second on the projected growth in revenue of 10% to 15%. How we intend to achieve this. On the staff costs, you were correct to say that our staff costs grew year-on-year. I consider that it's over 31% growth in staff cost. During my presentation I made mention of one-off costs of NGN21.5 billion. The entire of this one-off cost relates to personnel cost. The first has to do with human capital transformation where about 1000 staffs were actually laid off for various reasons and we believe that we could actually replace them with more productive personnel and the benefit of this will be seen in the current year and few years to come. That cost us about NGN12.5 billion but that definitely will not recur this year.

The second has to do with the under valuation of our gratuity liability, which changed because of the change in basis of computing these gratuities. That cost us about NGN9 billion and was based on external professional actuarial valuation. That is a total of NGN21.5 billion. If you actually adjust for this NGN21.5 billion and compare apples to apples, what we incurred last year and what we incurred this year you find out that have less than 15% growth in staff cost which is reflective of the kind of increase or expansion in our business volume.

We opened 73 business locations during the period and these were actually staffed by new employees. That's number one. Number two, when you're looking at our operating expenses including personnel costs I want to mention that 2012 was the first year of recognising BIC in Congo that we acquired and their expenditure which went into 2012 consolidated financials in 2012 was not there in 2011 because that was the first year of consolidation. If you also adjust for this you see that even growth in personnel cost is actually a single digit growth, which we believe is sustainable over time.

On the growth in revenue that we projected at 10% to 15%, if you look at our presentation our gross earnings actually grew by 31% which is a combination of the impact of price and volume, that is rate and volume, in 2012 over 2011. If we want to be prudent we would say that we will grow at around that 31% but if we want to be as aggressive as we have been in the past we can actually claim that we will grow by 40% which we can achieve. But given the impact of recently released CBN guidelines on banking tariffs, we had to look at it and we assessed the impact of this on our revenues and we believe that this will actually impact our growth and may not allow us to grow as we have grown historically in the past. Which is why we are saying between 10% and 15 % and we believe this is quite conservative enough and is also achievable. Number one, the savings interest rate we want to capitalize or take advantage of this. To ensure that we increase the volume of our customer savings because the rate on savings now is quite attractive as will actually bring a lot of new funds into the bucket and we can actually make good margins on this. On COT too, we believe that the cut of COT from 5/mile to 3/mile though will affect revenue we can also take advantage of that to ensure that we do more volume and whatever we are losing on rate cut we can actually see a gain on volume increase. Again, we should be mindful of the fact that there are other areas in these CBN tariffs that are more like advantages to the Bank. Areas that we have not been charging customers which we can take advantage of. So 10% to 15% I believe is achievable for us as a Bank compared to 31% that we achieved last year.

Ronak Gadhia: Okay. Lastly just to add, given what you've said and given what your CEO mentioned earlier regarding the capital position is there any plan to raise additional Tier 1 or Tier 2 capital?

Bisi Onasanya: We can confirm authoritatively that we would not be raising Tier 1 capital in the short term. We are unable to give definitive pronouncements now in respect of Tier 2 capital but our leverage ratio today at 8 times give us room to further improve on that leverage and we will take advantage of market opportunities when they arise. Does that satisfy you?

Ronak Gadhia: Okay. Thank you.

Operator: Thank you. Our next question comes from Taiwo Yusuf from Meristem Securities. Please go ahead with your question.

Taiwo Yusuf: Hello. Thank you so much for the presentation. Kudos for the good work that you have done so far. My question really has been answered with the last question that was put across. It has to do with whether you will be raising capital and looking at the capital adequacy ratio that you have had and the fact that the loan growth that you are envisaging for the year. How is that likely going to impact on your capital adequacy ratio going forward?

Bisi Onasanya: You would observe and you will agree with us that amongst Nigerian banks we have been the greatest supporter of the economy in terms of lending to the real sector. Even at the present growth rate we still have the largest loan book. We intend to be responsible. We intend to continue to do sustainability banking, supporting the government and the economy but also balancing that with the appropriate capital adequacy. We would continue to watch our loan growth and make sure it is modest. We would not for any reason turn down any good opportunity to support our customers. We would also be mindful of the impact of that on the capital. So you will see a decent growth in our loan portfolio, bearing in mind the confirmation given you before that we will not raise fresh Tier 1 capital but yet we want to be adequately capitalized. It’s a question balancing all of these indices and making sure that we do not jeopardize one in the interest of the other. But we still remain responsible. We will still continue to support our customers and there is no reason whatsoever why we should turn down good opportunities to grow our loan book but decently. Thank you.

Taiwo Yusuf: Okay, thank you.

Operator: Thank you. Our next question comes from Bryan Lloyd from Harding Loevner. Please go ahead with your question.

Bryan Lloyd: Thank you very much. I was wondering if you could speak a little bit more about your NPL ratio guidance for 2013. The mid-point of that range appears to be above where you’ve been over the last couple of years. So I was just curious as to what sectors maybe we could expect to see some weakness in.

Remi Odunlami: Could you just repeat that for me. I missed it. I didn’t quite get it.

Bryan Lloyd: Yes. I'm referring to the NPL ratio guidance of 3% to 4% for 2013. Can you speak about what sectors you expect to see some of the weakness come through in, given that you're at about 3.0% at the end of the quarter?

Remi Odunlami: The truth of the matter is, given the diversity of my portfolio, it's difficult to say that any one sector, if you look at the spread of the NPL, you see that it by and large mirrors the spread of the portfolio. So, that guidance of 3% to 4% is just generally more of a gut feeling for where the portfolio is looking, in terms of looking as in terms of the economic outlook and that the various issues that surround the various scenarios that could play out over the year.

Bryan Lloyd: Alright. Thank you.

Operator: Thank you. As a final reminder, if you would like to ask a question please press the * followed by the 1 on your telephone. To cancel your request, please press the * followed by the 2. Thank you. We have a follow up question from Muyiwa Oni from SBG Securities. Please go ahead.

Muyiwa Oni: Thank you for taking my question. I just have a follow-on question on the CBN regulation on banking fees that you highlighted earlier. I know at some interaction you guided possibly losing around NGN4 billion in incomes in 2013 from the removal of the NGN100 charge on ATM's and possibly NGN1 billion also from the reduction in SMS alert, as well, for 2013. I just wanted to understand if you still expecting this, if you are still guiding this, given that the rule started in April of this year and you've experienced a little over a month of that right now. Just wanted to know what the impact so far has been on your books and if you would expect it to be much less than what you're guiding or possibly more.

Bisi Onasanya: This is the time for us to explain to ourselves that this industry is a regulated industry and sometimes the impact of some of these policies can be negative. There is no doubt that, to some extent, that we would suffer from some of these policies but we believe that the whole industry will be affected. We see possibilities of some reduction in those lines of revenue but it is our responsibility as a responsible management to make sure that we drive the business in such a manner that the impact is, to some extent, mitigated. We have looked at the impact on our numbers. It's had some impact but we believe that there is nothing to worry about. We believe that the investments we've made in the past will enable us to increase our volume of business to be able to mitigate the impact for some of these losses of revenue and additional cost. At this moment we'd like to keep this at the level but this should not prevent us from posting decent number by the end of year. But we are watchful, the entire industry is watchful but clearly it will put some pressure on revenues and profits in the entire industry and not just FirstBank alone.

Muyiwa Oni: Okay, thank you. That was helpful.

Operator: Thank you. Our next question comes from Mandela Otaru from Standard Chartered Nigeria. Please go ahead with your question.

Mandela Otaru: Hello. Good afternoon. Thanks for the presentation. Quick question, I just want to find out; your loan growth target for 2013, it's hovering around 10%-plus. Is it as a result of the probably perceived risk in the system or is it just a strategy?

Remi Odunlami: I think, essentially, it's what we believe is a comfortable level. We don't want to grow out of whack so we've determined that 10% to 15% growth in the economic environment makes a lot of sense. I guess you could say strategic more than anything else.

Mandela Otaru: Alright. I'm just looking at First Bank being the biggest bank and all that. If you're growing at 10%-plus, I'm just asking myself; are there some real risks in the system maybe also judging with the fact that we are not at the yield level that we saw last year looking at how this would impact on your revenue for 2013?

Remi Odunlami: If you realise that aggressive growth in loan also implies an aggressive growth in NPLs two or three years down the line. So, as a responsible manager, you don't look only at the current. You look at the future. I'm not looking at any exceptional risk but I'm just saying that First Bank has decided that the rate of growth that is comfortable for us at this point in time is in the 10% to 15% range.

The fact that we're the largest bank in Nigeria also means that we have the largest loan book. I think, quite honestly, that the next largest loan book is probably at least 25% to 30% smaller than ours. So, we have a responsibility not to grow excessively and heat up the whole economy unduly. So our 10%, really we're talking 10% growth on a NGN1.5 trillion portfolio. That's a lot of money. That's actually more than the balance sheets of some of the smaller banks. So, I think we need to be realistic.

Mandela Otaru: Okay. Thank you.

Operator: Thank you. Our final question is a follow-up question from Taiwo Yusuf from Meristem Securities. Please go ahead.

Taiwo Yusuf: Thank you so much. Here's just a follow-up question to my other question regarding the loan growth and capital adequacy issue. I imagine due to the fact you are not raising equity capital in the short term, can we comfortably assume that the payout ratio going forward is going to be in the region of 30% to 40%?

Bisi Onasanya: We don't expect the payout ratio to be as low as 30% that you have mentioned. We believe very strongly that opportunities exist for us to increase our leverage. The higher your leverage ratio sometimes the higher your ability to improve on your return to your shareholders. We do intend to take advantage of all options available to us in making sure that we run a decent bank with a decent balance sheet without putting the capital adequacy ratio into risk in the light of the fact the market today is not deep enough for anybody to issue fresh Tier 1 capital.

I think we have a responsible management and a responsible Board to know that this needs to well-balanced and we do expect that we will balance out all of it. We remain with our guidance numbers on loan growth we believe that it's the best under the present circumstance and we believe that at the end of the year we will be justified for taking the position that we have taken now. We remain adamant on our position that's the best for the bank today and that's what we will continue to do.

Taiwo Yusuf: Thank you.

Operator: Thank you. I'd like to hand the call back to the FBN Holdings Management team for any closing remarks. Please go ahead.

Bello Maccido: Well, on behalf of all of us from FBN Holdings we thank you very much for engaging us over the last one-and-a-quarter hours. We're happy with the level of interaction, level of discussions, and questions. We believe that we have responded very adequately to all the questions that have been raised. We look forward to another opportunity of engaging our investors and analysts further down the road. Thank you very much.

Operator: Thank you, ladies and gentlemen. That concludes today's FBN Holdings full-year 2012 and first quarter 2013 financial results conference call. Thanks for your participation. You may now disconnect.