FBN Holdings

# FY 2013 & Q1 2014 Results

Wednesday, 30th April 2014

## Presentation

**Bello Maccido**

**Chief Executive Officer, FBN Holdings**

Good day, ladies and gentlemen. Let me welcome you all to the presentation of our financial results for FBN Holdings for the full financial year ended December 31, 2013 and quarter one ended March 31, 2014.

I begin by providing an overview of the macroeconomic environment in which we operated last year, its impact on our results and how it impacted on the industry generally.

In 2013, we successfully concluded the acquisition of four, International Commercial Bank (ICB) across West Africa, in Ghana, Sierra Leone, the Gambia and Guinea.

2013, witnessed a slowdown in the growth of global GDP at 2.9%, as witnessed in major economies. There has been some kind of rebound in the marketplace while the United States commenced tapering of the quantitative easing.

We witnessed on the domestic scene, a slowdown in terms of GDP growth from 6.6% in 2012 to 6.2%. However, gross earnings, as a group, grew by 7%, which is in excess of GDP growth.

Some of the factors which impacted on GDP growth, include reduction in oil production output which reduced to about 1.8 million barrels per day as a result of incessant oil theft and pipeline vandalisation.

There was a reduction in foreign reserves which peaked at about USD 46 billion to USD 43 billion. The operating environment was challenging with a high interest rate environment, sustained by the regulatory authorities in order to tighten money supplies as well as protecting the naira exchange rate. The aggregate effect of these policies resulted in growth in cost of funds, reduction in loanable funds etc.

On the other hand, we witnessed a reduction in inflation over the last one year from 12% to 8% and at the same time, there has been a positive movement in some sectors of the economy such as the power sector. There has been a successful transfer of the power assets to the bidders and with this comes new opportunities for our investment banking franchise.

The first quarter of 2013, witnessed the commencement of the application of the revised banking tariff that heralded the reduction of commission on turnover, increase in AMCON levy, increase in interest rates on Savings from 1% to 3.6%. The combination of these factors impacted the cost of funds, which pushed the cost of funds higher in the marketplace resulting in additional pressure on net interest income. Additionally, the fees and commissions were also impacted by the regulatory headwinds.

Inspite of this intensely difficult operating terrain, FBNH has remained a leader in total assets and total deposits, with deposits growing by over NGN500 billion in one year with about 8.8 million active customersô accounts with over 27% signed on in the last one year. I would say that we have the largest distribution network both in the retail and corporate banking in this hemisphere.

At this point I will hand over to the Head of Finance, Mr. Wale Ariyibi to take you through the finer details of our financial results.

## Wale Ariyibi

### Head, Finance, FBN Holdings

Good day, everybody. I will start from slide 10. The snap shot of our income statement both for the full year ended December 31, 2013 as well as Q1 March 31, 2014 can be seen in slide 10.

Gross earnings year on year in 2012 and 2013 increased by 7% to NGN395 billion, essentially due to an increase in interest income. However, this was tapered and moderated by the impact on non-interest income resulting from the new regulatory headwinds.

Cost of risk as at Q1, 2014 went down to 0.4% from 1.2%, this was due to the initiatives introduced by the flagship business of the Holding company i.e. The First Bank of Nigeria Limited.

In Q1, gross earnings, closed at NGN102.65 billion. On the assumption that there would be no other event during the year; we hope to close 2014 at about NGN410.6 billion while our PBT for 2014 should be in the range of NGN99b.

Slide 11 shows the statement of financial position / balance sheet.

Our total asset, year on year 2012 to 2013 increased by NGN 643 billion, this was driven by increase in customer deposits of about NGN 534 billion, this was used to book more loans which resulted in 7% growth in gross earnings.

Total assets between 2012 and 2013 grew by 20%, however by the end of 2013 and Q1 2014 this has been flat. The reduction in deposits can be attributed to the challenges faced in the public sector, though other current and savings deposit accounts increased as a result of the branch network and distribution channels.

Slide 11 shows the analysis of deposits by type and this shows that our CASA is 73% of total deposits and continues to grow year on year.

Slide 12 talks about the liquidity ratio and capital adequacy all within the regulatory framework.

Slide 13 and 14 gives a graphical illustration of all that we presented above.

Slide 17 reveals that there was an increase in cost resulting from increased regulatory headwinds and staff cost at 8% end of 2013 and beginning of 2014, However, we believe strongly that for the rest of the year, this will be moderated due to the introduction of the initiatives that have been put in place.

Our operating expenses went down year on year, 2013 against 2012 significantly by 4% as a result of our cost containment. However, in 2014, there was a little up surge, due mainly to regulatory costs, which we believe will be moderated for the rest of the year.

At this point, I will hand it over to Biodun Odubola, Chief Risk Officer of FirstBank to handle the following five slides. Thank you.

## Biodun Odubola

### Chief Risk Officer, FirstBank

Thank you Wale. Good afternoon everybody. I will talk to the loan book and the quality of the loan book, starting from slide 18.

The gross loans for FBN Holdings was NGN1.8 trillion as at end of 2013. This was a respectable 15% growth rate and this growth was driven largely by the Holding company biggest subsidiary after FBN UK which grew at 23% and the commercial bank itself, FBN Nigeria grew at about 12%.

Now the loan growth was actually broad based spanning many sectors including manufacturing, power sector, information and communications, essentially telecoms, and oil and gas with specific focus on upstream and services. We have a healthy pipeline of deals which forms 4.3% loan growth in Q1, 2014.

Slide 19, I will talk about the structure of our loan bank. Essentially most of our loan book is contributed by the institutional banking and corporate bank group which accounts for about 70%.

However, there has been a slight shift in the contribution of the institutional bank from 50% as at the end of 2012 to 46% as at the end of quarter one 2014, this is deliberate, as we go by our market strategy. There was an increase in the contribution of the commercial banking business from 1% in 2012 to about 2% as at first quarter 2014. Our loans are well diversified across five main sub sectors, manufacturing, oil and gas, upstream, downstream and services and public sectors.

Slide 20 and 21 shows that our asset quality has been steady; starting from half year 2013 we've seen the gradual reduction in NPL ratio from 3.8% to 3% as at the end of 2013 and by first quarter 2014 to 3.6%. This is within our guidance of not less than 4% and in line with our competitors.

Our cost of risk has gradually reduced and at first quarter it was 0.4%. We expect that this will continue throughout the year. However, we are projecting not more than 1% as cost of risk for 2014.

Overall, we will continue to grow our assets prudently and in a way that is sustainable by our liquidity, capital and other constraints.

At this point I would like to hand over to Mr. Bisi Onasanya, the GMD for the Banking Group.

## Bisi Onasanya

### GMD/CEO, FirstBank

Good afternoon Ladies and Gentlemen, I will to speak to slides 24 and 25. I would like to state that the commercial banking business witnessed significant regulatory headwinds which I always refer to as crystallisation of regulatory risk and from the challenging environment we were able to declare profit.

The PBT increased marginally from NGN87.1 billion in 2012 to NGN87.5 billion. The ability to match and surpass 2012 numbers were driven by factors that were used to mitigate the impact of the regulatory headwinds. One of which is the reduction in OpEx by 5.2% year on year as a result of the cost curtailment initiatives put in place.

Our balance sheet shows loans and advances grew by 16% whilst deposits grew by 22% year on year, the highest growth rate in deposits in the entire banking industry.

Our International presence was expanded during the year to include four West African countries, which includes Ghana, the Gambia, Guinea and Sierra Leone. This was deliberately aimed at broadening our revenue base and diversifying our pan-African footprint and hedging the geographic risk that exist, with the sole operations in Nigeria. We believe that the contributions of these subsidiaries outside Nigeria would continue to grow and indeed we are making good and significant progress from the acquisitions.

Q1 2014, we reported a PBT of NGN22.5 billion against the NGN29.4 billion of the banking group of 2013. This decline in profitability was evident compared to the outstanding Q1 2013 performance. If you recall in 2013, this was at the rate of NGN29.4 billion for the banking group and about NGN31.4 billion for the Holding company, making it the best performance in the banking industry and the most profitable bank. However, with the emergence of regulatory headwinds, itôs difficult to compare 2014 Q1, with the performance of 2013.

Nevertheless, we believe that we are on course to deliver a good performance in 2014. This assurance comes from the fact that the anticipated mitigated impact of the strategic steps which was taken to respond to the regulatory risks that crystallised will fall in, in the course of the year. We have redefined our public sector business to include non-public sector but public sector related businesses with focus on businesses that deals with government contractors, staff etc. We will increase the depth of coverage and ensure appropriate pricing of the public sector assets in our books.

Our strategy to drive, expand and acquire new customers along priority segments was strengthened in the course of 2013. Going forward, will deepen our share of the retail banking and SME business.

Measures have been put in place to improve our customer service as a means of customer retention and increase customer acquisition. Cost efficiency remains a priority project including the appropriate strategy to ensure, we achieve a good staff mix, workforce optimisation and reduction in new branch deployment. This means that we would aim at not opening new branches unless they are strategic. We are looking at not more than 10 branches in the entire 2014, if indeed, there is a need. We have the appropriate staffing structure with a view to monitoring and ensuring the workforce realignment strategy.

Lastly, the introduction of transactional banking aimed at deepening and widening the scope of coverage of the corporate banking and the institutional banking segment, expanding and increasing its share of wallet in the business by expanding and increasing trade finance, collections and other non interest income.

That's the end of my presentation. I would hand over to Kayode Akinkuge, the Managing Director of the Investment Banking and Asset Management Division.

## Kayode Akinkugbe

### Managing Director, FBN Capital

Thank you very much. The investment banking and asset management business in 2013 was overall a good year. We've seen a meaningful growth in our PBT. This was driven by two factors:

Firstly, a better collaboration particularly with the commercial banking group which has strengthened our capability and enabled in many ways our investment banking division to contribute meaningfully to the group earnings. We've seen our structured finance business and financial advisory business very active around the power and the financial services sectors and that have contributed significantly and impacted on our performance in 2013.

We have recorded a good performance from our trustee business, which we have been able to defend our leading market position. This is to say that both the corporate trusts and the public trust businesses have performed well.

In the markets and asset management businesses, 2013 was about repositioning and also investing in those businesses. Looking into Q1 2014, although the investment banking business has had a slow start year to date which is not unusual, we've seen some positive increment in our PBT compared to Q1 2013, driven by contributions from asset management. We intend working closely with the Bank to leverage on the strong retail platform of the Bank.

Looking ahead in 2014, we are confident in the direction of the business i.e. the investment banking business around structured finance and the capital markets business as we rely on the strong pipeline, itÕs fair to say, in the investment banking business around structured finance but also the capital markets business. So overall, we are moving in the right direction.

Q2 and Q3 are very critical; as itÕs important we consolidate the deals in the pipeline to ensure we maintain the consistent growth that we've shown in the past.

On that note, I will hand over to Onche Ugbabe, the Chief Strategy Officer to take us through the next few slides.

## Onche Ugbabe

### Chief Strategy Officer, FirstBank

Thank you and good afternoon everybody. I'm on slide 30. We'll start with a quick recap of our strategic planning cycle. As you'll recall we just completed the strategic planning cycle that ran from 2010 to 2013.

For the Group as a whole, we have four key strategy goals: business line expansion, restructuring for growth, international expansion, synergies and cross -selling. We started the period with a new and revolutionary move into insurance and also a desire to build on our investment banking platform.

We have seen very strong success coming out of this and additionally have targeted business areas in the Bank that we wanted to focus on. For example, rolling a broader suite of E- business products and driving channel migration, such as the mobile money business which recently crossed the 1 million subscriber mark. We acquired over 13,000 registered agents and continue to grow at a fast pace.

With respect to restructuring for growth, at the beginning of this period, we brought together four disparate subsidiaries and consolidated their operating models and ensure unified direction, the success evident last year. We restructured the Bankôs business, setting up a market facing structure on the SBU side and unified operations reporting structure from branches all the way into the head office.

International expansion, I need not tell you more than what has been mentioned by my colleagues.

Synergies and cross-selling, we have seen some of the fruits of this but this continues to be a focus area going forward. We intend to achieve strong synergies between retail, insurance and Bancassurance products, between investment banking and the corporate banking business, between private banking and asset management etc. Our move to a Holding company structure was premised on the belief that it makes sense to keep these businesses. By so doing we will gain some competitive advantage given the synergies and the broad portfolio we offer to the market.

Slide 31, shows some of the results of the last cycle. This is just a few metrics over a five year horizon. In this slide you will note that we grew at 22% in terms of deposits over the period, a target of 22% ahead of the market that put us solidly ahead of our peers in deposits.

We also have one of the most enviable deposit mixes with large low cost deposit base.

In terms of gross earnings, we grew at 20% across this period, in spite of the heavy toll the regulatory headwinds took on us in the past year, which resulted in a 66% PBT CAGR over the period. We have seen ourselves grow from a point of relatively low profitability whilst trying to find our feet in the wake of a lot of turmoil in the banking sector between 2007 and 2009 to establishing our clear leadership position in the industry.

Looking forward, just turning over to slide 33, we have organised our aspirations for the Group around three buckets; Investing to drive tangible growth in each subsidiary company, increasing relative contributions of non-bank subsidiaries and fostering collaboration across and within subsidiaries as we continue to aspire to be the pre-eminent financial services in Middle Africa, with a strong emphasis on provide distinctive returns to our shareholders.

Each of our subsidiaries has done a detailed strategic planning process for the next three years. I will give some highlights on the next two pages. Slide 34 and 35 for the Bank and for the investment bank, microfinance business and insurance.

For the Bank, we have set seven strategic priorities for the next three years. Branch transformation remains a big priority. We have the biggest network in Nigeria and intend to monetise the network and utilise it to our best advantage. This includes both decongesting our branches whilst driving increased sales through the branches.

Relationship Managers sales excellence is about putting in a structured and disciplined sales process in place including account planning and performance management.

Cost containment which has been earlier mention by my colleagues remains a focus point for the Group.

Transaction banking is focusing on building our strength in cash management and trade finance whilst putting in place the technology and the structure to enable sustenance.

Commercial banking remains a big focus for us, Non Preforming Loans (NPL) management, continuing to focus on service excellence throughout.

On slide 35, we have identified four other priorities for 2014. One is driving retail banking and again this is monetising our massive branch network and customer base, both in terms of electronics banking products where we have seen very strong traction and continue to roll out innovation products.

Consumer lending, we believe this is really going to be the next driver of our growth in retail business.

Value chain management is tapping into the revenue from the value chains of our corporate clients.

Mid office transformation, is building up sales capacity among sales people and taking some of the administrative tasks away.

Workforce realignment is the realignment of our workforce across board with the reality of the business today.

With that I'm going to hand over to the CEO of FBN Holdings for the wrap up.

## Bello Maccido

### Chief Executive Officer, FBN Holdings

Yes, to bring our presentation to a conclusion, let me reiterate that in terms of looking at our results in comparison with our actual numbers and the targets we set for ourselves in 2013, particularly in the areas of deposits and loan growth, we moved in double digits territory and surpassed the targets set for ourselves, even though on the net interest margin we witnessed a dip.

Going forward, we expect to drive deposit and loan growth in a way that will enhance our overall returns on average equity that will be more significant to the number reported last year.

How do we intend to accomplish this? Number one, we will enhance our revenue stream through broadening our geographical jurisdictions which we currently operate. Looking at the numbers of some of the offshore subsidiaries i.e. FBN UK and BIC Congo, their relative contributions have begun to inch up, with the additional acquisitions that are in place, definitely specific country risk will become more reduced as we move forward.

Again, with the Holdco structure, we will continue to drive our cross-sell opportunities and synergy realisation in the areas as outlined by the Head of Strategy. This means we will continue to drive penetration in the marketplace for each of the business segments that we operate and ensure the non-banking subsidiaries ramp up their percentage contributions to the aggregate performance of the Group.

In commercial banking, there will be emphasis on the priority segments and significant cost reduction through enhanced focus on reduction of branch deployment.

Overall, looking at where we are today, FBN Holdings especially as it relates to our share price, relative to the proposed dividend, our dividend yield stands as one of highest in the industry, while our P/E ratio at 6 times, highlights the fact that we are actually a well-priced stock for investors. This is further reinforced by our price to book ratio of 0.9 which essentially says that we trade at some kind of discount to book value.

In conclusion, looking at where we stand today, we believe that we are a strong investment proposition in terms of the programs, we have put forward which have been highlighted by the individual business segments and by strategy. We will continue to maintain the solid performance and momentum despite the strong regulatory headwinds that we have encountered along the way.

Thank you.

# Q&A Session

**Muyiwa Oni - SBG Securities**

Good afternoon gentlemen. Thank you for the presentation. I have two questions. The first is more of a clarification on the timing of the implementation of the systemically important bank policies that came up end of last year. To have a better understanding of the implication to FirstBank in terms of capital, looking at the capital adequacy ratio in Tier 1 and total capital adequacy ratio, it looks like it's closer to where the policy is.

The second question is geared towards understanding the major driver for the underperformance in the non-interest income, as at nine months you were still looking to see a growth of between 20% and 25%, given the quarter on quarter growth was still positive and impressive. Also, I am trying to understand what resulted in the material change and to have an idea what the downside risk could be to non-interest income for 2014. Thank you.

**Bisi Onasanya – GMD/CEO**

The SIB clarification on the capital adequacy ratio under Basel 2, the trial run has started and we expect that by June the Central Bank will start measuring the capital adequacy in line with Basel 2. We can assure you that we will continue to remain compliant and there is nothing to worry about.

The second point in terms of areas of underperformance in non-interest income; recall that a major component of our non-interest income remains commission on turnover. There was a drastic decline from NGN5 per mille to NGN3 per mille this was unexpected and it impacted on our business. In addition, other revenue lines such as the NGN100 charge earned on transactions on our ATM was withdrawn, charges on trade alerts and ATM cards etc. were all impacted.

Despite all these regulatory headwinds which came unannounced and unexpected, we were able to match our profitability. We are able to assure you that with the implementation of some of the initiatives earlier mentioned in my presentation, we will be drive up revenue. We will endeavour to have a decent fair share of the trade finance and trade-related business that will generate LCs and trade finance commissions that will drive increased share of customerös wallet. In spite of the major challenge in our retail revenue base, we will match our guidance numbers. It is tough, but we remain hopeful that we will make up for it at the end of the year. Thank you very much.

**Muyiwa Oni - SBG Securities**

Thank you.

**Ronak Gadhia - Exotix**

Yes. Just more in line with what the previous caller asked regarding your capital position, you said you're going to be compliant or you will remain compliant with the new regulations coming through. Within that compliance, are you looking to raise any more money, first, to remain compliant?

And the second question is regarding your operating expenses. After relatively flat operating expenses of about NGN45 billion your operating expenses did increase significantly in the first quarter this year. Kindly shed some light as to what the key driver and what run rate in operating expenses we should expect this year.

**Bisi Onasanya – GMD/CEO**

The only thing I can confirm to you at this stage is that we are not coming out to the market for a public issue of Tier 1 capital. In terms of further plans, by regulation there are certain things that we are precluded from commenting upon, hence I would not be in a position to provide any further information. However, we remain emphatic that we will be compliant as far as capital is concerned.

The second question relates to the growth in Q1 on OpEx. Due to the increase in balance sheet size at year-end 2013, where there was a growth, there are some regulatory costs that are benchmarked against your balance sheet size at the end of the year. So for instance, AMCON charges of 5% of our total balance sheet for 2014 will increase in line with the increase in balance sheet for the year ended 2013, also NDIC deposit premium, from growth in total deposits by 22% in 2013- the impact of this is that the premium payable to NDIC for 2014 becomes slightly higher in relation to the growth in the balance sheet. These are some of the related costs that we have no controls over. We have considered the options and we believe size matters, however, we would expect value from additional deposits created on our balance sheet. That explains the slight increase in expenses that we occurred in Q1, but we are assured that with the initiatives put in place for cost control, we will stay within guidance number for cost growth in 2014. In response to your question, it shows that regulatory costs are a major factor in addition to seasonal cost as shown in Q1. Nonetheless, this is expected to normalize during the course of this year. Thank you very much.

**Ronak Gadhia**

Sorry, if I could just ask, as a follow on to the previous question, you said there will be no public raising of Tier 1 capital. But is there a possibility of maybe some sort of private placement or something like that?

**Bisi Onasanya – GMD/CEO**

There are so many options to managing capital, I can assure you that we have a Board and Executive Management that is extremely deep in financial matters and what we can assure you is that, there will be no public issue for additional Tier 1 capital. Of course there are many other options available to us which we can talk about, but we cannot give further information at this stage. We can confirm that people should not expect that we will come to the market for a public issue of Tier 1 capital.

**Ronak Gadhia**

Okay, thank you.

**Ndubisi Obike - Stanbic IBTC Pension**

Hello, good afternoon. Thanks for the presentation. I have two questions. My first question has to do with the back-to-back delay in release of your results, so what's going to be the new norm in terms of when to expect your results going forward or are these subsidiaries going to keep causing additional delay in release of these results.

My second question has to do with your retail loans. I could see from your presentation that there has been a reduction in the overall size of your retail loans since Q3 all the way to Q1, 2014. Is this deliberate and how does that fall in line with your systemic policy.

**Bisi Onasanya – GMD/CEO**

I will take the first question on appropriate timing of releases of results. We can assure you that there will be an improvement on the timing going forward. In terms of overall review we have taken the decision also to limit and reduce our external auditors to only one. Sometimes this can be a challenge when you are dealing with two different firms and it can improve efficiency. One of the reolutions recently taken at the AGM is to limit the external auditors to one, but we believe this will also help in driving efficiency. Going forward, we apologise for this delay in the release of results, we will improve as we move into the New Year. Biodun, the Chief Risk Officer will take the question on retail loans.

**Biodun Odubola – Chief Risk Officer, FirstBank**

Okay. Thank you very much for your question, Yes, there was a reduction in the retail loan in the financial year end 2012 compared to Q1 2014 and yes, there was a fairly large increase up till the third quarter of 2013. We noticed some impairment in some of our retail products and subsequently these retail products were withdrawn to be repackaged. We have completed repackaging and expect that retail loan growth would be reasonable going into the rest of 2014. This is a temporary and strategic as we had to repackage some of these products. Thank you.

**Ndubisi Obike**

Thank you.

**Lanre Buluro - Primera Africa**

Good afternoon gentlemen. Thanks for the call. Just a few questions, we saw a spike in your term deposits. How sustainable is this? We saw that in the full year 2013 it consisted of about 24% of the deposit base. As of the Q1 of 2014, we see it going up as high as 27%, while the deposit base reduced. We saw reduction in the current account. We could see this definitely putting more pressure in the interest expense line and what is the strategy in trying to balance this out, given the high cost for the deposits.

Second question has to do with your merchant bank strategy. Don't you guys see that as possibly competing with the Commercial bank? What's the plan really for this business? Thank you.

**Bisi Onasanya – GMD/CEO**

I will take the first question on the spike in our term deposits. This has been strategic, the spike noticed in term deposits, current and savings accounts are strategic. Our total deposits remain at 75% which is within our guided strategy. What is important is the overall cost of deposits for the Bank, in spite of the spike in term deposits; deposit remains relatively low in comparison with the competitors. We believe our strategy will ensure we sustain the low-cost deposit mix of 75% to 25%. Furthermore, the term deposits were priced and utilised in a manner that allows a positive spread in the utilisation. The deposits were taken and matched with appropriate asset in a manner that even if you consider them expensive, we took these deposits because there were business opportunities inherent in them. In spite of this, we remain focused on our overall strategic intent of balancing a very efficient deposit mix.

**Lanre Buluro**

Do you mind sharing what your cost of funds were?

**Bisi Onasanya – GMD/CEO**

The response to your next question on deposits is that towards the end of 2013 there was effective utilisation of public sector deposits by the various government organisations. The decline in demand deposits you noticed emanated from decline in public sector deposits due to the utilisation towards the end of the year. This is because at the end of the year unutilised funds are meant to be returned to treasury and so we were not meant to keep these balances as at year-end.

However, we have shifted focus and reliance on public sector deposits. In our minds, we have factored a further decrease in cash reserve requirements of public sector deposits that is why we are strengthening our other business areas, earlier mentioned in my presentation. We are strengthening the commercial banking business, expanding the scope of public sector business to include non ï public sector but public related businesses and those who deal with public sector businesses, leveraging on value chain banking which ensures that we trap funds as they get spent. This ensures we follow the value chain to trap the funds from the public sector to the appropriate unit in the private sector.

Lastly, the introduction of transaction banking, which we expect will happen towards the end of Q2 will ensure we increase our share of deposit wallet. Corporate organisations, typically build up current account balances when they want to do transactions, unless we are able to treat those transactions and be efficient in their collections, we are not likely to see those deposits. Gone are the days when people leave deposit balances in the account. These days, efficient service is a key determinant in their decision to build up the balances in their account. We believe that with a combination of all these efforts, the loss witnessed in public sector deposits will be effectively mitigated by the additional deposits targeted from the private sector as a result of these initiatives. I will refer the question on merchant banking to Kayode, who is the MD of investment banking and asset management.

**Kayode Akinkugbe – MD, FBN Capital**

Thank you GMD. As you would imagine there has been a consideration as to what role the merchant bank will play within and the message is clear, whatever we do is going to be additive. What we intend to do is to bridge the gap between the banking community and the capital markets, whilst focusing on arranging much more longer-term transactions and structured transactions that ultimately can be taken out by the capital markets. Essentially, what we want to be able to do is increase the share of the capital markets. We are going to be working, as we have been doing with the Bank, in a complementary manner. However, we observed that there is still a gap with the Bank for this type of offering and it is the intention of the Holding company to offer a broad range of financial products to our clients.

**Bisi Onasanya – GMD/CEO**

In addition, as the Group Managing Director of the Commercial Banking business, I can confirm that it would be complementary to the entire banking business of the group. We are supportive and transactions that are long term in nature which are not meant to be handled by a commercial bank will be referred to the merchant banking business and there will be deep collaboration between the two. We believe that it will enhance shareholders value for the Holding company at the end of the day.

**Lanre Buluro**

Okay. A quick follow up to Kayode. What kind of funding? What will be your source of funding? Will you be leveraging on the commercial bank or are you guys going to go out and try and establish your own deposit base?

**Kayode Akinkugbe**

As you know, for us to borrow directly from our affiliated bank we need to provide treasury bills. What the merchant bank offers is a much broader source of funding, the bank, being able to take wholesale deposits, being able to arrange a syndicated loan borrowing funding for ourselves. So it just offers a much broader menu of funding options and funding facilities for us.

**Bisi Onasanya – GMD/CEO**

In addition, the essence of merchant banking is to arrange funding for transactions. There is a model called origination and conclusion, which essentially means they will retain those assets they created on their balance sheet, hence they will not be leveraging on the commercial bank as much as possible. The intent is for them to go out and compete like any other merchant bank. Indeed the space is there and there is a vacuum for merchant banking in Nigeria and I think that is the proposal of a good merchant bank. Thank you.

**Lanre Buluro**

Thank you guys.

**Soji Solanke - Renaissance Capital**

Good afternoon. I just have a few questions. I looked through the presentation; I'm not sure I saw the slide on your key targets for 2014. So if I could just run through a few that am particularly interested. What is your outlook for this year in terms of net interest margins? Would you expect that to trend as where you were end of 2013? Also in terms of non-interest revenue, what kind of growth do you think you can potentially deliver this year, 2014? Also in terms of cost to income ratio, what are your thoughts around that number for 2014? Then also the tax rate, there was a spike in Q4 on the tax number but we saw that drop in Q1 again. I'm not entirely sure what's going on. So if you could kindly speak to what's happening on the tax line and what the applicable tax rate in 2014? And then my final question is similar to the previous caller, you have about 45% to 50% holding in Kakawa Discount House. So how does this tie into your plan to approach for merchant banking licence. Thank you.

**Bisi Onasanya – GMD/CEO**

Okay. I think there are so many options for getting the merchant banking licence. As we speak you know as a Group we own about 47% of Kakawa Discount House and Kakawa Discount House has applied for a merchant banking licence. So it is one option that is on the table amongst so many other options that we have, okay? The existing shareholders are also looking at divesting from Kakawa Discount House, the option remains open in addition to others.

On the guidance numbers for the net interest margin, we are guiding on 7% to 8% and we still retain our guidance number. Return on equity, we are guiding about 18% to 20% and that is because of the pressure which we are currently experiencing. In terms of the cost to income ratio, we are guiding on 60% to 65% on a general basis. Those are the numbers I can give you at this point.

**Soji Solanke**

I did not get your guidance on cost to income ratio.

**Bisi Onasanya – GMD/CEO**

60% to 65% was my guidance on cost to income ratio.

**Soji Solanke**

Okay. Then I also asked about non-interest revenue growth and tax rate.

**Bisi Onasanya – GMD/CEO**

Non-interest revenue to revenue in the first half is about 25%. That's what we are guiding on.

**Soji Solanke**

And what about the tax rate what's happening on that line. The taxes in Q1?

**Bisi Onasanya – GMD/CEO**

The effective tax rate should normalise in 2014 to 15% to 18% and I do not think for sure that it will be the tax rate that we saw in 2013. This is as a result of the adjustment of deferred taxes arising from past accretion to deferred tax, we needed to take care of that in order to normalise the position. We believe that this will normalise once the tax rate is normalised.

**Soji Solanke**

Okay, thanks a lot.

**Bisi Onasanya – GMD/CEO**

Thank you.

**Ndubisi Obike**

Hello, this is just more of a comment, your non- interest revenue as a percentage of net revenue currently stands at 17% and that seems quite low compared to your peers. I believe that exposes you to the regulatory risk of CRR increase and all these regulatory changes are affecting treasury basically. So what is your target mix for non-interest revenue and how do you intend to achieve that, at least bring it closer to where your peers are. Thank you.

**Bisi Onasanya – GMD/CEO**

Two ways to answer your question, first, let me state clearly that our non-interest revenue to net revenue is being guided at about 25% as a projection. However, let me state that there is a very thin line between non-interest income between bank one and bank two. Sometimes it is a question of how you price your asset and your pricing strategy. We are aware that in the market today, some banks would have total yield constant, but it would be booked at 18% direct interest income and 2% as fees. Some other banks would take it at 19% interest income and 1% as fees. So there is really some confusion as there is no regulated line of distribution. However, what is important is that the average total yield on some of these assets remains the same.

In terms of non-interest income, we have highlighted all the measures that we want to put in place and we have started implementing, this will increase our other income i.e. non-interest income. I mentioned value chain banking, expansion of public sector business to include contractual type loans, improvement generally in our trade related services that will enhance growth in trade finance and the associated charges. We believe that with the combination of all these efforts we will improve on our non-interest revenue as a component of total revenue. I hope that answers your question. Thank you.

**Ndubisi Obike**

Thank you.

**Bisi Onasanya – GMD/CEO**

No further questions?

Bello Maccido

Thank you for being a part of the presentation, we appreciate the questions and hope you will continue to be our partner as we continue to retain our momentum in the banking sector. Thank you.

[End]