

# **FBN HOLDINGS PLC**

## **FULL YEAR 2014 RESULTS**

### *Analyst Presentation*

**Bello Maccido**

**Group Chief Executive Officer**

Good afternoon, ladies and gentlemen. Let me welcome you to this conference call that has been scheduled to present our full year audited financial accounts for the financial year ended December 31, 2014 for FBN Holdings Plc.

In commencement, I would like to say that there is a slight amendment to our presentation on page 21, and analysts and participants should go to the website to see the most recent presentation.

In the macroeconomic environment, it is appropriate to say that the year 2014 was a very tough year for the Nigerian economy. First, we witnessed a decline in the price of oil. This impacted our government revenues and subsequently also impacted the external reserves of the country. As a result, we witnessed a subsequent Naira devaluation.

From what has happened with respect to oil prices, we have begun to expect a possible return to double-digit inflation because we have seen an anticipated rise in core and food inflation as a response to the exchange rate depreciation. Of course, due to the oil price decline, and as is to be expected, the IMF revised downwards the GDP growth forecast for Nigeria for 2015 to 4.8%.

In the capital market, we have also been witnessing very volatile and, very weak equity markets as a result of the uncertainty surrounding the run up to elections. We are happy to say that the elections have come and gone and they have been conducted peacefully and successfully. For the first time in the 16-year democratic history of Nigeria we are witnessing a handover of power from an incumbent government to an opposition government. We believe that the political outlook for Nigeria is very stable.

In the broader macroeconomic environment the regulatory environment has also been challenging during the course of 2014. First, we witnessed the progressive increase in CRR both on the public sector and private sector funds which have grown from 12% progressively to 50% and then to 75% on public sector and for private sector, from 12% progressively to 20%. As a Group, this has had the impact of about NGN560b sitting at the Central Bank of Nigeria at zero interest rate.

In addition to the increase in reserve ratio, we witnessed the introduction of Treasury Single Accounts which is basically taking away collections from Federal Government agencies away from the banking system into the Central Bank of Nigeria.

Thirdly, we witnessed the commencement of the implementation of Basel 2 which kicked off in October 2014, even though we have also witnessed a postponement by the Central Bank of the introduction of this Systemically Important Bank requirement to July 2016. Basically, with the Basel requirements, institutions that have not complied with the core requirements are expected to submit a capital plan by June 2015 and to be able to be in full compliance by end of June 2016.

For the first time in two years we have witnessed the increase in MPR from 12% to 13%, and all of these together we can characterise as the chain of activities that have continued to create a very tight liquidity system.

Despite this situation in 2014, as a Group we have been able to report both top and bottom line numbers that have presented positive growth from the performance of the previous year starting with our gross earnings that have jumped as a Group by over 21% working down to the bottom line profit before taxes which increased by NGN1.6b from NGN91.3b to NGN92.9b. I am very happy to report that all our individual business lines from commercial banking to investment banking and asset management to insurance all contributed positively to the growth of our 2014 numbers.

Starting with the commercial banking, gross earnings grew by 22%, while PBT grew by about 9% during the course of 2014.

The investment banking, as represented by FBN Capital, revenues jumped from NGN21.7b to NGN23.7b. Bearing in mind that this is a business that only as far back as 2010 was doing about NGN2b in revenues. The revenue growth by FBN Capital is appreciable and so is the profit before taxes, which has grown from NGN5.3b to NGN6.2b in the course of 2014.

The insurance business also recorded some remarkable growth in profitability, almost doubling from NGN850m to about NGN1.6b.

Overall, the individual business lines have all positively contributed to the appreciable performance of the Group. Recognising our performance as a Group in the course of

2014. We have put in place a number of structures that are designed to position us for future growth.

First, the investment banking side; we have concluded the 100% acquisition of Kakawa Discount House which is to provide FBN Capital entry into the merchant banking business. This will provide the opportunity to be able to drive end-to-end project finance transactions, to also get into the fixed income trading as well as foreign exchange trading in a way that will broaden our product offering. We believe the foray into merchant banking is one that will catapult FBN Capital from what it is, a boutique investment banking institution, to a full-fledged merchant banking group.

On the insurance side, we have also concluded the acquisition of 100% general insurance business and the whole objective of that acquisition is to ensure that we get into the deeper, broader insurance market which is 85% of the total market. Over the course of the last many years we have only been in life which is just 15% of the market.

In encapsulating our performance as a Group, number one, looking at total assets, looking at customer deposits, looking at loans and advances, we have made progress in each of these individual areas. As a result, our key ratios have also been impressive. Our return on average equity on a pre-tax basis was 18.7% while on a post-tax basis, it stands at 16.7%. We do acknowledge that the cost to income ratio actually jumped from 62.7% to 66.7%, essentially due to an increase in regulatory costs. AMCON levies increased by about 23% jumping to NGN17b while our NDIC premium grew by 17% to about NGN13b. Regulatory costs alone jumped to NGN30b.

Also related is the fact that on the cash reserve ratio, we have NGN560b sitting in CBN earning zero interest rate. That has actually shaved off over NGN64b in revenues for the Group. These are some of the factors that have actually impacted our results. The cost impact to income ratio, will be highlighted in this discussion, overall our capital adequacy ratio based on Basel 2 comes in at 16.7% which we consider a healthy number, above the regulatory minimum of 15%.

Having given some of the financial indices of our performance over 2014, in concluding this part of the presentation, the capital adequacy ratio stands at 16.7%. If it had been calculated on a Basel 1 basis it would have stood at 21.5%. So, it is, primarily, the migration to Basel 2 that has actually grown the cost of debt position, but we have in place a very robust, deliberate, and conscious capital management programme that is designed to ensure that we maintain a healthy capital adequacy ratio going forward.

In summary, this is what our financial numbers look like for 2014. At this point I would like to invite the Chief Financial Officer of our Commercial Bank, First Bank of Nigeria Limited, Dr Adesola Adeduntan to take you through some of the big issues

that have confronted the banking industry during the course of 2014 and are confronting the industry presently. Thank you.

## **Adesola Adeduntan**

### **Chief Financial Officer, FirstBank**

Thank you, Group CEO. It is very important that the key variables impacting our business and impacting the industry at large, are discussed and that we are able to manage or better educate the people on the call. There are four key issues that we think is worth management putting on the table and we will discuss what these issues are and our own strategic responses to the issues.

I start with capital. A number of questions have come in around whether we will be going to the market to issue incremental equity. Our plan in the short run is that we do not believe that this is the right time for the bank or for the institution to issue additional equity in the market. We think the low market liquidity and the depressed valuation is a disincentive for going to the market at this point in time.

The question is, if we are not going to be issuing additional equity in the market, how we intend to generate adequate and sufficient capital to run the business as we have demonstrated in the 2014 audited financial statements. The primary approach to managing capital for us is to improve and enhance our retention rate. Our plan, which is evidenced in what has been done in 2014, is that we increase the retention rate of the profit within the institution. In addition to that, and to also make the retention process itself to be more efficient, starting from this current financial year we will be auditing the interim financial statements of the commercial banking group as at six months to ensure that the earnings that we made between January and end of June are capitalised and they are available to support the business for the second half of the year.

In addition to that, the Group CEO alluded to the fact that we have now implemented what will be regarded as an efficient capital and balance sheet management policy. So, going forward, starting from 2014, we now have key focus on ensuring appropriate pricing of all our risk assets in line with capital consumption, especially when you look at off balance sheet transactions.

If we project forward, based on how we expect 2015 to pan out, we believe we will have the capacity to generate sufficient internal capital to support the growth of the business during the course of 2015, and to also put us in a very good position to commence 2016.

The second key issue that is impacting the industry is the decline in the oil price and given the fact that we at FirstBank, we do have a fall back plan in terms of industry exposure to the oil and gas industry. As it relates to our oil and gas portfolio, we think

it is important to highlight what we consider as the mitigating factors. First and foremost is the fact that in going into most of those transactions we actually went through a very rigorous credit appraisal process. Most of the base case scenarios that formed the basis of approval of the credit are quite conservative. Some of the upstream oil and gas transactions, we do have hedge contracts in place to provide secondary protection.

Given where the market is now, we have also enhanced the monitoring process around those transactions, such that we are in the position to proactively manage and interface with all exposures.

The exposures to the downstream sub-sector are essentially short-term self-liquidating, self-financed transactions mainly to major players in the market who have very strong outlet and very strong operating cash flow.

For the upstream transactions, as you know that the fundamentals of these transactions are quite strong and that the worst-case scenario, is that there may be a need to extend slightly the tenor of those facilities to align with the crude oil reserves.

The other key matter about which I wanted to talk proactively about is the impact of the devaluation of the currency on the performance of the institution. The first point here that is worth highlighting is the fact that most of our foreign currency loans are backed by foreign currency cash flows, thereby providing a natural hedge.

For some of them, we do have forward contracts in place to moderate foreign currency risk exposure and for the exposure that we have to the manufacturing and the general commerce sector. Generally, these exposures are mainly to the very large top-end players who have capacity to also manage the currency risks that are inherent in their transactions and they are able to pass through a significant chunk of these devaluation costs on to their own customers.

As a matter of deliberate corporate policy during the course of 2015, we do have a strategic target to continue to wind down our oil and gas exposures.

The last but not the least of the key issues that we want to put on the table relate to efficiencies. The Group CEO already highlighted the fact that a chunk of the increase that we had in our expenses in 2014, is due to increase in regulatory costs and the fact that we had and still do have a significant balance, with the Central Bank of Nigeria where the opportunity costs of the balance in Central Bank is about NGN55b. If you adjust for that, our cost to income ratio would have been better. But, even at that, what are we doing going forward to enhance the efficiency of the institution? One, we've started and we continue to rationalise unprofitable branches to ensure that we minimise the growth of brick and mortar customer service delivery channels going forward. So, we're now working very hard to also migrate many of our customers as

possible onto alternative channels thereby reducing the need to grow brick and mortar branch network going forward.

We are currently restructuring the procurement function and we are also streamlining all the related processes and procedures to also ensure that there is value for money as an institution.

We will continue to push on centralising the shared services initiatives that enable us to centralise as much as possible a number of services and operational functions that are currently domiciled at all our branches. The First Shared Services (FSS) is taking off and we have a well-structured plan to migrate as many functions as possible onto that.

We are realigning the manpower in the institution by rotating more resources from the middle and back office to the front office and we are also currently optimising our IT solutions, especially at the branches and also at Head office to ensure that processes are made more efficient and ultimately the game plan is to free up more headcount to move from middle and back office onto the front office.

Essentially these are the four key issues coming out from the feedback.

I would spend another three minutes to take you through the next slide where we basically discuss the outlook for the business, essentially structured around how do we generate sufficient revenue going forward.

Key thing to highlight is the fact that we have embarked on portfolio rebalancing, where we are essentially allocating more resources to commercial banking and the retail end of our business. We know the retail business may have higher loss norm, but this is an area where we develop the right skillsets and we do have the right experience as such we do not expect that the loss norm will be outside what we are currently experiencing.

We are also embarking on appropriate repricing of all our asset portfolios which we think is also quite significant. The Group CEO has already discussed the potential impact of the Kakawa Discount House acquisition and that of Oasis on our business.

In addition to that, we are currently integrating more closely our international subsidiaries in Congo, West Africa and are currently at the value realisation phase. We expect the contribution from those international subsidiaries to continue to grow going into the future.

In conclusion, we have provided our capital plan and talked around cost strategy.

## **Bello Maccido**

### **Group Chief Executive Officer**

Before we get into the question and answer session, let me conclude by saying that given the current pricing of FBNHoldings on the Nigerian Stock Exchange, we are presently trading at about 0.6 times book value and at about 2.9 times PE ratio. Partly responsible for this is the large domestic institutional investor base, the pension fund administrators which are not able to acquire our stock because of the old pension law of 2004 that precludes companies that have less than five year trading records. Unfortunately, we were categorised as holding company, less than five years of operation. Happily, the Pension Reform Act has been amended. A new law has been passed which is Pension reform Act 2014 which has removed that restriction.

In addition, the Pension Commission has also issued an exposure draft investment guidelines to the marketplace for investors to basically evaluate the details of the new investment guidelines before they are finalised. This comment has already been passed to the National Pension Commission and we believe that any moment from now, the final investment guidelines will be released which will remove the impediment of pension fund administrators the huge domestic institutional investor base in Nigeria from investing in financial holding companies. We believe that once this is done it will bring the share price of FBNHoldings and possibly other holding companies up to their intrinsic value. We thought this is valuable information that we need to pass onto the market and to bring to the attention of our investors.

On this note, I would now move to the question and answer session and we will be happy to invite questions from you all. Thank you very much.

## ***Q&A Session***

### **Lanre Buluro - Primera Africa**

Good afternoon, gentlemen, just a few questions on your exposure concerning companies. I wanted to know if you had any update on London Mining.

I would also like an update on your exposure to Anchorage, particularly Radisson Blu. It has been shut down for a while and we're trying to see if they are still servicing their loan and what kind of exposure do you have to them.

Also an update on Seawolf, I know it has been under receivership and its long-term impact on the bank. That's it for now and I will get back on the queue. Thank you.

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

Thank you, I will address your three questions. You asked about London Mining, which is on the books of our UK subsidiary, about Anchorage and Seawolf.

Refer to slide 23 of the presentation, we have provided an update on London Mining. The assets have been sold and the new owners are on board. We are not taking any incremental charge because right now the loan is performing.

Anchorage is part of the Honeywell Group and also their loan is performing because the Honeywell Group is a diversified group of companies with cash flow from all the other businesses, Honeywell Flour, Honeywell Oil and Gas and is able to service their obligations as they come due.

We are also aware that the hotel is closing for on-going renovation. We are very confident that they will reopen. But, in the meantime, the account is fully performing.

Regarding Seawolf, as you recall, this has been sold to AMCON a couple of years ago. As we speak, we don't have any direct exposure to Seawolf. However, there is a bond that AMCON is going to take over within the next two or three months.

I don't know whether I've been able to answer all your questions?

**Lanre Buluro**

I thought there was an equity stake in Seawolf. What's the impact on that?

**Wale Ariyibi - Head, Finance FBNHoldings**

Additionally, in restructuring Seawolf, the equity investment in it was taken over by FBN Holdings Plc so it will show up on the business going forward, for Seawolf the equity is in FBN Holdings Plc. When AMCON appointed a reserve manager, the Group took a view to make full provision. So, if you check the financial statements you will see in 2013, we made a provision of NGN2.375b and in 2014 of NGN7.781b; hence we have made full provision for Seawolf in our accounts.

**Lanre Buluro**

Okay. Thank you.

**Josh Levin - Citibank**

Thank you and good afternoon. If the price of oil stays in the mid-\$50s, when would you expect NPLs to peak and how long do you think it would be to sort of normalise and get through the bad credit and get back to a normalised NPL ratio?

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

Sorry, can you take your question again?

**Josh Levin**

If the price of oil stays in the mid-\$50 range from where it is now, when would you expect your NPLs to peak and then how long do you think it would take to work through the bad credit so that your NPLs come back to a more normal level?

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

To answer your question, we all know the impact of the reduced price of oil is not just on our risk asset portfolio. We also know that our government revenues have been depressed at all levels because of the price of oil. There is an impact on the exposure to the state government and on employees of state government, but that's on one path.

Let me go back to the upstream sector, where the impact is more direct. The fact is, we have looked at our portfolio of upstream exposure and according to our stress test, oil prices being at about \$50 a barrel is actually not too detrimental. We have stress tested our portfolio at oil prices between \$30 and \$40 and we have not really seen NPLs, but the possibility of tenor elongation and we are also assuming that the oil companies don't do anything. We are aware that some of them are reducing CapEx and OpEx. They are bringing additional money from other sources to reduce the exposure. Oil prices being at about \$50 a barrel, we really don't expect too much impact on NPL especially for the upstream sector. In fact, if you look at our portfolio, the NPL for the upstream sector is currently nil. We really don't expect that there will be growth in NPL.

However, like I said, there are other sectors of the economy where the oil price via reduced government expense is going to bite. We're experiencing delays in payment of salaries which is affecting our consumer general loans. We have had to extend the tenor of exposure to state government. Eventually, we see all this exposure being paid down. We really don't expect that there will be significant increase in NPL going forward given the structure of the loans that we have in place and for the upstream, giving the value of the assets that we financed and so on and so forth.

**Josh Levin**

Just to be clear so I understand, for the whole loan book, you do not think the NPL ratio will go up much from here?

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

No, I'm saying that we don't see the NPL ratio going up significantly. As at the end of 2014 our NPL ratio was about 2.9%. In 2015, we are expecting it to be anything between 3% and 5%. There will probably be some increase in NPL based on all the things that I've said, but it is not going to be significantly over 2014 numbers.

**Josh Levin**

Thank you.

**Soji Solanke - Renaissance Capital**

Good afternoon, everyone, and thank you for this conference call. I have a few questions.

My first question is on OpEx. There is a particular line in there that's called operating and other losses. Can you kindly tell us what this is? I think the value was about NGN18.5b.

My second question is on capital. It's good to hear your plans around capital near term. However, what I want to understand from you is do you think you need a Tier 1 raise and what could potentially be a trigger of a Tier 1 capital raise?

My third question is, I've been getting quite a lot of questions on your exposure to a company called Atlantic Energy. Can you kindly use this medium to clarify what the size is, the problem this company has had over the past 12 months, and what exactly is FirstBank's collateral or shall I say fallback option on this particular loan? It has raised so many questions over the last three to six months. Thank you.

**Adesola Adeduntan - Chief Financial Officer, FirstBank**

The key components of the line that you referred to are essentially other operating losses, there were a number of provisions that had to be considered during the course of the year and we felt it was important to take on.

An example of this relates to the past when the Pension Act had become effective for the institutions but the structures to make it functional were not yet in place. So, during that period, we made deductions from staff salary. We contributed the employer's own contribution and remitted wages of the pension industry when it became effective and structures were then in place. However, Pencom has been in discussion with us on the costs of 2013/2014, for the period during which the structures had not been established and we hadn't remitted the interest due to our staff. There were penalties from Pencom in addition to the interest due. That's a key component of that particular balance.

We also had the benefit of having a new Chief Financial Officer taking a look at our general ledger and based on his assessment, we needed to make a number of provisions for some balances that existed in our books. Essentially, these are attempts in cleaning the books. It is important to note that those transactions are nonrecurring.

On capital, our view is that for as long as the institution remains profitable, which we are, and given the support that we have received from shareholders to increase the earning retention rate, we think we will have sufficient capital to continue to drive the growth of the institution, at least in the short to medium-term. Our forward-looking analysis suggest that even for the 16% systemically important bank additional surcharge of 1%, we are comfortable that come 1 July 2016 this bank will be in a

position to meet that 16% requirement and we will still have enough hedge room to continue to trade.

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

I would like to provide information on Atlantic Energy. We financed OpEx and CapEx requirements for the drilling of four oil wells with proven reserves under a strategic alliance agreement that Atlantic Energy had with Nigerian Petroleum Development Company (NPDC). The exposure is currently about NGN75b which is comparable to the size of the average reserve base lending.

How are we secured? We are secured by a security trust deed over the assets of the company, including the crude oil entitlement under the strategic alliance agreement and the value of the collateral is several times the exposure, about five or six times our exposure. The bank also has a charge on all the collections accounts which receive the crude proceeds.

In the recent past, there has been expansion of crude entitlements as a result of the consolidation issues. However, the company has concluded successfully a reconciliation with NPDC and we expect crude oil lifting to start happening between May and June subject to Atlantic Energy meeting some terms and conditions which they are close to achieving. We expect that by the time the crude oil lifting commences, this company will be able to generate funds.

Yes, I was talking about Atlantic Energy and like I said, the reconciliation process with NPDC is complete. The company is about to commence lifting probably between May and June and we expect this company to come back.

We have no reason to classify this exposure as non performing since there is still moratorium on principal repayment and interest repayment is being met through accumulated funds in the debt service reserve account. The owners are also going to inject additional equity to reduce this loan exposure.

Essentially, the loan is still performing. It's still meeting all its obligations. The only problem was that crude oil lifting was suspended and this is about to be lifted.

Thank you.

**Soji Solanke**

Great, I just have a few follow-up questions for the CFO. I struggled to get your explanation on the operating losses. So I understand there is an angle which you cannot talk about. That's fine. To better understand the first segment, did you say pension payments you didn't make in the past is responsible for the first explanation?

The second one was certain major balances on something legacy. To clarify, what you were talking about? I really don't understand what you're explaining? Thanks.

**Adesola Adeduntan - Chief Financial Officer, FirstBank**

Let me go over that again. What I said was that there was a point in time when the Pension Fund Administrators (PFA) hadn't been fully set-up. Deductions were made both for the employees and employers and when those institutions were set up, we remitted. However, National Pension Commission came back and said for that period we should have paid interest on those balances. We had to go back to that period and compute on a compounding interest basis and they also levied some penalties. That is the first part that I mentioned.

The second part that I also mentioned was that there are some legacy balances on our general ledger for which we've been reviewing and we took a decision to make provision on those ones and continue to do those reviews and you could write them back if we are able to resolve them. Some of these balances date back to some years back. So, that was the second example that I gave and the third one was the one that you rightly highlighted.

**Soji Solanke**

Great, thank you.

**Tolu Alamutu - Merrill Lynch**

Good afternoon and thank you for today's call. I just have a few follow-up questions from what you've said.

First, on the CBN amount, the NGN55b, is there any chance that you think the CBN could consider paying something nominal on that, or is that not something that's even been discussed?

Second point on your NPL guidance, you've said between 3% and 5%. It's a relatively wide range. I was just wondering whether you could give maybe more specific guidance on where you could fall in that range?

Third point, you mentioned that there has been some maturity extensions in the upstream oil and gas sector. Can you give us some idea of the size of those exposures, please, so that we get an idea of what's been considered restructured or renegotiated loans?

Lastly on your funding, given the increase in reserve requirements that you talked about extensively, have you considered other sources of senior funding like the dollar bond market or do you think that market is primarily for subordinated capital?

Thank you.

**Adesola Adeduntan - Chief Financial Officer, FirstBank**

I will take the question on CRR. The reality is that the best you could do with the Central Bank is a moral suasion. A number of position papers have been discussed with them across all levels. The key proposals are, one, to get them to pay some level of interest on the balances to that and/or allow us to use that balance to count as a part of our liquidity asset portfolio. The reality, as of today, there hasn't been a favourable response from the Central Bank. But I'm also aware that collectively as an industry we are pushing. We are in the forefront of these because we are the hardest hit given the quantum of our own CRR portfolio. My expectation is in the fullness of time they will have to take a look at it because these are soft cyclical liquidity out of the market.

**Adesola Adeduntan - Chief Financial Officer, FirstBank**

On the dollar bond, currently we are not looking at any other funding sources. We think that market is still open to us and then we also do have significant dollar liquidity coming through our normal business. We are quite comfortable with where we are as far as USD financing is today.

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

You had two questions. The first one relates to the NPL guidance which you commented as being too wide and I think this demonstrates the volatility that we expect in 2015.

When answering one of the first set of questions, I mentioned the fact that we expect significant volatility in the industry not only because of reduced crude oil prices, which also has affected government revenues with impact on ability of state government to service their obligations, but also on the impact of devaluation which we expect to affect general traders and a lot of other companies in the country. I mean Nigeria does a lot of imports. The right rate actually reflects the kind of volatility that we expect to see and we would still like to keep the guidance between 3% and 5%, although we will work towards maybe the midpoint. But we would like to retain the guidance at between 3% and 5%.

On the upstream exposure and what part of this we expect to restructure, we are looking at about 10%. We have reached out to our customers in this sector and a couple of them have said that there will be no need to restructure or elongate their loans because they are doing some other things. They are ramping up production, reducing OpEx, they are suspending CapEx and so on and so forth. But we expect that some of them will eventually come back to us and we expect that no more than 10% of the upstream exposure, which in December stood at NGN276b will be restructured.

Thank you.

**Tolu Alamutu**

Okay. Thanks very much. Just one very final question, if I may. You have mentioned that you would increase capital retention going forward. What does that mean for your longer-term dividend policy? I understand that you don't want to raise capital, but is the dividend payout something that you might change just to improve the capital ratios?

**Adesola Adeduntan - Chief Financial Officer, FirstBank**

During the course of 2014 if you have reviewed our 2014 financial statements, you will observe that we've already made that particular change where we've increased our retention significantly and we've reduced our payout. We would continue to evaluate our position as we journey along. For 2015, for example, we are about to commence the audit of our interim financials for six months. That is what is scheduled and our plan is that we will capitalise whatever we made in the first six months of the year and see where that gets us to.

Overall, what we aim to do in the short-term is to work out how to maintain high retention and we will see where we are guiding. Like I said, we do not have any short-term plan to go to the capital market to raise equity.

**Tolu Alamutu**

Okay, thank you very much.

**Babak Tavassolie - Credit Suisse**

Hi, thank you very much for the presentation. I just have a couple of follow-up questions on your US dollar liquidity. You said that you expect this to be funded by your current operations. Do you expect the oil price scenario, Naira scenario to affect that over the next, say 12 to 18 months?

Can you also please comment on your FX open positions, if you have any?

Thank you very much.

**Ini Ebong - Treasurer, FirstBank**

To answer your question on FX liquidity, if anything, because of the potential or the devaluation of the currency, what we did see was some degree of increase in our domestic holdings of foreign currency. In many ways, that's been liquidity supported towards the industry. We don't expect that to naturally change because one of the key drivers for the Group and our foreign currency liquidity has been tied to the associated lending into the upstream sector because we naturally receive the crude oil proceeds from that. This is relatively sticky and stable and we don't expect that to change in the near term.

Your second question was FX open position limit. Clearly, the Central Bank now has instituted a new rule around that. What that implies is we will manage down to within those levels.

**Tabak Tavasoli**

Do you have a current figure on your open FX position as at the end of 2014?

**Ini Ebong - Treasurer, FirstBank**

I don't have that right here, but we will get back to you as follow-on.

**Tabak Tavasoli**

Okay, thank you.

**Ndubisi Obike - Stanbic IBTC Pensions**

Good afternoon, thanks for the presentation. I have a few questions, partly for clarifications. First of all I will appreciate clarification on how much of your loan growth was actually driven by currency devaluation?

I would also like to know how many of these unprofitable branches you were able to successfully shutdown in 2014. You mentioned some of your plans for managing OpEx in 2015, so how much success did you record in 2014 as of shutting down these branches?

I also want to understand the reason behind the 24% increase in your impairment charges in Q4. So, if you could breakdown these charges, the new ones that caused this kind of spike.

Then also I will appreciate an explanation in terms of the 100% increase in your non-taxable income tax that led to a drop in your effective tax rate from 23% to 11%. If you could give an explanation to that so I can understand if the trend is going to repeat this year.

Thank you.

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

I will take the question on the loan growth and impairment charges. If you look at page 19 of our presentation we actually mentioned it there. For FBNHoldings loan growth was 22.5% in the financial year 2014. If we adjust for the impact of the devaluation, real loan growth was 17.8%. The impact of devaluation is actually quite significant.

On the growth in impairment charges, this was mostly from legacy loans which are taking longer than we had intended to resolve. We had to be proactive to take this

provisioning. We are confident that some of this provisioning will be fairly fast during the course of 2015.

Thank you.

**Adesola Adeduntan - Chief Financial Officer, FirstBank**

I don't really have the number of branches that we have shut down. The key takeaway will be that we successfully shut down a couple of branches. That's number one. We also currently do have approval to shut down the batch of branches. After receiving the Central Bank approval we go through some internal process of shutting down. That is what we are currently going through now.

We are also currently evaluating the outcome of some of the remedial processes that we put in place for some of those branches and we are currently working to identify another round of branches that may fall into that category. It is something that is right on the front burner of management.

Regarding your question on effective tax rate, there are two key components to that. The key element of this is more around utilisation of brought forward capital out in prior years. One of the reasons why our effective tax rate was relatively high was the fact that the dividend paid was higher than assessable profit and under the tax law, the tax authority will take the higher of the two bases.

Now that the dividend payment is much lower, even though we do not expect effective tax rate to be that low going forward, we also do not expect it to be as high as it was in prior years. I hope that helps you.

**Ndubisi Obike**

Yes, that was helpful. Thank you.

**Casina Mishankina - UBS**

Hi, thank you for the presentation. I have several questions. Would you please comment on the impact of Naira depreciation since the start of the year and how it will impact your first quarter result and have you done any sensitivity analysis? That would also be helpful.

Could you please comment on total capital adequacy ratio forecast under Basel 2 for full year 2015?

Could you please repeat the impact of Naira depreciation on your loan growth? What was the loan growth for full year 2014 excluding the impact of Naira depreciation? I just couldn't hear it very well. Thank you.

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

Refer to page 19 of the presentation, the numbers can be found there. The loan growth for the year was 22.5%. That includes Naira devaluation. If you strip out the impact of the devaluation, the loan book grew at 17.8%. The impact of devaluation accounted for like 8.4% of the growth.

Thank you.

**Adesola Adeduntan - Chief Financial Officer, FirstBank**

Regarding your question on capital adequacy ratio forecast for 2015, our starting point is where we are at the beginning of this year which was 16.7% for the commercial banking group. Our expectation, if we implement our plans, which is capitalised earnings this mid-year, and also looking at the forecast for the full year, we believe we should be ending the year at about 17% capital adequacy.

**Ksenia Mishankina**

Could you please also discuss the impact on Naira depreciation since the start of the year, how do you expect it to impact your first quarter results and have you done any sensitivity analysis? Thanks.

**Adesola Adeduntan - Chief Financial Officer, FirstBank**

Our quarter one results is currently being finalised. This impact is not significant on our position.

**Ksenia Mishankina**

Okay, thank you very much.

**Gloria Fadipe - CSL Stockbrokers**

Good afternoon and thanks for taking my questions. Most of my questions have been answered, but just a few clarifications.

Firstly, deposit growth. If we exclude the impact of exchange devaluation will it be right to say that there was a decline in deposit growth year-on-year and if that's the case, is this still as a result of your divestment of public sector deposits?

If you look at your classification of NPLs by sector, information and communication seems to have grown quite significantly and currently represents the highest percentage. Can you just explain the reason for that?

Finally, we saw significant FX trading gains in your full year 2014 numbers. Should we expect to see some of those trading gains occur in your Q1 and Q2 results? Thank you.

**Adesola Adeduntan - Chief Financial Officer, FirstBank**

Let me start by responding to your last question first. Yes, you will still see some degree of FX exchange and trading income in our Q1 result and most probably also in our Q2 result because we are in a net long position as of now. What you will not see is the quantum that we saw in quarter four because that was like a one-off significant jump and there was a stream volatility that hit our treasury business.

On deposits, the reality is given the state of the current regulatory stance as far as CRR is concerned today, we are actually not very aggressive with public sector deposits which invariably means that you will be competing for the private sector deposit going forward and that is where the expected growth in deposits, in terms of the guidance I have given is less than 10% going forward. And, a part of that 10% we also factored in the expected impact of devaluation on our foreign currency deposits.

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

There was a question on the NPL on the information and communication sector. Three main exposures make-up the NPLs for this sector, of the three main legacy names that we are trying to work down one of them is, and the biggest of them, if you like 40% of the entire, actually quite well secured and we hope to be able to resolve the issue of this account this year. There are other two names where we are more or less taking full provision. We don't expect a recurrence in 2015.

**Gloria Fadipe - CSL Stockbrokers**

Thank you. On deposit growth, I asked if there was an actual decline because you reported 4.2% growth.

**Adesola Adeduntan - Chief Financial Officer, FirstBank**

No, if you adjust for the impact of devaluation we still have growth of 2.7%.

**Gloria Fadipe - CSL Stockbrokers**

Thank you very much.

**Shuyu Gao - Wellington Management**

Yes, you have exposure to upstream, downstream and service sector. How is the lower oil price impacting differently these three sub-segments differently?

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

In the upstream sector, which is about 15% of our portfolio, we have some accounts in the upstream sector and as mentioned during the presentation, we are monitoring these very, very closely. Many of them have the opportunity to restructure, so we can elongate the tenor of the loan, but they have not chosen to. In fact, some of them have informed us that they don't need to restructure given all the other things that they are

doing. We have very good assets there and in the worst case scenario, you will have tenor elongation. So, we don't expect that there will be impaired assets in upstream.

In downstream, we are focusing on the very big names with the wherewithal to weather any negative impact. We really don't expect too much of a deterioration.

The NPLs that we have in downstream sector are actually all legacy accounts. There are no accounts that are currently troubled.

The oil services are quite different because this is where we have a number of the retail customers servicing. The NPL ratio for that segment is higher than the other two segments.

What are we doing to ensure that NPL remains within acceptable standards? We are reviewing our product programme for playing in this sector especially for the retail segment. We are introducing tighten conditions. We are doing a lot of things to ensure that we keep the NPL ratio for this sector reasonable. But this is the sector we expect that there will be some volatility. Thank you.

#### **Shuyu Gao - Wellington Management**

Thank you, just a follow-up on the effective tax rate. I understood that it was driven by tax-exempt income which is probably from government bonds and the other part is dividend tax. I see your guidance that is going up from 18% to 20% for 2015. Can you just explain a little bit again like why there is a big jump? I don't think I fully understood.

#### **Adesola Adeduntan - Chief Financial Officer, FirstBank**

What we have explained is that in 2014, we do have significant unutilised capital allowance and that enabled us to achieve that very low effective tax rate. Having used that big chunk, we do not expect that significant capital allowance to reoccur. We've spoken earlier on today about our attempt to be more efficient from a balance sheet perspective and keeping fixed asset acquisition at a minimal level. There are three variables; capital allowance brought forward that we've not used before that we used last year. There is the tax and performance income and then there is the fact that it is the relationship between your dividend, accessible computation on dividend and the one based on your performance. If capital allowance disappears from the situation, which of course is going to happen going forward, then you expect that the effective tax rate would go up.

#### **Shuyu Gao - Wellington Management**

Great, thank you very much. That's it.

**Brian Mugabe - Imara**

Thank you. Good evening, gentlemen, just two quick questions. Regarding the SME portfolio, you've indicated that there was some strain there. Are you still expecting to grow that book at the same levels as you had always budgeted to, or should we expect to see some slowdown? Although you mentioned you are looking for higher yields, but there did seem to be some NPL strain on that.

Then the second question is regards COT. With 2016 looming, are there any discussions with the authority that indicates they might relent on that glide path to zero, or should we expect that it's likely that it is going to go to zero next year?

Thank you.

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

On your first question about the SME portfolio, we are experiencing some strains there. We have done our reviews and we know the courses of these strains. There are some product programmes devoted to the SME portfolio and we know what is working and what is not working. Some of these programmes have been suspended temporarily. We also see opportunities in other areas that we can explore without necessarily incurring big losses. But you must also remember that for SMEs, pricing is very high. The risk reward there is actually quite attractive. We will continue to grow the SME but on a very measured basis and without taking significant risk.

Thank you.

**Adesola Adeduntan - Chief Financial Officer, FirstBank**

In response to question around COT, the first key point to highlight is the fact that the banker tariff is up for review. All the banks, I think there is consensus amongst all the banks, all of us would like to keep and cap COT at the current level. Representations have been made to the Central Bank at the highest level. We believe that the management of the Central Bank is sympathetic to this particular approach and request, but it is an ongoing thing and that process is still ongoing and we are just hopeful that this will be sustained because we've made sufficient representation that COT is key to the banks given the significant investment that we've all made in infrastructure. Fingers crossed.

**Ronak Gadhia – Exotix Ltd**

My questions are really just an extension of a lot of what has been asked. Firstly, can you just clarify the capital adequacy ratio that the Central Bank looks at? Your capital adequacy ratio at a Group level is above the minimum at 16.7%, but at the bank level you're below at about 15.0%.

I understand you don't have any plans to raise capital this year, but what base case assumption are you using for the Naira this year because a significant chunk of your

portfolio is FX denominated and if we do see a significant devaluation in the Naira this year as we did last year, then your loan growth could actually be a lot stronger than what you're currently forecasting which puts additional pressure to your capital, which may force you to the market earlier than you are expecting.

My final question is to do with your operating expenses. I guess you've thoroughly explained why you've shown strong cost growth in 2014. You are indicating that you are putting in place measures that should sort of reduce that going forward. But my question is how should we be looking at the execution of that? I mean management have been promising over the last four, five years that they are implementing reduction in costs. However, within that period, we've seen your operating expenses actually double. So, how credible are your cost cutting expense plans? Thank you.

**Adesola Adeduntan- Chief Financial Officer, FirstBank**

Let me start by responding to the question on capital adequacy. The Central Bank's primary purpose is to look at a bank's capital adequacy ratio, although they also do look at the composite capital adequacy. But their primary focus is on the bank's capital adequacy ratio.

Our capital adequacy ratio as at the end of December 2014 was 15.8%, above the minimum base required by the Central Bank which currently stands at 15%.

The Basel 2 capital adequacy ratio will kick in on 1 July 2016. That's number two.

The third point that we should highlight during this call is the fact that the Central Bank having realised that the timeline given to the industry to cut over and comply with the Basel 2 capital adequacy ratios was short. The Group CEO mentioned it in his opening remark that there is a new regulatory decree to allow even banks that are not complying with their 15% minimum requirement have been given a one year window between now and June next year to be compliant. However, we are compliant.

I mentioned during the course of the question and answer that our forward looking analysis suggests strongly that we will be above the minimum 16% capital adequacy ratio by 1 July 2016.

Regarding your question on the impact of devaluation on capital adequacy ratio, we have factored it in before we made that assertion. We feel that the upper limit of the devaluation may fall between now and year-end is probably something in the region of 20% to 25%. We have factored that into our forward-looking analysis and we are comfortable that we will end up with sufficient capital to meet the minimum regulatory requirements. I hope that is helpful.

The other issue in OpEx, again, you have to look at the mix of our operating expenses and where the largest growth is coming from. The Group CEO highlighted the fact

that we've seen significant growth on regulatory related expenses and honestly, there isn't much that anyone could do about that. Part of the growth in that space that we are also seeing also has to do with some of the strategic initiatives that we embark upon.

**Ronak Gadhia – Exotix Ltd**

I mean just to take you on that, I mean there are similar sized banks to yours who also have the same increase in regulatory expenses but when I look at their increase in operating expenses, their operating expenses have increased by roughly 40% to 50%, not by 100% like your increase. It's really difficult to understand, or acknowledge where these cost efficiencies may come from.

Going back to your point on devaluation, if you are estimating 20% to 25% devaluation and you're estimating loan growth of only 5%, does that mean in real terms you're actually winding down some of your loans to get an overall loan growth of about 5%?

On the capital issue, yes I understand you will be compliant by June 2016. We've seen some of your peer banks, the process that they have to go through in terms of getting approvals, sensitising the market, the whole process takes about one year. Realistically, when should you be starting this process at the latest?

**Adesola Adeduntan - Chief Financial Officer, FirstBank**

Let me respond to your questions one-by-one. Let me start with the one relating to capital. We do not have any plans to come to the market to raise capital. I think it's very important that we highlight and we retrace that particular point. That's number one.

Number two is the fact that the 5% growth in loans and advances is a core growth, the impact of the devaluation is not in the 5% growth. However, we expect a chunk of our current exposure to be paid down in the ordinary course of business. There is a NGN450b expected repayment during the course of the year and the advantage that gives to us is that we are able to rebalance our portfolio, we are able to reprice them and we're able to channel more of our loan assets into the higher yielding segment of the market.

To go back to your question on OpEx, I think one thing that is key and is worthy of highlight is that, we are the biggest bank and any time we have this regulatory headwinds the impact on us tends to be much more severe. There is no bank today that has CRR of about NGN560b like we have highlighted and invariably that is about NGN55b of lost revenue. Even if you take half of that and put it into the equation, you discover that the overall picture wouldn't be as bad as it is looks.

However, we are looking forward and we are implementing those rigorous measures that we have mentioned. At the bank level, we are not projecting any growth on our

expenses going into 2015 and that will give you an idea of the kind of hard stance with which we are looking at the expense and the bank is a significant component of the entire institution. We are not projecting any expense growth going into 2015 and that tells you clearly how serious we are in terms of tackling this issues. I hope that is helpful.

**Ronak Gadhia – Exotix Ltd**

Okay, thank you.

**Bello Maccido – Group Chief Executive Officer**

On behalf of all us from FBNHoldings, we sincerely thank you for participating in this conference call. We sincerely hope that our presentation has been detailed to bring out the key issues that are important to you and we also hope that the question and answer session has been very useful. Once again, we thank you very much.

Thank you.

[End]