FBNHoldings

Full Year 2015 and First Quarter 2016

Analyst Presentation

UK Eke

Group Managing Director

Thank you very much and good morning, good afternoon, ladies and gentlemen. Again, let me welcome you on behalf of the FBN Holdings Plc family to this analysts and investors conference call. The plan is to discuss our full year audited financial statements for the year ended 31 December 2015 and also for the first quarter ended 31 March 2016.

I am joined on this call today by Dr Adesola Adeduntan the MD of First Bank Nigeria Ltd and its Subsidiaries. I believe I speak for him if I say that we are glad and honoured to lead our institution at this time. We do appreciate the enormity of the challenges ahead of us, but we do believe that we have the capacity to execute our strategies.

Also present on this call with me are the DMD of FirstBank (Nigeria) - Gbenga Shobo, the MD of FBN Merchant Bank - Kayode Akinkugbe, the Head Finance FBNHoldings - Oyewale Ariyibi, the Acting CFO of FirstBank (Nigeria) - Ini Ebong and I have the Head Investor Relations - Oluyemisi Lanre-Phillips.

I imagine you’ve had time to look through our presentation, so I’m going to run through it very quickly and then I will open the lines for Q&A. I think we can maximise time in that segment.

I will go straight to slide 5 where we have provided an overview of the operating environment and regulatory environment. 2015, you will agree, witnessed reduction in aggregate domestic output on the back of depressed earnings from export of crude oil which is the primary foreign exchange earner for the country. We also saw inflation go well above the Central Bank reference band of 6% to 9%. Of course, we continued to witness pressure on the Naira equally.

From the regulatory standpoint, we saw the TSA fully implemented. We also saw general provision requirement doubled from 1% to 2%, and, of course, during 2015 there was an announcement on incremental capital requirement for SIBs of which FirstBank (Nigeria) is one.

I will go straight to slide 8 where we have presented our footprint. What comes out from there is that we have a well-diversified franchise on the commercial banking front. We operate in six African countries. We are still quite active in London and, of course, in Paris, including three representative offices across the globe.

Now, slide 9 speaks to how the business of FBNHoldings is configured, our main operating entities. What is clear is that from geographical and sectorial perspectives we are a well-diversified investment holding company. You will notice that for the first time we are featuring FBN Merchant Bank, as a standalone. We commenced business efficiency 2 November 2015. So 2016 will be the first full year of operations.

You also notice on the insurance side that we have included FBN General Insurance Ltd, we acquired Oasis and 2016 will also be its first full year of operations.

By way of footnotes, we have disclosed that we sold our Microfinance Bank. At the 1st of December, we concluded the sale, so the results of Microfinance are not consolidated in our 2015 Group numbers.

So with that as a background I will quickly run through slide 12 where you see our income statement and balance sheet snapshot.

Clearly, we recorded impressive volumes. With respect to gross earnings we attained NGN505 billion which remains the highest in the industry for 2015. However, we took an impairment charge of NGN119 billion, which obviously led to a significant reduction in our profit before tax from NGN94 billion to NGN21.5 billion for full year 2015. That is linked to the very adverse macro conditions which we operated under during 2015.

Now, in spite of that, we also took benefit of our diversification across sectors and received dividends from our other operating companies. On that basis, the HoldCo is able to pay a dividend at NGN0.15 per share.

With regards to 2016 Q1 we saw gross earnings drop 15% year-on-year to NGN107.5 billion and our operating income came in at NGN85.5 billion, slightly lower than prior year.

However, we also took additional impairment charges for the first quarter of 2016 at about NGN12.8 billion resulting in profit before tax of NGN22.1 billion for the quarter. I would mention also that our NPL ratio inched up to 21.5% for the quarter.

With respect to cost to income ratio we have continued to improve quarter on quarter. You would notice that at the end of 2014 we had attained 66.5% cost to income ratio. We made a pledge we are going to stay focused on efficiency. We were able to progress to 65.1% in Q1 of 2015 and we improved further at the end of the year to 61.4%. So we closed the cost to income ratio at 61.4% for 2015. We continue with that trend and achieved further reduction in cost to income ratio closing at 59.4% for Q1 of 2016.

On capital, we believe that we are sufficiently capitalised with respect to the commercial banking group. At the Group level we have 19%, at the standalone level for the Bank it was 17.1% and that improved slightly to 17.2% for Q1 2016.

Now, if you consider the other entity with regulated capital for operations, that's the Merchant Bank, we continued to operate at very high capital levels: 25%, 24% for FY 2015 and 2016 Q1 respectively.

As things stand now and for emphasis we do not think that there is pressure on us to raise capital. We don’t have any immediate plans to raise additional capital to continue with our modest growth we are planning for 2016. So, from a need and market conditions perspective, we are not looking to raise capital in the short-term.

With respect to cost of funds we closed at 3.7% at year-end from a peak of 4% in 2015 and this reflects obviously the verification of the interest rate environment we operated under. Our funding cost, however, declined to 2.3% in the first quarter of 2016. Overall, on a blended average yield on an interest earning assets basis we saw an improvement to 12.1% from 11.3% for 2014.

Now, it is interesting to observe how we have held our NIM stable. We closed at 8.1% for 2015 full year and maintained that level 8.1% first quarter of 2016. For the records, at the end of December 2014, the NIMs closed at 7.6%, so this obviously shows that we have sustainable business model that we are pushing on in the market.

I’m on slide 24 right now. Just trying to give you our standpoint looking at our strategic intent. We have identified three areas to focus on based on how we closed last year. The first would be a complete overhaul and resetting of our risk management framework focusing clearly on people, process and policies with a view to achieving above average returns when we close 2016. We do think that we need to emphasise the culture of ownership and accountability. We also think that from the standpoint of customer selection, origination of underwriting or credits and finally to remediation and collection, there is a whole lot of work we need to do there to improve our standards. So this is a commitment we are giving and we also believe that with the active execution of our enterprise risk management initiative on enterprise planning, resource planning initiative, we are going to obviously up our standards and be able to use technology to drive our operations particularly in the risk management function.

Now, the second area we believe we have to focus on is efficiency. We have identified areas that will give us quick wins with respect to cost and like I said previously, we’ve seen sufficient progress in that regard dropping our cost to income ratio to as low as 59.4%. We do think that there is a whole lot more we can do to further improve our ratios. Of course, capital efficiency will still be an issue for us and we do think that we can achieve a whole lot with respect to efficiency.

Finally, with respect to the third area we are going to focus on, we think that we’ve got a huge platform. We’ve got a large network of branches. We’ve got a large network of ATMs and POS terminals. Therefore, we shall be leveraging the infrastructure we have built over time to gain competitive advantage. This is a retail bank and we need to play to our strength. We see clear opportunities in digital services, in transaction banking and therefore, we are modifying our business model so that it becomes to transactional services-led rather than credit-led. So a whole lot will happen with respect to leveraging technology for transaction volumes and moving our NIR.

We also see opportunities in the insurance space as much as we see in merchant banking and asset management division. You know that Nigeria is grossly underpenetrated when it comes to insurance and we are combining banking with insurance and hopefully NAICOM will release the final guidelines for the bancassurance and we will be able to leverage retail infrastructure to grow our numbers in that regard.

We also see significant funding gaps particularly from the national government and sub-nationals creating opportunity for our merchant bank and asset management divisions to gain competitive advantage.

Basically, I will run through slide 30 where we have detailed how we see 2016 playing out. The overarching objective basically is to return value to shareholders. We did say that when we first wrote to the shareholders and analysts at the beginning of the year.

What we believe is that we need to simplify our areas of focus so we can achieve our near and long-term objectives. Essentially, we shall be optimising available capital to ensure that we meet regulatory requirements and drive modest growth during 2016. The conditions are not right for capital raising at this time, so we have to be measured in our growth and ensure that we maintain solvency in the businesses that need capital.

Second point would be to improve our processes and overhaul the risk management architecture completely and ensure we do not have another cycle of high impairment charges for 2016. Of course, we are embarking on active remediation and recovery exercise driven by the Board and of course management.

The third is Group co-ordination. We are a financial holding company and therefore we should be mindful of synergies that abound across the business entities. From the revenue and cost perspectives we do think we can extract major synergies and also limit the cost base of the group companies.

Again, like I said before, with 11 million customers, a robust IT platform and also diversified business operations we do think that we’ve got a strong capacity to deliver on the numbers that we are projecting. We would continue to pursue disciplined cost containment efforts and ensure that the commitments we are making with respect to cost to income ratio, which is important on cost efficiency, are achieved.

We think that we are ready to take on the market. We will focus on cleaning up the books as we have started already and we do think that given the strength of the institution and diversity of our offerings we should be able to deliver the guidance numbers we have proposed on slide 30 starting from deposit growth all the way down to the return on average equity as we have listed on slide 30.

So, I think with that I will request the operator to open the lines for Q&A. Thank you very much.

Question and Answer Session

Olamipo Ogunsanya - Renaissance Capital

Good afternoon. Thank you for taking this call. My name is Olamipo Ogunsanya .I am calling from Renaissance Capital. I actually have a number of questions. So, firstly, can you please run us through what sectors drove the sharp growth in NPL both in full year and first quarter of 2016 and why these loans were suddenly classified?

Also, if you could please provide an update on Atlantic Energy. So, have any provisions been made on the name? And with coverage ratio below 40%, what is management's short to medium-term guidance for coverage and what sort of cost of risk should we be expecting to get to this target?

Also, I would like to know how management intends to address the capital situation. I guess you've mentioned there will be no capital raise in the short-term. It's difficult to imagine that you still think you don't need Tier 1 capital given how high NPLs are and also considering that these NPLs are not adequately covered.

Also, in terms of dividend payment, so I understand that this came from the HoldCo. So how much cash is sitting at the HoldCo level after your account for dividend payment?

Adesola Adeduntan

Okay, thank you Ola for your questions. Regarding the key drivers of provisions increase in Q4, you will remember that already in Q3 our cost of risk went up essentially as a result of the review of the entire portfolio that was being conducted. My name is Adesola Adeduntan, the CEO of First Bank Nigeria, just way of identification.

So to go back to my comment, in Q3 you will recall that impairment charges already went up and we did mention the fact that there were certain challenges to the portfolio. What we did during the course of Q4 was to do a full review of the portfolio and that necessitated the need for us to classify certain names and also ensure that we take appropriate provisions in line with the IFRS. So, mainly, that was what happened.

And, again, to go to your question on Atlantic Energy, it's still work in progress. We are currently going through documentation with all the parties involved. Specifically we have taken some degree of provisions or impairment on Atlantic Energy. Indeed, part of the reason why the coverage ratio appears low is the fact that we pulled into the NPL base one or two names that are fairly big from an exposure perspective but for which we've taken, for want of a better word, a minimal kind of provision because of the status of remediation. Atlantic Energy is actually one of those names. We are pretty advanced in terms of where we are in terms of remediation and indeed, if the remediation process is successful for the two big names, we expect that our coverage ratio should go back to approximately 100%.

UK Eke

Okay, there are two questions I need to take. One on capital situation and two, dividend payment, which you raised.

Let me repeat that we have an obligation to ensure solvency across all the operating entities and as we speak, all the operating entities needing capital are capitalised well above the regulatory requirements.

Second point to make is we know that this year, the macro-environment does not support very aggressive business expansion and therefore, even as we have guided 3% to 5% loan growth, we have sufficent capital to drive our business at the pace we want to drive it.

That said, each of the entities that need regulatory capital have implemented the internal capital adequacy assessment process and that means that it is evaluated by the Board of those entities on a quarterly basis and should the need arise, they would raise their capital requirement with the HoldCo that would then have the burden to raise capital. We are saying that the market conditions do not conduce as we speak for any capital raising and, therefore, we need to be mindful of how we can deploy the capital that we have at this time.

Should there be any need by any of the operating entities to raise capital we can exercise the options that are available to us clearly and it is not limited to just going to the capital markets. We have other options we can look at.

Now, with respect to dividend payment, yes, the dividend payment was done by the holding company and that is to be expected. The holding company is an investment holding company, not an operating entity. So what we do is to receive dividends from our operating entities and insurance, FBN capital upstreamed dividends to us as expected, we also have profit from sale of our Microfinance. All of those we have pulled into HoldCo and since we have the primary obligation to distribute dividends to the ultimate shareholders, we have no need to retain capital or excess liquidity at the HoldCo level. So it is to be expected that the surplus funds we hold that we don't need will have to be distributed to the shareholders and that's what we did. We are paying NGN0.15, about 150% higher than we paid for 2014 and that's to reward shareholders for their loyalty.

Olamipo Ogunsanya Okay. Thank you. But my first question was more around what sectors drove your growth in NPL and also, as a follow-up question, so how much of Atlantic Energy has been provided for?

Adesola Adeduntan

Again, I won't be able to provide specific information on Atlantic Energy because of client confidentiality. I think it is sufficient for this purpose to say it is a classified name and appropriate provision has been taken in line with the IFRS.

In terms of the sectors,it is a bit diffused we have around downstream oil sector; we've always had exposures in telecoms; I mean so real estate and I think those are typically the main areas, downstream sector, real estate and then upstream actually. So those are the key areas where incremental impairment charges were taken

Olamipo Ogunsanya Thank you.

Lanre Buluro - Primera Africa

Hi. Good afternoon. Thanks for the call. This is a similar question to the other questions. As at nine months, your guidance was quite very conservative. You were still guiding for cost of risk of around 3%- 3.5% and NPL of 5%. What turned around within the fourth quarter to result in the kind of spike that we saw for the full year?

Also, you have mentioned changes around risk management. Specifically what are you doing different from six months ago? Quite curious to know, is it complete overhaul of the team? Are you bringing in new people? Are you really streamlining in terms of more robust risk management desk?

Also, finally, you definitely addressed the Atlantic Energy situation, on your presentation you mentioned some reclassification of oil and gas exposure to government. Can you give us some colour on what this exposure is and the parameters around this restructuring?

And one more question. Oando, what's the exposure? What kind of risk to your book is Oando right now? Thank you.

Adesola Adeduntan

Okay. Thank you. I mean I have answered the first part of your question in responding to question one. We've said when we saw the rapid deterioration in Q3 in the portfolio we carried out a very detailed analysis, review and re-evaluation of the portfolio and that was actually what necessitated the increase in both the NPL and the impairment charges that came out as a result of our assessment. That was what prompted the profit warning and that's where we are.

On the reclassification between oil and gas and government portfolio there were certain exposures to IOTs that involved both international banks and Nigerian banks. Those obligations were subsequently taken over by the National Oil Company which qualifies them to be public sector exposure. That was actually the major driver of that reclassification.

In terms of what are the key changes that we have made as far as the risk management is concerned, we did mention in the opening remarks that this for us is a very comprehensive risk review and revamping of the entire credit risk process. So we are looking at people, process, policy and the technology. So today we are in the market to hire a new Chief Risk Officer. We are looking at a number of functions. We've changed a number of people within the directorate. Equally important is the fact that we have KPMG professional services, the risk consulting arm of KPMG is working with us in terms of strengthening the process. We just completed a diagnostic review in terms of where we are today, what are the gaps and we're working very hard to close those gaps.

From a technology perspective, we have approval of the Board and we are currently implementing the Oracle Enterprise Risk Management solution. This helps us to pull everything in the right direction.

We've actually depicted what we are doing more graphically on slide 26 of our presentation. For us it is wholesale review starting from customer acquisition, customer selection and customer profile all the way down to credit analysis, transaction structuring, monitoring of those exposures and when and indeed because it is expected in the ordinary course of business that there will be one or two challenged facilities, how do you remediate and if we need to go into recovery, how do you do that?

Part of what we've also done in the last few months is we've strengthened the remedial capacity within the bank. We've also strengthened the recovery capacity within the bank. So, there is a whole gamut of changes and our commitment as a new management is we will ensure that we break this cycle of the institutions having high NPL and cost of risk on a going forward basis. So that is our mandate and that is the commitment we are giving to the investing community.

Lanre Buluro

Okay. Just a quick recap in terms of the dividend payout. So, if I understand it, you are saying that the CBN guidelines on dividend payout with regards to high NPLs and the risk level of the bank does not apply to the HoldCo?

UK Eke

This is UK, the GMD. The bank is the regulated entity here with respect to dividend payout restrictions and the circular says that when you have NPLs above 5% you can't remit dividend or you can't pay dividend and therefore we did not receive dividend from the Commercial Banking Group. No, we did not. The dividend we are paying came from the other operating entities. Of course, I had also mentioned that we made a profit on sale of one of our subsidiaries, the Microfinance. So there is no restriction on the holding company in terms of paying dividend from other operating companies.

Lanre Buluro

Okay. All right. Thank you.

UK Eke

You're welcome.

Ronak Gadhia- Exotix

Good afternoon. Thanks for the presentation and taking my questions. My first question is on your restructuring. On your presentation you have mentioned you restructured some loans. Can you just highlight what the key restructuring terms are? Specifically within the oil and gas sector, what the breakeven oil price you've used for the restructured loans.

The second question is on your capital. I see there is a pretty big shift in your capital allocation from statutory reserves to retained earnings. Can you just talk briefly about that because I would have thought in an environment like this, Nigerian GAAP provisioning would have been much higher than IFRS? So, if anything, your statutory provisioning would have increased. If that NGN40 billion transfer hadn't happened, your capital adequacy ratio would have been a bit lower.

Then as per the previous caller, can you just clarify what your exposure is to Oando and how that exposure is classified? Thank you.

Adesola Adeduntan

Let me start by commenting on the prudential provisions in line with the Central Bank Prudential Guidelines provisions under the International Financial Reporting Standards (IFRS). The reality is, at the end of the day you are looking at the same portfolio, at a particular point in time there could be misalignment between the two requirements in which case one particular framework is ahead of the other one. What has happened in the course of 2015, because we've been quite aggressive in recognition of impairment charges, is that there was a firm alignment between the provisions required under IFRS and the provisions required under the CBN Prudential Guidelines.

So once we took everything that was required under IFRS which were taken through the P&L and that was sufficient even when the portfolio was subjected to evaluation under the CBN Prudential Guidelines, there was no need to keep the statutory credit reserve any longer. So basically, that was what happened and that was why the statutory credit reserve was released and is now part and parcel of the retained earnings.

In terms of the restructuring in the oil and gas sector, the major terms of restructuring are typically around the tenor in which case most of the tenors have been elongated to take account of the fact that the price of crude oil has dropped and the volume of crude oil that is now required to repay those facilities is higher and you now need to push the tenor much longer.

In terms of the base, the pricing that have been used, is about USD35 per barrel. So that is the underlining pricing that have been used for the purpose of restructuring.

On Oando, again, we have to respect customer bank relationship here. It's a name that we are monitoring very closely, but I'm not allowed to disclose on a call what my relationship with specific obligors are. But I can assure you, it is a name is under our radar screen and we are managing very closely.

Ronak Gadhia

Okay. Just a couple of follow-up questions. Nigerian GAAP requires you to make 100% provisions if a loan is non-performing for more than one year. So does it mean some of these big NPLs are non-performing because the remedial action isn't concluded immediately? Does that mean you will then have to reclassify or transfer some reserves from retained earnings to statutory reserves?

With regard to the restructuring, like you said, you've elongated the duration of some of these loans. But what kind of problem will that create when your long-term bonds start to mature?

Adesola Adeduntan

Let me take the first question around the Nigerian GAAP. The portfolio is always subjected to review on an ongoing basis. You will remember when we spoke about what it is that we are doing differently during the course of 2016, we mentioned the fact that we are strengthening our remediation capacity and our recovery capacity. So what that does is that we're working very hard on these names that have been classified and we are reasonably optimistic that a fair amount of names that have been classified would move back, or would move out of the NPL portfolio and they will move back into the performing portfolio. Again, it is an ongoing evaluation of the portfolio in line with requirements.

With regards to your second question, in terms of long-term funding, we do have access to the market, we do not believe that in the short to medium term we are going to have any liquidity challenges, The market is open to us, we continue to engage with our lenders and we continue to also generate the required cash flow to meet our obligation.

You also need to look at the tenor of our existing Tier 2 bonds, they are pretty long-term. I mean far extended. I think the first maturity is some time in the course of 2018 and that gives us ample time to build up the required cash flow to meet the maturing obligations.

Ronak Gadhia

Okay. Thank you.

Konstantin Rozanov - JP Morgan

Thank you very much for the presentation. I have a few questions. So my first question, could you please elaborate more on how concentrated is the NPL stock at the moment? And also I would like to know maybe some details some of the specific names constituting this NPL stock what are the gross amounts of these exposures and how well they are provisioned.

Adesola Adeduntan

I can speak to the concentration of the NPL portfolio, although I won't be able to provide you with a name by name analysis. The top 20 NPLs constitute about 85% of the non-performing loan portfolio. This comes as an advantage and a disadvantage. It is an advantage that if you remediate one or two of them it does have material impact positively on the NPL portfolio and that is actually where we've been deploying our remediation resources.

We think the fact that the NPL is relatively concentrated gives us an opportunity for a rapid resolution of most of those issues. It's not very diffused and very well concentrated.

In terms of industrial segment, it's essentially around upstream and downstream portfolio.

Konstantin Rozanov

Sure. Thank you. How well provisioned are these exposures? Can you please specify?

Adesola Adeduntan

Again, we've made mentioned that we report under IFRS, so adequate provisions have been made under the IFRS requirements.

Konstantin Rozanov

Okay. Thank you. The final question I had is on the minimum capital ratio. Could you please elaborate what is the regulatory minimum for the bank? I see that the most recent figure is 17.2% for the end of Q1.

Adesola Adeduntan

The minimum capital required for the bank is 15% as we speak today. There is a plan for an additional 1% to be added over and above that effective 1 July 2016 for systemically important banks. Today, the capital adequacy position of the bank is at 17.2%. Whether you are looking at 15% or you are looking at 16%, the bank has adequate capital to meet its business obligations.

Konstantin Rozanov

Sure. Thank you.

Marina Vlasenko - Pioneer Investments

Hello. I just have four little questions to follow-up on what colleagues already have asked. So, in your restructured portfolio of 12% of the gross loans, which part is actually recorded as NPLs?

The other question, provided that the two big loans you are referring to are not recovering by the end of the year, what kind of level of coverage you would expect to achieve?

Adesola Adeduntan

Can you repeat your first question again? We get the second question, but the first question was not clear.

Marina Vlasenko

From the 12% restructured loans, which part is actually recorded as NPLs?

Adesola Adeduntan

Okay. For the first of your questions, we will come back to you. We don’t have that information readily available.

But in terms of your second question, we’ve mentioned the fact that we are working aggressively in terms of remediation and recovery. Over and above that is the fact that we do generate significant or sufficient current year earnings that enables us to be able to absorb any shortfall in the provisions as required.

Marina Vlasenko

So what level of coverage ratio would you like to achieve by the end of the year provided that the two big loans which do not require high provisions are not recovering?

Adesola Adeduntan

I mean like I said, at any particular point in time, because we report under IFRS, what we always aim to do is to ensure that our provision is fully in line with the requirements of IFRS. So, whatever it is, wherever it will end up in terms of coverage, coverage is like secondary. The primary thing is compliance with the requirement of IFRS in terms of provision and I'm sure you are quite familiar with all the inputs into that entire provisioning process.

Marina Vlasenko

Yes. It's just a little bit kind of contradictory because what you are saying is that your NPLs right and they are going down right now. At the same time your expected cost of risk is higher than the cost of risk for the first quarter. So you are kind of aiming to increase cost of risk, right? This is why I am just trying to understand why are you planning to increase it if the NPLs are going down and you think they are now adequately provisioned?

Adesola Adeduntan

Again, I go back to part of my responses earlier on. The loan provisioning process, is an ongoing process of appraising and reappraising your portfolio and at any particular point in time you also need to consider the fact that you create different scenarios for your planning process. You make certain assumptions in terms of what you think you may be able to remediate and if you are going to remediate, what level of cost of risk are you dealing with. You won't be overly optimistic to the extent that your guidance to the market is completely out of whack with reality. So, it's a delicate balancing looking at your assumptions around remediation and the assumptions around incremental impairment that is required. So you have to balance the two.

If we are unable to remediate, we need to prepare to take incremental provision and that is what I have done into the scenario and that's what has gone into the guidance number.

Indeed, if you look at slide 19, one of the bullet points there actually provided some guidance around what I'm saying.

Marina Vlasenko

Thank you. Thank you.

Ola Warikoru - SBG Securities

Hello. Thank you very much for the presentation. I have a few questions. My first question, with regards to your upstream oil and gas exposure, what does management think is different with other large banks that have much lower NPL ratio in the sector?

My second question, regarding electronic banking fees, is it possible to split the electronic banking fees into cards and online banking fees?

What is management's ideal level of FCY to total loans level? How much of the loans are to businesses generating FCY revenues at the moment? Thank you very much.

Adesola Adeduntan

The first part of your question relating to our upstream exposure, again, we are not privy to the portfolio of other institutions. We've taken our own situation and we've basically evaluated our portfolio and that was what informed the decisions that we have taken from an impairment and from an NPL perspective. So, again, each institution has their own peculiarities and they have their own risk and threshold.

We do not currently have the split for our e-business revenue. We will provide it to you shortly during the course of this call.

Ola Warikoru

Okay. Thank you. The other question I had was regarding the ideal level of FCY loans to total loans and how much of the loans are to businesses generating FCY revenues?

Then one additional question. I would like for management to elaborate on the material increase in interest expenses from banks. Average rate is around 12% when compared to published interbank rates in 2015. Thank you.

Adesola Adeduntan

The ideal situation for us would be to have a 70% to 30% split between local currency exposure and foreign currency exposure. We are not there today because in 2014/2015 there were one-off opportunities in terms of oil and gas that the bank, given what we stand for decided to support. In the ordinary course of business as things pan out our ideal loan book structure will be 70% to 30% from a local currency and foreign currency distribution perspective.

In terms of entities generating foreign currency cash flow, we think about 80% - 85% of the exposures today are to entities that generate foreign currency cash flows.

UK Eke

Can we have the next question please?

Lanre Buluro

You've answered the Oando question, but just one of the themes you're looking at to drive revenue, the credit card business, Can you walk us through how you are planning to generate income from that given the economic state right now? Who are you issuing the cards to? Are they salary? Are they cash backed? What's the parameters around this particular product?

And also, on the e-channels, for the bank, the largest customer is about NGN10 million, the income you are making compared to your peers, at least the other two Tier 1 banks is quite low. What difference, or what are you doing that they are not doing? That will be it. Thank you.

Adesola Adeduntan

Let me take the second question first on the e-channels and the revenue from there. That is actually one of the biggest areas of our focus in the current year. We will push very aggressively on our digital banking business and cards. Part of the strategic shift that we are going through at the bank is to make this bank to be a transaction-led institution rather than a credit-led institution. So what you are going to be seeing from us in the months ahead is a significant push of our digital banking and ebusiness type products and transactions. Given our footprint, given our customer base, and even given our customer base acceleration going into the future, we believe this clearly is at the epicentre of what we are trying to achieve as the new leaders of the bank. So you will see a big push around our e-business offering and we believe in the fullness of time, this will also cascade down in terms of the level of revenue that we will be generating going forward.

For credit cards, for us we are issuing our credit cards to top notch customers. Most of them employed with blue chip companies. The risk acceptance criteria around the credit cards are well defined. The lump sum that we are seeing over time is quite low and we are pretty comfortable that this is the product, in fact, indeed, we think we've operated these in a very, very conservative manner, one of the things we are hoping to do is expand the base without actually loosening the control and the risk management processes that were deployed around the card business.

In terms of your question on restructuring, 51% of the restructured loans are actually part of the NPL. So the portion of the restructured loans that are within the performing portfolio is actually less than 40%. It is about 39%. So a significant chunk of the restructured loans have actually been classified today and we are going through the process of remediation and recovery on the names.

UK Eke

I just wanted to speak for that to Lanre's question on revenue generation. To remind us that FBN Holdings goes beyond the commercial bank and therefore we've got the Merchant Bank franchise and we've also got the insurance. We did say that currently the Merchant Bank has sufficient capital, about 25%, and therefore they can put their balance sheet to play even when they do advisory services. We did say that there is going to be a whole lot of bond issuance even from the national and sub-national. We do think there will be a whole lot that will happen around asset management. We do think that insurance business represents for us a major revenue source because this market is grossly underpenetrated and we are working with one of the best names out of South

Africa that is SANLAM. So in terms of product development and diversification we do think that there is an opportunity to gain market share.

We have leapfrogged from number 15 in life business to number two at the end of the year and we have a license right now to do general insurance. So clearly, we have a diversified revenue base to augment what the commercial banking business is also generating.

Next question please.

Jason Ooi - Macquarie

Hi. Thanks for your time today. I wanted to ask you about a point I saw on slide 19 which was on the personal loans against salaries. I suppose the reason that this stuck out to me was because there is a bit of concern when the government stops paying its own employees' salaries. So I wanted to ask how much of the loan book is actually these PLAS loans, what the NPL ratio is, and do you have any background on like which agency the government suspended salaries to, how long it has been going on for, when these employees are expected to get paid again? Thank you.

UK Eke

The second question, what was it again, please?

Jason Ooi

I'm sorry?

UK Eke

The second question, can you please repeat the second question, please? I think you were talking about which agencies suspended salaries. Is that correct?

Jason Ooi

Yes. I just wanted to get a bit more colour on which agency the government suspended salaries to, how long they've been suspended for, when the employees are expected to start receiving their salaries again. On top of that, how much of your loan book are actually these PLAS loans and what the NPL ratio is?

Adesola Adeduntan

The total portfolio of PLAS in our books today is about NGN115 billion- you can see that on slide 18. Again, it's very important to highlight the fact that PLAS as a product is not just to public sector employees. Actually, this is a product that we have offered successfully to salaried staff of all our major customers. The majority of the exposure is actually not to government employees. That is number one.

What is equally important is that even though there have been delays in the payment of [break in audio]

Thank you. Continuing with our explanation around your question on PLAS, I mean I have made a point that the total exposure is in the order of NGN115 billion but that exposure is to staffof both public and private sector customers. However, a significant majority of that exposure is actually to staff of our customers in the private sector. The public sector customers, by virtue of their salary earnings, don't actually have a very big limit or very big headroom to take on salary loans. So when you look at this NGN115 billion, the significant chunk actually belongs to people that work in the private sector.

Even when you look at the public sector employees, the problem, or the challenges have always been in the sub-sovereign which are the state governments. But what we've also seen is that there are delays but ultimately they get cleaned up. With the Federal government we haven't seen any major delays, but with the sub-sovereign, there are delays but ultimately it gets cleaned up. So you could have three months delay, but ultimately it gets cleaned up.

Don't also forget that during the course of last year the Federal government indeed bailed out the states and what that did is basically improve the fiscal position of the state. Just this month the Federal government again gave another lifeline to the states which allows them to receive more cash proceeds from the federation account and this trickles down to their staff by way of payment of staff salaries.

In the short run we've actually reduced top PLAS especially as far as it relates to public sector employees.

Jason Ooi

Okay. Thank you very much.

UK Eke

Thank you.

Tosin Ojo - Cardinalstone Partners

Good afternoon and thank you for the presentation. I joined the call a little bit late so I apologise if you some of these questions have been answered.

The first is on your exposure to Atlantic Energy. Earlier this year, around February, there was news that another party is to going to take over their exposure to the lenders and we confirmed from the Investor Relations team that about 53% of the loan will be paid and the balance restructured over 24 months I want to get an update on that, has that initial sum been paid and what's the current terms of restructure for the balance?

The second question is on Oando exposure. Just for analysis sake, can I have an idea of what % level of exposure it is relative to your total oil and gas and portfolio?

Then I noticed also that in your Q1 non-performing loans breakdown, downstream exposure is about 39% and that's like the biggest actually, higher than upstream exposure. I know there is a bit of a problem with the upstream side and mid-stream because of the low oil price it is quite unclear what the specific problems is or that you are encountering with the downstream exposure. So I would just like to have clarity on the downstream non-performing loans. What sort of exposure do you have there? What are the causes of the non-performance? What sort of obligors in terms of quality? What sort of collateral do you have? Are they secured or unsecured? That's regarding the downstream non-performing exposure.

And the last question really is just more qualitative, just to get a sense of what to expect from this new management. Part of the challenges that FirstBank has probably had, will be, the influence of related parties and related party exposures and transactions. So I just want to get a sense of how immune the current management will be to such transactions? What level of confidence should we have in FirstBank as an institution going forward? Thank you.

Adesola Adeduntan

I will take your question. Like you did mention, virtually all the questions you asked have been dealt with earlier on but I will try and paraphrase our responses

On Atlantic Energy, we've actually admitted the fact that the remediation process has been slower than we thought, but it's still a work in progress and we are reasonably optimistic that we would eventually close out on this remediation process. We indeed did mention the fact that we've taken some level of impairment on Atlantic Energy. So that's as far as Atlantic Energy is concerned.

On Oando, what we've stated is that we would like to respect customer bank relationship confidentiality, so we will be unable to disclose specific terms in terms of our relationship with Oando. Just to mention the fact that our exposure to Oando is not overly big. It's not one of the cases that will keep management awake at night in terms of size and potential impact.

In terms of downstream exposure, again, we have provided clarification around this. Each entity, each bank are in different situations. We do have different obligors, we evaluated our exposure to certain of our obligors and we are of the view that it is prudent at this particular point in time to take some degree of impairment while we go through the process of remediation.

A number of them do have collateral, but again we do realise that for the purpose of the downstream, for the most part the collateral that typically supports the downstream business is in trade transactions. So the collateral is around the good that has been financed. But a number of them also have some tangible collateral. But we're dealing with this; we are remediating them and is part of the key focus for the new management to remediate them as much as possible.

In terms of what should be your expectation of new management, again, we've demonstrated what is possible. We've been very open, we've been very transparent in terms of what we do. We signalled correctly when we felt that there was deterioration in the loan book and that was what necessitated the profit warning. If you look at the level of impairment we've taken in the audited financial statements for 2015, indeed, even what we have taken in Q1 suggests clearly that this is one management that is keen to have a clean book.

We've also covered extensively what it is that we are doing in terms of strengthening our credit risk management process going forward which for us is the most important part of the whole essence ensure that we do not have a repeat performance of this. If you go through the data that was circulated, I think it was on slide 26 where we articulated very clearly and profusely what it is that we are doing in terms of remediating and revamping the credit risk management process. We are looking at this end to end - people, process, policy, and technology and we are not going to leave any stones unturned as far as revamping that process is concerned.

We indeed also mentioned there, and I am sure you have picked it up from the press, that we have just appointed a new Executive Director in charge of Corporate Banking and that is part of strengthening the process because we are looking at this not only on the credit analysis, we are looking at this right from the onset in terms of customer acquisition, customer profiling, who are you dealing with in the first instance. We are in the market today to recruit a new CRO. Again, the same criteria world-class experience, world-class skill set because for us, we are very clear on where we want to be, how we will get there and the nature and the character of people that is required to deliver the kind of results that we are expecting going forward.

UK Eke

Next question please.

David Ashby - SMBC

Hi. It's actually David Ashby from SMBC. Thank you very much for your presentation. I've got two questions. What percentage of your NPLs are related to foreign currency loans and lending?

My second question is how are you meeting your foreign currency liquidity obligations? Thank you.

Adesola Adeduntan

Let me start by answering your second question. Today as a bank we are meeting our foreign currency obligations. Indeed, just like every other bank in Nigeria today there are challenges with foreign currency liquidity, but this bank has not defaulted on any foreign currency obligations. We continue to ensure that we have the right level of liquidity, the market is still open to us, the correspondent banks still have faith and confidence in this bank and our customers too. So, in terms of meeting our foreign currency obligations, this bank is doing that within the ambit of where the market is today. There has been no single default in terms of meeting our foreign currency obligations.

We currently don't have the split of the NPLs by currency. But I'm sure during the course of the call before we wrap it up we will have it readily available. Yes.

David Ashby

Thank you.

UK Eke

Next question please.

Kayode Tinuoye - United Capital

Okay, good afternoon. Thank you for the call. I have a few questions. In terms of your loan growth expectation, which sectors do you expect to drive your 3% to 5% loan growth target for 2016?

Then my second question has to do with your cost reduction strategies. Can you just provide a bit more colour what specifics you're looking at for 2016? If you can provide a quarterly run rate, that will be fantastic.

Then lastly, the last question has to do with your remedial actions. What kind of targets are you looking at for 2016 in terms of the number that you are looking to recover going forward?

Adesola Adeduntan

Okay, thank you, Kayode. I think the first point that we need to emphasise is that this bank will continue to maintain a very low to moderate loan growth again in line with the macro situation. Having said that we believe that we have opportunities from manufacturing, especially the high end manufacturing because part of what we are trying to do is to ensure that we lend and we lend safely to customers with very good credit rating, top notch rating. So the chunk of the growth will come from that side.

We are also looking at short-term liquidating trade-related transactions that cycle out very quickly where we don't have any build-up of exposure that may lead to NPLs.

So broadly speaking, those are the two key areas where we want to be able to deploy our credit headroom during the course of the year.

In terms of cost reduction, again, this is a very keen area of focus for us. We've mentioned the fact that we have restructured our procurement function. What we have done basically we've separated the needing function from the buying function and we've relocated the procurement function to the CFO directorate such that there is an alignment with the goal of the executive that has the mandate to bring down our cost. So, from general procurement, we are expecting significant savings. We are also doing realignment of staff in terms of how our staff have been relocated.

We've mentioned earlier on in the call that we are also implementing enterprise resource planning system, enterprise risk management system. The capability this gives to the bank is that we are able to automate and use technology to do a number of things that we use headcount to do today. Our top of the level analysis suggests that we can reduce the cost of running our middle office by close to 20% to 30% if we implement the ERM and the ERP solutions successfully. So that is another key area.

We are also looking at reducing the overall cost of running the institution from its power generation. So a lot of attention has also gone into how we procure diesel and how we use diesel and also the number of hours by which our various branches are up in terms of making use of diesel.

Part of what we are also working on in the medium-term is actually our shared services scheme. Where we are today that we have a created a central processing centre and we are centralising transaction processing pulling them away from all the 700 odd branches that we operate such that the unit cost of processing transactions in the long-run goes down. We think this could be very significant and major for us given the number of branches that we have. Indeed, in the second phase our plan is to pull transaction processing from all our African subsidiaries again into the same hub and basically reduce our cost of transaction processing. So these are the efforts in terms of dealing with our costs.

This is also one key area where we have had personnel changes we are bringing in a new executive to take charge of technology and services. Again, from a best in class type institution. Part of the mandate of the new executive in charge of technology and services, is to drive these centralisation of transaction processing, and also drive the digitalisation of transaction processing. We think that in the next two years this will contribute significantly into reducing our overall cost of operations.

UK Eke

Can we take the next question please?

Kayode Tinuoye

The last question on remediation in terms of target for the year.

Adesola Adeduntan

I don’t have specific target off the top of my head. The key thing for us is that it’s one of the focal points of our current year priorities. Indeed, I think it is in the top two in terms of priority and that gives you an idea of how much attention is being inputted into this. I don’t have the specific target with me here, but the target is very steep. Our goal at the end of the day is to remediate and recover as much as possible what we have in the NPL portfolio today.

Kayoed Tinuoye

Thank you.

Kato Mukuru - Exotix Capital

I hope you can hear me well. My first question is on the retained earnings. I saw retained earnings increased by about NGN52 billion. Where is that coming from? Is that coming from the statutory credit risk reserve? If so, can you give us a bit of information as to why that is increasing? Is there a discrepancy between IFRS and the Prudential requirements for provisions? First question.

Second question is how come collateral didn't increase? Since you were having trouble with some of the loans, why wouldn't you have used the opportunity to increase the collateral on these loans, at least ask the borrowers to apply more collateral?

Then thirdly, unfortunately I've been around a long, long time and we've heard several reiterations of improvement in risk at FirstBank and actually for a long time you had probably one of the best Risk Officers if you ask me. Why this time another change and why should the market believe that this time it's going to be very different or you're going to get it absolutely right? Why this time round? Where should the confidence come from for the market?

Sorry, one last question is you currently have a 37% coverage on your NPLs. Why did you decide to stop at that level and why should the market have comfort that it's indeed sufficient? Personally, I think investors should always be pricing in 100% coverage. If they do that, your current ratio drops to 11% which means you're below the minimum requirement for an important institution. So why should we be so comfortable that this 37% coverage is actually enough for FirstBank going forward? Thank you.

Adesola Adeduntan

Thank you for your questions. Let me try to answer them one after the other. You are absolutely right, the bulk of the increase in retained earnings came from the reduction in statutory credit reserves. I had earlier on I explained these that typically where you have statutory credit reserve is where there is misalignment or lack of alignment between the provision required under IFRS and what is required under the Prudential Guidelines issued by the Central Bank.

What you have, or what we had in 2015 was a situation where there was a near perfect alignment between the number that was thrown up by these two different frameworks. Given the fact that we report under IFRS, we are obligated to charge the provision that we needed to take under IFRS through our profit and loss account. So we took 100% of what we needed to do through our profit and loss account and that approximate the level of impairment that was also required under the Central Bank Prudential Guidelines. So, invariably, the balance that was outstanding in statutory credit reserve was no longer required and it became a bona fide part of retained earnings and that was this, so this was clear.

Kato Mukuru

Can I ask a follow-on question on that?

Adesola Adeduntan

Yes, please.

Kato Mukuru

If there is a perfect alignment and we understand Prudential Guidelines are very straightforward in terms of timing and required provisioning, so can you tell us where we are on the timing and required provisioning because therefore we should be seeing a step up? If there is no recovery by year-end of this year, we should have 100% coverage, isn't that correct?

Adesola Adeduntan

Again, it's not very mechanical the way you put it. But invariably that is a very simplistic approach to looking at it. The CBN Prudential Guidelines also recognise certain credit risk liquidation techniques, especially when they are in the cost of realisation. So it's not a very direct translation the way you put it.

I think what is more important is for us to focus on what we need to do in terms of remediation, in terms of recovery to ensure that the loans that we put on our NPL portfolio we work assiduously to ensure that a bigger chunk of what you have there are remediated.

Let me go straight to what I will consider the most significant question you've asked which is around what has changed, what will change, and why should the investing public believe the changes that we are making around our risk management will work. Again, I go back to the basics. We have emphasised that for the first time we are doing a wholesale review of the credit risk management business. We are looking at people, we are looking at policy, we are looking at processes and over and above that we are deploying technology to drive the monitoring and the analytic process. That's number one.

Number two. We also have in the team over and above the team, the people in risk, people with significant risk management capabilities. I've mentioned that.

We also mentioned earlier on that in structuring the leadership team part of what we also look for are people with capabilities. So part of the reason why we brought in the new executive director in charge of corporate banking is essentially to deal with customer acquisition, customer profiling, deal structuring and ensuring also that we structure our corporate banking transactions going forward the way it is meant to be structured where you basically structure, hold a percentage and you distribute. For us to be able to do this, the transaction needs to be structured properly in a way and manner that allows for it to be distributed.

So we are looking at it and we are convinced, I'm convinced as the leader of the team, as the CEO, again I do have background in risk that we are and we can pull it off and embed a new risk culture within the bank that ensures that we operate at the right level.

I also mentioned something around what we are doing. We mentioned just now that we are bringing in the new executive in charge of technology and services. Again, this is the whole part of building a leadership team that has the right skill sets that complements each other and the person we are bringing into technology and services also has significant experience in operational risk management and that also contributes to reinforcing the entire control environment within the Bank. We believe the market should give this current management the opportunity to do this wholesale review and embed a new credit culture within the institution. We are certain that we will get it right and we will break the cycle of the Bank losing a significant amount of money on account of bad credit.

Kato Mukuru

Thanks.

UK Eke

Thank you very much. Just a quick closing remark. I would like to emphasise that this Group remains very resilient and obviously you will agree that the fundamentals remain very strong, a lot stronger than ever before. We do believe that the stock is trading at far less than its intrinsic value and what is even more important to us is that we've got a new management that has the desire and surely certainly the capacity to deliver on the numbers we have projected.

So I would like to thank you sincerely for your participation and we will see you at our next call. Thank you.

[End]