COMPANY: FBN HOLDINGS PLC

CONFERENCE TITLE: HALF YEAR 2016 FINANCIAL RESULTS

PRESENTER: UK EKE, MFR

THURSDAY: 26TH JULY 2016

Operator

Good morning and good afternoon, ladies and gentlemen. Welcome to the FBNHoldings half year 2016 financial results conference call. Following the brief overview by the FBNHoldings Management Team, an interactive question and answer session will be available. I would now like to hand the call over to Mr UK Eke, MFR, Group Managing Director of FBN Holdings Plc. Please go ahead, sir.

UK Eke, MFR

Good morning and good afternoon, ladies and gentlemen. I am UK Eke, MFR the Group Managing Director of FBN Holdings Plc. I would like to welcome you, on behalf of my co-host today, Dr Adesola Adeduntan, the Managing Director of First Bank of Nigeria Limited and its Subsidiaries to this call. We shall be presenting our unaudited six months results for the period ended June 30, 2016.

I would like to confirm that we released the results today to the stock exchange and have uploaded to our website. I would make an assumption that you have had time to review it. I will do a quick summary in a minute or two and then we will go straight to questions.

Essentially, we had a very challenging operating period and then Fitch downgraded the Long-term Foreign and Local Currency Issuer Default Rating for the Sovereign. On the back of that, we also had a downgrade of FBN Holdings Plc. The other point to note, from a macro point of view, is that the economy continued to contract quarter on quarter. The IMF has stated that the second half will be very challenging, as such we do not expect to see a remarkable improvement in market conditions and economy generally. During the period under review, we also saw the Central Bank of Nigeria step in to Liberalise the foreign exchange market. This led to about 40% currency devaluation, which obviously had a significant impact on our operations. Despite this slow business environment, I am glad to report that we posted about 1.2% drop year on year in our gross earnings. We also took an impairment charge of about NGN69.9

billion. This is mostly arising from the impact of devaluation on the oil and gas, real estate and general commerce sectors of our loan book.

There was a slight rise in NPL ratio from 21.5% in Q1 to about 22.8%. I would confirm that the four key things that occupied our attention, was around diversifying our revenue base which we committed to and saw a good improvement in the contribution of the non-bank subsidiaries in this regard. The second thing that occupied our attention was improving the asset quality. We committed to this and I am glad to report that we are seeing remarkable improvement in our risk management practices. We have reset our risk appetite and also tightened our risk acceptance criteria. We will continue to pursue the recovery and remediation which we committed to and will provide details as we progress on this call.

The fourth commitment is related to the cost efficiency. We are glad to report yet another great show in terms of cost-to-income ratios which have dropped to 47.4% from 61.6% prior-year number. Indeed, riding on that, we have continued to show improvement in our cost of funds. The last item that we committed to working on, is the capital efficiency. I am glad to report that all the operating entities that are regulated capital wise, have exceeded and continue to exceed the capital adequacy ratio as required by CBN. For FirstBank standalone, we closed at 15.4% which is above the regulatory requirements and for the Merchant Bank, we closed at about 27.9%. Recall that the required ratio for the merchant bank is just 10%.

We are happy with the results we have seen so far. I think they validate the efficacy of our various initiatives and we think that as we get into the last half of the year, we will continue to post results that are respectable.

That said, I would like to open the lines for questions and I would be glad to take the questions from participants.

Question and Answer Session

Konstantin Rozanov – JPMorgan

Thank you very much for the presentation. We have seen that in the second quarter of the year, the bank reported quite a significant increase in loan impairment charges in the income statement. Would you expect to repeat the same amount of loan impairment charges going forward in Q3 and Q4 this year?

UK Eke, MFR

Your question is around impairment charge for the first half of the year, for the second quarter and asking whether we expect to see such elevated charge again for subsequent periods, right?

Konstantin Rozanov – JPMorgan

Yes.

Sharat Dua – Charlemagne Capital

Hi, good afternoon. Yes, two questions really. The first is to expand on the previous question. If you can give more details on the asset quality numbers and the provisions, you have taken and what oil and gas exposures you have taken as NPLs? What you've restructured? What the terms of some of those restructurings would be? Just so we can understand how conservative, I suppose, you've been as far as classification of loans and impairing those has been? Obviously the coverage ratio is still pretty low. That would be the first one, just more detail on the asset quality.

The second relates to the foreign exchange gain that obviously was also significant. Clearly it's devaluation related, but can you be more specific as to whether this is just simply repricing of long assets, if there's some derivative positions in there that have paid off and how you're positioned going forward? Obviously we've seen the currency continue to weaken since 30 June. How are you positioned for further currency weakness in the aftermath of that? Thank you.

Dr Adesola Adeduntan, MFR

Thank you for those questions. I am Dr Adesola Adeduntan the Managing Director of First Bank of Nigeria Limited and its Subsidiaries. Let me first of all start by giving you feedback around the asset quality. As you know, when we held the Q1 call, we did mention that our key focus in 2016 would be on remediation and recovery. That is in progress, even though we have not presented the figures on the recoveries, as it is not yet very substantial. However, we have seen very good progress, especially as far as the top two NPL names are concerned especially for the main name that is in the public domain which is Atlantic Energy.

This process stalled a bit because of the nature of the asset itself and the number of stakeholders that need to get on board for us to move forwards. We are happy to report to you that that process is gaining more traction now and from all indications, we expect that before the end of this current financial year, this should be fully resolved. As far as the other large challenged accounts are concerned, a varying degree of progress has been made. Cumulatively, we see progress and we expect that the impact of the progress that's been made will begin to feed through our financials as we move towards the end of the year.

Regarding your question on whether we expect, the impairment number to continue in the second half of the year. A lot will depend on the actual result that we achieve with the large challenged accounts, we are reasonably optimistic that at least one if not two of those challenge accounts will be recovered during the course of Q3, Q4. If that happens it will be a major boost in terms of reducing the NPL level and also impacting on the impairment charges.

On the FX gains that happened in Q2, we had mentioned earlier on that we do have a long-dollar position and devaluation would be positive, as far as the structure of the balance sheet is concerned. However, the other side of the devaluation is that given the structure of our loan book today, where prior to devaluation is 45% of our loan book, is denominated in foreign currency, the impact of 40%, 50% devaluation is that our loan book has grown on the back of devaluation and our risk weighted asset has also grown and with direct impact on our capital adequacy ratio. Which explains why our capital adequacy ratio dropped from 17% to 15.4%. 15.4% being the capital adequacy ratio without considering the earnings up onto the half the year. If you consider that post audit, then our capital adequacy ratio should inch up to 16.7%.

Regarding your question on the impact of further devaluation, we continue to sensitise our balance sheet to impact on further devaluation. We have looked at an additional 20% devaluation from N280 to the dollar, which was where it settled originally. We think we will be fine. Yes, it would impact on the risk-weighted assets and the capital adequacy ratio but will also have a positive impact in terms of exchange gains.

Ndubuisi Obike – Stanbic IBTC Pensions

Hi, good afternoon. I would like your view on the impact of the recent increase in MPR to 14% given that about 30% of your deposit are from savings accounts, and you know that savings accounts interest rate is tied to MPR. How do you expect that will affect your net interest income for the rest of the year? That's one question.

I'd also like your revised guidance for the following; loan growth, deposit, ROE for full year 2016.

UK Eke, MFR

I will take another question please

Steve Motsi – BPI Capital

Hi, thanks for the call. Just two questions from my side. Just want to get a sense for the size of the USD portion of your equity, if any? Also, just looking at your interest income that declined, you were expecting some kind of a jump on your interest income on the back of the revaluation of the interest income that you earn in dollars. So that's been a bit of a surprise to see it coming down. Could you maybe talk us through that? To get a sense for what's really happening to your reducing interest income? Thank you.

Steve Motsi – BPI Capital

The second question. We noticed that your interest income declined and we were looking at it and thinking that it might actually go up since you would have probably revalued some of the interest income that you received in dollars. The translation effect would have probably been positive. Seeing it coming down, it's raised a lot of questions for us into why it came down.

UK Eke, MFR

Okay, that's clear now, thank you.

Steve Motsi – BPI Capital

Okay, thank you.

Ini Ebong

This is Ini Ebong, the Group Treasurer. Related to your question on the increase in the MPR and the impact on net interest margins. I think generally speaking, when you look at a bank like ours, the higher rate environment tends to be NIM supportive for us. Yes, there will be an impact on Cost of funds as there is a cost associated with savings accounts as we adjust to align with the MPR. But it'll be more than compensated for by the increase that we will expect to see in the treasury book. Indeed, over the last couple of weeks, we've seen the CBN's monetary policy stance and more importantly its monetary policy action aligns more with what it's aiming to do on the foreign exchange side.

We expect a much higher rate environment and the opportunity that an MPR hike gives is that you then translate that across your loan book as well. We think that it still remains NIM supportive for us in this environment.

UK Eke, MFR

With respect to the guidance on loan growth, I would draw your attention to slide 25. We have provided guidance on all the key areas. Specifically, on the loan growth, we are guiding to 25%. This is largely driven by the devaluation essentially. Then with respect to the deposits, 10% to 12% NIM, we believe we can sustain 7.5% to 8% NIM within the current environment. Indeed, the Group Treasurer has just confirmed that in a rising interest rates regime, we are net positive, clearly. We are able to reprice our assets very quickly.

Cost of funds, 3% to 4%. Cost to income ratio, we have recorded massive improvements in that area. We think we can sustain that. We are guiding to not higher than 50% cost to income ratio. Keep in mind we are coming from a high of about 61% for first quarter. NPL ratio, I have spoken to that, 25% or less. ROA, 1.6% to 1.8%, and ROE 11% to 13%. Those are the numbers we have guided to on slide 25.

Dr Adesola Adeduntan

Regarding your question on the USD component of our capital structure, it's only our Tier 2 capital that's actually denominated in foreign currencies, and it's positive from the fact that our capital adequacy calculation is based on the naira balance, given the fact that our functional currency as a Nigerian entity is the Nigerian naira. This is positive. The equity of our UK subsidiary especially is also denominated in pounds. This in a way also helps with the overall hedging of the balance sheet.

Regarding your question on why the interest income dropped in the first half of the year, the interest rate environment was generally low. That was one of the reasons why maintaining our NIM was quite important for us. Interest income on most of our securities actually dropped. It's only at the beginning of the second half of the year, that the CBN monetary policy stance, is more NIM supportive and we expect it to trend upwards. That is one reason why our interest income dropped.

The other key reason why we had a drop in interest income in the first half of the year, was due to the quality assets, as such the need to keep quality assets on the bank's books and price almost became a competitive tool. There was some downward pressure on pricing there. Our expectation in the second half of the year is, given the recent changes that CBN has made as far as MRP is concerned, we expect that this, we believe, will be NIM supportive and we expect that our interest income will trend upwards. Both on our loans portfolio and also equally from our government securities portfolio.

Aderonke Akinsola - Chapel Hill Denham

Good afternoon, everyone. I would like you to be specific on the proportion of revaluation gains from your foreign exchange gains in H1? I would want you to give specific numbers. I'd also like to know how much trading income related to FX has impacted your performance so far since the market reopened. Was it something significant as at the second quarter? What's your expectation now going into the third and the fourth quarter?

On the MPR, I would like to hear your views on the impact of that on lending, do you see this as something negative for your loan growth?

UK Eke, MFR

Okay, thank you. Next question, please.

Nik Dimitrov – Morgan Stanley

Hi there, I have a couple of questions. The first question, are you able to provide some insight into your renegotiated loan book? What percentage of this renegotiated book is actually non-performing? That will be my first question and then I have a follow up.

I was looking at your guidance and was wondering what kind of FX did you use to come up with this guidance? The last question is going to be on capital. I was looking at your total capital, it's 15.4% and it's barely above the regulatory minimum of 15%. What is your action plan if the naira continues to devalue and put pressure on capital? I understand that some of it is dollar denominated, you did mention that the Tier 2 paper is dollar denominated, obviously you haven't hedged it back into naira. But nonetheless, there's going to be impact on capital. What happens if your total capital ratio dips below 15%? Thank you.

Ini Ebong

Speaking to the prior question on the proportion of trading income post the liberalisation of the FX market. In real terms, it's been nominal, simply because markets truly haven't really normalised and the liquidity levels are nowhere near what they used to be 12, 18 months ago. It's been limited. We have seen some improvements in market liquidity, we've seen some additional flexibility over the last, I would say, fortnight or thereabouts. We would expect that the outlook as it relates to FX trading performance and associated FX businesses in the trade finance book and so on, should be positive going forward.

But it really is underpinned by the level of market activity that comes back, which has started to improve. At this point, I would say it's largely nominal.

Dr Adesola Adeduntan

I would take the question on capital. Based on the unaudited capital of the bank today, our capital adequacy ratio stands at 15.4%. But we have also highlighted the fact that if you consider the unaudited earnings up until the end of June 2016, our capital adequacy ratio will be at about 16.7%. Again, we expect more earnings between now and end of the year and that will definitely be supportive of our capital position. We do have an understanding that capital retention is top priority over and above upstreaming of earnings into the Holding company. That's number 1.

Number 2, which is very important, since the current leadership assumed office, we have had a lot of strategic refocusing of the business. First and foremost, we are moving the institution away from being a credit led institution to a transactions led institution. By implication, we have minimal hold positions and the capital consumption is much, much lower. Very important is the fact that we are disposing our non-core assets. For example, we have a company called InSourcing that provides certain type of services that we have just sold. Currently, we're in the market, going through the process to divest from a fully-owned subsidiary of the bank, which is FBN Mortgage. All these are part of the capital enhancement and capital preservation methodology that we have basically embarked upon.

A combination of earnings retention, divestment from non-core assets, equally more important is refocusing the business away from a credit-led institution, more to a transaction-led institution. We believe a combination of all these measures should ensure that we land safely at the end of the day.

On the questions on the renegotiated loan book, as at half year, that was 3.3% of the loan book. A number of them are already in the NPL portfolio but I don't have the actual number handy. We'll provide that subsequent to the call.

The impact of MPR on lending, again, we think depending on how you look at this, this is already anticipated given where the inflation is. It shouldn't materially impact lending. It's also positive from the Government's borrowing perspective. In terms of our Treasury business, we think the impact is equally quite positive. For the purpose of our guidance, we also factor in some further depreciation in the value of the currency, we look at devaluation ranges between 10% to 20%. That forms the basis of the guidance numbers that are being used going forward.

UK Eke, MFR

I think we've answered the last of our questions, can we go to the next batch of questions please?

Victor Tiasur – Capital Bank Corp

Thank you very much for your presentation. My questions are regarding the last answer you have given, and another one. On your capital adequacy, the strategy is about earnings retention and divestments from non-core businesses. So businesses that are not generating as much as you expect. In terms of earnings retention, so that suggests to me that come full year 2016, FBNHoldings would most likely be retaining most of the earnings to shore up capital amidst the required capital adequacy ratio set by the CBN. Which might actually imply that the company might not be paying out dividend to shareholders. That's the question.

My second question is regarding the NPL. Your current NPL coverage is at 41.5% as against 127.0% for half-year 2015. I would like to know what prompted your decision to peg your NPL coverage at 41.5% as against 127%? Why should shareholders be comfortable or okay with the current NPL coverage ratio? Thank you very much.

UK Eke, MFR

I'm going to take the first question on capital. Then Sola will take the second question on the bank. Just to clarify, we have a policy to ensure that at the minimum, we have about 150 basis points capital buffer for each of the operating entities. That is not statutory, that is our policy. Today, we have 15.4% unaudited. Like my colleague, Sola said, if we capitalise six months' earnings, we're going to be at about 16.7%. If you annualise that, we'll probably be around about 18%. There is no doubt in our mind where we are headed in terms of capital.

He did make the point that we will retain the earnings in the books of the bank and that is for the purpose of ensuring that we maintain the buffer that I just spoke about. Also, you asked the question around whether we would not be able to pay dividend should the bank retain 100% earnings. Let me remind us that FBNHoldings is a listed entity and therefore that is the entity that will pay dividend to the ultimate shareholders.

As an investment vehicle, we have the merchant bank, we have insurance that also upstream dividend to Holding company. Last year, First Bank of Nigeria Limited did not pay dividend to the parent, FBNHoldings was able to still pay dividend of 15 Kobo per share to the ultimate shareholders. I would draw your attention to slide 10, where you see performance of the merchant banking and asset management group. Where year to date we have seen about NGN9.9 billion in profit before tax. So appropriating for reserves and other needs of that entity, which in itself has about 27%, 28% capital adequacy, you can project that they would be able to remit dividend to the holding company.

The same thing goes for the insurance where we have also continued to record profit year on year and therefore, again, 2016 we will expect them to upstream dividend to the parent, holding company which will then mean that yes, we should be able to pay dividend if we have that desire to do so. We will consider the capital needs of all the operating entities and then the surplus will be returned to the ultimate shareholders. Because at the holding company level, we don't expect to carry capital. That is not an issue for us, we will continue to drive our business to ensure that all the operating entities, including the bank, return profits. Then we will ensure those operating entities have enough that is needed for future growth and to maintain the necessary capital requirement. I don't know if that is clear.

Victor Tiasur – Capital Bank Corp

Thanks, that's clear.

UK Eke, MFR

Okay, thank you.

Adesola Adeduntan

Our NPL coverage ratio at 42% emanated from several factors. One, is the quality of the underlying assets. I want to remind us that we report under the International Financial Reporting Standard where the quality of the underlying collateral you are holding enables you to offset, when you are computing the impairment charges for the challenge account. The fact that it's standing at 42% is a reflection of the quality of the underlying collateral that we hold, equally very important also reflects the level of remediation that the bank has embarked upon.

A combination of these two suggests that where the coverage ratio stands now is okay. This is a continuing process of assessment and reassessment and then if there is a need to increase the coverage ratio, we'll definitely do that.

Ola Ogunsanya – Renaissance Capital

Good afternoon and thank you for taking this call. Most of my questions have been answered but I just have a few questions left. On the back of the NPL decision today, what proportion of the loan book will be repriced and by how much? Also, if you would please give an update on AITEO. Is the CBN requiring you to make any additional positions on the name? I know you talked a bit about the devaluation impact in the quarter on quarter goods in impairment. Please can you just give more clarity? Is this largely because you're holding naira positions on your FX loans? Or is it because you noticed some weakness on the back of this, your customers' ability to repay? Thank you.

UK Eke, MFR

Okay, let's take another question please.

Adewale Okunrinboye – ARM Investment Managers

Thank you for your presentation. My first question relates to the naira. Where do you see the naira at the end of the year, and what does that mean for your capital adequacy ratios? My second question also goes to, what's your guidance for coverage ratios for full year as well? What portion of your NPLs are FX and what proportion of your NPLs are FCY facilities that have gone bad? I think that will be all for now.

Ini Ebong

As it relates to loan repricing, I wouldn't say it's a linear relationship. Clearly, we do recognise that the environment is challenged, so it doesn't mean because the MPR has been raised, that that translates to a 200 basis point increase in lending rates to the naira book. The naira book today is roughly 50% of our portfolio. In theory, that is potentially available to be repriced. But we do believe that the bigger impacts would be seen more through the treasury book or government securities for portfolio. We will look to reprice some of the loans, but it will not be linear.

On the question on where our view of where the naira will settle at the end of the year. There's still a number of moving parts here. Clearly, with the CBN taking the more recent move, we've seen in the interbank that the currency has crested at 300 around 308, 310-ish, somewhere like that at the current time. There may probably be some further slippage. However, we don't expect to see the order of magnitude of the level of devaluation we've seen thus far. I think it's early days, we also have to factor in the impact of the monetary policy stance, the measures they've taken today, which will probably moderate further downside.

I think it's a bit too early, one has to digest how the MPC decisions will feed through the market. But what is clear to us here is this most likely has capped or tempered any further downside from this point. Bear in mind, we've effectively moved, give or take, slightly over 50% already. Yes, then there should be a bit more but certainly not another 50% or more than that.

Dr Adesola Adeduntan

Regarding AITEO as you are probably aware, the CBN did a special examination of all exposure to AITEO. We are in discussion with all the key members of the consortium and in discussion with the CBN. Because we do not believe that at this current point in time, that that particular exposure is challenged. It's essentially based on the fundamentals of the business and where the business is today. We started off with the AITEO, we took over the oil field when it was producing less than 20,000 barrels a day. Currently, it produces close to 80,000 barrels a day, which we think is significant.

Even when oil prices went as low as $27, a key part of the obligation were also being serviced, now that oil seems to have stabilised at $45 to a barrel, we've seen the credit actually in a stronger position today than it was six months ago. There is ongoing conversation with CBN to say, that this is an obligor that requires support and that at this particular point in time, we should rally round this obligor. We believe that the credit is performing, based on the fundamentals, and the conversation with CBN is ongoing.

On the percentage of NPL that is foreign currencies denominated, slightly above 50% of our NPLs are denominated in foreign currency. In terms of the likely impact of further devaluation on asset quality, again you have to look at first, the fact that today we already have foreign-currency denominated loans that are NPLs, that would necessarily require that we take incremental impairment charges especially those backed by naira collaterals. That would necessarily mean that we need to take incremental provisions.

Depending on the degree of devaluation, the impact on different obligors will vary. I think for us, the key thing is for us to stay very close to each and every one of our customers and manage the potential downside almost on a name-by-name basis. Overall, we think it would actually impact asset quality adversely.

UK Eke, MFR

Okay, next question please.

Clement Adewuyi - Cardinal Stone

Good afternoon. My question is on the interest expense line. I noticed there was a significant decline in interest expense, especially in Q2. I was wondering since the MPC committee raised it in Q1 that we're supposed to see a transition in interest expense. I would like an explanation on that. Thank you.

UK Eke, MFR

Okay, let's take another question or two more.

Steve Motsi – BPI Capital

Thank you. I'm just following up with two basic questions. The first is could you give us an indication of the absolute value of the recovery that you're expecting to make, at least in the second half of this year? The second question is some guidance on the USD loan growth we can expect to see? We've noticed that it's come down, your loan book went down by $200 million. Do you expect to grow from that point onwards? Or the 25% will mainly come from the devaluation impact?

UK Eke, MFR

Okay, I think we can take those three questions.

Ini Ebong

Taking the first question on the interest expense. We highlighted earlier that one of the areas of key focus at the start of the year was on defending our NIM. Given the environment we face. We deliberately shed expensive deposits, recall for most of the first half of the year, in reality up on till the end of Q2 and more recently, CBN's monetary policy stance was entirely different. Where we had a pretty low interest rate environment as manifested in the government securities arena. We deliberately shed expensive deposits and actually did drop deposits in local currency. Hence we saw the decline in interest expense.

The monetary policy stance is more aligned and with the latest moves in MPR, we would expect to see that trend change. Clearly we have to pay more on things like savings accounts and on additional purchase funds. But we believe that the direction of rates is now more NIM supportive. We'll see some changes, without any adverse impact on our NIM.

There was a question on recovery and our outlook for the rest of the year. The bigger impact for us is more looking at remediating the bigger loans., have some reversals from the NPL book. That's what will have the bigger impact on all our credit metrics. We've consistently guided on the efforts we're making around our big exposures, specifically Atlantic Energy and one or two that have been mentioned on this call. For us, given that these are already in the NPL, the impact of remediating those names will have the significant changes around NPL ratio, our coverage ratio and some of the other credit metrics.

Given what we've done so far, we expect to see some significant impact before the end of this financial year. To that extent, we do expect some changes in the guidance that we've given, which would be a lot more positive.

Steve Motsi – BPI Capital

Would you be able to give a figure in terms of what that amount could be, please?

Ini Ebong

From where we sit, we expect that to be somewhere in the range of between NGN50 billion to NGN100 billion. The reason is simple. Our top three NPL exposures, are significantly chunky enough where if we do succeed in doing what we plan, then the change in values or declassifications are quite significant.

Steve Motsi – BPI Capital

Okay, and any growth on the USD book which came down by $200 million.

Ini Ebong

Yes, that is correct. We did drop about $200 million in the course of the quarter. Now that's been a deliberate strategy, again to cap further currency downside risk. We are aggressively trying to convert some of the loans that we have. We don't expect significant USD loan growth. We will see that at all will be in the trade book. But again, that we try to match against availability of foreign exchange, either through CBNs forward window or on a spot basis.

It's also important to highlight that we have a significant number of outstanding forward contracts that have been transacting on behalf of corporates with the CBN, which we believe, when they match over the course of the next one to two months, that will start to unwind some of the foreign currency trade exposure. But again, caveating that given that the area of focus was, in terms of the short term revolving and type transactions we're looking at, we will see that turnaround. Because again, we don't want to increase currency exposure unduly.

UK Eke, MFR

I think it's also important to make the point that beyond the commercial bank, we also have another lending entity, that's the merchant bank. Which starting business in November last year. They've built up quite significant liquidity on the back of the high capital base. Therefore, they'll be looking to extend their balance sheet to good names, just scanning the environment. If you see an uptick in the loan book on the FCY, you also have to trace whether the growth is coming from the merchant bank that is well able to extend its balance sheet.

Steve Motsi – BPI Capital

Thank you.

Nik Dimitrov – Morgan Stanley

Hi there. I want to follow up on a number that you gave me a little bit earlier on the call. I believe when you were talking about asset quality in Q1, you did mention that renegotiated loans were 12% of the loan book and 70% of those renegotiated loans comprised of oil and gas exposures. I believe that you said earlier that renegotiated loans are 3.3% as of Q2. I'm wondering whether I missed something? How come renegotiated loans declined so abruptly? Did some of them go back to being performing or then went down into NPL and were written off? If you can give us some more clarity on that front that'd be great, thank you.

Dr Adesola Adeduntan

By way of clarification, the 12%, the number that was provided to you then, referenced 31 December 2015. That was full year 2015 renegotiated loans. The number that has been provided on this call, which is 3.3% is actually the year-to-date renegotiated loans for FY 2016. I hope that clarifies.

Nik Dimitrov – Morgan Stanley

Okay, so that is on top of the 12%?

Dr Adesola Adeduntan

Yes.

Nik Dimitrov – Morgan Stanley

Okay, got it.

Dr Adesola Adeduntan

Don't forget that for the 12%, a number of them have come back and that is why you have to reset your base. It's not cumulative, as such you cannot cumulate the two numbers.

Nik Dimitrov – Morgan Stanley

Just difficult to get an accurate picture where asset quality is when a significant percentage of the distressed book migrates into renegotiated loans. I'm just trying to get some more clarity on that front, thank you.

Dr Adesola Adeduntan

Absolutely, thank you.

Operator

There are no questions at this time. I would like to hand the call back to Mr UK Eke, MFR for any closing remarks. Please go ahead, sir.

UK Eke, MFR

Thank you very much, ladies and gentlemen, for participating on this call. We do hope we have provided clarity and explanations to the business that we are running today. I think it's important to state very clearly that we have demonstrated once again our resilience and our ability to weather the storm. We do believe that we are on a steady path to growth and that as we run down this 2016, we are going to see improvements across the various metrics we are tracking. We look forward to our nine months' results and of course the full year. Thank you very much.

Operator

Thank you. This concludes the FBN Holdings Plc half year 2016 financial results call. Thank you for your participation, ladies and gentlemen, you may now disconnect.

[End]