Company: **FBN Holdings Plc.**

Conference Title: **Half year 2013 conference call**

Presenter: **Bayo Adelabu**

Date: **Wednesday 28th August 2013- 15h00 BST**

Operator: Good morning and good afternoon, ladies and gentlemen, and welcome to the FBN Holdings' half-year 2013 Financial Results Conference Call. Following the formal presentation by FBN Holdings' management team, an interactive Q&A session will be available. I would now like to hand the call over to Mr. Bayo Adelabu, Chief Financial Officer, First Bank of Nigeria Limited. Please go ahead Sir.

Bayo Adelabu: Good afternoon, ladies and gentlemen, I welcome you all to 2013 the half year financial results conference call of FBN Holdings Nigeria Plc. My name is Bayo Adelabu; I'm the Executive Director and Chief Financial Officer of First Bank of Nigeria Limited, the flagship subsidiary of FBN Holdings Nigeria Plc.

The CEO of FBN Holdings, Mallam Bello Maccido is unavoidably absent at this call. He is presently indisposed and therefore sends his sincere apologies. Therefore I'll be leading the call this afternoon.

With me, to anchor this call are: Tijjani Borodo, the Company Secretary for FBN Holdings, Dauda Lawal the Executive Director, Public Sector North, sitting in for the GMD (Group Managing Director) of FirstBank, the commercial banking group. Biodun Odubola is here, the Acting Chief Risk Officer for First Bank of Nigeria Limited. I have Oluyemisi Lanre-Phillips, who is the Head Investor Relations for FBN Holdings and I have Mr. Ini Ebong, the Treasurer for First Bank of Nigeria Limited.

We also have the CEOs of key subsidiaries of the Holding company, Kayode Akinkugbe who is the MD/CEO of FBN Capital, the Investment Banking arm of the Holding company and Mr. Val Ojumah the MD/CEO of FBN Life Assurance, to anchor the call with me.

There will be a little twist to the format of this call as we intend to leave enough time for interactive questions and answers. Therefore, we will not take you through the entire presentation as we usually do in our previous calls.

I will only present the highlights of the results in the first five slides of the presentation earlier posted, within the first 10 to 15 minutes; while there will be about 45 minutes for the question and answer session. We believe that you must have gone through the presentation since it was posted earlier. After my short introduction my colleagues and I will be on hand to take as many questions as possible within the next one hour.

As you all know, FBN Holdings Plc., is the financial holding company established last year as the parent company of a number of financial services subsidiaries hitherto been held by First Bank of Nigeria Plc. The flagship subsidiary is the Commercial Banking group represented by First Bank of Nigeria Limited which has a number of local & foreign subsidiaries namely: First Pension Custodian Nigeria Limited, FBN BDC (Bureau de change), FBN Mortgages, FBN Bank UK and BIC Congo.

We have the Investment Banking and Asset Management business group of the holding company represented by FBN Capital, FBN Securities, First Trustees, First Funds .While we have the Insurance arm represented by FBN Life Assurance, run together with Sanlam of South Africa and FBN insurance Brokers Limited. The last subsidiary is FBN Microfinance.

The Commercial Banking group remains the major contributor to assets, liabilities and revenue as well as profitability of the Holding company. The intention is to ensure that we groom the other subsidiaries so that their contribution will become more significant.

Back to the presentation, there was no significant change in the operating environment globally and locally between the first and second quarter of this year, except for major regulatory policy releases which had far reaching effects on the Bank's operating revenue. The global economy grew by 3.3% in the second quarter, which is a minimal 0.1% improvement over the 2012 December growth rate.

Oil prices continued to decline, averaging $108 in the first of half of 2013 and down to an average of $103.50 during the second quarter of 2013. The closing oil price at the end of second quarter was $97.80 per barrel, which was still way above the benchmark for the national budget.

The developing economies continue to attract a significant portion of foreign direct investments, accounting for 52% of global FDI inflows. Locally, the real GDP growth, estimated at 6.64%, with the non-oil sector as the major contributor, precisely from agriculture, manufacturing, building and construction. We also witnessed progress on power reforms during the period under review. Inflation moderated and remained single digit during the period, closing at 8.4% at end of June 2013, compared to an average of 12% in 2012. There were however noticeable volatilities in the interest and exchange rate environment during the period, while attempts at stabilsing the volatility by the Federal government led to marginal dips in the country's foreign reserves to $48 billion as at June 2013. This is a 1.23% reduction quarter on quarter.

On the regulatory environment however, the second quarter of 2013 witnessed the commencement of the new CBN banking tariffs and the implementation of the minimum interest rate on savings accounts. In addition, the cashless policy extended to five states of the Federation, including the Federal Capital Territory during the period. These states are Abia, Anambra, Kano, Ogun and Rivers. All these had far reaching impacts on the Bank's results for the period.

In spite of this tight operating environment, FBN Holdings was still able to maintain its first position among Nigerian financial institutions in virtually all the major performance parameters. Total assets of the Holding company stood at

NGN3.38 trillion as at end of June 2013, which is a 9.3% growth compared to the first half of 2012.

Deposit base remains the largest in the industry, closing at NGN2.6 trillion, which is a 16% growth year on year. In spite of this large base of deposits, we still pride ourselves as a bank with the lowest cost of funds in the industry, at 3%. Customer base continues to grow closing at about 9.3million accounts at the end of June 2013, which is about 19.3% growth year on year.

Business locations also grew by thirty six locations compared to the same period in 2012, closing at 807 locations globally. Net revenue stood at NGN156.9 billion for the first half year, which is a modest 3% growth year on year.

We also had a healthy profitability at 22.1% return on average equity compared to the 18.8% that we closed with in December 2012. Our Capital Adequacy Ratio remains comfortable at 21.1%, which is up from 20.5% we closed with in December 2012.

The cost to income ratio showed some improvement in the Group's efficiency closing at 58.7%, down from 58.8% in the previous periods.

Those are the key highlights of the performance during the first half year, but I will take you briefly to slide 12 & 13 where we have the key highlights of the income statement and the statement of financial position for the Holding company with the performance parameters showing positive growth year on year.

Gross earnings improved by 8%, growing from NGN180.9 billion in 2012 to NGN194.9 billion in 2013 the table shows a breakdown of contribution from net interest income and non-interest income, growing at 4% and 3% respectively.

Operating expenses grew by 3%, while profit before tax grew by 1%, closing at NGN54.8 billion compared to NGN53.5 billion of first half of 2012and maintaining our net interest margin at 8.2% compared to 8.3% of last year. While the proportion of our non-interest income to net revenue still remains at 28%. Cost to income ratio reduced, like I mentioned earlier, 58.7% from 58.8% of last year, while cost of risk was flat at 1.3%, ROaE at 22.1% and return on average assets of 2.8% which are all within our target for the year.

On the balance sheet, on slide 13, you will see a 9% growth in total assets from NGN3.09 trillion to NGN3.38 trillion as at end of June 2013; we witnessed growth in our government securities at 19%, closing at NGN770billion for the period.

Customer deposits also grew by 16% percent year on year, closing at NGN2.6 trillion compared to NGN2.2trillion of last year. The table also shows healthy balance sheet ratios with capital adequacy ratio of 21.1% Tier 1 ratio of 18.9% while loans to deposit ratio stood at 61.7%, down from 67.4% of last year. Our NPL coverage ratio remains at 113% percent. Those are the highlights of the results

In summary, for the next six months left in the financial year, we will continue to delight our customers with excellent service, in order to increase our share of their wallet and consequently improve our profitability for the remaining part of the period. In addition, we will continue to push on new customer acquisition as we still have a very strong avenue for growth in all our chosen market.

Another focus for the rest of the year will be on improving cost efficiencies in spite of the modest achievements of the first half of the year, we will ensure that we leverage on our shared distribution platform across the group, accelerate the deployment and the usage of our alternative delivery channels, to optimise cost, while we also optimise our staffing structure, as well as our corporate and retail banking structure. We will also focus on ensuring efficiency in our capital usage, while we continue to deliberately mine and deliver group wide synergies. The next six months actually holds a lot of promises for the Bank and we hope to sustain the performance that we recorded in the first half of 2013.

That is the end of the introduction we will now open the line for questions and answers. My colleagues and I are here to attend to any questions that you have. Thank you very much and God bless.

Operator: Thank you. If any participant would like to ask a question, please press the star followed by the one on your telephone. If you wish to cancel this request, please press the star followed by the two. There will be a short pause while participants register for a question.

Thank you. The first question comes from Muyiwa Oni from SBG Securities. Please go ahead.

Muyiwa Oni: Good afternoon, ladies and gentlemen. Thank you for the presentation. I have three questions. The first is more on your earnings outlook for the second half of the year. And because I'm looking at your target/ your guidance and which still remains the same as what you presented at the beginning of the year, ie expecting revenue growth at around 10% to 15% I think for me, it's just trying to understand how you intend to tackle the potential headwinds, given the recent regulatory changes we've seen and how you intend to build up on this slow half-year performance. If you consider your non-interest revenue growth, it's been weak year on year. And so I'm really just trying to understand where you expect the growth to come from.

And then also on your loan growth as well, I know in your statement you highlighted that you still intend to meet the 10% loan growth target, while year to date also it has been low I'm trying to understand where you expect the growth to come from. So what sector should we be expecting that growth from and it's really just trying to understand if there's a risk to NPL build up.

The third question is on your cost of risk. I know in your statement you also highlighted that the Commercial Banking business was responsible for most of that and the downstream oil and gas sector was also highlighted. I'm really just trying to understand how to look at cost of risk for the second half of the year and so would like to know if it was driven by a single obligor or a couple of names. And then you also talked about the retail part of the business as well and a few products you had to discontinue. So if you could shed more light on those retail products.

And then also what were the weaknesses in the products that resulted into the deterioration. Thank you.

Bayo Adelabu: Thank you very much. You have three questions. One is on the areas of increase in revenue in spite of the new regulatory regime. And the second has to do with loan growth and NPL build-up, while the third has to do with the cost of risk.

Biodun the acting CRO will take the question on the loan growth and the NPL build-up as well as the cost of risk, while I will take the question on the areas/opportunities for growth in non-interest revenue.

Biodun Odubola: Thank you for your question. Before I answer your question as to where the loan growth is coming from, let me just share with you our thoughts and directions on our portfolio. Essentially part of the story around loan growth is deliberate and actually part of our normal portfolio management process

Now one of the key things that we have done is being mindful of the problems in oil and gas downstream, we have become more selective as to whom we are going to deal with. From year to date, oil and gas downstream exposure has actually dropped by 20%. And the entire oil and gas sector now accounts for about 35% of our total portfolio, from 38%. So the drop in the loan growth story has been deliberate. Then we also mentioned the fact that there was some slowdown in retail loans because we identified as part of our normal review process some retail products that are not doing very well.

Now what we have done is to suspend further booking of such retail products. Finally, assets re-pricing has its advantages and disadvantages. The reason for asset re-pricing this quarter is actually to increase the yields on assets, but of course some customers who are not very happy will pay down.

So these are deliberate areas that have come through. The part that is involuntary relates to the competitive pressures in some of our consumer products. Our competitors are now offering our customers longer tenor on personal loans, increased limits and also watering down some of the terms & conditions. So these are all the issues regarding the lack of loan growth.

Now what are we doing? Essentially like I said, we are trying to reduce dependence on oil and gas, so we are replacing oil and gas exposures with exposures in manufacturing, in power sector, in telecoms. And we are beginning to see some uptick in loan growth starting from July.

For the retail products that had problems, we are repairing them preparatory to re-introducing them into the market. We are also looking at some of our customers that have paid down because of asset pricing on a case by case basis, to see what we can do to encourage utilisation.

Then the competitive pressures in consumer lending, we are also looking at these customers but we are not going to do wholesale tenor elongation. We are not going to do wholesale increase in obligor limit but we are reviewing some of our customers on a case by case basis to see how we can address the issues.

So from now till the end of year, we hope to still meet the 10% loan growth and, like I said, there has been an uptick in July and August and it means that all the measures that we have put in place are actually working.

In terms of sectors I mentioned power as we are involved in a couple of power transactions. We are also looking at reserve base lending in upstream oil and gas then some of our telecom customers have also indicated interest in booking additional loans.

Now I will quickly go to cost of risk and the increase in NPL. Like we mentioned during our presentation, we have been a little bit proactive in classifying and provisioning some oil and gas names I think about two or three of them. And then we have a fairly large logistics provider where we have classified the loans and also making provisioning.

I also mentioned some retail products. Asset acquisition is one, including secured overdraft and secured term loans. These were not doing very well and we are repackaging them but what we have done is to classify exposures in this respect. Many of the secured overdraft & secured term loan exposures are secured of course and we are following aggressively on recovery and remedial management. Thank you.

Bayo Adelabu: To your first question with respect to how we intend to sustain target growth in non-interest revenue. You are right to say that the impact of regulatory changes from the CBN is a major but we are looking at areas where we can actually mitigate the loss of income coming from this new regulation.

The first thing we are trying to do is to ramp-up on volume of fee generating transactions that will compensate what we are losing on these rate cuts in terms of COT and other bank charges

Then there are also other lines of charges allowed by this new banker's tariff, which we were not focusing on before. Now we have looked at those areas and we are presently including them in our charges. And again, we will also leverage on our investment banking arm to ensure that more fee income comes from the advisory transactions and this we hope will compensate for whatever loss we are going to suffer from the regulatory changes.

As you can see that in the second quarter of the year we were still able to maintain 28:72 mix of our interest income to non-interest income, this we intend to sustain till the end of the year. Thank you.

Muyiwa Oni: Thank you.

Operator: Thank you. The next question comes from Ronak Gadhia from Exotix. Please go ahead.

Ronak Gadhia: Yes, thank you. My questions are largely in line with what has just been asked. Firstly, just on your guidance, you are guiding towards operating expense growth of 5% - 8% this year. Is this over and above the normalised operating costs for last year or is this on the total operating expenses for last year? Because from what you've said, there's some exceptional items last year. So are you growing by 5% or 8% over and above the total costs or just the normalised cost base for last year?

The second question again is largely to do with your ROE forecasts and your revenue growth forecasts. On one hand you're guiding towards NIMs declining by about 10% to 15% from 9.6% to say best guess scenario 8% to 8.5%. That's a drop of around 13%. On the other hand, you're saying you'll compensate that by loan growth of around 10%.

So those two items largely offset each other, at best your revenue growth for the year should be flat. Over and above that you are seeing some regulatory pressures coming through on your non-interest income line. Your operating expense growth is increasing on a year on year basis as you've guided and as I just mentioned before your cost of risk is increasing. So I fail to see how your earnings can grow this year and how your ROE can improve this year as you've guided. If you can just give a bit more breakdown as to how you have come around with these calculations. Thank you.

Bayo Adelabu: Thank you for the questions. The first question with respect to the OPEX, we are actually guiding about 6% on the normalised OPEX of the Bank. If you remember, last year there was about NGN20 billion one-off costs, which we explained to be the attrition costs and the retirement benefit obligation. After adjusting for this, we will not grow by more than 8%on our OPEX. That will give us like a 1% growth in the total OPEX for the period compared to last year.

Ronak Gadhia: So what's your opex forecast, total opex forecast in absolute terms for the year?

Bayo Adelabu: NGN190 billion.

Ronak Gadhia: NGN190 billion, okay.

Bayo Adelabu: On the second one, yes. We've actually done our calculations very well. You are right that we are forecasting a reduction in NIMs to 8.5% from about 9.6% from last year. Our target loan growth is about 10%. There are two areas you are not looking at. The first one is our revenue does not come exclusively from loan growth alone, we also have a large portion of our earning assets in government securities. We have the T-bills and government bonds and once we are able to grow our deposits very well, even if we are not deploying everything into loans we will still have a lot that will go into government securities. So we are focusing that a lot will come from the volume, that we will ramp-up in this area of our earning assets, number one.

Number two is the area of loans, now that you are aware that there is an increasing interest rate environment, we do not have a choice but to re-price our assets. We factored in re-pricing of our assets both local currency and foreign currency assets before we arrived at the earnings target for the year. And we have notified our customers with respect to this and there has been no objection because it is actually an industry wide activity as other banks are also re-pricing. So we have re-priced our assets and that will boost revenues for the year.

Ronak Gadhia: Just if I may just add a question to that. You said obviously growth doesn't come just from loan growth. You're getting some revenue growth from investment securities as well, but wouldn't you have to sell some of those investment securities to meet the cash reserve ratio?

Bayo Adelabu: No. That has already happened. To meet the new CRR regime of 50% of public sector funds we have been able to fund that from our stock of T-bills and we don't really see much of that affecting us going forward.

Ronak Gadhia: Okay. How much were you debited for?

Bayo Adelabu: NGN90 billion.

Ronak Gadhia: So NGN90 billion. Okay. Thank you

Bayo Adelabu: Thank you.

Operator: Thank you. The next question comes from Lanre Buluro, from Primera Africa. Please go ahead.

Lanre Buluro: Hi, good afternoon, gentlemen. I'm looking at your half-year and particularly your quarter numbers and noticed on the loan side you had mentioned you're still sticking to your 10% loan growth for the year. Where is that coming from? I might have missed this if you have answered this earlier.

Also the impairments we saw on the quarterly basis, almost NGN8 billion in loan loss provisions. Can you explain, especially when you look at that same period last year, it was around NGN3 billion. What happened during the period that you guys had to take that much of a provision?

On your insurance side of the business too, what's the outlook?

Operator: Okay, that person has disconnected. One moment please. We will take the next question.

Bayo Adelabu: Next question please.

Operator: Thank you. The next question comes from Amina Mohammed from Vetiva. Please go ahead.

Amina Mohammed: Good afternoon. Sorry, if you could just shed a bit more light, do you have any loans in particular that are classified under the general and manufacturing that went bad? Because I noticed that their NPL, the contributions to the NPL ratio has grown significantly that's compared to last year.

And secondly, I'm just wondering whether they've been any adjustments to the trading book because I'm expecting that the increase in available for sale securities should contribute a bit more to equity this year. I mean for the rest of this quarter, the way it looks based on gains on government securities. Obviously looking at NGN2.3 billion hit that was taken as at half year from unrealised losses in available for sale how has the bank, been able to adjust and what's the position like at the moment, so that we can anticipate what will happen for the rest of this quarter? Thank you.

Biodun Odubola: Yes, I think your first question was on impairment and you mentioned two sectors general and manufacturing. I can confirm to you that under general we captured the recognition of impairment to a logistics provider. For manufacturing, it’s just the general impairment nothing specific

Bayo Adelabu: Okay, the treasurer will take the second question.

Ini Ebong: With respect to what we're doing on the various investment portfolios, you recall that at the tail end of last year the Central Bank's monetary policy tightening stance started. At that point, the Bank did add some duration and we largely shifted a lot of our portfolio into longer tenor higher yielding assets.

Now what we've done ever since, and if you look at the composition of the portfolio you will see a reduction in duration and a shift to the shorter duration T-bills and other such instruments basically. So directionally given that the Central Bank's monetary policy stance is a tightening one, by and large we're just playing the market around the volatility created by that and the activities of portfolio investors. We believe there may be further tightening coming along and at the appropriate time we'll begin to add duration again.

Amina Mohammed: That didn't exactly work in the half-year, so but looking at the way things have been this quarter, we're expecting it to work in the third quarter of this year? Isn’t it?

Ini Ebong: Sorry, I didn't get that question.

Amina Mohammed: I'm saying for that strategy, we can't say it exactly worked in the first half of the year looking at the NGN2.3 billion unrealized loss for the available for sale portfolio. But looking at the third quarter what are we expecting?

Bayo Adelabu: I didn’t get the question. Are you asking about outlook for the third quarter?

Amina Mohammed: What I'm saying is I understand that yes, you've moved to T-bills and bonds with shorter tenors, but with that strategy I am assuming it didn’t work exactly as you had anticipated looking at the unrealised losses recorded in available for sale. But in this third quarter, I don't know whether things have been moved around a little bit, but if the position is as it was, based on the half-year report, then we're expecting a better contribution to equity in the third quarter isn't it?

Ini Ebong: Well, the key driver there will be how aggressive the Central Bank monetary policy stance is. Bear in mind you've got to consider the first quarter the impact of the incremental results. There would have been some liquidation and it just depends on how far they will go and the direction of rates. Thank you

Amina Mohammed: Thank you.

Bayo Adelabu: Thank you. Next question please.

Operator: Okay, thank you. We now have Lanre Buluro back on line. Please go ahead with your question.

Lanre Buluro: Sorry about that, guys. A little phone problem. I guess I'll just take my last two questions and probably just listen to answers to the first two questions. I was talking about the insurance business. What's the outlook for the rest of the year? I know you've mentioned you guys are going into the general business. Is that going to be organic or are you guys looking to acquire one of the existing companies to grow that business? What's the main strategy for the rest of the year and going into next year?

On the CRR, I'm reading your presentation and you mentioned about only 45% public sector deposit is impacted. Can you really explain that based on what you claim that 30% of your deposits. I don't know how you were impacted or all you were debited right now is only NGN90 billion. So if you can really explain why you seem to be impacted less than what I think you might be impacted by. Because I'm looking about almost NGN250 billion should be sterilized, but you're saying you were only debited NGN90 billion. So if you can really explain that to me a little bit. And that's it. Thank you.

Bayo Adelabu: Yes, in total you have four questions. The one on loan drive the 10% loan growth.

Lanre Buluro: Yes, correct.

Bayo Adelabu: That will be handled by the CRO and I will handle the remaining two questions.

Biodun Odubola: Okay. We'll start with your first question. Your question was where is the 10% loan growth coming from? Do I understand that is the question?

Lanre Buluro: Yes, correct, yes. The first question, yes.

Biodun Odubola: Yes. Okay, essentially part of the reason for the poor loan growth was actually deliberate. I mentioned earlier that we are being more selective in the oil and gas downstream because of the perceived risk of this area. What we are now doing again is taking a look at some of the transactions on a case-by-case basis. Let me give you an example.

There was a time we froze utilization of facilities for open ended transactions. Essentially transactions where there were no ready off takers. We limited exposures to only closed ended transactions where there are definite off takers. Now one of the things we are doing is taking another look at open ended transactions, especially where the customer has infrastructure like tank farms, like vessels, like filling stations and so on.

So we expect to see some growth there and I also mentioned the fact that we are deliberately shifting away from oil and gas. So we are trying to develop other sectors like manufacturing where we are not doing as well as we should.

Then I also mentioned the fact that we froze some retail product programs because of perceived risk. Now what we have done is to take another look at these product programs and made a couple of changes to reduce the risks that we are carrying. Then we can send out such product programs again for utilization. Now as we speak, given what we've seen in July and part of August, these strategies are actually yielding some results.

I also mentioned the fact that our competitors in the drive for market share have loosened credit standards. Now we're not going to fight them head on and loosen credit standards on a general basis, but we are taking a look at where it will be safe to loosen credit standards so that we can still maintain our market share of consumer products.

Biodun Odubola: Now to talk about the impairment, I also mentioned the fact that the impairment was due to proactive classification and provisioning of a couple of names. Again, oil and gas about two names, and then a logistics provider; and like, I also mentioned some product programs where we had some issues; we had to take the bold step of provisioning on them. However, we are engaging in aggressive remedial management to reduce NPL. So we also see impairment charges reducing for the rest of the year.

We are still guiding on 1% max cost of risk, even though we are running at 1.3% now, but with all the things that we're putting in place including loan growth and a possible reduction in impairment charges, we think we'll be able to still attain the 1% cost of risk. Thank you.

Bayo Adelabu: And second on insurance, we have always made known our intentions to diversify into the general insurance business, and as you are aware that NAICOM is no longer issuing new licenses, so the only option left to us is to acquire an existing general insurance company. We are in talks with a couple of them, but nothing significant worthy of reporting for now; but we'll surely acquire an existing company.

On the impact of the public sector deposits on CRR being below what you envisaged maybe you miscalculated the portion of the public sector deposit out of our total deposit. The Public sector deposit is currently about 28% of our total deposit. But local currency deposits which the CRR affects is only about 15%-16% of our total deposit. So if your computation is based on the total public sector funds then what they debited us would be below what you expected. So the computation of local currency deposit on total deposit is just about 16% which is why it was that low .Is that OK?

Bayo Adelabu: Next question, please?

Operator: Thank you. The next question comes from Ikechukwu Iheanacho from Chapel Hill Denham. Please go ahead.

Ikechukwu Iheanancho: OK. Well, I just want to know what progress has been made in the up-country branch expansion and also the expansion into tertiary institutions because I understand this was to be a core move to lower your costs of funds.

Bayo Adelabu: OK, thank you. I will take that. It is true that we mentioned at a time that we have targets for the youthful customer base which is why expansion to tertiary institutions is actually valid and between last year and June 2013, we have established our QSPs (quick service points) in about thirteen additional universities and colleges of education and that has actually shown in the upward movement of our deposit liabilities and the youthfulness of our customer base. Regarding expanding up north I cannot remember mentioning anything specifically in the past like that, but we have a branch strategy that covers the entire country where we have our footprint and where we believe there are opportunities for our market. We will continue to do that. Like we also mentioned that our branching strategy is going to slow down a bit this year, unlike last year where we opened aggressively close to about 75 branches. This year, we just intend to conclude or close on those that are work in progress, and just open a couple of branches here and there, but not as aggressive as last year. Is that okay?

Ikechukwu Iheanancho: Thank you.

Operator: Thank you. The next question comes from Tamara Tannir from Arqaan Capital. Please go ahead.

Tamara Tannir: Hello? Hi. This is Tamara Tannir from Arqaan Capital. I just wanted to ask- I think it's already been asked. One of them actually has been asked about the insurance, but I didn't really get what you were saying about the outlook of the padi4life for the expected revenues and margins. And also I wanted to ask- what do you expect for the P&L impact to be, given the interbank- the increase in the interbank markets rates?

Bayo Adelabu: Can you just repeat the question, please?

Tamara Tannir: Yes. The first question was what are the expected revenues and margins for the padi4life that you expect in the next two years? And the second question is, what is the P&L impact you expect from the tightening in the interbank markets following increased reserve requirements?

Bayo Adelabu: We have the CEO of FBN Life Assurance to take it.

Val Ojumah: Well as you probably know, the program with Airtel called padi4life is very experimental at this stage it is the first of its type in Africa and we are currently looking at the experience. The assumptions put together when the product was concluded have been that there would be at least 40% returns on the premium.

Tamara Tannir: 40% returns?

Val Ojumah: Obviously as this is experimental, we can't give a definitive figure until at least its run for six months. So we need the experience. We need to know what's going to happen in terms of claims and all of that. We need to know how many off takes there will be before we can give a definitive answer to your question.

Is that okay?

Tamara Tannir: Yeah, that's fine.

Operator: Thank you. The next question comes from Tosin Ojo from Cardinal Stone Partners. Please go ahead.

Tosin Ojo: Okay. Thank you for the presentation. I have a follow-up question. The first thing- I didn't quite get your explanation on the Q-on-Q decline in net fee income. Obviously we know that the pricing regime has affected COT. It kind of looks like you were a little bit more affected than other Tier 1 banks, so I'd just like to know how- you were really hit and what is your guidance/ outlook for that going forward.

Also deposit growth was just about 1% quarter on quarter; I want to know why that is and what you do expect going forward especially considering the increased competition that we expect for deposits for the rest of the year in view of the changes in the sector and generally guidance on your cost of funds for the rest of the year? How much increase are you expecting on your cost of funds? I mean, in trying to get more deposits.

Bayo Adelabu: Well we managed to get two of your questions; the one on net fee income; how do we intend to sustain the increase given the quarter-on-quarter decline in net fee income. The second had to do with the deposit growth target and cost of funds; our strategy for the second half of the year. But we didn't get the third question.

So I will answer your first two questions. Like I explained earlier, for the net fee income, the impact of the CBN regulation on COT, reduction in some other bank charges were reflected in our results for the second quarter. If you were on our last conference call, we actually gave an idea of what the full impact would be on the Bank, you would understand that we have been able to mitigate this impact to a large extent. For example, in COT income, by driving up volume by what we actually suffered in terms of reduction, was not as much as we envisaged we will continue to push to replace lost COT, though we might not be able to mitigate 100% this reduction. We will have due to a lot of the growth in revenue from other sources.

Then we are also looking at those other areas which the tariff allows us to charge, which we've not been charging. These we have seen and we are actually incorporating them into our list of bank charges because they are allowed by the regulators.

I also mentioned that we are unique in a way and that we have a very active investment banking arm that can give us lots of fee generation based transactions before the end of the year and maybe before the end of the call the MD of FBN Capital will comment briefly on this. So we hope to sustain this till the end of the year.

We also look at the mobile money which we just introduced and the acceptance in the market has been very wonderful. We hope to make a lot of money in there, which was not there last year in terms of fee income. Then, like I mentioned the investment banking arm, we also have the insurance arm that will also give us some income to mitigate the impact of the loss.

So for the reduction you noticed in the Q2 compared to Q1, we will also continue to improve as we move into the end of the year. Concerning deposits growth, I can assure you that we have a deliberate strategy to ensure that we are able to achieve the target of 15% growth for the year.

Majority of the branches that we opened last year are already in full operation and they are stabilising and ramping up their deposits; fortunately these are low cost deposits savings accounts, current accounts. We are de-emphasising tenored deposits on which we pay high interest rates. Those that we currently have, we have tried to do a lot of re-pricing to ensure that the impact on our cost of funds is very low.

As you are aware, we also have a large base of foreign currency deposits, which we pay very low interest rates; with all these, we are confident that we will be able to sustain the low cost deposits that we are known for in the market.

Like I mentioned, we didn't get your third question, if you care to repeat it, we'll definitely take it

Tosin Ojo: So my third question hello?

Operator: Yes, we can hear you.

Tosin Ojo: OK. My third question is what average increase in cost of funds are you expecting for the rest of the year as you try to ramp up the deposits; how much of an increase are you looking to add to your cost of funds?

Bayo Adelabu: The impact of cost of funds or cost of risk?

Tosin Ojo: Cost of funds.

Bayo Adelabu: OK, the increase we expect in the cost of fund. The only increase we expect in cost of fund is actually what you have seen in the Q2 which is the increase in the cost of savings deposits. You will see that it moved from NGN1 billion last quarter to NGN3 billion in the second quarter of this year. Before we were paying 1% on our savings deposit; now we are compelled to pay minimum of 3.6% which is 30% percent of the monetary policy rate, as guided by CBN; that's number one.

The second one has to do with our recently concluded Eurobond where we raised USD300 million. We expect this also to impact our cost of funds, but not too significantly becauseUSD300 million is about NGN48 billion and the NGN48 billion compared to NGN1.73 trillion deposit base that we have, is almost next to nothing. That is what we have as our additional cost of funds that we expect for the rest of the year. Is that OK?

Operator: Okay. Thank you. The next question comes from Abbas Barkhordar from Schroders. Please go ahead.

Abbas Barkhordar: Hi, yes. I've not had a great reception so far, so excuse me if this has already been asked and answered. But one of the drivers of your other operating income has been a very strong performance in foreign exchange income. I'm just wondering what exactly this is, what's driving the increase quarter on quarter and year on year and whether that's sustainable or it's likely to be a one-off increase in your foreign exchange income?

Ini Ebong: Our foreign exchange income largely is a function of customer intermediation, to the extent that given the exchange control regime that is in place in Nigeria any exchange transaction essentially has to be backed by an underline. Now what drives that is also fundamentally Central Bank policy; first from the regulatory perspective and then from either monetary or foreign exchange policy action which are being interpreted by the market.

From a regulatory perspective, at some point last year, position limits were reduced to just 1% of shareholders' funds, so that clearly impacts the amount of foreign exchange a bank can hold for speculative purposes, and that regime has been in place all year in 2013 and we do not expect that to change, given the Central Bank's focus on foreign exchange.

Now as we grow customer activity and customer throughput, which is a direct or deliberate area of focus for us in the bank; clearly, you would expect the intermediation and see the revenues increase as it relates to …

Operator: We apologise for the pause in the presentation. Please remain on the line. The presentation will resume shortly. You will be hearing music until the presentation recommences. Once again, please accept our apologies for the pause in the presentation.

Operator: OK. Please go ahead.

Ini Ebong: OK. So with respect to your question about the sustainability; given that it's largely customer driven rather than market driven, I would expect it to be sustainable. I think a big driver has been the activities as related to portfolio investment flows to the extent that the Central Bank regime to date has allowed access to the market. They will continue to be relevant players and the direction of movement of their flows will create some degree of associated volatility which then also augurs well in terms of outlook. So I wouldn't really view them as being one-off type of events.

Abbas Barkhordar: OK. Thanks.

Bayo Adelabu: Next question please

Operator: Thank you. The next question comes from Jide Solanke from FSDH Bank. Please go ahead.

Jide Solanke: Good afternoon, gentlemen. Thanks for having me. One of the questions I was about ask, has just been answered, so I have just two more questions. The first one concerns the operating environment in which FirstBank is operating and the presenter actually mentioned that the environment is tough, and the regulatory environment has even made it tougher to engage in earning income on government securities and you mentioned that going forward; the company will be looking to the manufacturing sector and the power sector. I'm wondering the interest in the manufacturing sector, is it as a result of hope that the power sector reform will pan out well and if that is the reason, is there any regulatory risk arising in the outlook and is there any attempt by the company to actually look into the possibility of this power reform. I actually just want to know if the manufacturing sector interest is tied to the power sector reform.

Secondly, the presenter actually mentioned again that the reduced loan income has been impacted by competitors who are offering shorter tenure incentive and I'm wondering that because one of the guidance your company has given earlier on was that it tends to grow its business through retail loan policy I'm wondering that, does the company have a foolproof strategy to make sure that competitors do not continue to erode its competitive edge which it does have in retail business. Thank you.

Biodun Odubola: OK. I'll answer the- first question on the manufacturing sector, our interest in the manufacturing sector is really from First Bank's portfolio perspective. Because one of the things that we've seen about our portfolio is that there is too much dependence on oil and gas and we are not doing as much as we should with the major manufacturers. We have taken a review of the major manufacturers in Nigeria and we are seeing a lot of places where market share is very low or even nonexistent.

So there is a deliberate effort to grow with some of these very good names and also bring some of the names that we know are doing very good business into our books. So that is really from a portfolio perspective.

Now your second question is about consumer loans and whether we have a foolproof formula to prevent competitors from eroding our market share. We don't have any foolproof strategy, we just have to continue to respond to competitive pressures as far as extension of personal loans tenor is concerned; we can only go so far. By the time competitors start offering ten-year personal loans, we'll just throw up our hands and say- sorry. We are not going to do this.

Right now, a lot of banks are offering six years. We offer six years, which I think is not too bad, especially if we are offering six years for employees of very stable companies. So we are doing it on a very selective basis. Also, in terms of obligor limits; we are all aware that a lot of people take personal loans to do all sorts of things. So there's a pressure to increase the limits. Again, we are doing it on a very selective basis.

In anything we want to do, we will always be mindful of credit standards. So we are not going to be fighting competition and lowering credit standards to the detriment of the overall portfolio.

Bayo Adelabu: Maybe to just add to his response on the first question; our foray into the manufacturing sector is not dependent on the power sector reforms. These are companies that are currently operating positively with the existing state of power supply in the country. We are not taking a gamble on the power sector industry. Thank you.

Jide Solanke: Thank you.

Operator: OK, thank you. The next question comes from Peter Mushangwe from Legae Securities. Please go ahead.

Peter Mushangwe: Thank you for your presentation. I have a very bad line, so I may probably ask you some of the stuff that the other guys have asked. I think first, if you'd just help me with your deposit growth guidance for this year and then in 2014 and your targeted loan-to-deposit ratio. And then in terms of profitability it looks like it's very difficult so far to open up those jewels. I just wanted to know what management thinks about the cost base and your 3-year return on assets targets. Thank you.

Bayo Adelabu: I don't know if you have the presentation or if you've seen it. I will refer you to slide 10 of the presentation where we have the detailed targets for 2013 financial year. For deposit growth, we're targeting minimum of 15% growth in deposits. I won't be able to give you a ready response to 2014 targets because we are just going into another round of strategic planning cycle where we're going to determine our rate of growth for the next three years. For 2013 which is very certain we're going to grow our deposits by nothing less than 15% for the year.

On the loan-to-deposit ratio; we're targeting 65% for the year, while return on average assets; we are looking at 3% for 2013. We closed the first half year at 2.8% so we believe this should not be too difficult for us to achieve, while our ROAE i.e. return on average equity, we are targeting 20% return for the period.

Peter Mushangwe: And did you say deposit growth of 15% like 1-5?

Bayo Adelabu: 1-5, not 5-0.

Peter Mushangwe: OK. And then maybe just another question; so did you say that you had expected the CBN to tighten the monetary policy and you are reducing the duration of your book? At some point; I thought I heard something like that.

Ini Ebong: Yeah, what we said is historically we've done that. Given that if you looked at our book about a year ago or even further, earlier than that; there was a disproportionate weighting towards longer duration instruments and given the dynamic monetary policy environment we operate in, it was more prudent to do shorter durations so you can respond to CBN monetary actions a lot quicker. So we have a much shorter duration book at this time, which gives us the flexibility to react to the Central Bank's monetary policy changes for example, this CRR tightening.

Peter Mushangwe: OK. Thank you. Thank you very much.

Bayo Adelabu: Thank you. Next question please

Operator: Thank you. The next question comes from Abiola Rasaq from UBA Capital. Please go ahead.

Abiola Rasaq: Good afternoon. Thank you very much for the presentation. My first question is on the power sector. I get a sense that you guys seem to be very interested in that sector and I'm just trying to get clarity on what percentage exposure would you be happy to have. I think now you have around 1%, what kind of loan exposure would you want to have in that sector, that's one.

Secondly, where precisely will you want to put your money, in distribution companies or generation companies and what's the rationale for that; and perhaps you can also share with me some of the lessons you currently are experiencing now because this is more like a new business for the entire Nigerian banking system.

As a matter of fact, these are actually foreign currency loans; if I am correct? And just looking down the line at 2014 and 2015; we may see some pressure on the naira for instance, if there is devaluation; what kind of strategies do you have in terms of possibility of NPL formation from your clients, if there is significant devaluation and the loan goes bad? Maybe that guidance would be very helpful.

The second thing has to do with the DRC business. I'm beginning to hear some news coming from DRC that there's some unrest again. Just maybe some clarity as to how that may impact your business in the DRC Congo. That would also be very helpful.

The third one is actually for your treasury business. I quite appreciate the fact that you have a shorter duration portfolio now which of course gives you flexibility. But I'm wondering, if the treasury would actually be able to do as much business as it used to, given the fact that you actually have less cash to play with in terms of the tightening within the interbank system. Maybe just give clarity on how your treasury intends to play their strategy going forward now that you have less liquidity to play with. And of course, concerns about the foreign currency gains which was actually the bulk of your earnings in 2013 half year, which is of course actually cushioning the impact of that reduction in COT income, how do you intend to continue this strategy going forward, because I don't see this as a good income line. Thank you.

Biodun Odubola: Okay, thanks for your questions. I will answer the first one on the power sector. Given the perceived risk of this sector, we are targeting no more than 10% of our portfolio going into the power sector. Right now we're at a very low 1%. So there is a significant room for growth.

Another thing is we are being extremely selective and a lot of transactions have actually been thrown on the table. But like I said, we are being selective because this is a new sector and we don't know exactly how this is going to play out.

Now having said that, you asked a question about which areas whether Discos or Gencos; obviously anybody will want to do Discos because of the cash flow expectation, but it is not possible to do only Discos. We are going to support a couple of Gencos because we believe that they have a very good story to tell. One of the key lessons that we have learned is that we know that many of these customers are looking at dividends to repay the loan, which is not a very good thing; we prefer cash flows to repay loans. But we are looking at some of them also offering alternative cash flows in the event that dividend payments turn out to be inadequate.

I don't know whether I have been able to answer all of the questions you asked. Was there any other one? I think I've answered everything, but if there is any other one I haven't answered, let me know please.

Bayo Adelabu: OK. Let me take the second question. It has to do with the impact on the violence in DRC on our business in there. I can assure you that this is not affecting our business in DRC. Where we have our locations are quite far from the troubled areas. The target ROE for this subsidiary of ours is in line with target. We have normalised NPL ratio, stable earnings and we have smooth integration with DRC. I mean, it's just like asking if the violence in Maiduguri is affecting business in Lagos; it's quite far from where we are located as a business. It does not have any negative impact on us.

Is that OK?

Abiola Rasaq: And what is your target ROE for BIC Congo and what is the current NPL levels?

Bayo Adelabu: Target ROE for BIC Congo is 25%.

Abiola Rasaq: And the NPL level?

Bayo Adelabu: NPL is 17 1-7%, yes.

Abiola Rasaq: NPL ratio 1-7%

Bayo Adelabu: 1-7, 17, 17%.

Abiola Rasaq: OK. Thank you. And the third question is on treasury.

Bayo Adelabu: DRC is a very limited proportion of our book, very small, about 2% of our total portfolio, so the NPL ratio does not have much impact on us.

Ini Ebong: OK, with respect to treasury activity; I mean fundamentally; when you look at us as a Tier one bank, our deposit rate growth will usually, typically outstrip our loan growth. So net, we will always have a large treasury portfolio. Now I think the more important thing to look at now is given the changes in the monetary policy stance, it creates room for volatility. Rates will either move up or down. The currency will either devalue or appreciate. And to that extent, the smaller proportion of the book that's left yet albeit after the incremental reserve requirement regime should generally benefit from these changes in market.

Clearly, given that the Central Bank has indicated that this is its objective, we do expect to have a higher interest rate regime which is on balance more beneficial for a bank like us than a lower interest rate regime.

So, I believe I've answered the two questions around treasury; and FX, with respect to FX, with respect to the proportion of the business that is market dependent, quite frankly if the perception is that there will be devaluation. It just creates opportunity to the extent that there will be FX volatility as competing forces determine whether it will happen or not happen and we will position to take advantage of that.

Abiola Rasaq: OK, that's fine. But sorry, on the issue of power I think they actually left something behind and that's the issue of, in case there’s devaluation. How do you intend to actually manage the level of NPL formation from that sector?

Ini Ebong: With respect to devaluation if the expectation that there will be devaluation continues to increase, clearly, we will then engage customers to hedge or reduce foreign currency exposure, right? However, a lot of our dollar-loan book is lent to people who generally earn dollars. You're lending it to oil and gas upstream, where the bulk of the dollar loans are, or midstream; the receivables are all in dollars, so your portfolio is naturally hedged. So it's largely for the other things that we will then either force customers to hedge or close out such exposures ahead.

Abiola Rasaq: I agree with you for the upstream oil and gas there's no issue with that because both the cash flows and the obligations are in dollars, but for the power sector I'm afraid you will be having the receivables in naira and of course obligations are in dollars which is always a cause of concern.

Ini Ebong: Okay, if you go back to the power reform, within the MYTO (multi-year tariff order), they embedded some room for devaluation in the year-on-year changes in the tariffs right? So if you look at it over a normalied basis, you would expect that that should cater for that over time. Now clearly if you have an expectedly large move one year, it might be out of sync. But if you spread it over the kind of horizons we are looking at five years, seven years; it should balance out over time.

Abiola Rasaq: OK. Thank you very much.

Operator: OK. Thank you. The final question comes from Gloria Obayagbo from CSL Stockbrokers. Please go ahead.

Gloria Obayagbo: Good afternoon. Thank you for the presentation. I have a few questions. I don't know if these have been answered. My line has been quite bad. I see a decline in interest expense quarter on quarter and I had imagined that since this was the first quarter of implementation of CBN's new tariff, I found it strange that there was a decline and I want to understand how that was achieved.

And then on the power sector loans, if you can just give me an idea of the tenor of these loans and just to understand the nature of these loans. I want to imagine that after the payment of the final acquisition cost last week, all loans to the Discos and Gencos will have been closed for now. Where is the further loan growth supposed to come from? Maybe it will be loans for working capital when the companies become operational; or just to get an idea as to where these expected power sector loan growth is supposed to come from. Thank you.

Bayo Adelabu: Okay, I will take the first question on the decline in interest expense quarter on quarter. Well, just two factors contributed to that, the number-one factor was the pricing of our term deposits for the first quarter. The first quarter, if you remember was an environment where we had very escalated interest rates. Deposits were being taken at about 12% to 14% and we had a large chunk of our tenured deposits in this high interest rate bucket. But in Q2, this was re-priced downward and now we actually pay single digits, this led to a drop in interest expense.

Then the number two point has to do with our expense on interbank takings we actually took some monies interbank during the first quarter, which we paid down at the beginning of the second quarter, so that expense was not there in the second quarter. These are what actually led to the reduction in interest expense for the quarter, in spite of the increase in savings accounts interest one will expect that our interest expense for Q2 will be higher than interest expense in Q1. However, the volumes from those two factors I mentioned far outweigh the escalation in savings interest that we experienced in Q2.

Biodun will take the second question.

Biodun Odubola: Thanks for your question. You asked a question on the power sector loans, which stood at 1% of our portfolio as of June. We have the appetite to go up to 10% of our portfolio, based on our review of the risk profile in this sector.

Currently what we have done is to finance acquisition but there is still room to finance working capital and maybe Capex.

We have actually financed a couple of other power sector participants post June 30. So we should expect the loans in the power sector to grow fairly significantly looking into next year but somewhat later in the year, essentially from CapEx and working capital. Thank you.

Bayo Adelabu: Thank you. We've come to the end of this call. We want to thank everybody for dialing in and participating in the call. We want to assure you that the results that you have seen in the first half of the year, we will do everything possible to ensure we sustain the performance momentum for the rest of the year and we'll ensure that our targets are quite met. Thank you very much and God bless.

Operator: Thank you. This concludes the FBN Holdings Half Year 2013 Financial Results Conference Call. Thank you for participating. You may now disconnect.