FBNHOLDINGS

FY 2020 RESULTS PRESENTATION

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Tolu Oluwole

Head of Investor Relations

Good day, ladies and gentlemen. Thank you for your patience and welcome to the FBNHoldings PLC full year 2020 financial results conference call. Thank you all for taking the time to join the call today and for your continuous interest in FBNHoldings. My name is Tolu Oluwole. Following an overview by the Group Managing Director of FBNHoldings, an interactive Q&A session will be available.

However, before I hand over the call to the Group Managing Director, I would like to go through a few conference protocols.

Participants are encouraged to use the raise hand function to ask questions, and microphones will be unmuted once called upon to speak. For efficiency we will be batching questions in two or three, before responding, and after asking questions, microphones must be on muted, except when speaking. This is very important to avoid interference.

Questions could also be submitted in the Q&A function as well.

That said, I would like to hand over the call to the Group Managing Director of FBNHoldings PLC, Mr UK Eke. Please go ahead, Sir.

UK Eke

Group Managing Director

Thank you, very much, Tolu. Good afternoon and good morning, ladies and gentlemen. I would like to welcome you to the FBNHoldings investor and analyst result presentation for the full year ended 31 December 2020. My name is UK Eke, and I am the Group Managing Director of FBNHoldings PLC.

I am also delighted to introduce my colleagues that are on this call with me. As always, Dr Sola Adeduntan, who is the CEO of First Bank. Kayode Akinkugbe, the CEO of FBNQuest Merchant Bank. Oyewale Ariyibi, the CFO of FBNHoldings. Patrick Iyamabo CFO First Bank. Segun Alebiosu, the CRO First Bank and Ini Ebong, Group Executive Treasury, Financial Institutions and International Banking. Of course, Tolu has already introduced himself, the Head IR.

So much has been said of the year 2020. Without doubt, a very challenging year for individuals, families, businesses, and the world at large, bringing with it, disruptions to the global economy and recession across the globe.

Nigeria, our home base, had its fair share of the challenges, indeed, we went into recession in the third quarter of 2020, but quickly recorded a 0.11% growth in the fourth quarter of 2020. That is the context under which we operated.

We believe overall, we recorded a very strong performance, which is a clear testament to the resilience of our institution and the benefits we made over the years in strengthening our risk management architecture.

Our strong and resilient performance, which I have just mentioned, was driven largely by revenue diversification, with increase in non-interest income. Also, we saw clearly, our unassailable leadership in digital and Agent banking. Then we also saw a well-diversified and solid funding base, which continues to enhance our liquidity position, both FCY and LCY.

We further strengthened our risk management practice and controlled environment, resulting in improved asset quality, as I would show in the slides that will follow after this introduction.

Starting from slide 6, profit after tax for the year grew by 22%, just rounding up, to ₦89.7 billion. The non-interest income recorded a growth of 26.7% year-on-year, closing at ₦174.7 billion. These results, we are proud to say, were despite the very challenging rate environment, evidenced by decline in fixed income rates and higher cash reserving requirements, as we all saw in 2020. Also, this led to a 10.9% year-on-year decline in the interest income, closing at ₦384.8 billion.

However, we are glad to say that we mitigated the impact of the decline in net interest income by containing our interest expense through a deliberate and carefully executed program around driving costs, low-cost deposits, and reducing the costs of deposits. You know, of course, that we are a low-cost producer, and so this has reflected in the cost of funds which you will see in the slides that follow.

I also want to recall, I am sure you remember, that five years ago we outlined our strategy, our intention to diversify our income stream by boosting non-interest income through transaction-led banking model. We believe this decision has minimised the burden on our customers. Indeed, it came in very handy during the lockdown period, by providing seamless access to banking services, as well as supporting government efforts, and indeed, the efforts of donor agencies in reaching Nigerians with COVID-19 support programs or palliatives.

I would like to emphasise the very significant progress we made in our Agent banking proposition. The electronic banking revenue increased by 1.3%, despite the 50% regulatory reduction in fees. The growth was supported by expansive volume developments, and so we recorded a 28.1% volume growth in our USSD proposition, and we saw 1.0 trillion in terms of counts, and then a 43.4% growth in mobile banking volume, to 248.2 million transaction volume, as at 31 December 2020.

Similarly, we are glad to report that our Agent banking network increased by over 100% from the prior period of 2019, 44,000 to 100,000 agents across 772 local government areas of Nigeria.

We're also proud to report that we crossed the ₦9 trillion threshold for value of transactions processed from inception to date, processing ₦9.78 trillion, compared to ₦3.1 trillion in prior year.

More importantly, we are monetising our Agent banking, and its revenue contribution to e-business. As you will have noticed over the years, we have seen year-on-year growth in the contribution of our Agent banking business and the e-business income continues to grow, relative to the total non-interest income.

To further deepen our Agents' banking offerings, we enhanced our services and are expanding the reach beyond Nigeria. So, this is a model we intend to replicate, even outside Nigeria.

We remain focused on driving our efficiencies and improving our cost to income ratio. We are happy to report that in 2020 operating expenses was up only marginally, by 0.5% year-on-year, which is significantly below the inflation rate, and we can immediately confirm that the major drivers of the marginal increase were largely regulatory costs, inflation-induced increases, and of course, we know the adjustment to the currency, which happened in 2020.

Despite all of this, and despite the sheer size of our operations and our Group, we recorded only 0.5% increase in OPEX year-on-year.

Now, our customer deposits grew very significantly, year-on-year, also, which basically speaks to the strength of our brand, the security and the safety that we offer to the banking public.

Net loans to customers grew by 19.7%, nearly 20%, and we're very deliberate in writing cheques, basically supporting trade finance activities, and providing supports to the manufacturing sector, to the power sector, oil and gas, and general commerce. These were the sectors of growth. So, quality remains of utmost importance to us. I can confirm that we have limited exposure to those sectors that were badly impacted by COVID-19, specifically aviation and hospitality. We have very minimal exposures to those sectors.

We have also maintained a very strong market access, again, speaking to the strength of the brand. You recall that it was during 2020 that we achieved our $350 million Eurobond issuance under the 144A RegS, five-year senior unsecured Eurobond. The interesting thing about this issuance was that it was the first benchmark Eurobond issue by an African bank in 2020. Even with COVID, we were able to successfully issue this Eurobond, and it was well supported by global investors, so we are proud of that achievement, which has opened the door for other African issuers to do their own Eurobonds.

Moving on to slide 7, you can see very clearly that the strengthening of our risk management architecture, leveraging technology and deepening the bench strength in the risk management division has continued to yield the desired results positively.

Our asset quality position improved even further, and we were able to bring the NPL ratio down to 7.7% from 9.9% that we saw in 2019. Of course, as we confirmed during the last time we engaged you, we have continued to maintain a less than 1% NPL ratio on our vintage book. So, we are proud of what we have achieved on the NPL side of things.

During the year, precisely in June of 2020, we exited the insurance, or the underwriting business, by selling our 65% stake in our FBN Insurance franchise, to the Sanlam Group. The net proceeds of sale were injected into the commercial bank, and together with the organic capital accretion of the Bank, the commercial bank has improved its capital position and closed the year 2020 with a capital adequacy ratio of 17%.

I am happy to report that all the businesses in our portfolio that are regulated by capital, are running well above the regulatory capital requirements or thresholds, and they will continue to accrete capital so that we will be able to expand our market share and report profits, obviously, to the delight of our stakeholders.

Turning very quickly to slide 8. As we progress along in our strategic planning cycle, we would like to show to you the progress we have made so far. As you can see very clearly, there were improvements across all metrics. These reports, or these successes, represent for us landmarks and a product of deliberate execution of our strategies. We remain resolute that we will be able to deliver our five-year strategic numbers and we will, in the course of our discussions, share with you, when you ask your questions, on what those targets are for us.

Notably, I would like to reiterate the progress we have made in terms of asset quality, and also remind you, for those that have been tracking the Company, and following our progress, that in 2016, five years ago, we had the NPL ratio at about 24.4%, and so reporting a 7.7% NPL ratio and continuing on that southward trend with a plan to go below 5% in three years, you can see the remarkable job we have done with transforming this Group, and positioning it right on the path of sustainable growth and profitability.

I will turn to slide 9, and there you will find some of the initiatives that we have implemented over the past year. These are expected to deliver significant growth, not just for 2021, but also beyond 2021, as we seek to expand our footprint and deepen our digital transformation. We believe this is key. We believe that it's no longer about bricks and mortar, but it's about transforming our platforms and providing the digital space for our customers to do their banking transactions.

These will be instrumental in repositioning us into market leadership. They will also be instrumental in enthroning and sustaining the quality loan book that we all desire to have, and so improving our risk management profile and providing us with a strong and solid funding base. This will be the major, the rationale for all of these initiatives we are executing, and we can say proudly that we are now well-positioned to regain our leading position as market leader, not just in Nigeria, but in Africa.

I would skip all the other slides, and quickly go to slide 24, to conclude.

To say that, although there are signals for improvement in the global health conditions, and also, hopes have been raised, on account of the vaccines that are now being administered, this year will still be full of challenges. There is no doubt about it. The renewed waves and the new variants of the virus pose concerns for the outlook. Notwithstanding, we are resolute, and we remain focused and steadfast, and we believe that those elements we can control, we can control them very well, and be able to deliver superior performance.

We believe, also, that as the economy reopens, and as Nigeria is planned or projected to grow 2.5%, 3.5%, we will be one of those institutions that would certainly gain from the renewed optimism.

We are well-positioned. We have the enabling platforms and structures. We have the processes that would allow us to gain market share for 2021 and 2022 and beyond.

Our focus areas are basically deploying the two-pronged approach of driving our revenue through transaction-led banking model, whilst also implementing initiatives that are geared towards containing operating costs, and this will help bring down our cost to income ratio. We believe that there is more work to do in that area, and we are committing to delivering steadily reducing cost to income ratio, not just for this year, but in subsequent years.

We also believe that we will continue to strengthen and improve our investment in digitalisation, innovation and expansion in financial services.

We will remain disciplined in executing our strategic initiatives, and we will keep evaluating our options, so we can support our vision of remaining the dominant financial services player in Africa, not just in Nigeria.

I'd like to end here and invite Tolu to moderate the question and answer session. Tolu, please go ahead.

Q&A Session

Tolu Oluwole

Thank you very much, GMD. Just as a reminder, I would like to reiterate the protocols again. Participants can use the raise hand function to ask questions. The microphone will be unmuted once called upon to speak. We will take questions in two or three batches, before responding, and once, after asking questions, please keep the microphone muted to avoid interference.

Just before we start, I have a few sets of questions that have come in, so we'll take those questions first, and then we'll go over to the other questions.

So, the first question, on the new mobile application introduced in FBN Senegal, could you help in understanding the potential in other countries? That is the first question.

The second one is, on the issue of the telecom saga recently on the USSD in Nigeria that has been ongoing, regarding who will pay the back charges, due to telecoms companies, and the recent intervention by the government. More importantly, since USSD is still currently a major channel to reach unbanked and recently banked customers, what are the alternatives - what is the way forward for FBN outside telecom company channels, who are now considering potentially major competitors via Fintech, Flutterwave, OPay, et cetera?

Then the third. Last year management was on record as acknowledging newspaper rumour of FBN looking at potential merger between some partners, but this was not confirmed. What is the way forward on this? Can the Company put a statement out regarding Heritage and Polaris now, even if nothing is expected to proceed? Is there a reason why this is still hanging?

That is the first set of questions.

UK Eke

Okay, thank you very much, Tolu. I would like to request Ini - Ini that's in charge of international banking. He will have to speak to the first question around mobile banking. Then I would request the CFO of the commercial bank, Patrick, to respond to the question on the telco saga and bank charges on USSD. I will also request that the CEO of the commercial bank, Sola, he will speak on the question, the M&A question that was posed.

Let's start with Ini. Ini, please.

Ini Ebong

Thank you, and good afternoon, everyone. In respect to the question on the prospects for what we see in mobile banking across the sub region, at the start of Q4 last year, we launched the brand new mobile banking app for our Senegalese franchise, and thus far we have seen very encouraging results with respect to uptake and acceptability by the marketplace.

We believe that this portends a strong area of potential growth across the sub region. When you look at many of the markets we operate in, we are present in five West African markets and one in Central Africa. Arguably, they lag where Nigeria is today, in terms of the infrastructure associated with mobile or digital banking. In some cases, the deployment of central switches, integration and so on and so forth are still in their infancy.

That notwithstanding, we believe that, as has been demonstrated in more mature markets, these represent viable tools for rapid financial inclusion and thus growth in digital marketing products and revenues.

So, we're very optimistic around it. We continue to push it aggressively. We work with the regulatory authorities in the various markets that we are present in, to drive the environment that will promote the growth.

Thank you.

UK Eke

Thank you, Ini. Patrick, will you want to take the question on the telcos, on USSD saga?

Patrick Iyamabo

Thank you. The USSD saga is really about, how much the network fee should be and passively, but importantly, who should bear that cost. Interestingly, customers used to bear the cost of the session costs until a couple of banks came together with some telcos to figure out how they could drive the growth of the whole channel and that shifted away from the customer and by the way, the channel growth plan was successful.

So, with the agreement of the cost at about ₦7, we are now back to where we used to be before and a critical option on the table is really to have the customers do what they used to do, which is take on those costs.

But the beauty of this cost, is that it has been capped for the transaction itself as opposed to the previous arrangement, which was by session, which could have been extremely expensive for customers today. Now, having said that, the other question is, what does it mean for adoption and growth of that channel?

On customers taking on that cost - one option would be you might see some attrition, particularly from customers who just used to use the channel for no particular fantastic reason. But we think overall, the big difference between now and what used to exist is that the customers have come to experience the channel, they appreciate the convenience, they see the value.

It's now a way of life and we don't think the use of the digital solution is going to just change because you are now being charged ₦7 and if you are to compare that to the ₦50 or ₦100 you will spend if you have to travel from one location to the next to either pay a bill or to cash money and things like that.

So, having said that, we think overall, looking at the digital channel, attrition towards cash - which is the alternative solution - will be less and speaking specifically to the USSD, what we see more happening if at all the adoption rate drops is that the customers might choose to use another digital channel that is available to them, that which is equally convenient.

It could be mobile, it could be ATMs, as the case might be, but either way, whether they still use their USSD at ₦7, which is similar to what used to happen before, only that the cost is better controlled, or whether they move to mobile platforms or they use the ATMs, we are waiting and available to serve them.

As you know, we are very strong across all these channels. Last year alone we made about ₦48 billion in revenue from these channels, including the agency, we are number one and number two on basically the various digital channels, so pretty much at home, available and ready to serve them.

In summary, we see that cost being borne by the customers. In terms of overall digital revenue, there might be an initial impact but on a sustainable basis, we don't see much changing in terms of the growth trajectory of the digital channels and because of our strength across all the channels, we are very well-positioned to continue to benefit from the growth of digital and business.

Now, that said, we will continue to actively track price elasticity of demand, because within that boundary, we have the flexibility to do lots of things, to modulate things as necessary.

So, yes, we see the issue, but the beauty is there's a solution on the table and because there's a solution on the table, it makes planning an outcome a lot more predictable and we believe we're in a very good position to continue to drive USSD growth or there's a shift to other digital channels and dominate those channels as well. Thank you.

UK Eke

Thank you very much, Patrick. I believe we have just one more question, which t,he CEO of the commercial bank can take for us. Sola, please.

Adesola Adeduntan

Thank you, UK. When the rumour broke in the course of FY 2020 about FirstBank being involved in some M&A conversation, what we had said on our call then was that as a serious institution that has been in existence now for 127 years, an integral part of our business strategy is to continuously evaluate our options over and above what we do in terms of the organic growth.

Depending on where the market is, depending on the type of opportunity, we will make up our mind. That statement and that position hasn't changed. We will continue to scan the environment to look for opportunities to do transactions. If we find, we will go ahead, if we do not find anything that meets our very strict parameters and criteria, we will continue to focus on our organic business growth. Thank you.

UK Eke

Thank you. Tolu, I think you can go back to the Q&A since we have cleared the questions you received earlier.

Tolu Oluwole

That's correct, sir. So, we have the question from Gowtham Kumar, so please go ahead with your question, Kumar.

Gowtham Kumar

Yes, thank you for this session, it's been quite informative. I have a couple of questions, mainly on the NPL and the Commercial Bank's capitalisation. So, the first question: what do you expect the NPL ratio to be in Q1 2021 or even H1 2021, given there have been some forbearance policies last year, so do we think whether there will be any backlog of increase of NPL this year? What is the current NPL coverage ratio? Also, you have mentioned that the Group is trying to decrease NPL ratio to below 5% in three years. What kind of strategy are you putting in place to realise this objective? This is my first question.

The second one: it's really good to hear that the commercial bank's capitalisation has been improved but still, we can see that it is still slightly below the peers, so I'm wondering what kind of strategy or actions will be taken or expected to be taken in the near future? Thank you.

UK Eke

Thank you. Let's take two more questions. We agreed to batch in threes, so next question, please.

Tolu Oluwole

So, the next question is from Ronak Gadhia. Ronak, please go ahead.

Ronak Gadhia

Good afternoon, UK and team. Firstly, I'd just like to say congratulations with the increase in capital. It seems like the turnaround is finally complete. You had your doubters, me being one of them, so once again, well done, especially for proving me wrong. With that being said, just a couple of follow-up questions, maybe just on that.

Firstly, the previous caller mentioned we saw a big increase in capital or capital adequacy ratio. Within that, if I can look at your capital ratio on a year-on-year basis, there's a big deduction of around ₦40 billion related to your regulatory risk reserves which didn't recur in 2020. Could you just talk about why that was? So, that's the first question.

The second question is on your five-year strategy. You indicated that there is a new five-year strategy because the turnaround is complete, so maybe you could just talk about that, specifically as you mentioned that the focus over the last five years was just to clean up the balance sheet. As a result of that, the PBT of the bank is now much lower than peers of a similar balance sheet size, so could you just talk about how FirstBank will go from a PBT of ₦80 billion to ₦100 billion to around ₦200 billion, where some of your peers are?

The third question is on your NPL cover. If I just look at your specific NPL cover, it's around 35.7%, which seems very low relative to historical levels that this bank used to maintain and also very low compared to peers. So, if you could just talk about why that is so low and if you are intending to increase that. Thank you.

Tolu Oluwole

So, in line with the protocols, we will just take one more question. Okay, we will take these three, before going to the next question. If it is okay, I think we can take these questions.

UK Eke

Okay, thank you. Thank you very much. I think there are about three questions on NPL including the one on the plan to achieve 5% during our SPP. There's also the question around coverage, so I would request that the CRO of the commercial bank take those questions and then after that, the CFO of the commercial bank would take questions on capital. There's also one on regulatory reserves, so let's go on this.

Patrick, you will also note the question that was raised - I think it's general, really - around what we intend to do to improve profitability - this is by Ronak, growing the profit to the 100bn level, so perhaps you can also take that question. Thank you. Segun, please start.

Olusegun Alebiosu

Thank you. This is Olusegun Alebiosu, the Chief Risk Officer FirstBank. With the forbearance coming to an end, we don't expect a spike in our NPL. Note the fact that most of the accounts affected over that time were in sectors affected by COVID and you will agree that Nigeria has recovered faster than expected and cashflow has resumed. Indeed, oil and gas upstream, where crude oil price implemented at that time, is already up at about $63 per barrel. You can imagine what is going on in oil and gas upstream and in services.

So, people will expect a spike in NPL, but that is not going to happen. What we see going forward would be the NPL coming down. We did promise last year that the NPL will come down further and we delivered that, from 9.9% to 7.7%, about 200 basis points.

For this year, we will see further reduction in NPL because we are working towards the 5% strategy that the GMD mentioned. For us to achieve the 5% NPL as set by the Board, is based on the operating environment improving, resulting in an improvement in recovery. So, recovery will be central to that. I can indeed explain to you and confirm that we've made a lot of progress in respect of that.

Of course, there'll be loan growth, loan growth will have a way of balancing things out. There will be restructuring and then there will be asset realisation write-off because again, if you have recovered collateral and if you have virtually gotten everything, whatever is left of course will have to be charged off, so you would have that.

We are confident that based on our plan and what we are seeing, we will achieve the 5% NPL as set. On coverage, Ronak, what you have seen is based on model and also the reason why we see movement in regulatory risk reserve because if the regulator can see through your books and your model is predictive that this is real impairment charge. Of course, we did exactly that. We've explained earlier but I'm willing to explain again that our policy is based on 130% forced sale value. For us to be at 48% coverage, I'm saying to myself that I will have lost over 65% of the value of that collateral for me to realise only 48% of my money.

So, you know that in reality, in real estate market like Nigeria, real estate hardly - depreciates faster than what people would expect. Even in recession properties are going up, so we do not see NPL rising and the model has predicted well, and that is what we have seen across. Going into 2021, we plan to increase coverage, not because the model is now wrong, but because we want to build overlay. So, we will build overlay in 2021. Thank you.

UK Eke

Okay, Patrick, please.

Patrick Iyamabo

Okay, thank you very much. So, I think the two questions that have been posed are, the first is really the movement in regulatory risk reserve and then the second is how to grow PBT to the level of peers, but when I get to that, I'll modify it a bit because we actually do not need to have - by the time we grow out PBT to the level of peers, we would have very outrageous ROE, particularly relative to peers, so I would modify that a bit when I get to that.

In terms of regulatory risk reserve, if you recall regulatory risk reserve is really the regulator coming in and applying general accounting principles under local standards to make adjustments to capital reserve for credits, for potential NPLs. So, essentially what happens is, you have gone through the model, the CRO just spoke about that, you have articulated the credit reserve you need for the quality of your risk assets.

That is tested, validated and that is locked down and considered sufficient. But the regulator still maintains a model it has been using for, I don't know, maybe more than 20 years now, and says based on that model, what else do I need to do, without necessarily recognising the intricate nature of each of those asset class as we do under IFRS and the ECL model.

So, what has happened this year - and if you have tracked some of the discussions we have been having on these calls, we have consistently made the point that we expect RRR to keep going down because the quality of our books is getting much better. The concerns under NGAAP are actually falling away and the regulator may have been slow to respond to those changes but that capital reserve that the regulator has been taking off the table will have to be released once it is clear, the trajectory of our loan quality vis-à-vis our ECL.

So, what has really happened is the regulator appreciating what we have been speaking about and testing what it is we have done and being comfortable with what it is that we have done and considering the RRR less relevant compared to prior years. The regulator has taken its time to come to this realisation, but we are finally there, and we just happen to have been explaining to the investor community ahead that this was coming to pass.

To the second point around what do we need to do to get our PBT to the level of peers, if you permit me to rephrase that, that would perhaps be to get our ROE to say, let's say 20%. We are currently about 12.6%, but the reality is that to move from 12.5%, 12.6% to about 20% is really about ₦60 billion, maybe a little less than that, which frankly is doable.

So, what are the various levers we'll have to play around with? The most important one has to do with interest income. Just note that, we will come back to that shortly. Now, if we look on the cost side, and I am thinking about costs really broadly, so we have the cost of funds, cost of risk, OPEX. I am speaking about costs broadly. Cost of risk – we are in a much better place than we used to be.

We have a much better handle of it, and we expect that to continue into 2021, so, we think we should not really be far off from where we used to be. In terms of cost of funds, we have noticed our cost of fund trajectory. It has been heading south, which is a good place to be, and that has supported earnings. Even though we expect the overall yield environment to improve to the end of the year, we think based on the funding options available to us as well as our tactical decisions, we can keep cost of funds reasonably around where it is right now. If cost of funds is going to go up, maybe just a few basis points. So again, that lever we believe we have a good control over.

OPEX - you would notice we have consistently said a lot of the initiatives around technology, a lot of the initiatives around process, a whole bunch of things we are doing are oriented towards improving our OPEX. If you look at FirstBank on a benchmark basis to other tier 1 banks and you look at the OPEX CAGR over the last five years, we are actually best in class. We don't think that is going to change in 2021. So, in summary on the cost end, part of what we will do to get our ROE where we want to get it to is to continue to do all the great things we have been doing to control our costs.

So, we are now into the realms of revenue. There are two big buckets of revenue: interest and non-interest. I'll get to interest last, but interest is perhaps our biggest lever. In terms of non-interest income, we have repeatedly discussed and explained the things we are doing around non-interest income and the transactional activities, whether on our mobile, on our digital platforms or in trade.

So, Mobile, USSD, what we are doing around Agency, you look at the volumes, you look at the trajectory, they have been growing. We expect that they will continue to grow into 2021, pushing our ROE into the realms that we want to get the ROE. In terms of trade, you would also notice on a year-on-year basis our trade revenues went up. We expect it to continue to move up as we continue to improve our trade capabilities and we continue to benefit from the ability to properly price trade transactions under the current operating environment.

We made some trading gains last year and volatility creates opportunities, and we took advantage of those. We still see some of that volatility happening this year and so we expect that will continue to happen, but overall, on a transactional basis, particularly given the growth trends that we have in trade or our Agent banking business, in terms of transactional count, we grew about 90% on a year-on-year basis. So, Agency, Mobile, USSD, those volumes will keep growing and we beat our revenue which will close the ROE gap to 20%, using 20% as the benchmark.

The last one, which is where I started from but I'm coming to it last, is really around interest income. What you will notice is the significant interest rate sensitivity of our balance sheet, of our earning assets. So, whilst that has penalised us when rates were crashing the last couple of years, particularly last year when they really plummeted, as the rates begin to move up, we shall see our NIMs opening up. If we deliver on that cost of fund constraint/control that we spoke about earlier on, the increase in yields almost all translates into increase in NIMs.

A 7% increase in our cost thereabout or yield thereabout translates into about ₦28 billion in increase in interest income. So, if we were to flip that differently, just growing - for example, NIBOR increasing by 1% would translate into more than ₦50 billion increase in profits, based on what it is we have seen in terms of how our cost of fund modulates and our yield modulates, to be very specific, part of what we've shared in financials, that would translate into about ₦58 billion increase in profits.

So, if you pause for a moment and appreciate the fact that we can do a great job or we can continue to execute what we have done well to control our cost base - and I am using cost really broadly, OPEX, cost of risk, cost of funds - and we have the capacity to continue to drive our transactional income and in the digital space, it continues to grow, and we are in an environment where yields are beginning to move up, then you can appreciate how that gap can be closed.

The reality is, depending on how quickly yields move up, that gap can be closed in 18 months, 24 months, 12 months. It all depends, just playing around with these variables. I hope this helps. If you need me to clarify anything, I am happy to do that. Thanks.

UK Eke

Okay, thank you very much Patrick and Olusegun Alebiosu. Also I think we can move on to other questions, Tolu.

Tolu Oluwole

Thank you very much, Patrick. Thank you very much GMD. So, the next question is from Adesoji Solanke. Adesoji, go ahead with the question.

Adesoji Solanke - Renaissance Bank

Yes, hi, good evening everyone. This is Soji from Renaissance Capital. Thank you for the clarifications so far. Let me just ask one - I have a few questions, but if Patrick can just clarify the numbers he just gave. I think I had one percentage point NIBOR drives ₦58 billion increase in profits, was that what you said? You also said something about a 7% increase in yield translates to ₦58 billion increase in interest income. Just clarify those numbers again, that would be helpful.

Let me just say my other questions because I may get cut off. The first one is around your Agency banking transactions. Can you break this down into withdrawals, deposits, B2B transfers and bill payments in terms of share of transaction volumes? Then also just on Agency banking, so for last year, how many customers transact via Agency banking, roughly, and what was Agency banking revenues in 2020?

Then also just still holding onto Agency banking, we just got off the Access Bank's call and they report having less than half of your number of agents and they did ₦8.5 trillion in agency volumes, right? From your slides I see roughly ₦10 trillion in transaction value for Agency and you have double their agents. Why is the gap so little? From your point of view, what do you think explains this?

Then just a few more questions, on FX revaluation gains, from your financials I don't really see a clear reporting of FX revaluation gains. Could you kindly clarify what was the size of FX revaluation gains last year and what's the size of your net long FX position? If you can just tell us guidance for a few key things, so margins, non-interest revenue growth, OPEX growth, cost of risk and do you have a ROE target for this year, for 2021? Also, expected growth in the loan book and deposits. So, I'll leave it there for now, thank you very much.

UK Eke

Okay, thank you very much Soji. All those questions are for Patrick, but I will just say that with respect to the last bit, guidance, we obviously have not provided any guidance and we will not at this time. The market and industry and nation are still in a flux, so we are still studying the variables and when we have everything properly knocked out we'll give guidance, but we're not going to give you guidance on this call. But the second bit, I think you asked questions around Agent banking and in comparison, with other banks etc. Patrick will take that. But if you can just pause, Patrick we'll take another question, I think there's another hand up, Tolu, before Patrick responds.

Tolu Oluwole

Yes, that's correct. There's another hand up from Ronak. We'll take questions from Ronak and then we'll respond to the questions. Go ahead, Ronak.

Ronak

Yes, thanks Tolu, just a couple of follow-ups. One of them was very much in line with what Soji asked, if you could just clarify what the net open position for the Bank is, because it seems like you recorded an FX revaluation loss which I'm finding it hard to understand, as you guided that the Bank has a long USD position, so that's the first one.

The second one, maybe just a bit of a follow-up from what Patrick was saying, specifically on trading income. Could you just give a bit more guidance and specifically for the trading income you earned last year, could you just maybe give a split in terms of how much of that was proper trading income and how much of that was due to mark-to-market gains on your investment securities portfolio. The final one, also a follow-up, this one from what Segun said earlier. It does seem like the NPL coverage is going to go up this year, is there any specific target that you have in mind? Thank you.

UK Eke

Okay, Tolu, do you want to read any questions you have received previously? Or do you want us to go ahead and respond to these two?

Tolu Oluwole

I think we can go ahead, given the number of questions from the two analysts.

UK Eke

Thank you. Patrick, if you can answer and then Segun will come in and speak to the coverage question raised by Ronak.

Patrick Iyamabo

Okay, so thank you very much, these are quite a number of questions. So, in terms of the interest rate sensitivity, a 7% increase in NIBOR translates to about ₦28 billion increase in our PBT, so that's interest rate sensitivity. So what I then tried to do was to translate that into NIMs as would impact our group and that is how I came about 0.5%, about that and about 1% going onto about ₦58 billion, ₦59 billion in profits, okay?

Now, in terms of Agency, specific questions about breaking down, for want of a better word, by specific products on the Agent channel. Whilst we would not go into that because this is a call, right and this is not information, tactical information that you really want to throw out there, I can provide some guidance in terms of how our Agency business is doing. Like I said, we grew count on a year-on-year basis by about north of 90%. We currently, last year alone we did about 294 million, 295 million transactions through our agents and in terms of revenue, ₦15 billion.

I can't speak for Access figures because that was the name you put on the table, but I can speak for our figures, that figures are really great, and we see traction and we continue to roll out agents, we continue to grow that business. Number of customers, I hope the point around transaction counts is helpful. We track that much better than we track number of customers, because the count is really what speaks to our business momentum going through that channel.

In terms of FX revaluation, we did about ₦6 billion last year, but we had an FX trading loss that eventually shrunk everything to about ₦2 billion last year. So yes, we are long but yes, not as long as some of our peers that are reporting ₦58 billion and some of those other nice figures. The GMD already spoke about guidance, he has discussed that, so I will skip that. Then in terms of trading income, speaking to fair value through P&L that will be about ₦16.5 billion for the banking group and then speaking to actual trading gains and positions traded and all that, that will be about ₦45 billion, ₦47 billion for the year. Thank you.

Olusegun Alebiosu

Yes, thanks Ronak. The GMD spoke earlier that at this time we will not be in a position to give guidance, the way we would have to leave it. But permit me to say that we don't envisage that coverage will be less than 60% this year, at least. But I am sure by half-year we'll have a clearer picture, thank you.

UK Eke

Okay, thank you. Ronak, you know we will continue to engage on this matter. I know how important it is to you. So, this is April, hopefully by June when we will have done six months, we can respond in more detail to some of the issues we are not in a position to talk about right now in terms of guidance. Okay, Tolu, other questions please.

Tolu Oluwole

Thank you very much, Sir. So I will take a question from Labi Williams, which says various banks are looking at becoming HoldCos with various plans. What is FBN's strategy for Holdco aside from core bank? So that is one of the questions we have in the chat room. Just to check, Soji, I still see your hand and Ronak's up, is that the previous or is this an additional set of questions? Okay, so we can start with the question from Labi. Okay, those are the previously raised hands,

UK Eke

Okay, I can take that. Thank you very much, Labi, for the question. I think without being immodest, let me say that we are kind of clairvoyant in seeing the benefit of restructuring through the holding company model, about eight, nine years ago. What other players are looking to do now, we saw the opportunities and we saw the need to diversify away from the commercial bank nine years ago.

But to remind us, because your question alluded to aside from the core bank, we are not just in the commercial bank, we also have investments in the merchant bank, okay? And then we also have investments in asset management company, right? So that's one area that we need to flag, and that business is doing very, very well, albeit consolidated into the merchant bank business, or the Quest Group.

We also have investments in the custody business, pension fund custodian business, so that's another area some of the Banks that want to now restructure through Holding Company want to get into. We are quite active also in insurance brokerage, as you know. So really, we are a diversified holding company and we will continue to review the market opportunities. I am aware that there are a few other sectors that are looking good, but the benefit of having a portfolio is you constantly review and then get into the sectors that are looking good. And that is what we do as a holding company.

So, to your question, we are already well diversified. How we enter other spaces that are looking good will now be a matter of the returns we see and then the regulatory environment and of course, how quickly we can position. Because we don't want to play, if you are like, a second fiddle. We like to enter the sector and dominate the sector, that is what all of our businesses have come to deliver to us. So, we will keep reviewing the opportunities out there and then take decisions in the best interests of our stakeholders. So, it goes beyond commercial bank currently. Tolu?

Tolu Oluwole

Thank you very much, GMD. Okay, I think we have a fresh question from Soji. So Soji please go ahead with your question.

Adesoji Solanke - Renaissance Bank

Yes, thank you, Tolu. Just two quick questions. So the first one is perhaps Ini or someone else will clarify what's your house view - I know there's a lot of talk around expectations for an increase in interest rate, but by how much do you envisage interest rate could rise this year? And also, what is your outlook for the currency as well? It is currently around 410.

The second question is perhaps more for Olusegun on risk, could you clarify what the ongoing issues are with AITEO? There has been a number of articles in the press with Shell, court cases, et cetera. What's really happening there? How do you think this will get resolved? And for your bank itself, what's your exposure in dollar terms?

Where is this currently classified and to what extent have you provided for this? Thank you.

Tolu Oluwole

So, we have a question from Kato and then we can take responses to the questions after Kato speaks. Kato, please go ahead with your question.

Kato

I had a strategic question really for UK and maybe Ini. I know Ini and myself have been watching a lot of these fintech valuations in Nigeria and the multiples to revenue that PE firms have been paying. And not one of these companies even does 10% of your electronic banking revenue and some of these guys have been given $1 billion valuations. What can you do strategically to monetise what it is? Because you've built an unbelievable machine that is digital, but the world just do not seem to get it.

What can you do to realise that value for the asset that you have built? What are the options available to you that you are thinking internally? Because is it possible to spin it off, because it is just illogical that someone is paying so much for businesses that are not even a tenth of your size, more than your current market value. Just want to know what you're thinking about in terms of realising your true valuations, thanks.

UK Eke

Thank you very much, Kato, that's a very interesting question, I will respond to that. Did you want to take another question, or we'll just clear these ones? First of all, Ini can speak to the questions around interest rates outlook and then Segun will take the question on AITEO, I think there was one on AITEO and correct classification. Please go ahead, Ini.

Ini Ebong

Okay, well basically speaking to the outlook, I think we all agree that interest rates need to move up. Nigeria is not a low interest rate environment, especially when you look at where inflation levels are. Again, also I think we can also agree that the currency also needs to depreciate somewhat. When you look at where it is officially at 410, you look at where the parallel market is, you look at the issues around the lack of liquidity that still persists. So, we are far from normalisation and normalisation will require an adjustment of both of those variables. Unfortunately, both of those variables need to weaken, so interest rates need to move a little bit higher, as well as the currency.

Now, the question will now be depending on how you push or pull either lever, that will determine the quantum of movement on either side. When you look at what the Central Bank has done thus far, we have clearly seen that (1) it has made an adjustment in the currency, so we moved from the 360, 370 handle to 410, 411, handle. They have made an adjustment on interest rates, so we have seen the OMO rates move back to double digits to around 10%.

I would put it that we're still pretty far from equilibrium, so more adjustments need to happen. But I think more meaningful adjustments and my view is the bigger lever that needs to happen is on the domestic interest rate side. So even though you have OMO rates closer to where they should be, the overall level of domestic interest rates is way too low.

So, you cannot have corporate deposit rates, retail deposit rates in the low single digits, that is not going to work. So, we have got to see an aggregate move in the overall level of rates in the environment. Then that will probably limit the amount of currency adjustment that could potentially be required to put things in equilibrium. So as Patrick alluded to, we believe that in the course of the year those adjustments will happen, especially on the interest rate side and that will probably modulate some of the needed adjustment on the currency side, to bring things closer in balance. So, we think there is still some way to go, thank you.

UK Eke

Olusegun, please.

Olusegun Alebiosu

Thank you, Soji. The issue of AITEO is not what we read in the press. Let me address this point. AITEO is an asset that produces between 85,000 to 100,000bpd, so if you have an asset that can produce that even with oil price where it is today you know you are in cash. AITEO has 20 years licence renewed in 2019, we have 18 more years to go. We also know in commodity market that you must do sculpting because there will be times that the price might be low, that you just need to take care of your interest and there will be times of boom where you have to claw back and move ahead, you cannot have smooth repayment. The real people struggling there, are basically, parties to the contract. But more importantly is that Shell is the off-taker of the crude being produced by AITEO. Shell is the crude handler, Shell is a lender to AITEO, the same asset.

So, when parties disagree this way it is much more beyond capacity. For we lenders, we see capacity as strong, we see cash flow as good, but the issues that need to be resolved are just issues of how I evacuate my crude and how do I sell it, as simple as that. And if you read in the press about a month ago, I think DPR came in on one or two issues, especially the issues of dispute on what crude is lifted and what cannot be lifted and all that. So, we will allow, because this is before the court, we will allow the court to decide on some of the issues, so we do not get involved in this.

However, one thing that is clear is that you have assets that have capacity, you have an asset that can do 85,000 – 100,000 barrels per day, you have an asset with 18 years unexpired licence and you have offtake agreements that allow you to stabilise and pay.

So, the worst that can happen is for the lenders to restructure over five, six, seven, eight years and get paid out.

And if you have 18 years to go and you have asset that can produce for the next 40 years, then why don’t you just restructure for eight years, six years, seven years and just allow this to pay down itself orderly. As for classification it is stage 2. It is stage 2 across because we still have cash coming in. It's not like they have stopped producing crude, it's not that the crude has stopped selling. It's just because of the dispute that parties are trying to resolve the other way and I think we have gotten to a level where all parties have agreed now that we have to sit down and resolve it and allow this to be done in an orderly fashion, thank you.

UK Eke

Okay, thank you very much. I would request the CEO of the commercial bank to take the question on digital business and evaluation of fintechs. Sola, please go ahead.

Adesola Adeduntan

Thank you, UK. Before I respond to the question on digital, just a closing remark on Aiteo. The relationship is currently troubled, like Segun said, but the consortium of lenders, of which we are a key part of, are doing all that is necessary to ensure that we get to the destination safely. That is the much we can say, given the fact that part of this is before the court at this particular point in time. But be rest assured that we are working as a team, the consortium of lenders, we meet regularly, and we are on top of this situation. That is the much I can say and there is actually a periodic meeting of the CEOs of the lenders, so this gets to the highest level within each of the lending institutions to ensure that we give it the attention that is required.

Regarding the valuation on digital, you are absolutely right, we are very proud of the kind of machine that we have built. Whether you are looking at our USSD business where we currently have over 11 million active users, or you're looking at the Mobile banking or indeed you are looking at Agency banking. We have a strategy around what we need to do regarding this formidable machine that we have built in terms of what to do with them strategically and ensure that we get the appropriate valuation upside. Again, that is the much as we can disclose on this call, but we are fully conscious of the fact that the market is not giving us the right valuation as far as this machine is concerned, that is number 1.

(2) We are also fully conscious that we have successfully built by far the largest bank-led Agency banking business in this part of the world. If you recall, when the GMD presented some few slides, this is one area where we have built some incredible capabilities and we expect that we would - we are already exporting these to other African locations or jurisdictions where we have businesses. Imagine what this could potentially mean in a country like DRC, Congo, a country of about 80-85 million people with landmass two-and-a-half times the size of Nigeria. So, we are quite fully

conscious of what the upside could potentially be, and we are strategically evaluating our options. Thank you.

UK Eke

Thank you very much for that and we will turn back to Tolu to continue with the questions.

Tolu Oluwole

Thank you very much, GMD, thank you, CEO. There are no further questions on the chat room, but I see yet another hand from Soji. Is that - okay, I think that's a previous indication.

So, at this point there are no further questions, GMD, so in view of that, I will now invite you for the closing remarks.

UK Eke

Okay, thank you very much, Tolu. First, I would like to thank all the attendees, we have got like over 80 that connected to this call. It speaks to the interest, sustained interest, of you all on this company. This is just confirming to you what we said last year, that this 2021 would be a very remarkable year. We believe the Group has been transformed and you can see all the metrics you are tracking showed positive trends and that is going to continue. We do think that we have built a strong platform and our systems are now well positioned to take advantage of the growth anticipated for 2021.

We are looking forward to announcing the first quarter results, it will be this April, once we conclude our reviews. And you’ll see that the strategy is working, and we will sustain it. So, I thank you for attending. If there are questions that we haven't fully taken up or satisfactorily answered, the door is open. As always, Tolu will be here any time to respond or you can come directly to me, as some of you do and we will be glad to give further context to the performance of 2020 and the plan for 2021.

I look forward to hosting the next investor & analyst call and I do look forward to seeing all of you and more joining us to understand our growth plans. With that, I would bring this to a close and I thank you for participating today. Thank you.

Tolu Oluwole

Thank you very much for your participation. You may now disconnect.

[**End**]