FBN HOLDINGS

FY 2021 & Q1 2022 RESULTS PRESENTATION

FY 2021 & Q1 2022

Tolu Oluwole

Head, Investor Relations

Good day, ladies, and gentlemen, and welcome to the FBNHoldings Full Year 2021 and Q1 2022 Financial Results Conference Call. Thank you for taking the time to join this 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.

But just before I hand over to the Group Managing Director, I would like to go through the typical conference call protocols. First of all, participants are encouraged to please use the raise-hand functionality to ask questions and microphones will be unmuted once called upon to speak. For efficiency of this process, we'll take the questions in two or three batches before responding. After asking questions, microphones must always be muted except when speaking, this is to avoid interference during the call and to make the call clear. Questions can also be submitted to the Q&A section of the platform, which will be looked at intermittently.

That said, I would like to hand over the call to the Group Managing Director of FBN Holdings Plc, Mr. Nnamdi Okonkwo. Please go ahead, sir.

Nnamdi Okonkwo

Group Managing Director

Thank you, Tolu. Good afternoon, ladies, and gentlemen. My name is Nnamdi Okonkwo, the Group Managing Director. I welcome you to today’s presentation, which covers the audited financial statements for the year ended 2021 and unaudited

Q1 numbers for 2022. I'm pleased to meet all of you in this new role, I've known most of you in my previous role.

I will now introduce my colleagues on this call with me. I have Dr. Adesola Adeduntan, CEO of FirstBank; Kayode Akinkugbe, CEO of FBNQuest Merchant Bank; Segun Alebiosu, Executive Director and CRO FirstBank; Ini Ebong, Executive Director and Head of Treasury and International Banking; Wale Ariyibi, CFO of FBNHoldings; Patrick Iyamabo, CFO of FirstBank; and finally, Tolu Oluwole, the Head of Investor Relations.

First of all, on behalf of my colleagues, we would like to apologise for the delay in releasing our audited numbers. This was caused by the late completion of audit work in one of our subsidiaries. This is an isolated case and not likely to repeat. First, if you look at the operating environment, unlike in 2020, which was partly affected by COVID-19, 2021 in addition to COVID was hit by a new set of macro impacts. Despite the foregoing, our Group delivered a strong financial performance in 2021. Thus, reflecting our resilience and our ability to navigate a challenged market hampered by unfavourable conditions.

Looking at 2022, I would say, we are off to a good start in spite of the global events at play at the moment. As we all know, the global space now, has experienced the supply chain disruptions, elevated inflation, rising crude oil prices, these have all combined to make business difficult for most organisations. Now to mitigate these challenges, we keep our eyes on our strategies to ensure we traverse through this corridor. Therefore, we are hopeful that we'll deliver another set of strong numbers in 2022.

I will now summarize the presentation by focusing on certain slides, after which I'll open the floor for Q&A. I'll start with slide number 4. I'm glad to say that at NGN166 billion, which is a growth of 99.1%, this is the highest PBT performance in the history of our institution. These numbers were driven by increases in commissions and fees income, treasury activities and other income.

Non-interest income grew by 96.1%, that is NGN364.6 billion. Our balance sheet repair is more or less largely completed as demonstrated by our NPL numbers. Our NPL numbers reduced, which is now at 6.1% from where it used to be in the previous year. Our coverage ratio has increased to 62.2%.

Okay, preeminent financial inclusion business in the country, we have over 167,000 agents and monetizing our electronic banking franchise by growing revenue by 15.8%. Now we are not unmindful of the serious competition in this space, especially following the CBN license of PSB's. However, we'll keep fine tuning our strategies to ensure we sustain our growth trajectory.

Our capital buffers were further enhanced with a robust capital adequacy ratio of 17.4%. So, if you go to slide 5, I'll just give some key highlights there. In 2022, we further demonstrated a strong sustainable performance by growing PBT by 93.2% to NGN36.5 billion in Q1. So, this is the strongest pre provision operating profit over impairment charges in years. Key to that growth is 37.9% increase in net interest revenue and 23% increase in non-interest income. We have seen sustained improvement in asset quality, like I said earlier, our NPL ratio had declined further to 6.0%, cost of risk down to 1.1%, our balance sheet is stronger with coverage ratio at 68.9%.

We now have a stronger franchise, customer accounts increased to 36.9 million from 30 million in Q1 of 2021. So, we are growing the customer numbers as well. We are ranked second in the Nigerian Consumer Digital Banking Satisfaction Index, by Augusto & Co., Best Bank Brand Nigeria Award by Global Brand that is FirstBank of Nigeria, Investment Bank of the Year in Nigeria by Business Day was won by FBNQuest Merchant Bank. On governance, we have largely addressed governance issues, and things are running normally now, I'll be speaking more on that later. Now, we are focused on the future.

If you go to slide 6, you will notice that we have had Board changes, as you know in the year under review. Further, slide 6 reflects our independent and highly experienced Board with more than 280 years of experience. We have a well-diversified Board in a multitude of fields that span across not only banking but different sectors that evidently feed from each other and this diverse Board with strong professionals attest to FBNHoldings commitment to strengthening and sustaining good corporate governance.

I've been particularly impressed with the high quality of Executive Management we have across the entire Group, and I am confident about recapturing our position as a leading Financial Services Group. Indeed, when I was interviewed to join this Bank, I took a look at 2016 down to the present, I must say, there has been some serious improvement and a whole lot of mileage gained. So, that attest to the strength of our Management.

Slide 7 captures our strategic priorities which are centred on four main pillars. First, differentiating our capabilities, here we would like to expand our digital and retail product offering through integration and innovation. As I mentioned earlier, the digital market is highly competitive, and as a Group, we would like to ensure that we capitalise on every opportunity. Additionally, we are also focused on growing our annuity business and deepening our transactional banking transformation.

Second priority is growth and profitability, so we support revenue growth through new product offerings, balance sheet optimization, customer acquisitions. By taking a look at our Q1 numbers, you will see that we are already making good progress in this direction.

Number three, collaboration and partnership. So here we look to strengthen our Group collaboration, particularly within the financial services space with both fintech and big tech players. This ties in well with our plans for expanding our digital banking platform.

Number four, operational efficiency and capital. We will focus on improving efficiency through three key areas; one, branch and channel optimization that align with consumer shifts and reduce the cost-to-serve; two, to achieve this, we will focus on driving productivity improvements through innovation and technology tools. On capital, we are pleased with the current position and we are looking to further bolster the business, especially after the implementation of Basel III. So, we are conscious of that and looking forward to making sure that we are well positioned for implementation of Basel III when it comes.

In conclusion, I would like to say, barring any further unexpected events, 2022 looks like a solid year for us in the making. I would like to reiterate balance sheet repair, which has provided us the profit we are discussing today. I would also like to reiterate our stability, Q1 numbers in 2022 speaks to that. So, we are on a path of recovery, I believe that this journey is sustainable. Going forward, our focus will be to keep driving our revenues supported by transaction-led approach. We remain disciplined in executing our strategic initiatives in the coming years as earlier advised.

So, at this point, I will then open the floor for Q&A. I'll pass on to Tolu who will guide us through that. So, Tolu, please go ahead.

Q&A Session

Tolu Oluwole - FBNHoldings

Thank you very much, GMD. So once again, I like to reiterate the conference protocols. Participants are encouraged to use the raise-hand function so we can see your hand to ask the question and then your microphone should be unmuted once called upon to speak. Again, just to reiterate, we will take two or three batches of questions before responding. Once you are about to speak, you can unmute your mic and when finished, please mute and then lower the hand.

Tolu Oluwole - FBNHoldings

There are a few questions here, which I will read out. Why the reduction in dividend per share if the Bank's performance is that good? The second from **Onome**

Ohwovoriole from MoneyAfrica says, please provide some colour on the recoveries made during full year 2021. Those are the two questions we have from the chat room.

Nnamdi Okonkwo - FBNHoldings

On the second question about recovery, I would call on the CRO, Segun Alebiosu to take it. Then for the question on dividend somebody asks why lower dividend when we made more profit. It is clear we are future focused as you can see from the screen background, we are focused on building capital for growth and to strengthen our business. So that we can pay an even bigger dividend going forward.

I will let Segun Alebiosu, Executive Director take the second question. Then Tolu will accept more questions and we progress. Thank you.

Segun Alebiosu – FirstBank

Thank you for the question on recovery. In 2021, we were able to recover some of our legacy exposures that were written off.

Tolu Oluwole - FBNHoldings

Could you touch on the performance of the other sectors impacted by the pandemic and the impact thereof on the Bank's financial performance?

We have additional questions from **Ngozi Chukwuneke from Cardinalstone**. So, the first question here, says what is your strategy direction for the next three years in line with the dynamic nature of the market? The second question is around the subsidiary, your subsidiary appears not to be doing much, is the Group looking to overhauling the portfolio companies in the Holdco? The third question says, what led to the drop in capital adequacy ratio in Q1 versus full year 2021?

Nnamdi Okonkwo - FBNHoldings

Okay, Patrick please go ahead with those three questions.

Patrick Iyamabo – FirstBank

In terms of the question relating to the impact of COVID-19, it impacted all sectors frankly, to the extent that it had implication for demand, given the shutdown and all that. To the extent that it impacted production, in other words, impacted supply, you either have problems getting inputs because your partners were shutdown, or they couldn't get raw materials. In a place like Nigeria, you also had to deal with the consequences and implications for the FX revenue, you also had to deal with implications for FX.

So, if you just call all those things together, if you imagine a risk driver that has this kind of broad impact on demand, on production, on currency, it will impact all sectors. It's just that it might have impacted some more than others, but the reality is that it did impact all sectors. The bigger clientele were better able to manage the risk of COVID-19 to their businesses and in some instances had economic rent opportunities to make more money coming out of that. If there is anything specifically you want to know about or you want to ask about COVID-19's impact and implications for us, we can take your specific question on that.

To the second bit around why the capital adequacy ratio dropped. It dropped for two reasons; one is in substance; the second is really consequence on how CAR is computed. Ideally, when your CAR drops as the result of improvement or increase in business momentum, that is good news because it means we are making more money. So, between December and end of Q1, we have grown the business. So earning assets have gone up, so that is more money coming in, so that is fantastic news. The CAR reduction was for very good reasons, and it demonstrated the capacity, the ongoing capacity and ability of the business to continue to grow and accrete value for shareholders.

The second reason which I said was technical, is the fact that until the profit accreted during the period is audited, it is not available for CAR computation. So, while the headline is a CAR reduction, in substance, there is actually a capital buffer that is not counting towards CAR because it has not yet been audited.

Tolu Oluwole - FBNHoldings

Thank you very much, Patrick. We go to the next question now on asset quality from **Ngozi Chukwuneke** - so your FY 2021 results showed a strong contribution from recoveries, including recovery on the Atlantic Energy facility. What is the total amount written off and how much was recovered? B, does recovery represent full pay down on the assets or a reintroduction into the bank's books in which case it simply became interest earning again? C, under which stage was it classified, if it was reintroduced as an interest earning asset? Then the next question is what proportion of your investment securities is in your special bills? And then we take the third question in this batch, what led to the observed weakness of e-business fees in Q1? We will take the next set of questions after these.

Nnamdi Okonkwo - FBNHoldings

I'll call on the CRO to take the first one then the CFO of FirstBank to speak to the e-business question. So, Segun go first and then Patrick will go on to conclude.

Segun Alebiosu - FirstBank

Thank you. The amount recovered represents about 50% of the amount written off. Two, the amount recovered represents paid down on the loan, the loan was not reintroduced and therefore the issue of classification does not arise.

Patrick Iyamabo – FirstBank

To the question in respect to e-business. The drop that was witnessed is primarily hinged on the fee structure change that went into effect last year, towards the end of last year. Part of what we did in response to competition, to minimize the economic rent or the super profit in that space were that we entered into discussions with our agents, and we came up with a fee structure that incentivized them even higher. The fee structure now meant a reduction in overall revenue. In spite of the aggressive competition by peers, some of whom were basically offering the kitchen sink to the agents in the hope of displacing incumbents like ourselves, we have seen volume picking up again. What we have experienced so far is that the volume growth has partially compensated for the fee reduction. Based on the momentum we see; we see ourselves bouncing back and growing even faster to our historical levels in terms of our revenue growth.

We also believe that the growth in our e-business will be further turbocharged, based on the product offerings we are currently working on and we believe we have differentiated propositions in terms of these product offerings. What we have seen happen almost like in a cyclical basis since we launched our agent banking proposition a couple of years ago is that when we introduce a product, peer's catchup, we innovate again, introduce something else and move into the next level.

But overall, what we keep seeing is a consistent improvement in terms of our agents banking proposition and overall revenue, so that is the outlook for agent banking, which is really a key element of the total and e-business revenue stream. Thank you.

Nnamdi Okonkwo - FBNHoldings

So, let's take more questions now. There is one on investment securities, I think Ini should take that one.

Ini Ebong – FirstBank

As at Q1, the special bills are roughly about 45% of our securities portfolio. Thank you.

Tolu Oluwole - FBNHoldings

Just to reiterate, you can use the raise-hand functionality if you have questions you want to ask, but before then, I will go to the next question now.

The next question still from **Ngozi Chukwuneke** asks how do you interpret the recent 150 bps increase in MPR? That is the first question. The next one says – can you please speak on your acquisition of Access PFC, what is the pricing and the valuation of this acquisition and how does the Group intend to fund this acquisition, what will be the synergies in terms of revenue and costs? It follows on to say, what is the strategic plan for FBNHoldings in the light of a new core holder who owns majority stake of 7.57% in the company and any updates regarding the sale of minority stake of Firstmonie?

Nnamdi Okonkwo - FBNHoldings

I'll call on the CEO of FirstBank to take the question on the acquisition of Access Pension and then the second should be taken by Patrick. Thank you.

Adesola Adeduntan – FirstBank

Thank you, Nnamdi, and good afternoon colleagues on the call. We are going through the process that will ultimately result in full acquisition of Access PFC. All I can say in terms of pricing and valuation will be that the transaction is being consummated at a level that accrete good value to the FBNHoldings Group. We believe that will further strengthen our position as a Group in the pension custody business. We believe there will be significant opportunity for us on the back of this acquisition to further build our market share in that particular segment.

Regarding the question on sale of minority stake in Firstmonie. As we mentioned previously, what we have said is that as an institution, we are always continuously evaluating our position, whether in terms of organic business growth or inorganic business growth. So, at this point in time, I would say, there is no transaction that is imminent, but a possibility clearly if we evaluate and we believe at a future date that would be the right course of action that accrete value to our shareholders, we will surely do that. So, these basically deals with the question on the acquisition of the Access PFC and the sale of the Firstmonie minority stake. Thank you.

Nnamdi Okonkwo - FBNHoldings

Okay, thank you. I'll leave Patrick to take the one about the impact of 150 bps increase in MPC. Patrick?

Patrick Iyamabo – FirstBank

For those that have been covering FirstBank for a while, we have always explained, I'm sure you have also typically observed that our earnings capacity tends to improve every time the rate environment increases. This is no surprise because we are very heavily funded, our funding structure is superb, lots of current accounts and those, as you know, do not accrue interest expense and we are very heavy on savings accounts as well, and you know that is capped at a rate.

Then the tenured part of our funding is disproportionately small compared to our low-cost funding sources. Our balance sheet structure puts us in a fantastic position to benefit from rate increases. We have been penalized thus far for rate reduction in the last couple of years. And indeed, the earnings you have seen in the financials have not been reflective of the full capacity of our balance sheets when environment begins to fully operate at markets. So, we welcome this rate increase, it is going to allow us re-price our loan portfolio as applicable. Ideally, this rate increase should also filter into treasuries but the ability to fully capture that will be driven by access to treasuries. But on the asset end, we see an imminent asset repricing in our favour, while we continue to manage our cost of funds. So overall, earnings will accrete higher than was the situation prior to the rate increase. We have assumed that our hypothesis around CRR action and TB availability hold. But it is a positive position for FirstBank.

Nnamdi Okonkwo - FBNHoldings

Okay. Thank you, Patrick. I'll then speak to the question about strategic implication for key investments in FBNHoldings. I, in fact, if anything, if you remember one time the CBN Governor spoke about the rally in the price of our shares and how more people are interested in acquiring FBNHoldings shares. He said he was actually happy that there was a competition. So, to me, if you look at my earlier presentation, when I talked about our strategic priorities on slide 7, you will see that we are looking at our growth and profitability, we are looking at strong capital base, we are looking at differentiating our capabilities. So having more people interested in investing in FBNHoldings actually helps us achieve all these strategic imperatives because then it just shows that the discerning investor is seeing something that is futuristic and likely to benefit such investors. So, for us, it is positive and as you know, our shares are traded. So, we look forward to more people being interested in investing in FBNHoldings. It has positive implications for us, I can say. Thank you.

Tolu Oluwole - FBNHoldings

Thank you, GMD. If you have more questions, please use the raise-hand function to ask a question. So, in the meantime, I'll go to the questions in the chat room. This question is from **Keletso Lefothane from ABSA** says when do you expect Basel III to be fully implemented? And then we have another question here from **Joshua Odebisi from Vetiva**, he says congratulations on your Group's 2021 full year and Q1 2022, can we get guidance on recoveries for 2022?

Nnamdi Okonkwo - FBNHoldings

Okay. On the first one, I'll let the CFO of FirstBank take that, then for the second question on recoveries CRO, Segun Alebiosu will take that. Thank you.

Patrick Iyamabo – FirstBank

The CBN has introduced guidelines for Basel III and is currently carrying out pilots with various institutions filing returns to the CBN. In terms of when the CBN would actually go with Basel III is really up to the CBN. The CBN has not indicated a date yet, but we believe whatever that date is, it will be guided by the CBN’s holistic viewpoint about the industries Basel III readiness. Thanks.

Segun Alebiosu – FirstBank

We will not be able to give you guidance on recovery for 2022. This is because you know recovery issues are affected by legal circumstances. You can have cases in court that you think will be resolved within the period and it may drag. So, it may not be appropriate for us to give you guidance that will not be accurate or find difficulty to defend. So, if you permit, we will report progress on a quarterly basis and you will see them in the financials. Thank you.

John Kadiri – Alpha Maxvalue Energy

Thank you very much, GMD. Thanks for the opportunity. I'm an individual investor in FBNHoldings, dividends of 30-35 kobo per share, as poor as it is, you said we should look into the future with hope, we agree with you. But specifically, I would like you to comment on your operating efficiency and profit after tax. If not for your recovery from the legacy Atlantic Energy loan using figures? Thank you.

Nnamdi Okonkwo - FBNHoldings

Thank you for that question. I like the CFO to speak to that. CFO of FirstBank, Patrick.

Patrick Iyamabo - FBNHoldings

So, thank you very much for that question. First, the operational efficiency will be less than what it currently is, but it is not as straightforward as saying back out the recovery. Two reasons why it is not that straightforward. The first is in backing out recovery, I guess you are essentially asking me to confirm what that particular recovery value is, but we have spoken to recovery in a very general sense, and we have been mindful about this because we are talking about recovery from a particular customer, so that is the first bit.

The second bit is that, as a Management team, we continue to make operational and tactical decisions that reflects the best interest of the franchise. We do have triggers for certain decisions we have to make. Two, a couple of things occurred consequent upon the recovery that was achieved. The first is, it gave us the capacity to improve our capital buffers, which was done in the last quarter of the year. The improvement in the capital buffers were not necessarily about specific impairment charge against specific assets but were also reflective of our viewpoints around the systemic, the significant increase in credit risk we see over the next one year.

The PAT figure you see and the significant increase in impairment charge noted in Q4 reflected decisions we made, consequent on improved profitability and decisions made to build a fortress balance sheet in view of that future. You would also note some increase in OpEx on a couple of lines and that happened in the last quarter of the year and one line for example is the personnel costs and so that enabled that as well. You would have to really first disclose the actual specific recovery made on that item, then you will not have to adjust for all these tactical decisions that we made consequent on the improved performance and consequence on the available capacity to build the fortunate balance sheet that we wanted to build. So that is how I would want to summarize that.

However, if your question really is around getting a good sense of the financial capacity of the institution if we did not have that recovery in place, you need look no further than the Q1 results. As at Q1, we delivered a PBT of about NGN36 billion. If you annualize that, and assume that same pace and annualize, that takes us to an excess of NGN140 billion for the year. So indeed, the financial performance of the institution is strong. It has not been this good for a while and it reflects a number of the points that colleagues have repeatedly made, which is you have an institution today that has made significant progress in addressing a lot of the historical asset quality issues and so the balance sheet can now breathe. You have an institution today that has much better capital buffers than it historically used to have and has built buffers in anticipation of some of the risks we foresee over the next one year. We have an institution today that has demonstrated and currently still has the capacity for growth and earnings accretion. You have an institution today that is in an operating environment, barring any surprise, that has potentially more earnings accretion capacity, if you just speak to the 150 basis points improvement in the MPR.

So overall, we are in a good place. That is what the Q1 results says and if momentum continues in this way, we expect, again barring any surprise, we expect to see a great financial year once again without Atlantic Energy. Thank you.

Nnamdi Okonkwo - FBNHoldings

Thank you, Patrick. Tolu, more questions please

Tolu Oluwole – FBNHoldings

We have a question from Ngozi Chukwuneke. Are you now able to speak?

Ngozi Chukwuneke

Hello. So, I asked previously on the amount of restructured loans in your loan book. Also, your take on your subsidiary contribution this year and in the mid-term. Then also looking at the Bank's or the CBN's tolerance for liquidity, what do you think CRR debits will come up to in the coming months, considering that OMOs may become more expensive? Lastly, given the FX crisis in the country, are you able to meet all your FX demands and what do you think are the threats and opportunities facing the current FX management? Thank you.

Nnamdi Okonkwo - FBNHoldings

Thank you. Basically, Patrick could take those questions and I want Wale, CFO FBNH to talk about subsidiaries contribution, but Patrick takes the other questions and then Wale will speak to subsidiaries contribution.

Patrick Iyamabo - FBNHoldings

Thanks for the question, and I'll just pick the questions I was able to capture and then please feel free to guide me on any question I might have missed. I believe there was a question around FX demand, FX availability and there was a question on where we see CRR headed. The reality is the demand for FX by our customers exceeds what we can immediately serve. Yes, indeed, on a year-on-year basis what you would notice is that we continue to see growth in our trade lines and these are FX driven offerings of the Bank and the growth reflects the transactional capacity of the Bank and the opportunity to accrete revenues if the source of liquidity is available. But even that growth you see in the Bank is limited by supply vis-a-vis demand. It is the current situation, it was the same situation as of end of last year, we are all very alert to what is happening in terms of crude oil sale, the national FX source. So, to that extent, we do not expect that the situation will go away by the end of the year. It is something we have to live with. Well, like I earlier mentioned in spite of the difficulties, we have been able to leverage our privileged access particularly with international lending pools to be able to access FX to serve our customers' needs. But indeed, the opportunities we see to serve this need and make money is higher than what we are currently serving.

To, the second bit around CRR, there are technical criteria through which the CBN applies the CRR debits. There are also judgmental consideration that are driven by the CBN. They are purely the decision of the CBN. But indeed, there might be one or two triggers that can particularly predispose an institution to being particularly debited. As an institution, we will continue to balance this. The goal again is to ensure that we are not surprised by CRR debit, so when I say we are not surprised, it is reasonable to expect that there'll be a level of CRR debit that will continue to the end of the year. What you don't want as a financial institution is to be shocked by a particularly large debit that can offset the liquidity and then the earning situation planned for the year. That is how we would summarize the CRR discussion and quite frankly a lot is driven by the CBN. As a financial institution, what we can do is to ensure we do not particularly predispose ourselves to being in the incidence of a CRR debit.

Wale Ariyibi - FBNHoldings

Good afternoon, everybody. On a normalized basis, the contribution of subsidiaries ex FirstBank is about 15%. However, for African contribution or subsidiaries within FirstBank itself is about 30%. Thank you very much.

Tolu Oluwole - FBNHoldings

There is another question here from **Omele Onu from Bloomberg** which says what is your guidance for revenue and PAT in 2022 and what informs the projections? We can take this and then finalize with Tunde Ogunleye's question which will be the final question on the call.

Nnamdi Okonkwo - FBNHoldings

On guidance let me call on Patrick again.

Patrick Iyamabo – FirstBank

On guidance for PAT and revenue for the year. If the analyst that asked the question can please bear with us, we typically have not had the practice of providing earnings guidance for the year. That has been the case the last couple of years. Would we want to revise that and that is a discussion we would need to have and then come forward with that. But if you just bear with us and consistent with the practice of the Group, the last couple of years, we would, at least at this moment be silent on providing earnings guidance for the year.

Tolu Oluwole - FBNHoldings

We have one more question from Tunde Ogunleye. Please go ahead with your question.

Tunde Ogunleye – SBG Securities

Good afternoon and thank you for the conference call and thank you for your time. My first question is regarding your restated financials, other operating income in 2020 was previously NGN3 billion but increased to NGN14 billion in 2020, I probably want to know what led to that growth in your other operating income in 2020?

My next question is on your FX income, FX income was up 2x in the first quarter and also 5x in 2021 and also your gains on fair value instruments was up 5x in first quarter and 3x in full year 2021. I probably want to know what led to this increase and can we expect this momentum to continue?

The next question is on your tax, it almost doubled in FY 2021, what led to this increase, and can you also give any guidance on effective tax rate?

My next question is on this 72.7% jump in your interest expense on the customer deposit, what's responsible for that increase and can we expect this momentum to continue in the light of 150 bps increase in MPR?

And my final question is going to be related to Basel III. On Basel III, I want to know what is going to be the impact of Basel III on your leverage ratios and if you could speak in terms of dividend payments and payout ratio as well? Those are my questions. Thank you.

Patrick Iyamabo – FirstBank

So, I'll speak to some of them, and I would invite the CRO and maybe Wale to comment on one or two questions. I think the first question is around FX income that you noted an increase. Your question is whether we should expect sustained momentum. There are two drivers for that, one is transactional and then the second is really the opportunity to take advantage of opportunities in the market. We don't believe the opportunities have evaporated. Uncertainty in itself, actually creates episodic opportunities and business growth in itself will drive that. So, I think collectively, we don't see a reason yet why we can't continue to drive our FX income. Again, it is driven by macro and we will deal with the macro environment as it comes up. One thing we have always told the analyst community is the core of our business in terms of driving BAU, transaction momentum is very, very strong. But in addition to that, we do have a very experienced Management team and as such we have the capacity and the ability to seize market making opportunities as they come up and that is what you see sometimes and that is what you want from any commercial institution in which you have investments because this essentially means that irrespective of where the market is we will accrete value for shareholders.

To the other bit around fair valuation income, the response is the same as what I just gave. The two big buckets of fair valuation gains are from treasuries as well as derivatives. The treasuries reflect the reality, if we sold those instruments, it would have gone straight to our bank account backed by cash. IFRS rules insist that if you do not sell, you must recognize that income anyway because accounting understands that the money is real, and if you flip right there and then, it is cash in the bank. So, in terms of fair valuation, you've got that coming from treasuries and we've got that also coming out of some of these derivative instruments we have participated in.

You had other comments around Basel III and speaking to leverage and on the capacity to pay dividend. In terms of the capacity to pay dividend, the dividend policy really isn't changing. Our first priority is in respect of capital buffers. The second priority is in respect of putting capital aside, have capital buffers to manage risk, not just the risk you see today, but the risks we see over the financial time frame at least one year. The second consideration in terms of capital utilization is putting aside capital required to drive the strategic objectives of the institution and the strategic objectives could be both organic, which is really in terms of growing the business and it could be inorganic. Then finally the dividend consideration.

We will always balance all considerations in the interest of shareholders. Basel III is not yet here, but just as we have consistently balanced things even in the most difficult and trying times, we believe with the balance sheet able to breathe better and given where it is now, we actually do have more flexibility even with the introduction of Basel III, to accommodate as broad as possible the considerations for shareholders including dividend payment.

The bit about leverage on Basel III, I'll leave that to Segun Alebiosu the Chief Risk Officer to speak to. The bit around taxation and restatement, I will invite Wale Ariyibi to just speak to them. Thank you.

Wale Ariyibi – FBNHoldings

If you see the financial statements we published, note 18 speaks to the taxation. The PBT 2021/2020 doubled, likewise the taxation. On an effective tax basis, our effective tax rate is double digit (10 – 11%) over the past two years. We do not expect any major change except for the fact that some instruments are no longer tax exempt/ would not enjoy tax holiday as they used to. But as at today, effective tax rate is 10/11% which is consistent over the last two years. Thank you.

Segun Alebiosu – FirstBank

We don’t see any issue with the leverage ratio under Basel III. I just want to clarify that Basel III is more of liquidity and off balance sheet engagement. Of course, if you look at the liquidity profile of FirstBank, liquidity coverage ratio should not be a problem for FirstBank and leverage ratio will not be a problem because we have comfortable buffer.

There was a question that I think Ngozi asked about volume of restructured loans. It is about 14% of the entire loan. Thank you.

Tolu Oluwole – FBNHoldings

We have the final question here from Tunde Ogunleye, he asked, what's the total amount of your net FX position currently, and are there any considerations to raise additional Tier 1 capital?

Patrick Iyamabo – FirstBank

So, to the question around capital raise, this is a question we have always had in the last couple of years and I believe and the concern then was the significantly higher NPL levels, the need to grow the business simultaneously, would we have enough capital and our grand strategic plans and would we have enough capital to execute without going to the market. Unfortunately for us, that was built into our market cap because the market significantly discounted our valuation in anticipation that we would have to go to the market.

The explanations we gave then still holds today. First of all, the good news is that we kept saying that we would not go to the market, and it held true, everything we said about that is what we executed. And so once again, we will repeat what we said then, which is one, we do have the flexibility to go to the market to raise Tier 1 but based on the strategic options before us, a Tier 1 capital raise is not our immediate priority. Indeed, if we think about capital and if you would have noted, our Tier 1 CAR versus overall CAR, we actually still have scope to leverage our tier 1 CAR. So should we need to raise capital, should we need more capital, we do have two major low-hanging fruits before we get to the point of a Tier 1 raise. The first being capitalizing our earnings and so delivering strong earnings and capitalising the earnings to strengthen our capital position and the second being leveraging that Tier 1 to optimize our capital position and return to shareholders.

The bit about going to raise Tier 1 will be in next consideration, but ahead of that, like I stressed earlier there are two major low-hanging fruits, which are one capitalizing on our earnings. And then two, leveraging existing Tier 1. So once again, it is an option we have, it is our prerogative, but from what it is we see, we have other opportunities to effectively fund the buffers we want to build and we are very, very particular about rebuilding a fortress balance sheet and we have enough within our means today to meet our business growth and strategic initiatives and imperatives and that remains an option, but third option we will only get to after exploring this two low-hanging fruits, Based on the things before us, it is not on our priority list. Thank you.

Ini Ebong – FirstBank

With regards to the question on the FX position and obviously given the current market dynamics, and obvious pressures in the FX markets, we are currently running a long position. It is fluid as a result of market dynamics, but we retain a core long position given the pressures that have built up against the currency. Thank you.

Tolu Oluwole – FBNHoldings

Thank you, GMD, there are no additional questions at this time. So, I will now come to you for the closing remarks.

Nnamdi Okonkwo – FBNHoldings

So, ladies and gentlemen, we thank you for participating in this call today. As I said at the opening, we'll stay focused on executing our strategies and we look forward to a strong year, just like we recorded last year, but this year, we also think we are on a good trajectory to deliver some decent numbers. So, on that note, I thank you for participating in this call and look forward to speaking to you again at our next call. Thank you, everybody. Good night and have a nice weekend.

Tolu Oluwole – FBNHoldings

This concludes the FBNHoldings Full Year 2021 and Q1 2022 Financial Results Conference Call. Thank you very much for your participation. You may now disconnect.

[End]