# FBNHOLDINGS

# FY 2022 AND Q1 2023 RESULTS PRESENTATION

## Tolu Oluwole

### Head, Investor Relations

Good day, ladies and gentlemen, and welcome to the FBNHoldings Full Year 2022 and Q1 2023 Financial Results Conference Call. Thank you for joining this call and for your continued interest in FBNHoldings. My name is Tolu Oluwole, and we will commence the session with an overview by the Group Managing Director of FBNHoldings and then we will take the Q&A afterwards.

You can ask your questions by using the raise hand icon, and then your microphone will be unmuted. Afterwards, please ensure that your microphone is muted. As usual, we will take questions in two or three batches and will respond afterwards. Should you have any follow up questions, please indicate by raising your hand subsequently. We will now go ahead with handing over to the Group Managing Director of FBNHoldings, Mr. Nnamdi Okonkwo. Please go ahead, sir.

## Nnamdi Okonkwo

### Group Managing Director

Thank you, Tolu. Good afternoon or good morning, ladies and gentlemen, depending on your location. I would like to welcome you to this call, which covers our full year ended December 31st, 2022, and our first quarter ended March 31st, 2023. My name is Nnamdi Okonkwo. I am the Group Managing Director.

Let me quickly introduce my colleagues on this call. I have Dr. Sola Adeduntan, CEO of FirstBank; Kayode Akinkugbe, CEO of FBNQuest Merchant Bank; Wale Ariyibi, Executive Director, Finance, Investment Management & Oversight at the HoldCo, FBNHoldings; Patrick Iyamabo is our Executive Director/CFO for FirstBank; Segun Alebiosu is an Executive Director and CRO at FirstBank; Ini Ebong is an Executive Director, and he is in charge of Treasury and International Banking. Last but not least, Tolu Oluwole, Head of Investor Relations.

Before I proceed, let me apologise for the late publication of our audited financial year 2022 results. The review of the audited financial statements took longer than expected. Well, it is good to see that the process has been completed successfully and we are hosting you at this earnings call. I will now summarise the presentation by focusing on certain slides after which I will open the floor for Q&A.

Starting with Slide 4. In this slide, we are speaking to the challenging environment under which we operated over the review period. In 2022, global economies faced an unprecedented number of headwinds, as we all know and this range from soaring inflation to supply chain disruptions and rising energy costs, particularly as a result of the Russian and Ukrainian war. Back in Nigeria, we faced our own challenges with FX shortages which deterred foreign investment. We also faced elevated inflation levels which in turn led to increase in costs across multiple industries. Despite this difficult operating environment, we were able to produce a set of good full year numbers. As for 2023, I am happy to inform you that we are off to a better start as the uncertainty around elections is now behind us.

Let us go to Slide 5. In this slide, we are just trying to reflect our growth trajectory and how it has been underpinned by reinforced foundations. The specific comments to make here is, following a strong set of results as at nine months, 2022 we closed the year on a positive note. Gross earnings increased 6.3% to NGN805 billion on the back of a strong net interest income performance, which grew by almost 60% during the year. Non-interest income still remains solid comparatively. As for Q1 numbers, gross earnings rose by 43.8% and PBT up by 53.6%. Our non-interest revenue also increased by 11.8% versus the prior year, thanks to a rise in net fees and commission on the back of increasing penetration of digital and transaction banking offerings. Despite inflation being one of the major headwinds we faced in 2022, we managed to limit our OpEx growth in 2022 and we will continue to do same this year – already, our Q1 numbers reflects that.

We are also pleased with the progress made so far in terms of asset quality. Most of you already know our history of asset quality and the sustained progressive improvement in our asset quality, which the numbers here reflect. NPL ratio is already within our 2024 strategic targets. CBN requirement is below 5% and that was our plan for 2024. As we speak today, we have achieved that plan. NPL coverage stood at 86.6% under the review period versus 62.2% in 2021. Now as we speak, Q1 numbers show that we are at 96.7% NPL coverage and that was a deliberate strategy.

I am also pleased to report sustained strength of our execution capabilities. What do I mean? I will give you some examples. We processed on average more than 253 million electronic banking transactions per month and 332 million transactions for a total of NGN8.5 trillion naira through Firstmonie agents. This means that we are able to retain a solid 22% market share. You know going by the most dominant switching network, so we did about 22% of industry there.

On diversification, we increased earnings and its contribution from international subsidiaries to 30% as against 25.5% last year. That means that our foreign subsidiaries are actually powering up as well. Finally, on this slide, just to say that we are sustaining our organic capital generation supported by solid earnings as we remain focused on further enhancing revenue and profitability.

Slide number 6 is simply speaking to the fact that we are strengthening Group with significant upside and how our structural improvements have led us to where we are today. Let me be specific to say that the following attributes have strengthened us as a Group and have positioned us for a better and brighter future. First point here, improved governance and risk management. We have a high-quality Board that provides oversight and strategic direction to ensure that all stakeholder needs are addressed.

Now the strength of governance and risk management was clearly demonstrated with the successful navigation of the challenging business environment and markets. When we talk about navigating through challenging business environment and markets, I would like to give you an example; we all know the story of Ghana bond, but thankfully and notably, we experienced very minimal impairments in Ghana, minimal impairment of NGN5.9 billion on account of Ghana government exposures. We all know a devastating effect that particular transaction had on all the lenders involved but we are saying our impairment there was just NGN5.9 billion and, of course, that speaks to our robust risk management practices.

Third point to make here, our ability to produce solid earnings. We are always looking to optimise our core revenue base while maintaining strict control over our costs. We are also building on the distinctive advantages that we have. Therefore, we are keen to capitalise on the advantages we have within the markets we operate, particularly digital/e-banking and agent banking platforms. With all these, the intention which we set out to achieve was to build a fortress balance sheet. Our revamped risk management and significantly improving asset quality continues to strengthen and this is improving both our liquidity and capital absorption capabilities.

On slide number 7, you will see our 2023 strategic priorities and I will take them one by one. The first one there is enhancing revenue and profitability, our focus is to expand on our already well-established digital platform and take the next step in broadening our non-funded revenue. To this end, we are looking to, number one, optimise business development opportunities, secondly, explore new digital avenues for client acquisition, and thirdly, enhance the digital products we already have in the market.

Second point, we have been working to strengthen our value proposition. And here, we look to leverage our strength as a Group to enhance customer experience. We are reassessing our business portfolio and continue to explore viable adjacencies while redefining value proposition towards owning the customer journey and this will be across physical and digital channels, both in Nigeria and in the international markets where we operate.

Operational efficiency is a key imperative for us. Therefore, as a Group, we are always looking at areas of improvement. We are doing this by eliminating operational duplications. We promote process automation, and we leverage our Group scale. Specifically, we are focusing on refining our business delivery models and governance structures. We are exploring low capital, high-value business opportunities. We are transitioning into platform business and will have to integrate collaborative measures and maximise operational synergies. Synergy revenues have been quite encouraging on account of these strategies where we partner across our Group members. This said, our strategic priorities are based on three key enablers – our technology architecture, our improved governance structure, and our disciplined approach to risk management, some of which I had mentioned earlier.

On Slide 8, if you look at the left-hand side of the screen, you will see the building blocks that underpin our investment case. We are saying that we have built a strong franchise on the back of this stable funding profile and have achieved this through efficient funding methods. Also, our improved governance speaks to the strides we have made over the years in improving asset quality. If you go back to 2016 and follow our numbers you will understand or you will better appreciate when we talk about improving asset quality, because it is clearly exhibited there.

Having said this, our solid earnings and our strong internal capital generation capabilities give us the confidence that we will be able to achieve our 2024 strategic targets.

Let me then talk about ESG. On the ESG front, which you will see if you go to Slide 22 and 23. I refer you there to check out more details. We remain committed to driving corporate responsibility, sustainability and we recognise its importance in enabling us to achieve our goals.

Ladies and gentlemen, in concluding, I would like to say that we are off to an impressive start for the year as reflected in our Q1 numbers. These Q1 numbers speak to solid earnings growth and supports our organic growth trajectory. Going forward, we will be focusing on building on the strategic priorities I shared with you earlier in this presentation but let me reemphasise them. We will be enhancing revenue and profitability; we will be strengthening our value proposition; and we will be optimising our operational efficiency. Above all, we also remain committed to improving our ESG initiatives so that tomorrow will be here for everybody.

I would like to end here and thank you for listening. I will then hand over to Tolu to moderate the Q&A. Thank you very much. Tolu, please go ahead.

## *Q&A Session*

**Tolu Oluwole - FBNHoldings**

Thank you very much, sir. Okay. Now, we will go to the Q&A session. Again, please use the raise hand icon to ask questions. We will take our first question now from Ngozi Odum. Please, Ngozi, go ahead with your question. Thank you.

**Ngozi Odum – CardinalStone**

Okay. Thank you. Good afternoon everyone, and thank you for on the opportunity. I wanted to ask on the unification of rates and the possible impacts it may have on the bank. Secondly, speaking from an investor's perspective, we all are aware of the difficulties and the adjustments required for the publishing of the results given the Ghana debt exposure. However, it was kind of prolonged in the case of FBNH. Do you think that this should elicit any concerns in terms of company processes? Are there any worries that one might have as an investor?

On the ex-Nigerian contribution going forward or in the next couple of years, what are we to expect? What avenues are the bank employing to drive contribution from its ex-Nigerian subsidiaries?

Lastly on the Ghana debt provisioning. I know there are conversations around the bailout with Ghana and the IMF. However, do you think the provisioning that the bank took will be sufficient? Or do you think there might be further impacts on the bank's book given all the progress that it has made on this front?

**Nnamdi Okonkwo - FBNHoldings**

You have about four questions. What we will do is, because you have asked so many questions, I will let the CFO take the first two and then Ini, the Treasurer will take the last two before we go to the next person. Patrick and Ini, please.

**Patrick Iyamabo - FBN Holdings**

Good day, ladies and gentlemen, and thank you very much for the questions asked. I will just kick off with some of the questions and then my colleague Ini, will take the others. There was a question around financials if there is anything to worry about that. No, there is absolutely nothing to worry about our financials and as the GMD mentioned regarding the delayed release, there is nothing to worry about.

To the question about our ex-Nigeria business, we repeatedly explained to the investor community that not only are we building a strong business here in Nigeria but that the beauty of our business model is that our earnings are diversified and diversified in different ways including diversification across geographies. That diversification across geography played out quite well in 2022 and we do not see anything limiting the ability to provide not just earnings accretion but also diversification benefits for the rest of the year which we are quite happy about.

Do we have the capacity for the accretive earnings from outside Nigeria? Yes, I mean there are two drivers that can ensure that. It really comes down to the strategic lever and tactical initiatives that are implemented. One is really having the subsidiaries perform even more and the second is our geographical expansion. Both are within our control, and we will readily execute our strategy.

The bit about Ghana provisioning, we took reasonable levels of provision, and the provisioning followed IFRS standards. To that extent, we think things will reasonably remain where they are. However, should anything out of the extraordinary or out of business as usual (BAU) occur in Ghana, that could impact the Ghana provision, we are prepared. Quite frankly, we have looked at the books, we know where lots of people lost money on the Ghana transaction. We took very prudent risk management steps going in and avoided certain types of transactions in Ghana. That is what has played out here in terms of the limited impact and we believe that our internal provisioning is sustainable under normal circumstances. The question around possible impact of rates unification, I think Ini might want to speak to that.

**Nnamdi Okonkwo - FBNHoldings**

Before Ini, we need to also understand what Ngozi was referring to – interest rates or exchange rates but I will leave that to Ini.

**Patrick Iyamabo - FBNHoldings**

I am assuming she is speaking to exchange rates.

I will just pick it up. Ini, if you can, please provide additional context. For exchange rates, the question really is - how does exchange rate impact the books of the bank? We see this impacting us in three ways. The unification, first of all, would most likely increase exchange rates and not reduce exchange rates. This is the context from which I am responding to your question.

And to that extent, number one, we expect risk weighted assets to increase as the dollar component of our risk weighted assets gets revalued upwards in line with exchange rates.

The second area is around our earnings. We will benefit from earnings improvements in naira terms because of the diversification of our books and outside Nigeria into other currencies that gets strengthened relative to Nigeria. When you consolidate the overall earnings, the Group earnings would be higher. We would also benefit from an improvement in domestic earnings by virtue of the revaluation gain that passes through the book. Overall, from an earnings perspective, we are actually better off with the currency revaluation.

Now the discussion might be, what does it mean for CAR? We are comfortable that given the improvements, the earnings accretion that comes from both our domestic and international business when you layer that against the risk weighted assets, we have the capacity to handle the CAR requirements. We have always modelled different exchange rate scenarios as part of our capital management process. We have views to different possibilities of where the unification could play out and we are comfortable with our capital capacity to accommodate this, should it occur. Thank you.

**Nnamdi Okonkwo - FBNHoldings**

Thank you, Patrick. Let me also ride on that to say, even if we are looking at interest rates, should the monetary policy allow market forces dominate yield matters, we expect yield to remain sustained given inflation is still high. Therefore, your money supply is not radically going to change to the end of the year. As such, we see opportunities to sustain yields and for the Group to benefit from that in the rest of the year.

I hope that concludes Ngozi's questions. I hope we have been able to answer all so that we can move to the next person. Thank you. Tolu, let us take the next question.

**Tolu Oluwole - FBNHoldings**

We will take the next question from Ronak Gadhia. Ronak, please go ahead.

**Ronak Gadhia – EFG Hermes**

Thank you, Tolu and Nnamdi and the rest of the team for the presentation and taking the time for my questions. My question is really, I guess, just a follow-up of Ngozi’s question which were not really answered in any specific detail. It would be nice if management give more specific answers rather than just giving them largely broad-based.

With that being said, impact on capital from movements in exchange rate and interest rates. If the exchange rate goes to NGN600, which seems to be the speculation, what happens to the bank's capital adequacy ratio on day one and what measures would the bank take to bring that back to the regulatory minimum if it indeed drops below the regulatory minimum?

Likewise, if interest rates were to continue to increase as we see on the bank's balance sheet, roughly about half of the securities are classified as fair value through other comprehensive income or P&L. If we are to see a big increase in interest rates, what impact does that have on the fair value reserve losses and the capital? I would appreciate if you could just give something more specific.

The second question again on contribution from international subsidiaries. It has gone from 25% to 30%. We really do not get much in terms of breakdown per country. Would you be able to give which was the largest contributor to that growth in profits, and what specific strategies led to that growth? Was it just the UK subsidiary as it has been in the past and if it was, what was driving that big increase?

The third question on cost of risk, NPLs, like you rightly mentioned, we have seen an improvement, pretty significant improvement over the last four to five years. However, the cost of risk still remains around 1.7% - 2%. The NPL ratio is now largely in line with peers. I am just trying to understand why the cost of risk is still much higher than peers given that the NPLs are now pretty much back to normalised levels.

Also just related to NPLs, the bank has aggressively grown its loan book over the last four or five years and average growth has been in excess of 25%. Could you just talk on the risks around this growth given the operating environment was quite weak and it seems like there might be a bit of an economic shock if the President follows through with some of what he has mentioned? Thank you.

**Nnamdi Okonkwo - FBNHoldings**

Thank you very much. For this question, I will make some comments on capital. Patrick will take part of it and Segun will then speak to the risk part. On capital, I will say that we have looked at the capital projections from several scenarios and assessed it on a number of different fronts. Generally, we are not budgeting for significant growth in terms of assets as we did last year. More of the earnings growth will be coming from business growth and the general improvement in the environment. As such, there will be earnings growth without a commensurate increase in capital consumption. This will result in increased capital buffers.

In terms of stress testing, we have done some stress testing using different models and we are on course in terms of the capital for our normal business. On Basel III, we see several parts to achieving more than 17% requirements.

I will leave Patrick and Segun to take the rest of the answers. Thank you. Patrick, you go first then Segun.

**Patrick Iyamabo - FBNHoldings**

Ronak, thanks for your question. Here is how I could maybe guide the discussion around CAR impact. Approximately, less than 50% of our loan book is in foreign currency and let us imagine 50%, let us say NGN2 trillion of that book is in foreign currency. If naira were devalued 25%, and that takes us close to NGN600, 25% of that figure is about NGN500 billion. NGN500 billion is approximately 140 bps in terms of CAR. 140 bps in terms of CAR is not a challenge to us managing and this is 140bps before you recognise the earnings accretion that comes after naira devaluation. When you layer on the earnings accretion that comes out of naira devaluation that reduces that 140 bps and you now apply our current earnings accretive growth rates even with the naira devaluation at 25%, there is a path to our CAR still rising by the end of the year. Which is why as I explained earlier on, the unification of the currency, its impact on CAR is not a real concern for us, one, because earnings capacity is strong, two, because that devaluation itself immediately crystallises and accrete earnings for us, and three, because the absolute amount that comes out of that is not so significant. That is the bit on CAR in terms of how we are comfortable.

The second part of your question is that you would like to better understand how we can support our CAR improvement to year-end, there are couple of comments. I mean, first of all, if you layer on what is embedded in Q1 2023, you are looking at CAR at about 16.5% if capitalised. Our run rate is pretty strong. From just business growth alone, forget about accretion through currency devaluation, we can easily build our CAR buffers – that is number one.

And number two, we do not have plans to aggressively grow our risk asset this year. We are really looking at modest risk asset growth, meaning the capital buffers we will be building this year, which you see come through in Q1 alone will be largely available for capital adequacy ratio purposes. The third thing you would notice, and this is really a fallback, I mean it is not our priority. We may choose to as an option available to us and that is really our prerogative to apply that based on what we consider expediencies of business growths. The third thing you would notice is our Tier 1 ratio is very high. Our Tier 1 ratio is already over 14%. The capacity to leverage our Tier 1 capital remains strong. If you look into our capital structure, we have headroom to easily leverage our Tier 1 capital using Tier 2 instruments to at least 200 basis points, if we wanted to do that today. The ability to raise that Tier 2 capital, assuming we wanted to do that is fully within our control.

Therefore, if I am to now simplify the response to your question, first of all, not only do we understand the implication of the currency devaluation; two, it does not present a capital concern for us; three, our risk-weighted asset growth rate to the end of the year is modest; four, our earnings accretion is really strong, meaning we have capacity building capital buffers; and then five, if we ever do need to leverage our Tier 1 capital, we have the head room to do that. Therefore, from the capital perspective with the currency exchange, we are not concerned.

To the second question around impact of interest rates on our earnings. And I believe where you are coming from is as yields move up, will we suffer mark-to-market losses on our existing portfolio. The mark-to-market losses could either show for P&L or we could show up through OCI. We understand that much. Indeed, if yields move up, we will suffer some mark-to-market losses, but again, it is not of a level that gives us that much concern. Yields have actually already moved up a bit, and we will see where they still go. Again, it is not at a level that gives us concern.

On the flip side, as the yields move up, certain other income streams pickup up as well. If you think about interest rate parity and how it is applied to derivative instruments, as the yields move up, your derivative gains also move up. Therefore, it has a counter balancing impact on mark-to-market losses even if the mark-to-market losses pass through. We hear you, loud and clear but your concerns around the potential implication of the yield environment on our treasury portfolio, but with what I have just described to you, is precisely why we are not as concerned as you are. We are not as concerned not because we are approaching this passively, but really because we are actively managing that process.

Indeed, if you look at our financials in the first quarter of the year, you will actually see that the gain on disposal of treasury is at a much higher level than previous years. They exited some of our treasury portfolio and instruments, and the reinvestment rate is higher. There are lots of ways to play around with this thing and we are actively doing this right now. Our goal is to continue to manage assets and liability very closely. We indeed see market making opportunities coming out of this volatility. You would also appreciate from covering the bank in last couple of years every time there is market volatility, we tend to benefit from market making opportunities.

The last point I would just like to make on this bit around the risk of interest is, if you recall from all our previous calls, because of the nature of our balance sheet and our funding structure, every time yield comes down materially, FirstBank takes a financial hit in terms of loss of revenue because we have low-cost funds and we are long funding-wise. Every time the yields environment moves up, we tend to do very well. The strong financial growth you have observed year-to-date is partly a reflection of that improvement in the yield environment. That improvement in the yield environment as it passes through our interest income and net interest income is very, very strong. You would note the 40% plus improvement in net interest income on a year-on-year basis – that is yields playing out and because of our funding structure, if you look closely at our NIM, NIMs have risen to a little above 6.4% as of the end of Q1. As of December, it was touching 5%. The year before it was even lower.

Overall, every time the yield environment improves, it is a fantastic situation for FirstBank. Again, that is what is playing out in our financials. So please, let us look at the yield improvement environment as a very positive signal and for our current financial performance and how the year could potentially play out. Of course, albeit subject to any changes in monetary policies.

**Nnamdi Okonkwo - FBNHoldings**

Ronak, are you satisfied now?

**Ronak Gadhia – EFG Hermes**

Yes. That was very detailed. Appreciate the granular information. Just the last two outstanding questions. On NPLs, the high cost of risk and what to expect given the potential economic shock and on the international subsidiaries, which was the key contributor and what is driving the improved performance? Thank you.

**Patrick Iyamabo - FBNHoldings**

I will speak to the international subsidiaries and my colleague will speak to the question on NPLs. Two things on our international subsidiaries. Our international subsidiaries continue to run quite well. All the entities outperformed the last couple of years and that is where we would this to be. They are all contributing positively in terms of the entity that is making the most contribution. It also happened to be the same entity that has the most capital allocation in terms of our international subsidiaries, which is the UK.

I hope that answers your question around international subsidiaries but my colleague, Segun, will speak to the bit on NPL. Thank you.

**Tolu Oluwole - FBNHoldings**

Thank you, Patrick. Segun, you have the floor.

**Segun Alebiosu - FBNHoldings**

Thank you, Ronak. On our NPL, cost of risk increased because of the need for us to have more coverage. You agree with me that in 2020 you took us up on coverage, which was then 48%, we made commitment that in 2021, it should not be less than 60%. We ended at about 62% to meet up with our plan. In 2022, we ended at 86%. As of Q1 2023, we are already at 96%. This you agree provides comfort and capital protection. It is important for us to strengthen our financials to show that we fortify them to ensure that the institution itself is able to withstand shocks that might come in the operating environment, and provide comfort for the investing community, rating agencies and other stakeholders that are interested in very strong coverage. Do not be surprised if you see coverage of about 100% or something, it is just to ensure that we have very strong financials.

On the loan book growth in the last two years, there is nothing to worry about. The loan you saw were from a low base. If you check a bank of our size actually, we have 600 branches – we have the largest branch network in Nigeria. Whereas our loan book size was at par with banks that have about 200 branches. You ask yourself, how optimal? And again, when the opportunity came for us to grow, we grew with very good names and our mantra has been quality at entry, therefore governance has been very strong.

Just like what you saw in Ghana, where our total impairment was NGN5.9 billion. I am sure you saw banks across the continent with impairments as close to about $200 million in some cases. It is a different ball game entirely. We are conscious of how we originate, and our target market acceptance criteria is very strong, and the names are what we have. We are confident even in an adverse scenario, we will not have material shock. As of today, if you check loans and we have said with vintage NPL loans from 2017 to date, the NPL there, it is actually little less than 1% to tell that across the years we have been very conscious and deliberate. Thank you.

**Tolu Oluwole - FBNHoldings**

The next question, we have Gloria Fadipe. Gloria, please go ahead with your question.

**Gloria Fadipe – CSL Stockbrokers**

Good afternoon, everyone, and thank you Tolu for taking my question. Many of my questions have been answered but could you please disclose your current net long FX position? Also, Patrick mentioned that you are not bothered about movements in interest rates. However, looking at Q1 numbers you already have under items that could be reclassified into P&L. You have about NGN27.8 billion in market losses and then there is NGN17.6 billion in translation losses. I want to get your view as to what your expectations are. If you could just elaborate more on the nature of those instruments and how soon in terms of timeline, is it possible that this could hit the P&L and what the impact would be?

If you could also just help the FBNQuest Merchant Bank divestments from Mainone, how much in terms of profit came from that sale? That will be all from me for now.

**Patrick Iyamabo - FBNHoldings**

Thank you. Gloria, you asked two questions. You want to understand the implication of what again?

**Gloria Fadipe – CSL Stockbrokers**

Items that could be classified into P&L. You have translation losses of NGN17.6 billion and also have mark-to-market losses of about NGN28 billion.

**Patrick Iyamabo - FBNHoldings**

Okay. You are speaking to the NGN17.1 billion that is sitting in OCI. Is that what you are talking about?

**Gloria Fadipe – CSL Stockbrokers**

Yes, and the NGN27.8 billion, NGN17.9 billion sitting in items that could be reclassified into P&L under OCI, yes.

**Patrick Iyamabo - FBNHoldings**

Let me come back to you those two, the call could continue please.

**Gloria Fadipe – CSL Stockbrokers**

Okay.

**Nnamdi Okonkwo - FBNHoldings**

Tolu, let us take the next set of questions while Patrick gets ready to come back.

**Tolu Oluwole - FBNHoldings**

We have another question from Rachael Abayomi. Rachael, you can go ahead with your question, please.

**Rachael Abayomi – SBG Securities**

Thank you. I just want to point attention to the fact that I have questions dropped in chat box.

**Tolu Oluwole - FBNHoldings**

Okay. The first question is what is the outlook on the currency given the President's position on currency unification and the implication on capital and income statement? Also, what is the outlook on the inflation environment and implication on costs with the recent removal of petrol subsidy? Then Rachel went further to say, what are the drivers of decline on regulatory costs, it looks odd given it is primarily linked to balance sheet which has grown in the case of FBNH. Those are Rachael's questions.

**Wale Ariyibi - FBNHoldings**

I reckon that most of Rachael's question concerning currency, and interest has been taken at the beginning of this call, but there is a particular one that struck me, Rachael has said, what are the drivers of the decline on the regulatory costs. We need you to please explain what you are referring to, because for both Q1 2023 against Q1 2022 year-on-year and even between FY 2021 to FY2022 year end, regulatory cost is actually increasing in line with the increase in our balance sheet size. That question, I am not sure what you are referring to in terms of regulatory costs.

If you check on Slide 17, the presentation shows regulatory costs. You see that it is not declining, it is increasing, except we do not understand the question, Rachael.

**Rachael Abayomi – SBG Securities**

Okay. My question is just basically why its lower compared to how it has been shown in the past? It has been on the high side previously, but it is currently showing that it is lower than what we had in the past. Is there any reason why it is so?

**Wale Ariyibi - FBNHoldings**

It is not lower; it is actually higher. Maybe you want to check the financial statement again.

**Rachael Abayomi – SBG Securities**

I would appreciate if you can explain on my first question. I understand the fact that you explained a bit earlier on capital, but can you talk more how it affects the income statement?

**Nnamdi Okonkwo - FBNHoldings**

I did and I think Patrick did as well. Okay. Patrick, when you are taking the outstanding question, just take this, so that we can move to other people to ask questions. Patrick, please go ahead.

**Patrick Iyamabo - FBNHoldings**

On income statement, the P&L implication of devaluation is positive because we have a long position in that regard. Should we have to deal with the currency devaluation situation, earnings accrete, which is what I spoke about earlier on. I just did not share the specific figure. Now if your question is really about our long position and the exact amount coming out of the long position, we typically do not disclose that.

**Rachael Abayomi – SBG Securities**

Alright. Thank you.

**Nnamdi Okonkwo - FBNHoldings**

Okay. Thank you. Tolu, we can take more questions now.

**Tolu Oluwole - FBNHoldings**

There is a question from Francis here. I realise the company recorded an interest coverage ratio of 0.83, as stated here, and debt to equity of 10, I stand to be corrected. Should investors be concerned? How do you plan to improve the interest coverage ratio and debt to equity ratios going forward? And he is referring specifically to Q1 2023 numbers. What is our plan? What is the profit and revenue projections for 2023? Those are Francis' questions.

**Wale Ariyibi - FBNHoldings**

Thank you. Let me take the question on our divestment from Mainone. For Mainone, the entity that we used is FBNQuest Capital. And you would appreciate the fact that we have held this investment for some time and nurtured it to at a time that we could divest. We realised about 16 times multiples on our initial investment. That should suffice with respect to what we did on Mainone.

For profit projections for the rest of the income line, I mean revenue and profit projection. What we disclosed in Q1 is actually an indication of a trajectory that we see and we do not foresee any limitation into the trajectory that we have set out in Q1. Our Q1 profit at NGN50 billion is just an indication of what we see ahead of us. We have always said before now and at every call that the legacy NPL issues that have impacted our performance have been substantially dealt with as you can see.

During the course of this call, Segun explained that what we do today is quality at entry. We have improved our risk acceptance criteria and have revamped our risk architecture, such that we do not see any inhibition going forward. If you have seen our audited account, and the impairment charges that we have taken over the years, progressively that has come down significantly. The real vintage NPL on our books, i.e., those books between January 2016 and today is still less than 1%. On this call we are not giving projections yet in view of the fact that what the macro economy is still looking like, and you can see that there is a new government, we need to see the direction. Therefore, we are not giving specific guidance with respect to ratios on this call. Thank you.

**Tolu Oluwole - FBNHoldings**

There are no further questions at this time. We will just check through the Q&A chat box to find out if there are additional questions. In the meantime, if you have any questions, please indicate by using the raise hand function.

**Patrick Iyamabo - FBNHoldings**

Is this a good time to respond to Gloria's question? I believe she was speaking to two things, one of them has to do with foreign currency translation and then the second had to do with fair valuation through OCI items. Gloria, is that correct? Gloria?

**Gloria Fadipe – CSL Stockbrokers**

Yes, please – Q1 numbers.

**Patrick Iyamabo - FBNHoldings**

Okay. The first that has to do with the foreign currency books translation that is an amount that always circles within OCI. It does not circle into P&L because it basically reflects your revaluation of your foreign currency books, which is viewed more like a capital discussion. Anytime you have a debit there, it just simply means that your capital adequacy ratio drops or if you have excess Tier 2, it has no capital implication. The CAR we computed for the period already reflects that diminution coming out of the translation of our foreign currency book.

The other item you spoke to, which I believe is a NGN27.7 billion fair valuation through OCI. It really comes down to how you want to treat that transaction, right? Any fair valuation that goes through OCI, if you have the business need to immediately realise that transaction because you want to do something more profitable, then you will crystallise the loss, hopefully in anticipation that you do something more profitable. If you do not have the business need to do that then you just leave it in there to mature. It is not a P&L issue, it is just a fair valuation issue. It comes down to the tactical decision you want to make around that.

I mean that is going to be composed of a whole bunch of things, but we have the 100% prerogative to leave it to circle out through OCI and we have those balances all the time. Sometimes, the balances are positive, and they contribute to CAR. But between these two balances what is simply done is they reduce our capital adequacy ratio and so the CAR that you see there already recognises that diminution.

The positive thing about it anyway is that as those instruments approach maturity, this figure begins to reverse, it does not reverse on the last day. As it approaches maturity, which as instruments approach maturity what they will simply do is support our capital adequacy ratio. You will see capital adequacy ratio just rising accordingly.

On this NGN27.7 billion, a simple holding of those instruments to maturity could improve our CAR by as much as 70 basis points. I had to take a while to see this balance sheet because they were described in the context as they are things that would crystallise into financial losses, but that is not how these items operate. These are OCI items, and it will only crystallise losses if you make the definite decision to do that but you must have a reason for doing that.

Just to summarise, the fair valuation of the assets it has consumed capital and is reflected in our CAR. As those instruments approach maturity, it actually strengthens our capital adequacy ratio. Then for the one about the foreign currency translation position from our foreign currency books, it is going to be going in and out as the case might be but that again, it was a capital consideration. Thank you.

**Gloria Fadipe – CSL Stockbrokers**

Okay. Just to clarify, I also asked the question about the net long FX position. Did you say you cannot disclose that?

**Patrick Iyamabo - FBNHoldings**

In terms of our net FX position, you have been covering us for a bit and we have been consistent about that in at least the last seven years. We do not quantify our long FX position.

**Gloria Fadipe – CSL Stockbrokers**

Okay. Thank you.

**Tolu Oluwole - FBNHoldings**

We have a question from Onome which says in FY 2022, what led to the sharp jump in insurance costs?

**Patrick Iyamabo - FBNHoldings**

It just reflected business exigencies – excess over limits, clear of very high damage. We have gone on to try to modulate some of these things downwards. Overall, I mean it is just business reality.

**Tolu Oluwole - FBNHoldings**

No further questions at this time. You can go ahead with the closing remarks.

**Nnamdi Okonkwo - FBNHoldings**

Thank you, everyone, for participating. Just to say that we would stay focused on our strategic imperatives. We are happy with the numbers we have seen, and we will continue to drive for increased performance in the subsequent quarters. On that note, let me thank you for participating in this call today. Thank you.

**Tolu Oluwole - FBNHoldings**

This concludes the FBNHoldings full year 2022 and Q1 2023 financial results conference call. Thank you for your participation, you may now disconnect.