Company: **FBN Holdings Plc.**

Conference Title: **Nine months 2013 conference call**

Presenter: **Bisi Onasanya**

Date: **Tuesday 7th January 2014- 15h00 BST**

Operator: Good morning and good afternoon, ladies and gentlemen and welcome to the FBN Holdings 9 Months 2013 Financial Results conference call. Following the formal presentation by FBN Holdings management team, an interactive Q&A session will be available. I would now like to hand the call over to Mr. Bisi Onasanya, the GMD of First Bank of Nigeria Limited. Please go ahead, sir.

Bisi Onasanya: Good afternoon and thank you very much, my name is Bisi Onasanya. I run the Bank and Iôm standing in for Bello Maccido, the MD of FBN Holdings, the Holding company who is unavoidably absent. I have with me in the room the CEOs of all the operating companies. I also have the Group CFO and the Group CRO.

I would make it a very short presentation, just about three slides, believing that you have had time to go through the rest of the materials that have been sent earlier. But let me start by providing some context as to why this conference call is taking place early in 2014, as against what ordinarily should have been done much earlier.

First and foremost, itôs necessary and critical that we have the account of the operating entities and the holding company audited for the nine months ended September, as a basis for those operating entities to declare dividends and go through the appropriate processes, including Central Bank approval for the Bank, in order for the Holding company to recognise that dividend in its books before the end of year 31st December 2013 and upon which dividends to shareholders of FBN Holdings, the quoted entity, would be declared and paid in 2014 as part of the year end activities, including the annual general meeting.

This is something that has to happen because of our transition to the holding company and the fact that dividends can only be paid in 2014 based on the profits declared and the dividends received by the Holding company in 2013.

That process therefore has led to some delays in declaring the account because we thought that it was better for us to declare the audited accounts that have been approved by the Central Bank of Nigeria.

Having said that, I also need to confirm that what we are presenting today is the interim account of FBN Holdings which however has incorporated the audited account of the major operating entities, including First Bank of Nigeriaôs audited accounts, which have been approved also by the Central Bank of Nigeria.

Itôs important to put things in context to understand why we needed to go through this process and why it has taken us this long to hold the conference call.

On that note, I also therefore will like to tender our unreserved apologies for the delays, but we like to assure that we would learn from this process and subsequently even though this will be a part of our process going forward, we will try to manage the situation much better, such that the accounts are presented earlier than itôs been done today.

On that note I will go to the key items or highlights of the presentation. Weôd like to report that the FBN Holdings Group has a total balance sheet of NGN 3.65 trillion. A significant improvement with First Bank of

Nigeria contributing 96% of that balance sheet, crossing for the first time in the banking history, NGN 3.5 trillion total assets mark as a bank.

I also would like to say that the Group's profit recorded for the period was NGN 70.9 billion which is a slight decline from NGN 75 billion declared same time last year.

By and large, we had significant increases in our number of branches and as at the end of September we had total business locations of 831 which include close to 800 branches and locations in Nigeria.

The investment banking and asset management subsidiaries contributed about 6% to the total profit of the Group and this therefore shows that as we begin to move into increased regulatory era in the banking industry, one way to hedge against that is to diversify the earnings base of the entire Group, including strengthening both insurance business and investment banking business, whilst expanding the banking business outside the shores of Nigeria to hedge the geographical risk.

During the period, we had a relatively stable macroeconomic environment. However, we need to state that there were very tough regulatory headwinds coming out of Nigeria which significantly affected the profit of the main operating entity- the Bank.

On that note, we'd like to say that the decline in profit year on year that we have noticed came majorly from some of the impact of the regulatory headwinds that happened during the course of the year. I will just mention a few of those items; there was an increase in interest payable on savings accounts as a result of the mandatory increase percentage interest rate by the Central Bank of Nigeria of interest rates on savings so savings rate now up by 260 basis points from 1% to 3.6%. The impact of that on the Bank's numbers for the nine months was an increase in savings interest cost of about NGN 6 billion, just for the period of six months in the nine months period that we are talking about.

There was also a mandatory but phased reduction in commission on turnover COT charge by banks across the banking system from NGN 5 per mille to NGN 3 per mille; effective 1st of April 2013. That adds a reduction of about NGN 3 billion during the period in our COT income, making about NGN 9 billion between COTs and interest on savings.

In addition to that, the increase in cash reserve requirements deposits for the public sector, we have had to discount treasury bills of about NGN 130 billion, earning us anything between 12% and 14% to be able to comply with that increase in cash reserve requirement and that NGN 130 billion with the opportunity cost at about 12% would have amounted to a large amount of lost revenue during the period. A few other things which include a significant increase in our AMCON fee, running from NGN 7 billion in 2012 to NGN 13 billion in 2013. The cumulative impact of all this was a reduction in net earnings of about NGN 25 billion, which were things that were not expected or envisaged at the beginning of the year.

However, in spite of all of these, and with steps taken by the holding company, to move into general insurance business, we believe this would help mitigate the impact of some of these regulatory headwinds coming into the banking industry. Also the expansion of the banking business into four other African countries during the year which we announced sometime in the last quarter, these include Ghana, Sierra Leone, Guinea and Gambia; we believe this should also help us to diversify the earnings base and also hedge the income risk emanating from strong regulations in Nigeria.

In addition, and in spite of all that we have said we have a stronger Bank as at the end of September. We have a strong capital adequacy ratio moving to 20.0% from 18.9% recorded in September 2012.

We believe that the impact of these things have come to stay, but in spite of all of that, we have put in place some measures to help us mitigate them as we move into the 2014 era.

We have been able to cap the staff cost which is one of our major costs by paying off the gratuity scheme and closing down the scheme

By and large also in the period under consideration, weŏve been able to cap our costs at reasonable levels whilst also driving up volumes as a means of hedging against the loss of revenue based on the regulatory headwinds.

On this note, I would like to end the presentation. We have the CEOs of the all the operating companies, the CFO, CRO and other officials. I would therefore like to take questions, believing that youŏve had time to go through the presentation much earlier. Thank you very much.

Operator: Thank you. If any participant would like to ask a question, please press the star followed by the one button on your telephone. If you wish to cancel this request, please press the star followed by the two. Your questions will be polled in the order they are received. One moment for the first question

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

Muyiwa Oni: Good afternoon, gentlemen. Thank you for the presentation. I have a couple of questions for you and itŏs really more around revenue growth outlook and it pertains to the regulatory changes that have dampened the earnings. I was looking through your presentation and I noticed on I think slide seven where you talked on increased transaction volumes.

So I was trying to understand what you meant by increased transaction volumes in the sense that adapts to contributes to earnings growth going forward.

And then also on your non-bank subsidiaries, you mentioned the expectations of growth contributing to earnings. So I wanted to have an idea of what ratio of contribution you expect to see from the non-banking subsidiaries in 2014 and 2015 soð right now I think theyŏre still around 4% or 5% or 7%. What kind of growth do we expect to see in terms of the level of contribution?

And then also on the West Africa subsidiaries as well; there are still new businesses that have been acquired, but I just also want to get a sense of what the contribution you expect from those businesses, because Iŏd say if we expectð if we factor in measures like the reduction in COT which should go further this year based on the reduction in COT to NGN 2/mille from NGN 3/mille; that should have a more negative impact on earnings revenues. So itŏs really just trying to see what the outlook would be because from my own expectation, you could see 2014 coming off worse than 2013 based on these regulatory changes which came in during the year in 2014; what we would expect is a more severe impact, because it would take both of the 12 calendar months.

Bisi Onasanya: Okay, thank you. But let me start off by saying that we will be constrained but not be talking on anything beyond September 2013 numbers. For the kind of questions you are asking, they would be things that would be asking us to look into 2014 and so it would be unfair at this point to start talking about that.

However, let me say that the way to mitigate the impact of reduction in charges is to drive up volumes naturally. So if you have your COT reducing from NGN 5 to NGN 3, the only way you can respond to that, if you want to comply and we have complied, is to increase the volume of transactions upon which you then charge the COT. So NGN 3 on X volumes, different from NGN 3 in X times 2 or X times 3; so thatós where the issue of volume growth comes to play as a means of reducing the impact of COT.

Also we would want to grow the insurance business, but however generally across the board, we do have guidance on loan growth and business growth in other segments of the market. I think itós important that we clarify the fact that, yes we are moving into general insurance business and making it a composite business from being a life assurance business.

In terms of expansion, we like to stick to the four African countries that we have moved to. If thereós any announcement at some other time we will let you know. But at this moment, we donót have any other announcements in terms of our expansion. But we need to say however that we will not get extremely bullish.

The contributions of the other businesses are basically about 5%. Our objective and intent is to drive that volume up moving from 5% to 10%, ultimately to about 20% or 25%, but thatós a question of time and also strategy.

I hope Iôve answered some of your questions.

Muyiwa Oni: Thank you.

Operator: Thank you. The next question comes from Soji Solanke from Renaissance Capital. Please go ahead.

Soji Solanke: Good afternoon, everyone. This is Soji Solanke from RenCap. Thanks for the call. I just have a few questions. The first one is- given the tougher operating environment and the forecast youǿve given in your presentation for 2014, in terms of return on equity, would you say 18% - 20% is a sustainable ROE figure over the medium term?

The second question is- specifically how do you get the volumes up to moderate the revenue pressures you have spoken about?

My third question is on net interest margin; youǿve given a guidance of 7% to 9%. What I want to understand is what are the considerations driving the lower figure of 7%? What are the factors driving that particular guidance of 7%?

Then my next question is- I noticed youǿve been able to broadly maintain your earning assets volumes by growing the deposit base; despite the changes in the cash reserve ratio. Iǿm assuming this was largely private sector. But given the height in competition for deposits out there which you also spoke about in your presentation, how much do you have to pay to source these deposits?

And my final question is in terms of asset quality, what I read was the challenges in Q3 largely came from the SME book. Can you speak to what challenges you are facing in that particular segment of your loan book? Thank you.

Bisi Onasanya: The CFO will answer the question on the financials and the CRO will answer the question on the loan book.

Adebayo Adelabu: Thank you. Your first question on the return on equities; I want to report that in spite of the tough operating environment, we still stood by our guidance ROE numbers of 18% to 20% for the immediate term while the medium term guidance is at 25%.

And in terms of the net interest margin that we guided on, itôs actually a range that we did of 7.5% to 8.5%. Thatôs what we gave and we ended up in the first nine months with 8.4% which is within the range that we gave.

We actually came as low as 7.5% because we envisaged the impact of the CBN policy on the interest on savings deposits and we knew that about 30%- 32% of our total deposits is in savings and increasing the rate from 1% to 3.6% was meant to be a large negative variation for our interest expense. Why it did not affect us as much as we envisaged is because some mitigating steps that we took during the period which is why we are at the upper end of the range at 8.4%.

And the other question regarding the rate that we pay on the private sector deposits as you noticed the impressive growth in our deposits, in spite of the increase in CRR; I can tell you that our interest rate on deposits is based on the volume of such tenored deposits and the duration of the deposit. We have a daily updated rate chart that guides our marketing officers for the fixed deposit. But we have not been taking any deposit in excess of 10%.

The CRO will handle the question on the loans and advances. Thank you.

Biodun Odubola: Yeah, thank you, I would like to answer the question on the asset quality. You made reference to SME loans contributing to the high impairment charge. This is not correct.

If you look at slide number 24, we actually alluded to the deterioration in terms of small and medium-sized loans; essentially we are talking about retail loans and corporate loans. We had some challenges in the oil and gas downstream and with a particular logistics provider. So itôs not really about SME.

However, subsequent to this, we have been looking at the downstream sector again to see how we can significantly mitigate our risk in this area. And this is partly one of the reasons why we have some stability in the NPL ratio, if you look at the numbers. We actually improved slightly from about 3.8% NPL ratio in quarter 2 to about 3.6% by the end of quarter 3. This is as a result of all the measures that we have put in place to stabilise the asset quality.

I hope that answers your question.

Adebayo Adelabu: I still want to revisit your first question regarding the 7% guidance rate on net interest margin. The guide for 2014 is actually a wider range of 7% to 9% percent. The fact remains that we envisage a tougher interest rate environment in 2014 because of competition for deposit and all the CBN tightening policies that we believe will affect liquidity in the industry. We also believe that most of the increase in interest rate might not be passed to customers because they are already resisting lending rate. That is expected to narrow our margin and compress it. We will still not stop at taking steps to ensure that we have rates better than 7% in 2014.

Soji Solanke: Hello?

Adebayo Adelabu: Hello.

Soji Solanke: Just some follow-up questions; the first one is from your forecast guidance, youôve adjusted your 2013 cost of risk upwards to 1.3% versus your half-year position of 1% for the end of the year. Whatôs guiding that increase in the forecast for 2013?

Then one question that wasnøt answered was specifically- what are you doing to drive volume growth upwards? And how do you measure success at FirstBank? Thanks.

Biodun Odubola: Okay. I will answer the question about the increase in the guidance ratio for cost of risk. Essentially, we are increasingly recognising the fact that a lot of our loan growth will be to higher-risk customers, especially in the medium-tier corporate and commercial bank.

I think itøs wise to recognise this because if you have a business that is essentially large corporate, your cost of risk of course will be lower than when you have a business that is increasingly tending towards the commercial bank where the returns are better of course.

So I think thatøs really the major consideration. The returns are better there and our profits can actually absorb the higher cost of risk.

Bisi Onasanya: So what heøs trying to say- let me say it in a simply manner is that there is nothing wrong in increasing your cost of risk, if the increase in margin that you derive from moving into that different segment will compensate it.

And in reality, as a bank, we have a responsibility to deepen banking capabilities in the market. So whilst everybody is running away from that segment of the market, we think that we should also find a way to differentiate ourselves and move into the different segments of the market.

The pricing will be appropriate to justify the increase in the cost of risk. Although this is also not saying that we will not defend that cost of risk to keep it as low as possible; but itøs just recognising a slight change in strategy to move into different segments of the market rather than staying in the top end of the corporate market which we believe is saturated at the moment. Thank you.

Operator: Thank you. The next question comes from Pabina Yinkere from Vetiva. Please go ahead.

Pabina Yinkere: Good afternoon, gentlemen. I have two quick questions. The first your year-end guidance for cost to income ratio at 57%-59% shows an improvement from Q3 position of 62%. Could you kindly explain what would drive this improvement in cost to income ratios?

And then my second question; in your statement of other comprehensive income, you reported an unrealized loss before tax of NGN 25 billion. I just wanted to find out if we should expect any potential impact on the income statement from this? Thank you.

Adebayo Adelabu: Yes. The first question with regards to our guidance on cost to income ratio, at a range of 57%-59% has been our guidance from the beginning of the year where we didn't envisaged so much of the negative impact on revenue. So we ended up at 62% for the first nine months of the year and this 62% which was higher than our guidance was more revenue-driven than cost driven.

If you have noticed we've been very prudent in terms of our cost growth this year and revenue has not grown as much as cost. Net revenue grew at 2%, our costs grew about 5%. Ordinarily 5% is commendable in terms of cost growth; the lower growth in revenue is actually responsible for the cost to income ratio which ended up at 62% as of September 30, 2013.

Notwithstanding, we envisage that by the end of December, we will have been able to increase the revenue at a higher rate than cost growth and should be able to achieve something that is lower than 62%. Maybe not fully achieving the 59% cost to income ratio; something lower than 62%, which is why we have adjusted the cost to income ratio for 2014 as a guide to 59% to 61%.

Then in terms of the unrealised loss; itös a revaluation loss on non-listed equities of the Bank and because these are actually AFS instrument, they donöt have any impact on the income statement. It only impacts the reserves of the Bank; so we donöt envisage it having an impact on the income of December 2013.

Pabina Yinkere: Thank you.

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

Ronak Gadhia: Thanks for taking my question. My question relates to the AMCON bonds. From what I understand, all the AMCON bonds have been redeemed. So can you provide a bit more detail as to what level of cash you received and what new instruments youöve received and at what yields?

And as a follow up to that, what impact will that have on your net interest margins because the liquidity on your balance sheet has significantly increased. So does that mean we will see both your asset yield and your cost of funds coming down?

Bisi Onasanya: The treasurer will answer this question.

Ini Ebong: As it relates to the Bank; there was no impact on the Bank because all the eligible AMCON bonds that were redeemed in the exercise of December 31st, we had sold our positions earlier. So we did not receive anything; we were not part of that process of redeemed eligible bonds from AMCON..

So just to shed a bit of light, the T-bills that were issued in exchange for the bonds were done at prevailing interest rates.

Ronak Gadhia: Okay, so they were issued at the same yield?

Ini Ebong: No, they were issued at prevailing market rates.

Ronak Gadhia: Okay; whatӳ the approximate yield right now?

Ini Ebong: It varied between 11.5% and 12%.

Ronak Gadhia: And the AMCON bonds initially were at around 12.5%?

Ini Ebong: It depends. There were a variety of tranches issued which ranged from about 10.5% all the way to about 12%, 13%.

Ronak Gadhia: Okay. Iӭ sorry. The line was going off a bit earlier. How much of the new bills have you received?

Ini Ebong: Like I said before, we did not receive any because we had since sold the eligible bonds that were exchanged as of December 31st for the maturities we had at the time, we had long since sold them.

Ronak Gadhia: Okay.

Ini Ebong: In the secondary market.

Ronak Gadhia: Okay. And are there any more swaps that are going to happen through 2014?

Ini Ebong: Thereős one tranche of AMCON bonds still outstanding, the series 5; and itős our understanding that AMCON will have a look at those bonds at some point this year. Those mature October 2014.

Ronak Gadhia: Okay. Thank you.

Bisi Onasanya: Thank you. Next question, please?

Operator: Thank you. The next question comes from Ndubisi Obike from Stanbic IBTC Pension. Please go ahead.

Ndubisi Obike: Hi. Good afternoon. Thanks for the presentation. I have a few questions. My first question actually is an expression of concern. Your interest expense went up by 62% quarter on quarter. While I understand that the increase in interest rate on savings account might have had some impact, it doesnőt seem to be why the increase was at this level.

And then I would be happy to get the figure of the FX loss you incurred in the third quarter because; I also think your noninterest revenue went down by almost 60% during the quarter; the FX loss will explain that part to me.

Then your bureau de change subsidiary that was closed down by the CBN; what was the impact from that.

Then if I could also get the figure in terms of the loss of income and the interest hikes on CRR and public sector increase; that too would be very helpful.

And I want to understand your explanation about the cause for the delay in your results and you explained that subsequently it will not take this long; what is the timeline for at least the nine-months results or should would be expect it to be a month after or two weeks after; to market expectation like we witnessed in the period. Thank you.

Bisi Onasanya: The nine months results will be worked upon to make sure that we release the results in line with market expectations or regulatory requirements. The truth also is that as we speak now- we are about the only financial group that have the nine months results being audited; most others are at the half-year stage.

What we would like to assure you is that it will only get better. It will not get worse. We will do everything to make sure that it will be better.

Also, we believe that with the audit of the nine months results, the release of the year end results should also be within market expectation and regulatory expectations or requirement.

The CFO will answer the rest of the questions on the impact of the loss of our BDC license on the revenue which I can assure you is very, very infinitesimal, almost negligible, because itös a very small part of our business

Adebayo Adelabu: Let me start with your first question which relates to growth in interest expense. You are right; you identified one of the few factors that led to 62% quarter on quarter growth in our interest expense, the first was the growth in our deposit, it grew at about 17% for the first nine months of the year and we expected interest expense to grow by the same proportion even if there is no increase in market rate.

Number two is actually the impact of the savings account interest. Before the regulatory policy upward review to 30% of MPR, we were paying about 1% on savings account and it went up to 3.6% that is about 260%

increase in savings account is about NGN1.6billion on a monthly basis The impact of that for the first nine months to September is about NGN6-6.5 billion.

And then the last factor was the impact of the tenored deposit. If you look at the mix of our deposits in the first nine months of 2012, we had about 21% percent in tenored deposit.

The first nine months of 2013 actually resulted in a 25% mix of tenored deposit which is about 700 billion; which is actually the highest we have recorded in the history of the Bank. This reflects the competition for deposit in the market during the period and because of the high interest rate environment; the rate at which these deposits were taken in 2013 was much higher than the rate applicable in 2012. These are the three major factors responsible for the growth in interest expense for the period.

Then you also asked about the impact of CRR and COTs which I also believe that the GMD in his presentation gave us some indications of these numbers. On CRR alone for us to make up for the shortfall in CRR deposits with CBN we had to liquidate about NGN130billion of our earning assets ie T-bills which was giving us about an average of 12% interest rate this is an impact of NGN 15.6 billion annually, then for the two months August and September itœs an impact of about NGN 2.6billion which comes up to about NGN 1.3 billion monthly impact.

The COT also has a monthly impact of about NGN 500 million per month and the first six months of the nine months being reported, this gives an impact of about NGN 3 billion. So between those two alone, we had about NGN 6 billion impact on net revenue.

The other point Iœd actually like to mention is the impact of the withdrawal of ATM charges directly to the customers of other Banks. Last year we made revenue of NGN2.5 billion from this; for the first nine months reported in 2013, we made a loss of about NGN4 billion this is an impact cumulating to about NGN6 billion.

Between those three factors alone we had about NGN12 billion impact on revenue; these are the factors that led to the minimal growth that we noticed in terms of revenue; the GMD also mentioned the impact of the Bureau de Change license which has been suspended, the contribution of BDC has always been very, very minimal historically. So we donøt want to spend too much time explaining this as it does not have much impact on our bottom line.

Thank you.

Ndubisi Obike: Thank you very much.

Speaker: Next question, please.

Operator: Thank you. Once again if you would like to ask a question, please press the star followed by the one button on your telephone and to cancel this request, please press the star followed by two.

The next question comes from Sharat Dua from Charlemagne. Please go ahead.

Sharat Dua: Hi. Good afternoon, gentlemen. A couple of questions from me, but maybe the first one is just following up on the last answer given. I wasnøt totally clear. Did you say that youøve made a loss on net ATM charges in 2013 so far?

Adebayo Adelabu: Yes, thatøs correct.

Sharat Dua: And how much?

Bisi Onasanya: What we had in the Central Bank regulations; non-FirstBank customers using FirstBank ATM were charged and paid NGN 100 per transactions. In 2012, we had net revenue earning of NGN 2.5 billion from that source of NGN 100 charge was abolished by the Central Bank and so customers of other banks were using FirstBank ATM and our customers were using non-FirstBank ATMs.

Rather than revenue of NGN 2.5 billion that we earned in 2012, we have actually incurred costs of NGN 4 billion in 2013. So we move from earnings of NGN 2.5 billion to an expense of NGN 4 billion in 2013 which has a negative impact of NGN 6.5 billion on the net revenue.

Is that clear?

Sharat Dua: You have the largest network in Nigeria, so I would have expected that you would be the net winners from this.

Bisi Onasanya: Well, what we are trying to do is to however improve on the infrastructure and ensure that going forward we minimise the costs and possibly become net revenue gainers from that.

Bayo Adelabu: Let me also add to what the GMD just said. Number one, when the customers were being charged directly NGN 100, the customer will mind the ATM where they make their withdrawals. He will definitely look for a FirstBank ATM so as not to be charged this NGN 100 by other banks. Since the removal of the NGN100 charge, customers do not necessarily withdraw from their banksô machine, so it is the bank that has the customerôs account that actually pays to the other bank, which is why revenue, number one was a loss.

And number two is, at a point in time in 2013, we had issues for about a few weeks and we saw our customers using more of other bank's ATMs, it has since been corrected. On a monthly basis now, we have positive return on our ATM charges. We don't really expect this to repeat itself in 2014, but itôs just to explain the fact behind these figures we are presenting to you.

So, in a simpler language, let me say that we have first responded to the challenges and as we speak now in the past two months, we have now returned to net positive earnings from ATM transactions as against what we reported at the end of September. So, this is not likely to be a recurring cost as we move into 2014 and the later part of 2013.

I hope this clarifies your question.

Sharat Dua: I also asked a question about the FX income, where you seem to have a rather large loss in Q3, which I guess was unexpected. Can you talk a little bit about that, because on the numbers you reported NGN 8.8 billion FX income in the first half and that's gone to NGN 5 billion in the nine months?

Bisi Onasanya: The CFO will answer the question.

Adebayo Adelabu: Thank you for that observation, the reduction on FX income, firstly I will like to explain that it relates primarily to reduction in transaction volume which gave us lower FX revenue, but the exchange loss actually is actually due to the impact of the revaluation of some of our FX assets held offshore, which weûre actually looking at; maybe by the end of December, we will be able to provide the full details of what led to the foreign exchange loss during the first nine months of the year.

Sharat Dua: I'm asking this; for us, looking at the volatility in your non-interest revenue in this year, clearly you reported NGN 22 billion in the first quarter and then a similar number in the second quarter and it's really dropped off very sharply in the third quarter. Since you're trying to build a picture of going forward, what is the net non-interest income that the Group will actually be generating? What sort of levels? And we know the pressures on the fees, as we talked about the COT for example, but if there's a lot of volatility in the FX as well, that's something which we need to get some sort of visibility on, as to how much you actually make just from the transactional business.

Adebayo Adelabu: The non-interest revenue of the Group for Q3, like you also mentioned, there is a variation from what we made in Q2. Like we explained earlier the impact of the CBN regulations impacted our non-interest revenue. For example the COT, ATM charges, etc.

What we're trying to do is to look for other areas of activities that will compensate for this loss in revenue, number one. Number two, is also to look at the volumes of these transactions if the rates are going down we can actually compensate for in revenue so as, thatôs as far as the banking Group is concerned.

We are also looking beyond the Banking group, looking at IBAM, the other components of the Group. We just mention that we acquired a general insurance company during the period which we believe will actually shore up our premium revenue in addition to the existing life assurance company. And of course the investment banking group also as you know, will impact in the course of the coming year, that's 2014, and that will positively impact our non-interest revenue and will not be below what we reported in the Q3.

Bisi Onasanya: And I'd just like to add that the challenges of 2013 have been put behind us. I don't think we would have greater impact of those regulatory headwinds that we have reported in the nine months. We expect that going forward from the end of the year into 2014, we would be able to make some progress, positive progress. And this is just simply because we've taken time to respond to some of those things and put in place strategies to make sure that they don't hold us back as an institution. Provided, however, that there are no more new headwinds coming out of the regulatory body hopefully so. Thank you.

Sharat Dua: On the balance sheet, looking at the loan growth, if I may add, youôve obviously grown your loan book by 4% in the nine months and you revised down your guidance for the year, which was previously ahead of 10%. I am surprised. I mean, obviously you have a large balance sheet and it's more difficult to grow at that size, but why are you coming in below your targets from the early part of the year? What have you found challenging and getting the target for the loan growth that other banks have been more able to drive?

Bisi Onasanya: The CRO will answer this question.

Biodun Odubola: Okay. Yes, I'd like to answer the question about loan growth and to say that our flattish loan growth at the beginning of the year was partly deliberate. For example, we had concerns about oil and gas downstream.

Operator: I apologize for the pause in the presentation. Please remain on the line. The presentation will resume shortly.

Sharat Dua: Yes, you need to start that last answer again because you were cut off right in the beginning.

Biodun Odubola: Okay. I was talking about the loan growth for this year.

Yes.

Biodun Odubola: And to say that the flattish loan growth rate as at the half of the year was partly deliberate. We had concerns about the oil and gas downstream and as a result of which we stopped creating further exposure in oil and gas downstream, as a result of which the oil and gas downstream portfolio went down by about 20%. We also had concerns about some of our consumer product programs which we had to stop and we have since restarted them.

Now, the loan growth that we have witnessed for the year actually started from the end of the first half of the year. So, we have put all the issues of the first half behind us and we have since commenced fairly rapid loan growth which is being sustained until the end of the year. In the third quarter alone, the loan growth was about 5% and this is being sustained as we speak. So like I said, again, part of the reason is deliberate because we were trying to rebalance our portfolio and, essentially, just stop doing what does not work. Thank you.

Operator: Thank you. The next question comes from Kayode Omosebi from Meristem. Please go ahead.

Kayode Omosebi: My question is regarding your interest expense. What I'm saying is your interest expense grew and you said it was because of interest expense on savings deposits and you'll still grow your deposit base for full year and next year. So I want to ask what strategy you will use to reduce your interest expense based on the increase in interest on savings deposit.

Secondly, you seem to be quite positive about your growth in insurance because of the switch to general insurance. Looking at the insurance industry in Nigeria and then the contribution of the insurance to your gross earnings, whatôs the strategy regarding the insurance business and how well is it going to affect your numbers for full-year 2013?

Bisi Onasanya: Okay. Thank you. I will speak to the capacity for growth in deposits. First and foremost, it's instructive to note that the limiting factor of successful growth in the banking industry is your share of the deposit market. What's important, however, is that you have a balanced mix of cheap current account and savings accounts deposits as a percentage of total deposits.

And we also believe that even with fixed deposits, so long as you can have 200, 300 basis point spread. You don't run away from it because your role as a bank is financial intermediation. Our strategy is to defend our deposit ratio of 75% to 25% of current and savings accounts to percentage of total deposit and we'll continue to defend that.

So the solution is not to shy away from taking those deposits but to be a little bit more efficient in the utilisation of those deposits and the price we pay for those deposits. We still believe that it is the right way to go. Rest assured that on a weekly basis we take a look at our deposit mix and we do adjust the pricing as at when necessary.

As far as the insurance business is concerned, I would allow the Managing Director of FBN Life Assurance Limited to speak to that, because the incremental or marginal revenue is a rule that applies anywhere. No matter how small the fee, it helps you in diversifying your earning base hedging the risk from concentration of your earnings from the banking sector and prepares you for a more balanced financial holding institution operating across the full spectrum of the financial services industry.

Val Ojumah will speak specifically to the expectation of the earnings from the general insurance business.

Val Ojumah: Okay. As you are aware, we have started the insurance business with the life division and we are going into the general division now. From my experience in the life insurance division, we know that the penetration as far as individual insurances are concerned is extremely low. Therefore, we are emphasizing the retail arm of insurance carrying on the experience that we have from life insurance into the general insurance arm.

Also, as you are aware, as far as special risk is concerned, oil and gas in particular, most of those risks are now been domesticated in Nigeria and there is very low penetration from existing Nigerian insurance companies because of low capacity. So, we are adding to that existing capacity and growing that business across the spectrum of technology, oil and gas and aviation. We think that the totality of all of that will add to the total premium income that we are generating at the moment. And from our projections we think that is going to double our capacity and add to the Groupôs financial performance.

Bisi Onasanya: Thank you very much. And I think I'd like to add that our relationship with Sanlam has been very beneficial. I can confirm to you that much earlier than we anticipated the life insurance business has turned into profitability and is beginning to add some accretion into the bottom line. We also expect that with the very low less than 1% penetration in the general insurance business in Nigeria, we believe that a financial group like FBN Holdings with muscle coming into the market can redefine that market and step up the game in terms of wider acceptability and coverage of the insurance industry.

Like I said, it helps again in diversifying the concentration risks that we may have as a single banking entity. So we believe that is the right way to go and we are in the right relationship with Sanlam. And if you look at the contribution of insurance to GDP in South Africa relative to what it is in Nigeria, it only shows the way to go, if you do it right, with the right relationship, then it will be a positive support to the earnings of FBN Holdings. Thank you very much.

The next question, please.

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

Peter Mushangwe: Thank you. I am listening to you and my line isnǿt clear. It is very faint. I couldn't hear most of the things you said. But, I just wanted to find out -- your target look quite flat, and your return on equity targets is probably below what's expected. I just wanted to point out cost of equity. What cost of equity do you sort of view guides you to these targets?

Bisi Onasanya: Let me say that these are trying times for the banking industry in Nigeria and I started out by explaining to you the negative impact of the regulatory headwinds. If we adjust for those numbers in our financials, the full-year impact is about NGN 30 billion reduction in our net revenue. This was not expected at the beginning of the year.

Clearly if these things did not happen, the return on average equity numbers would have been very, very well met as guided earlier on. It's very dangerous for us as an institution that is highly compliant to ignore these factors and move on as if those regulatory headwinds or structural pronouncement would not be there in 2014. The reality is that these things are here, and theyǿre here to stay.

But like I said, we believe that the worst is over. We believe that as we move on into 2014 and beyond, if there are no further pronouncements that would impact our bottom line; we would only be able to improve on those numbers, rather than regress. That's all that we have to say as far as this particular question is concerned.

I understand your question in terms of cost of equity, but the reality also is that we operate in an environment that is highly regulated and as an institution that is highly compliant. If you compare with those regulations, which were announced without notice, we just have to move on, and look for ways and means of improving on the numbers. The risk free return on cost of capital in Nigeria is not cheap, but itôs also not 18%. There are also some positive margins when you relate the earnings, return on equity to the cost of capital. Thank you very much.

Peter Mushangwe: Is management happy with the results and the targets?

Bisi Onasanya: Oh, no. I mean certainly we are not. What has happened is that, the entire regulatory pronouncement in 2013 has challenged our operating model as an institution. We set out very clearly at the beginning of the year to deepen our penetration in the retail banking segment and be a differentiating factor amongst other banks.

That meant that we had spent all the funds required to build infrastructure to roll out a mass retail banking structure. These things are expensive but in 2012 we rolled out a 100 branches with the expectation that we would be able to get cheap savings and current account deposits. Now, that has been eroded by some of the things that have come up.

The retail banking customers are the kind of customers that also are not so sensitive to prices but with the challenging pronouncements, this has changed everything and we have to go back to the drawing board. And that's one of the reasons why when the CRO was responding to the question on the cost of risk adjustment will now have to go back into the different market segments and see how we can make money from other segment rather than concentrating or putting a lot more emphasis on the retail segment of the market.

Clearly as a management we would have loved to do better. I can confirm to you that if not for the effects of some of these things, FBN Holdings profit for the period would have been very superlative and would have been the best in the banking sub segment of the financial holdings business. But the reality is that these announcements came without notice, we are moving up we are not satisfied as a Group. We believe that we will do better as we move into subsequent years. Thank you.

Operator: Thank you. The next question comes from Marcin Gieniusz from Sloane Robinson. Please go ahead.

Marcin Gieniusz: Hi, gentlemen. Thank you for taking the call. A couple of questions from me, in terms of your capital management, you have -- I'm wondering if the times are so difficult in Nigeria that you choose to do things differently. The UK loan book has grown at twice the speed of Nigeria and last year most of the growth in the whole Group came from Nigeria and from the UK as well. So, could you comment on what competitive advantage you have in the UK versus local banks, or is it that you just do the business that nobody wants to do in the UK?

The second question comes about your capital ratios. So after the acquisition of the West African banks, your capital ratios have declined further. Does it mean that with 15% tier one ratio, does it mean that you will not be paying dividends to preserve capital or does it mean that you'll be issuing equity?

And finally, on the cost to income ratio, your guidance is that it will decline. But surely, to make your Western African operations work you'll have to invest a lot of money in that. I know that your West African bank makes an ROE 3% or 4%. You paid 1.5 times book for it whereas other Ghanaian banks earn 30% to 40% ROEs with the Ghanaian economy doing so well. So, Iœm wondering what your thoughts are on that.

Bisi Onasanya: Okay. There is a lot of questions consolidated into comments and so on, but let me start by saying that the FBN Bank UK is very active and very strong in structured trade and commercial finance and general trade business in Europe. So, a large portion of their loan book is actually trade related and short term. They have a small, mortgage loan book; I can confirm to you that the NPL ratio is almost zero in the books of FBN UK, so it's nothing to worry about. We do have very good control over that situation. It's the kind of loan book that you pray to have as a financial institution with almost a 0% NPL.

In respect of capital ratios, I think in relative terms we have recorded an increase in our capital adequacy ratio and that's also because of the effective management of the books. But, I believe that we can comfortably say that we do not intend to raise any fresh tier one capital in the short term and that's authoritative.

We believe also that our dividend policy as a Holding Company remains unchanged. We will pay dividends; we will also try as much as possible to balance the requirements for capital growth and the need to reward investors in our portfolio. So, there is no change in dividend policy and we would not be raising fresh tier one capital in the short term.

Marcin Gieniusz: And what is the dividend policy?

Bisi Onasanya: Consistent with what we have done in the past three years.

Marcin Gieniusz: Okay. So does it mean that you won't be growing your assets next year to keep your capital ratios healthy? Because if you pay dividends and you don't raise equity, you will need to grow your assets slowly. This year you grew less than inflation. Do you intend to go less than inflation next year?

Bisi Onasanya: We do have a capital policy and we are very comfortable, we believe very strongly that we can pay dividends and still be able to grow the loan book without raising additional capital and that's exactly what we will do as a Group. We are not constrained by capital at this moment and we are not under pressure not to pay dividends to reward shareholders, but it will be in line with our practice in the past.

Marcin Gieniusz: And in terms of the costs associated with making West African investment worthwhile? How is it possible that the bank that you've purchased is so unprofitable in a country where other banks make 30% ROEs?

Bisi Onasanya: At the last conference call when we made announcement on this acquisition, we did say that we were not buying those entities based on their current status. We would be buying those entities and we did pay for them based on the potentials that we see in them.

It's quite positive that it is indeed returning some positive returns on equity, but we believe that with our experience, having turned around the bank in the Democratic Republic of Congo, which is now giving us very competitive returns, we believe that we have tested the waters. We know what it takes to turn around those entities and can assure you that we do have the right capacity to turn them around and make them very profitable with positive contribution to the ROE.

We have what is required to fix them and turn them around. You should understand that as a percentage of the total balance sheet of the Holding Company and the banking Group itself, it's very, very small. We do have a short, medium and long-term strategy in terms of what we need to do to turn around these entities, including, if there is need to put in additional funding, we would put in additional funding. What's more important is the dynamism and the synergies that we bring into play based on our experience in turning around the Bank in DRC. I can confirm to you that the Bank in DRC has been turned around and is making at least 30%-35% as ROE as at today.

Marcin Gieniusz: Does your cost-to-income ratio targets take into account expenses associated with making these Western African operations good?

Bisi Onasanya: The size of the African operation does not have any significant impact, even if you were to put in more money on the overall cost to income ratio of the entire Group.

Marcin Gieniusz: Okay.

Bisi Onasanya: It's a very small bank if you look at the balance sheet and P&L.

Marcin Gieniusz: And should we expect the UK loan book to grow twice as fast as the Nigerian loan book next year as well, or that's not the plan? And what is the ROE on the UK operation?

Bisi Onasanya: The ROE on the UK operation is about 12%, okay?

Marcin Gieniusz: So it's less than the Group. So it's actually destructive in average.

Bisi Onasanya: Yes, ROE is about 12%. And we believe that sometimes it's important to balance your risk/reward metrics. For a bank operating in the UK, which is also a low-interest environment, doing about 12% is quite decent and when you benchmark against the rest of the market particularly non-UK banks, particularly African banks operating in the UK, that is a good performance.

I think it is one of the most efficient there. But more importantly, sometimes when you measure the performances of financial institutions you should try as much as possible not to limit everything to financials; otherwise, we push the entities to take excessive risks. There are so many transactions that you can do in the market that will give you higher earnings. But then, you have to balance the risks that are expected with the rewards.

Marcin Gieniusz: And what competitive advantage do you have? What do you do differently than other UK banks that you can achieve 12% ROE? I mean, do you finance Greek farmers or how do you achieve this?

Bisi Onasanya: Let me say that the focus of FBN UK is to target trade-related businesses for African countries in Europe. Now, donġt forget that European banks typically don't tend to understand African businesses. So, we understand that business. In addition, this bank has been operating both as a branch of FirstBank in London and as a bank for over 20 years. They have built the relationship in the market and now have a very deep understanding of trade businesses across African countries and that is the differentiating factor. And now they get invited into deals, including structured trade and commodity finance transaction across Africa as a matter of rights having been able to build experience and capability in that segment of the market. And I can confirm to you that it has one of the best management team you can think of with a very independent board regulated by the PRA (Prudential Regulation Authority) in England.

So, the concern for the loan quality in the Group is definitely not on FBN UK, I can confirm this to you. NPL ratio is almost zero and we do not expect that this will change as we move into 2014 and even in the short term. We are very comfortable, I am on the board of the Bank and we do have a Chief Risk Officer and other very senior officials of the Bank on the various committees of the Bank in the UK and we are comfortable with the risks that we are taking.

Marcin Gieniusz: And wouldn't you say that it would be more beneficial to use that capital at a 20% ROE in Nigeria rather than earning only 12% in London?

Bisi Onasanya: Yes, sorry. There was need to put in additional capital in 2012, which we have done. We do not expect additional capital expectation at this point out of Nigeria into the UK operations.

Marcin Gieniusz: Okay. And finally just on the long-term ROE, you mentioned that you expect it to go to 25% in the medium term. How would you achieve that?

Bisi Onasanya: The CFO will answer the question on ROE, back to the question of the UK. Don't forget that the investment in FBN UK is foreign currency investment so you cannot be expecting the rate of returns on naira on the rate of returns on foreign currency investments. A 12% yield on foreign currency investment anywhere in the world is very good. We are quite comfortable with that. And we just want to be extremely careful in not pushing the bank into taking higher risk like the Greek risk that we just mentioned. Of course, if we demand higher return, they will give you the higher return, and they will be taking higher bets. I think it is important to put into context the currency of investments in relation to the returns that we get on those investments.

The CFO will answer the question on the ROE number.

Adebayo Adelabu: The ROE that we actually guided for in the medium term, which is the next two to three years at 25%, is something that we believe is realistic. The current rate of 18%-20%, we just need to up our game a bit more to achieve the 25%. The first area we will look at is to ensure that we mitigate this negative impact of regulations on our revenue once we are able to implement all the mitigating steps that we are taking; we should be able to see our revenue and ROE go up effectively.

Number two point is we are looking at moderating our interest expense to ensure that we are able to even expand our margin beyond what it is now. We talked about the impact of the savings account interest policy; we talked about the impact of the mix of tenored deposits in our deposit base, which was typically below 20% but now about 25%. We want to reduce that and grow more current and savings account (CASA) which are low rate and that will grow our margins. Lastly, we're also looking at improving our operating overhead and our operating efficiency by ensuring that all of those cost control measures which we have been implementing in the last three years, will still improve on them and this will give us a higher profit and thereby putting in some capital and improve capacity to about 25%. So, basically in summary we are going to mitigate revenue decline, control our interest expense and also improve our operating efficiency. This will help us achieve a 25% ROE.

Bisi Onasanya: Thank you. The next question, please.

Operator: Thank you. The next question comes from George Bodo from Ecobank. Please go ahead.

George Bodo: Thank you. I just had one very specific question. My immediate concern is on your staff cost and asking about the trend here. So, as of the half year your filings showed that staff cost was NGN 45 billion. Nine months, it was just about NGN 45 billion. Was there any one-off type of costs in quarter two? I'm failing to understand it because if I look at the presentation and especially on slide 19, I think this is a restatement, you have NGN 34 billion there. By the filing you issued, the results released in quarter. Why that big restatement?

Bisi Onasanya: The CFO will take the question.

Adebayo Adelabu: Yes. You're right. There was actually a restatement, there was a reclassification of some items of staff cost which basically relate to contract staff that we use for some of our non-core activities, which were part of our direct staff cost, but they're now part of our operating overhead. Which is why we restated the 2012 numbers to reflect the reclassification but now we are consistent with the reclassification?

Bisi Onasanya: Thank you.

Operator: Thank you. We're trying to re-poll. If you'd like to ask a question, please press the star followed by the one on your telephone. The next question comes from Ronak Gadhia from Exotix. Please go ahead.

Ronak, your line is open. Ronak Gadhia, your line is open.

Okay, we'll go to the next question from Kayode Omosebi from Meristem. Please go ahead.

Kayode Omosebi: Hello. In your statement, you said we do not expect any modification in your profits for full-year 2013 compared to 2012. Are we expecting any dividend payment in 2013 from FBN Holdings?

Bisi Onasanya: Absolutely, yes. The Bank and the Group have made profit. It will be a profit that we will also reward shareholders and investors and there should be dividend expectation most certainly. I also do not expect that it will be below what we paid last year. Hopefully so

Operator: Okay, thank you. The final question comes from Lanre Buluro from Primera. Please go ahead.

Lanre Buluro: Hi. Good afternoon, gentlemen. Thanks for the call. This is more on your insurance business. Should we be expecting any more deals or should we expect organic growth with what you have right now? And also, back to the AMCON question earlier. So, I guess in regards to your branch network, should we be expecting any more branch growth right now and ï because your OpEx has been growing single digits the past few quarters, so either you slowed down your branch growth and improve on that. So can you give us anymore color on what your outlook is for branch growth and also the question earlier about any more deals in the insurance base?

Bisi Onasanya: Val Ojumah, the Managing Director of the insurance business, will take the question.

Val Ojumah: We do not expect any more deals in the short term, but we do anticipate further consolidation of the insurance industry.

Bisi Onasanya: Thank you very much.

Lanre Buluro: Network, what's the outlook on that?

Bisi Onasanya: Well like I said before, the ï the pronouncements from regulators have in deed challenged our operating models. We will be very modest with branch expansion, just taking advantage of opportunities in two critical areas. We would not be aggressive in opening branches as we move into 2014. In fact, 2013 we concentrated on completing ongoing projects.

We would only be very selective in terms of additional branches in 2014, but then when we see opportunities in good locations we will take advantage of them. Clearly we would not see branch expansion in the size and the mode in which we saw them in the past 18 months going into 2014. That's also been realistic and recognising the fact that the retail banking model has been challenged as far as Nigeria is concerned. Yes, we'll see some branch expansion, but in moderation.

Does that answer the question?

Operator: Okay, thank you. This concludes the conference call. Thank you for participating. You may now disconnect.