FBN HOLDINGS

9M 2014 RESULTS

THURSDAY, 30TH OCTOBER, 2014

Presentation

Bello Maccido

Group Chief Executive Officer

Ladies and gentlemen, on behalf of all of us from FBN Holdings Plc, we welcome you to this presentation of our unaudited nine months financial results for the period ended September 30, 2014.

Beginning with the macro environment, real GDP continues to experience actual growth, with growth numbers showing 7.1% in 2014 against 7.0% obtained in 2013.

At the same time, we have witnessed a tapering of inflation to 8.3%, after experiencing six months of consecutive rise. External reserves dipped from the previous levels of $43.5 billion in 2013 to about $39.5 billion, occasioned by the introduction of shale oil in the United States and the slowdown in demand for commodities in China, as a result of slow economy.

The banking industry, Central Bank of Nigeria released the regulation for financial holding companies industry framework, which essentially means that today; we are operating under very clear rules that define how we should operate as an industry.

We are happy to report that NDIC has announced a reduction of premiums payable by banks from 0.5% to 0.35%. We can see some positive vibrations from the regulatory environment.

We recognise that the Central Bank of Nigeria will continue to maintain a tight monetary stance, both as it relates to the issue of CRR and MPR, because of the need to maintain a tightening of the economy which is experiencing increased spending as we move towards elections.

We have continued to re-focus our business model riding on our leadership position such that we have increased our total assets by 14.8% over the corresponding period last year to NGN4.2 trillion. We have built our net loans position by 25.8% to NGN2.0 trillion while building our deposit base by about 4% to NGN2.9 trillion.

We have continued our drive towards new customer activation and have grown our customer base to 9.4 million as at September 2014, representing a 12% increase.

We have continued to push transaction banking by driving trade finance in a way that we are able to enhance our fee business whilst improving the level of collections within the Group.

We maintained stable asset quality such that our NPL ratio has come down from 3.6% in the corresponding year to about 2.9% as at 9M 2014.

We also continued to maintain a healthy capital adequacy ratio which presently stands at 20.3%.

In the last five quarters q-o-q, we have maintained steady growth in our operating income, as seen on slide 7, while acknowledging that the cost to income ratio inched up slightly, as a result of regulatory costs chargeable based on the asset size of an institution.

In the last three quarters, we have report ROaA pre-tax of 2.4% and after tax at 1.8%. ROaE on a pre-tax basis is 20% and after tax is 15.4%.

To provide a a snapshot of our income statement highlighting some of the key indices of our performance over the last three quarters. We have grown our gross earnings considerably from NGN296 billion to NGN333 billion representing a 12.5% increase.

Net interest income and Non-interest revenues have also grown remarkably over the period while we have been able to bring down, substantially, our credit impairment by about 15%. We are delighted to report a profit before tax figure of about NGN73.7 billion, an increase of NGN3.6 billion from the previous figure of NGN70.1 billion, reported in September 2013; this represents 5.2% growth over the corresponding period.

In summary, both our top line numbers and our bottom line numbers over the last three quarters improved despite the challenging and very difficult operating terrain under which we had to operate as a Group.

I would like to invite you all for any questions or comments that you will have on our presentation or on our Group. Thank you.

Q&A Session

Muyiwa Oni - SBG Securities

Thank you for the presentation. I have three questions.

Firstly, I would like to understand the impact the new policy on foreign borrowings will have on your operations. Does the new policy limit foreign borrowings to 75% of shareholdersô funds?

Second question: is there an update on your London mining exposure? Should we expect any provisions from that exposure? What is the current state?

Third question: What is driving the change in your ROE guidance because at the half-year, you were guiding between 17% and 18%, however but now it guidance is down to 14% to 15%. I was trying to understand where we should expect the pressures. Will it be non-interest income or interest income and how should we expect to be looking at going forward? Thank you.

Abiodun Odubola – Chief Risk Officer, FirstBank

To answer your second question on London Mining, indeed we have an exposure to London Mining out of our UK subsidiary. It is a syndicated loan to an iron ore mining company and as we speak, this loan is being restructured. There are a lot of activities around making sure that this loan becomes performing again. I canôt disclose the full details however; I can assure you that we are not going to have any provisioning this year regarding this loan.

Adesola Adeduntan – Chief Financial Officer FirstBank

On the question on the impact of the new circular on foreign currency borrowing, we have evaluated our position and are fine. Indeed, we do have scope for incremental borrowing in foreign currency.

Regarding the question on ROE, we actually do see some downward pressure around our net interest income, t is where we see the pressure. Given all the work that has been carried out on our non-interest income, we expect a growth over time, however, between now and year-end we do see some downward pressure on our net interest margins.

Muyiwa Oni

Thank you.

Abbas Barkhordar - Schroders

Thank you for the call. I have just a couple of questions.

One is the capital adequacy ratio you quoted20.3%, I assume this is calculated under Basel 1 rules, however, following the circular CBN put out in August in terms of what is eligible and what isnœt, I wondered if you have an estimate of what the ratio would be under the new Basel 2 framework, which is meant to be introduced quite soon and where that leaves you in terms of your capital adequacy.

Related to that, your options for increasing capital whether itœs reducing the pay-out ratio or Tier 1 equity raise, given you have already raised quite a lot of Tier 2 this year.

The second question is around the exposure to potential currency devaluation. Both from an assets and liabilities point of view and how it would impact your profits if there was a sizeable devaluation earlier next year or what the impact would be on asset quality for some of your borrowers, obviously there has been a lot of lending in dollars across the banking sector, and the question of what a devaluation would do to the borrowers and their ability to service those loans. Thank you.

Adesola Adeduntan – Chief Financial Officer FirstBank

Thank you. Our capital adequacy number as shown in our presentation is based on Basel 1 capital accord because that was the accord that was in operation as at the reporting date.

Regarding where it will be under Basel 2, we will be fine.

To the third question, we are carrying out a number of initiatives internally, some of which are balance sheet optimisation, increasing retention rates. Example, we are carrying out a nine-month audit and we intend to capitalise on profit for the nine months. O On our capital adequacy position, we will be fine.

Abbas Barkhordar

Fine, is it for a year or two?

Adesola Adeduntan – Chief Financial Officer FirstBank

Fine, as we will be above the minimum.

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

It will be above the minimum regulatory requirement, including the possible 1% surcharge for SIB when it becomes applicable next year. We are on board to meeting the regulatory requirements.

Abbas Barkhordar

Okay.

Abiodun Odubola – Chief Risk Officer, FirstBank

On your question on the impact of the devaluation on asset quality, our portfolio is structured in a way that, we have a natural hedge to FX devaluation. This means we only give FX loans to customers with FX cash loans; this mitigates the impact of devaluation.

In few cases where we give FX loans to obligors in local currency, , itœs because we believe that they are very strong. We have a couple of top telecom names in this segment. Overall, we donœt see a significant impact on asset quality as a result of devaluation.

On the short-term trade finance facilities, which tend to be in foreign currency, these are very short-term, 30 days - 90 days turnover. Overall, we donœt see any adverse impact on asset quality.

Thank you.

Abbas Barkhordar

Okay. Thank you.

Ksenia Mishankina - UBS

Hi. Thank you for the presentation. I have several questions.

Could you indicate your loan growth for 2015?

Also, could you comment on your borrowing plans in the Eurobond market for the near to medium-term?

What is your CAR ratio under the Basel 2 methodology as of the third quarter?

Bisi Onasanya – General Managing Director/Chief Executive Officer, FirstBank

The capital under Basel 2 will be above the minimum regulatory requirement. As explained by the Chief Financial Officer. We are currently carrying out a nine-month audit of the financial numbers for the Group and the intention also is to capitalise the retained earnings arising from that exercise effective, end of September. That pushes us under Basel 2 to above the minimum regulatory requirement and also meeting the additional 1% buffer, under the SIB rule or SIB regime of the Central Bank and that is before the year end audit.

We intend to effectively manage dividend pay-out and increase retention as a means of capital management, given so many factors i.e. lack of debt in market, liquidity in the market. We do not believe that in the short-term, we will be in the market for fresh Tier 1 raise. Does that answer your question on capital adequacy?

Ksenia Mishankina

Yes. Thank you.

Abiodun Odubola – Chief Risk Officer, FirstBank

On your question on loan growth for 2015, we are guiding at no more than 10%. Our focus will remain rebalancing our portfolio, there is a lot of competition in the retail end of the business, as the Institutional banking and Corporate banking have thin margin and there is a lot of competition there. We are not looking at aggressive loan growth in the next year to come.

Thank you.

Adesola Adeduntan – Chief Financial Officer, FirstBank

On your question on Eurobond, looking at our financing plan for next year, if weçre going to come to the market, itçs probably going to be in the syndicated loan market as there are no immediate plans to issue another Eurobond.

Ksenia Mishankina

Okay. Thank you..

Marcin Gieniusz - Sloane Robinson

Hi, gentlemen, a couple of questions from me.

First of all, why do you think the T-bills in Nigeria arenqt yielding more at the moment considering the very tight monetary policy, as well as the risk on the currency?

Ini Ebong - Treasurer, FirstBank

To answer that question, itçs largely a function of the Central Bankçs monetary policy stance. It is slightly contradictory to the extent that theyçve drawn a very hard line with respect to defending the currency. Naturally, you would expect that this would engender high interest rate regime allowing higher yields on government securities.

Thus far they have resisted that, though we have seen some slight signs that perhaps they are loosening their stance, in recent times, we have seen their open market operations rate go from 10.8% now to 11%, perhaps they are moving back towards that direction. Clearly, what it does suggest is that we probably would see higher rates in the short-term, especially if they continue increasing reserve requirements aggressively.

Marcin Gieniusz

Sorry, I couldnøt hear the first part of your answer. Why arenøt T-bill yields higher like in 2012, for example, back at 15%? Why are they only 11%?

Ini Ebong - Treasurer, FirstBank

Like I said, itøs largely been because of the Central Bankøs own management of the monetary policy dynamics.

Marcin Gieniusz

What does that mean exactly in practice? Can you just give an example?

Ini Ebong - Treasurer, FirstBank

They have simply limited the rate at which they issue the bill and have artificially kept the T-bill rates low. Before they conduct their auctions, they issue bills via auction and they determine where the cut-off rates are. They have successfully, held those rates at these levels artificially. Though we have seen in the last couple of weeks a slight relaxing, where they have allowed the rates to move by about 25 basis points, perhaps we are moving to a more normalised environment given the stance on foreign exchange.

Bisi Onasanya – General Managing Director /Chief Executive Officer FirstBank

If you allow the rates to float, to be determined by the market, It wonøt be as low as it is now. The argument here is that, this is being determined by the Central Bank for some other objectives including efficient management of rates which they believe should not be as high as the market believes it should be. However, if you allow those rates to float, determined by quotes, naturally it will be higher than what it is. What we see now is Central Bank deliberately keeping the rate at that level for the reasons explained to you.

Marcin Gieniusz

The reason why they can do that, is because they can manage the currency with cash reserve ratios. Is that right?

Ini Ebong - Treasurer, FirstBank

Not exactly, bear in mind that the Central Bank issuance process is two-fold. There is a primary auction which is largely limited supply and there is a secondary market activity in the case where there are open market operations, where typically you would truly express, or the market would truly express the market view on rates.

The open market operations issuance window is much larger and much wider and the Central Bank can influence that by determining the cut-off rates, which is what they have done and to the extent that they have been able to manage it down to 11% within that purview.

Marcin Gieniusz

Okay. The second question is on deposits. Why aren't deposits growing and specifically why aren't cheap deposits and current accounts growing? Current accounts have declined by 7% year-to-date, term deposits have grown by 15% year-to-date, and overall, your deposits are flat. What has happened to the historical preference for raising free or cheap deposits and investing that money into T-bills?

Ini Ebong - Treasurer, FirstBank

Okay, fundamentally two things.

Number one, you've generally got a high interest rate environment. We have observed some natural migration where clients that typically would have been in current savings accounts are migrating into higher rate term deposits and government security (T-bills). We have seen significant amounts being invested there.

The second thing is the impact of the increased CRR requirements on public sector deposits. Bear in mind that the bulk of the public sector deposits are in current accounts, because they largely are tied to collection activities or banking activities of governments. Because of the increased requirements on these public sector deposits, there has been a deliberate focus to de-emphasise our Group in that segment because the reserving costs have been high. You have got the double impact which has limited the overall growth in deposits.

Marcin Gieniusz

Finally, and I will finish here and let others ask questions, why did you rebalance your balance sheet towards risk assets away from T-bills? Is it for higher yields? Obviously that comes at a cost of capital and risk and provisions eventually.

Ini Ebong - Treasurer, FirstBank

The reason why you are seeing that rebalancing is tied predominantly to the monetary policy stance of the Central Bank. You will also notice that reserves of the Central

Bank have grown significantly. Effectively they have almost doubled in this period and note that with the increased reserve requirements on public sector deposits; those are essentially funded by liquidating T-bills. Hence, itœs not a like-for-like rebalancing in growth in new loans. What you would see is largely in the part of the incremental reserves that have depleted the liquid assets which are predominantly T-bills.

Marcin Gieniusz

This wasnœt intentional, this is just the fact that reserves are growing and you have to sell T-bills because these are the liquid assets.

Ini Ebong - Treasurer, FirstBank

Correct.

Bisi Onasanya – General Manager Director /Chief Executive Officer, FirstBank

Yes, you still have obligations for facilities that have previously been approved.

Marcin Gieniusz

Okay. Thank you.

Sharat Dua - Charlemagne

Hello. Good afternoon. Thank you for taking the time to speak to us. I wanted to first of all clarify a couple of things that you said earlier. I would appreciate it if you can be as specific as you can be. In the current circumstances are you saying that you have ruled out a Tier 1 equity raise for the next 12 months?

Bisi Onasanya – General Managing Director/Chief Executive Officer, FirstBank

Yes.

Sharat Dua

You have. Okay, fine. Thank you.

On the dividend, in your presentation you said you can retain as much as possible. Now, on the call youœre talking about potentially capitalising the nine-month audited numbers. I would just appreciate a bit more clarity. Are we potentially talking about zero dividend for financial year 2014? Is that something which you believe is viable, or how would it work based on Q4 numbers? Potentially, you might pay dividend out of Q4 but not out of the first nine months. If you could just be clear on that.

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

We haven't said emphatically that it will be zero dividend for 2014. What we've just said is that there will be increased retention of capital from retained earnings. We haven't said it will be zero dividends and I'm not sure it will be zero dividends under the present circumstances.

However, what I also said in specific terms is that whatever dividend that will be paid will be determined after the full year audit and based on the nine-month audit, we will take advantage of the retained earnings for the purpose of Tier 1 capital until the end of the year at which point a final decision will be taken on the appropriate dividend pay-out.

Sharat Dua

Okay. There was a circular from the CBN last week, I believe where they were looking to actually cap dividend pay-outs for certain banks. It may not apply to you given what you are talking about for next year anyway, but are you able to disclose what risk rating the CBN has given to you?

Adesola Adeduntan – Chief Financial Officer, FirstBank

Based on where we are today, the Bank is risk rated above average.

Sharat Dua

Okay. You would not be allowed to pay more than 30% anyway.

Adesola Adeduntan – Chief Financial Officer, FirstBank

No. You know there are two conditions tied together under that requirement but, today the bank is risk rated above average.

Sharat Dua

Okay. Thank you. Moving on from that and looking at the results. The FX income saw a huge NGN10 billion contribution in 9M. I wanted to understand, where such a big surge has come from. That's obviously well ahead of full year numbers for the last several years. Is this a function presumably of currency volatility and how sustainable do you think it is, or could it even reverse in the fourth quarter?

Adesola Adeduntan – Chief Financial Officer, FirstBank

It's a combination of several variables. Management have always mentioned the fact that we've implemented a transaction banking model which has resulted in increased trade business and it is expected to continue to increase. In that line, we expect some upward trend of our revenue from FX. We've benefited from currency volatility, that component of it may not necessarily repeat itself, but given what the outlook of the macroeconomic is also, we do still expect certain degree of volatility going in to year-end.

There are two or three strands contributing, some will continue given what we are seeing around transaction banking. The volatility again is a function of the market.

Sharat Dua

Okay. Fine, thank you. I wanted to understand why your tax rate is significantly higher than your peers. Youøve come in at 24% I think, or 25% for the nine months and you are guiding to 20% to 25% for the full year. Your competitors are, in the main, 17%, 18%.

Adesola Adeduntan – Chief Financial Officer, FirstBank

Like you said it is a provisional figure, due to the impact of assessing the recoverability of our deferred tax asset position. As we move towards year-end, we will be able to determine more accurately. We are being proactive and conservative by taking into consideration our net position from a deferred tax asset perspective.

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

Itøs not a question of not being efficient but in terms of tax management, it is an assessment of the recoverability of the deferred assets. In terms of normal corporate tax levels, we are as efficient.

Sharat Dua

Okay. Thank you. Cost of risk, youøve come in at 0.9% for the nine months. You have guided still 1% to 1.5% for the full year. I was quite surprised that you say there should be no provision at all for London Mining given what is going on there. Certainly youøre not writing it off, but I would have thought some provision might have been necessary. Maybe you can just give a little bit more detail around that and also, there is one other loan which I know has been in the news recently regarding FBN and that is Atlantic Petroleum, if you could comment on that as well.

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

There are ongoing efforts to restructure the facility with an obligor that is going to continue running the operations, however, we cannot disclose more than this at this point in time. We are very emphatic that in the next one week this matter will be put to closure. What is certain is that the outcome of that exercise, would not lead to taking any provision on London Mining.

On Atlantic Energy, I can confirm to you that it is a reserve-base lending and as we speak today, there is no past due obligation on that account and we are very optimistic that the account will remain performing.

Sharat Dua

Okay. But youâre still expecting the cost of risk to go up for the rest of the year?

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

We still retain our guidance of 1% to 1.5%. We believe that there should be no surprises and we should not expect any surprises in terms of the cost of risk based on our understanding of the portfolio that we hold today. We are very optimistic and will retain that guidance.

Sharat Dua

Okay and final question from me, if I may, you did mention a tilt in the portfolio for next year. Are you saying 10% loan growth? You are saying less focus on the highly competitive large corporates and big institutions and more of a retail tilt. How big a swing could that be and how significant would that be as far as cost of risk and NPLs are concerned?

Abiodun Odubola – Chief Risk Officer, FirstBank

In the very short-term, if we are talking about next year, that swing is not likely to be very, significant. We are mindful of the fact that it is not going to be prudent to move the portfolio from large corporates to retail in a very, short time. We are looking at this on a very gradual basis, because we are mindful of the possibility of incurring credit losses, if we moved into retail too quickly. We are doing this very slowly and deliberately.

Currently, retail contribution is about 18%. In the next one to two years we donât expect this to be more than 22%.

But, if you look at our numbers, the percentage of the portfolio contributed by the large corporate institutions has actually dropped fairly significantly. I think that at December last year it was about 46%. Right now it is 41%. So, you can see the impact of the rebalancing that we are talking about. But, like I said, this is going to happen very, very gradually. Thank you.

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

In addition, what drives us at this particular point in time is maintaining a healthy institution. Liquidity, capital adequacy, soundness of the portfolio and quality of assets are very important. You will agree with me that it is very easy to grow your loan portfolio, but what we are doing is to be very measured and calculated, in a manner that the growth is very slow and stable without disrupting our activities.

Thank you.

Sharat Dua

Alright, thank you.

Ankit Mittal - HSBC

Hi. Thanks for the presentation and just one thing on the cost to income ratio. Do you expect the cost to income ratio to go up as you have already raised your target to 65% to 67%? Is it only due to lower NIMs and lower non-interest income, or is it also because of higher operating costs? So, what are your operating cost growth targets for this year and next year?

Ankit Mittal

You have revised your cost to income ratio from 62% to 65%; 65% to 67%. Is it only due to net interest income or is it also due to higher operating costs which you are expecting this year and next year?

Adesola Adeduntan – Chief Financial Officer, FirstBank

It is a mix of both. We mentioned earlier on in the call that we do expect some compression in our net interest margin between now and year-end. On the operating costs level, as you are probably aware, we have actually been executing a number of cost containment strategies. These things take time before they come into the picture. Some of the things we are doing now, the impacts will be better felt in the course of 2015. It is a combination of those two variables that you mentioned.

Ankit Mittal

Okay, thank you.

Soji Solanke - Renaissance Capital

Hi. Good evening, everyone. Thanks for the call. I just have a few questions. You mentioned that the risk to Q4 earnings is margin. What exactly is the risk to margin currently? Is it an asset yield issue, or is it funding costs?

My second question is probably for the Chief Risk Officer. Can you tell us now what your downstream oil and gas exposures are and the risk management in place there in case we do see a devaluation of the currency? Can you also give us an update on your ICT NPLs?

My third question is, earlier on you spoke about your risk assets growing faster than liquid assets so far this year. Can you help me understand when you talk about balance sheet management in respect to capital optimisation, how do these two relate?

My final question is, I hear everything youôve said about deposit growth this year and the challenges i.e. the cash reserve issue. What is the outlook for 2015 with respect to deposit growth and what do you intend doing to get that deposit number going higher and improve the mix going forward? Thanks.

Did you get all my questions or do I need go through them all again?

Bisi Onasanya – General Manager Director /Chief Executive Officer, FirstBank

Kindly go through all the questions.

Soji Solanke

My first question was on net interest margin. You spoke about the risk margins in Q4. Is this more an asset yield issue or funding costs that is the potential challenge in the fourth quarter?

My second question: on downstream oil and gas exposure. Can you run us through the risk management here in case there is a devaluation of the currency and also if you can give us an update on your ICT NPLs?

My third question: if your risk assets are growing faster than liquid assets so far this year, can you help me understand, when you talk about balance sheet management with respect to capital optimisation, how do these two relate, or how exactly are you thinking about it?

Final question is: Iôve heard the issues you have mentioned around deposit growth this year. Looking into 2015, what is necessary to get your deposit number higher and also improving that mix next year? Thanks.

Adesola Adeduntan – Chief Financial Officer, FirstBank

Regarding the question on net interest margin, the main driver of this is that weôve done and we are doing a number of foreign currency lending where the spread over our foreign cost is quite narrow compared with the kind of margin that we do get from a naira portfolio. So, essentially, that is what is driving the margin down.

Abiodun Odubola – Chief Risk Officer, FirstBank

The question on the ICT exposure, ICT I think that is telecom. Like we disclosed at the half-year conference call, we mentioned that we have a couple of telecom names that we are working on. The largest of the loans is actually very well secured and we are still in the process of resolving this issue. Itôs taking a little bit longer than we originally anticipated, but I am very confident that by the end of the year this loan will be fully resolved.

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

In the worst case scenario, the collateral is available for sale and the cover is 150% in relation to the size of the exposure.

Abiodun Odubola – Chief Risk Officer, FirstBank

You asked a question about the downstream oil and gas exposure in relation to devaluation? Essentially, our downstream oil and gas exposure is mainly to the very big names in the industry and these people have the wherewithal to weather any storm regarding exchange rate devaluation.

Since two years ago, we have reduced significantly our exposure to marginal players who we believe are more vulnerable, we are very comfortable with the way we structured oil and gas exposure especially to the very big players. We donơt insist on equity contribution and collateral. However, when dealing with the medium-sized players and the marginal players, we have a lot of restrictions in place, including high equity contribution, warehousing arrangements, collateral and so on. We donơt think that the impact of devaluation will be significant in this portfolio. Thank you.

Soji Solanke

Thatơs fine. Iơm happy with that.

Abiodun Odubola – Chief Risk Officer, FirstBank

Okay. Thanks.

Soji Solanke

There are some other questions that havenơt been answered yet though. So, there were questions on risk assets and balance sheet management and how that relates to your capital optimisation.

Another question was on the issues you are having with deposit growth this year - which you were talking about. What is the 2015 outlook and what is necessary to get deposits growing and also improving the mix going forward?

Adesola Adeduntan – Chief Financial Officer, FirstBank

Balance management is something that we are actively doing. We actually explained earlier on in the call that the misalignment in the growth of our liquid asset portfolio, or our government securities, vis-à-vis our loan portfolio was essentially on the back of the need for us to fund the cash reserve requirement that was imposed by the government. Going forward into the New Year, we will continue to focus on optimising our balance sheet ensuring that we also allocate as much as is possible or as much as is allowed by regulatory pronouncements, more liquidity, more of our deposit into government securities.

What you are seeing today is a reflection of an active management of the capital and balance sheet but equally influenced significantly by the regulatory stance on cash reserve requirements.

Abiodun Odubola – Chief Risk Officer, FirstBank

If I may add to that, our guidance on loan growth is actually quite modest. For next year, we are looking at no more than 10%. FirstBank has the largest loan book and the focus is not to grow loans, this will have positive impact on our capital adequacy. Thank you.

Adesola Adeduntan – Chief Financial Officer, FirstBank

Regarding your question on deposit, part of the strategic initiative put in place is the implementation of the transaction banking business. This is actually standing on two pillars; there is trade finance and cash management & liquidity management. We are deploying both human and technology to grow our ability to offer state-of-the-art cash management solutions to our clients.

Both sides of this pillar will be resting on significant cash collection. For us to be active in the trade business clients have to lodge their funds with us, hence we can generate cash flow (CASA) and at the same time grow collections. That is one aspect we are embarking on that will enable us continue to grow our deposit base.

We are also carrying out significant improvements on our service offering. When you enter our branches across our network and you get good service offering, this we believe will attract more retail deposits.

Soji Solanke

Thanks. Do you think next year you can actually grow about 10%-15% on deposits? Iôm also thinking what is different about your trade finance and cash management solutions versus what your competitors are doing because this is actually what we tend to hear from many of the other banks in terms of what they plan to do to grow deposits? What differentiates your plans with what your competition is doing?

Adesola Adeduntan – Chief Financial Officer, FirstBank

We are still finalising our 2015 business plan. The growth assumptions for next year are still being debated; hence I canôt say precisely what we are going to sign off on. However, whatever growth level we plan for next year, it will be something, we believe we can accomplish.

To your question on transaction banking model, FirstBank has the largest loan portfolio in the industry. Naturally we are a leader and that requires us also, to ensure that we increase our share of wallet of our existing clients as far as trade finance activity is concerned. Therefore, without bringing in incremental customers into our business, if we increase our share of wallet as far as trade finance business is concerned, we would have accomplished our growth strategy. We are quite confident that the transaction banking model is potentially a game changer for us, as far as the non-interest income is concerned.

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

In addition, no matter how efficient you have been as an institution, there are things you can do that make you more efficient. The platforms, we have introduced on transaction banking and collections essentially, will delight our customers because there are essentially things that can make us have a bigger share of existing customersô wallet. We have no doubt in our mind that haven seen the first run and also started the live implementation of this, we have started seeing the impact on customer satisfaction and increasing volume of business. We benchmark against the market leaders in this area and we believe that there is enough room for us to close the gap between the market leader in trade and collections. What we have done essentially is to look at those things that have cost us to lag behind and we fixed those problems. By so doing we have started seeing increases in collections and in trade finance activities.

What will have changed in terms of deposits? Historically, FirstBank has always grown with deposits and doubled the deposits in an average of three to four years. Historical growth rates support the forecast of 10% to 15% in spite of the constraints that we have seen in the market. We are pretty much sure that we will be able to achieve our guidance given that historically, we had achieved that number. Thank you.

Soji Solanke

Thank you.

Ndubisi Obike - Stanbic IBTC Pensions

Hello. Good afternoon. Thanks for the presentation. I have just three questions. My first question, I would like your opinion on the CBN policy requiring banks to stop the bancassurance agreement with their insurance company, especially as it relates to your insurance business. How is it going to affect your operations especially, non-interest revenues? That is my first question.

The second question is: I would appreciate some more clarity on your planned acquisition of Kakawa discount house, or is it a merger, how that fits into your overall strategy?

Then my last question is, I noticed that you reviewed upwards your non-performing loan ratio between H1 and now from 3% to 4% to around 5%. Are you expecting any impairment Q4 and if you do, what sectors do you have concerns about? Thank you.

Bello Maccido – Group Chief Executive Officer, FBN Holdings

The decision to acquire Kakawa discount house is essentially to provide entry into the merchant banking space that we have revealed, as part of our strategic programme, is a necessary step to drive our investment banking business. We decided as a Group that rather than FBN Capital going straight to apply for the merchant banking license, we would leverage within our Group on the discount house that is available for sale that will provide the right vehicle if you will. Even though we are at early stages, we have actually advanced in terms of concluding the sale and bringing Kakawa within the purview and grouping of FBN Capital and it will become the avenue through which we will undertake our merchant banking activity.

The point is that by entering into the merchant banking arena, there are a number of revenue pools which in the past, we have ignored but which based on the analysis that has taken place during our strategic programme appears important to us. The prognosis was that without a merchant banking license, you will not be able to have a balance sheet to be able to undertake foreign exchange transactions and also trade in fixed income. Based on, the numbers that have been highlighted in terms of global standard , this contributes about 40% of the revenue pool, we believe that, in addition to being involved in DCM, ECM, project finance, this is a revenue pool that could not be ignored, that is the basis upon which the decision was taken. We need to reinforce our merchant banking business and in doing so acquired a vehicle that exists within the Group to create an avenue to get into merchant banking.

Abiodun Odubola – Chief Risk Officer, FirstBank

I will take your question on the statement of the NPL guidance of 2% to 4% to 3% to 5%. As you may have noted, NPL for 9M was 2.9%. We have a couple of exposures been closely monitored, this are on our watch list, some It of these loans, including loans to CDMA infrastructure for the telecom industry. We are just being a little bit proactive and if we are not able to resolve these loans on the watch list, we will probably proactively classify them towards the end of the year. Thank you.

Adesola Adeduntan – Chief Financial Officer, FirstBank

On your last question on the impact of the CBN regulation on bancassurance, we have complied with that particular circular. The impact on our business is minimal. However, we continue to engage with the Central Bank to explain our own approach for cross-selling across our Group and then we believe eventually we will reach an agreement with the CBN, as we do not believe we are piling insurance risks. As we stand today, minimal impact on our groupφs results and we are still engaging with the Central Bank.

Lanre Buluro - Primera Africa

Good afternoon, gentlemen. Apologies if these questions have been asked.

I just wanted to know with regards to the new CBN policy relating to your credit risk rating where do you stand right now? What is your rating?

Also in regards to capital adequacy ratio, where are you in terms of Basel 2 and Basel 3?

Also, with regards to the new policy with foreign borrowing, how much of an impact will that be on your current business and also, what is the outlook on Tier 1 capital for the Bank? Thank you.

Adesola Adeduntan – Chief Financial Officer, FirstBank

We have dealt with all these issues, so I will just run through quickly. As far as the capital adequacy ratio on Basel 2 and 3 is concerned, we are above the regulatory limit. We are also carrying out the nine-month audit and we intend to increase our capital retention so that over time we do have sufficient Tier 1 capital.

In terms of CRR, we are currently rated above average based on the last examination that was conducted.

Regarding the circular on limiting the amount of foreign currency borrowing, we are fine and we still have scope to do additional incremental foreign currency borrowing. Thank you.

Lanre Buluro

Youφre going to increase your retention rate. Iφm assuming pay-outs are going to be lower than usual this year?

Adesola Adeduntan – Chief Financial Officer, FirstBank

If you look at the current regime, then it actually does make sense for an institution of our nature to focus on homogenous capital growth rather than expending incremental profit. So, we are going to be increasing our retention rate essentially.

Lanre Buluro

Okay, with regards to Tier 1?

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

I had mentioned earlier on that in the short run, (meaning in the next 12 months), we do not intend to raise further Tier 1 capital.

Lanre Buluro

Okay. Thank you.

Tunde Ojo- Harding Loevner

Thank you very much for the presentation. I have got three questions.

The first is on the enforcement of the treasury single accounts. You have it in your presentation slide. How would that impact FirstBank, given that you have about 20% of your deposits in public sector?

Number two is a follow-up to a question that has been asked earlier on the net interest margin guidance for Q4 where you expect to be impacted because of foreign currency loan mix. Is it safe for me to assume that you plan on getting more foreign currency borrowing in the fourth quarter and that is why that mix is going to shift, or not?

The last question for me is a follow-up to a call earlier where they talked about NPL and also cost of risk,. I think the CEO mentioned that you donŏt expect any surprise on the cost of risk in the last quarter so your guidance is fine. I also heard during the call that you increased your NPL guidance because there is some exposure on infrastructure, telecom area that could be provided for. Am I missing something there, or are you comfortable with asset quality now or not?

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

This is the bankŏs CEO. We have not increased or changed our guidance rate on cost of risk of 1% to 1.5%. Presently we are within the 1%. What I said earlier on was, and I still repeat that, we do not expect any surprise on our loan book and we do not expect any surprise on our cost of risk.

Tunde Ojo

Okay.

Adesola Adeduntan – Chief Financial Officer, FirstBank

To answer your question on net interest margin, I had mentioned earlier, that we will not be issuing new Eurobonds, but that the bank will most likely be in the market for syndicated loans to raise incremental USD.

Tunde Ojo

Is it in the fourth quarter, right?

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

Itös non-qualifying for capital. It is in the ordinary course of business. Itös without any cost to that business.

Tunde Ojo

Okay, in this fourth quarter?

Adesola Adeduntan – Chief Financial Officer, FirstBank

Well, like I said, it is open. It may be, but we are looking over the next six months.

Tunde Ojo

Okay. The reason why I am asking that is because you expect the net interest margin to decline in the fourth quarter because of increased foreign currency lending and I am wondering if that is going to be from a new funding base or not.

Adesola Adeduntan – Chief Financial Officer, FirstBank

That is the plan. This is essentially the plan. It may or may not happen, but most likely that will happen in the fourth quarter and that is why we are giving that guidance.

Tunde Ojo

Okay, I get that.

The last question is on the treasury single account (TSA) and the impact on your bank.

Ini Ebong - Treasurer, FirstBank

The impact of the TSA has largely been insignificant so far to the extent that what we have seen happen is just an increase in the velocity of the flows of public sector funds. When you look at our own deposits, our significant public sector deposits are in foreign currencies, which are excluded from the TSA. However, what we see as the CBN and the government agencies get more efficient, we just see the number of float base continue to reduce. Weöve seen that around distribution of things like FAAC and other large systemic payments for government workers.

Tunde Ojo

Okay and when is the implementation of this TSA going to start?

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

It is commencing in the next one week.

Tunde Ojo

Alright, thank you.

Marcin Gieniusz – Sloane Robinson

I have a couple more questions. Letôs try to focus on the bright side and letôs stop with this negativity as this year has been particularly difficult. Can you imagine a normalisation of environment in next year or maybe the year after that, where regulatory changes donôt completely hamper your growth and profitability?

Are you looking out to after elections as a catalyst or as a change, or do you think that next year will be so hard? What do you think would change in monetary policy after elections?

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

Well, we believe that a lot of activity and a lot of decisions are being held back awaiting the outcome of the election. We believe that after the election there will be some changes in the fiscal environment and that may also affect the monetary environment.

However, in terms of very harsh banking regulation, we believe that the Central Bank has come up with most of what they have on their list. We do not expect any surprise from Central Bank in terms of monetary policies, but there may be some reactions to fiscal changes that may necessitate Central Bank coming out with some pronouncements. For instance, decisions may have to be taken on the deregulation of the petroleum sector, the exchange rate possibly but, at this particular level we forecast, and this is based on our internal analysis, that there may be some changes in the fiscal environment. The impact of some of these things will be evaluated depending on how quickly they happen and how good the decisions are taken.

From our side we believe that the worst is over. Weôve been able to navigate ourselves out of the regulatory headwinds that we saw in 2013 and we will see that especially from the 9M results of 2014. We have delivered positive growth relative to 2013, which means that we have been able to weather the storm of the regulatory headwinds.

Moving forward, we expect to be able to sustain an improvement in customers that you are seeing now and the only direction in which performance can go is upwards. I like your approach and the introduction in terms of recognising the positive. I think weôve done well. Bearing in mind that weôve been able to recover a lot and we are now in the top growth trajectory on all indices. We expect the results of 9M to be sustained and towards the end of the year we will be able to surpass our 2013 numbers based on what we have seen so far. Thank you very much.

Marcin Gieniusz

Thank you. The other point I wanted to ask, or make, is the NIM under pressure because yields on individual types of assets have declined, or is it under pressure because of the mix change, because of the reserve requirements going up and because of the Eurobond that you issued that you had to put into dollar lending which is a lower yield? Let me ask the question differently. Is a like-for-like yield on loans the same as last year or similar to last year in naira?

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

We have not reduced pricing on the loan book and so the pressure on NIMs is not as a result of a reduction of any of the loan portion of the book. However, in this situation in which we had to discount treasury bills to fund the cash reserve requirement we understand that those deposits with Central Bank are non-interest bearing that has put pressure on our net interest margin.

In terms of the composition of our loan book, having gone to the market to raise some dollar liquidity, you would also agree with me that the margin on forex lending is not as high as you would get on naira lending, and that reduced margin, which is expected and normal for foreign currency lending, combined with the reduction in loanable/investable funds, arising from cash reserve requirements. These are the factors that have put pressure on the net interest margin.

Adesola Adeduntan – Chief Financial Officer, FirstBank

To put this in proper context, if you look at the size of CRR today, and if you adopt the t-bill rate on that balance, potentially you are looking at the incremental revenue of about $260 million on an annualised basis. The size is actually on one book.

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

About NGN460 billion sterilised in cash reserve requirement at zero percent interest.

Adesola Adeduntan – Chief Financial Officer, FirstBank

The impact on our revenue is significant. It is about NGN45billion incremental revenue that is lost on an annual basis.

Marcin Gieniusz

Itôs huge. What do you think needs to happen in Nigeria next year for this monetary policy to be relaxed and finally for you to be able to bank the country?

Bisi Onasanya – General Managing Director /Chief Executive Officer, FirstBank

Letôs take it offline outside this conference. But I would like to share your views also because it is something that worries us too, but I would not use those words on my regulator. I will agree with you that it is huge.

Marcin Gieniusz

Right, who should I email?

Bisi Onasanya - GMD/CEO, FirstBank

Head, Investor Relations, Oluyemisi Lanre-Phillips.

Marcin Gieniusz

Okay. Thank you.

Ksenia Mishankina

Yes. Would you please indicate NPL ratio for First Bank of Nigeria. I can only see NPL ratio for FBN Holdings in the presentation.

Abiodun Odubola – Chief Risk Officer, FirstBank

Itôs about 2.9% also. But you also know that FirstBank Nigeria contributes over 80% of the risk assets of the Group. The NPL ratio of the Bank tends to drive the overall NPL ratio for the whole business. For the bank, it is about 2.9% as of September 2014.

Ksenia Mishankina

Thank you.

Bello Maccido – Group Chief Executive Officer, FBN Holdings

We would like to thank you very much for listening to our presentation and for the questions and answers that we have taken. However, we would like to reiterate that looking at the share price of FBN Holdings today, clearly, at 0.9 times book and also at 5.9 times PE ratio, you can see that we are trading at a significant discount, that discount alone highlights the fact that we are a very strong investment proposition, especially taking into consideration the strong stable earnings base of this Group driven by a very strong retail network. We believe that investors will look at this possibility, they will also look at it from the standpoint that what has kept the price low in the marketplace has been the former pension reform after 2004 which precluded domestic pension funds from investing in companies that have less than five years trading record.

Iôm happy to report that a new pension reform has been passed in 2014 which has removed that impediment and soon the domestic pension funds will be able to come into the stock of holding companies, including FBN Holdings. We believe with this development, definitely the share price of our company will closely approximate its true intrinsic value. On this note and on behalf of all of us, we thank you very much.

[End]