FBNHoldings

H1 2015 Results

Wednesday, 29th July 2015

Presentation

Bello Maccido

Group Chief Executive Officer

Good day, ladies and gentlemen. On behalf of all of us from FBNHoldings, we are delighted to present our Groupôs financial results for half-year 2015 ended June 30, 2015.

The big story for Nigeria is the successful conduct of the general elections and the successful handover to President Buhari. Unfortunately, President Buhariôs government has inherited low oil prices which have impacted on external reserves position of the country with the effects on declining revenues for the Federal Government and for a number of states of the Federation.

In addition, we have also witnessed a devaluation of our currency as a result of pressure on our foreign reserve position from 155 to 168 and then to 195 and then the subsequent closure of the WDAS window by the Central Bank of Nigeria, creating in the market a wide disparity between the parallel and the official exchange rate.

The third issue has to do with funding. We have also seen the harmonisation of the cash reserve ratio by the Central Bank of Nigeria to 31% and this has had additional impact of tightening money supply in a way that has had impact on cost of funds.

Despite this terrain that we have highlighted, we are happy to report that our half-year numbers for 2015 are a marked improvement from the half-year 2014. The gross earnings increased by 28% all the way cascading to profit before taxes that increased from NGN48.3bn to NGN52.1bn, signalling 8% growth.

We maintained consistency in deposit growth, though this has been modest while maintaining healthy pre-tax returns on average equity ratio of 19.2%.

We succeeded in bringing our cost to income ratio significantly down from 65.5% to 61.5% while maintaining a healthy CAR Basel 2 ratio of 18.8%.

In a nutshell, our numbers have been progressive given the tough terrain that we operated and this can be further highlighted by the fact that cost to income ratio continued to decline in Q2 to 58.5%.

Having given this highlight I think it is necessary to say a few words in terms of the key things that are impacting our business in this year and through the year 2015 and beyond. The first relates to capital.

At FBNHoldings Group, a review of the financial market, especially the capital market, has recognised that there has been depressed valuation levels in the market generally and the market has also been impacted by low liquidity. Therefore raising Tier 1 capital will not be a thing of value but will bring diminishing value in terms of impact to our existing shareholders. Hence, we will not raise Tier 1 capital.

How do we raise our capital in this environment?

Number one; increase retention of profit like we did last year where we departed from our traditional high dividend pay-out. We will be reducing our dividend payout in a way that we can retain most of our profits.

Number two, introduction of our interim capitalisation of profit which will see us undertaking audits twice in a year to enable us capitalise at half year and at full year.

Overall, this year we have been on a modest loan growth which we expect to sustain through the year.

These are the approaches that we intend to implement to inch up our capital.

The other issue has to do with the oil price decline. The decline is an issue because a significant percentage of the loan portfolio in the industry is in oil and gas and at FBNHoldings Group we had hedge contracts in place that are designed to protect the Bank and the Group from price risk. Overall, I must also acknowledge that oil companies are slowing down on capital expenditure and are also increasing production to improve their cash flows.

We have as a Group restructured some of our upstream accounts to realign them with the realistic cash flow position and we believe this is a way to mitigate the risk of being exposed to low oil price decline.

The third issue impacting on our business this year is the issue of currency devaluation. In the industry some percentage proportion of loans are in foreign currency. As a Group, we ensured a good proportion of our foreign currency loan book is backed by foreign currency cash flows to provide a natural hedge. We have bigger exposure to the big manufacturing companies that have capacity to withstand the impact of currency devaluation than to the smaller retail operators. As a Group, we expect to see a targeted slowdown in our exposure to oil and gas.

This brings us to the focused issue that given this tough operating terrain, efficiency becomes an important consideration for us as a Group. What we did to drive efficiency across the Group, number one, is to rationalise our procurement practices, rationalise unprofitable branches at a time when we are reducing significantly branch expansion.

This year we embarked on rationalising workforce to ensure we bring our workforce level to a more manageable and more efficient level.

These are the three areas that we have focused on in addition to other areas that are designed to bring cost control which we have begun to see the positive impacts on our cost to income ratio.

Having highlighted these themes that impacted our business, which we expect to continue further down the year 2015 and beyond, the big question, is what is the outlook for the year 2015?

Looking at our guidance numbers starting with deposit growth, although we started on a modest footing with 2.5% growth over the half year, we expect to grow between 5% to 10% through the course of 2015.

In this half year, our loan book reduced from the huge growth of 23.2% in 2014. We expect our loan book to grow by something in the neighbourhood of 2% and this includes the impact of devaluation.

Cost to income ratio we have highlighted at 61.5%, but we are guiding on 63% to be conservative.

Cost of risk at 3.5% and return on average equity, we guided on 12% to 14% to reflect the overall difficult general operating terrain, this is being on the conservative side.

Having given you some of our key guidance numbers, I would like to highlight that FBNHoldings is a stock that is very cheaply priced in the marketplace by virtue of our PE ratio being 3.3% which is quite distinctive from our competitors in the industry and our price to book at 0.5 times.

Given the expectation that we await the National Pension Commission's release of investment guidelines that will bring the pension product administrators into the stock of financial holding companies, we expect the price of our stock to adjust proportionately in a way that it will closely approximate its intrinsic value.

On this note we invite you for any questions, comments and observations regarding our presentation as well as regarding the general operations of the Group for the half-year 2015.

Thank you.

Question and Answer Session

Josh Levin - Citibank

Good afternoon. If the Naira devalues to roughly 240, where do you think NPLs and cost of risk will peak?

Bello Maccido – Group Chief Executive Officer – FBNHoldings

The CRO will take this question.

Abiodun Odubola – Chief Risk Officer, FirstBank

Thank you for your question. At the beginning of the year we anticipated that there would be a significant devaluation of the Naira and we factored this into our business. We had guided on NPL ratio of 5% at the beginning of the year and we are keeping to this.

We remained focused not on loan growth, but on loan management, remedial management etc. we are very confident notwithstanding the devaluation, the NPL ratio will remain within 5%.

However, that is not to say that we donφt appreciate the trend in NPL ratio which was about 3.9% at the end of quarter 1 and has increased to 4.1% at half-year. We maintain that NPL ratio will remain within the 5% we forecast.

The cost of risk increased to 2.1% although we guided at 1.5%. This is a reflection of the general adverse credit environment, government employees not being paid, government contractors not being paid, volatility on pricing of FX. Therefore we are increasing our guidance to no more than 3.5%. This is in recognition of the adverse credit environment and devaluation. Thank you.

Josh Levin - Citibank

One follow-up question if I may. Your oil price is somewhere in the low $50s right now. It was at $60 not too long ago. Where is the next breakpoint in which credit becomes a much bigger problem? I mean how much worse is the oil being at $50 versus $60, and if it goes to $40, how much worse is $40 oil versus $50 oil? Is it a linear relationship? Maybe you can enlighten us on that. Thank you.

Bisi Onasanya – Group Managing Director, FirstBank

The deterioration in the portfolio is not directly related to the price of oil. The extent of deterioration is to increase the proportion of oil and gas, particularly the upstream segment as a percentage of our total loans even by that devaluation, there is an increase because we report in Naira. There is no direct linkage between the deterioration in the loan portfolio and devaluation except for the fact that if you have a non-performing loan that is dollar denominated, that will then aggravate the percentage of non-performing loans. That is not to say that it is the actual devaluation that affects the quality of the loan portfolio. Although there is a relationship but itφs not a direct relationship.

Josh Levin - Citibank

Thank you.

Lanre Buluro - Primera Africa

Good afternoon, gentlemen and ladies. On the 2% loan growth, I mean thatφs pretty much flat. I know you mentioned the environment, is it really that there no quality obligor or is it a function of your capital retention and capital adequacy requirements?

Is there any update on Atlantic Energy and whatö s going on with that particular transaction?

I know Bisi has been quite vocal about devaluation. Can you share where you think the Naira and the dollar should be based on what youö ve seen regard to transaction?

The momentum of the foreign currency related revenues that you guys have, which has been quite impressive, shall we expect that to be paid back going into the third and fourth quarters? Thank you.

Abiodun Odubola – Chief Risk Officer, FirstBank

Looking at the numbers, we had a 3.2% year-to-date decline in the loan portfolio and we had also mentioned the fact that the credit environment is very adverse. This is not really the time to grow loans aggressively and I think across the entire banking industry I donö t see any bank looking at growing loans aggressively. The 2% we are guiding, we believe is a prudent way to go. Thank you.

About Atlantic Energy, since the discussion at the last conference call, there has not been significant improvement in this credit. However, it is still watch listed and it is performing. The good news is the fact that the investor that wants to buy into Atlantic Energy, which will bring the much needed financial and managerial support, is still very much interested given the attractiveness of the underlying assets under the exposure.

We have engaged the company and have assurance that the investor will help the business of this company.

Bisi Onasanya - Group Managing Director, FirstBank

In addition, let me restate that Atlantic Energy transaction was to finance the strategic alliance agreement with NPDC in which funding is provided and to be repaid by lifting. Whatever happens, the structure of the transaction provides and allows FirstBank to step into the shoes of Atlantic Energy in case of default and that option is conditional upon getting the consent of NPDC.

We confirm that we have all these structures in place whilst we put the account on watch list. We are also comforted by the fact that in the worst-case scenario the oil block related to this transaction is producing. The reserves are huge in billions of dollars and in the worst-case scenario we have the right to step into the shoes of Atlantic Energy as a means for us to recover the outstanding exposure. That is the current position as it relates to Atlantic Energy.

Lanre Buluro - Primera Africa

What is your take on the Naira/dollar exchange rate?

Bisi Onasanya – Group Managing Director, FirstBank

I had made some comments earlier on Bloomberg and it is instructive to know that no matter how I feel as an individual or as the CEO of an organisation, the Central Bank who has the primary responsibility for determining and managing exchange rates, feels strongly that it would defend the exchange rate. I have no option but to abide by their pronouncement and support them as much as possible to achieve that objective of exchange rate stability. I donôt have a contrary position to what the Central Bank has pronounced and we are working hard to support them in achieving this objective. I stand by the Central Bank pronouncement for exchange rate forecast. Thank you.

Tolu Alamutu - Merrill Lynch

Good afternoon and thank you for hosting todayôs call. I just have a few quick questions, please. The first is on your exposure to government parastatals, specifically NNPC. There has been some talk about NNPC moving deposits to the CBN. I just wanted to know what impact that would have on your total deposits and on your loan to deposit ratio.

Secondly, on slide 19 of the presentation that you kindly sent out to us you showed that there has been a lengthening in the duration of your loan book and you now have 17% or so of loans with five years or more to maturity. I just wanted to know whether that relates to the restructuring or renegotiation of the oil and gas loans and maybe you could give us some figures for how much was renegotiated or restructured.

Thirdly, since we have the CEO on the line it would be great to get an update on when his replacement will be announced and maybe some colour on what he might be doing next.

Lastly, there was a decline in FX deposits in the second quarter. Was that corporates withdrawing their FX deposits, or retail? If you can shed more light on that it will be really helpful.

Thank you.

Ini Ebong - Treasurer, FirstBank

On the NNPC withdrawals, this is correct; NNPC has commenced withdrawing some of their balances from across the industry. However, it is important to note that it is in a phased manner over a couple of months. Thus far, the impact on us has been nominal because it is phased, for the first call we have made payments in line with call for the deposits.

With respect to dollar liquidity, we have no issues around that and we are able to meet their payment and their demands as and when they want them.

Bello Maccido – Group Chief Executive Officer, FBNHoldings

Regarding the replacement of the GMD of FirstBank, we are working with the timetable of announcing a replacement on or before the end of Q3. The announcement is going to be made well ahead of the date of his exit which will be end of December to allow for a robust handover process that will ensure that the stability of the institution continues on the right momentum.

We have a strong Executive Management team internally; any one of them has the capability to carry the torch further down the road after the exit of Bisi Onasanya.

A robust process has been put in place to ensure that a process is implemented that will ultimately bring out the best candidate that would be most appropriate for the marketplace and for the environment in which we operate today. I would like to assure the marketplace that whoever emerges from this process will be one that will continue to sustain the momentum of FirstBank Group into the future.

Having said this, the GMD is present, itôs good to hear from him on what he intends to do when he leaves in December.

Bisi Onasanya – Group Managing Director, FirstBank

I have absolute confidence in the existing Executive Management team. The process has commenced for the selection of my successor. It is a very thorough and transparent process that will ensure that whoever comes out of this deserves the job and I can assure you that there will be no disappointments. It is a very strong internal team and I am part of that process.

In terms of what I will do next, I would like to say that itôs important to know when to leave. Itôs not a question of what you want to do. I have put in 30 years into the banking service it nice for me to take break and do something else. What is not right is to continue to stay longer on this job when you have internal policies that you have to respect. I am focused on running the remaining term focusing on making sure that the Bank is much stronger than it is today even after my departure.

Bello Maccido – Group Chief Executive Officer, FBNHoldings

Thank you.

Abiodun Odubola - Chief Risk Officer, FirstBank

The lengthening of the maturity of the loan book is due to some of the restructuring we carried out in the upstream oil and gas sector.

We remain comforted by this restructuring given the high quality of the underlying assets and we used a very conservative $45 per barrel to project all the cash flows in order to be comfortable enough for this restructuring. Thank you.

Tolu Alamutu - Merrill Lynch

Thank you. Whatôs the size, or the amount of loans that you have restructured from that sector, please?

Abiodun Odubola - Chief Risk Officer, FirstBank

The entire portfolio is about 11% and the oil and gas about 6%, however, there are some that are still in process.

Tolu Alamutu - Merrill Lynch

Okay. Thank you very much.

Soji Solanke - Renaissance Capital

Good afternoon. I have a few questions.

The first one goes to Ini. Unfortunately I couldn't hear what you said around NNPC, can you kindly repeat what you said? I think my questions are probably more around what this could potentially mean for your balance sheet structure regarding withdrawal of NNPC deposits.

My second question is around asset quality. If the Chief Risk Officer can please explain further around the drivers of the higher NPL and cost of risk guidance? Just a bit more in terms of what exactly is driving the more conservative guidance from your end.

My third question is around the bailout that was recently announced for the states. What proportion of your loan book is to state governments and how much are you potentially expecting that could be offset? What we understand is bonds replacing these loans. What could this potentially mean for your balance sheet if and when this does come to play?

My fourth question is around, at the moment, how big is your trade finance book? The portion that is trade-related. Thank you very much.

Ini Ebong - Treasurer, FirstBank

NNPC has commenced the withdrawal of some of its deposits. It's important to say that it's not all its deposits that are held in Nigeria banks. It is a phased process over a couple of months and the withdrawals are being made in tranches. Thus far, the first call has been made and we have made the payments to its accounts with the Central Bank, on schedule and we will continue to do so over the period.

With respect to the balance sheet, given that not all of the deposits are being taken, and the fact that we have a significant spread of deposits from predominantly corporate clients; we don't envisage a fundamental structural shift in the nature of our balance sheet.

In addition to that, we do have access to other sources of wholesale funding and we are tapping those. What you may see is that we will look to distribute more of our loans or short-term trade finance – type assets and other things to various providers to create the necessary liquidity to support our customers. I don't think there will be a significant structural shift bearing in mind that there has been significant growth in corporate foreign currency deposits across the sector.

Abiodun Odubola – Chief Risk Officer, FirstBank

On the question on what is driving the impairment charges, as mentioned in the report, it is due to increased collective impairment taken on performing loans. I had mentioned during the course of this presentation the fact that the credit environment is extremely adverse, government employees, and contractors not being paid, volatility on pricing of FX. This is driven by collective impairment on performing loans rather than specific impairment on non-performing loans.

Bisi Onasanya – Group Managing Officer, FirstBank

At the Executive Management level we are proactive. On accounts that are classified as performing today when we see signs that there are likely indications that the accounts are on the watch list or likely to be challenged, we take a proactive view of what the outcome will be even if it would get worse before getting better. That is the collective decision we have taken and that has been factored into the guidance that we are providing. Itǿs just not in respect of existing classified accounts, but our own perceptions of likely situations in which certain accounts that we put on the watch list may or may not go bad and we have taken a view along that line and that has guided our outlook in terms of what the NPL will be and the cost of risk. Itǿs a proactive measure. Thank you.

Abiodun Odubola – Chief Risk Officer, FirstBank

To answer the question on the government exposure that is likely to be affected by the buyback intended by the government. We are looking at about 6% of the portfolio which is roughly NGN110bn.

On the question on the size of the trade finance book which is about 10% of our portfolio. Recall that the trade finance typically cycles out quickly. Even though the number is low it cycles out quickly.

Soji Solanke - Renaissance Capital

In terms of the stateǿs bailout, isnǿt this good news for you just given the tightness of your liquidity and capital adequacy ratio given the size of what you are looking at in terms of what you could get in terms of FBN bonds? That is the first thing.

The second thing is, I remember the CEO spoke a few weeks or months ago about how bad the scarcity of FX is interbank. Can you give an update in terms of what is currently going on?

My final question would be on asset quality, what sectors are you being more conservative on or should I say proactive? Thank you.

Bisi Onasanya – Group Managing Director, FirstBank

Itǿs not unrelated to the upstream oil and gas sector; we are just been proactive, okay.

Soji Solanke - Renaissance Capital

Okay.

Adesola Adeduntan – Chief Financial Officer, FirstBank

Regarding your question on the loan swap and the buyback by the current government, we think it is capital positive. It is also liquidity positive even though our liquidity position today is quite strong. We think it is capital positive for all institutions, including ourselves.

Soji Solanke - Renaissance Capital

The final question was on FX scarcity.

Ini Ebong - Treasurer, FirstBank

With respect to FX liquidity in the market from the perspective of the Central Bank intervention, the Central Bank has increased the level of its intervention in the market to provide some liquidity. The corporate are still able to access FX, thatós important to state, though it just generally takes longer to fill their orders. I would say perhaps some moderate improvement at best.

Soji Solanke - Renaissance Capital

Great, thank you.

Muyiwa Oni - SBG Securities

Thank you for the presentation and taking our questions. The first is more a follow-up on your cost of risk guidance. Can you please maybe tell us what type of macro conditions you expect to happen for this cost of risk of 3.5 to crystallise here? I understand that you are being proactive. I also want to know where macro indicators could reach before such crystallises.

Then the second is on your e-banking. Performance has been impressive over the last couple of years and just wanting to understand whatós really has been the key drivers. What kind of levers do you see happening that could expand the growth in that sector because it has clearly been compensating for the reducing COT in your book?

The third is also linked to e-banking but on your Firstmonie, itós been impressive. Customer acquisition growth has been positive. Are you able to provide a geographic split of customers across the six regions? Iøm just trying to understand how the growth has helped to drive banking penetration particularly to your own bank and what are the popular products for the platform?

The last is the comment you made on your presentation on local currency loans. You talked about increasing that portion. What sectors do you see opportunities in the short-term to increase local currency loans. Thank you.

Abiodun Odubola – Chief Risk Officer, FirstBank

To talk about the cost of risk and your question is about the macro indicators that is guiding the collective impairment. I had mentioned during the course of this presentation the fact that government revenues have declined significantly and you have a lot of state not having paid salaries for up to 12 months or more.

We all know what the FX environment is like. FX is not available in the right price for a lot of our customers. This has affected even the big corporates; some of the corporates are reporting weaker performances as a result of these environmental conditions.

These are some of the adverse credit environment that is making us increase the collective impairment on performing loans. It was also mentioned by the GMD that even though the loans that are performing, we see signs that some of them are struggling and they need to be proactive and increase collective impairment. Thank you.

Adesola Adeduntan – Chief Financial Officer, FirstBank

As far as our e-banking business is concerned, the key driver for us is that we do have a strategic objective to migrate most, if not all, our customers onto our e-banking platform. Today we have the largest customer base. Deliberately we are migrating our customers to the various e-banking platforms and you are right, part of the rationale is to reduce the cost of service. Equally important are the charges and the fee that comes from migrating them and from the usage of those platforms will come in to plug the reduction in COT. It is a key strategic platform that we are pursuing and we still see significant room for further growth in that area. You will continue to see us pushing quite hard along that line.

On your question on the mobile banking, we do not have the geographic split readily available however this can be provided. The key thing to highlight there is that it is an integral part of our e-banking business strategy. We are keen to continue to grow that particular segment of our business. We think it supports the Central Bankôs financial inclusion strategy and it also plays to our own strengths even our huge spread.

Abiodun Odubola – Chief Risk Officer, FirstBank

To your question on what is going to drive local currency which is part of our loan book, we are looking at retail and the mix of commercial businesses. We are looking at suppliers and distributors of the big manufacturing companies. These are customers who need local currency facilities. This is a key focus area for us going forward. Thank you.

Muyiwa Oni - SBG Securities

Thank you.

Ksenia Mishankina - UBS

Thank you for the presentation. I have a couple of questions.

Could you please indicate the sensitivity of Naira depreciation on your capital ratios and NPLs and do you anticipate any regulatory changes in the near term? Thank you.

Adesola Adeduntan – Chief Financial Officer, FirstBank

The devaluation of the Naira and the impact on our capital adequacy ratio is something that we had factored in. The impact strictly speaking is that it will grow the size of our loan book, given the fact that we have 45% of our loan book in foreign currency; our risk weighted asset is expected to grow. This is something we have modelled into our projections.

One of the key reasons why we slowed down significantly on loan growth is the fact that we do realise that the loan book, based on devaluation, will grow and this has been factored into our capital ratio. We anticipated it and we believe we will be fine because we had factored it in to our capital model right from the beginning of the year.

Abiodun Odubola – Chief Risk Officer, FirstBank

To respond to the question on the sensitivity of devaluation on our asset quality, we have a policy of not extending foreign currency loans to customers who donœt earn foreign currency. To this extent, there is a natural mitigant. The customers that are likely to be affected by devaluation will be people who have higher cost of sales as a result of imported product. We donœt really think that this will be very significant.

Where there will be significant impact is where you have a customer earning Naira and borrowing in foreign currency and we donœt encourage this except with big multinationals. These big multinationals have the financial flexibility to handle this kind of risk. Thank you.

Ksenia Mishankina - UBS

Could you please comment on regulatory changes that you expect in the near to medium-term, if you expect any?

Adesola Adeduntan - Chief Financial Officer, FirstBank

The Central Bank has continued to fine-tune the guidelines around Basel 2 and capital adequacy and internal liquidity assessment, we expect these trends to continue during the course of 2015. They already mentioned the fact that if it will have any adverse impact on any bank they have up to July 2016 to deal with any downside or any consequences of the changes that they have proposed.

Ksenia Mishankina - UBS

Thank you.

Soji Solanke - Renaissance Capital

I just have some questions, the question is around the gain you had in Q2 of NGN5bn. Can you please clarify what was behind the gain that you recorded?

My question is similar to the previous callerœs question which got cut off. Please give more clarity on how you were able to improve margin in the second quarter of the year. Thank you and what the outlook is.

Adesola Adeduntan – Chief Financial Officer, FirstBank

We sold one of our legacy equity positions that accounted for the gain. We highlighted that management for us optimising our balance sheet will be our key primary focus during the course of 2015 and every position that is not directly related to our core business will be evaluated continousily and assessed for the opportunity to evacuate or offload them. I can confirm clearly to you that it is not what you speculated, it has nothing to do with Airtel,

Regarding your second question on how we were able to increase margin again, strategically we highlighted at the beginning of the year that our loan growth will not be a priority. What will be our strategic priority is optimising our loan book and ensuring we will achieve a proper repricing of the portfolio. That is exactly what we have embarked on and we will continue to do that. We believe that it is sustainable in the long run.

The equity position that was sold specifically is our investment in Interswitch when we sold two years ago, we had some left and we have simply sold off the rest.

Soji Solanke - Renaissance Capital

Right, thank you.

Wale Olusi - Investec Bank

Good afternoon. My question is basically on your assessment of some of your non-performing branches and the note that about 30 of them are likely to be downgraded or shut down. Iôm wondering if you can run through how this affects your cost improvement. Thank you.

Adesola Adeduntan - Chief Financial Officer, FirstBank

We have an application by the Central Bank to shut down non-profitable branches. These are branches that are not contributing anything to the network. Given the fact that the infrastructure that we have around there is not free, by shutting those branches we are eliminating the cost of running branches. It is going to be a continuous exercise to evaluate branches, evaluate their contributions and if we think they are not adding much value, we will either downgrade them or take them out completely subject to the approval of the Central Bank.

Wale Olusi - Investec Bank

Thank you.

Adewale Okunrinboye - ARM Investment Managers

Thank you for your presentation. Most of my questions have been asked. My only question is just on your tax rates for Q2. I think your tax rate jumped almost 30% in Q2. I just wanted to ask what drove that in particular and what your guidance for full year is. I see your guidance for full year is between 18% to 20%. Whatôs the driver however of the jump in tax rates? Thatôs all.

Adesola Adeduntan – Chief Financial Officer, FirstBank

Our full year guidance remains what it was at the beginning 18% to 20%, more on the upper end for the half year we explained that the impairment charge was on our performing portfolio and this doesnqt have any tax benefit. We expect everything to even out in the course of the full year and we should be arriving at the number we guided. The half year was a temporary thing.

Adewale Okunrinboye - Investec Bank

Thank you.

Olabode Olalekan - Vetiva

Thank you for the call. I would like to find out what your dividend guidance for 2015 is? Thank you.

Bello Maccido - Group Chief Executive Officer, FBNHoldings

As highlighted at the beginning of the presentation, because of our capital position we will continue on the journey of conservative dividend pay-out. Last year our dividend payout was a marked reduction from what it had been in the past. We expect to continue on that tradition in an effort to ensure that capital is enhanced.

Olabode Olalekan - Vetiva

Okay, thank you.

Soji Solanke - Renaissance Capital

Hi. I have two additional questions. The CFO spoke about interswitch, am going through the annual accounts and what I see here is what you had at the end of last year was about NGN55b in unquoted investment. How significant potentially could be one-off gains or losses that we could see for the rest of the year? Thatqs my first question.

My second question is around costs. Quarter-on-quarter Q2 versus Q1 we had a pick-up in costs. Can you please share some colour around the pick-up we saw in Q2 and what do you think is the more sustainable run rate on cost for FirstBank? Thank you.

Adesola Adeduntan – Chief Financial Officer, FirstBank

Regarding the one-off transaction, I would go back to the general policy statement that I mentioned earlier on. That is we have this equity investment, some of them are not core to our business. However, we are not in a hurry to dispose of them at a loss. We will look at opportunities to dispose of them as what is beneficial to our shareholders. I think that is a key point. I wouldnqt like to speculate on the size of the one-off that you will likely see in the second half of the year because even though the assets are there, if the right opportunity for me to sell at the right price that will benefit the shareholder is not there, then we will not sell.

On the second question, I didnqt quite get exactly what you wanted to ask to us to about the costs. Can you take the question on the costs again?

Soji Solanke - Renaissance Capital

My question was just more around so in Q1 your OpEx was NGN57bn. Q2 it was NGN61bn. My first question is what drove the pick-up in OpEx in Q2. My additional question is what is a more sustainable quarterly run rate of costs for FirstBank.

Adesola Adeduntan – Chief Financial Officer, FirstBank

The key thing in Q2, we mentioned in our presentation that we had this severance arrangement where we took out about 500 staff that we do not think will fit into FirstBank of the future and in order to make the separation amicable we had to pay a severance cost, this happened in the first half of the year.

In terms of our run rate, the way we look at costs is slightly different. Our focus is more on the cost to income ratio. We deployed a number of initiatives that will bring down our costs and we continue to implement them. Itœs difficult for me to say this is what it will be. For example, if in a particular month electricity supply is very weak, what you will see across our network is that the cost of diesel will pick up materially. Our strategic focus is to continue to push down on the cost to income ratio. We are achieving results and we will continue to push in that direction.

We know the different levers and we are pulling the levers at and when opportunity presents itself.

Bisi Onasanya – Group Managing Director, FirstBank

In addition to what the CFO has said, it is important we put on the table one of the things that affects our cost to income ratio is a very huge balance we have in cash reserve requirements, as we speak, we have NGN650bn in cash reserve requirements. One of the top three Tier 1 banks has just half of that and if you remunerate even at treasure billœs rate the differential between us and that top Tier 1 bank, which is an excess of NGN300bn. We will be talking of an additional NGN30bn (impacting cost to income ratio down to 60% and ROE in excess of 25%). We will keep appealing to the Central Bank and we are glad that at the last MPC meeting we had four members of the MPC voting in favour of saving some interest on cash reserve requirements.

If you win that battle it will be significant upswing and a normalisation and readjustment of our numbers in relation to our core competitors. We believe that this is one of the things holding us down and because we are a very big bank, it is a major disadvantage to us. We would like to appeal to analysts to help us put pressure for some form of remuneration on the very high figures of cash reserve requirement. This will help us to normalise our position and put us where we really should be as a very profitable institution. Thank you.

Soji Solanke - Renaissance Capital

Thank you very much. I just have a follow-up question for the CFO on the divestment, is there any sort of pressure coming through from the Central Bank for you to divest from non-core investments? In other words, is there any sort of timeline for when you would have to get this done or not?

Adesola Adeduntan – Chief Financial Officer, FirstBank

There is no timeline. Like I said, we will look at opportunity to sell at the rate of price that is profitable for our shareholders. We will continue to look at that opportunity.

Bisi Onasanya - Group Managing Director, FirstBank

Let me also add that even if the Central Bank does not ask us to divest it is a business decision and it helps our capital position to also divest. What we would never do, however, is to be desperate and when you are desperate you donót get the best value for your shareholder which is why we remain open to divestment. We will consider the options when they come but we will not sell at a loss, we will not undervalue and we will not do anything that would make us lose these investments and sell at ridiculous prices. We would not throw these investments away without getting what we perceive as the real value. It is a business decision rather than a regulatory decision for us. Thank you.

Soji Solanke - Renaissance Capital

Excellent thank you.

Bello Maccido – Group Chief Executive Officer, FBNHoldings

From us all at FBNHoldings thanks for being a part of this conference call and we appreciate your questions, comments and observations throughout this period. Thank you very much.

[End]