FBN Holdings

H1 2014 Results

Tuesday, 5th August 2014

Presentation

Bello Maccido

Chief Executive Officer, FBN Holdings

Let me welcome you to this conference call held by FBN Holdings to announce the results for the Group for the half year ended June 30, 2014. I will begin by presenting the macroeconomic environment under which we operated and under which other financial institutions operated during the course of the year.

By way of background, our GDP continues to grow at an attractive rate of 6.7% and driven mostly by rising oil prices that have moved from $107 to $117, as well as growth in the oil production output, which has jumped from 1.8% to 2.15% over the same period. External reserve picks up from the low point of 13% dip that we witnessed over the course of the year.

On the macroeconomic environment, the big story is the new Pension Reform Act that has just been signed into law by the president and this act has removed the impediment that was placed on local pension funds from investing in bank holding companies. We believe that we will begin to see the local domestic investments getting back into our stock.

On the banking side, the new governor of the Central Bank has retained the MPR at 12%, public sector CRR at 75% and continued a tight monetary regime. We expect cost of funds to continue to remain high. However, with reforms taking place in the power and oil and gas sector, we expect to see continued growth in our loan book at the Group.

Despite the difficult operating terrain, we have been contending with, since the introduction of the tariff regime in April 2013, we remain the largest financial institution in terms of total assets, which had an 18.4% growth to NGN4 trillion. Gross loans, was about NGN1.9 trillion, representing about 21% growth over the period. Deposit base grew by 8%, standing at about NGN2.8 trillion.

Clearly, you will see that, we are the biggest retail franchise in this environment and we are also supported by a large active customer base of 9.1million, which is an appreciable growth of 8.4% from 2013 year end. Still on the branches, we maintain 826 business locations (627 bank branches), making us the biggest retail franchise.

We are maintaining good asset quality at 3% and also driving the contribution of the non-banking subsidiary companies to the Group. The non-banking contribution to PBT has grown from 8.9% to 10% of the total Group. We have seen a positive trend in gross earnings, moving up to 7.9%, while maintaining sound asset quality.

Operating income, if compared with what obtained half year last year was also on a positive trend. Even though we have witnessed some inching up on the cost to income ratio, this is attributable to higher regulatory costs which we will explain during the course of the presentation. We maintained

a healthy return on average equity of 15.7% and at the same time also maintaining a healthy capital adequacy ratio of 17.6%.

The big news is that, we have just concluded a Tier 2 offering during which we were able to raise $450 million in the market at a coupon rate of 8%. This is by far the most successful offer by any Nigerian bank in this environment.

At this point, I would like to hand over to the Head of Finance of FBN Holdings to take you through the details of our financials.

Wale Ariyibi

Head, Finance

Good afternoon. My name is Wale Ariyibi, Head of Finance, FBN Holdings Plc. I will be taking you through the Group financial results whilst the top executives of our subsidiary companies will give further details at the end of my presentation.

The top line, Gross earnings increased by 7.9% to NGN211 billion from NGN196 billion in H1 of 2013. This essentially was due to increase in interest earned on loans and advances to customers and to banks which increased respectively by 14% and 22%.

Operating income grew about 1.5% from NGN155 billion to NGN157 billion, essentially due to increase in other fees and commissions by 22.8%.

During the period, interest income recorded was over NGN164.9 billion against NGN151 billion, an increase of about NGN13.9 billion or 9.4%.

However, despite the increase in Gross earnings, OpEx increased by 14.3% to NGN102.9 billion from NGN89.9 billion, even though we were faced with regulatory challenges, which affected our performance. Despite the regulatory challenges, net interest revenue remained flat. We were able to hold on non interest revenue at NGN43.2 billion thereabouts and this is because of the various initiatives put in place to ensure, we replace lost income as a result of the regulatory headwinds. It is important to note that our E- banking business improved to support the non interest revenue.

The number of cards issued increased between 2013 and 2014 by 23% and mobile money initiative, subscriber fees increased by 150% between December 2013 and June 2014 and the number of transaction count increased by 97%.

Fees and Commissions increased by 12.1%, over the corresponding period of last year. Non-banking subsidiaries contributed 15% of Fees and commissions. When we commenced the Holding Company structure in 2012, the contribution of the banking subsidiary was about 96% and Investment Banking and Asset Management (IBAM), was less than 4% in 2012. In 2013, the contribution of IBAM increased to 7% and at half year 2014, IBAM has contributed to PBT 9.3%.

In terms of Gross earnings, other subsidiaries have increased their game. This is a testimony to the benefit inherent in the Holding Company structure that the Group has adopted. Therefore we observed that as we progress, we expect further traction and increase in contribution from other non-banking subsidiaries businesses.

OpEx was a major issue because of the regulatory challenges faced. Operating expenses increased by 14.3% over the corresponding period due to increase in AMCON charges. AMCON charge during the corresponding period increased by 23.3%, and NDIC which is regulatory induced also increased by 23%.

At the end of half year 2014, the PBT recorded was NGN48.3 billion, resulting in 12% dip, due to issues raised concerning regulatory induced Operating Expense increase.

I will go to the balance sheet, our statement of financial position.

Total assets increased by 3.4% between 2013 December and 2014 June, with reductions in some lines. Deposits dipped slightly due to Public Sector related businesses.

Slide number 10, statement of financial position.

Government securities i.e. Treasury bills and bonds reduced by 21.3% year on year and 20.5% respectively, when we compare June 2014 and December 2013. Essentially, there was a net reduction of NGN141 billion in treasury bills representing 44% between December 2013 and June 2014 and this was a result of the need to liquidate this investment to meet CRR requirements in the commercial banking group.

Interbank placements increased, that is why we recorded 22% increase in Interest income from Bank. Net loans and advances also increased slightly, leading to a 14% increase in our interest income charged to customers in loans and advances.

Our capital adequacy ratio (Tier 1 and Tier 2), are still within the regulatory requirements and our plan is to monitor and ensure that at every point in time we are compliant.

In terms of efficiency of the balance sheet and the structure of the balance sheet, investment reduced from 22.9% to 18.4% between December 2013 and June 2014.

On liabilities, deposit decreased from 75.7% of total balance sheet to 68.9% again due to reduction in public sector related deposit which have implication on CRR, we are deliberately trying to wind down and replace.

Slide 12, these shows deposits by type and deposits by SBU for First Bank of Nigeria only. Deposits by type, we have 72% CASA- current and savings accounts. The preferred bank's deposit mix is 75% to 25% and we are working towards achieving this in 2014.

Slide 13, 14 and 15 etc. presents some graphical representation our performance. However, I will like to talk about the things we are doing to contain operating expenditure shown in slide 17.

We are closing non-profitable branches, especially rural branches that are not adding to the bottom line and replacing them with alternative electronic channels that drive income as well as fees and

contribution. We are also working on improving the automation of our processes and increasing the efficiency among other initiatives. We also ensure senior people are now more market facing and generating income as opposed to being in the back office.

At this point, I will stop here and allow Mr. Biodun Odubola, the Chief Risk Officer to take over from this point.

Biodun Odubola

Chief Risk Officer, FirstBank

Good afternoon. I would like to talk about the loan book, starting from slide 18 to 21.

Slide 18, we recorded 3.5% Gross loan growth for half year, driven essentially by growth in BIC, our Congo subsidiary as well as FirstBank.

With this performance, we are on track to achieving the 10% loan growth that we have guided on earlier in the year. This modest loan growth is as a result of the fact that instead of focusing on loan growth, we are focusing on optimising our balance sheet through optimal pricing of the assets as well as rebalancing the risk assets from the higher corporates and mid corporates to the retail segment and the commercial segment where there are better opportunities for pricing and incremental revenue.

Slide 20 speaks to the asset quality.

All the indicators of asset quality are very positive for half year. The NPL ratios; this was recorded at 3%, better than 3.8% year on year and also better than 3.6% at the end of quarter one. Another metric is the cost of risk of 0.7%, which is also better than half year 2013, at 1.3%.

The coverage ratio remains acceptable although declining. This essentially reflects the quality of the collateral supporting impaired assets. I can assure you that all impaired assets are adequately provisioned in line with IFRS guidelines. The impairment charge of NGN6.7 billion, which was 36% less than what we recorded as at half year, 2013.

The asset quality improvement that we have noticed reflects the impact of strong recovery, write-offs and strong remedial processes. Towards the end of the year, all the initiatives to maintain asset quality will remain in place and we expect asset quality to remain strong also in 2015.

I will now hand over to the Chief Financial Officer of the Bank, Mr. Adesola Adeduntan.

Adesola Adeduntan

Chief Financial Officer, FirstBank

Thank you, Biodun. Good afternoon ladies and gentlemen. I will provide some context in terms of what we are doing, where we are in the commercial banking group and what we are doing strategically to position the business for growth going forward.

It has been a very challenging operating environment despite that, our growth earnings and all our performance indicators are trending up. We recorded a Gross earnings growth of 6.9% year on year, which basically means we grew from NGN199 billion over the reviewed period and 8.9% quarter on quarter growth on the back of the increased interest income.

Profit before taxation dropped marginally to NGN47 billion from NGN50 billion and that is attributable essentially to increased operating expenses.

The operating expenses increased by 9.6% year on year, essentially on the back of increased regulatory costs which the Head of Finance of the Group had highlighted.

In terms of what we are doing to take the business forward, strategically we have refined our operating model, particularly the Nigerian business, to ensure that executive firepower is also concentrated in the areas where we are seeing growth going forward. With this realignment, we believe this will give us deeper penetration in the retail space where we see growth opportunities.

In addition, we continue to pursue the set-up and implementation of our transaction banking platform. Areas we see significant growth, is in the area of non-interest income, building our transaction banking platform which will enhance our trade transaction process and our collection payment system, which we think will significantly impact our business in terms of the non-interest income.

The other key thing, we are doing, is transforming our branch outlets to major sales centres. We are moving beyond using our branch outlets for deposit mobilisation. We are also doing very measured and controlled growth of risk assets from the branches in terms of our retail platform.

In terms of efficiency, one area where we are working and we are making significant progress is in consolidating our transaction processing capability. We have set up a central processing centre and we will continue to consolidate on that.

Last but not the least is our West African regional expansion strategy, which has gone well, we are at the point where we are stabilising and now working towards extracting value from these acquisitions. In our view, we think diligent implementation of these new strategic initiatives will further position the business for further growth and we are confident of the strategy planned for our business.

I will hand you over to Kayode Akinkugbe, the CEO of our Investment Banking Group, to discuss further on their business. Thank you.

Kayode Akinkugbe

Managing Director, FBN Capital

Thank you. I am on slide 25. In terms of highlights, the positive trend in terms of growth in revenue and PBT continues by more effective collaboration between IBAM and the banking group in particular.

If we look at the contribution from investment banking and asset management and trustees which are the businesses that together contributed 74% to our revenues for the first half of the year, a lot of the drivers around the investment banking business have come from better collaboration between investment banking, corporate banking, institutional banking and the public sector groups of the bank. When you look at the asset management business and how that has performed, one of the initiatives this year was to reposition the business again with much greater collaboration with the retail banking group within the Bank and we are beginning to see the benefits of this collaboration. The positive trend, I think is one that we expect to continue for some time to come.

It is also very encouraging to see the quality of income coming from the trustee business. We see that the fee portion of the income is much greater in Q1 for example; we had only 15% of trustee income versus 85% of net interest income, however, we have changed that. The portion of fee income has also grown substantially, which shows that we are taking advantage of opportunities particularly around the corporate trust and the public trust space.

Going into the rest of the year, we have a fairly strong pipeline, I would say certainly, in the IBAM business, around capital market transactions and also the syndicated loans business. Our focus is clearly to continue to make sure we close and execute these deals successfully.

We will remain watchful and keep a close eye on our OpEx, such that on balance, we are able to ensure we meet or potentially exceed our target. Our expectation is that the macro environment will be fairly benign, we are looking forward to being able to complete the transaction by Q4 to ensure we maintain our PBT target.

I will now hand back to Mallam Bello Maccido, Group CEO to round up the presentation.

Bello Maccido

Chief Executive Officer

To round up our presentation, I will present the summary of our outlook as a Group. We expect to grow the business through a number of major strategic initiatives.

Number one, enhancing our revenue stream through transaction banking like has been highlighted, as well as repositioning the public sector business beyond the focus of only public sector accounts to public sector related accounts. That is on the commercial banking side.

We are driving deeper the cross-sell opportunities across the Group with particular emphasis on investment banking and driving the project finance business through the possibilities that are found in the power and oil and gas sector.

Likewise on the insurance side, we have taken a strategic decision to get into the general insurance business because it provides a broader platform to a larger 85% size of that market. Presently, we are only in the 15% market, which is the Life business. This acquisition jointly being done with our South African strategic partner, Sanlam of South Africa, is one of the major initiatives that will drive our future growth.

One of the key areas is to drive cost efficiency. It has been highlighted in the various presentations that operating expenses has been one of the areas that had been struck over the course of the year. We have a very detailed integrated cost containment program. Like the Chief Financial Officer had highlighted, a significant reduction in the rollout of branches across the Group. Already we have reached critical mass in terms of building of branches and are slowing down in terms of the new ones. Likewise, we are also closing our rural and unprofitable branches, all in a way to ensure that cost containment is given a major impetus.

In terms of where we see ourselves going forward or where we are relative to our guidance, if you look at our 2014 targets on page 30, we have provided guidance on deposit growth, loan growth, net interest margin, cost to income ratio, cost of risk. We believe that given the strategic initiatives that we are implementing together as a Group, both on the commercial banking, investment banking and insurance, we are on our way to deliver a return on average equity of between 17% to 18% as a Group.

Let me just reiterate that one of the major issues that has happened which I had highlighted was the revision of the Pension Reform Act. If you have been following closely the price of our stock over the last one year, you would find that we have been trading at 1 times book value, whereas our competitors have been trading in the neighbourhood of between 1.5 times to 2.5 times book. One of the reasons for this is because the old Pension Reform Act which has now been replaced. This precluded companies that have less than five years trading record from being invested in by pension funds administrators. We are happy that the President has signed a new law that has removed that restriction and we believe that as soon as the local domestic institutional investors come back into this marketplace, our share price will closely reflect our intrinsic value. We are inviting you to take note of this development, as it will affect our share price going forward.

On this note and on behalf of us all at FBN Holdings, the Group Managing Director of FirstBank Bisi Onansanya, who is here, we thank you for this opportunity to present our half year results for 2014.

We now invite you for questions, comments and any general observations on our presentation.

Question and Answer Session

Soji Solanke - Renaissance Capital

Hi, good afternoon all. Thank you for the call. I have got a few questions.

The first one is on SMEs. What I want to understand is what is special about your SME product offering versus the rest of the market. What is the percentage of this segment on total loans and where do you see it going over the next two years?

My second question would be, for example, under Basel 2, what would your capital adequacy ratio be?

My third question is looking at a liquidity ratio of 37%, as at half year, how are you thinking about this figure versus where you have been historically and how does this affect plans for growth going forward. Thank you.

Bola Odubola - Chief Risk Officer, FirstBank

Currently the SME portfolio is 8% and we intend growing this sector of the portfolio. Given the growth opportunities available, we will work through the products suites, we want to do and optimise them. Given the nature of SME, we will monitor this aggressively, follow the cash and make sure that we identify earlier which products are working and identify products that are not working. If we see products that are not working, we either repair them or take them off the market. With this model in mind, we hope to make sure that the asset quality of the SME portfolio remains acceptable. Thank you.

Adesola Adedutun – Chief Financial Officer, FirstBank

Regarding your question on capital adequacy ratio under Basel 2 rules; as you are aware all banks are currently still running parallel rounds between B1 and B2. Our capital adequacy under Basel 2 is about 15% to 17%. A number of the principles are still being discussed with the Central Bank, however, we would probably get a more certain picture at the final implementation date of October 1st, notwithstanding, we are fully compliant.

Adesola Adeduntan – Chief Financial Officer, FirstBank

In terms of our liquidity ratio, we will continue to maintain a healthy range. We do not see it dropping below where it is.

Soji Solanke - Renaissance Capital

Do you think that liquidity potentially constrains your ability to grow? The question on SMEs, was over the next year, from 8% currently, where do you see that contribution rising to or potentially falling over next year? Thank you.

Biodun Odubola - Chief Risk Officer, FirstBank

Over the next year, we are mindful of the fact that SME is a very risky area of business to grow in; however, this growth is going to be deliberate, like I mentioned. We are going to look at what we will do in this portfolio. I am looking at the portfolio growing to between 11% and 12% over the next two years; our focus is not just to have an SME portfolio that is growing strongly but one with fairly high quality. Thank you.

Bisi Onasanya – Group Managing Director

As regards the question on liquidity ratio, let me add that despite the fact that we have 36%, 37% liquidity ratio, we have about NGN415 billion sterilised in Central Bank, under the cash reserve requirement which is not regarded as part of the liquid assets. In addition to the NGN415 billion, we still hold about 37% liquidity ratio. Liquidity is not a challenge under the present circumstance.

Soji Solanke - Renaissance Capital

Understood, thank you.

Ronak Gadhia - Exotix

Yes, thank you. A follow-up to Soji's question, you said your capital adequacy ratio is around 16%, 17% under Basel 2. Does that include the new capital that you've raised?

I think you made some remarks about trying to grow your non-interest revenue portfolio. Can you give some guidance as to what expectation there is, what percentage of total revenue should we expect maybe in 18 to 24 months or what kind of absolute growth rate should we expect from that line item. Thank you.

Adesola Adeduntan – Chief Financial Officer, FirstBank

Regarding the capital adequacy ratio, yes, the 17% under Basel 2 has factored in the Tier 2 capital recently raised.

Ronak Gadhia - Exotix

Okay. What would your regulatory minimum be under the new systemically important bank regulations?

Adesola Adeduntan - Chief Financial Officer, FirstBank

It is still 15%, 16%.

Ronak Gadhia - Exotix

Okay.

Abbas Barkhordar - Schroders

Hi, yes, thank you for taking the question. I have two quick questions. The first is on the drop in deposits year-to-date which in the presentation you mentioned has to do with the public sector deposits and the impact of CRR; you are shifting away from public to private sector. Looking at the details, most of the drop, NGN140 billion year-to-date, is coming from the domiciliary deposits which, from what I understand, are not affected by the CRR. I would require just a bit of clarity as to why those have dropped so much in the last six months.

The second question is taken from Note 26, on the operating expenses, there is a line which is other operating expenses, which in the first half of 2013 was NGN9 billion and this half year has been NGN16 billion. This is an 80% increase; I wanted to understand what constitutes that and what drove the large increase in other operating expenses. Thank you.

Bisi Onasanya - Group Managing Director

The reduction in domiciliary deposits emanate from a particular major oil & gas player in the system that has been doing transactions and taking money out of the system generally. This is not limited to First Bank of Nigeria alone but is the practice or standard you will see across other banking institutions in Nigeria. It is a major oil and gas player that has being doing transactions and taking their domiciliary deposits, which is why we have the decline in domiciliary deposits. Adesola Adeduntan, the CFO will take your question on other expenses.

Adesola Adeduntan – Chief Financial Officer, FirstBank

The other expenses have to do with our cost of running most of our branches; it is essentially overheads, providing power, water etc. on your own. The general overheads have become an area of focus for us, to ensure we will drive this downward going forward.

Abbas Barkhordar

Okay. I understand it is overheads; the year-on-year increase is very large, what is driving the increase? Is it the cost of security? Why has it gone up so much in one year?

Bisi Onasanya - Group Managing Director

Do not forget that there is consolidation of one or two other subsidiaries that we acquired during that period. The consolidation of some of the expenses also came on to the table.

Prior to that, you would notice that we opened about 100 new branches in the last financial year, about 18 months. Naturally, you would expect the cost of operating some of these branches to kick into our operating cost. By and large, we expect the revenues from these branches will begin to kick in to eventually reduce the overhead cost.

If you factor out statutory cost from our general overhead, the growth in that respect is much less than the growth in inflation and higher than the growth in earnings. I believe these are some of the things that you will see when you experience business expansion, it takes a few years for those additional branches to have a positive accretion to net revenue. These are costs of growth essentially that is being looked into.

Abbas Barkhordar

Okay, thank you.

Addington Jerahuni, Sanlam

Hello, good afternoon. My first question pertains to your effective tax rate. Could you please give us your guidance on what the actual tax rate could be for the second half of the year?

Wale Ariyibi – Head, Finance

Thank you. We believe that by the end of the year we will be close to 20%, 25% tax rate.

Addington Jerahuni, Sanlam

Okay, thank you.

Olalekan Olabode, Vetiva Capital

Good afternoon gentlemen. I wanted to talk about the Insurance business. My question is, how do you see the Insurance business today and what kind of competitive advantage do you think Oasis acquisition will give to the Group? How do you plan to grow that product portfolio?

Bello Maccido – Group, Chief Executive Officer

In terms of what we see as our competitive advantage in the acquisition of Oasis, looking at the cross-sell structure that exists across the Group, bearing in mind that we have a lot of loan assets that involve opening of Letters of credit and protection of goods. If you do not have a general insurance business, that side of the business will go out the window to somebody else. However, if you have a general insurance business, you not only book the loan asset, but you will also capture

the general insurance side of the businesses. In other words, this is an avenue through which we internalise all the benefits that exist across the Group. We believe that the acquisition of Oasis is a thing of value for us as a Group.

In terms of where do we see the insurance business? Number one, we have been in the Life business which represents only 15% of the Insurance market. We told ourselves that playing in just 15% of the market will not give us the kind of leadership that we want to have in that segment. This prompted the acquisition of a general business, through that we can get into the deeper and larger 85% of the market.

The third point is the life side, the huge retail platform that we have in FirstBank will provide opportunity to drive the sale of bancassurance products. With the diminishing of Commission on turnover (COT) income, a lot of our retail relationship managers have seen the wisdom to drive the sale of bancassurance products thereby enhancing our revenue base at least through diversification. We believe that looking at these three areas, definitely insurance business is a thing of value for the Group and will enhance its contribution going forward.

Olalekan Olabode, Vetiva Capital

I am sure you have run your numbers. Could you comment on some form of growth numbers for the next year or two?

Bello Maccido – Group, Chief Executive Officer

It is difficult to give exact numbers, however, we just concluded our three years strategic plan program, which kicked off in January 1, 2014 to run through 2016. One of the highest growth segments that we have in our business line is the insurance business. Over the next few years, we will see appreciable growth on the insurance side; that I can confirm.

Olalekan Olabode, Vetiva Capital

Thank you.

Gloria Obayagbo - CSL Stockbrokers

Good afternoon, I have two questions. The first one is on what you mentioned about rebalancing your balance sheet, which is moving loans from one segment to another. I would like you to add more colour to that and tell us about the possible impact of that action.

If you are seeing CAR post Basel 2 to be about 16% to 17%, are you comfortable at that level or there are further plans to increase capital?

Bisi Onasanya - Group Managing Director

We do not have in the short term any plans to raise Tier 1 capital. We believe that there are better ways of managing capital other than fresh issues. The market is also not conducive; there is no

liquidity in the market. We would not be raising fresh Tier 1 capital, as we are comfortable with where we are today and will continue to use balance sheet management to improve our capital.

We did say that we will restructure loans, whilst managing loan growth; however, we believe that as a retail bank, we have invested so much in setting up the retail banking structure and the market is punishing us for that because we tend to have higher costs as a result of the costs of running those branches.

However, there are opportunities to make money from retail banking through loan creation and asset growth. What we are trying to do is rebalance and redirect loans from the top segments of the market which typically is now saturated and pricing is extremely very low, to retail segment of the market with higher pricing. Sometimes, it may come with some higher losses in terms of loan loss positions, but we believe that the pricing makes room to make higher yields from that segment of the market.

What we are doing however, is to make that diversion very cautiously, building a platform and structure, which includes setting up a very strong middle office to make sure that we take the positive side of it in terms of increases in yields on loans, whilst also managing the losses in terms of loan loss that we expect from the retail loan growth using product programs that are clearly specified in terms of loss numbers and tolerance limits.

We intend to do this cautiously but progressively and we believe that from the fourth quarter of 2014, we will begin to see revenue accretion that would relate to the structure of the retail bank that we run. We believe that going into 2015, we will begin to see the impact of this increase in earnings from diversification into retail lending, gradually, by way of reduction in our cost to income ratio and possible accretion also into the bottom-line.

We are cautious about this; we are aware that it is an area that we have to move very carefully and that's why we are doing it in the style in which we are at the moment. To cap it up, it is diversification into retail and middle-market segment, without losing focus on the top segment of the market; so you earn more even from the same loan book as an institution. We have the cost profile and the structure of a retail bank. I hope that answers your question.

Gloria Obayagbo

Yes, but do you see cost of risk going up in 2015 as a result of that?

Bisi Onasanya - Group Managing Director

We are guiding on cost of risk of about 1% to 1.3%. You will see that where we are today, we are still very much below that. We factored that in the worst case scenario, even with the increase in cost of risk, which may not necessarily increase, we will stay within the guidance range of 1% to 1.3%.

Gloria Obayagbo

Thank you very much.

Sharaf Muhammad - Citibank

Yes, thank you for taking my question. I have two questions. The first is on your change of mix in deposits that you mentioned during the call. You said you are trying to get the mix of current savings up to 75%. Within what timeframe are you looking at, to get that mix up to 75%?

My second question is on the acquisition you alluded to, that you did during the year which increased expenses. In your view do you think you have fully digested this acquisition and what kind of payback are you looking at? Thank you.

Bisi Onasanya - Group Managing Director

Thank you. Your first question is how long it takes to move current and savings accounts from 72% to 75%. It is on-going and we are doing everything possible to achieve that mix. We believe that in the next six months, we should be able to achieve that balance.

Let me sound a note of caution however, that even at 72% we are still very, very good. It is in line with our strategic objective to make sure that purchase funds is not more than 30% of total deposit. We are still in line but it is better for us to wind it down. Even if we still see opportunity to take a spread, or margin, in fixed deposits, which is what we took, we will still not shy away from taking fixed deposit, so long as we can match it and take a positive spread on it. It is still a very good ratio even at 72% and I dare say that there is no other bank in Nigeria today that has that composition of low-cost deposits that we have. It is not a bad thing to be in the position in which we are, but we will gradually try to work down and improve on that ratio. Thank you

Sharaf Muhammad

Thank you.

Bisi Onasanya - Group Managing Director

In terms of sweating the acquisition, it takes time to sweat acquisitions, but what we can assure you is that in the short run, we do not intend to take on any new acquisitions. We have tested the waters with the acquisition in BIC in Congo, I can tell you that the ROE of that exercise has gone up significantly, especially the profit before tax on a monthly basis of $600,000, now we have done it in excess of $1 million. Our focus is on the latest acquisition, we can assure you that we are making significant progress and we believe that going forward from the next year and subsequent years, you will begin to see improvements in their ROE and overall contributions to the bottom-line. Let me say however that all these subsidiaries put together in West Africa, accounts for less than 5% of the balance sheet of the Bank, so it is not significant; I need to let you understand that. Thank you.

Sharaf Muhammad

Thank you.

Bello Maccido – Group, Executive Officer

In closing, we thank you for the opportunity to highlight some of the key initiatives that we have handled over the course of the year. We thank all the attendees for being on the conference call and for the questions that have also been asked. Thank you.

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