Company: **First Bank of Nigeria**

Conference Title: **First Half 2012 Results**

Presenter: **Bisi Onasanya**

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Operator: Good morning and good afternoon ladies and gentlemen and welcome to the First Bank of Nigeria First Half 2012 Financial Results Conference Call. Following the formal presentation by the First Bank of Nigeria management team an interactive Q&A session will be available. I would now like to hand the call over to Mr. Bisi Onasanya, the Group Managing Director. Please go ahead sir.

Bisi Onasanya: Good afternoon everyone and I'd like to welcome you to this conference call. My name is Bisi Onasanya, Group Managing Director. I have with me on this conference call: Remi Odunlami, Chief Risk Officer; Bayo Adelabu, CFO; I have Onche, the Chief Strategy Officer. This presentation will be slightly shorter than our previous presentations so we can give more time for questions.

On slide 4, we have a review of both the global economy and the Nigerian economy. This conference call should put some facts behind the numbers prepared for the first half of the year for First Bank of Nigeria. We have operated in an environment in which the global economy is now shrinking and were the forecast GDP growth rate for 2012 is 3.5%. In the Nigerian environment, oil price was under $100 as at the end of June with increased volatility on the exchange rate. This has resulted in instructions from the Central Bank of Nigeria aimed at managing the exchange rates. The impact of the combination of this announcement from the Central Bank has led to an increased interest rate environment. Going forward we do not believe this will have a major impact on our business.

Going back to slide 5, we had a very strong year on year growth reflecting the underlying business strength. We had increased volumes through enhanced service delivery and sustained customer centric focus. On slide 6 we had a 27%

increase in our gross earnings in the first half of the year relative to the first half of 2011. We were able to sustain our low cost deposit mix, client accounts and low cost deposits of 82% of our total deposits. We also achieved greater market penetration and we concentrated on the use of alternative channels during the period. We believe that our efforts will help our transformation agenda and ensure we sustain the performance.

Slide 6 essentially is a snapshot of the key performance highlights of the bank. In summary, we had a profit before tax of ₦54 billion under IFRS reporting. I will hand you to the CFO to take you through the financial aspects of this presentation.

Bayo Adelabu: Good afternoon, my name is Bayo Adelabu, CFO of the Group. I will be taking you through the slides 7-24, adding more colour to the financials posted by the bank for the first half of 2012. This next slide shows the build-up in the Group's profitability showing impressive growth revenue as the Group Managing Director just mentioned, especially coming from non-interest income which grew year on year in line with our strategic focus. The decline in impairment provision year on year reflects improvement in our credit quality. The higher growth in deposit volumes was achieved through our branch strategy, retail differentiation and aggressive push on alternative delivery channels albeit with rising cost of funds environment during the operating period.

Slide 8 shows the earnings growth of the bank. It reflects the higher business volumes, increased transactions which were driven by improved customer service in the bank during the first half of the year. The impact of offering innovative products and services through alternative channels leveraging on information technology as well as improving customer services has led to more traction coming from improved non-interest income for the first half year.

On slide 9, the improvement in treasury contribution and interest income was extended to 31% from 17% last year while our contribution from interest and loans dropped over the same period. We were also able to sustain the interest margin at 7.5% in spite of the high interest. This came mainly from the average yield from 9% last year to 9.7%, and the mix of deposit liabilities also protected us from the rising interest environment. Cost of funds soared from 1.6% in 2011 to 2.4% for the reporting period. On non-interest income, we recorded improved fee income net of credit commissions and these were as a result of the credit volumes in the half year.

Slide 10, on operating overheads, it moved up 30%% year on year from the first half year of 2011 to H1 2012. While our cost control strategies yielded positive results during the period, growth in costs basically was driven by investment in more alternative channels, ATMs, POS to improve business activity from customers. We added an additional 80 business locations from the last half year to date and these have staff costs and other overhead implications, resulting in growth in operating overheads. Cost-income ratio inched up a bit from 60% to 62% but we believe these investments will contribute more to revenue. We however still guide on a cost to income ratio of 60% for the rest of the year.

On slide 11 loan loss provision declined from 14 billion to 10.6 billion. I will move on to slide 12. PBT, profit before tax was 22% year on year. Our return on average equity stood at 22.8% for the first half year which actually exceeded our guidance; while our return on average assets stood at 2.5%. The price earnings ratio of the bank stood at 4.58 as at the end of June 2012.

Now moving to slide 13, which talks about the return of our funding and as usual deposits remain the highest contributor to the funding of the bank at 73%. This is an improvement on the previous year where deposits contributed 66%. Year on year deposits growth actually grew by 15%. Deposits in the period became more expensive as a result of the high interest rate environment thus impacting on our cost of funds.

I will skip slide 14 and move to slide 15 where we have our capital and liquidity positions. Our capital adequacy ratio remains 15.29% as at the end of the first half year while Tier one capital was 14.4%. The liquidity ratio of 50% is in excess of the minimum regulatory requirement of 30% and we believe with further de-risking of our balance sheet we have adequate funds.

Slides 17 to 23 analyse the results on the IFRS performance presentation and a summary of the highlights of the results is on slide 17. I will not go through this line by line but the key highlight here is that we had a 26% growth in gross earnings year on year with the capital adequacy ratio of 26.3. Profit before tax was up year on year by 128% to ₦54.1 billion with cost to income ratio at 58.3% and Net interest margins at 8.3%.

Slide 18 shows evolution of profit with the movement in gross earnings, net interest income and so on. Under IFRS reporting our profit before tax was ₦54 billion compared to ₦44 billion under the NGAAP performance, whilst slide 20 shows the comparative of 2011 and 2012 major performance parameters based on IFRS. . Key amongst these are cost income ratio which stood at 58.3% in 2012 as against 59.3% in 2011; while return on average equity was 25.1% against 11.2% in 2011. Capital adequacy stood at 26.3%.

Slides 21, 22 and 23, give information on the reconciliation between IFRS and NGAAP financial statements. The statement that we have on our December 2011 financials appeared under IFRS. Given the fact that this is first year IFRS adoption, the majority of the models are still subject to reviews by, our auditors, the Central Bank of Nigeria. The financial statement is however currently being audited as part of our IFRS conversion plan for the financial year 2012.

I will hand you over to the CRO to take you through from slide 25. Thank you.

Remi Odunlami: I would like to take you through slide 25 and assuming you've all had a chance to read it I would just like to highlight a few points. On slide 25, I would like to say that at a group level Q on Q growth in net loans is just under 10% whilst year to date growth is approximately 17%, both under the IFRS reporting. We do however maintain our full year guidance of 16% as we do expect pay-downs during the year in the latter half of the year which would compensate for the growth we have currently. Much of the year to date growth however is from the subsidiaries, the BIC and FBN UK, in addition to the bank's growth.. First of all we incorporated our subsidiary BIC for the first time in our financials and then we do have growth which is dollar and sterling denominated in FBN UK, as a result we have growth in absolute terms in terms of volume of business they're doing as well as some exchange factors that come into play. The portfolio besides that remains largely unchanged in terms of both ageing and type.

If we move on to slide 26 the major point I would like to discuss is the consumer retail portfolio which has changed in terms of portfolio mix in favour of personal loans. That might be a cause for concern but I'd just like to point out that the bulk of those loans are what we call group personal loans, where basically with the knowledge of the employer and the commitment of salaries of the borrower/staff is made. These loans are largely to employees of the large corporate, the multinationals and other large players within the economy.

Moving on to slide 27 talking about divestment policy, the NPL coverage has declined to just under 100%, however the cost of risk has also fallen to 1.6%. The increase you will notice in the non-performing loan ratio from 2.7% in the first quarter to 3.3% in the second quarter is largely due to the classification, the sub-standard classification of a couple of many, I would say three or four large loans in the oil and gas sector of the corporate portfolio, but we do believe that those should be remediated in the next 3-6 months.

Another point that jumps out at you would be the public sector NPL of 3 billion which relates to a facility that was under review by an incoming administration but we have looked at that and the matters have been resolved, so again we expect that to be liquidated in the next couple of months.

The other area you would have noticed what appears to be a significant increase in the non-performing loans is within the private banking SBU but despite the fact that they've got a 3.8% NPL ratio from nothing in March, I would like to point out to you that the number we're talking about is actually sub $2.5 million and it's largely due to concerns over three major borrowers.

That takes us on to slide 28, there really is nothing much to say. It remains pretty much as usual and we remain focused on remedial management, but taking you back to slide 11 where the CFO pointed out that I would talk about the loan loss provisioning, I would just like to say that the provision of 10.6 billion in the quarter, so far it reflects the classification of some of the oil and gas assets as I mentioned earlier; and also the migration of a few others into the doubtful categories, but most of these are due to the ongoing delays in the payment of the petroleum subsidies and the ongoing investigations, but we are comfortable with our client and we believe that much of these would pair up in the next quarter as the issues are dealt with.

Thank you very much. I will pass over to Onche who will take you through the strategy section.

Onche Ugbabe: I'm beginning from slide 30, a quick update on the group restructuring. As you're aware we are moving towards a holding company structure and we expect this to conclude in the third quarter of this year. The diagram here illustrates how the group is going to be organised. Of note in this period is the fact that we have actually gained SEC approval for the new structure and also waivers on potential double taxation that could have occurred from the tax authority. We have also secured a de-listing waiver from the NSE so we are on track following an EGM to be held prior to implementation.

If we move on to slide 31 this gives us a quick overview of subsidiaries. The three strategic areas to focus on are those that are international, our investment banking and asset management business and our insurance businesses. We have seen strong growth across each of these in the period under review. 27% growth in PBT in our UK subsidiary, 153% growth in gross premiums in insurance which is very encouraging indeed. In the UK, we continue to shift the mix of our business away from the traditionally dominant FI business towards the higher margin corporate business, trade finance, structured finance etc. We are driving the implementation for the global private banking framework leveraging our private bank in Nigeria and the UK and offering a very compelling proposition to our customers and choice of products. In addition, we are seeking wider regulatory approvals for custody of investment products in the UK. In investment banking and asset management we continue to finalise the integration and harmonisation of the IBAM entities. As you will recall, we had several subsidiaries that came together to form IBAM: FBN Capital, First Fund, our securities business etc, trustees, so that's ongoing and it has been a very good success and there has also been a very thorough look at processes and harmonising these across the entities, and that's ongoing. We continue to track retail, institutional and international distribution platforms in IBAM and we have just launched a so far successful FBN Money Market and Fixed Income fund. They have been well received by the market but we continue to push aggressively.

In Life Assurance we continue to work closely with our joint venture partner, Sanlam of South Africa, in expanding the retail distribution of our business, leveraging the bank and also opening direct agency outlets and select commercial centres. We are also leveraging the bank on the public sector business more deeply and we are expanding the scope of our bancassurance partnerships and products including products such as mortgage protection of clients.

Moving on, I'm going to skip the next two slides which are really just a recap of our financial and SBU priorities which you might have seen before. If we go to slides 34 and 35 we have just a few highlights of our financial priorities and non-financial priorities for the period. On our financial priorities on slide 35, we continue to enjoy low cost liability in spite of a slowdown in the overall market in terms of liability generation. Even in a high interest environment, we did manage to grow our collections business for the period by 64% via production innovation and a strong focus on customer acquisition both in the private and public sectors. We have expanded our distribution networks significantly which I will talk about a bit later. OPEX containment, one of the big elements in this area is basically our processing centre strategy. We expanded coverage to include an additional 85 branches for a total of 235 to date reducing cost to serve and we are in line for additional 400 branches by year end. With respect to fees and commissions increase, you will have seen that we had very healthy growth in this area now at parity with our peers in terms of F&C contribution to total net revenue. F&C's income was up 48% year on year driven by COT which was the largest category at 27%, LC commissions up 44% and a whopping 145% increase in remittances. We have signed new partnerships in the remittance fund growth with some offering better benefits to our customers.

On slide 36 a few highlights on our non-financial priorities and what we've done. We earned accolades as the best place to work for the first time in line with our Employer of Choice aspiration. It's something we're indeed very proud of and we continue to have flood of CVs and applications to FirstBank, to become an employee with a premium brand. We completed a performance-based staff rationalisation exercise which affected about 8% of core staff which we will have the benefit of in improving staff productivity and allow us to upscale talent within the institution. The brand expansion continues aggressively, we have rebranded 80 branches in total as part of our mission to improve the ambience and customer experience. We have seen triple digit growth in e-product sign-up, greater product awareness and simple point of sale advertising.. We have also launched a very successful programme switch campaign building on our

'Did You Know' campaign, moving across the purchase tunnel from the awareness dates, consideration and trial which are the emphasis. On service excellence we've received very strong ratings in terms of our moving up the ranks in a recent KPMG survey in the top three in corporate banking and in the top quartile with respect to retail banking. We have introduced a number of new services on our ATM and internet banking platform including inter and intra-bank transfers on ATMS including transfers to customers who are not customers of FirstBank, and we have also deployed multi-lingual options on our IVR contact centre.

We have a few highlights on the following slides in terms of specific initiatives. I'm just going to take one of these which is on slide 37, our branch network expansion. You will have noticed with no doubt that we are in an expansion mode. This is very much in line with our strategy as being the pre-eminent retail bank and our belief in the potential of Nigeria. There are 50 million unbanked adults. Presently we see rapid growth in this area in coming years as the middle class grow and strong per capita income growth rapid urbanisation in major hubs like Lagos and Abuja but also in the second tier cities. You've seen strong per capita income growth in Nigeria and there's obviously a very strong latent credit demand, so we think there's a strong market opportunity. There's also you will have seen relative to other nations, Nigeria is also deeply under-penetrated in terms of branches per 10,000, per 100,000. Nations like India, South Africa and even other African nations are more comfortable than ours. We believe that branches remain the primary sales outlets in which customers initiate transactions, they may use a wide variety of channels of service but they still want an in-person introduction to the bank and this still occurs in branches. We believe that there's benefit in terms of the retail network through our existing client base in terms of convenience and also decongesting our existing branches and we think that the economics are compelling. A recent analysis we did to the number of branches done over the year shows that we have a greater than 40% IRR, so our investment is on branching and it has been a very strong focus this year. We have increased the network by 45 year to date and we are on track to have a total portfolio of 777 branches and quick service points by the end of the year – this is not including business locations that our subsidiaries have etc.

It's worth mentioning one other thing which is that our QSP format is significantly cheaper than the conventional branches we've built in the past at 40% of the CAPEX and we're focused in pushing this. We are also in tandem working on the profitability of branches that are not profitable. I'm happy to announce that we have 6% or fewer of our branches that are loss making branches and in each of these there are targets before closures including movement of the location, streamlining hours, relocation, staff re-alignment, and operational changes etc, so there's a very strong emphasis and we are very proud of our achievements to date.

I will hand it over at this point to the Group Managing Director to wrap up.

Bisi Onasanya: Thank you Onche. I will wrap up with slide 41 and 42. In quick summary in spite of the tight economic conditions we operated, we were still able to continue to forge ahead with our transformation journey. On the bottom of slide 41 we have our financial priorities and non-financial priorities for the bank, but essentially we will continue to structure for growth, profitability and efficiency. We would continue to focus on cross selling particularly in the bank, the investment bank, the life insurance business and as we are also looking at a general insurance business.

On slide 42 we have tried as much as possible to identify our core focus areas in the second half of the year. I'm proud to say that we are close to achieving our objective and we are also bridging the gap. We moved up the ladder on the customer satisfaction survey. We would also continue to improve on our asset quality. The impact of all these performances in the first half of the year has been significant increase in our return to shareholders for a return on equity at 25% which is higher than what we guided at the beginning of the previous year.

We believe also that with this performance and with the present price to book value at less than 1, we believe that significant undervaluation of FirstBank stock and based on the current performance which will be sustained in terms of interest rate environment, I think it's time for the market to take advantage of the significant undervaluation in relation to earnings and improved performance.

Let me wrap up. We intend to roll out mobile in the next 4-6 weeks and this is part of our market penetration strategy of deepening market share in the lower segment of the market. Thank you.

Operator: Thank you. If you would like to ask a question please press *1 on your telephone keypad. Please ensure the mute button is switched off to allow your signal to reach our equipment. If you find that your question has been answered, you may remove yourself from the queue by pressing *2. Again please press *1 to ask a question.

We will take the first question from Rele Adesina from Stanbic.

Rele Adesina: Good afternoon all. Thanks a lot for the presentation. I apologise if you've already touched on anything I'm about to ask but the line wasn't too clear. Just on the release that you put out with the result, there was reference made to a portion of your interest earning assets being swapped for a much lower yield in the current period relative to the first quarter. It would be helpful if you could give a bit of colour on that. Also I wanted to get a sense of the collections business, a better sense of what was driving it. Is it an overall growth in the opportunity in that space? Is it that you're taking market share? Just a bit more insight into what's driving that would be helpful. I am also interested to know as far as public sector deposits go what your view is on the potential risk to the balance sheet in the event of deterioration in government finances. It seems to be a topic of constant discussion at the present time and I just wanted to get a sense of the nature of those public sector deposits and any vulnerability you might see in that space. Lastly just a sense of how things are going in DRC and whether or not the CBN's position on capital export for international expansion has any bearing on your thoughts on that whole exercise? Thank you.

Bisi Onasanya: Let me take the question on our earnings asset portfolio. Towards the end of last year and the early part of this year we had to switch our Seawolf loan to AMCON for which we received naira bonds. Seawolf loan itself was a dollar denominated facility and despite the fact that we received naira for that position, we had to switched and convert part of that naira to dollar to close our dollar position, so what we had therefore in the second quarter of 2012, we brought in dollars to close the position, however the yield on dollar assets is definitely less than the yield we had on the naira asset. In spite of this we would optimally price our dollar denominated/ foreign currency assets to take advantage of the price opportunity in the market. On public sector deposits, we do expect that the implementation of the TSA by the Federal Government will to some extent affect size of our public sector deposits but as those funds come back in payments to the real sector, in terms of salaries, payment to contractors we need to improve the hand shake between the public sector business and these entities such that we are able to trap those funds as they come back to the real sector of the economy.. Yes, there will be some impact but the public sector component of our total deposit that will be affected, if at all, will be a very small percentage.. That also explains the reason why we are a little bit more aggressive in branch roll out to make sure that we deepen market penetration in different segments of the market and we believe we have the superior value proposition as a Bank and as expected deliver on this front. A combination of all these proactive will reduce the impact of any likely reduction in public sector deposits. Now on the impact of the Central Bank guidelines on recapitalisation foreign subsidiary as it relates to our DRC subsidiary and our foreign subsidiary, let me confirm that our DRC Bank is adequately capitalised at the moment and we don't intend and there is no need to recapitalise that bank. The same thing also goes for our bank in the UK. However, in the unlikely event in the medium to long term that we need to recapitalise, we are looking at other options, like reducing the dividend payout and other funds for support as the need arises but for now we are not under any pressure whatsoever and we are not negatively affected by that CBN pronouncement.. Let me clarify that that pronouncement on its own only speaks to recapitalisation of existing subsidiaries. We have analysed it that it does not affect foreign to new ventures. In the first instance, the critical requirement is a Central Bank of Nigeria approval to get any new subsidiary and as long as you have that approval, that capitalisation will not in any way be affected. I believe I have answered your three questions. We can then move on to the next question.

Rele Adesina: Thanks very much, that was helpful.

Operator: The next question comes from Godfrey Mwanza from Pioneer Fund.

Godfrey Mwanza: Thank you very much for the presentation. I have two sets of questions and they all pertain to the loan book so it's mostly a question for risk. The first is to do with the retail loan book and the first part of that is in terms of your retail banking non-performing loans, could you give a breakdown of that? Specifically, out of the ₦21 billion on slide 27, how much of that is SME, how much of that is individual? That's the first question. The second question is how much of the personal loan book which I calculated to be about ₦131 billion, how much of that is overdrafts and out of interest is there a significant weighting towards individuals working at FirstBank? Are you pushing products within the organisation? That's the second part. The third part for the retail loan book is could you give a sense of how many individual loan accounts you have outstanding and the average size of the loans and the typical lending rates that you have or average lending rates that you have on those products? So that's on the retail loans. For the…I suppose I will stop there. I have a follow-up question but it's to do with the corporate loans and particularly oil and gas downstream, but we can deal with this one first, if you don't mind.

Remi Odunlami: Ok. I don't have all the numbers that you're looking for but I would say that in terms of the breakdown…you wanted the breakdown of the non-performing loans between SMEs and individuals. I think the bulk of the portfolios that we classify as retail is SMEs. Obviously, the loans announced in that segment are larger than through individuals, so I think we take the quantum. The SMEs are higher in quantum within the portfolio than the individuals. I also believe that off the top of my head that the bulk of the NPLs again purely because of size, the asset value is largely in the SME space. Moving on to the actual products, how much is overdraft? In the retail space we tend not to do that much…in the individual space very, very little in the way of overdraft. In the SME space, I would say on average maybe 10% of the facilities through any one organisation would be overdraft. Our focus on that segment is on their trade business and more structured products, so we tend not to do overdrafts as a major product. How many individual accounts I have, off the top of my head I can't tell you. A couple of hundred thousand I would imagine but I don't know exact numbers. Are they largely FirstBank staff? No. When I talk about personal loan structures, I'm talking about loans to staff of other organisations, I'm talking of staff to Shell, MTN, the majors basically and also to cooperative organisations within some of those large ministries and other organisations. Basically we're taking people in large groups where we've got the knowledge at the very least, sometimes the consent and guarantee of the employers, but definitely the domiciliation of salaries which we then can trap and make sure the payments are deducted at source. The average size of a loan to an individual would depend by and large on the products. On the personal loans against salary I don't think there's anybody who does take above ₦10 million, however if we do move to the mortgage products, the average would be somewhere between ₦25-60 million. Rates, looking at something above 20, but not too far, nearly 20s given all-in rates that you can expect. I think I have covered everything you have asked. Did I?

Godfrey Mwanza: You did, thank you very much. I will just quickly move on to the questions about the corporate loan book and particularly oil and gas. So on page 28 you have said 'deterioration in corporate banking, problems with a few significant exposures which are being strategically sorted out'. Could you please define what you mean by 'significant' in terms of the quantum or as a percentage of either loans or NAV? Also, if you could give some more colour on what you mean by 'strategically working out'. Then the last part of this question is could you give a sense of the coverage ratio that you have right now for oil and gas downstream and oil and gas services on non-performing loans.

Remi Odunlami: Ok, taking it from the top, when I say significant I am talking about loans in the ₦3-4 billion range which for me is significant. In terms of strategically working them out, by that I mean I am taking a strategic view on them. I am actually sitting down and working with each individual relationship manager and customer. It's not just a generic remedial management recovery department kind of approach. We are looking at the business, looking right down at the fundamentals of the business and working out how we get to paid back all our money. Sometimes that will involve advancing more money so they can do more business and taking a share of profit; other times it looks like how strategically they can realise assets. It's basically the whole recovery process, various things that you look at in a recovery or remedial exercise, but what is more important is that it's something that involves very senior management on both sides of the table – very senior management in terms of myself being involved and also the executive responsible for that portfolio in general; and dealing again with their managing directors and financial directors. In terms of coverage by individual sub-sectors, I'm afraid I don't have that with me right now. You can call Yemisi later on and she can give you the numbers, I will get them out for her.

Godfrey Mwanza: That's great. Just one last follow-up, on the strategically working out. Is the key risk that is being faced by these businesses in the oil and gas, is the key risk here simply the payment of these subsidies or is there more? If that's the only problem surely it's a relatively easier thing to manage, but I get the sense that there's a myriad of problems that need to be worked out and sat at the table to be worked out. I just want to understand what's the key problem in the sector particularly for your exposures?

Remi Odunlami: The ongoing subsidy issue is one of the areas but I wouldn't like to stop and say that because you haven't been paid your subsidy and therefore you've got a delinquent loan with me I should stop and wait for the subsidy to be paid. I will take steps working with you to make sure I get paid whether or not you get your subsidy. I'm looking at other sources, other businesses that they do but I think the fundamental thing is that right now the major problem for that segment is the subsidies and lack of payment, however as a lender, I am not prepared to sit back, cross my arms and wait for them to get the money from the subsidies. They do have other businesses, they do have other product lines and I need to get paid out of those.

Godfrey Mwanza: Ok, thank you very much.

Remi Odunlami: Thank you.

Operator: The next question comes from Abiola Rasaq from Vetiva Capital Management.

Abiola Rasaq: Good afternoon, thank you for taking my questions. I have three questions. The first one has to do with your investment in Congo which is DRC now. I am just wondering, maybe you can disclose to us the performance of that bank in the first half of the year particularly given the tension that we have felt in Congo over the last few weeks. I also want to clarify, maybe you have taken full financial control because I know that you did invest in DRC through Thorens, so I'm wondering, what are you taking for full financial control and what's the level of performance in that bank and how do you see it going forward in the light of the crisis that we're seeing in Congo? The second one has to do with your loan book. I'm just wondering, maybe you have an exposure to the aviation sector because on the slide I really can't see any exposures to the transportation or aviation sector, so maybe you can just give guidance on that so that we can know the level of exposure that you have to that sector which I see as another canker worm that we may see in the market any time soon. Then the third one has to do with your oil and gas portfolio. Maybe you can give us a sense of the two largest obligors in terms of value and maybe you can also give us guidance in terms of the total number of oil and gas clients that you have particularly for the upstream sector which I think you seem to have some level of appetite for in recent time.

Remi Odunlami: What I will do is I will start with the questions on the loan book and Onche will take the question on DRC. Our aviation exposure doesn't show up in the chart because it's minimal and we don't have cause to worry about it. In terms of oil and gas exposure obviously I will not disclose names, so I don't know what other information you want about my two largest obligors.

Abiola Rasaq: I'm really not saying names. I'm talking about the value of the obligors, for instance the top two are loans that you have within the upstream oil and gas so that we can know the highest obligors so that we can see the level of exposure and in case of defaults, we can have an idea of the loss given default will look like.

Remi Odunlami: If you trying to assess the LGD, you would need more information than just the value because the structure of the transaction is also very important. I think that my largest exposure is currently in the region of about $200 million and in terms of the numbers of upstream clients I've got, I think we have somewhere between…I'm not actually sure, it's under 10 at the moment but growing. Obviously, just to put a bit of colour around it, my upstream exposure is generally speaking against proven reserves. I do reserve lending and I don't support pure exploration. All my lending is tied to and hedged by existing production at prices that have been agreed and which work in the models that we see, so your loss given default will actually be very low. Onche?

Onche Ugbabe: Just to answer your questions with respect to our subsidiary in the Congo, BIC. We have seen a quite different first half performance. Last year we had some unusual provisions. We have seen very strong recoveries on the back of that and it's not the best of environments because the bank has a very liquid balance sheet, 100% liquidity ratio by their definition of standard and a lot of these are invested in BTRs which are the treasury bills. Treasury bills have dropped from 80% three years ago unbelievably down to sub-20%. The budget for this year was a budget of 20%. It dropped down to 1.5% at one point but it has rebounded somewhat. The good thing is that we are in line to have a 20%+ return on equity this year in line with our 30% aspirations for the geography, so we feel good about what they're doing. The integration continues to move ahead at a very healthy clip with a focus on strengthening the organisation in terms of specialisation and focus of our support structure, certain key areas of risk management; and operating our capabilities and sales force tools etc. This is very strong emphasis around retail banks and expanding our network in the Congo and also around ebusiness and IT. You asked about full financial control, I'm not sure I quite followed you there but we do have a 75% controlling stake of the entity and control the board of the entity and work closely with our core shareholders who have moved in there for a while. You have referenced the crisis, I'm not sure what you are referring to exactly but if it's with unrest in the east of the country, that is far from Kinshasa and where most profitable locations are. We are very strong in the east these but we are also building up strength in the Katanga province where most of the extractive industries are focused.

Abiola Rasaq: Maybe just a follow-up to that, with respect to your expansion to other countries, should we expect foray into other countries within the West African region given the somewhat capital control by the CBN?

Bisi Onasanya: I want to confirm that we are not very bullish on African expansion. If we do any transaction at all before the end of the year, it will be a very small transaction in just one country and the impact on the CBN circular on capital does not in any way affect this. We are very careful and cautious on the impact of these on our capital and so on

Abiola Rasaq: Ok, that's fine. Thank you very much.

Operator: As a reminder to ask a question please press *1. We will take the next question from Ronak Gadhia from Exotix. Please go ahead.

Ronak Gadhia: Thank you. Just a continuation of some of the questions asked earlier. You are saying you have some difficulty with some of your oil and gas exposures, I was just wondering and the Head of Risk Management said that most of the loans are within a 3-4 billion range. I would just like to know how many loans are there or what percentage of your total loan book is there and what's your NPL cover on that? My second question is I would just like to know what kind of confidence level management has on the results that they have announced so far? The first quarter and the second quarter numbers that have been released, it seems there's quite a bit of restatement on a quarter on quarter basis; for example when you look at the book value or the profit after tax for 2011 there's quite a significant divergence. Maybe there's an explanation to that and if management can share that, or if not then is it just because it's a restatement from Nigerian GAAP to IFRS and when the end of the year comes we might still see a significant amount of fluctuation, so what kind of confidence level can we attach to these numbers? Lastly it seems your strategy of aggressively growing your network is paying dividends, your market share is growing, your deposit market share now I would say is about 15% which is great when yields in money markets are at 15%, 16% but I would like to know what is management's strategy of managing this market share when yields come down say next year?

Bisi Onasanya: Let me confirm that the restatement you have seen only relates to the restatement of our prior year numbers and does not in any way affect the performances and the numbers for the current financial year that we are talking about. We have an ongoing full audit of the IFRS numbers based on the half year return to revalidate whatever we have done as far as IFRS numbers are concerned and you can check the restatement relate to prior year numbers only in terms of IFRS. On the net deposit growth and market share, this is something that we proactively thought about and we knew that the market share would be threatened to some extent as we sort out the problems in the distressed banks. Having done that the flight to safety is over and we knew this was going to be over, so the issue of where individuals or corporate organisations will bank would no longer be determined by which bank is safe and not safe as safety would be taking for granted, that was why we proactively decided to expand our reach to various areas within the retail segment of the market which we have huge potential; and because we have an advantage in serving that segment of the market we need to take advantage of that circumstance to improve our market share. That is working for us. We will continue to work on that strategy. We have successfully been able to reduce the cost of opening those branches and we have a model to know exactly where we want to go and what we want from those locations. Our retail strategy is essentially to use that branch network to mobilise cheap and low cost deposits with the strength of FirstBank and we believe that we are going to retain that Strength. I don't know whether the CFO has additional clarifications on the restatement but generally the restatement has only affected the December 2011 and prior year numbers and I can confirm that our 2012 number are valid and we can stand by those numbers.

Remi Odunlami: I would just like to address your issues on the oil and gas portfolio. First of all I think you misunderstood me. The question was what did I mean by significant in the context of a few significant loans which are undergoing remedial management? My average size of facility ranges from about ₦600 million up to the ₦4-5 billion mark, so it's not a question of the average size being ₦3-4 billion. How many do I have in terms of large obligors? Probably up to about 20 of them. They represent 7% of my loan book at present. NPL coverage, I don't have a figure for you right now because I haven't cut the portfolio by NPL coverage at this point.

Ronak Gadhia: That 7% of the loan book is under stress at the moment but it should be resolved in the second half of the year?

Remi Odunlami: Not all of it, no, I'm sorry. 7% of my portfolio is in oil and gas marketing, yes. It is not all under stress. Some of it is under stress, not all. It really depends on what kind of petroleum products they're dealing with.

Ronak Gadhia: Ok. What percentage would you say is under duress?

Remi Odunlami: I beg your pardon, I'm reading the wrong numbers, it's 19%. What percentage is under duress…let me have a look now. Of my total NPLs 20% are in the oil and gas downstream. Of my total portfolio 19% is oil and gas downstream, so either you or I can do the math and work out what it is.

Ronak Gadhia: Ok, excellent. Thank you very much.

Remi Odunlami: Ok.

Operator: The next question comes from Brent Malahay from JP Morgan. Please go ahead.

Brent Malahay: Good afternoon. What percentage of your branches are not profitable and if you can just exclude the recently built ones? Then of that what do you think will become performing and what's the timeline? Is it fair to say that the branches you're building now are in locations where you lack presence? The second question is what is the cost of risk of that core consumer retail book? Then, if you also have a number for the cost of funding for that specific book. Just lastly internally what is your risk appetite in terms of the cost of risk for that book? Thank you.

Bisi Onasanya: Thank you. Let me answer the question on the proportion of our branches that are not profitable. It's slightly less than 6%, the number, and these are essentially branches that we opened during a rural banking exercise by the Central Bank. It was much more than the 6%. What we have done over the past one year is to rationalise those branches and did a case by case analysis of each of those branches an determine why each of those branches is not profitable and that is how we came to that number of less than 6%. We are taking every branch on its own merit and we are determined to work it down to much less than 6%. However, if any branch remains unprofitable after this exercise, we will close down such branches. At the moment we believe there are still synergies that can still be extracted from those branches depending on what the circumstances. I will give you a good example in some of those locations sometimes, maybe the branch infrastructure is too much for the size of business for that location.......

Brent Malahay: The line keeps on breaking.

Bisi Onasanya: Can you hear me now?

Brent Malahay: I can hear now. Can you just repeat the number of branches or the percentage again that aren't profitable?

Bisi Onasanya: It's slightly less than 6% and we are working down the number because it was about 9% and we have worked it down to less than 6%. We are working on these specific branches that are affected even now. A number of options which has worked for us in the ones we have sorted out would still continue to be applied. However, where we need to close down those branches after doing the analysis, we will do that. We just don't want to take the option of shutting down those branches and trying to extract value from the investments in those locations.

Brent Malahay: Just a follow-up, would you have a number of branches that are below your cost of equity?

Bisi Onasanya: When we say non-profitable branches, these branches include the ones below the cost of equity. They are not just straight loss making. The branches are below the threshold that you have identified.

Brent Malahay: Could you disclose what that hurdle number is?

Remi Odunlami: I think you'd need to refer to the Yemisi for the exact details.

Brent Malahay: Ok, thank you.

Bisi Onasanya: Now to answer your specific question on whether the new branches we are opening now are in profitable locations. Yes, I can confirm to you that we are mainly in urban and semi-urban areas, satellite locations in which the market is under-banked. We do detailed mapping and analysis of those locations including sometimes using GPRS mapping and so on. We do have a detailed review of the performance of each of those branches on a quarterly basis and so far we they are meeting the hurdle rate that have been set and we are quite comfortable with these strategy for branch roll out.

Brent Malahay: What's your targeted number of branches?

Bisi Onasanya: Onche will answer the question.

Onche Ugbabe: Sure. A total location for this year and the target number is 777 including our quick service points.

Brent Malahay: No, what's an optimal number over the medium term?

Onche Ugbabe: The optimal number over the medium term? To give you a benchmark, relative to some of our comparable countries we've looked at both on the continent and outside, Nigeria is about 50% penetrated in terms of branches per 10,000, so you can expect that we will grow at a reasonable clip. This year there was an exceptional push given the need to kick start the programme and the opportunities we saw, but we will continue and watch the market closely and watch the performance of these branches.

Bisi Onasanya: What this means is that we do not set a target number of branches that we want to open. We continue to study the market and determine new locations that we need to open. As we go on in 2012, we are already compiling the list of locations that we will move into. This is purely driven by business exigencies rather than share number.

Brent Malahay: Just a comment on the branch expansion, the countries that you mentioned, retail credit is playing out but for Nigeria we view that there's structural issues with the retail credit market in terms of the lack of established credit bureaus, ID systems etc, and from a liability perspective it seems other banks with less branches are able to gather deposits and more importantly cheap deposits without any hassle with the lower number of branches. So I am just trying to connect why it makes sense to continue building branches.

Bisi Onasanya: I don't think so. For the Nigerian environment there is a direct positive correlation, you have seen the number of branches in spite of retail deposits. It's quite easy and simple. There are new satellite locations coming up in Lagos for instance just like in Abuja, you've got to follow the crowd. Our strategy in the retail segment of the market is not to grow the assets. It's essentially to mobilise cheap deposits from those locations and channel the utilisation of those deposits into profitable lending areas. You cannot bank in those locations except you are present. Yes, there are opportunities for non brick and mortar service outlets but there is very little you can do in terms of opening new accounts, and doing some sales in those locations without having physical presence. The strategy is not to use those outlets to create loans but to mobilise low cost deposits and it's something that we have thought through and it's working for us very well

Remi Odunlami: I will talk very quickly on the cost of risk in the retail portfolio you were asking me about. Unfortunately, those are numbers we would have to come back to you on because I don't generally cut the portfolio in terms of cost of risk by business segment. I do look at the non-performing loan ratios but I don't look at the cost of risk by business segment. I will look at it and give Yemisi an answer that she can give to you later on. I believe the same will go for the cost of funds. Again, I don't think we look at the cost of funds by portfolio. My risk appetite for the retail and consumer loan book is that I am expecting to solve something of a 8-9% non-performing loan ratio. I am not sure whether that addresses your question but that's the kind of level that I am comfortable with in that book.

Brent Malahay: What coverage would you generally have for that loan book? I suppose it would be difficult because you're implementing IFRS now.

Remi Odunlami: Exactly, so you'd have to give me a bit of time to get the IFRS…...but then bear in mind the bulk of my loans in that segment are either structured against salaries or they are asset backed. It's just that the realisation process does take time, so even under IFRS I probably will find that the collateral I hold will be of value which it currently is not.

Brent Malahay: Under Nigerian GAAP what would the coverage be?

Remi Odunlami: I would need to come back to you. I don't cut the portfolio in that manner. I cut the portfolio in terms of performing and non-performing. I don't cut it in terms of the classification levels within the non-performing book. I can give you that information but I don't have it right now.

Brent Malahay: I will wait for that information from Yemisi, but just another way to look at it, if your lending rate is 20% post the cost of risk and post the cost of funding, what is your minimum that you would want to get?

Remi Odunlami: If my lending rate is 20%+ net of cost of risk and cost of funding. You are basically asking me what kind of margin I am comfortable with on the retail book.

Brent Malahay: Net of the funding and the cost of risk.

Remi Odunlami: I think a 7-10% margin is reasonable, don't you?

Brent Malahay: Ok, great. Thank you.

Remi Odunlami: Thank you.

Operator: Thank you. We will now take our next question from Ndubuisi Obike of Stanbic IBTC. Please go ahead, your line is open.

Ndubuisi Obike: Hello, good afternoon. Thanks for your presentation. I have three questions please. On slide 15 your Tier 2 capital seemed to have increased by 4 billion, perhaps you could explain if there was any capital raising in the quarter. The next question has to do with staff rationalisation exercise you mentioned on slide 10, perhaps you could explain more, how much is it going to cost and what's the level of impact in Q3 so that we could adjust the numbers? My last question is on your NPL versus your loan book. I did some analysis and it seems the real estate lending sticks out. I have a level of delinquency of about 21% for real estate. My third question has to do with your comparison of your sectoral lending and the NPL breakdown on a sector basis. I have your lending to the real estate sector at about 25 billion and NPLs from that size of about 5 billion, which gives 4% level of delinquency so I would like some explanation from you what you are doing about these loans and why you didn't sell those loans to AMCON?

Bayo Adelabu: Let me take the question on the staff rationalisation. Every staff rationilisation in any establishment will cost a certain sum. The exercise we just concluded will cost a little below 10 billion naira. This will be mitigated by a couple of things. We expect there would be reduced staff costs less of the rationalised staff. The number two point is we expect increase in productivity which will also mitigate some portion of the costs of staff rationalised but the absolute amount is a little below 10 billion. We all know in the long run, this exercise will be beneficial to the bank.

Bisi Onasanya: Remi will answer the questions on the credit portfolio and the real estate question.

Remi Odunlami: On the real estate portfolio, I trust your math of a 21% ratio. What am I doing about this? I look forward to remain in a remedial mode. I continue to engage with customers. I continue to seek buyers where necessary. Some of them are recent defaulters, so in terms of why I didn't sell to AMCON, the AMCON window closed in December of last year, that's six months ago so things have happened in the last six months; and also quite honestly where the price levels AMCON offered for a loan was not what I deemed to be reasonable I did not take it. So in all cases it's a question of which method yields a better return to the bank.

Bisi Onasanya: Let me interject here, when we financed a real estate development, it is unlikely that you will expect repayment when the estate is not completed, so in this particular instance what you are trying to ensure that all impediments towards the completion of the estate are removed. It is only when the estate is completed and of course there are buyers for those properties and buyers would not put in there money until the estates are completed. These loans are quite structured in a manner that we would walk out smiling on all of those projects as they are in very good locations and they attract some significant interest but subject to the completion of those projects. Are you satisfied?

Ndubuisi Obike: Yes, but those real estate loans, are you seeing some improvements or are they getting worse?

Bisi Onasanya: These are real estate development and are not loans to individuals. They are loans granted for the developments of estates or mini estates and what we are trying to do is make sure that the necessary impediments to completion are removed. There are off takers for these projects, we can confirm that. All we will be doing is to ensure we work with the developers to complete those structures and complete the sale. .

Ndubuisi Obike: I wanted to remind you about my first question on Tier 2 capital.

Bayo Adelabu: There was a movement of 4 billion on the Tier 2 capital relating to FBN UK where they took some bonds in March this year to date.

Ndubuisi Obike: Also are you comfortable with the current level of capital adequacy ratio at 15% or do you have any plans to boost this ratio?

Bayo Adelabu: Like I have mentioned during the presentation our current capital adequacy ratio is 15.29% but our planned retention of profits and the further de-risking of our balance sheet, we hope to improve this to 17 and 18% and with that we are cover for planned business growth in the short term.

Operator: Thank you. We will take our next question from Nothando Ndebele of Renaissance Capital. Please go ahead.

Nothando Ndebele: Good afternoon, thank you very much for the call. I just had a few follow-up questions and you may have answered these before but unfortunately the line is very bad so we are having problems hearing you. The first question on asset quality: could you give us a provisions level at the half year mark for the group, not just for the bank? Secondly on your costs, just a little bit more colour, I think you did speak about the costs. Your operating costs, if we look at them, staff costs were up I think 21% year on year and your other costs were down about 19%, but given your branch rollout where are you actually getting cost savings from that are giving you this muted cost base and how much more is there to come out of your cost optimisation programme? My last question is on the NAV, the NAV declined 4% year to date and I just wanted to confirm whether this was due to dividend payments made out in the first part of the year? Thank you.

Bayo Adelabu: The movement in operating costs, if you we look at this year on year, we had about 29% growth in in operating costs year on year and I made mention in my presentation earlier that these was driven by increase in our business location. Between June last year and now we have had over 80 new business locations and we had additional POS terminals, ATMs and other alternative channels to bring business closer to our customers and increase business activities in those locations. All these have staff cost and operating overheads implications as all these locations must be staffed with new recruitment.........

Nothando Ndebele: I'm sorry; the line is very bad, I can't hear you very well. It keeps breaking so I'm just hearing words here and there.

Bayo Adelabu: Can you hear me clearly now?

Nothando Ndebele: Yes, that's a little bit better, thank you.

Bayo Adelabu: Ok. What I'm trying to say here is that there is 29% growth in our operating costs year on year, that's half year 2011 and half year 2012 and I did mention in my presentation earlier that this actually was driven by an increase our business allocation. Between June last year and now we had over 80 new business locations and of course we also had additional ATMs, POS and other alternative channels to bring the business closer to our customers and increase the level of business of activities in those locations. All these have staff costs implications and also have operating overhead implications. For each of these locations we require staffing of about 12 per location. In terms of the operating overheads, the cost of energy, security etc add up to the cost of running these locations all led to the increase in our operating overheads. We were also able to make savings in some of the overhead lines which you also mentioned while you were asking questions which are the result of some of the cost reduction strategies we implemented this in the last few years. What we expect is that as each of these locations grows in term of business volumes and they contribute more to the revenue of the bank, there would be a positive impact on the cost to income ratio. In the short term, it may appear high, but as they operate and contribute to revenue the cost mutes and there would be an improvement to the cost to income ratio.

Remi Odunlami: Your other question on the loan side was what our provisions were for the half year for the group. If you look at slide 7 you will see there was ₦10.6 billion for the group for the half year under NGAAP. I'm not sure whether there was anything I missed in your question.

Nothando Ndebele: My other question was just on the NAV. The decline in the NAV, is that due to dividend payments?

Bayo Adelabu: Yes, dividend payment led to the decline in the NAV between Q1 and Q2 ...dividend payment of about ₦27 billion

Nothando Ndebele: Just one more question if I may, in terms of the accounting, now that you are using IAS 39 are you taking the difference between the impairment charge of IAS 39 and the CBN guidelines? Is that going to be taken through the statutory reserves? How are you dealing with that?

Bayo Adelabu: Yes, that's what we are doing.

Nothando Ndebele: Is that throughout the year or will that be done at the year end when your numbers are audited?

Bayo Adelabu: That will be when the numbers are audited.

Nothando Ndebele: So it will be when the numbers are audited.

Bayo Adelabu: What we have used for this presentation is NGAAP. We have details of the IFRS, we can give you that.

Nothando Ndebele: Alright, thank you.

Operator: Thank you. Ladies and gentlemen, as a reminder please press *1 to ask a question. We will now take our next question from Tunde Ojo of Harding Loevner. Please go ahead.

Tunde Ojo: Good afternoon, I have just one particular question. If you look at slide 20 and compared to slide 27, your NPL coverage seems different. The NPL coverage you have on slide 20 is 67.9, what you have on slide 27 is 98.8. I am just wondering why we have that difference. That's my first question. The second is around your loan growth for full year 2012. I know half year you were already around 19%, 20%. I was just wondering if the loan growth is going to be higher for the full year…I heard someone talk about the leveraging just now, so is that going to be lower? If you can then just please give a guidance as well on your net interest margin for the full year, your cost to income ratio that you expect, given the staff rationalisation exercise that you are going through as well as your NPL guidance for the full year. That will be helpful. Thank you.

Remi Odunlami: I will take my bit first. In terms of the difference between slide 20 and slide 27, basically what you're looking at is the difference between the IFRS number and the NGAAP number. On slide 20 we're showing you IFRS ratios whereas the bulk of the presentation including slide 27 is on NGAAP.

Tunde Ojo: Great, that's helpful. What about your loan guidance for the year?

Remi Odunlami: The issue on the loans, I did say earlier that our year to date growth is about 17% currently, however we retain our full year guidance of about 15% because whilst we're growing, we're adding on new loans right now, there are loans that will be paid down between now and the year end. So I anticipate coming in at year end close to the 15% mark that we are talking about.

Tunde Ojo: What impact is that could to have on your asset yield then?

Remi Odunlami: On my asset yield?

Tunde Ojo: Yes, for the full year.

Remi Odunlami: I think quite honestly given the current interest rate regime that my FX yield will suddenly pick up a little bit, so I don't expect that the reduction in loan growth would have any significant impact on our returns.

Tunde Ojo: So you are anticipating that you can match those sort of rates from your inter-bank placement and treasury bills in the market?

Remi Odunlami: Yes I do.

Tunde Ojo: Ok, great. Thanks. So in that regard can I ask, your NIM will be around…

Bayo Adelabu: On the net interest margin guidance, I think we still retain our original guidance. Under the NGAAP we originally guided on 7% net interest margin for 2012 and we currently are at 7.5%. For IFRS we guided on 8.5%…..

Tunde Ojo: Sorry, I can't hear you clearly. Could you repeat that please?

Bayo Adelabu: For the net interest margin guidance, we guided at 7% for NGAAP. Our actual was 7.5% for the first half of the year. For IFRS, we guided in 8.5% and we were able to achieve 8.3%, so I will confirm we are retaining similar guidance for NIM at 7% under NGAAP and 8.5% under IFRS.

Remi Odunlami: Our NPL guidance for the year remains at 3-5%.

Tunde Ojo: What about cost to income given the staff rationalisation?

Remi Odunlami: Cost to income 60%.

Tunde Ojo: 60%, ok. Thank you so much.

Remi Odunlami: Thank you.

Operator: Thank you. As we have no further questions, I would like to turn the call back over to Mr. Bisi Onasanya for any additional or closing remarks.

Bisi Onasanya: Just to thank every participant for taking part in this conference call. We would like to assure you the management team and the board remain focused on making sure that we will retain our leadership position in the industry. We continue to defend our leadership at the First Bank of Nigeria. We will continue to extend that leadership to areas in which we believe we should extend them to. We believe our half year numbers should be sustained in spite of the challenging environment we operate.. We believe at the end of the year we would be able to post very decent returns on equity numbers of about 20% inspite of the turbulent market. We believe that presently First Bank shares are undervalued trading at less than 1times its book value even in relation to earnings per share, there's strong case for potential for upside as far as investment in FirstBank stocks is concerned. We remain confident that we retain our leadership and to extend that. I would like to thank everybody and look forward to seeing you at the end of Q3 with good numbers. Thank you, bye.

Operator: Thank you. Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation, you may now disconnect.