FBNHOLDINGS

9M 2023 RESULTS PRESENTATION

(AMENDED IN PLACES TO IMPROVE ACCURACY AND READABILITY)

Tolu Oluwole

Head, Investor Relations, FBNHoldings

Good day, ladies and gentlemen, and welcome to the FBNHoldings Nine Months 2023 Financial Results Conference Call. Thank you for joining us today and for your continued interest in FBNHoldings. I am Tolu Oluwole. We will commence today's session with an overview by the Group Managing Director of FBNHoldings and take questions afterwards.

I want to hand over the call to the Group Managing Director of FBNHoldings, Mr Nnamdi Okonkwo. Please go ahead, sir.

Nnamdi Okonkwo

Group Managing Director, FBNHoldings

Thank you, Tolu. Good day, ladies and gentlemen, and welcome to this call. Let me introduce my colleagues on the call. We have Dr Sola Adeduntan, the CEO of FirstBank; Kayode Akinkugbe, the CEO of FBNQuest Merchant Bank; Patrick Iyamabo, Executive Director and CFO FirstBank; Segun Alebiosu, Executive Director and CRO FirstBank; Ini Ebong, Executive Director Treasury and International Banking FirstBank. Also, Wasiu Shafe, the Financial Controller, FBNHoldings representing the Executive Director and CFO FBNHoldings and Tolu Oluwole, Head, Investor Relations. Finally, I am Nnamdi Okonkwo – I lead the Team across the Group.

Slide 4 presents the highlights of our nine months' performance for the period ended September 2023. This achievement over the period under review speaks to the resilience of our franchise, the effective management of the dynamic operating environment and the focused execution of our strategies.

In the period under review, gross earnings went up 80.1% on the back of increased interest income as a result of the high-yield environment, our larger asset base and growth across the business segments in our diversified portfolio. We also attribute our performance to the efficiency of the institutions as we have been deliberate in monitoring and controlling our operating costs. However, quarter-on-quarter, despite the environment, Opex was flat. The cost to income ratio was 50% relative to prior year at 65%, despite the challenging business environment.

On asset quality, we recorded a significant improvement in risk management and our NPL ratio of 4.6% attests to that. This is below the regulatory limit of 5%, and we continue to extend high-quality loans and make our balance sheet a fortress. As you know, we plan to raise Tier 1 Capital. This will have the combined benefit of boosting the overall performance of the Group and enhancing our ability to pursue strategic initiatives and investments as well as ensuring our readiness for Basel III implementation.

On slide 5, we achieved a strong performance amidst a challenging economic environment on the back of net interest income, which grew by 51.4%. Some of the growth in non-interest income is attributable to currency devaluation; however, we posted a healthy growth in fees and commission supported by 29.4% year-on-year growth in e-banking revenue.

Impairment charges were up year-on-year as we took a more proactive stance to ensure comfortable coverage ratios. This is in addition to our effective risk management architecture.

On cost, we recorded a 33.3% growth in Opex compared to prior year. As mentioned earlier, it is important to put Opex in the context of significant currency movements and the high inflationary environment. Overall, we remain focused on curtailing costs and being efficient.

Operating income increased significantly by 73.3% to NGN704.6 billion over the review period. This reflects the strength of our earnings, which translated to PBT of NGN270.3 billion, a 156.3% increase relative to prior year at NGN105.5 billion.

On the balance sheet, total assets grew by 36.7% year-to-date, while customer deposits increased significantly by 29.9% year-to-date.

Slide 6 speaks to our sustainable shareholder value creation and business resilience. These key metrics highlight our performance and emphasise our dedication to creating outstanding shareholder value. Return on average equity increased to 26.6% relative to 13.7% in 2022 on the back of improved profitability. NIM was up to 6.2% relative to 5.4% for the previous year, reflecting our efforts at generating and optimising income. Return on average assets increased to 2.5% relative to 1.3% in prior year, as we effectively utilise our asset base.

The cost of funds increased to 3.4% from 2.1% in prior year. This reflects the higher rate environment that we are familiar with. The cost of risks increased to 2% relative to 1.5% in prior year. As reiterated, this reflects our efforts to ensure a comfortable coverage ratio. Despite the high inflationary environment, the cost to income ratio improved to 50% from 65% in prior year. NPL at 4.6% relative to the regulatory requirement of 5%. The coverage ratio grew to 85.4% relative to 75.1% in prior year. These are all efforts to fortify our balance sheet.

Slide 7 highlights the progress made towards delivering on our strategic priorities. First, we improved our digital financial services capabilities and broadened our non-funded revenue base to enhance revenues and profitability through technology and innovation.

Secondly, in strengthening our value proposition, we made significant progress in our strategy execution by harnessing the strengths of our unique business group to drive synergy and collaboration. Thus, synergy and collaboration are a major strategic imperative across the Group and have deliberate strategies for the companies to inter-operate and leverage efficiencies.

Finally, in optimising operational efficiencies, we are actively fostering business collaboration and synergies across the entities. That is why our Insurance Brokerage, Merchant Bank and Commercial Bank, etc have synergy revenue targets. This has yielded good results and shows the strength of our diverse portfolios.

Slide 8 speaks to our unique investment case. We have a strong franchise, brand recognition, diverse portfolio, and solid digital capabilities. To translate that statement into numbers, we have processed more than 482 million internet and mobile banking transactions, and we are able to sustain about 19% market share of transactions processed by Nigerian banks on the industry interbank settlement platform.

In conclusion, I will also emphasise our strong governance and risk management practices. Consistently over the years, our risk measuring parameters have improved significantly and continue improving, as seen in our performance.

At this point, I would like to extend our collective appreciation to all our valued stakeholders who have journeyed with us over the years. Achieving these results has taken dedication, collaboration, commitment, and excellence. Thank you.

Finally, I will hand over to Tolu to moderate the Q&A session. Thank you very much, ladies and gentlemen.

Q&A Session

Tolu Oluwole – Head, Investor Relations, FBNHoldings

Thank you, GMD. We will proceed to the Q&A session. We have a question from Ayodeji Dawodu. Please go ahead.

Ayodeji Dawodu – BancTrust & Co

Thank you, Tolu, and thank you to the Management Team for the call. I have a broad question and two FBNH-specific questions. I would like to know if there are any changes in the functionality of the official FX window. Have there been any efforts by the administration to start clearing the backlog?

On FBNH, can you guide me on the outlook for asset quality? Can we assume that we have seen the base amount of moderation in the NPL ratio? Are there any plans to improve coverage going forward?

In addition, can you provide a rough estimate of the capital adequacy ratio with year-to-date earnings capitalised and what you expect the ratio to be at year-end? In relation to this, what would the ratio be if the official FX rate is about NGN1,000 per dollar? Thank you.

Nnamdi Okonkwo - GMD, FBNHoldings

Thank you, Ayodeji. Ini will take the question on FX and the CRO, Segun will respond to the question on risk, and Patrick will address the capital adequacy ratio. Thank you.

Ini Ebong - Executive Director, Treasury and International Banking, FirstBank

In responding to the FX question regarding settling the backlog, there are still ongoing engagements with the Central Bank. As you know, the leadership of the Central Bank changed recently, and I guess the new Committee of Governors are still settling down. However, recent engagements have commenced with various offices within the Central Bank that deal with these. More importantly and recently, the Minister of Finance and the Central Bank Governor clearly stated that their priority is dealing with some of these outstanding backlogs.

The Central Bank continues to intervene in the markets weekly, selling dollars directly to banks in targeted intervention. That is providing some liquidity to the market while we wait for additional engagement regarding the approach to dealing with the backlogs. However, there have been some delays in settlements for over a year, notwithstanding the Central Bank has always met its obligations. Thank you.

Segun Alebiosu - Executive Director, CRO, FirstBank

On the risk outlook, the risk environment has not fully bottomed out but is close because the real risk environment or the risk issues are being taped. What has happened in the last 72 hours on FX rates and what the government is likely to do between now and year-end will likely have a material impact on the economy. As such, the FX risk will likely be moderated. Therefore, we do not expect asset quality issues to worsen beyond what we currently see in the environment. We believe we will remain within our single-digit NPL ratio despite the economy. On coverage, we are at about 85%. Based on the operating environment and the elevated risk environment, we will continue to increase our coverage in Q4 beyond the 85% we have today. Thank you.

Patrick Iyamabo - Executive Director, CFO, FirstBank

On our capital position, if you capitalise the profits for the first nine months, our CAR would be much higher, certainly in line with Basel III requirements. If you layer on top of that the capital raise we are pursuing, then you are looking at a financial institution that is fully Basel III ready, with the level of capital buffer required to follow and execute our strategic growth plans for next year and the next 12 months. If we are to put numbers behind that, we are looking at a CAR that is north of 19%, closer to 20%.

To the question on how the exchange rate of NGN1,000 affects FirstBank. An exchange rate of NGN1,000 means a slightly improved CAR. Again, because as the exchange rate grows, our risk-weighted assets (RWA) also accrete, the profit is similar to what is coming out of the longer position alongside the capital accreted compensates for the RWA increase within the business.

To the last question, what you saw play out as at half year in terms of RWA growth and profit jump, with the profit jump compensating for the RWA growth? This is what will play out if you are looking at the NGN1,000 figure. Not just NGN1,000, irrespective of where that figure goes, the higher it goes from a CAR accretion perspective, the better it is for FirstBank.
Thank you.

Tolu Oluwole – Head, Investor Relations, FBNHoldings

There are no further questions. I will now hand over the call to the Group Managing Director for the closing remarks. Thank you.

Nnamdi Okonkwo – GMD, FBNHoldings

Thank you very much, Tolu, and thank you, participants. We want to assure you that the trajectory seen in the last nine months will continue. In addition, we remain focused on executing our strategies, which have paid off, and we will keep you posted as we progress. Thank you for participating in this call.

Tolu Oluwole – Head, Investor Relations, FBNHoldings

If you have any follow-up questions, please send them, and we will respond accordingly.
Thank you for your time today. You may now disconnect.