**Company:** **First Bank of Nigeria Plc**

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**Presenters:** **Olabisi Onasanya, Oladele Oyelola, Remi Odunlami, Onche Ugbabe**

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Operator: Good day and welcome to the First Bank of Nigeria First Half Results conference call. Today's conference is being recorded. At this time I'd like to turn the conference over to your host today, CFO Ola Oyelola. Please go ahead.

Olabisi Onasanya: Good afternoon. This is Bisi on the line, the Group MD. I'd like to welcome you all to this first investors' conference call which is the first that we are holding in First Bank. We are happy to announce our second quarter results for the half year ending September. I have with me here Ola who is the CFO, and I also have Remi who is the Chief Risk Officer, and I also have Onche Ugbabe who is the Chief Strategy Officer for the Bank, and the Executive Director in charge of Operations & Services, Dr. Abubakar. Can you all hear me please?

Operator: All participants are on listen-only, thank you.

Olabisi Onasanya: Okay, fine. Now the CFO will give further details on the financials because we are happy to announce a 32% growth in our gross earnings in spite of the difficult terrain in which we operated during the year. The good news also is that First Bank has come out better and we have scaled the CBN model. We did have a CBN minimum recommended provision of 20 billion but in line with the First Bank usual policy and practice of being very prudent and conservative, we have taken the Central Bank provision as the minimum provision required and we've done slightly more provisions on our own assessment of the risks that we have at the moment. This is something we would continue to do regularly; this is the first but we will continue to do that as often as possible.

I would then hand over at this moment to Ola Oyelola, who is the CFO, to run down the numbers. At this point it's important that you already have the presentation so we would take a few minutes to go through the presentation, after which we would then take questions and answers from you. Is this acceptable to everybody? So Ola.

Oladele Oyelola: Well thank you, ladies and gentlemen. We are happy to have this conference call against the background of a very, very challenging economic environment. As you all know, the banking sector in Nigeria has undergone tremendous changes in the last few months and we have had challenges in terms of delinquent loans. However, in spite of the very, very challenging environment which has necessitated having to reset our priorities, having to reset our appetite, having to reset our behaviour, we are glad to report that the top line grew by 32% year-on-year. We are also happy to report that net revenue grew by 15%. The operating profit however dropped because of the massive provision for loan losses which we made. We have a negative 89%. However, we are very pleased to say that we have made all the provisions that were mandated by the Central Bank and we have also conservatively made provisions for loans that we consider potentially delinquent. That being the case, we are happy to report that we still have a very strong bank. In terms of the capital adequacy we still have about 21.9%, tier one capital is at 19.5% while our leverage ratio is at 6.6% – 6.6 times.

In terms of liquidity and funding, we are also very pleased to say that we are very liquid. Our liquidity ratio at 37% compared with the 25% required by the regulatory authorities; loan-to-deposit ratio is at 73%.

In terms of key performance indicators, our loan loss provision for the six months is at 29.5 billion and the NPL ratio increased from about 5% which it was last quarter to 8.2%. Of course that has a dilutive effect on the return on equity, which came down to 2.1%, and then the return on average assets came down to 0.2%. However, we are very optimistic that moving forward we have crossed the line and we think that the future is very bright.

If you look at our loans and advances, we actually decelerated. That's because we focused more on liquidity and keeping the capital adequacy as opposed to growing our risk assets. So we actually had a negative growth of 1% in our risk assets while our total assets grew by 14%. However, I'm very glad to report that our deposits grew by 41%. Our gross earnings grew by 32% while our shareholders' funds dropped by 8%, and that's because of the 26 billion charge we took as at March against one of the trading positions we had. The profit after tax, as I said earlier on, dropped because of the massive provision which we made.

Now looking at the revenue, we believe we have a very steady growth in our gross revenue. Our business model is very, very valid. We believe that we have the correct strategy and we are very, we are well-positioned to grow our top and bottom line in the subsequent quarters. We have very strong domestic growth rates and our deposit mix is very good with both of our deposits in current accounts, which is local, which gives us the flexibility to be able to lend at reasonable rates and also gives us very decent margins. Having passed through the CBN stress tests and having made provisions for all the loans that we think are delinquent, we now think we have very good-quality and well-priced risk assets. We are well-positioned to fund our operations given our liquidity position. In addition to that, because we are a financial supermarket, we believe we have a very well-diversified revenue base since our business spans area such as investment banking, mortgage banking, fund management, insurance and microfinance. We believe moving forward all these business lines will contribute increasingly to the very diversified revenue base of the Group.

Talking about the loan provisions, for the six months we made a provision of 29.5. That is 9 billion over and above the 20.1 billion that Central Bank required us to. We did that because we believe it was important for us to clean our books and ensure they are moving forward. We do not have any of the delinquent overhangs. We believe that, given the aggressive loan recovery strategy we have put in place, a lot of the provisions we have made, we'll be able to write back some of them. We believe we have a very robust debt recovery strategy and subsequent quarters should see very good write-backs.

Talking about our operating expenses, as you all could see from the presentation, we operate in a very high-cost environment simply because the environment has very poor infrastructure and we have had to provide a lot of the infrastructure by ourselves. We also have rising inflation and again we have the massive loan loss provision which we made. However, the good news is that we have embarked on strategies that will help us optimise our costs. We also have strategies that will help us reallocate the strategy to make them more efficient and we also believe we have a personnel management system in place that will ensure efficiency and the productivity of our staff. Other incentives that we have put in place to ensure that we not only increase our revenue but also to optimise our costs, is optimise our IT infrastructure and migrate some of our channels. We believe with all this, our cost-to-income ratio in subsequent quarters will be more different. As of now we have cost-to-income ratio of about 61%, excluding the loan loss provision.

Profit before tax, as you could see, the profit has dropped because of the massive provisions so I'm not going to waste your time on that because the simple reason why the profit dropped is because of the loan loss provision that we made. If we did not make this provision, we would have made a profit of 23 billion in the half. Same thing for the return on equity and the return on assets.

Now if you look at the analysis of our revenue, the bulk of our revenue came from net interest income. It came in at about 60.3%. Fees and commission increased because it came in at around 19%. Securities trading came in at 12% and other income came in at 9%. However, if you look at the totality of our fees and income, it's about 23% which is a major growth over the previous quarter whereas the net interest income has stabilised at around 60%. We believe that with our relatively low cost base we should be able to take advantage of the consolidation that's going on.

We believe – I'm on slide 11 now – we believe that with the headroom we have in our interest margins, we'll be able to have productivity that would be commensurate with our size. However, we have some challenges. The common year has created a risk for deposits that is very clear. We also believe the risk involved with counterparties has limited the outlet where we can deploy our deposits. But we believe, in spite of all these challenges, that we will still be able to deliver a stellar report in the next quarter.

Slide 12, looking through the structure of the balance sheet you can see the steady growth there and this is driven primarily by deposits and our well-diversified deposit base is benefiting from the aggressive marketing campaigns which we have – and branch expansion – which we have already put in place. Again our brand loyalty is also working very well for us because our name still remains the best brand in the industry and we do hope to keep it as such. We believe that our balance sheet is significantly underleveraged because the leverage is at 6.6. We believe a leverage of about 8-9 will be more ideal for us. We are going to work tirelessly to ensure that we have a leverage that will be more appropriate for our balance sheet size. The stable funding, as you can see, the top of the deposit came from current accounts which came in at about 32%, with a core of about 52%. We also have savings at 22% which a core of about 84%; and the balance is the term deposits with a core of about 50%. We believe with this deposit profile we should be able to continue to fund our operations and continue to grow our risk assets in a very reasonable and conservative manner.

Slide 13, looking at liquidity, we are very liquid. I can tell you that today we have a liquidity ratio of about 50% just because that slide and because of our aggressive marketing postures. We believe our funding is very stable and we will continue to be the net placer of funds in the Nigerian interbank. We also hope to revamp our treasury function to make it more effective and to make it more productive.

Slide 14, if you look at the structure of our liabilities, we have 1.4 trillion as deposits and then we have capital of about 308. The balance is long-term borrowing and short-term liabilities.

Slide 15 basically talks about our capital adequacy ratio, which is at 21, which is far, far ahead of the minimum required of 16% and it's far ahead of the 10% that is required by Basel II.

Slide 17, now I'll hand you over to my colleague the Chief Risk Officer, who will take you through the loan portfolio and what we've done about it.

Remilekun Odunlami: Good afternoon. This is Remi Odunlami, the Chief Risk Officer. I am just going to walk you through slides 18-21 which basically talk about the loan portfolio and where we stand today. As of the end of September, our largest exposure was to the corporate sector in terms of business type, followed by retail where retail loans by our definition are small businesses and consumer loans are loans to individuals. At this point our largest exposure is to the corporate sector. Added to that would be the agricultural and financial institutions who also represent corporate names. In terms of sector analysis, our largest exposure as expected is from oil and gas followed by manufacturing and retail/services and the financial/insurance businesses. Within the oil and gas sector we have the bulk, we have 5% of our exposure into the upstream, 5% downstream and 8% to the services sector, which pretty much is fairly spread across that industry. We have 70%, 71% of our loans are long-term, by which I mean loans over 12 months, and only 17% are overdrafts/revolving.

Our non-performing loans obviously have grown in the past year, given what you know about the collapse of the securities, the stock market in Nigeria, and currently represent nearly 8% of our total loans and our loan loss provisioning is 66% of our non-performing loans. This is down from our target of 100% and our September '08 level of 118% and the March '09…and the September – and the March '08 level of 150%. This is largely because as the economy has turned and the stock market crash has arisen, loans have deteriorated in quality but not necessarily to the extent of us making 100% provision for them, but given the increase in the non-performing level and the non-commensurate increase in growth of our performing portfolio, you will see in the current year a deterioration in the loan loss provisioning versus the non-performing loans.

Our non-performing loans, as I indicated, are large – oh sorry, I've moved onto slide 19 and I am pointing out that our non-performing loans are, as far as business lines go, over half of them, that is 58% between the financial institutions and the corporate sector. The financial institutions are predominantly the stock market-related facilities. The corporate include some stock market-related facilities and other facilities that are just generally the result of the downturn in the global and local economies. That is emphasised on the second pie chart, which is the sector concentration, which shows you the finance industry at 26% of our non-performing loans followed by real estate at 20% and then general services at 14%. You'll also note that we have, give or take, just under half of our non-performing portfolio pre-dates this quarter and pre-dates this financial year at 360 days and then we have 44% which has fallen past due in the recent past, and those are the names that are more reflective of what's happening today.

I'll go onto slide 20 which talks about the lending against shares. This is a lot of data but essentially I know it's an area that's of interest to most analysts, our facilities against shares, facilities backed by shares are more or less flat between year end and today. We have 58.5 billion. Of that margin exposure, that is exposure purely for margin trading, is 12.9 billion and this represents just under 3% of our total portfolio. So you can see that in terms of percentage, of relativity to our total portfolio it is small but into our non-performing portfolio it is high.

I'll move onto the risk management framework. I believe we have a very strong governance framework for risk management. We have a Board of Directors who take full responsibility for the risk management within the Bank. They delegate some of their authority – some but not all – to the Board Credit Committee and into the Executive Committee Credit Committee. We also have a Board Audit and Risk Assessment Committee which covers all the non-credit risks in the Bank and has the same relationship to the Board of Directors in terms of delegated authority as the Board Credit Committee does. The Board Audit and Risk Assessment Committee is supported by the Executive Committee and the Assets and Liability Committee of the Bank.

We do try in all aspects of our business to balance risk and reward and we have ensured by the way we're structured with four directorates facing the market and three directorates back office (that is the Risk Directorate, the Finance Directorate and the Operations & Services Directorate) we are ensuring that the market-facing units are segregated and there's separation of duty, separation of interest between the market-facing units and the risk and control functions within the Bank. We are working on strengthening our Group, enterprise-wide Group risk management processes and will be coming up with a paper on that in due course.

We have various other quality indicators which in the current year we have not been able to meet up with as you'll see from the numbers, but we do believe that we have taken in the current year all the reserves that we need to take. We have looked at our portfolio. In addition to what the Central Bank has mandated, we ourselves have looked at the portfolio and have ensured that we have covered all the non-performing loans that are evident at this point in time. We believe that inherently our portfolio is strong and has now been cleaned up.

I will take – I will leave you now to Onche, Chief Strategy Officer, who will take you through the strategy and outlook.

Onche Ugbabe: Thank you. This is Onche Ugbabe, I'm the Chief Strategy Officer for First Bank of Nigeria. We live in very interesting times indeed in the financial services sector and it's been particularly interesting from my vantage point to look at the industry and look at First Bank and how we evolved to meet competitive demands. Obviously it's been a very, very tough year and tough couple of years. We've certainly faced a difficult macroeconomic environment with the onset of the financial crisis globally, the effects on Nigeria of liquidity drying up, portfolio capital and FDI, you know, leaving the country or reducing in volumes, the oil price shock that occurred in 2008 with prices dropping significantly from their peak of $150 or so down to below $50 a barrel with some recovery recently, and certainly the capital markets bubble bursting in Nigeria and with the stocks down even 25% relative to their January levels at this point and down 60% or more in many cases from peak levels. So this has been a very interesting and difficult environment to compete in. I think there's a very, very positive story though about First Bank coming out of all of this. I will just walk through a couple more just environmental issues that we see ourselves contending with in the competitive space, in our customer space. I'll talk you through, if you will, our Group and Bank strategy at a high level and then I'm going to just try and synthesise our perspective.

Basically in terms of just trends I'm going to highlight, in addition to kind of the macroeconomic pressures that we face in our industry, five other things that we think are trends in the Nigerian banking industry. One is that we expect increased competitive pressure. This is not going to be business as usual in the banking sector going forward. We had a consolidation in the 2005-2006 period that saw us go from 90 banks or 89 banks down to 25, You know, we believe that there's an imminent consolidation again and we also believe that the current Central Bank is much more favourable towards foreign entrants now, so the ante is being upped as we expect banks like Standard Bank to increase their presence in Nigeria, banks like FirstRand and Barclays potentially to make an entry and as we expect domestic banks to grow.

We also see, you know it's a difficult environment from the standpoint of margin compression. Banks are going to have to innovate in terms of what they do and meet and more sophisticated banking audience in terms of their demands; fundamentally improve their value proposition. It's no longer enough to take – one has got to improve the value proposition to the customer. We also see an increased push on corporate governance from the Central Bank and stronger requirements of Bank boards and executive management. We also see lots of opportunities in this, in what could otherwise look like a challenging environment in terms of just what is a disproportionate growth that we expect could happen. There's a massive retail banking opportunity. We still have only north of 20 million bank consumers in Nigeria, of a nation of 150 million, lots of opportunity in the consumer credit space, the top end of the market, in the corporate banking space. We believe there's a big opportunity in the infrastructure funding space; that's one of the reasons, rationale behind our corporate bond issuance. We also see banks that are able to adequately price and put in place the right system, price risk opportunities in the SME and commercial space.

What is First Bank doing about all of this and how are we responding to this complex environment, very changing, dynamic, evolving environment? I'm going to talk briefly about what we, how we see the Group evolving and then how we see the Bank evolving. From the Group standpoint First Bank, as you are aware, is basically structured with a bank and ten subsidiaries which operate in different non-bank financial services spaces including a banking subsidiary that's operational in the UK. We have done extensive analysis as a Bank and Group around just where we believe growth is going to come from in years to come. We've looked at profit pools and growth rates of these profit pools across very granular industry sets, so taking investment banking for example into the advisory business, equity and debt capital markets, etc. And our perspective and belief is that there's going to be, as we continue to emphasise the Bank, we're also going to have a very strong push around insurance and around investment banking and asset management. First Bank is in the process of restructuring its investment banking and asset management subsidiaries such that we leverage scale and we leverage the various bits of expertise we have across those subsidiaries in a more concerted fashion, ensuring that we cross-sell customers of the Bank and vice versa and that we are able to put in place best-in-class platforms like trading platform and others in that business. We are also in a recruitment drive for executive management in that space and there's going to be a very big emphasis on investment banking and asset management.

The other piece that we're going to push as a business is insurance. We believe that First Bank is incredibly well-positioned to take advantage of insurance opportunity. We've done a lot of analysis, looked at growth rates in what is a very fragmented market right now. We believe we have a strong platform, a very strong distribution network, a brand that's second to none in terms of its trust with consumers in Nigeria, which is very important in insurance. We recognise that we don't have the underwriting capabilities obviously in house and are in the process of a technical partnership with a very reputable foreign insurance underwriter and that's something that one can expect coming down the line. We're also in the process of a big transformation of the way the Group is structured, potentially from a legal standpoint, certainly from an operational standpoint, to streamline our activities, focus like activities under similar buckets, ensure that there's clear accountability for results at a business group and a business unit level and we have supporting us on that, McKinsey & Co, global management consultancy, in redesigning that framework.

Now coming onto the Bank strategy, I'm going to talk about the four pillars of our strategy and I apologise. If you are looking at the presentation, I'm sort of picking and choosing from the various slides but not so much talking to the order of the presentation. I will talk first of all the financial picture then I'll talk about the four pillars, just at a top level the CFO has alluded to the areas we are focusing on a bank. We are very cognisant of some of our weaknesses, both on the balance sheet and income statement side. We think that we've done extremely well given the circumstances, but he alluded to leverage ratio. We've got an asset/equity ratio that's well below the 8 or 9 or even 10 you could get with Basel II. We believe we're underleveraged and we are working on that via a strong deposit drive. We believe it's key to increasing our return on equity and we're also looking at alternate forms of funding. You are aware we've got a corporate bond issuance in place as well.

We are also looking very much, there's a big drive around increasing fee and commission income. First Bank has done a very healthy job of growing deposits. We are trying to translate, deepen our share of wallet and our penetration of our clients to get other forms of ancillary fee and commission – fee income basically and commission income. That's the big, going to be a big focus going forward and that also hinges on our improving our product portfolio and service offerings.

We continue to be very focused on the cost side, as the CFO alluded to, to reducing costs with a focus on costs that stand out, including staff expenses where it's judicious and of course we've been hit by certain exceptional items which he alluded to.

In terms of our broader strategy though, moving away from just the financial elements, the four pillars of our strategy are growth, operational excellence, performance management and people. We have a number of initiatives that are linked beneath this that are driving the First Bank transformation and are linked to these overarching objectives. I'll talk about each one very briefly.

On growth we continue to be a believer in all forms of growth including organic and inorganic. On the organic side we continue to focus domestically initially with a strong push in certain pockets, as I alluded to, in the corporate banking and retail banking space, including infrastructure finance, structured finance getting into more exotic asset products on the corporate banking side. On the retail banking side, looking at the consumer credit opportunity, looking at a differentiated service offering for the high end of the market and trying to tap into that opportunity.

In terms of our international strategy, we get asked this question a lot, First Bank has not been one of the banks that has jumped on the bandwagon of deploying easy capital to international locations. If you look at several other banks, many of them have overpaid for what they've bought outside of Nigeria. We continue to believe that Nigeria is the most attractive market in Sub-Saharan Africa, growth market. We however have got an international strategy. You are aware that we have been in discussions about a potential merger with an international bank and we've also looked independently at profit pools in different countries and growth rates, and we have a very strong perspective on the six or seven other Sub-Saharan African nations we believe we should be in. We don't think that there is much value in being in every single nation. The banking assets and GDP are disproportionately concentrated in a few nations that matter and those are the ones we will focus on.

In terms of operational excellence, as alluded to earlier, there's a strong push on cost control. There's also a very strong push on efficiency and service levels at First Bank. We have a very strong platform, incredible distribution network. We have gotten feedback from customers that we need to continually improve our services. We've seen ranking in service which imply that there's a very strong effort going on around that. We are consolidating shared services, back offices processes at the branches, we are deploying – there's a strong push on alternate channels and migrating the 90% of transactions that occur in branches to alternate channels. We've launched a best-in-class call centre that I would urge anyone to try called First Contact which we think is one of the best in the country. We're making a big push on mobile banking as well and of course continue to expand our ATM network and other, and our online presence. We believe that integral to our success will be transforming all the service levels at each of the points of sale. It's something that we are driving very hard at. Our present Group Managing

Director incidentally was also prior, at one point ED of Operations at First Bank so there's naturally a very strong push on that.

We're also very focused on performance management. We've had the introduction of a very successful balanced scorecard programme that's been cascaded down to 500 or more managers of the Bank and continues to be pushed down to deeper levels in which KPIs, individual KPIs are linked to business unit KPIs and are rigorously monitored, evaluated on a quarterly basis and actions and consequences are taken including rewards for high performers and consequences for low performers. This is something that has really driven a new outlook in the Bank on the importance of performance and the importance of staying ahead of the game.

People, we continue to believe that fundamental to any transformation is having the right minds, the right people. First Bank invests arguably more than any other bank in training its people, in developing a workforce that's highly motivated, equipped to succeed and is also, has also done a very good job I believe of plugging in critical gaps. Even this year, certain key executives in certain functions were brought in. We had a new head of IT come in. I think we had a new head of marketing communications, etc. so there's a very strong push around making sure that the capabilities are in place to run this business.

So overall we think it's a very positive story for First Bank, a strong, stable platform, healthy balance sheet, large distribution network, very strong intangible assets, over 5 million customers, most trusted brand in Nigeria in financial services, deep institutional relationships and we believe that the transformation we have in place is addressing all of the relative areas of weakness that we need to. So we hope to continually have good news over the next few years on First Bank.

Olabisi Onasanya: Thank you. This is Bisi on the line, the Group MD. At this moment I'd like to summarise by confirming that in spite of the difficult terrain in the Nigerian banking system, which is also not isolated from the events in the global financial markets, First Bank still remains very strong and very solid in spite of those challenging times. We remain solid in terms of our liquidity position. The CFO just confirmed that as at today we have a liquidity ratio of 60%+, we will continue to pursue our four pillar initiative based on growth, modernisation, performance management and people. We are not taking it for granted that the fact that the position in the Nigerian market today towards a larger segment of the market.

We see an opportunity for us to consolidate our leadership position by increasing and improving on our services. The provisions that we have made remains very conservative. We have taken the CBN provision of 20 billion naira as the minimum. We have chosen to seize the opportunity to clean up our books and provide for all known losses. It's important and instructive at this point to note that these are mere provisions. We hope and believe very strongly that with the entire bank…into an aggressive recovery machine, we believe at the end of the year we will be able to reverse some of these positions and post some deferred profits at the end of the year.

We would be willing to receive questions at this moment. Thank you very much.

Onche Ugbabe: Do we have the moderator on the line?

Operator: Okay, if you'd like to take questions in today's conference call please press * and 1 on your keypad. Please remember to unmute your line to allow your signal to reach our equipment. We will pause for a moment to allow everyone to signal for questions.

We'll now take our first question from Bunmi Asaolu from CSL Research. Please go ahead.

Bunmi Asaolu: Good afternoon ladies and gentlemen, Bunmi Asaolu from CSL Research. I have four questions, the first one is on the loan growth. Given that most of your peers are de-leveraging, if I look over the last six months what has actually driven the expansion that we've seen in your loan book? Is it that you saw some movements on BAs and CPs back onto the balance sheet after the CBN's circular or are you having more appetite for risk asset growth versus liquidity? The second one is on deposits. I would have thought that you would benefit a bit more from the flight to quality that's going on in the sector at the moments. Your deposits haven't really grown much over the last six months. Is that deliberate? Clearly it's not that much of a big deal for you because you have a large share of the market in Nigeria at the moment. My third question on your provisions. I guess this is one positive from the audit exercise as far as you're concerned in that your provisions relative to peers especially when we compare it against your loan book is relatively lower and that I guess is confirmed by the NPL ratio being below 10% and your coverage ratio also being relatively low. However the flip side going forward is that your earnings may not be down as much so if you can talk around maybe how you see recoveries going forward, maybe quantify it, some of your peers have done that. My final question is on cost reduction. I guess another positive in your result is that your top line is growing quite well, however this has been eaten up by your relatively higher costs. You referred to some cost reduction efforts in your slides. Do you have a range of figures on what you may be able to save over the next few months that you can share with us? Some of your competitors I recall took out about a billion over the last three months. Thank you very much.

Remilekun Odunlami: I will take the three questions that relate to risk management and the portfolio. I will just go over them and you can correct me if I've missed anything out. You were asking about our loan growth in a period when most of our peers are de-leveraging. You asked about our appetite for risk and you asked what our provisioning level is likely to look like going forward. In term of our loan growth, yes, our portfolios have grown over the past quarter but that is I guess in tandem with the fact that our liquidity is high. We are not adverse to risk but we are managing the risk we're putting on our books very carefully. We are analysing and monitoring our portfolio. In the year gone by, yes, there was a large increase in the non-performing portfolio but that as we all know is largely the result of the crash in the stock market and the economic downturn. Our portfolio of growth in the last six months has been targeted and has been very diverse. We're talking about loan growth to a couple of hundred smaller players that were diverse across the country, across industries and across the economy. A bank of this size cannot expect not to have loan growth and given that we have the liquidity, we're deploying it to areas that require it in a very conservative and considered manner. I guess that also addresses the issue of the appetite for risk.

As far as provisioning going forward goes I can't quantify it at this point because currently I've taken or rather we have taken all the provisions that we can identify in our portfolio today. In line with prudent accounting and banking standards we have identified known potential losses and have taken provisions against them. Obviously things can happen that are not apparent right now but I would say that currently we've taken all the provisions that we require and I would not be in a position to quantify additional provisioning requirements because at this point they just haven't occurred. By the year end one or two things might have changed in the fortunes of individual corporate names and we will recognise that as and when it occurs. But as of September 30th I would tell you that we have got provisions for all the losses that we are aware of and we have taken them in line with the prudential guidelines which in some cases actually requires us to seek provisions in excess of what one would do if one was looking under the FAS 114 standards and assessing the collateral that we have as well. I hope that answers your question.

Oladele Oyelola: This is Ola, let me just take your other two questions. You talked about deposits and a flight to safety. You are wondering if I get you correctly why we did not benefit more from a flight to safety. Let me start off by saying that deposits grew by 41%, that's a very different growth. I think there are two key reasons why we probably did not have as much growth in deposits as we thought we would given the need for flight to safety. Number one, the Central Bank guaranteed all deposits of the banks where actions have been taken, therefore depositors did not have to panic and did not have to move their money. More especially the public sector deposits did not move which is about 60-70% of the total deposits. The second reason why we did not benefit as much as what we had thought is what some of my colleagues in the industry called a flight to safety. Because of the actions taken by the Central Bank and because of the involvement of law enforcement agents in pursuing loan deposits, we have seen a lot of slope from banks that are healthy from banks where actions have been taken because that was a trend to avoid CBN and law enforcement actions. So when you put the two together it balances the flow of deposits but I actually believe 41% growth is a very, very different growth.

You talk about the cost reductions and the fact that our operating expenses are very high. I agree with you. Like I said in my presentation we operate in the high cost environment where you probably have to provide all your basic infrastructure whether that's electricity or water or transportation. That has made it quite difficult to bring the operating costs down. However we have taken some initiatives. We have been back on initiatives that we think will bring down our costs over time. One is what was the central position where we try to have regional hubs where some of our regional transactions can be processed. We have moved very far ahead in that and I think by the time that we get that done that's going to impact our costs. We also have other cost initiatives which we think is going to impact positively on cost reduction, however the long term strategy of bringing down costs essentially to grow revenue and we have focused on that. We are very determined to grow our revenue very aggressively in the years ahead.

Olabisi Onasanya: I would just like to add a few comments on the need for us to be very cautious in terms of our share of deposits. We at First Bank will not join every other bank in the rush for expensive deposits. As we have said we do have a very strong liquidity position. The outlet for this given our decision to be very, very careful in our choice of deployment. We will not seek deposits that we do not have outlets for and we will not join the risk with higher prices for deposits. We feel very comfortable with only deposits that are appropriately priced and for which we have outlets. I hope that adds a little bit of flavour to the explanation previously given on deposits. Thank you.

Bunmi Asaolu: Thank you.

Operator: We will now take our next question from Kato Mukuru from Renaissance Capital. Please go ahead.

Kato Mukuru: Hi, thank you for a very good presentation, really appreciated. I just have a couple of questions. The first question was on the CBN announcement yesterday specifically with regards to the 1% provision on performing loans. I just wanted to get your thoughts on that decision and other supporting bank decisions made yesterday. Also in terms of consolidation you had mentioned that you are in merger talks with international banks. I'm just trying to get a sense of when that is and also locally the question was would you also be looking to participate in the local consolidation story that you expect to see? Thank you very much.

Olabisi Onasanya: Can I comment on the newly released CBN guidelines directly on elimination of the need for the 1% general provision? At this moment we would not like to comment officially, but the challenge is we would have to describe in-house what we want to take advantage of or not. If the requirement is only waived for the current financial year, it then means that from next year you have to make those provisions. First Bank remains very conservative and would only follow what we think is in the overall interests of the bank and the various stakeholders. We would wait until the CBN gave new prudential guidelines and see how much of this requirement of long time maturity. If you talk short term maturity for the correct year we would have to pick a position as to whether we want to take advantage of that because it strictly means that to take advantage for the current year unless we have to charge that back to accounts. That may not be very attractive for First Bank in line with what you know First Bank to be. We are not interested in short term profitability, but on long term profitability. On consolidation the international view, the discussions are ongoing but Nigeria remains the biggest, most attractive market in Africa. We would like to continue our consolidation efforts in Nigeria and that also makes us much more attractive and better positioned for international expansion. We do have plans to internationalise our position where we also have our own expansion strategy which Onche also mentioned with the top African countries which we cannot disclose. The last question, you said you wanted to know whether First Bank is ready to play the local market in the next round of consolidation. It remains part of our key strategy to grow and growth in this area would not devalue opportunities for economic growth within Nigeria. Any bank in Nigeria to date that is ready or adequately prepared for an acquisition, I think there is no other bank. We will identify the candidates and will only take decisions that will add greater value to the First Bank balance sheet. Does that answer your question?

Kato Mukuru: Yes, thank you very much. If I could ask a follow-up question, I guess on the strategy side, what would you see as your area of weakness? What type of institution would offer something to you that you think within your business you would like to improve immediately and maybe find an inorganic solution as being the best solution for you?

Onche Ugbabe: If I might answer, this is Onche. Obviously given the nature of the topic it's something that we cannot discuss too much but I think to re-articulate the principle that GMD set, if we were to engage in any inorganic activity within Nigeria we would certainly look at a number of dimensions including the scale of the institution, including the complementarities to the First Bank franchise, the customers, branch network, talent. We would also look at the probability of success of the transaction and certainly the terms. We will not do anything that was destructive to shareholder value. We are not going to do a Lloyd's HBOS transaction or anything that would be done in a rush without very careful thought. All options remain on the table and we seek to hedge increased shareholder value through this.

Kato Mukuru: Thank you very much.

Operator: Thank you. We'll now take our next question from Tomi Otudeko from IBTC Asset Management. Please go ahead.

Tomi Otudeko: Thank you for the presentations. I want to ask two questions, one has to do with your bond issuance. Also on page 13 of your slides you talked about group treasury now being operational, maybe you could shed more light on that? One of your cost cutting measures, could you explain that?

Oladele Oyelola: We did not get your first question. We got your question on group treasury but we did not get your first question. Can you repeat that?

Tomi Otudeko: My first question has been your plan to raise N500 billion in terms of debt and equity. What portion will come from debt issuance and what portion will come from equity? Also what portion will be issued and how was it passed?

Oladele Oyelola: Thank you very much. As you are already aware we plan to raise N500 billion. That is a bond issuance programme with a shelf life of two years, so it's something we are going to do over a period of two years. We do not plan to raise any part of the bond as equity so it's going to be all debt. Now the other question you raised about this treasury function, the group treasury. Before now we had group treasury. What we have just done is to actually reorganise this to ensure that we have a focus point where all the fund from First Bank and its 12 subsidiaries are controlled centrally so that it's easy for us at any point in time to monitor the flow of funds. As you are probably aware First Bank owns more than 60% of [Inter Bank] and a lot of our subsidiaries also have money with banks so it was important for us to put a system in place, a group treasury that we can determine and knows where all the funds are at any point in time. That's what we meant by the group treasury function that is now operational.

Tomi Otudeko: Thank you.

Operator: Thank you. We'll now take our next question from Christopher Hartland-Peel from Exotix. Please go ahead, your line is now open.

Christopher Hartland-Peel: Gentlemen, good afternoon, thank you. An interesting report here and turning to the back pages, one of things which I found very interesting was the observation on the summary that you expect the NPL and the loan loss charges to trend towards historical levels. I wonder if you could say a little about historical levels because if you go back five or six years your bad debt provisions to loans was about 15% as against the current level. The second point which I'd like to request some information on is the contribution of your non-Nigerian interests. In the year to March 2009 the earnings pre-tax were approximately N3.1 billion. Assuming that there has been no change in that I would take that to be N1.5 billion for this first six months and if you compare that with the group's earnings for the six months which we've been reviewing now of N2.1 billion, that implies the Nigerian operations are making approximately N600 million for the six months. Your comments would be appreciated, thank you.

Onche Ugbabe: Could you please clarify your second question?

Christopher Hartland-Peel: Your international operations, if you look at the full year report for March 2009 then there's the disclosure towards the end of the report that the foreign operations of the group made a pre-tax contribution of N3.2 billion. I'm wondering what the contribution for the first six months of this year is because it hasn't been separated out in the report which we have.

Oladele Oyelola: Let me take the first one. When we're talking about these historical levels for loan loss provisions, as a policy we set a benchmark that we want our loan loss provisions not to be more than 4%. I think that's what we're talking about and we hope to return to levels that will hopefully not be more than 4%. If you see our loan loss provisions it's about 8% now because of the one-off charges that we have made. We're hoping that we can return to a level where it will be below 4%, that's what we meant by that. You talk about the profit, the composition of international business. The foreign business, the profit from international operations was essentially from our subsidiary in the UK. In six months they have not made money because they have been affected by the global slowdown and the credit crunch, so as of now there you can have the contributor of March to the profit of the group.

Olabisi Onasanya: It's not as much as what was contributed in this last calendar year if that satisfies your requirements.

Christopher Hartland-Peel: Yes. It's to get an indication of the performance because N3.1 billion in the twelve months to March and bearing in mind the type of operations which it does, it certainly wouldn't be affected by the causes which have contributed to the increased loan loss provisions of the domestic bank in Lagos.

Remilekun Odunlami: I'll just talk to that, this is Remi, the Chief Risk Officer. Yes, the subsidiaries in the UK have turned in a much less developed performance largely because of losses that were taken on loans in Eastern Europe, so whilst they don't have the same kind of problems that Nigeria has there were some trade and syndicated loans and participations in syndicated loans into Eastern Europe which as a result of the global meltdown caused loan loss provisions to be required within that subsidiary.

Christopher Hartland-Peel: Sorry, I thought you were a Nigerian bank with a UK operation. To hear that there's Eastern European landmines going off isn't very encouraging.

Remilekun Odunlami: Let me correct you. We are a Nigerian bank but first FBN UK is not a branch, it is an FAS registered bank, fully licensed UK bank. It plays in the UK money market, it plays in the UK syndicated market as any other bank would do. It does however have a focus on leveraging its relationship as a subsidiary of First Bank Nigeria on Nigeria. So whilst it leverages its Nigeria relationships it is and will remain a fully participating member of the UK banking industry. Does that address your question?

Christopher Hartland-Peel: That was very interesting, thank you very much.

Operator: Thank you. We'll now take our next question from Jude Fejokwu from Thaddeus Investment Advisors. Please go ahead.

Jude Fejokwu: Thank you for your time. My first question has to do with your interest expense, interest expense, interest income for your March '09 full year to this six months went up from 35% to 46% and in that timeframe you've already seen that your cost of funds didn't go up by much, just went up from about 5.4 to about 6.7, so my question becomes a bank of your nature, why you have interest expense jumping up that large when it other banks it's about 15% over the same time period? That's my first question. My next question has to do with; you said a 29.5 billion loan loss provision, that's fine. How about provisions for de-mutual and volume investments, trading securities, equities for your managed funds which play in the full year '09 and does it have any reference at this point in time? That's question number two. Question number three has to do with looking at retail banking which does have a huge expense layout for most banks. I'm trying to get the picture at First Bank. What percentage of your 3.2 billion PBT is just for retail banking only, not including corporates? What including expenses is tied to retail banking only? Linked to that I would like to know how many customers you have retail wise at this point in time. My next question and then I will join the queue again instead of taking up time has to do with do you believe that your current size is more of an asset to you at this point in time or more of an albatross given that you have about ten subsidiaries or thereabouts and most of your earnings and PBT, over 90% come from the banks still. So this desire to grow the strategy, is it more a hope or is it logical in this environment in the times we are in? Is the country and the environment trying to grow continually given that you may end up being there to some extent. What's your view on that? Thank you.

Olabisi Onasanya: I only hope we will be able to limit by participants going forward please.

Remilekun Odunlami: I will talk to the 29 billion loan loss provision and the CFO will talk to the other issues. Basically yes, we've taken 29 billion in the current period and we took a large provision on managed funds in our full year report. My understanding of your question is, are there any further losses on the managed funds? My answer to that is that there are not. In actual fact on a mark-to-market basis we actually had recoveries which we had chosen not to take so they are not reflected in our book, but the position is actually improving rather than deteriorating. So there are no additional provisions required on our managed funds book. The provisions we've taken in the current period are purely and simply on our loan portfolio as it stands in the bank.

Oladele Oyelola: You talk about interest expense growing. I think it's a trend in the industry. When you have a 4% growth in deposits and you have a large proportion of that coming from time deposits which are much more expensive than the traditional low cost deposits like the business accounts and the current accounts, that accounts for the growth in interest expense.

Olabisi Onasanya: Now there's a last question on the large number of subsidiaries that we have. I think Onche mentioned in his presentation that we are presently restructuring our subsidiaries and taking a second look at the way we are structured and the way we operate. That is a major effect that is ongoing and at the appropriate time we will comment as necessary on announcements made on the new group management framework. Thank you.

Onche Ugbabe: If I could just add to that, your question as to whether sizes of assets are an albatross, we fundamentally do believe in the importance of scale in our industry and the synergies that exist between insurance and banking, investment banking and commercial banking etc. Obviously there's not enough but we do have a strong belief that the field does matter and we will intelligently seek to grow that. As the GMD as alluded we are also intelligently restructuring our subsidiaries in a fashion that aligns with market segments and that pools resources together allowing for specialisation and cost efficiencies.

Remilekun Odunlami: I will just come back on the retail bank question. My understanding of your question is that you want to know what percentage of our profits come from retail banking activities, what is meant as associated with it and how many customers we have in the retail banks. Unfortunately we can't give you an answer to that at this point because we do not have a retail bank as a separate entity. First Bank is a corporate, retail and investment bank. We cover all sectors. We haven't at this point chosen to demarcate and distinguish the retail endeavour. The reference to retail that you saw within the loan portfolio, as a risk manager yes I do segregate retail loans from corporate and consumer loans, however that is purely for risk management purposes and for target marketing and risk dimensioning. There is no provision called for the retail bank in that sense.

Jude Fejokwu: Thank you.

Operator: Thank you. We'll now take our next question from John Storey from Merrill Lynch. Please go ahead.

John Storey: Good afternoon guys. I just wanted to thank you very much for what I thought was certainly one of the best presentations that I've actually come across in the Nigerian banking sector, so thanks very much for that. I really just have one broad question and there are a couple of subsets within the question but I'm trying to figure out for the Nigerian banking sector and obviously for First Bank itself when you guys see earnings actually starting to recover, the question behind that is how do earnings recover? Is it margin related? Is it volume related, cost efficiency related or an unwind of the bad debt charge and if so when does this happen and what type of level of earning does this get you guys back to? Is it similar to what you saw in 2008, 2007? Added on to that question what level of sustainable ROE do you guys see the bank generating and do you use a cost of equity as a hurdle rate on capital investment for the bank?

Oladele Oyelola: Talking about a recovery, we are very optimistic that we will begin to see some recovery in 2010, most likely the second quarter of 2010. We believe that it will be a combination of merchant, a combination of cost reduction and a combination of an increase in volumes. It's going to be a combination of all these factors you mentioned. We believe that '09 is just going to be a year where all the banks try to do some house training and the recovery will pick up in earnest in 2010. Talking about the sustainable level ROE. I think between 2.5-3% will be what will be sustainable. I'm not sure given the very challenging environment that in the ROE that's about 3% and can be regarded as sustainable.

Onche Ugbabe: Just on your question about ROE as a hurdle rate, we have a return on equity aspiration of 25-30% and the CFO alluded to the return on asset target of about 2.5-3% or just north of that. The return on equity as a hurdle rate, yes, we do have stringent criteria for capital investments. We are one of the few banks I would wager that has actually looked at the internal rate of return on its branching programme and gone to that level of extent in analysing its programme. So internally for bank related capital expenditures, certainly we do. Externally for principal investing and private equity we also have for example in our First Funds subsidiary a minimum IRR target of 30% so that is taking into account and is in line with our long term ROE aspirations.

John Storey: Would you be able to divulge the cost of equity that you use?

Onche Ugbabe: No, we cannot do that whether we're looking at a principal investment outside or a branch deployment or the nature of the investment.

John Storey: Thanks very much.

Operator: We'll now take our next question from Soji Solanke from Vetiva. Please go ahead, your line is now open.

Soji Solanke: Thank you very much for your presentation. I would just like to refer to page 6 of your presentation, looking at your provision figure for March 2009, 7.8 billion from your reported financials. I would just like some clarification on that. I would also like to ask about the increased contribution from provisions to your net revenue. Thank you very much.

Oladele Oyelola: Regarding the six month period, I wasn't trying to show that for the full year. So the 13.8, even though you have this for the six months ending March '09, not for the full year.

Onche Ugbabe: We didn't get your second question, I'm sorry.

Soji Solanke: I was asking about what was the increased contribution of fee and commissions income to your net revenue?

Oladele Oyelola: We had quite a lot of growth in our foreign trade where we earned quite a lot of fees both on the letters of credit side and on the FX income.

Soji Solanke: Ok, thank you very much.

Operator: Thank you. We'll now take our next question from Brent Malahay from JP Morgan. Please go ahead.

Brent Malahay: Hi guys, just three questions. Could you provide details to how the Central Bank went about with its provisioning requirements for the banks? Two, will the banks need to provision on this basis going forward? Three, how does the bank plan to manage down its margin lending exposures? Thanks.

Remilekun Odunlami: I'll take them one at a time. First of all what the CBN did was basically come in and do an audit. They reviewed the portfolio and they took subjective decisions on some of the names within the portfolio in part based on the position of some of those companies with other banks within the industry. They used that information and even where an account was performing with us, if it had not been performing in a significant number of other players in the market or in quantum in the rest of the market, there are provisions to be made. I would say that largely the CBN provisioning was based on a subjective review of the portfolio and we have agreed in the interests of conservatism and prudence. Going forward we would continue to look at our portfolio in line with the prudential guidelines. We will also continue of our own volition in taking a subjective look at our portfolio and on a name by name, case by case basis take provisions as required. Our margin loan portfolio we are managing down in two ways. We are looking at the liquidation of shares. We are also working with customers who can provide additional collateral or evidence of decent cash flow and a measurable one which will take out the loan on a restructured basis. So we're working in two ways to get the market loan portfolio down.

Brent Malahay: Just on my first question, so the provision requirement is really done on a case by case basis effectively?

Remilekun Odunlami: Yes. It was on a case by case basis. There's a list of names associated with the provisions.

Brent Malahay: How did the Central Bank go about deciding which clients were non-performing or could be non-performing? Is there some clarity on that?

Remilekun Odunlami: They did an audit. They came in, they took the list of accounts. I believe they started at the top and worked their way down to some level of coverage which is known only to them and they looked at the information they had across the system and they identified names where they were comfortable and they looked at the files and they determined which names they felt required additional provisioning and informed us and advised us accordingly.

Brent Malahay: Ok. Then just to clarify on my third question with regards how you manage your margin lending. So one, depending on how bad the loan is you would write it off effectively?

Remilekun Odunlami: I would write it off, yes.

Brent Malahay: Then the second one is just you would ask for additional collateral.

Remilekun Odunlami: Correction. When I say I would write it off, I would sell the shares that I hold and if the provisions I have taken to date are not sufficient to cover the differential between the amount I get for the shares and the outstanding loans, I will write off the difference. But to a large extent I have already made provisions for that exposure. The second thing I would do is I'm asking the customer for repayment plans over the next year, year and a half provided they can show me adequate cash flow from dividends, from other businesses, from their main businesses in a lot of cases and supported by non-share collateral. I'm also looking at that. My objective is not to put people into bankruptcy but to work with them where they are able to carry on with their businesses and pay down over a restructured period.

Brent Malahay: Great, thanks very much.

Operator: Thank you. We'll now take our next question from Victor Ndukauba from Afrinvest.

Victor Ndukauba: Good evening. A quick question, I just want to have about the forecasts for the earnings of the bank, looking at the plans you have for the bank you want to raise a bond of N500 billion which you intend to pay over five years. Also that makes that from your earnings you have to pay the coupon or the interest on the bonds for the next five years and I want to know how you're going to factor that based on the forecasts you've made? We see as you've said you're forecasting to make a return on assets of 2.5% to 2% and a return on equity of 25%. If your assets including 3 trillion, that brings the proceeds to 75 billion per annum and you have to pay your costs going up. I just wanted to get a clear indication of forecasts on how you intend to service the debt and how you also intend to make a forecast of your ROA of 2.5% and the ROE of 25%? That's one. Two, looking at your non-performing loans for March '09 you had 1.5% as your non-performing loan and the provision to 6.11 billion. As at the end of September you had 7.9 and your provisioned 29.5 billion. Now going by the forecast for your loan portfolio, how soon…you said for customers you would achieve a 4% growth. This continues to grow and your loan portfolio grows, so 4% of that, that constitutes 6 billion. How do you see these assets altogether?

Oladele Oyelola: I'll take the first question, the one on the bond. Let me reiterate once and for all, the bond is a programme and it's a programme with a shelf life. We need not take the money if we don't have productive use for the money. We will not assess the market for the bond just for taking on the money. We have specific projects we have in mind, that's if those projects don't materialise we will not access the market for the bond. The issue of how do you intend to salvage the bond, if indeed we need to shape this to be in tranches, it will be in tranches. It's not something we are going to take in one fell swoop.

Remilekun Odunlami: I will try to answer your question on the NPLs but I might need you to go over it a bit. My understanding was you're telling me that our non-performing loans to total loans as of March 2009 was 4.6% and we took a provision of 20 billion and our non-performing loans, total loans to September is 7.9% and we've taken a provision of 29 billion. I couldn't understand your reference to the 4% growth because we were first at our historical level of non-performing loans to total loans. What I would just go back and say is the provision we took of March 2009 of 26 billion, what we brought to the bank, it included provisions taken on a subsidiary, the group results. The incremental in the last six months is pure loan and as I said before it's not on a managed fund, it's pure loan growth and it's covered by the 29.5 billion in the period. Have I addressed your question?

Victor Ndukauba: Not really. The question I had is if your loan portfolio continues to grow at this trend, then we should be beginning to see the loan portfolio going to 900 billion in the minimum and if you are able to forecast, cap it at 4%, that's the proportion that's going to non-performing loans of 900 billion that comes to 36 billion. How do you intend to provide for this in the year coming and how does it affect your energy? That's the main question.

Remilekun Odunlami: Yes, we're projecting that our loan portfolio will grow to 900 billion. We are working towards a non-performing loan to total loans ratio of 4%. I'm not convinced we will get 4% but as my colleagues said earlier these are historical and we responded that we are looking to moving towards, trending down below 4% is what we deem our historical level. But in terms of how we're going to get there we're working hard on recovery and I believe a significant amount of what we have in our non-performing loans to date is recoverable.

Olabisi Onasanya: I'd like to also add that the fact that we plan to grow our loan book does not mean that we want to grow non-performing loans. What we do at the moment is that we have strengthened our risk management framework such that new loans being booked are not likely to go down. Am I clear?

Victor Ndukauba: That's clear, thank you.

Olabisi Onasanya: It leaves me to thank everybody for taking part in this conference call. I'd like to summarise that we have a very strong bank, the strongest bank so far. We will ensure that we do everything possible within the resources of the bank around these provisions. The main provisions at this moment is our responsibility to ensure that we work out those loans and get them back as soon as possible. We are committed to delivering reasonable numbers at the end of the financial year ending December 2009. We will continue on our present initiatives to adopt IFRS in line with the international community. We will continue to grow the bank and focus on those initiatives aimed at improving our efficiency and concretising the advantage we have in the increase in customer business.

Thank you very much and we hope this will also be so at the end of the next quarter. Thank you very much and God bless you.

Operator: Thank you ladies and gentlemen, this now concludes today's conference call. You may now disconnect your lines.