Company:	**First Bank Nigeria**
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Presenters:	**Bisi Onasanya, Remi Odunlami, Bayo Adelabu**
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Operator: Good day and welcome to the First Bank Nigeria Half Year Results Conference Call. Today's conference is being recorded. At this time I'd like to turn the conference over to Mr. Bisi Onasanya, Group Managing Director. Please go ahead.

Bisi Onasanya: Good afternoon everybody, my name is Bisi Onasanya. I'd like to welcome you all to this conference call. I have with me in the room Remi Odunlami, the Chief Risk Officer.

Remi Odunlami: Good afternoon.

Bisi Onasanya: And Bayo Adelabu, the CFO for the bank.

Bayo Adelabu: Good afternoon.

Bisi Onasanya: It has been an impressive performance for the bank and thus on our documented strategy plan and intent, we think we are on course and we are beginning to also see the impact of this transformation journey that we embarked upon about two years ago.

Starting with slide 4 let me take you through the roadmap. In the first half of 2011 we have been able to sustain our improved deposit mix such that if you treat it in terms of our total deposits, they now include savings and foreign account balances which are low cost deposits. This has also positively impacted our net interest margin because we have been disciplined enough to maintain our interest expense at a low level whilst driving revenues from improved yield on our assets – that's a positive development and we intend to continue along this line until the end of the year. We also, as a deliberate and conscious step, have been able to accelerate our earnings during the period through effective asset pricing and moving away from transactions that are not positive to the bank. We have trained our people and the impact of performance management has also started coming in and we now have staff that are entrepreneurial and think in terms of business.

On the strategic growth we intend to emphasise growth and efficiency. The good news is that we have been able to consolidate our leadership in terms of balance sheet, total deposits, NAV and so on. The one single parameter that we need to build upon and improve upon is the efficiency in terms of return on equity and that remains for us on our transformation journey in 2011 up to 2013. Three enablers have been defined: service excellence, performance management and talent management. These are expected to deliver on the defined targets.

How do we intend to do this? We will continue to aggressively transform the bank. In terms of shareholders we would like to be number one in terms of return from equity, for customers we would like to be number one in terms of service levels and we'd like to be the bank to work for as far as employees are concerned. We will continue to defend our leadership position in the industry like we have done. We would also extend that leadership to cover the same areas that I mentioned earlier to profitability and service excellence.

What did we deliver in the first half of 2011? That's on slide 6. We were able to put up a profit before tax of N35.7 billion for the group. This improves the return on equity from 15.5% in Q1 to 19.6% inching towards 20%. We did forecast that we would do 15-18% at the beginning of the year. We believe that we remain confident that we will be able to achieve this forecast of 18% at the end of the year.

Year on year and particularly in the first six months of the year we were able to increase our deposit portfolio by 32.3%. We do not see any reason whatsoever why this trend should decline in the coming months.

Lastly before I hand over, the major drivers of the Nigerian economy are listed on slide 8. We expect that with the ongoing consolidation and the resolution of those consolidation issues, the landscape will change and the game-changers will be the new banks after consolidation and that explains why we decided to move away from the inorganic growth as far as Nigeria is concerned and we have been able to focus in the second quarter on our organic growth as defined in our strategic plan. We will continue to ensure that even when the consolidation takes place, we will continue to drive our business such that the businesses and the gains that we have achieved now are able to stay with us by improving the quality of service we give to our customers so that we will not lose those customers when the aggressiveness comes back into the market. Technology will continue to drive the business and that's why we are very well positioned to take advantage of opportunities in the mobile money and mobile payment systems.

I will now hand over to the Chief Financial Officer, Bayo, to take us through the financials.

Bayo Adelabu: Good afternoon. My name is Bayo Adelabu, Chief Financial Officer of First Bank plc. I will use the next few minutes to take you through the highlights of the financial presentation on slide 9 through to slide 18. Slide 9 shows an evolution of the bank's profits after tax. Right through from the interest income through to non-interest income and operating costs of the bank while restructuring the loan loss provisions. The slide shows strong growth in both interest and non-interest income. Interest income is shown at 15% while non-interest income showed an 18%. A key highlight on this slide is also the reduction we were able to achieve in the interest costs on deposits.

Moving over to slide 10, explaining the comparison of the bank's gross earnings which benefited significantly from the improved environment during the period. It shows a year on year growth of 14% in gross revenue. Interest revenue grew by 14% while non-interest revenue grew by 16%. This shows that we had a good growth in underlying activity. In terms of group revenue split on the right hand side of the slide, retail and corporate banking still represents 94% of the bank's revenue while the remainder of revenue represented 6%.

Moving to slide 11, total income mix; Interest from loans and advances constituted 74% of the bank's gross interest revenue, bonds and inter-bank placements contributed 9% of the interest income. Turnover, trade and fees constituted 34% of the bank's non-interest revenue for the period. In terms of yield the bank actually grew its yield from 8.2% at the end of last year to 9.7% while net interest margin stood at 8.2% from 5.4% achieved at the end of last year and 6.6% at the end of the last quarter. This is a very good development for the bank. The main reason for these achievements is the very low cost of the funds of the bank which declined further from 2.5% recorded during the last quarter to 2.2% as at the end of June 2011.

On slide 12 quarter on quarter there was a 25% growth in the operating income of the group while we also achieved improved efficiency in operating overheads. Staff costs remains 53% of the bank's operating expense with depreciation, NDIC premium, AMCON levy constituting 14% while overheads were responsible for 23% of the total costs.

Total efficiency on slide 13. The cost income ratio of the bank improved significantly compared to the prior quarter and prior year. It now stands at 59% compared to 65% achieved at the end of last year and also compared to 64% achieved during the last quarter of the year. There was however growth in loan loss provisions which is in line with what we guided at the beginning of the year at 1.5-2% cost of risk in the financial year. In terms of profit before tax for the first half year we witnessed a faster growth in PBT quarter on quarter compared to what we achieved last year. There was a 127% growth between last quarter and the first half year compared to the 105% growth we achieved in the prior year between the first quarter and first half.

Slide 15 is talking to our performance ratio. Return on equity which stood at 19.8% compared to 15.5% achieved in the first quarter of the year and 10.3% achieved at the end of last year was also very good. In terms of return on assets we were able to achieve 2.4% which is a growth of 14% compared to 2.1% achieved during the last quarter.

On slide 16, which shows the analysis of the bank's balance sheet, the bulk of the bank's funding still comes from deposit liabilities which represents 66% of the total funding. Shareholders' funds, capital reserves represent 11% of the funding while other funding which includes borrowing to other banks constitutes just 14% of the bank's funding structure. In addition to this, there was significant growth in deposit liabilities year on year with a 35% growth compared to last year while we achieved a 32% growth from the end of last year to the end of the first half year June 2011. Retail banking and public sector business remain the largest contributor to our deposit liabilities. This business unit, we were able to make 15% of deposit share.

On slide 17 we show the mix of our deposits which is one of the strengths of the bank. 83% of our deposit liabilities represent low cost funds of current accounts and savings accounts while just 17% are term deposits and this is the first of the low cost funds for the bank. In terms of earnings asset mix, loans and advances represent half of the bank's earning assets standing at 47% while inter-bank placements represent 22%, bonds and other investments represent 19% whilst treasury bills were 2% of the earning asset mix.

In terms of the balance sheet efficiency our leverage ratio as at the end of the first half year was nine times; up from seven times recorded first quarter of this year and seven times recorded at the first half of last year. Our loan to deposit ratio remains 67%.

I'll move to the last slide which is slide 18 which shows the groups capital adequacy ratio at 17% and Tier 1 ratio at 14.9%. Management is still comfortable with this level of comfortable to run a level of business in the short term.

I will now hand over to Remi Odunlami, the Chief Risk Officer of the bank.

Remi Odunlami: Good afternoon. I'm going to start on page 19 and in the interest of time and so we can have more time on the Q&A I will be as brief as I can. The summary of what you have on slide 19 is largely that there has been no real change in the portfolio size or the portfolio mix in the quarter. Quarter on quarter you've got a slight dip of about two percentage points on the portfolio. The loans and advances in terms of the distribution remain largely term but we are still seeking to grow our short term revolving-type facilities. The rest of the slide basically tells a story of no material change in structure of the portfolio.

Moving on to slide 20 again by SBU, you will see that there are one or two percentage point changes in the mix but essentially the same thing, the bulk of our portfolio still resides in the institutional banking sector with corporate banking following as a major focus. We do retain our interest in the retail banking space and we will continue to grow that space on a measured, structured basis. In terms of sector exposure no changes and then you have the detail of our consumer and retail portfolio with an emphasis as always on the asset backed portfolio.

Moving on to slide 21 we talk to our asset quality. I need to make this point up front that our NPL coverage ratio has increased to just under 105% and this is because of the 1% general provision that we have taken. I have always stressed the fact that given that we have a graduated provisioning policy under the regulation it's a portfolio that will show you 100% coverage ratio but given that the size of our performing book, a 1% provision is a significant portion and has given us a coverage of over 100%. The rest of the indicators are positive. NPLs as a proportion of the portfolio have dropped from 7% in the previous quarter to 3.8% in the current quarter. A large portion of that is of course due to the sale to AMCON but also to some of the recoveries we have succeeded in making during the quarter.

In terms of the SBUs the NPLs, the retail segment is showing up with 70% of our NPLs as against 54% in the preceding quarter. That is again largely the result of the AMCON sale because AMCON didn't take loans below N50 million and obviously the large proportion of our portfolio in the retail segment is below N50 million; so whilst we have managed to reduce the institutional and corporate banking non-performing loan portfolios, the retail portfolio we will reduce only by collections. That is emphasised when you look at the NPL ratio within the unit which has improved from 23.6% to 16.5%.

Moving on to slide 22 you will see that the NPL portfolio has increased in the segment above 360 days. It has increased from 40% to 47% of the NPL book but you will also notice that that is because of migration of accounts that were in the 180 to 360 day bracket into the above 360 day bracket. We continue to work on those loans despite the fact that they are classified as lost and are 100% provisioned and we are optimistic that we will be able to record within the next year, not this year end but within the next 12-18 months a significant improvement in that.

The remaining slides on pages 23, 24 and 25 speak essentially to our corporate governance framework. I will leave that for you to read and ask any questions if you have any.

I will now hand the presentation back to the GMD to take us through the strategy.

Bisi Onasanya: Thank you Remi. What have we done in the half year? We have made further progress towards attaining our goals and in also making sure that there are improvements across the balance sheet and in metrics. Right now First Bank remains the number one and maintains that position across most metrics within the industry and we are in a very strong profit trajectory.

Moving on to slide 28, it's important that you understand the framework for running the business today. We have broken the business into specific market segments. Our intention is to increase the level of granularity on this line of business and the KPI and the targets we expect for each of our business units is to remain the best in each market segment and to capture this market segment. For private banking, we intend to provide professional services to the top end of the market and become the toast of the markets. In the corporate banking segment we want to ensure direct linkage or our lending to specific transactions so that we move away from an area where we lend to customers who take the money from First Bank and do their transactions elsewhere. In the retail banking segment, we are moving away from the big branches to what we call 'quick service points' and we are also working with major stakeholders including the telcos and the Central Bank of Nigeria to deploy mobile banking solutions because that's the future of retail banking.

I will move on to slide 29 where we have defined our major priorities. These priorities are classified into financial and non-financial priorities. The non-financial priorities are essentially enablers to deliver the financial priorities and they are listed on slide 29. We have started seeing the impact of re-pricing of assets and that has resulted into the increased margin that we saw in the second quarter. We have also consciously, having improved our services, moved to institutions in which we are now in a position to work on transactions that we consider most profitable. This is because we believe that we have made significant progress in getting ourselves to appeal to the various market segments.

I will move on to slide 30 which talks about the execution of our five key initiatives and how we intend to deliver on them. We have been able to transform 20 of our branches into model branches and between now and the end of Q3 we intend to add an additional 55 branches during the quarter. What we see in these branches compares with what you see in any branch anywhere in the world and that is what you would get when you enter any First Bank branch in the next one year.

Lastly let me take you to slide 35 which talks about FBN Holdings plc. We have obtained the approval from the Central Bank of Nigeria to establish a holding company subject to shareholder approval. We are working towards resolution of the tax issues which are very fundamental. The good news however is that we are making progress. Let me just round up by saying we do commend the efforts of the Central Bank who have been very,

very involved in assisting us to deal with the capital issues in industry and we have receive commitments and assurance that these matters will be resolved in the shortest possible time. Based on this we are still on course with our holding company structure and we expect that going forward 20-25% of our group revenues will come from subsidiaries in the holding company. Let me confirm also that when we have finished this exercise the holding company will be the listed entity and the bank will be owned 100% by the holding company.

Lastly let me also seize the opportunity to emphasise that First Bank remains a compelling and attractive business to invest in. We have successfully improved our performance and efficiency ratios from what it was last year to what it is now with the equity now at 19%. First Bank has a very stable funding base with about 66% of our liability funding derived from customer deposits, with the bank in a very strong liquidity position and a leading financial institution by performance. It has withstood the weather and has remained the leading bank in Nigeria. We intend to protect this and we will continue to do whatever it takes to make sure that we maintain that leadership position in the industry. We have absolute confidence in the quality of the management team that we have put in place. We have implemented initiatives that ensure that we are not only able to attract the best in the industry but we are also able to retain them and we are beginning to see the impact of this in financial performance. We have a track record of sustained growth and based on the trajectory that we have sustained in the first half of the year there is no doubt in my mind that the performance this year and the yields on dividend for the rest of the year should outperform what we did last year and should meet our forecasts.

Thank you very much, I would like to conclude this conference call presentation and we would like to take questions at this moment.

Thank you, over to you.

Operator: Thank you. If you would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered you may remove yourself from the queue by pressing *2. Again please press *1 to ask a question. We will pause for a moment to allow everybody an opportunity to signal.

We will take our first question from [Omolola Ademoroti from Thaddeus Investment Advisors and Research Ltd.]. Please go ahead.

Omolola Ademoroti: Good afternoon all. My first question, please can you inform us of the total face value of loans sold to AMCON and how much did you get as a result of these loans? Also the loss on loans sold, when will it be recognised in your books? That's my first question. My second question goes thus: how will you account for the AMCON 0.3% levy on assets in your income statement? My third question: what is your interest income from loans only? My fourth question: you have chosen the holding company options. Should we expect double tariff taxation to reflect on your books at the end of the 2011 financial year? My fifth question, 92.6% contribution from retail and corporate banking. Could you please break it down? What is the exact percentage for corporate banking and that of retail banking? My last question now. Your non-banking subsidiaries are contributing less than 50% profit before tax year on year. What strategies have you worked out to increase their contribution to the group's profit before tax since you have chosen the holding company option? Thank you.

Remi Odunlami: I'll start, I think I have got most of your questions down. In terms of the face value of the percentage of the loans sold to AMCON, if you refer to slide 22 you will see that we sold N32 billion in additional assets to AMCON. You will also see that we received N18 billion from AMCON and that we took a write-back of N10.4 billion. The numbers which were actually not a loss were already in our accounts for the half year. In terms of interest income on loans only I haven't offhand got the split between the treasury income and the loan income but I'm sure you can refer back to Yemisi for this in due course. In terms of percentages 73% of the income is from loans and advances; 16.9% is from treasury bills and 9.1% is from placements. You'll find the information on slide 11. You had a question on 92%, I missed that. The retail and corporate banking question you had on 92.6% of our income is a mixture of FirstBAnk Plc, FBN UK, FBN Microfinance Bank, all of those play in the retail and commercial banking space and that's the information you asked me for I believe. I think the CFO will take the other couple of questions that you had.

Bayo Adelabu: I will take the other two questions you had, the first one on the AMCON levy, the 0.3% AMCON industrial relations levy. We have already tagged this for the half year, and is in the region of about N3 billion which is being recognised in the account for the half year, it is already in there. We estimate it should be about N6 billion for the entire year. For the double taxation issue that you mentioned regarding our option of the hold co, this has been addressed by the GMD/CEO when he was addressing you on the objectives of the holdco and the holdco. This is one of the issues that has been impacting the full implementation and the second offer with the relevant regulator authorities, we have the assurance of the Central Bank of Nigeria that this issue will be resolved in due course so as to ensure we implement the holdco format in the shortest time possible.

Bisi Onasanya: Let me add however that the take-up of the holdco arrangement is dependent on the resolution of the taxation issues but we believe that these issues will be resolved.
Next question.

Omolola Ademoroti: My next question please. I'm not clear on some answers that you gave, like the one about the loss on loans sold. When will it be recognised in your books? Will it be recognised in this 2011 financial year?

Remi Odunlami: What I said was if you looked on slide 22 you will see that we sold loans of N32 billion to AMCON, that we received N18 billion from AMCON and that we took a write-back which means that we took income of N10.4 billion. There was no loss. N10.4 billion as I stated before was recorded in our books in the half year. Does that answer your question now?

Omola Adremoti: That does but my question about strategies that have been mapped out to increase the contribution of the subsidiaries to the group's profit before tax, I'm not clear on that.

Remi Odunlami: Our strategy for the subsidiaries is that they will all play within their respective segments, they will all strive to be number one in their segments and they've got various strategic initiatives which will work towards that. However given the fact that they represent today less than 20% of the income of the group and the bank will not stop growing it's unlikely that they will grow significantly in the next 12 months as a proportion of the income of the group. Does that help you now?

Omolola Ademoroti: Yes it does. Thank you very much.

Bisi Onasanya: Next question please.

Operator: We'll take our next question from Ronak Gadhia from Exotix Limited. Please go ahead.

Ronak Gadhia: Thank you. I've got about three questions, if you don't mind we can take them one at a time. You mentioned in your presentation that you wrote back about N10 billion from AMCON. In which component of your P&L did you write that back? Was it in the interest income?

Bayo Adelabu: Recovery, non interest income.

Comment [O1]: Please note that N10.2billion was taken to interest income to recover interest in suspense and N200mn was taken to fees and commission as profit on sale of assets

Ronak Gadhia: So taking that off your commission income then on a quarter on quarter basis your fees and commission income actually declined?

Remi Odunlami: If that's what the numbers say, yes.

Ronak Gadhia: Secondly can you give us an update on the Seawolf restructuring? From what I understand you have to be compliant by the end of September?

Remi Odunlami: Yes we do. We do have a requirement that we are compliant by the end of September. If we are not compliant we will seek a further extension from the Central Bank, however we have got a couple of plans in place which we are not sure will be concluded by the end of September but I believe will not be a long way down the line towards getting within the SOL by that point in time.

Ronak Gadhia: Do you anticipate that you might have to take a restructuring charge as a result?

Remi Odunlami: It depends on which of the options we take, we're still reviewing. We will take the one obviously that has the minimal restructuring charge. I don't have a number.

Ronak Gadhia: Ok. Thirdly do you have any exposure to Zenon?

Remi Odunlami: No we don't.

Ronak Gadhia: Ok. That was it, thank you.

Bisi Onasanya: Thank you. Next question please.

Operator: We'll take our next question from Kato Mukuru from Citibank. Please go ahead.

Kato Mukuru: Thank you very much for your presentation as always. My question is on the loan growth outlook, sorry if you had already said this and I missed it because of the connection. The first one is on the loan growth outlook and in particular what sectors you will be focusing on? The other one I would like to revisit is, have your views on M&A within the sector changed at all now that they still are potential opportunities for you? Thank you. Lastly just to clarify, the write-back should be a recovery, so shouldn't that be in your loan loss provision number and not in your commission number?

Remi Odunlami: I will take them one at a time. The loan growth outlook, I still maintain that we will be looking at 15-20% loan growth year on year, we look at 15-20% loan growth year on year and sectoral focus remains infrastructure, power, retail and general trading because general trading represents still I think about 30% odd of the nation's GDP; infrastructural development is a necessity for the economy and it's a focus of government and obviously power likewise. That isn't to say that we will not continue to look at all our customers across the entire economy and we will grow commensurate with the needs of our customers on a structured basis. Our views on M&A, I think the GMD did point out that we are no longer looking at inorganic growth. We have had our look. We identified the organisation we were willing to make a purchase. The deal did not work out. We have moved away from that. We focus on organic growth and I think that the numbers in the last quarter show the benefit of our renewed focus on organic rather than inorganic growth.

Bisi Onasanya: Let me re-emphasise that we have moved away from inorganic growth and our focus now is on accelerated organic growth and the impact has already been felt.

Bayo Adelabu: On the treatment of the N10 billion write-back on the sale to AMCON, you are essentially right, if its actually a normal recovery from customers it's easy to write down the provisions but we have it as sales of assets to AMCON which is more like debt factoring thereabouts, so more like an income for sale of assets which is why it's to recovery income, under fees and commissions. At the end of the year during the audit we will speak with the auditors on how it should be appropriately classified depending on the views the auditors are holding by year end.

Comment [O2]: Please note that N10.2billion was taken to interest income to recover interest in suspense and N200mn was taken to fees and commission as profit on sale of assets

Bisi Onasanya: In the meantime we confirm that that treatment is standard industry treatment as of today. That may change at the end of the year when the figures are audited but this is consistent with the treatment given by other banks in the industry. Thank you. Next question.

Kato Mukuru: Thanks.

Operator: We will take our next question from Abiola Razzaq from Vetiva Capital Management. Please go ahead.

Abiola Razzaq: Thank you very much, good afternoon everyone and congratulations on your numbers. My first question is just a follow-up on the provisions that you made in H1 which is about N14 billion. If I get you right you had a write-back of around N10 billion from the sale of your NPL and we have seen about N14 billion posted on your books in terms of P&L impact. Can you please give us the total provisions given the fact that you had write-backs and you still had NPLs significant in that quarter? Then the second question has to do with your loan portfolio. I would appreciate if you can give us a guidance on the percentage that is secured and what percentage is unsecured so at least that will give us a guidance on the likely risks that we see on your portfolio going forward. I would also appreciate if you can help us clarify the N3 billion charge that was made for the AMCON resolution trust fund. If I'm correct based on your current balance sheet now you've got N2.9 trillion, 0.3% of that is about N9 billion and I'm just wondering if you made a N3 billion charge for that in the first half of the year, by the full year if the balance sheet portfolio remains the same it's going to make a N6 billion position. If you could give us guidance on that, maybe that will give us clarity on what it will likely be in the second half of the year. Thank you.

Remi Odunlami: I think we're going to split those questions but in terms of the provisioning we did indeed take a N14 billion provision in the half year and it reflects the quality of the loan book, the N10.4 billion recovery from AMCON or rather write-back in loans from AMCON was also take it in but it was taken in on a separate line and you will see the impact of that in our portfolio and in the provisioning numbers and the portfolio numbers. I'm not too clear on what else you were trying to get across to me. In terms of the security level…

Abiola Razzaq: Yes, I was actually saying what percentage of that will be secured and what percentage is unsecured? I mean collateralised.

Remi Odunlami: Our portfolio is predominantly collateralised. I'd say we have about 70-75% of our portfolio collateralised to some degree and only about 20% or just over 20% clean. It's not our practice and it's not our policy to lend clean except the top tier names who will not borrow on a secured basis.

Bisi Onasanya: Top grade names that typically the industry doesn't take collateral from and the performance from this segment of the market is 100%.

Abiola Razzaq: The third one has to do with your current charge for the AMCON resolution trust fund. You have made positions in the first half of the year. Do we offset about N6 billion if your portfolio, your balance sheet remains the same?

Bayo Adelabu: I will handle that. The AMCON industry resolution goes up, actually stated a unique provision for the current year based on your last prior year balance sheet which is the balance sheet at the end of December 31st 2010. You need provisions for 2011 on that balance sheet. The balance at that time was about N2 trillion. 0.3% of N2 trillion is N6 billion for a full year, so for six months it is just about N3 billion which we have fully made provisions for as of June 2011 and we expect that the same amount will be provided for the next six months. Our current balance sheet will only apply for next year's provision. On our outlook for opex in the second half of the year, if you take a careful look at the split of our operating expenses you will find that the staff costs represent over 53% of this and that has been a source of growth in opex for the first half year. If you look at the other components of opportunity expenses they either remain static or they have dropped or declined. This is the outlook we also expect in the second half of the year. We continue to achieve cost efficiency as well as a revenue stream to have an improved cost of income ratio as guided at the end of the year.

Abiola Razzaq: Thank you very much. Maybe just lastly can you just give us statistics on the current number of customers First Bank has and maybe the accounts as we speak?

Bayo Adelabu: We presently have 5.6 million customers and it's encouraging to note that in the first half of this year we grew that customer base by about 600,000 new customers. Does that meet your requirements?

Abiola Razzaq: Yes. The staff headcount?

Bayo Adelabu: We have about 8,600 full time permanent staff presently.

Abiola Razzaq: Thank you very much.

Operator: We will take our next question from Muyiwa Oni from Stanbic. Please go ahead.

Muyiwa Oni: Good afternoon gentlemen, thank you for your presentation. I have just two questions, one is on your current NIM based on half year results, the NIM, it's about 8% right now and your outlook for 2011 is for 6.5%, that's the guidance we were given at the beginning of the year. Based on the outlook on the interest rates I wanted to know what your view was on NIMs, if you expect it to remain at these levels because I have observed that your cost of funds have also declined significantly and I wanted to know if guidance would change to about 8% now from the 6.5% level that you had at the beginning of the year? Also for your revenue mix, I wanted to know what your optimal revenue mix would me at when your subsidiaries have developed to the desired stage because I think currently retail accounts for about 92% of the business. You also mentioned that you expected for the subsidiaries to contribute about 20%. I wanted to know if that's what you are guiding for next year or if that's more of a medium to longer term plan. Thank you.

Bayo Adelabu: Thank you very much. The question, you're right, we guided on a 6.5% net interest margin for the year but we were able to make a better margin of 8.2% for the first half year which is almost 200 basis points above what we guided. Two things were responsible for this, the first was we benefited from the improved yield environment in terms of yield on customer loans and yield on the treasury assets for the first half year; and secondly we were able to also mop up deposits of almost 30% in the area of low cost deposit current accounts and savings accounts which also dipped our cost of funds which is why we were able to achieve a positive variance of 1.7% compared to what we guided. we cannot guarantee that interest rates will continue to remain at its current levels based on risk inflation, and some policies of the government will assist interest to move in this upward direction and thereby impacting our NIMs slightly. So we still want to stick by the 6.5% guidance that we have guided for. That may be an upside then in the region of 8% for the rest of the year. On the mix of revenues from companies and subsidiaries we currently have about 7-8% from subsidiaries. Optimally we will be looking at a situation whereby our subsidiaries are contributing about 20% of the group revenue but the reality is our subsidiaries are growing and the bank is also growing so it is very likely that the growth in the bank business will continue. We are very comfortable with subsidiaries contributing between 10% and 20% in as much as the return on equity to the bank is still acceptable to us based on the capital we have invested in these subsidiaries.

Muyiwa Oni: Ok, thank you for that.

Operator: We will take our next question from Abbas Barkhordar from Schroders. Please go ahead.

Abbas Barkhordar: Hi, thanks for the presentation. My question is on the interest expense you've recognised in the first half. If you compare the interest expense in the first quarter to the first half it's a bit strange because in the first quarter you recorded an interest expense of N5.3 billion on time deposits but for your first half accounts it's N2.8 billion and there seems to be some sort of misallocation between current account and time deposits. I'm just looking on the detailed accounts released on the website. The total expense number seems in line but there seems to be a strange misallocation between current accounts and client deposits.

Bayo Adelabu: Sorry, could you please repeat the question? I didn't get the question.

Abbas Barkhordar: What is the actual breakdown in interest expense between the time deposits and non-time deposits because on your detailed accounts on the website for the first half it says time deposit interest expense N2.8 billion which is lower than the expense of N5.3 billion that you recognised in the first quarter, so what's the actual expense on time deposits?

Bayo Adelabu: The reduction that you noted on interest expense on term deposits for the second quarter of the year compared to the first quarter also testifies to the fact that a number of deposits that were carrying higher interest rates in the first quarter matured into the early part of the second quarter. A number of them were not reviewed, they were rolled over as lower interest rates based on the fact that we have been able to mop up a large amount of foreign and savings accounts. Does that satisfy your question?

Abbas Barkhordar: Yes, I guess it's fine, it just seems a bit unusual that the time deposits is so much lower than the current accounts, the interest expense.

Remi Odunlami: Can I just interrupt, another point that you need to bear in mind is that our time deposits are running off. If you look at the mix of our deposits you'll find that we've got a growth in current and savings accounts and a reduction in the quantum of time deposits. Now to the extent that our savings accounts are interest bearing there will be an interest charge on them which is why you will see interest expense on the current and savings accounts line, but the term deposits would have much higher interest rates but we have significantly reduced the volume that we hold in that portfolio.

Abbas Barkhordar: I'm just curious if you compare the 2010 first half and the 2011 first half, term deposits interest expense has gone from N17.6 billion to N2.8 billion…

Remi Odunlami: Its policy, that's what we're driving for. We're driving to change the deposit mix from term to current account and savings accounts and we're succeeding. Last year we did have a significant portion of our book in term deposits, and we have been working very hard to bring it down and I think we are succeeding.

Bayo Adelabu: In addition to that if you look at the first half of 2010 this was actually an area of high interest rates on term deposits. Banks were as high as 11%, 12% on deposits but this actually went down gradually towards the end of the year, so most of the deposits we are holding at very high risk last year were re-priced to single digits, so as low as 2%, 3% and that is what we brought to the 2011 financial year, a significant drop in interest expense.

Bisi Onasanya: Let me round off by saying that this has not happened accidentally. This is a deliberate strategy to lower the cost of funds by discouraging as much as possible high cost deposits and moving towards the low cost end of the market and I can confirm to you that today based on the half year results 83% of our total deposits came from the low cost deposits. It's a deliberate strategy and we will continue to drive that strategy.

Abbas Barkhordar: What percentage do you pay on the term deposits now?

Bisi Onasanya: It's a range and it's a range based on so many factors and we have a risk table that is available in our branches. If you need more questions I want you to please call the head of IR. she will be willing to give you further details.

Abbas Barkhordar: Ok, thanks.

Bisi Onasanya: Next question please.

Operator: We'll take our next question from Fred Wadler of Duet Asset Management . Please go ahead.

Fred Wadler: My questions have been asked and answered but I guess I just want to go over the Seawolf situation one more time. You have two choices you're working on and on either of the choices there will be a minimal write-down. Maybe you could just explain in slightly more detail about how you're handling the Seawolf situation?

Remi Odunlami: Quite honestly at this point I wouldn't want to go into details about the strategy I'm adopting or into numbers, not because I don't want to disclose but because it could impact the negotiations and the arrangements that I'm trying to put in place. Suffice to say that we are working on the best option for our shareholders and our investors and we're looking at the ones that will minimise to the greatest extent the write-offs or restructuring costs we would have to take. I'm sorry I can't give any more guidance on that but it would impact on the negotiations.

Bisi Onasanya: However please note that this facility presently is performing, the cash flow is adequate to service the interest expense and the obligations. We are selling down because we want to comply with the Central Bank directives and the single obligor limits. Thank you.

Fred Wadler: Ok. Then just on the guidance, there was 15-20% loan guidance and I guess loan growth guidance. I guess if you could just give us your assumptions on…I guess a lot of this is based on a certain GDP growth, a certain inflation outlook in the economy. What macro assumptions are you making and just to put it all in one place because I was also having difficulty hearing, just besides from the loan growth guidance what other guidance are you reiterating or making on the call right now for other metrics, cost income and other metrics that you have?

Remi Odunlami: The honest truth is that we've given out a lot of guidance on a lot of different segments and rather than ramp through a list now I would prefer you to see the head of investor relations who will be quite happy to run through all the numbers with you. I think we've got about 20 different metrics that we're measuring, but speaking specifically to the loan book I am looking at a loan growth perspective of somewhere between 15-20% this year. Earlier we had guided on 10-15% but we had already achieved 10%. There's still a lot of potential growth in the market. We are consolidating our position and reclaiming our market share. Obviously the economy is growing in specific areas, the government has got a significant focus on infrastructure and infrastructure development with a number of different supportive initiatives coming out of government, however the bulk of the development will come from the private sector, private sector funding. I'm looking at power, I'm looking at roads and real infrastructure and other infrastructural needs, the needs that basically government has identified as drivers for the growth of the economy but given government financing most of it as I said will come from the private sector. The other areas that I'm looking at remain the normal trade business where our service delivery and our service quality improvement would be the basis of a drive to capture that business which gives us not only low loan income and loan growth but also gives us turnover and velocity in terms of fees and commissions. Does that broadly satisfy what you wanted? The CFO wants to say something.

Bayo Adelabu: In addition to that we consider it prudent to once again reiterate what we are guiding on key metrics for the rest of the year. For net interest margin we are still guiding at 6.5% for the rest of the year. Percentage of non interest income to gross earnings, this is still at 25% as guided at the end of the year. Our cost to income ratio, 60% as guided, with normalised cost growth in line with inflation trend. Return on average equity, we guided 15-18% for the year 2011 while return on average assets we're getting between 2-2.5%, we are currently on 2.4%. The loan growth we are guiding on 15-20% for the rest of the year; and deposit growth we want to say that the 25% that we guided at the beginning of the year. Thank you.

Fred Wadler: Thanks very much, great.

Operator: We will take our next question from Charles Patrick. Please go ahead.

Charles Patrick: Good afternoon. My question goes thus. I'm just wondering, Seawolf remains your largest exposure. I wonder if you could possibly tell me the figure in absolute terms and the current status of the exposure in terms of if it's working and what you guys are doing to ensure that this doesn't go bad?

Remi Odunlami: Ok. The GMD mentioned a few minutes ago the Seawolf loan is a performing loan. Interest and principal repayments are being met as and when due. The three rigs are contracted and are in operation and at this point in time I have no cause to believe that there's anything that will make it a non-performing obligation. In terms of the exposure I've got, it's N90 billion plus which is in excess of my single obligor limit of N62 billion which is why it's an issue because I need to get down from that N90 billion plus back below N60 billion, so I need to reduce my exposure to seawolf by about a third.

Bisi Onasanya: Let me add at this point that First Bank as a national institution has an obligation to help in the deepening of the Nigerian economy. Seawolf is a company that is the only indigenous company in Nigeria today that is in the position to provide drilling rigs for the oil sector. So we believe that what we have done with Seawolf is something that should be commended and it's something that other Nigerian banks should look forward to doing. Without Nigerian banks coming to assist in the deepening of the Nigerian market we are not going to move forward. The facilities are performing, the rigs are in operation as contracted to three major oil companies and so far we have no reason whatsoever to doubt the performance of the facility. We are trimming down the costs, it's important that we bring it down within the single obligor limit in line with the Central Bank guidelines. Thank you.

Charles Patrick: My second question is on your branch expansion strategy because from your CEO's presentation we were made to understand by the end of Q3 you would be looking at opening 25 new branches. I wonder, every bank is looking at retail banking strategy as we all know, mobile banking, POS as it were, so I don't know, considering the number of branches that First Bank has at the moment I don't know the reason for this aggressive branch expansion?

Bisi Onasanya: I think you misunderstood me. I did not say that we would open 20 branches. I did say that we are presently transforming our branches and that 20 of those branches have been transformed so far and an additional 50 branches will be transformed over the next quarter. Now what we have in mind and I did say that as part of our transformation exercise we are looking at reducing the sizes of our typical/average branches for cost reduction purposes and we are moving towards a model of deploying quick service points, QSPs. Our target for the current year is to open at least 55 QSPs in 12 locations, an additional 55 branches in 2011. In addition to that, we would also continue the modernisation of our branches and increase the deployment of service through the period.

Charles Patrick: Thank you. My last question is this. During the course of your presentation you made mention of the fact that the Holdco structure is going to be listed. I'm just wondering if the banks will be listed and what will be the dividend policy? Is it going to be coming from the hold co or the bank? I just want to have some clarification on that. Thank you.

Bisi Onasanya: Under the holdco structure that we proposed which is yet to be approved by our shareholders by the way the bank will be a 100% fully owned subsidiary of the holding company. Shareholders will be issued shares in FBN Holdings which is the main holding company and only the holding company will be listed by the stock exchange. Dividends will accrue from the various subsidiaries including the bank into the holdco and the dividends will then be paid directly to shareholders of the group who would then exchange their shares in First Bank with the shares in the holding company. That's where we're able to retain value from the various subsidiaries that we have and transfer that value into these shareholders in the group structure in which every shareholder of First Bank today would be migrated to a shareholder of the group when we have the final Central Bank approval and when all the tax issues are resolved. Is that ok?

Charles Patrick: Thank you very much.

Operator: We will take our next question from Soji Solanke from Renaissance Capital. Thank you.

Soji Solanke: Hi, I'm good guys, thanks. No questions.

Operator: Our next question is from Omolola Ademoroti from Thaddeus Investment Advisors. Please go ahead.

Omola Adremoti: Good afternoon again. I want to know what exactly are the figures for interest income from loans, the exact figures please?

Remi Odunlami: I think I answered that earlier on, it was 73%. 73% of our net interest income is from loans.

Omola Adremoti: I wasn't clear, I was not clear on this question earlier. You said according to the slides I have here 92.6% of…corporate and retail banking. I want to know the breakdown. What percentage exactly did corporate contribute and what percentage exactly did retail contribute?

Remi Odunlami: Those are group numbers. Retail and corporate banking business at the group level is made up of three entities: First Bank in Nigeria, a micro finance business as well as our FBN UK business. That is our retail and corporate banking at the group level. We have also shown you the breakdown within the bank along our strategic business unit. So does that clarify the issue for you then because in the breakdown you'll see what comes from corporate banking and what comes from retail banking – that's within First Bank Nigeria alone. At the group level which is what you are referring to at 92% it's made up of three entities which are just detailed – is that clear?

Omola Adremoti: Yes it is. Thank you very much.

Bisi Onasanya: Thank you Remi.

Operator: We will take our next question from Babajide Fadahunsi from WTSC Financial Services. Please go ahead.

Babajide Fadahunsi: Thank you for the presentation. Actually it's one of the questions that has probably been raised earlier but I would like to know the target dividend payout? Thank you. Then again regards the subsidiary sale , are you expecting extra income and if so how much would you expect?

Bisi Onasanya: Thank you. The last question first: we do not expect to sell those subsidiaries without a gain so clearly if a sale is concluded we expect to realise profits and profits will be recognised. It's a question of when we will conclude the process. In terms of dividend payout I'd like to say that we have a dividend payout policy that limits us to not more than 60% dividend payout of profits after tax, so in terms of guidance I would look to 50-60% max of the current year of whatever the figure comes to. 50-60% of profits after tax. So we will be looking forward to something in the 50% plus but clearly not more than 60%.

Babajide Fadahunsi: Ok, thank you very much.

Operator: We will take our next question from Brent Malahay from JP Morgan. Please go ahead.

Brent Malahay: Good day, thank you for the presentation. Just on the non-interest revenue comment that it's the N10.4 billion write-back is included there. If we strip that out the non-interest revenue came down about 21%. Could you just give us some colour for the reason for that? That's just the question I have.

Bayo Adelabu: Adjusting for the N10.4 billion profit from AMCON transactions will bring our net interest income for the quarter below the first quarter slightly but if the first quarter is included, a one-off transaction for example the sale of interswitch would give us N1.3 billion for the first quarter, so for you to actually compare non-interest from the normal business of the bank, you need to strip the two quarters of these one-off transactions.

For the second quarter it was an AMCON transaction, for the first quarter it was the sale.

Remi Odunlami: Brent, I'd also like to interject that we did in the first quarter some crude oil transactions which are fee generating and non-interest generating. We financed a few cargoes in the first quarter. We did not finance as many in the second quarter. They were basically one-off transactions and you will see those at fees which are non-recurring.

Brent Malahay: Then the 20% I calculated would have been versus the prior June period?

Remi Odunlami: We're talking year on year, not quarter on quarter.

Brent Malahay: Sorry, it's year on year I'm commenting on.

Remi Odunlami: I would say quite honestly that if we're looking year on year you probably would find that there were other one-off transactions. That line item quite honestly as you know is a grab-bag and there were one-off transactions last year, there were one-off transactions this year. We would really need to strip the numbers and look at them in detail for you if you wanted us to articulate that to you, but it's not something that we can really do off the cuff if it's year on year.

Brent Malahay: Ok. I'll chat to Yemisi and just try and get some detail on that. Thank you so much.

Operator: We'll take our next question from Muyiwa Oni from Stanbic. Please go ahead.

Muyiwa Oni: Hello, my question has already been answered. Thank you.

Operator: We will take our next question from Abiola Razzaq from Vetiva Capital Management. Please go ahead.

Abiola Razzaq: Thank you very much, just a last question. I would appreciate if you could give us guidance or maybe let me say education on the syndicated loan of $120 million. Can you please give us details on this loan and how you intend to deploy this loan going forward given it's a 364 day loan. Should we look forward to more given the fact that you're beginning to leverage your balance sheet?

Remi Odunlami: First of all that was not a loan taken by FBN plc in Nigeria, it's FBN UK within the UK market. It will be leveraged as required. It also passed FSA regulations in terms of liquidity management, balance sheet management and capital management. There are a lot of regulatory parameters around it and in terms of deposit mix as well. Basically what we were doing at FBN UK was supporting our capital base, compliance with regulations and making sure that there's sufficient funding available to drive the business. It's a matter of leveraging capital.

Abiola Razzaq: Can you give us guidance on the costs?

Remi Odunlami: I can't.

Abiola Razzaq: As a follow-up I also noted that the interest expense on your borrowings are now actually included in the interest expense on the P&L line. Where do we see this falling?

Remi Odunlami: Interest expense on which borrowings?

Abiola Razzaq: Interest expense on the borrowings for the entire group.

Bayo Adelabu: It's a consistent treatment, interest expense on borrowings are classified and reported under interest expense.

Abiola Razzaq: The breakdown I have, we don't have it there. We have, current accounts and the savings accounts.

Bayo Adelabu: The borrowings are also classified into those pockets anyway.

Abiola Razzaq: Ok, thank you very much.

Bayo Adelabu: Thank you.

Operator: We'll take our next question from Nathaniel Shoge from SQM. Please go ahead.

Nathaniel Choge Shoge: Thank you very much for taking the time to speak with us. My question was concerning the salary expenses but more directly in relation to the directors expenses which for last year were about N3.7 billion. I'm just wondering how much of that is recurring and what should we expect for this year? Thank you.

Bayo Adelabu: Thank you very much. Last year was a one-off and if you remember we had about three or four directors of the bank retire during the period. We don't expect such for this year.

Bisi Onasanya: In addition to that, we also had a case of a director of the bank that retired, I'm sure you'll know the case I'm talking about. So the one-off cost of that transaction was included. Last year also was a year about 7 of our directors had to retire in compliance with the Central Bank rules of maximum duration. So it's one-off and clearly I can confirm that it's non-recurring.

Natei Shoge: Thank you very much.

Bisi Onasanya: Thank you.

Operator: As a reminder to ask a question at this time please press *1. As there are no further questions in the queue that will conclude today's question and answer session. I'd now like to turn the call back over to Mr. Bisi Onasanya for any additional or closing remarks.

Bisi Onasanya: Thank you all. Thank you all for believing in the First Bank story. My appeal to all of you is to please take advantage of the low pricing of the First Bank stock as we are sure that the yield at the end of the year will be far better than industry average. We look forward to listening to you and seeing you and talking to you at the end of our Q3 results.

Thank you very much, good afternoon.