Company: **First Bank of Nigeria**

Conference Title: **Q3 2010 Investor Conference Call**

Presenter: **Bisi Onasanya**

Date: **Thursday 4th November 2010 – 14h00 GMT**

Operator: Good day and welcome to the First Bank of Nigeria Q3 Investor Conference Call. Today's conference is being recorded. At this time I'd like to turn the conference over to your host today, Mr. Bisi Onasanya, Chief Executive. Please go ahead sir.

Bisi Onasanya: Good afternoon. My name is Bisi Onasanya, the CEO. I have with me on this table the Chief Risk Officer, Remi. I also have with me the CFO Bayo, the Chief Strategy Officer Onche, Oluyemisi, the Head of Investor Relations and Head of Credit Risk Management Omolade.

We will take this in three distinct sessions today. The first part of it is the key observations on our Q3 results and then we'll go into the financial review, the first part of which will be presented by Bayo, the CFO; and the second part which is the asset quality section will be taken by Remi, then I will come back to give you a summary and outlook for the future, after which we will then take questions from you. You are all welcome.

I will start by giving you on slide 4 the highlights of our performance for the third quarter. I am pleased to announce that we had stable core earnings during this particular period in relation to past quarters and similar quarters in the previous year. We also saw during this quarter improving profitability and margins on the bedrock of declining interest rates during the period which in relation to what it was in the previous quarter accounted for the slight reduction recorded in gross earnings, but by in large in relation to its performance we had a very good improvement on profitability and margins.

We also recorded in line with our strategic intent a very sound funding mix. We have been able to move our core deposits in line with our objectives towards the low cost end of the market and that we'll see later in the presentation. We also improved on our liquidity and recorded a very strong liquidity and a very, much improved balance sheet. I think this particular quarter mix is very, very clear as to who or which banking institution in Nigeria will be a leading institution in terms of balance sheet size.

On the macro side we operated in a healthy economic environment during the period. There were however volatilities in yields and interest rates and you'll notice as we go along there was a liquidity glut in the system and that also affected rates in the market generally. We also operated under an economic environment on which the naira was slightly weaker, but it's firm enough at the moment as we look towards the end of the year. As a result of the liquidity glut and the environment in which we operated, there were pricing pressures on us in terms of asset pricing as well as liability pricing. This was a reflection of the general overall economy because we were operating in an environment where there was infrastructure inefficiencies and because the real sector did not do so well, avenues for lending were also reduced and that also put pressure on prices both on the asset side and on the liability side.

As part of our strategy , we continue to focus on growth which we have been able to achieve in a great extent in this quarter but we will pursue that vigorously and relentlessly as we move on towards the end of the year. We would also continue to focus on service excellence which is the bedrock of our transformation initiative. Performance management will continue to be a key pillar of our strategic intent and we would continue to work on that leading also to effective management.

In specific terms, FirstBank in Q3 2010 delivered a 17% capital adequacy ratio which is significantly above the regulatory minimum. We also attained a 15.4% Tier 1 capital adequacy ratio during the period with our loan deposit ratio at 74% which also gives us more room to increase our lending portfolio. With a liquidity ratio of 64.7%, FirstBank is extremely strong and extremely liquid at the present time and we are quite happy about this development. With our non-performing loans ratio also improving significantly from the 8.1% we attained in September '09 to 5.8%, this is not exactly where we want to be. We will continue to work on this.

Quarter on quarter and year on year growth in terms of our deposits improved by 8.8% and 29% respectively. If you analyse this, I think it's above industry average and it's something that is very, very key to our position. The year to date growth on our balance sheet was 15.8% reaching a total asset growth of ₦1.6 trillion. Now in terms of earnings, gross earnings went down year on year by 10.57% for the reason I had earlier given, the liquidity growth, declining interest rates, lack of facilities in the market and so on. This was not unique to FirstBank. We however recorded a good mix of earnings with non-interest income contributing 23% to our total income as against 17% in the prior year. We had return on average equity of 14% and return on average assets of 1.9%. This is slightly below the 15% that we promised but we believe that we'll be able to do something to improve on this as we move towards the end of the year, all things being equal. Our cumulative earnings per share at ₦1.33 is a significant improvement from the ₦0.43 that was recorded in September last year.

On the global environment we had growth in advanced economies which were restrained by high unemployment levels and reduced household wealth which is generic to most parts of the world. The upturn in prices also due to the supply constraints weakened with an expectation of a cold winter in temperate regions which also affected the pricing for oil.

Q3 GDP growth for Nigeria was driven mainly by the non-oil sector at 7.7% which means that that sector is still the relevant sector that we need to focus on. We had interest rate and bond yields that declined for the greater part of the year which also accounted for the lower gross earnings that were recorded after the quarter. The equities market still remained under pressure and the ASI Index declined by 8.3% quarter on quarter bringing the year to date performance to just 10.7%.The naira depreciated in the third quarter due to concerns of reduction in foreign reserves as well as apprehension ahead of the upcoming elections in 2011.

The CBN which is the banking industry regulator continues to focus on strengthening the regulatory framework in the industry with emphasis on resolving the issues around the rescue of banks. We think that the CBN is moving in the right direction along this line and the AMCON deal and the approval yesterday of the AMCON executive would further strengthen the banking industry. The CBN also went on to dismantle the universal banking model and prescribed a new model from January. We intend to go through the holding company model subject to resolutions of the major tax issues. Some of these issues are being resolved . We want to continue to be a financial supermarket but still compliant with the requirements of the central bank.

The new prudential guidelines provide clarity for provisions for the nature of loans and advances. On slide 7 is the presentation of the macro issues I had earlier reported on, the naira against major currencies, the Nigerian All Share index and the yields of the major financial money markets.

On slide 8 is a summary of our strategic objectives which I had also mentioned but this provides a little bit more on our four pillars of growth, service excellence, performance management and talent management. On our growth, you will see details of this on slide 9, 10, 11, 12 to 18. At this moment, I will hand over to the Chief Financial Officer, Bayo, to speak on the financial position of the bank. Over to Bayo.

Bayo Adelabu: Good afternoon. My name is Bayo Adelabu, the Chief Financial Officer of First Bank Nigeria Plc. I will be taking you through the financial results which appear on slide 20 to slide 26. I will be very brief because Bisi has made mention of a couple of highlights reflected in the financial statement.

On slide 20, we have the building blocks of our revenue expense and profit during the period under review. Interest income for the nine month period was ₦136.3 billion. Interest expense which is at 35% of this interest income, the other income for the period was ₦41 billion and this constitutes 23% of revenue gross earnings of the bank which is an improvement on last year where non-interest income contributed just 17% of our total revenue.

The operating expense for the period was ₦84 billion while our PBT stood at ₦40.7 billion for the period ended 30th September 2010. Applying the tax rate of 20% gives us a PAT of ₦32.6 billion for the nine months.

Moving to slide 21, in line with the industry trend during the period our revenue actually declined by 10.57% from ₦196 billion in the prior year to ₦177 billion for the nine months ended September 2010. The impact of this however helped us to achieve a better mix of revenue compared to prior year like I mentioned earlier. Our interest income now stands at 77% of gross earnings while non-interest income stands at 23% of gross earnings. Last year it was 83% to 17%. These are the trends in which we want our business to grow going forward.

With the revenue shown on this slide, it concentrates on our ability to achieve stability in our revenue stream quarter on quarter. Non-interest income actually increased by more than 30% from ₦34 billion to ₦41 billion. In terms of interest income the bulk of interest revenue actually came from loans and advances executed in the period. This is responsible for 70% of our total interest earnings. This is traceable to the decline in assets which was actually low during the period which is why other lines of interest income constituted just 30% of total interest earnings.

So letҀs go to slide 22. We are actually trying to show here that even though we have a decline in yield on the assets of the bank we were also able to achieve a steeper decline in the cost of funds which left the bank with increasing net interest margin quarter on quarter. The net interest margin for the bank started from 5.2% in Q1 2010, it actually went up to 5.5% in Q2 and we ended the period with 5.8%.

In terms of operating expense on slide 23, we continued to improve on cost control as these are actually the objectives of achieving a decline in costs going forward. The highest costs stated on this graph actually related to staff costs which consisted 49% of total operating expense. The next largest cost line was administrative and general overheads which is 38% of the total expense. This is actually reflective of the inflation rate movement during the period, because last year it was 30% of total costs. 30% of operating costs was actually shared between the NDIC which is 50% and depreciation of 7%.

In terms of provisions for credit losses there was a great improvement here as provision for credit and other losses declined from ₦41 billion in the nine months of last year to just ₦5.7 billion in the nine months of the current year and we believe we will continue to achieve improvement in this direction.

In terms of cost efficiency our cost to income ratio would exclude provision for credit losses which is actually a bit flat, which dropped in credit slightly to 64% from 63% achieved last year. We are of the opinion that as the yield rises during the current quarter and revenue improves we will be able to achieve a better cost efficiency ratio.

On slide 24 which shows the profit before tax for the bank, the profit for the nine months ended at ₦41 billion which is actually an improvement over what we had in the nine months of last year where we actually showed a ₦7 billion and we are of the opinion that this will continue to improve.

The bank's return on equity with the current profit figure stands at 14.1% which is also a bit of an improvement over the 1.2% recorded last year while the return on average assets for the period stood at 1.9% which is also an improvement over 0.2% achieved last year. These may be below our target for the year but we believe we will be able to achieve what we promised by the end of the year.

In terms of profit distribution our retail and corporate banking business continues to be the largest contributor to profit as it contributes 90.3% of the total profit as against 72.5% it contributed last year.

The next slide is page 25 and this will be taken by the Chief Risk Officer of the bank Mrs. Remi Odunlami.

Remi Odunlami: Good afternoon everybody. I know you've got a lot of questions to ask so I'll go through this segment of the presentation as quickly as possible and will expect to take a number of questions afterwards. I'm working on the assumption that you've all read the presentation and we'll take it from that.

If I start on slide 25 we are looking basically at the balance sheet structure. As you can see the bulk of our assets are in loans and advances, then matched pretty much by the deposits at 64% of our balance sheet which gives us a loan to deposit ratio in the 74% kind of mark which is reasonable and within the regulatory guidelines of 80%. Deposits grew from the end of last year by about 16% with a quarter on quarter growth of 8%. As at the end of the third quarter we're looking at a deposit base of about ₦1.5 trillion. The mix remains pretty much flat and in line with what the kind of balance sheet structure we're looking at with the bulk of it in short term deposits and as little as possible in the longer term. Obviously the demand deposits that fall in the short term pockets are the most cost effective and remain one of our processes. Deposit mix reflects our current account savings deposits represents nearly 70% of our deposit base.

Our regulatory ratios which support our balance sheets, whichever way you want to put it, at the year end we've got Tier 1 and 2 capital on an aggregate of ₦336 billion, the bulk of which is in Tier 1 and our risk-weighted assets represent give or take ₦1.9 billion. Our capital adequacy ratio at 17% is down on the second quarter numbers but it's still comfortably above the regulatory minimum.

On slide 27 where we talk about the asset side of the balance sheet I'd like to just point out from all these graphs we've got here that on the interest earnings book, 50% of the book is in loans and advances; and 21% in bonds, investments which essentially are federal government bonds and we have inter-bank statements of 22%. The portfolio remains diversified, quarter on quarter, year on year you won't see too much of the change. The bulk of our portfolio as expected given our economy is oil and gas with 24% and then we've got 20% in the finance and insurance business which includes the money markets and inter-bank transactions. General purposes 14% and every other industry represents less than 10% of our portfolio.

In terms of the business line corporates represent 45% of our business with the retail and consumer business representing about 25% and inter-bank about 20% of our portfolio. Growth wise, over the year we've grown by 5.4% with quarter on quarter growth of 4.9% and we're looking over the year at probably 6 or 7% growth on the portfolio. I would point out here that these are largely the numbers related to the bank's exposure, it's slightly different when we talk about the group exposure but not materially so.

On page 28 I would like to note essentially that our loan book remains significantly long term although our focus in the last six months and going forward is to move that portfolio towards short term exposures, more structure type transactions and that would work towards our desires over the year to improve the mix of earnings that we have earning more fee income, transaction income and interest income. Ageing, the performing portfolio has got 89% in the 0-30 day bracket and only 8.5% in the 61-90 day brackets which you'll see coming down from 12.4% in Q1 to 8.5% in this quarter which is indicative of the fact that our efforts and aspirations towards improving the quality of our portfolio, improving the management of our portfolio are beginning to show results as we have less of our portfolio moving towards the weaker end.

Our loan to deposit ratio, I mentioned earlier the 71% and equity and our leverage remains essentially flat at about 7.8 times.

On slide 29 I will come to an area that you always focus on, looking at question and answers. The NPL book is ₦70 billion, up slightly from ₦65 billion in the first half but coverage ratios remained substantially flat. Obviously the bulk of the ₦5 billion that's just come in is at the sub-standard level. If I move across to the next chart which shows you the ageing analysis of the non-performing loans, I will take a couple of seconds to explain to you how the provisioning works in Nigeria. If you look at that table you will see that the 90-179 days, the sub-standard loans represent 17% of our portfolio and in line with the prudential guidelines we would take 10% provision on it. Interest or principle is past due between 180 and 360 days and against that we are required to take a 50% provision. Above 360 days or principal past due the loan is classified as lost and we are required to take 100% provision. If you do the maths you'll find out that for as long as you don't have a portfolio that is lost. You will not be able to have 100% coverage on your NPL. I raise that now because it's a very popular question and I feel that we do need to get it to bed.

As I said our NPL percentage at 5.8% is flat largely this year but it is improving from the 7.9% at the end of the first quarter to where it is pretty much now. Sectorally, real estate is the largest chunk of our non-performing portfolio with 35% and oil and gas in there with 13.5%. Naturally we are primarily a corporate bank and our business segment, 39% of the portfolio is corporate.

Slide 30 details the facilities. It's presented more for an update. I think we took a lot of questions on it earlier on in the year but I'll just point out that in aggregate the portfolio of facilities against shares shrank to ₦28.7 billion and that is only now 2.6% of the portfolio. Out of that portfolio only ₦5.9 billion, less than 0.5% of our portfolio are actually margin loans. The margin loans have dropped from ₦11.7 billion to ₦3.8 billion and that quite honestly is due to recoveries and paybacks, so the portfolio which I know is a major concern for investors and analysts is well under control and is improving and should really not be an issue going forward.

Thank you very much. I'll hand you back to the GMD who will just take the last couple of slides.

Bisi Onasanya: Thank you. I'd like to take you back to slide 9 which details an overview of our group strategy. On group governance, I did mention earlier on and let me confirm that we intend to optimise our group structure to continue to be a supermarket for tax efficiency and regulatory compliance, we are moving towards improving the company structure such as dealing with the major tax issues. I would also like to confirm that we have continued our ongoing realignment of the investment banking and asset management business by realigning the capital, the private equity business, FBN Securities which is the stock broking arm of the group and wealth management. We are aligning all these and building that into one major investment banking and asset management business which will continue to drive the increase in growth. I would also like to confirm that our life assurance is picking up. Weöve got a licence from the regulatory authorities early in the year, a greenfield licence and we have the joint venture partnership with Sanlam. I can confirm to you today that that life business has gone live. We have a Chief Operating Officer who is on secondment from Sanlam South Africa who is driving the technical arm of the business with a Nigerian as a Chief Executive Officer. We expect synergies to arise from this in line with our strategic intent. At this moment, we are not into general insurance business, but we will continue to pursue opportunities in this area without breaching the regulatory requirements. Iöve talked about the holding company structure, it still remains our preference. This is what the board has approved and this is what we intend to submit to the Central Bank in line with the deadline of 3rd January. Critical considerations revolves around this area but thatös purely on tax efficiency because in spite of everything we must be able to increase variables to our various shareholders. As soon as the tax issues are resolved we will come out and announce the details of the structure.

We commenced a new operating model from 4th October built along various industry lines, we have institutional banking which deals with customers from the top end of the market. We have corporate banking, retail banking and of course public sector which continues to drive ahead liabilities. We have very clearly in our mind that this new structure will help us to deepen our share of the customers and will also help us to increase our penetration into the various sectors as we tend to view it expertly in this area. We believe that this will begin towards the end of this financial year and much more importantly as we begin a new financial year from January.

Our international expansion strategy remains the way it was announced. Our offices in South Africa and China have continued to generate business for us and these are very good businesses for us as picked up by the various businesses in Nigeria. We will continue to expand and identify the market. We are presently pursuing a rep office licence in the United Arab Emirates, we are pursuing this very vigorously.

We would also continue to identify markets through a coordination of acquisitions and retail strategy driven purely by macroeconomic considerations. Brand transformation is key in everything that we do. FirstBank as old as we are continues to modernise and that is why we are relevant today and remain the bank of first choice. We will continue the modernisation both of the people and the structures such that the transformation of FirstBank can match exactly what we expect it to be. This remains very key in terms of our objectives.

I will then give you a round-up by taking you to slide 32 which is a summary of everything that has happened. The bank cannot be taken in isolation of the environment in which itǿs operating. In Nigeria the economy is one of the fastest growing oil exporting economy in Africa with a GDP forecast growth of 7.4% in 2010 while South Africa is forecast at 3-3.5% over the same period. FirstBank remains the biggest and the strongest bank in the Nigerian environment which has an effect on the industry. FirstBank accounts for 13% of total assets in the industry and 15% of total loans in the industry and this positions us as a clear leader in the Nigerian banking sector today. We will continue to push ourselves to grow our market share both in terms of size and profitability.

We will continue to progress towards our objective which is to be the clear leader and the Nigerian bank of first choice. We believe we have a very strong franchise, we have a very strong brand and every Nigerian wants to bank with FirstBank. Our challenge at this moment is to make ourselves appeal to this sector and to make ourselves a choice for every Nigerian young and old.

In terms of services, we will continue to improve in line with the new structure that we have just rolled out. We would also continue to improve our services to the existing customers that we have both in terms of volume and direct clients. We will also continue to deploy our financial template as the biggest bank in Nigeria today to continue to create higher yield and thus improving returns to various stakeholders including our various shareholders. We are mindful of the extremely liquid nature of the FirstBank shares and the impact that this has had on share price but we intend to make sure that year on year and in parallel we deliver a return to shareholders that will compensate them for what they lose in terms of capital acquisition on their shares due to the extreme liquidity of FirstBank shares. On our international imperatives we will continue to increase our profile across Sub-Saharan Africa for international expansion. The benefits are very clear and are listed. Everything that we do is aimed at making sure that we do one thing and only one thing: increasing returns to our various shareholders. In summary and above all we believe that FirstBank is well positioned today to deliver exceptional returns whilst consolidating, diversifying and transforming the business internationally.

Thank you very much, thatÕs the end of our presentation. Now we will take questions.

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 keypad. Please ensure that the mute function on your phone 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'll pause for a moment to allow everyone to signal.

We'll take our first question from Bunmi Asaolu from CSL.

Bunmi Asaolu: Good afternoon, Bunmi Asaolu from CSL, thanks for taking my question. Good to see a repeat of the Q on Q growth in funding income, the same offset with the fee income and provisions. All my three questions have to do with your NPLs and provisions. If I do a quick calculation on how the breakdown of your NPL has moved so far this year, excluding the loss loans that were written off in the second quarter the most significant movement was in Q3, if I use the banks a bit, loss loans increased by ₦9 billion between Q2 and Q3. I'm guessing that explains the additional figure on the P&L in Q3, so my questions are first of all what sort of loans were these that have been non-performing for over a year now, maybe some colour on the sector exposure, whether these are multiple loans or a few specific loans? Second question, how come you did not fully provide for these loans back in September 2009 during the Central Bank audit such that you could have gone forward with a clean slate? Finally despite the big shift in the loss loan category such that doubtful loans declined, a third of your NPL balance is still full of doubtful loans. In this light to be conservative should we simply assume that we might see provisions on the P&L which would be relatively high compared with Q3 and if not could you explain what sort of magnitude would be more sensible and why? Thanks.

Remi Odunlami: Ok. I'll try and answer your question, it was a bit wordy. My understanding of what you said is that the NPL movements between Q2 and Q3 showed an increase in loss by ₦9 billion and you want to know what kind of loans we have. I can say that quite honestly yes they are, they're a mix. There are two or three chunky loans which have moved in that category and a large number of smaller loans. Obviously, with an asset portfolio of over a trillion, even if I had about 25% of that portfolio in retail and consumer loans, they do add up and you tend to see them as a portfolio rather than in specific loans. So my answer is yes. Your question about why I didn't take these reserves in September '09 begs the question. The Central Bank came in to ensure that banks had prudentially approved and properly provisioned balance sheets. A loan that moved into the loss category in the first quarter of 2010 by my analysis would have been nothing more than sub-standard in September 2009. The second thing is the Central Bank released their results in September 2009. FirstBank was one of the first banks that reported to it, in fact it was the first bank that was looked at and if I recall they came in in July. Therefore a loan that's moving into the loss category in September '09 could well have been performing at the time the CBN came, so there really is no correlation between what the CBN saw and the portfolio as of today. The portfolio as of today is more reflective of the economic environment and effective in the businesses. The Central Bank audit required us to take ₦20 billion in incremental loan loss reserves and our portfolio reflected that, we took a hit last year. We do see provisions to remain high by the end of the year. I believe there will still be some provisions taken both at bank level and at group level. They will be pretty much in line with the trend of the year but obviously if loans move from doubtful into loss in the next quarter, as you can imagine 50% on that would be a more significant impact than in a loan moved from performing into sub-standard. So there will be provisions. I don't believe anybody can manage a portfolio the size that we have and claim that there will be no provisions taken. Have I addressed your questions and concerns?

Bunmi Asaolu: Yes. If I can have a follow-up on this, I appreciate the estimation you gave on the coverage ratios. Below 100% on NPL mix like yours, not to compare you with other people but some of your peers choose what I guess could be termed as a more conservative stance by providing I guess general provisions to mitigate against the risk that could arise from say a sub-standard loan moving to doubtful, such that you don’t get the sort of volatility you saw in Q3. Why don’t you want to follow that conservative stance and instead choose to only stick to the prudential guidelines?

Remi Odunlami: Have you read the prudential guidelines?

Bunmi Asaolu: It’s a big document. I’ve gone through a few of the pages, yes.

Remi Odunlami: Have you read the accounting standards?

Bunmi Asaolu: Not to detail, no.

Remi Odunlami: The reason I asked is that what you’re describing as conservatism I describe as understatement of profit and hiding of reserves. I am not asserting that my colleagues in the industry are doing that, but anybody who is taking provisions that are not required on the portfolio that they hold is taking it with the intent of building reserves that they can release into their profits over the years and over the period. That is not compliant, it is not professional but people do it. I actually believe that you might be misreading some of my peers by making that assumption. I’d rather prefer to be in this situation.

Bunmi Asaolu: Thank you.

Bisi Onasanya: Let me just add that does not in any way suggest that if any of the loans migrate we would not take the provisions. FirstBank is professional and we’ll do exactly what the standards expect us to do. Thank you and next question please.

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

Ronak Gadhia: Yes, thank you. I have two questions, you mentioned in your presentation that the board of AMCON has finally been approved by the senate and should commence operations. Can you give us your views or any guidelines as to how AMCON will be funded and what will be the effect of AMCON once it is operational? What effect will it have on liquidity, the system and the yield in the sector? My second question is regarding your NPLs and the adjustment to the new prudential guidelines. Again in your presentation you mentioned that the new prudential guidelines came into effect this quarter. Have your NPL ratios fully adjusted to the new prudential guidelines? If not what is the expected effect likely to have when the new guidelines are fully implemented? Thanks.

Bisi Onasanya: Let me address the first question on AMCON. My reference to the passage of the AMCON Bill and the approval of the individuals was mentioned in relation to stabilisation of the industry generally. We believe that AMCON is taking over the toxic assets essentially from the rescued banks and a few more from the other banks will increase competition within the industry and strengthen these other retail banks so that they can also play their roles within the domestic economy. In specific terms, AMCON, there are submissions through the Central Bank by the various banks in terms of assets that are intended to be sold to AMCON. At this moment, AMCON has not come up with the valuation model to be used in determining the price for those assets and so at this point we are not in a position to also see exactly how much cash flow will be released into the system? In terms of funding AMCON Iôm aware that the bankôs committee has unanimously agreed amongst ourselves to take a contribution of the portion from next year, not from this year, but we do expect that the initial stake of capital forAMCON will come from the government. This is a material asset being absorbed between the Central Bank and the Ministry of Finance. We are not in a position to go beyond this at this point in time. Remi will speak on the loans and the new prudential guidelines.

Remi Odunlami: The new prudential guidelines have indeed come into effect and we have run our portfolio through the new prudential guidelines. Fortunately for us although thereôs significant release available in some projects and in some loan classifications, FirstBankôs portfolio is skewed away from that and more into the general sector. The largest release comes from project finance, object finance. Fortunately, as I say our portfolio is more in the regular term loans, overdraft and those kind of facilities, so there really is no material change in terms of the impact of prudential guidelines.

Ronak Gadhia: Thank you.

Operator: Weôll take our next question from Adeolu Onodola from ARM Investment Management.

Adeolu Onodola: Good afternoon, I just have a number of questions. First of all is the sub-debt, you have significantly lower interest income compared to the varying even side of the current assets as you mentioned. Looking at your loan portfolio, itôs clear that you created interest income and it appears worse when you consider that interest income is coming from your current portfolio as well, so you have the volumes on Q3 and thereabouts. Why are you having such significant yields compared to the rest of the industry? Just in relation to that, the actual strategy of the bond portfolio itself, Iôm just wondering, do you have any concerns regarding that especially with the potential of IFRS. Do you think impairment would be coming from this line given the movement weôve seen on interest rates in the last few months? Iôm just wondering if you can give some insight into those two. Beyond that, your cost income ratio like you say youôre spending on a lot of transformational initiatives. Do we have some sort of guidance, outlook for full year 2010, how much do you think you will see by the end of the year? On the explanation about provisioning, CBN came in for the special audit in July. What Iôm wondering is taking the steps on the industry, between the second and third quarters of this year, what sort of impact on provisions exist between the significant provisions in Q3 as well as the CBN sending this back to the banks for a general amount and July this year as well, can you just shed some light on that? Those are the main questions for now, just if you can give me some sort of clarification?

Remi Odunlami: Thanks for that. Iôll just quickly take the comment on the provisioning levels and the CBN in July of this year. The CBN did come back for a general look-see. They came into FirstBank at the end of August and they didnôt have any issues with our provisioning and we didnôt have any discussions on that matter, so quite honestly it hasnôt had an impact on what we have provisioned. What we have provisioned is what we have decided the required provisioning in the normal course of business without interference for everybody looking over our shoulders. I think by nowé

Bisi Onasanya: Let me take the question in relation to the size of the balance sheet. I mentioned earlier on that in the third quarter, second quarter to the third quarter there was liquidity glut. FirstBank is the major net lender of funds in the inter-bank market and in this particular period inter-bank rate crashed. Overnight rates went as low, sometimes at 1.5% to 2% per annum. That was subordinate. Now we have a choice. The professional choice to do was to make sure that we kept in line with our risk management framework. The other option was having to go overboard and throw out more money into loans. Now we would not do that and we chose not to do that because it was not the professional thing to do. We could earn a higher yield on loans if we deployed the facilities, reported to loans at this point in time. We had a large chunk of our money in inter-bank business and the yields in those periods was extremely low. This position has been booked but the Nigerian inter-bank market will continue to some extent to be part of our delivery books on this area. I hope that addresses your concern and that accounted for the low yield on our assets during this particular period. Bayo will answer the next question.

Bayo Adelabu: For the question on the bond portfolio and cost income ratio, let me just add to what Bisi just provided on the earnings profile of the bank. If you still have the presentation and you go to slide 22, youd find clearly our yield actually declined over the period and the impact where this is coming from the yield on the structured assets. For the customer facilities the yield was very impressive, 20% during the period, but as mentioned yields went as low as 1.5%. During this period we had an average of 3-4% yield on our treasury asset portfolio, but the consideration that we had was we were able to review our cost of funds at the rate than declined through the yield and that was left to the increasing net interest margin that we had during the year. We ended last year with 10.2% net interest margin and because of the crisis around the markets the yield went down to as low as 5.2%, until then it picked up. It picked up to 5.5% in Q2 and now to 5.6% at the end of Q3 and as the yield in treasury assets increased in the market, we believe our net margins will continue to improve and youd see the kind of revenue stream that you expect of the bank in Q4.

Coming to the question on bond portfolios, yes, you made mention of the IFRS. The official reporting standards that banks in Nigeria follow today is actually the FSA which are the accounting standards, but we know there are constantly changes in the bond portfolio as well as the value for sale portfolio, while we are exempted from mark to market from maturities. We are aware of the concerns on risk. We have looked at the sensitivity of our bond portfolio and the implications for making loss adjustments on mark to market. Currently its very minimal and we dont really think its going to be significant to the end of the year. There are various options coming out of this and we feel we will explore all those options to ensure there is minimal loss through adjustments to our mark to market, the portfolio earnings.

On the other questions on the cost to income ratio, we advised that we were going to close at 60-61% in cost income ratio but we ended Q3 at 64% which is almost flat compared to what we achieved last year. While we have not been able to achieve the 56%, costs actually declined but the cost of the reductions in revenue which is the other hand of the cost to income ratio as we see it. The next two months which marks the end of the financial year, our cost to income ratio remains flat at 64% just like we ended Q3, but we believe we are putting work in to ensure that we achieve a very impressive cost to income ratio next year. Our target for next year is 56%, 57%

Bisi Onasanya: Let me clarify also that FirstBank at this momentum is going through a lot of transformation. You would see branch transformation, improvements in our processes, staff cost optimisation and so on. These are expensive projects but we need to go through this project at this point in time for us to have a bank that is more efficient in the future. These are one-off costs that have been incurred presently and constitute a reasonable part of our increasing cost profile, but we have no choice at this moment if we want to lay very solid foundations for the future of FirstBank that we have. These accounts for reasons why this has been high, but do we have a choice? I would say no. We want a bank that is very, very efficient and transformed and we will continue to go through these transformation initiatives. By the time we're finished and we're beginning to reap the rewards of this transformation exercise we would begin to see improvements in our cost income ratio both from a reduction in costs and from earnings growth. Thank you and next question.

Operator: We'll take our next question from Lavinus Matondang from Standard Chartered. Please go ahead.

Lavinus Matondang: Hello, thank you for taking my question. I have a question regarding the Tier 2 capital of FBN. Is it possible for you to give us the breakdown? Thank you.

Bayo Adelabu: The Tier 2 capital of the bank is about 8% of the total capital of the bank is actually made up of the Eurobond and the long term debt that we found from a couple of the foreign banks.

Lavinus Matondang: Is it possible to have the amount as well?

Bayo Adelabu: You want an absolute figure?

Bisi Onasanya: Our Head of Investor Relations, Oluyemisi, will provide that information. We donôt have it right now. ₦32 billion. The figure is ₦32 billion but in terms of the breakdown, this conference call, we will give you the detailed breakdown of the capital.

Lavinus Matondang: Thank you.

Operator: Weôll take our next question from Dunstan Kamana from HSBC. Please go ahead.

Dunstan Kamana: Good afternoon everyone, thanks very much for your time in this conference call. My question is, the AMCON question has been addressed already but just in terms of the margin loans, you mentioned that your exposure is reduced to ₦3 billion I believe it is from ₦11 billion. I just wanted to get a sense if perhaps thatôs symptomatic of the industry as a whole and if this problem is now mostly out of the system. The issue there really is the fact that if I understood correctly, the collateral was in the hands of the banks but obviously it couldnôt really be flooded into the market to depress asset prices, so AMCON on the one hand will take some of it but you mentioned there had been a lot of recoveries as well, so I just want to get your sense on where we are with this problem?

Remi Odunlami: Ok. Sorry, when I expressed myself I made two statements. The portfolio itself has dropped from ₦11.8 billion to ₦5.9 billion. The noncash portion has dropped from ₦11.7 billion to ₦3.8 billion, so some of the attempts have been restructured and are now being serviced on schedule, so theyŏre no longer in the non-performing book. Itŏs almost halfway where it was at the beginning of the first quarter. What weŏve done with our portfolio is we have restructured some of them. We have sold down on the assets in others and youŏll see that in terms of if you look at the collateral value which has also moved from ₦4.9 billion in March to ₦462 million in September. I believe the position that weŏre looking at is pretty much what youŏll find across the distance but we clearly asked the Central Bank that we should work on cleaning out our margin loan position before the end of this calendar year, the end of this financial and calendar year. I also think that AMCON taking up the portfolio has been onto the rescue attempt would also assist in stabilising this but I think that we have had a banking industry over the account of the margin loan issues and this should not feature as a major problem for the banking industry going into 2011.

Dunstan Kamana: Thanks very much for that. I guess just a quick follow-up is the impact on loan growth for yourselves and for the sector in 2011 post the margin loan issue having been addressed?

Remi Odunlami: Iŏm not 100% sure what that question is asking me but Iŏll just say that yes, earlier this year banks were as a whole curtailed lending but I believe that things have stabilised and that you will see a resurgence of lending activities throughout the banking industry, so there will be loan growth next year.

Dunstan Kamana: Ok, many thanks.

Operator: Again as a reminder to ask a question please press *1 on your telephone keypad. Weŏll take our next question from Babajide Adebiyi from Renaissance Capital. Please go ahead.

Babajide Adebiyi: Good afternoon gentlemen. I have a couple of questions. My first question is in relation to the bankôs loan book. I would like to know whatôs the maximum single obligor as a percentage of the bankôs Tier 1 capital? I would also like to know the gross margin lending of the bank as well as the percentage of insider related loans to the total loan book of the bank. The second question related to the bankôs investment in bonds with fixed rates and it appears to be on interest rate exposure. Is there a strategy by the bank or is there a way the bank is mitigating this downside risk arising from this? Thirdly Iôd like to find out if the bank has a plan to raise fresh capital, talking about funding. What is the bank looking at? Thank you.

Remi Odunlami: Iôm sorry; I couldnôt make out what your first question was. Would you mind repeating it?

Babajide Adebiyi: Ok. I asked, basically about some of the growth metrics in the loan book. First I asked what the maximum single obligor lending is as a percentage of the Tier 1 capital, the bankôs maximum single obligor lending. Also I wanted to know what the gross margin lending of the bank is in relation to the bankôs fund as well as insider related lending?

Remi Odunlami: Iôll take the first one, Bayo will take the rest. Our maximum SOL is 20% of shareholdersô funds in line with regulations. As a percentage of our Tier 1 capital I have never actually worked it outé sorry, shareholdersô funds is Tier 1 capital, so 20% of our Tier 1 capital is 20% of our shareholdersô funds which at this point is about ₦63 billion.

Babajide Adebiyi: Sorry, how much is it?

Remi Odunlami: ₦62.9 billion.

Bayo Adelabu: The other question on the bank investment in fixed rate instruments, the FDM bond, roughly a strategy, in an environment of fluctuating interest rates. Yes, by the time we were going into fixed ratio investment in Nigerian bonds it was actually a very profitable decision and deployment of our excess liquidity and if you notice the classification of our bonds, we have most of these bonds in our maturities which means that we are not really holding it as an investment. We had a few of these bonds in our old parts of trading. This is valid for close, which means at the point where we can actually come out of this bond investment it would be very easy to come out of it and maybe the optimal use of interest rate movement. So we are not constrained in any way to be locked in to this fixed rate investment, if the time is right for us to come out of it which is what we are doing and we’ve always had such a movement in our bond investment.

Remi Odunlami: Sorry, there’s one percentage that I missed there. You asked what percentage of our loan book was insider learning and it’s currently about 7% of our portfolio.

Babajide Adebiyi: There’s still a question about what if the bank intends to raise fresh capital and what nature of funding is the bank looking at in that regard?

Bisi Onasanya: I can tell you at this moment that in the short run we do not have any intention whatsoever to raise additional capital either at Tier 1 or Tier 2, we are quite comfortable. Any transaction that we will do that will require that we raise additional capital would have to be looked at very seriously for justification. It’s clearly not our intention to raise additional capital today.

Babajide Adebiyi: Also the question on the margin lending rate of the bank, to show that one has been answered.

Remi Odunlami: Sorry, I misinterpreted what you said. You wanted to know what my margin loan exposure is? As of September it’s ₦5.9 billion. It’s on slide 30.

Bisi Onasanya: Thank you very much. Next question please.

Operator: Weôll take our next question from Babajide Fadahunsi from WSTC Financial Services. Please go ahead.

Babajide Fadahunsi: Good afternoon, thanks for taking my question. My first question has been answered, it has to do with the loan books of the bank, the bank has mentioned growth and loan portfolio, when the capital adequacy ratio is leaning towards the minimum. On the second one I would like to know if the bank is actually going to continue growing organically or is it looking forward to turning the bank around? Thank you very much.

Bisi Onasanya: I am not in a position to give you the details of the AMCON charge, itôs something that we will discloseé we expect a formal announcement from the CBN, at which point it then becomes binding. At this moment, there are still discussions ongoing. On the issue of growth we have a strategic intent to grow both organically and inorganically. We are putting everything at the moment towards making sure that we are well positioned to grow and take maximum advantage of organic growth. We will not close our eyes if there are opportunities for inorganic growth, we have always said that. What is important however is that shareholder value drives whatever decision we would make and certainly we would not take to grow inorganically that would significant impair our capital adequacy ratio. You did make a comment in terms of our share capital adequacy ratio standing close to the regulatory minimum. That is not correct. The regulatory minimum ratio is 10%. Weôd like to move closer to 20% but we are not at this moment threatened at all and in any case we have options if we really need to increase the capital adequacy ratio, one of which of course you know is growing capital from reserves and retained earnings. To the extent that we continue to grow our profits, these charges would also continue to improve on our shareholders through internal capital.

Babajide Fadahunsi: Thank you very much.

Bisi Onasanya: Thank you.

Operator: Again as a reminder ladies and gentlemen to ask a question pleas press *1 on your telephone keypad. We have a question from Soji Solanke from Vetiva.

Oluwakemi Owonubi: We just have one question. On your portfolio book, is it possible to have a split across available for sale, held to maturity and your trading portfolio percentages?

Bayo Adelabu: The investor relations department have these details.

Bisi Onasanya: Let me emphasise at this moment that we have no major issues of concern for mark to market risk on our bond portfolio. We have a treasury function that is professionally managed and everything we have done along these lines, we can assure you that as we go forward, there will be no surprises. We will comply with IFRS, we will comply with CBN requirements on the bond portfolio and there will be no major provisions to be taking mark to market losses. This will be dealt with professionally, we can assure you.

Operator: Again as a reminder ladies and gentlemen, to ask a question please press *1 on your telephone keypad. There are no further questions in the queue so Iôd like to turn the call over again for any additional or closing remarks.

Bisi Onasanya: Thank you very much. We thank everybody for taking part in this call. Weôd like to assure you that you have a FirstBank today that is ready and charged to take its rightful position in the Nigerian banking landscape. We will continue to pursue our growth and modernisation strategies. We assure all our various stakeholders including our investors that by the end of the year we will pay dividend. We will compensate our shareholders who have remained loyal to us, who have in spite of the capital market issues have remained consistently loyal in keeping to their shares. We assure you that we have repositioned the bank, we will continue to reposition the bank and we are charged for a full, healthy 2011 financial year and to further consolidate our strong hold in the Nigerian banking sector as we also move on to expand and project and provide the quality services that we have in Nigeria to the rest of the Sub-Saharan African communities.

Thank you very much and we all appreciate you. Thank you and bye.

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