Conference Call transcript

Operator

Good day ladies and gentlemen and welcome to the Access Bank Plc 2020 half year results presentation. All participants are currently in listen-only mode and there will be an opportunity to ask questions later during the conference. If you should need assistance during the conference call, please signal an operator by pressing * and then 0. Please also note that this call is being recorded. I would now like to turn the conference over to Mr Herbert Wigwe. Please go ahead, sir.

Herbert Wigwe

Thank you very much, Chris, and good afternoon ladies and gentlemen. You are welcome to Access Bank's half year 2020 earnings call. We have prepared a detailed presentation which highlights all aspects of our business, and we're going to be sharing that with you right now. It's hosted on our website. On the call with me today are Roosevelt Ogbonna, who is our Group Deputy Managing Director, Greg Jobome, who is our Executive Director in charge of Risk Management, Mr Adeolu Bajomo, who is our Executive Director in charge of IT and Operations, Victor Etuokwu, who is our Executive Director in charge of Personal Banking, Chizoma Okoli, who is in charge of Business Banking, Hadiza Ambursa, and Seyi Kumapayi, who is our Chief Financial Officer.

As a starting point, as you are aware government mandates, customer needs and our own day to day working changes and constraints due to COVID-19 pandemic have all created some form of an outlier as far as profit and performance is concerned. I will briefly go over the key performance highlights after which we will allow more than enough time for questions and answers with you. This period has been characterised by the supporting of lives and livelihoods of our various stakeholders while also making sure that we optimise shareholder returns. In the period under review the Nigerian and global economy were significantly affected by the twin shock effects of the ongoing pandemic and of course the oil price crash that happened a bit earlier. This led to the weakening of the Naira, inflation acceleration, economic slowdown and investment decline, all this culminating in a 6% GDP decline in the second quarter.

We have also felt the impact of this shock in the bank as it borders around asset quality, profitability, pressure on our IT infrastructure, capital as well as liquidity. These notwithstanding, the bank has continued to deliver on its mandate. In addition to the support granted by the Federal Government of Nigeria and the Central Bank of Nigeria to the vulnerable and key sectors of the economy we also put adequate measures in place to ensure that impact of the pandemic is minimised. We are primarily concerned with the safety of our customers and their businesses whilst maintaining our office locations as very safe environments and of course making sure that we took care of the safety of our workforce as well.

To minimise disruption during this period we increased investment in our IT infrastructure to ensure that our alternative channels were up at all times and were safe for our customers to carry out their transactions in a secure manner, and also support our staff to be able to work effectively in the face of the new normal. In safeguarding our locations and protecting our workforce we established a split team arrangement and closed collaboration spaces to basically prevent gathering, and periodic sanitising of work spaces, ensuring virtual meetings, and provision for about 70% of our workforce to ensure that they could work remotely.

Speaking more about the group performance highlights let me quickly state before we go on the reasons why we had to restate the half year 2019 numbers. As you are aware, the merger with the former Diamond Bank gave rise to goodwill. We have now completed the allocation of the acquired goodwill. This gave rise to some intangibles such as brand, customer relationships and call deposits intangibles. In line with IFRS 3 on business combination we are required to amortise all of these intangibles. Therefore, ₦2.3 billion had to be amortised and taken in the half year 2020. This also required that we restate the comparative figures for 2019 because we had to retrospectively adjust for about ₦1.15 billion of amortisation relating to June 2019 in line with the requirements of the standard.

The gross earnings of the bank grew by 22% year on year to ₦396.8 billion in the period compared to ₦324.4 billion in the corresponding period in 2019 comprising largely of 62% of interest income and 38% non-interest income. Interest income was down 10% year on year to ₦246.7 billion and the primary reason was as follows. First of all there was a 31% year on year decline in income from investment securities to about ₦74 billion. The corresponding period in the previous year was ₦107.9 billion. And this was as a result of the declining yield environment which saw the yield on government securities drop sharply between Q4 2019 and the half year 2020. This was in spite of the fact that we grew our investment securities portfolio by as much as 12%. We also witnessed a mild growth in interest income from cash and cash equivalents of about ₦5.4 billion and a 4.4% year on year growth in interest on loans and advances to customers to ₦167.3 billion which cushioned some of the impact of the yield drop that we saw on the investment securities portfolio.

Our operating income gained about 31% year on year to ₦265.1 billion from ₦202.3 billion in the half year 2019 owing to the significant growth in our non-interest income and other operating income. And the key drivers for the operating income were as follows. First of all there was a significant growth in net trading income to about ₦68.6 billion compared to a loss of ₦14.8 billion in the previous year on the back of gains on the derivative contracts and fixed income securities due to our trading activities. The gain on the derivative instruments increased significantly as a result of the change in exchange rates during the period. However, it will have to be adjusted by an unrealised foreign exchange revaluation and trading loss of ₦66.2 billion which came from the short position on the balance sheet.

We also saw a 24% growth in our fees and commission income to ₦51.8 billion largely underlined by income from increased transaction velocity across our channels and other e-business platforms. This was in spite of the cut in rates on transactional banking charges as contained in the Revised Guide to Bank Charges. We will continue to gain more traction on our income from these lines as we extend our retail offerings. Lastly, we also saw a 21% growth year on year in other operating income to ₦29.6 billion from ₦24.4 billion largely by a ₦22.4 billion recovery from fully written off bad loans.

Our interest expense, however, increased marginally by 2% year on year to ₦120.5 billion compared to the ₦117.8 billion in the corresponding period of last year. And this came from the growth in our deposits and termed borrowings which we are continuously replacing with low cost deposits. Basically what you have seen is a significant change in our CASA as far as the overall mix is concerned. So as a result our net interest income declined by 19% year on year from ₦155.1 billion in the corresponding period.

With respect to costs our operating expenses showed a significant growth of 40% to ₦174.3 billion compared to ₦124.5 billion as a result of the inflationary environment, 50% increase in VAT, and of course most importantly the increase in cost of operation required by the enlarged franchise and other regulatory costs such as the AMCON levy. The largest contributors are regulatory charges ad personnel expense, jointly accounting for 46% of the total cost in the period. Other costs include IT and e-business related expenses to support our growing channel platforms and transaction volumes.

However, it is important for you to recall that 2019 was made up of three months of former Diamond Bank only. Therefore when we look at it on a common sized basis, i.e. six months of Diamond and Access for 2019, the actual cost growth if you were to common size it i.e. half year of 2019 of Access and Diamond and half year of 2020 of Access and Diamond, what you see is that the actual cost growth was just about 6% which is well below the inflation rate of 12.6%. And of course you also take into consideration the 50% increase in VAT. And if you look at it on a quarter on quarter basis our cost savings efforts are demonstrated by a 700 basis point decline in costs.

Speaking to the synergies realised from the merger, at the beginning of exercise we proposed merger synergies of ₦153.9 billion over three years comprising of ₦99.4 billion and ₦54.5 billion in revenue and cost synergies respectively. Thus far we have achieved total synergies of ₦94.8 billion accounting for 62% of total synergies proposed. In terms of our balance sheet our customer deposits as at June 2020 closed at ₦4.67 trillion which was a 10% growth from ₦4.26 trillion in December 2019. The growth was primarily driven by a 17% increase in our CASA deposits reflecting an enhanced retail presence, basically leveraging on our innovative digital platform. We have continued to grow our low cost deposits whilst using it to replace expensive funds we have in our books. Today we have crossed the ₦1 trillion mark as far as savings deposits are concerned.

Our net loans and advances stood at ₦3.39 trillion as at June 2020, up 11% from ₦3.06 trillion in December 2019. The growth witnessed was as a result of careful risk asset creation to good quality corporate names as well as our retail segment. Our biggest sectoral exposure remains to the Oil & Gas services at 15.2% followed by 5.9% to Oil & Gas Upstream. The Gross Asset Quality continues to remain under check as our non-performing loan ratio stood at 4.4% in the period compared to the financial year ended 2019 where it was 5.8%. Again the key sectors responsible for this were

- Oil & Gas Services at 39.7%,
- General Commerce at 12% and
- Steel Rolling Mills at about 8.4%.

We will continue to drive the NPL ratio down through a combination of gradual write-offs, recoveries, declassification and loan restructuring for customers that have demonstrated capacity. On a year to date basis we have written off a total of ₦46 billion having made full provisions for them.

Our expected credit loss charge was up 237% to ₦16.5 billion in the half year 2020 from ₦4.9 billion in the half year ended 2019. We have always communicated our approach to ensuring that we keep our NPL ratio to below 5%. One of these approaches is taking adequate provisions and writing of facilities that are considered irredeemable and subsequently pursuing recoveries. This is also to ensure that we have adequate cover for challenged loans, taking into consideration the unforeseen impact of the twin shock of the COVID-19 and fall in oil price. Accordingly the cost of risk stood at 0.9% in the half year ended June 2020.

Our capital adequacy ratio was 20% on an adjusted impact basis based on the regulatory transition arrangement. Again our liquidity also closed at about 44.7% and both of them well in excess of the minimum regulatory requirements.

Speaking to our subsidiaries, they have continued to grow and make significant contributions to the group. The subsidiaries' contribution to the group performance stood at 34% year on year, recording total subsidiary PBT of ₦25.2 billion, up 20% year on year from the previous year. The UK and Ghana of course continued to contribute about 90% of half year June 2020 subsidiary PBT which averaged a return on equity of 6% and 14% respectively.

Speaking more to our retail business, I think our retail business has continued to grow as seen in the various metrics. Notwithstanding the cut in transaction banking rates during the period by about 30% because of the Revised Guide to Bank Charges and lockdown due to COVID-19 our various retail business channels have continued to gain momentum year on year. Although you saw some decline in the ATM and debit card utilisation as a result of the lockdown, the increase in transactions in alternate channels were robust enough to compensate for the decline. Obviously during the lockdown period people could not use the ATMs and their debit and credit cards, so most of it happened by way of their mobile telephones and things like that.

Retail contributed 24% to the group's revenue during the period at a 51% year on year growth whilst retail transactional banking income grew by 60% to ₦29.3 billion in the half year compared to ₦18.3 billion in the same period of 2019. And this was clearly on the back of increased adoption of our channels in the period. Channels and e-business income grew by as much as 93% to ₦21.8 billion from ₦11.3 billion in 2019. Our various retail campaigns have continued to give us significant strides in terms of digital channel adoption by our customers and customer acquisition. One of those campaigns is called Access Channels Grand Prix which has basically led us to secure more than 1.6 million fresh cards that were issued during the period with over 77% of them active and an additional 2 million customers on-boarded on our USSD (*901#) with 67% of them already active. And of course we have been able to have another 1 million new mobile app subscribers while on-boarding them during the first half of 2020.

On our financial inclusion and digital lending our partnership with Telcos and agents have continued to grow as we continue to deploy resources to reach the underbanked and unbanked through our agency banking network, strengthening our partnership with the telcos and leveraging digital technology. In terms of transactional volume ₦97 billion of transactions were processed through 18,600 agents which was a 76% growth over the prior period which was just ₦15 billion. And of course most of this was processed through our telco partners. What we also saw through our telco partners was yet another growth of about 52% in the period compared to 2019. So we are beginning to see a lot coming through from our agency banking business which has grown phenomenally. And of course given the partnerships which we now have with MTN and Airtel the volumes of transactions have grown in geometric progression.

Talking about digital lending, which comprises of payday loans, small ticket personal loans, salary advances and device financing, we have seen that volume grow by over 155%. Total disbursement in the half year were as much as ₦46 billion – and we are talking about unique loans of ₦30,000 or ₦50,000 which is ₦100 or less – compared to about ₦18 billion in the corresponding period of 2019. Today we have about 2 million digital loans which have been booked during this period. And of course what we've seen is that there's an increase of about 1 million unique borrowers compared to the period in 2019. And it speaks a lot to the velocity of the retail loans and the fact that today the NPL ratio of that book is well below 10%.

Our outlook and revised targets for 2020. We remain committed to driving an effective and sustainable business growth by intensifying our efforts to firstly extract value from new and existing accounts and migrate customers to alternative channels to enhance our transactional banking income. Secondly, we will reduce operating costs through the execution of our strategic cost savings initiatives. Thirdly, we will continue to pursue aggressive recovery while being deliberate with challenged facilities to make sure that they are performing. And finally, we will intensify our low-cost deposit drive to further reduce our funding cost to less than 2.5% by the time we get to the end of the year, and this will lead to improved margins.

In view of current realities we have revised our initial full year 2020 guidance as follows.

- Our return on equity is going to be anywhere between 20% and 25%.
- Cost of risk about 1.2% to 1.5%.
- NPL ratio will be less than 5%.
- Our cost to income ratio 55% to 60%.
- Net interest margin about 6%.
- Our cost of funds will be 2.5% or lower.
- Our capital adequacy ratio will be greater than 20%.
- Our loan to deposit ratio will be slightly greater than 65% and
- Liquidity ratio should average about 50%.

Thank you very much, ladies and gentlemen. I will now leave the lines open for questions. Thank you. Chris, you can take us back to the audience.

Operator
Thank you sir. Ladies and gentlemen on the conference call, if you wish to ask a question please press * and then 1 on your touchtone phone. If you wish to withdraw your question please press * and then 2 to remove yourself from the queue. Our first question is from Tunde Abidoye of FBN Quest. Please go ahead.

Tunde Abidoye

Good afternoon and thank you for hosting the call. I have a couple of questions. The first one is on your provision coverage. When I look at your stage 3 loans the coverage is a bit low at 36% when I compare that to your peers. Your peers do about 50% or so. It also appears that you've made more provisions for your stage 2 loans because coverage for that is higher than your peers have provided for. Can you provide us some clarification on what is driving this? Then just looking at your opex, for H1 it is still a bit high. When I look at it on a quarter on quarter basis your opex was up by about 20% at about ₦80 billion plus. Should we begin to see this ₦80 billion plus as the new normal for opex in terms of the run rate? Then in terms of the impact of the recent CBN reduction of the interest rates on savings deposits what kind of impact do you see this having in basis points on your cost of funds? And lastly, can you just give us an update on the acquisition of Cavmont Bank Zambia? And also can you give us what you are thinking in terms of synergies. It would be good to know. Thank you.

Herbert Wigwe

Thank you. I will let Greg Jobome, our Chief Risk Officer, speak to the issue of coverage for stage 3 loans vis-à-vis our peers as well as the increased provision we took with respect to stage 2. I will allow Seyi Kumapayi to address issues with respect to opex and the interest rates, and of course with respect to cost of funds on savings, and of course a bit more about Cavmont. Greg, I think you should start.

Greg Jobome

Thank you Herbert. So with respect to stage 3 coverage I know you mentioned that you think it is on the low side. I don't believe it is low. When we speak about coverage two things to factor in are the risk and the collateral and mitigants that you have protecting the facility. So it is always relative to that. We have had historically very strong collateral structures and that's why typically you will find we do very strong recoveries as well. on the back of that between 2019 and June there has been an improvement even in that stage 3 coverage from about 31.9% to about 36%. So that's a significant enhancement of coverage over a six months period as well as the fact that we have very robust mitigants backing those facilities.

The other thing to add is with respect to more provisions for stage 2. In general we know it has been a period of very volatile macro. In light of the guidance we received from a lot of the standards centres globally the forward looking indicators also have to be reflected in terms of the outlook that you can see. So you will also see a pick-up on the back of that given the outlook with respect to things like GDP, inflation, oil price and interest rates going into the future. You might find that some institutions have probably not spent as much time on that, but we are very careful to ensure that those forward looking indicators are updated in the context of the current macro. When those change then we can have a review again. That is another source of the enhancement of the coverage for stage 2.

Herbert Wigwe

Okay. Seyi, I think you should speak to the issue around opex. Is ₦80 billion our new normal? And of course interest rates on savings and the synergies expected from Access Bank Zambia on the acquisition of Cavmont Zambia.

Seyi Kumapayi

You will have observed that there is a 40% year on year growth on the cost between H1 2019 and H1 2020. I think the main reason that has happened – and I think you alluded to it – is H1 2019 was a quarter of the combined entity and a quarter of Access Bank standalone, while for 2020 it is two quarters of the combined entity. If you recall, this merger happened in March 2019 and the Q1 impact of Diamond Bank was accounted for through the net assets. If you common-size and make that adjustment cost growth is only 6%. Just like we said it is below inflation. In fact, this growth is largely driven by significant regulatory costs, AMCON charge of about ₦36 billion which we took in this first half year.

And I think the question around quarter on quarter actually it declined about 7% quarter on quarter. So if you look at Q1 cost was about ₦90 billion. It is down to ₦83 billion in Q2. So there is no growth. Largely what you are seeing it declined because we were executing quite a bit of cost transformation initiative. We also expect cost to moderate in the second half of the year and we are projecting about ₦65 billion because the AMCON cost of ₦36 billion is not going to happen in the second half of the year. Therefore from a cost to income perspective we will then come in line with our guidance of between 55% and 60%. So that is how we are seeing the cost.

In terms of impact on savings, our savings book today has crossed ₦1 trillion. It is about ₦1.1 trillion of ₦4.67 trillion of total deposits. It is around 25%. So the impact that we have seen is about 20% to 25% reduction in the cost of the overall cost of funding. With respect to Cavmont Bank, just like you said it's a small bank. The synergies are not very significant. It is just about ₦1.4 billion cost and revenue synergies that we've identified thus far. Thank you.

Herbert Wigwe
The Cavmont transaction, small as it may be, is capital accretive. We are not taking any additional capital as you know to Zambia. The construct of that small deal helps us to shift our ROE closer to 20% in Zambia. There is a question that just came through with respect to exposure to financial institutions and all of that. It basically refers to the lending by Access Bank UK and the corresponding banking lines which it has to different banks across the continent and across Nigeria. You would have seen a growth in that. I think it came from Randolph. Can we have another question please?

Tunde Abidoye
Thank you.

Operator
The next question is from Adesoji Solanke of Renaissance Capital. Please go ahead.

Adesoji Solanke
Hi Herbert. Good afternoon everyone. This is Soji from Renaissance Capital. I have two questions basically. The first one is could you perhaps spend some time talking about where COVID-19 leaves your multi-country expansion strategy? Has that thinking changed or evolved in any sort of way? My second question is with respect to the stage 2 book. From the numbers that I'm looking at your stage 2 book itself has actually improved year to date, but it's still quite sizeable. What would be useful for me is if you can perhaps just talk about what the make-

up of this book is. What sort of sectors? What kinds of problems are your clients facing? And also between April and now what is the overall trend you are seeing with your customers when you look at their cash flows? Are you seeing any improvement? If you are seeing any improvement, is it still quite slow? Just give me some on the ground feedback on what you're seeing with your clients. Thank you.

Herbert Wigwe

Thank you very much, Soji. I will just speak to the first point which is about where COVID-19 leaves our multi-country expansion strategy, and then of course Greg will speak to the issues around stage 2 loans, where our customers are taking it today, and of course myself and Roosevelt will add to those points to give you as much comfort as you want. Soji, I think if you have followed our history, each time there has been a big change like what we are going through now, each time Access Bank has come out stronger and better. COVID represents an issue but it also in itself provides an opportunity. Now, we remain of the firm conviction that all of these things, cycles or pandemics, will come and go. And it is those institutions that understand how to do things during this period and can basically in the new normal manage to protect risks that can grow and take advantage of it. So we remain relentless in terms of becoming Africa's gateway to the world.

The countries in which we want to be present we will be present in those countries. In itself this in a very bizarre sense has also provided some opportunities because some institutions don't even know how to manage the current situation and it may call for increased capital in specific countries. And depending on the construct you go into this deal with you can basically come out ahead of this whole thing perhaps one day when COVID is finished. Or even in the new normal you would have created the appropriate institution in the different countries in which you want to be present to be able to come out profitably. So it has not affected our plans. What it has done to us is it has made us a lot more diligent and we are getting better and better at it in terms of working from home and working with people in other countries virtually etc. and created our own unique way of making sure that deals are closed and are closed properly.

I believe that coming out of all of this Access Bank will be stronger, will achieve its five year corporate strategic objective of being seen and known as Africa's gateway to the world. So nothing has happened, but you will just find that we have understood the concept of putting together institutions even during these difficult times. And this is not any different from 2019. I understand that the pandemic may have introduced a bit more complexity. But I think we are learning how to deal with it even more. I will let Greg speak to the issue around the stage 2 loans again and then Roosevelt and I will support him in terms of how we see the customers behaving and their cash flows and all of that. Greg, please go ahead.

Greg Jobome

Okay. So with respect to the stage 2 loans as you've rightly observed there has been an improvement over time. Don't forget that we were going through a merger with the erstwhile Diamond Bank from last year and prior to that we had already set off on a course to basically clean up the book and work our way back towards below 5% NPL ratio. So, on the back of that work the Diamond transaction came in just at the right time. And all the work we did throughout 2019 it's as if we were anticipating a problem with the macro. It really set us up for the macro because all the actions that we took, the conversions from Dollars to Naira, the driving of agents and recovery actions, all of that paid off in the current context.

And that's why you've seen that improvement. So through very deliberate scenario analyses and stress tests [unclear] which meant that we knew what we had to do from 2019 on a name by name basis. And all those actions were taken in a very persistent basis. So like I said, those results were on the back of all of those actions totally outside anything to do with COVID because it wasn't around then. But as it turned out it prepared us very well for the COVID environment. So that continues.

In terms of the sectoral players stage 2 largely mirrors the rest of the book. So if you look at the sectoral breakdown in the presentation it generally cuts across. Every sector is represented in there. But like I said, the real work is to keep it improving and keep getting us in a position where we are able to migrate some of them progressively into stage 1 as they continue to meet their obligations as they fall due.

Herbert Wigwe
Roosevelt, do you want to speak about customer behaviour briefly?

Roosevelt Ogbonna
Certainly Herbert. Good afternoon Soji, and good afternoon everyone. I think one of the things we clearly realised is that – I think Herbert alluded to it – this is yet another macroeconomic shock no different from 2010, no different from 2015 through to 2017. And in time these things happen. There is always an oil story behind it. And the primary shock that you find is with the oil & gas industry, but clearly there is a secondary shock which affects the rest of the economy. So we are seeing customers in manufacturing, in general trading, in oil & gas primarily also being affected here. I think one of the things we have done is we've built credibility working with our customers, having gone through this crisis with them.

Now when we speak about impairment crisis and what they have to do, the first thing we have done, just sensing where this was leading, was quickly converting our total foreign currency exposure on the trade side as well as on the term loan side into Naira. You would have seen that in the conversion of what constitutes local currency versus foreign currency in our loan book today, which has risen from what used to be 50/50 at some point to almost 68/32. So we've taken a lot of customers onto Naira exposure. Now the other customers who are still in Dollars are not related to trade. I think our total trade book that has an exposure today is $200 million versus what used to be about $1.2 billion. On the term loan side it's only customers who are generating Dollars who are there. So the foreign exchange impact has been minimised across the bank's entire loan book. I think once it's in Naira it's easier for us to manage customers through this crisis.

So they are still doing business. We're working with them to ensure that segments that are under pressure like hospitality and aviation – which is not a significant portion of our loan book – we've had to give payment extensions for those sectors. For customers who have leveraged using the intervention funding of course CBN had given an advice that banks working with their customers give a one year extension of repayment. That we've also done, but we've done so building in significant flexibility so that payments can be accelerated. So there is still amortisation that is going on for customers who are generating significant cash flows. We have not seen pressures across board. I will give you an example. The cement industry has continued to grow. Customers in that sector have met all their loan obligations as they've fallen due and have not required any extensions. Now, the entire value chain around cement seems to have been working. Even though not as efficient as we used to know it, it still happens.

I think what we've seen in the short term is that on the trade side that used to be a 60 to 90 day transaction cycle has had to be extended. We are now seeing transaction cycles going all the way to 180 days and in some instances 270 days to enable us to wind down those transactions. So they are still well within 12 months but the conversion cycles have extended. And working with the customers we are finding elegant ways to ensure that they still run their business, still meet their loan payments without constraining their working capital in the short term. Thank you, Herbert.

Herbert Wigwe
Thank you. Thank you very much, Soji. Can we have another question please?

Operator
Of course. The next question is from Ronak Gadhia of EFG Hermes. Please go ahead.

Ronak Gadhia
Good afternoon gents. Thanks for the presentation and taking my question. Three or four questions. Firstly, could you talk a bit more about your UK subsidiary? As you mentioned, it has become quite a significant contributor to overall profits. If you can speak about the performance of that subsidiary. Specifically I think it would be useful if you could give a breakdown of how it generated income. Is it net interest income, trading income or transaction income? So that's one. The second question is on your derivatives book. Could you give the figure of what your total exposure is to derivatives and FX swaps? And what would the bank's composition be once we factor in the derivatives?

The third question is also related to derivatives. Could you talk a bit about the sensitivity of this line item, the derivative gains, to changes in FX rates and interest rates? And my final question is on asset quality. We've seen significant recoveries during the half, so could you just talk about how that was possible given that the macro environment has been pretty negative and I would suspect that a lot of your borrowers are under even more duress than they used to be before, so recoveries would have been even more difficult. Could you just talk about how that was achieved? Thank you.

Herbert Wigwe
We didn't hear that last question properly.

Ronak Gadhia

The question is about loan recoveries. I just wondered if you can touch on how you were able to achieve such significant recoveries given that the macro environment was quite negative and I would imagine quite a few of your borrowers were under even more duress than before.

Herbert Wigwe
Okay. No problem. Seyi, do you want to speak to Access UK and derivatives? And then, Greg, would you like to speak to the issue around recoveries? All right, Seyi, speak about Access UK and the derivatives.

Seyi Kumapayi
Thank you Ronak. If you look at the Access UK performance and the reason why that business was set up, there is a lot of trade going in there which Access UK today provides lines to a number of Nigerian banks. It also does asset management, but largely a lot of the revenue comes from the trade revenue. It also services a lot of Nigerian customers. Access UK is our largest correspondent bank and also provides correspondence banking to our subsidiaries. So it is largely the trade engine for the group. With respect to derivatives the total exposure is about $2.4 billion that we have today. Now, if you bring what is off balance sheet on balance sheet it would come to a net position of $250 million short. So that's the structure of the book today. With respect to sensitivities what you will find is because of the short position we have once there is a devaluation you tend to see an effect both on the balance sheet as well. And that has happened in the course of the year where we've seen about ₦103 billion on the derivative side and another ₦66 billion on the FX devaluation loss. So that happens. So we have looked at the sensitivities and if a 5% devaluation happens what happens to this. So that we test.

Herbert Wigwe
Let me just add, Ronak, depending on the tenure of the swaps you may find yourself getting into a loss depending on the situation. But all of these swaps have a maximum of one year duration. So with respect to the spread basically on the treasuries we will always be up. In previous years we had done slightly longer swaps so you would have seen that some years we would have made a lot of money and in the subsequent years we would have seen a loss in those years. That is not happening right now. So all the income is in the existing year pretty much. And of course the net interest earnings from all the [break in audio] is what comes onto our P&L and you will be up in most times.

Just to support what Seyi has said, Access UK provides correspondent banking services to Access Bank and our subsidiaries, but also to other banks deserving of credit in the different countries in which we do business. So they are a very strong correspondent bank. They provide the same services as Citibank would do for instance in Ghana, the same type of services Citibank would do in Kenya etc. That is basically how it is done. But from a risk standpoint – and this is within public domain – you will find their risk rating extremely high because most of those things are secured in some manner. It could be local treasuries. But all forms of foreign currency funding on the respective institutions are there within the UK as well. Greg, do you want to speak to the issue around loan recoveries given a difficult time like this?

Greg Jobome

Yes I will. Thank you for the question. As with most things what you see now is the outcome of a lot of actions that started from the last quarter of 2018. So it's usually a combination of very robust engagement with the customers especially on the erstwhile Diamond Bank side. Lots of meetings. Lots of intense negotiations. Lots of travel wherever they have assets globally. So a lot of those actions had taken place earlier. What you see now is the outcome of that hard work paying off in various forms from sale of properties, from the conclusions of court cases and a whole raft of other typical recovery actions. Now, because it's a pipeline the things that we've started from 2019 you see some of them coming through towards the end of this year and into 2021. So that is the usual lagging you see between the actions taken and the results achieved. So like I said those are very intense activities that happened and the outcome of it is what we are seeing at the present time.

Herbert Wigwe
And I think you will see a bit more as we go on. One of the things that this pandemic has brought is that the stronger players will even get stronger. In one or two cases – not necessary for me to mention here – we've seen a struggling for some assets that belong particularly in sectors that are large. And what we've seen is that the larger players are using it as an opportunity to acquire all of those assets. So even in this quarter which hasn't ended after the half year we've seen a couple of things that came out of the old Diamond Bank. So it's happening, but it's coming from the large negotiations and intense pressure that started before COVID. So you will continue to see it probably as we move through the end of the year and into next year. Thank you Ronak. Next question.

Operator
Thank you. The next question comes from Wale Okunrinboye of Sigma Pensions. Please go ahead.

Wale Okunrinboye
Good afternoon. Thank you for the presentation. My first question is on your interest expense. On the slides I can see somewhere it says on your CASA deposits the big increase is because of reclassification of HIDA. Can you explain what that means?

Herbert Wigwe
HIDA?

Wale Okunrinboye
HIDA, yes, and how that impacted your CASA deposits. Then my second question is on your net interest margins. The number for the half year looks rather low, at very low levels. What's your view on it? Is it something that is going to stay given the interest rate environment, or do you feel comfortable at that level, or what are you going to do about it? Where do you see it evolving towards over the next few quarters? Then my third question is you have fair value gains on equity. I know the last time around it was around MTN Holdings. Has it changed or is it still the same thing? Maybe just colour on those fair value gains on the equity position. Then on stamp duties I know sometime in H1 there was an email sent out by Access that you were going to take on an error around stamp duties with customers. Eventually Access agreed to absorb that. What was the impact of that on your numbers? And then I guess the next question then, the last question then has been asked. So that is all. Thank you.

Herbert Wigwe
Thank you very much, Wale. Seyi, do you want to these questions?

Seyi Kumapayi
Thank you Wale. You were asking a question about interest expense. The total impact of that reclassification was just about ₦200 billion in terms of movement from term deposit to savings account. So it was not that much in the sense of the entire balance sheet. I think I would spend a lot of time to speak to the margins. If you look at where we were as at half year, 4.9%, our cost of funds for June ending was about 3.7% and yields on assets about 9.5%. Clearly we've seen what has happened to the yield in the market. If you look at what we've projected, what we've guided, that is why we revised that margin from 8% to 6%. Now, essentially the game here is focussing on our deposit mix and bringing down our cost of funding. Today our cost of funding is down to 2.94% from about 3.7% that you saw in June.

Our deposit mix is getting better. It is now 66/34 from about 62/38 we had in June. And we are looking to get to about 70/30 by year end. Our savings accounts today have crossed ₦1 trillion and therefore that is growing and today you see that the savings rate has also come down. I think there was a question on that as well. We are also working on ensuring that on the corporate side there is a lot of value chain retention within the corporates which is building our core current account. We are also aggressively pricing down our fixed deposits to bring them to contribute to that reduction in cost of funds. We have also focussed around a retail campaign Grand Prix Extra Win essentially to stimulate low cost deposit growth and retention. So all of this is focussed on bringing down the cost of funding.

So you were asking about equity gain. Now, we do have an investment which we hold in Dollars. Once there is an FX adjustment this also impacts the valuation of those equity holdings. So it is not MTN. It is a different company, but it is held in US Dollars. The impact of the stamp duty is around ₦750 million. Yes, we have agreed to take that cost and we've expensed that in the half year. Thank you, Wale.

Herbert Wigwe
By the way the stamp duty is not a recurring thing. Basically we are going back to charge customers for the stamp duties. And when that thing happened the more you go into retail, given our size in retail, the more you realise that some of these things if you don't take it right on time it's better you don't take it. So we felt that considering the reputation risk it was better for us to just absorb it and make sure that in the future those things don't happen again. One of the things which Seyi did not speak to with respect to the margin is the fact that we've seen some margin compression. I will give you a simple example. In my opening remarks I spoke to government mandates. Some of the state governments we've had to reduce our interest rates to them, not so much that they cannot mean the repayments, because that is happening, but it was just a general industry agreement that it was better for us to do that so that they could better pay salaries and be more comfortable in terms of meeting their exposure. That's one.

Secondly, for the high quality corporates where we have significant market share in most of them insisted. Again coming from where interest rates are and given the issue of COVID there were strong negotiations with respect to bringing our pricing. So all of those pressures on the asset side have made it such that we are bringing down our cost of funds very aggressively but we think that a NIM of about 6% is a more appropriate number to hold onto for the rest of the year. Thank you. Next question.

Operator
Thank you. The next question is from Johan de Bruyn of 337 Frontier Capital. Please go ahead.

Johan de Bruyn
Hi. Good afternoon everyone and thanks for the comprehensive presentation and responses to the questions. I have just one more specific question. You were talking about it earlier, the cost line. I noticed that your business expense or your business travel expense line hasn't changed at all from last year. And even if I try and reconcile the adjustment for Diamond Bank I'm struggling to figure out how it is that your business travel expense can be so high during a period of lockdown. Can you just talk through that? On my calculations it's about $11 million for the six month period, which seems like an extraordinarily high amount especially during a period where I would think business travel would be restricted.

Herbert Wigwe
Seyi will address that.

Seyi Kumapayi
Thanks for the question. I don't know whether you've looked at the quarter on quarter numbers in terms of that line. Q1 was about ₦2.6 billion and Q2 was about ₦1.6 billion. So really there is a significant drop quarter on quarter. That's why I'm saying you are right, given the lockdown this has to come down, and truly it has come down and will continue to come down for the rest of the year. Now, the second point to make is if you look at what we said in terms of the expenses, we are not comparing line for line. There is another quarter of expenses that was added to Access Bank to compare to 2019. So it's largely that. So it is coming down. Like I said you saw ₦2.6 billion in Q1 and it's down to ₦1.6 billion. That is over ₦1 billion reduction in that line. What you said is correct. It might be the same on a year to date, but when you look at where that drop should come from, which was in the last quarter, that drop actually happened in that period.

Johan de Bruyn
I get that, but I'm really referring to the magnitude. The second quarter you are right it did drop, but it was still ₦1.6 billion which is around $4 million. That is ten times more than GT Bank's six months travel expense. I don't understand how it can be so high.

Herbert Wigwe
Well, let me just update very quickly. First of all the circumstances of both institutions are different. I know that quite a bit had to be done with respect to people who were coming for our training school. That is one. Two, we have certain agreements with certain transport agents that are fixed. Again we probably had to burn on that even though we've had to renegotiate some of those contracts. Even just our sheer scale and what had to be done just before all of these things in the course of the last quarter, in fact the last six months in terms of the integration

and travel in different parts and what we were doing with respect to IT across the entire continent, creating a system, all of those things may have made it that high. Having said that though, what you will see in the third quarter, as you will see very soon, and the final quarter is that that figure continues to go down very significantly. Thank you.

Okay. We'll keep an eye on that. Thank you.

Herbert Wigwe
Thank you. Next question.

Operator
The next question is from Muyiwa Oni of SBG Securities. Please go ahead.

Muyiwa Oni
Good afternoon gentlemen. Thank you for taking the time to take our questions. I have a few questions. First if you could share the size of your loans that you've presented for regulatory forbearance. I know you touched on some of the actions you've taken, but if you could share the size relative to your total loan book that would be helpful. Secondly, if you could also share your current effective CRR, so what is size of that relative to your deposit book? And then I was looking at your guidance for loan to deposit ratio. It is at 65% versus 59.3%. So I just wanted to understand the drivers of the expansion. Are you looking for more loans in the second half of the year? If that's the case what sectors do you expect to see that credit expansion? And then also should it really be a case of deposit migration as well? Because I recall you talking about trying to adjust and reduce your more expensive deposits. Those are my questions.

Herbert Wigwe
Okay. So, Greg, why don't you speak to the issue around loans for regulatory forbearance and break it down into the sectors if it's possible and the performance? And then of course the issue of the LDR as well. Then Seyi will speak on the CRR.

Greg Jobome
Okay. So with respect to the forbearance process as you know that's an industry-wide initiative strongly supported by the regulator to keep the real sector afloat rather than worry about loan repayments etc. which can lead to significant impact on economic activity. So what you will see is we took various loans cutting across different sectors. Most of these actions tend to be in line with the loan book breakdown, so you see some in oil & gas, you see some in general commerce, the two largest. You see a few in construction. You see a few in real estate and so on and so forth. So literally it mirrors the loan book as it is. Number one for us is they had to be names that are performing, which means there is no name taking forbearance that is weak or challenges or is struggling to pay their loans. That's the first concentration.

So what was in there is around sectors where there might be issues down the line. If it turns out there is no issue then all the better, but the intention behind it is that it should give those [unclear] the breathing space should they need it to do well. So what we've done with Access Bank is to ensure that seeing these are all performing names we are speaking about the forbearance for we have to be tight with respect to their collections, setting aside the debt service reserve accounts so that we keep collecting even while they are under this forbearance tenure. And that ensures that they are able to pre-liquidate [?]. I think Herbert mentioned that earlier on. They want to pre-liquidate when the cash build-up is at a certain point without having to wait for the forbearance period to wind down. Even if they have to wait for it to wind down they would have built up significant cash within the bank.

So as we know forbearance does not mean a weak performance. It is just in line with the guidance provided by international accounting standards and by the central bank itself and by the Financial Recording Council of Nigeria, basically most global standard setters who are supportive of such a forbearance scheme. Without fail they all also say that such a scheme should not automatically mean a stage migration or a change in performance status if the name was ordinarily performing before the COVID-19. And that's exactly the practise that we've adopted in terms of migrating. You find this probably around 16% to 17% of the book that benefitted from this gesture to enable them to manage through the COVID-19 storm and get back on track. But we are not looking to any of these names becoming challenged in any way, shape or form.

Herbert Wigwe
Okay. Do you want to speak to…?

Seyi Kumapayi
With respect to the LDR I mentioned, for that it's always a very difficult balancing game. Of course we are struggling to do all we can to meet the regulatory requirements. For a very large bank like ourselves with a very big deposit base it's a really heavy beating. But we will keep pushing it. The recent growth we are targeting is around retail and more recently around industries that will support recovery. Healthcare, telecoms, pharmaceuticals are part of that. So all of that will happen. Are we going to do big ticket facilities? If it's an investment grade name we would be interested because typically those are names that you can't go wrong on in terms of performance of the loan itself. So investment grade names when the opportunities arise, as well as retail and digital lending push. The ones that are cash rich at the minute around healthcare, around telecoms, those are the areas we will be able to play in to try and boost our capacity to reach that LDR target.

Herbert Wigwe
All right. Seyi, why don't you speak to the issues around the CRR?

Seyi Kumapayi
As at June the effective CRR was about 30% and this includes the LDR related debits. So it's about 30%.

Herbert Wigwe
All right. More questions.

Muyiwa Oni

Thank you.

Operator
The next question is from David Orbay-Graves of Redd Intelligence. Please go ahead.

David Orbay-Graves
Hi there. Apologies if it's already been covered on the call. I joined a little bit late. Just a very quick one. I just wondered if the bank had any plans looking ahead to the 2021 Eurobond in terms of looking to refinance that at the moment.

Herbert Wigwe
Okay. Maybe just to respond to that, we have a very disciplined capital plan. We have enough liquidity to basically retire those Eurobonds. I think they fall due in October 2021. So we have no immediate intention of refinancing it because we think we have enough liquidity to meet it when it is due, not just from the swaps which we have but from our normal liquidity planning which basically takes a one year forward look if you like. Thank you. Next question.

Operator
We have no further questions on the conference call at the moment.

Herbert Wigwe
Sorry?

Operator
We have a question from Randolph Oosthuizen of Old Mutual. Please go ahead.

Randolph Oosthuizen
I posted a whole bunch of questions down the webcast box but they seem to have gone missing.

Herbert Wigwe
Do you want to speak to them?

Randolph Oosthuizen
I think the one was on the balance sheet. I'm just trying to find it. The Nigerian banks have become too good at reporting. I'm lost here inside your 223 page financials. Let me just see. It was the deposits. There were money market deposits and something else. I'm just trying to understand how that worked. Over ₦1 billion in deposits. Here it is. Money market deposits and trade related obligations to foreign banks, ₦800 billion. That went up a lot from ₦200 billion.

Herbert Wigwe
What is the question?

Randolph Oosthuizen
Trade related obligations to foreign banks. What is that? Remember I'm not a banker. I'm just trying to understand what that is.

Herbert Wigwe
It could be our lines, our correspondent banking lines, our exposure to our foreign banks with respect to letters of credit.

Randolph Oosthuizen
This is a deposit from financial institutions. It says trade related obligations to foreign banks. Is this the trade finance, the elongation of the cycle that you're referring to? It's just a big number.

Herbert Wigwe
Any trade related obligations are with trade finance. And most of that could be on the books of Access Bank UK depending on what side you look at. If it is the rent obligation then maybe it is our own obligation with respect to letters of credit etc. which in June I think that figure with respect to our balance sheet could have been about $200 million or $300 million. Nothing significant. Our money market deposits, I don't know which one you are speaking to, whether it is our CASA, you are speaking to our current accounts and savings accounts. That must be the bulk of it. I don't know what the question is there.

Randolph Oosthuizen
So if you've got a money market deposit on your deposits is this short-term paper that you are issuing or how does that work?

Seyi Kumapayi
Let me speak to it, Herbert. Those are trade related transactions and this is for transactions where we are acting as advising bank, for which the issuer of the LC is an offshore counterparty and deposits in lieu of the transaction pending when settlement is done. So we are the advising party on those transactions and until the letter of credit is settled we put those monies in money market investments. So that's the balance that you see there. They are trade related, largely for commodity traders.

Randolph Oosthuizen
Okay. All right. And so those deposits, do they cost you anything?

Seyi Kumapayi
Well, when they are placed in deposit, yes. Prior to then they are at zero cost. But when they are placed on deposits, yes, until settlement happens. You must understand that there is also a charge with respect to the letter of credit which more than offsets that cost if you like. It's a very profitable business for us, so we are pleased to do that business.

Randolph Oosthuizen
All right. Okay. I know you're tired of talking about the FX derivatives. I just wanted to know, I couldn't find it in your financials sensitivity analysis on foreign exchange moves. I just wanted to know in this period a net move if you take the gain and the loss of about ₦50 billion or ₦60 billion odd. So my question is that's based on a currency move of ₦365 to ₦385, so what kind of move would one expect if the currency were to go to ₦400 or ₦420?

Herbert Wigwe
If it's a move to ₦420…

Greg Jobome
We can work out those numbers. It's not something we track in that sense. I think what we try and do is ensure that the book is square. When Seyi was speaking earlier on he has suggested we are short about $200 million. From a timing perspective and you collapse the entire off balance sheet on the derivative with on balance sheet you're looking at a net of $200 million on the derivative book itself. So that's one way to look at it. But of course you know there are timing differences. So you might see coming through a gain in one year and a loss in a different year. You go back to 2017 when you had these kinds of gyrations and volatility in foreign exchange you saw that playing out. So in one year, I think in 2017, the gains had come through. In 2018 just because of timing differences you saw the loss come through as well. So net on the derivative $200 million. So if you wanted to play out the numbers and say collapse this book on day one, what you are exposed to and what is at risk is $200 million net.

Herbert Wigwe
And of course the difference in this year and in the previous years is that we don't exceed one year in terms of the timing of the tenure of the swaps. We don't go beyond one year.

Randolph Oosthuizen
Sure. Are you still rolling it or is this something that could end at some point?

Herbert Wigwe
Let me put it this way. It's always a function of what we see with respect to liquidity. We are not increasing our loan book on the Dollar side given the times. And if we are not increasing that exposure, who better to give money to than the sovereign? However, having said that, of course the idea is that depending on the liquidity pressures we face, we may choose to bring it down. But for now I think we run a very comfortable Dollar book if you like that is liquid. We meet all obligations as they fall due, and I don't think anything can happen over the next year. So it will be based on discretion as we move towards the end of the year, but it is a profitable business. We may choose to shrink it, but that is based on our risk preference as we move on.

Randolph Oosthuizen
Okay. Thanks.

Herbert Wigwe

Thank you very much. I think that brings us to the end of today's call, except of course if you have any questions. But I think that would bring us to the end of this call, and we do look forward to the end of the quarter and the end of the year where we shall be presenting to you the next set of financials. Thank you very much to you all for coming on the call and we look forward to our future calls with you. Thank you.

Operator
Thank you very much, sir. Ladies and gentlemen, that concludes this conference and you may now disconnect your lines.

END OF TRANSCRIPT