Conference Call transcript

Operator

Good afternoon ladies and gentlemen and welcome to the Access Bank Plc's half year 2019 results presentation. All participants will be listen-only mode. There will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing star and then zero. Please note that this call is being recorded. I would now like to turn the conference over to Herbert Wigwe. Please go ahead, sir.

Herbert Wigwe

Thank you. Good afternoon ladies and gentlemen. You are all welcome to Access Bank's half year 2019 earnings call. On the call with me today are Mr Roosevelt Ogbonna, who is dialling in from outside, Mr Greg Jobome, who is our Executive Director of Credit Risk Management, Mr Adeolu Bajomo, Executive Director of IT and Operations, Mr Victor Etuokwu, who is the Executive Director Personal Banking, Chizoma Okoli, Executive Director Business Banking, and Mr Seyi Kumapayi, our Chief Financial Officer. Our presentation to you is very detailed and highlights all aspects of our business. I will briefly go over some of the key performance highlights, after which we will allow enough time for questions and answers with you.

In terms of our group performance highlights, as you are aware this is the first audited combined financials post our merger. Therefore, a lot of the numbers that I will be speaking to will reflect the combination. On gross earnings it witnessed a growth of 28% to ₦324.4 billion in the period compared to ₦253 billion in the corresponding period of 2018. And this consisted of 84% interest income and 16% non-interest income. It also reflects what was just about a 3% increase in gross earnings when you do it on a quarter on quarter basis. Interest income was up by 46% year on year and 32% quarter on quarter with the major contributors being a 138% increase in income from investment securities to about ₦107 billion. Half year 2018 this was ₦45.3 billion. And there was a 14% increase quarter on quarter, i.e. the second quarter of this year compared to the first quarter of this year. The second quarter was ₦57 billion and the first quarter was ₦50.8 billion.

We also saw a 15% increase in income from loans and advances to customers to ₦160.2 billion, while that of the corresponding period in 2018 was ₦139.4 billion. And there was a 74% increase on the previous quarter owing to the increase in the bank's loan portfolio coming from the combination. Interest expense showed ₦117.8 billion at the end of the half year, and this was an increase of 16% year on year if we compare ourselves to the corresponding period of last year. This was largely as a result of the increase in structured and tenured deposits that came in during the course of the period. Net interest income grew by 82% year on year and 73% quarter on quarter to ₦155.1 billion in the half year ended June 2019 compared to the corresponding period in 2018. Again you will see a lot of these things coming from the merger and the increased balance sheet and all of that.

In terms of operating income we saw it close at about ₦202.3 billion, which was basically a 34% increase from the corresponding period in the previous year. The key drivers were as a starting point the decrease in the net impairment charge to ₦4.9 billion. The question would be, how can you see a decrease in net impairment charge given the combination? The result is simple. There was a proper increase in the impairment charge, but obviously there were a few write-backs to the tune of about ₦4.8 billion coming from some of the things we saw in the course of the quarter as well as the other assets. Basically that helped reduce the net impairment charge. We also saw a 24% increase in our other operating income to ₦24.4 billion, and the primary reason for this increase was largely as a result of the recoveries that we were doing. So there were increased loan loss recoveries to the tune of ₦13.9 billion. And of course it came from our asset management business and income from other financial services. But the primary thing as you can see was driven by the significant recoveries that we made in the course of the period.

The net trading income basically comprises of our net gain or loss on investment securities as well as the net foreign exchange income. It dropped from ₦25.8 billion in 2018 to a loss of ₦14.8 billion in this half year, which would basically show a reduction of about ₦40 billion. If you break it down what you see is that the derivatives gain of ₦33 billion in the half year of 2018 in this corresponding period what we saw was a loss of ₦1.9 billion. And of course there was also something that had to do with the fair value gain on equity investments which was as significant as ₦25.7 billion in the first half of 2018 compared to just ₦5.8 billion in the corresponding period this year.

Let me take a little time to explain this derivative income. What you will see is that the gain or loss that was highlighted relates primarily to the timing difference between when the derivatives gain was recognised applying the spot rate for the majority of the instruments. And of course this leads to some adjustment in the profitability of the instruments through the lapse of time. On the fair value gain in 2018 with the introduction of IFRS 9 which allows us to elect to fair value the equity investments through profit and lo ss the bank elected to fair value our own equity through our P&L. And this generated a one-off gain of ₦25.8 billion which is non-recurring in 2019.

Total operating expenses increased by 25% to ₦123.3 billion from ₦98.2 billion in the corresponding period of last year, a 24% quarter on quarter increase. The simple reason is clear. It is coming from the full impact of the expanded franchise, branches and staff etc. But we anticipate that this will trend downwards in the second half of the year as we begin to see the merger synergies kick in. our loans and advances to customers stood at ₦2.6 trillion at the half year of 2019, up by 32% from ₦1.9 trillion in December 2018. Really this comes largely from the merger, and of course if you took Access Bank on a standalone the growth in the period was not significant at all.

The group asset quality improved in the period following the sharp deterioration in March as a result of the assets acquired. However, our prudent provisioning and risk management practises ensured that the NPL ratio trended down to as low as 6.4% with significant improvements from 10% as at March 2019. This was achieved through a combination of write-offs, recoveries, reclassification and loan restructuring. Basically we have had to pursue this loan book with a lot of vigour and there have been significant recoveries. There have been restructurings which have shown improvements. And there have also been significant write-backs of some of the loans that have been fully provided. Our expected credit loss charge on loans stood at ₦9.7 billion in the half year, which is really 42% higher than the corresponding period in the previous year. This was on account of the assets coming from the combination. However, the cost of risk also showed a slight increase to 0.7% in the half year compared to 0.6% in the corresponding period of last year.

Customer deposits closed at ₦4.18 trillion, which is a 63% increase from the year ended 2018. At the end of 31st December 2018 the balance sheet figure of the deposits showed ₦2.56 trillion. And if you look at it from March 2019 there has been a 7% growth. And at that time it stood at something like ₦3.92 trillion. So we have continued to see consistent increases as far as customer deposits are concerned. The growth was primarily driven by a 104% increase in our current accounts and savings accounts deposits, reflecting the enhanced retail value proposition on the back of the very strong and innovative digital platform. With respect to capital and how this has played out, our capital adequacy stood at 21.5% which is a 70 basis points increase from the half year in terms of the corresponding period last year, while our liquidity ratio was well in excess of the regulatory minimum at 50.3%.

Let's speak about our retail strategy. During the reporting period we have made some strategic decisions in order to push our retail strategy in line with the next phase of our transformation. We invested in analytics so as to be able to discern our customers' increasingly complicated needs, and therefore structure products and services towards meeting or achieving optimal satisfaction. Our reliance on analytics has also led us to conduct a proper segmentation of the retail business, thereby positioning ourselves to capture the huge opportunities in this market. Accordingly I am happy to share some of the achievements recorded in the retail segment during the half year as shown in slides 25 to 28, which I'm sure you've all gone through. Our retail contribution to our total income stood at 42%, i.e. ₦64 billion, compared to 18% in the corresponding period last year which was just ₦46 billion, with fees of about ₦12.1 billion compared to ₦6.3 billion in the corresponding period last year. So there has been significant transmission income just coming from the pay and receive business. And one of the things you will find out is since after the merger the combined retail business has more than doubled in terms of the levels of transactions that are happening and transaction income that is being generated.

Additionally, the deposit mix in the period has improved from ₦766 billion in December 2018 to ₦1.9 trillion with low-cost deposits accounting for 55% of the total. This improvement continues to show the strength derived from the synergies of the merger as well as the efforts to acquire low-cost deposits. As far as financial inclusion is concerned it is also an inherent part of our retail strategy and it involves focussing on banking the unbanked. As such we increased our agency banking network to about 15,000 across the 36 states and the federal capital in Abuja. We have also strengthened our partnerships with the telcos to take the power of banking to remotely unbanked areas. All together this helps us to deliver value propositions such as products referred to as Access closa and beta to about 1.3 million customers and facilitated transactions close to ₦100 billion in just three months compared to about ₦29 billion in the first quarter. So we have seen that aspect of our business almost quadruple as well.

We have also grown our digital loan business as far as our financial inclusion and normal traditional retail strategy by expanding on our digital lending capabilities to include more products such as salary advancements, small tickets, personal loans and device financing in addition to what we call our payday loans. And all of this is done on our QuickBucks application which basically houses all of these products. Today we are disbursing on average ₦200 million to 4,600 different customers through the click of a button daily. And we have set for ourselves a target of about ₦400 million daily to at least 20,000 customers, and we are on course to achieving this. This basically generates very low NPLs and is properly priced because a lot of it goes to customers who have their salary accounts with us. And the value capture potential of this product is significant and is going to lead to significant diversification in terms of our loan portfolio.

Talking about our total business, we have seen a significant growth in the first half, and this has ended up with about 58% and 26% in transaction volume and value respectively. And a breakdown of the channel performance for the key drivers is as follows. First of all we have seen a 100% growth in our debit and credit card transactions from about 330 million in the first half of 2019. It has resulted in about ₦2.9 trillion worth of transactions. And when you compare it to the corresponding period in the previous year it is basically [unclear]. Our USSD application, which is basically payments on feature phones, has grown by over 130% in the same period. We have basically grown our transaction count to about 115,000 and values from what was something like ₦163 million in the previous period to about ₦422 million. So there is a lot happening as far as retail is concerned in terms of our payments capabilities, in terms of the amount of transactions, in terms of our payday loans which have quadrupled. And today we have booked something close to ₦18 billion in this half year from what was ₦11 billion half year last year, which is a very significant growth in the amount of loans that are being booked both in volume and number. I think for the first half of this year in terms of unique number of loans we've given out so far it comes close to a million loans, which basically was almost the total amount that was done last year. Our ATM, POS, mobile and internet channels have seen significant growth as well over the reporting period.

We are on the run rate of acquiring customers of about half a million customers on a monthly basis. And today our customer count is about 31 million, which means that we have signed on over 1.6 million customers since the merger happened. The effectiveness of our retail strategy is undoubtedly as a result of our focus on customer first. Already we are reaping the benefits of this strategy, and with discipline and effective execution we believe that we will become the clear leader as far as retail is concerned in this market. Going forward this segment will continue to improve its digital capabilities through big data analytics which will impact our time to market and cost to serve these customers, and we will leverage on our value propositions and keep expanding our reach to bring banking to the doorsteps of many.

Before closing I would like to update you on our guidance for 2019 in terms of financial targets. At the beginning of the year we have basically said that our return on equity target was about 20%. Today we have achieved about 23%. We think we are going to maintain that kind of return on average equity. On asset quality our cost of risk guidance we gave at the beginning of the year was going to be less than 1.5%. Even though we've done a lot better than that right now, we think that at the end of the year it should not exceed 1.2%. And the simple reason is that we are still being extremely careful with respect to what we provide as guidance because of a newly inherited loan book which we are still nurturing. We think our NPL ratio, which is currently at about 6.3%, will remain well within the guidance which we have given at the beginning of the year at 10%. So we will fall within the guidance. Now, our traditional NPL ratios have been at 2.5%. We are going to continue to ensure that that is achieved over this year and next year, but the whole idea is to become very careful given the nature of loan book that we've inherited and which we are nurturing.

On efficiency our cost to income ratio will certainly be below 60%. Our net interest margin we had given a target of 6%. Today we are at 7.8%. We think we will be able to moderate it at about those levels. And our cost of funds which is currently at 4.8%comapred to what we have given as guidance at less than 5%, we think that given the overall size of the balance sheet we should be able to bring that average cost of funds down to about 4.5% by the end of the year. In terms of our prudential ratios certainly our capital adequacy will remain north of 20%, our loan to deposit ratio at 60%, and we will maintain liquidity ratios greater than 50%.

On the synergies we continue to ramp up the delivery of our merger synergies. As at half year we have generated cost synergies of ₦32 billion. We believe that as we move into the second half of the year we should be able to build on that number to ensure that we continue to remain very profitable in spite of the fact that we've just concluded a merger. So ladies and gentlemen, I want to thank you all for listening. This concludes our presentation, and I will now leave the lines open for questions and we will provide the necessary answers. Thank you very much.

Operator
Thank you sir. Ladies and gentlemen, if you would like to ask a question please press star and then one on your touchtone phone or the keypad on your screen. If you decide to withdraw the question please press star and then two to remove yourself from the list. Again, to ask a question, please press star and then one. The first question we have is from Jerry Nnebue from Cardinal Stone.

Jerry Nnebue
Hello and good afternoon. Thank you for taking my question. I have a number of questions regarding the results. First and foremost on your NPLs you said the improvement you saw in NPL is largely due to some restructuring, write-offs, recovery and reclassification. Is it possible to give us a breakdown of how much you have restructured during the period and how much was written off as a result of recoveries that you made? Secondly, I would also like to know as at March how much was your stage 2 loans. I would like to compare that to what we have now to see what movements were made during the period. My third question is on operating expenses. So I assume that a number of what we are seeing is related to one-off integration costs. Is it possible to give us an estimate how much that is and how much of that we are likely to see in the second half of the year, and by extension if we are going to see some of those recur next year.

For the fourth question on your agency banking, you said there have been some improvements to about 15,000 agents. What is it on now as at FY2019? What was it before now? And at this level is it safe to say that you're in a comfortable position to play especially when the PSV has come on board? The last question I have is on your digital loan book. So I see that is less than 1% of your total loan book. So what is the target level for this particular loan book? It is less than 1%, so what target are you trying to achieve? And secondly if you could give an estimate of what the NPL is on this particular loan book that would be helpful. Those are my questions for now.

Herbert Wigwe
Okay, thank you. I will let Greg Jabome, our Chief Risk Officer, speak to the NPLs, the level of restructuring, the recoveries and reclassification. He will also address the issue of how many stage 2 loans existed before and now. And then we will address the other questions.

Greg Jobome

Thank you Herbert. To go straight to the restructured book, if you want to compare to full year 2018 as Access Bank standalone prior to the merger they had ₦436 billion in stage two loans. Now, if I… [Overtalking]. That's where you typically see some of the restructured facilities. So that obviously has now moved. Stage 2 loans on a much bigger book are currently at ₦632 billion. That is after combining with Diamond Bank. So that is the move from ₦436 billion in December 2018 to ₦632 billion June 2019. So that's the movement following the combination with Diamond Bank. So that is overall stage 2 movement. Now, with respect to the restructured… [Overtalking]. As at Q1, ₦499 billion. Now, for the restructured component of that the bank had prior to the combination about 8% or thereabouts restructured loans as a share of the loan book. It was about 8%. Currently it is at about 11%. Obviously that reflects the restructurings that we've done after the merger with Diamond Bank. So I hope that gives you a flavour. Previously about 8% of the book was restructured. Currently it is about 11% of the book restructured.

Herbert Wigwe

So integration costs, Seyi, do you want to speak to integration costs?

Seyi Kumapayi

In terms of integration costs what you see in the current financials is about ₦6 billion. We project that before the end of the year we will see another ₦5 billion or ₦6 billion. So the integration cost for the year will be around ₦10 billion to ₦12 billion. So what you see in the financials is just about ₦6 billion.

Herbert Wigwe

Okay. Now, on agency banking, at the time at which we did the merger we had just about 10,000 agents. What we've done is to add 5,000 agents to get it to 15,000 agents. Obviously you know how this work and what is involved. So what we have decided to do is keep growing gradually like that and monitor performance. Now, will that provide significant impact in competition with peers? The answer is yes. We will always be ready to compete. But let me also put it this way. On a level playing field what you would find is that some of us have the capacity to compete with the PSVs. This is not how the agency banking framework is going to end. We will continue to expand our agents across the country. And you will see that in the next quarter and going into next year so that the level of financial inclusion and the sign-on of customers at Access Bank will basically grow from what we have today at something like 500,000 a month to perhaps maybe 650,000 on a monthly basis as we progress. But that is likely to make us stronger, increase the level of transaction income running through our own equity and therefore the amount of income and money that we can have to support ourselves when the PSV licenses do some. Now, on the digital loan book I will let Greg speak to the digital loan book as well.

Greg Jobome

Okay. So for the digital loan book, which is largely dominated by payday loans at the minute, the NPL ratios there have typically been well below 3%. Now, the reason for this as Herbert alluded to earlier on is they are based on customers who already have their salaries with us. Therefore typically the loans do not go bad in the traditional sense. In some cases you might find the occasionally delayed salary payment, for that period we might see an inching up in the NPL ratio. But the NPL when you get the salaries as you know is going to be very low for a long time to come. So those are the kinds of ratios you have seen. There are periods when it is 0%. Almost every employer has fully paid up the salaries. When there are delays in payment typically in some cases it can take three or four months for those salaries to come through. Eventually they come through and the NPL again trends to 0%.

Herbert Wigwe
Next question please.

Operator
The next question we have is from Wale Okunrinboye from Sigma Pensions.

Wale Okunrinboye
Hello. Can you hear me? Okay. I just have a few questions. The first is on the audit side, the auditor's report there is something about the purchase price allocation not being concluded. Can you perhaps provide colour on what that is about? The auditors drew attention to the fact that you haven't concluded the purchase price allocation for the acquisition. Can you maybe provide some explanation as to what that is? Secondly is on your recoveries. Can you provide some colour as to what is driving that number, because it is very strong? On what exactly you did and how you were able to recover them, because they are quite strong and I don't think I've seen something similar across the industry. The third is on your trading losses. What exactly drove the trading losses? And then fourthly is on your efficiency initiatives particularly on the cost side. In Q2 the cost to income ratio is at 69%. That number seems pretty much on the high side. Is this more likely where we are going to see it on a quarterly basis? What was the run rate for opex on a quarterly basis? I think the Q2 number came in at ₦69 billion. What do we expect to see on a quarterly basis going forward? I think that's all.

Herbert Wigwe
Okay. I would like Seyi to address most of those questions.

Seyi Kumapayi
With respect to the auditors' report, in line with IFRS 3 the purchase price… what they are saying is that the amount that you paid for an acquisition you need to allocate it to different segments. So is it the brand, is it the customers you have acquired? And because it is an elaborate process the standard allows you one year from the date of the merger to complete this. And that's why it is stated that it is not completed because that process is still ongoing. Now, with respect to trading loss I think Herbert spoke to trading losses. So there are two things that you see there. One relates to derivatives. If you look at the derivatives last year it was ₦33 billion and it came down to a loss of ₦1 billion. And then we have the fair value equity gain which was about ₦25 billion last year and it came down to about ₦5 billion.

Now, with respect to the derivatives, the timing difference between when the income is recognised using the market determined rate versus the market maturity creates adjustment profitability when that instrument matures. And that's why you have that loss on derivatives. With respect to the fair value gain, if you recall at the beginning of 2018 when IFRS 9 was implemented you were allowed to elect whether to fair value your equity investment through OCI, other comprehensive income, or profit and loss. We chose to do it through P&L and we saw a once-off gain of about ₦25 billion. And you are not seeing that. So those are the two key elements of the trading loss that you saw in the financials.

Herbert Wigwe
On recoveries the amount of recoveries we've made so far amounts to about ₦14 billion. We are on a run rate of about ₦4 billion recoveries on a monthly basis, and it just comes from the fact that we are pursuing these debtors with everything that we have. The one thing that we are known for in the market is that we will recover our loans in spite of the backlash that may come from it when we pursue it. Social media issues. People are dissing us etc. But I think protection of the funds remains paramount to us and we will do whatever we need to do within the ambit of the law to make sure we recover our money. So it is yielding fruit. So far we have recovered about ₦14 billion. We hope that we will be able to keep this trajectory right through to the end of the year, at which time the full benefits of the retail business coming from the combination would have been able to kick in properly to replace that source of income. On efficiency ratios you were speaking about the opex of about ₦68 billion. We believe that that number will recur over the next quarter and the final quarter, so over the next half year if you like. So those are the types of numbers that we will continue to see right through to the end of the year.

Seyi Kumapayi
Let me also add to what Herbert has said. Now, what you see is that this is the first time we are seeing the combined expense of the merged bank. So we have increased number of branches and increased staff. Now, what you will find is that it has only been three months, so in terms of optimisation of staff and branches we have not even started. So when that happens the top line will increase and therefore the cost to income ratio will naturally come down to the levels that we projected in the financials.

Herbert Wigwe
Next question.

Operator
The next question we have is from David Adu from Meristem Securities.

David Adu
Good afternoon. Thanks for taking my call. I just have one or two questions. So I know you just recently spoke about the trading book, about timing differences on the derivatives and the devaluation of the equity instrument. So I want to ask, what is your guidance towards this line? Because I can also see from your financials that there is a fixed income securities loss of about ₦2 billion. So what is your guidance for this line going forward? And also in terms of foreign exchange trading as well we have a foreign exchange trading loss of about ₦13 billion as well. What are the factors driving this and how do we see this performing to the end of the year? Thank you.

Herbert Wigwe
Okay. Very simple. We have modelled it based on our short position and all of that, and the guidance on a quarter on quarter basis between now and the end of the year is ₦15 billion per quarter loss. So that is basically what would happen. And I will explain to you further. Several times on the calls we have been asked about this income

line. And we have chosen as an institution that we will moderate the income that we make from these derivatives. So we are trying to temper all of this down, and unwinding basically comes with its own issues. So what you would see is ₦15 billion a quarter for the third quarter and for the final quarter of the year. It is not going to exceed that. Thank you.

David Adu
Okay. So by ₦15 billion do you mean ₦15 billion in losses going forward?

Herbert Wigwe
Yes, ₦15 billion in losses for each of those quarters, correct.

David Adu
Okay. What about for foreign exchange?

Herbert Wigwe
We would typically see it in aggregate.

David Adu
Oh, aggregate. Okay. All right. Thank you.

Herbert Wigwe
Also remember that this represents a portfolio in terms of your foreign currency liabilities if you like. And those monies are available for other uses. So it could see a change in terms of the income line and where the money is coming from. It could be on the net revenue from funds side, depending on who we choose to give the money to. So that line will reduce. We are showing a loss, but in terms of the aggregate and impact on the numbers of the bank it is not going to be material.

David Adu
Okay. All right. Thank you very much.

Herbert Wigwe
Thank you.

Operator
Ladies and gentlemen, just a reminder, if you would like to ask a question please press star and then one. The next question we have is from Olusi of United Capital.

Wale Olusi
Good afternoon. My name is Wale Olusi from United Capital. Sorry I joined the call late. Thanks for taking my call. Most of my questions some other analysts already asked, but I would like to get your thoughts on the recent drive we've seen across the industry which I think was led by Access. And that is to do with the early recall of Eurobonds

that we've seen. I would like to get your thoughts on the perspective of the bank behind this early recall. Thank you.

Herbert Wigwe

Well, simply put there are two things in my mind. The first is the fact that people are trying to manage their balance sheets more effectively and see where they can bring down the overall cost of doing business. Now, these Eurobonds are maturing and right now you can get better priced foreign currency instruments either locally or internally. So for most people the idea is to unwind your loan book, pay back on those Eurobonds and bring down your overall cost of funds. And that is one of the things that we've done. We have paid back $400 million and those were early redemptions. That has helped as well in bringing down our overall cost of funds which you recall at some particular point in time was about 6%. So that is one aspect.

The second is that people are being extremely cautious with over-extending their foreign currency loan book. And so they have taken decisions with respect to reallocations of their portfolio and bringing down the foreign currency loan book and freeing up those liabilities to repay those Eurobonds. So on the face of it I think those are the two things that are driving corporates that are taking those decisions with respect to early redemptions or basically paying back the Eurobonds and not going into fresh issues.

Wale Olusi

Okay. I like your perspective and I appreciate the response. Do you have any concern around the exchange rate, medium to long term or near term?

Herbert Wigwe

Well, exchange rate will always reflect the fundamentals of the country and will reflect our relative trading values, exports versus imports. We remain largely an importer economy. But the economy and the entire bankers committee under the auspices of the central bank is doing a lot of work to curb the amount of imports coming into the country and forcing people to produce locally and for us to consume made in Nigeria products. So I think in the short to medium term exchange rates will remain reasonably stable. Stable does not mean that it is fixed. You will see slight deviations. It can be a 3% creep or whatever it is, as we see anywhere in the world. But I think we are likely to see reasonably stable currency over the next couple of months and going up to a year or a bit more. So that is my own thought process with respect to currency.

Wale Olusi

Thank you very much sir.

Operator

The next question we have is from Ola Warikoru from SBG Securities.

Ola Warikoru

Hello. Thanks very much for the presentation. So I have two major questions. The first one is on your digital strategy. So you mentioned that you customer base is about 31 million and in the last three or four months you've been able to grow your customers by 1.6 million. I would like to find out, is it a function of the digital play as well as the offerings that people are interested in? And secondly, how many of the customers are active customers versus the dormant customers? And finally, given the fact that across the industry there is a lot of conversation around the digital potential of banks, I want to know from your perspective how Access is going to differentiate itself from the rest of the market. And then just also on that, given the size of your customer base and the retail drive as well, how soon will we start to see that reflect in non-interest revenues as well? Thank you.

Hebert Wigwe

Thank you. Today we reap about 500,000 customers as I mentioned earlier on a monthly basis. And it's a combination of those who sign on digitally through our lending products – they can basically sign up for access through a click of a button if you want a loan because a lot of people have been pre-profiled – and the direct marketing efforts which we have. So it is that combination that is creating about 500,000 customers on a monthly basis. Now, I think digital is going to take the lead as we move into the future. I think we are going to see a lot more people. Like I said already we have given out about a million unique loans digitally to people who bank with us or basically who now want to have an account with us and have directed their payroll to us. I think we are going to see that figure ramp up a bit more even in this second half of the year to maybe 600,000 or 650,000 and largely coming from the digital experience that they are having.

Now, in terms of how this is coming out from our digital strategy, remember that we have a very well-structured digital strategy which started about four years ago. And we created a digital banking divisions and the appropriate governance framework to support all of this. And the governance framework means that we meet twice a week with respect to the tactical part which has a digital design council, and of course a steering committee which also meets on Wednesdays to look at what is happening on the more strategic issues around digital. You also know [unclear] African fintech country which represents an endeavour to start to seek innovation that is outside in coming from the external environment and making sure that whatever is happening in more developed markets we can import them insofar as they are useful into our local markets and play it locally, apart from our own internal basement which basically allows us to take projects or suggestions or products internally and refine them to help our customers do better. So we have structured a fairly sophisticated governance framework to make sure that our digital innovation strategy is unique and robust. And that is one of the things that is helping us.

How do we compare to the rest of the industry? I think that we've been at the forefront of digital. I think if you take our lending capabilities today and compare it to any other institution in the country you will see that we are ranking highest. How is it going to play out in terms of commissions and fees? I think you will see as we move into next year where our digital strategy alone may produce as much as ₦12 billion to ₦15 billion through commissions and fees separate and distinct from the traditional business, which is basically ₦1 billion in revenues on a monthly basis after discounting for risk, which is a significant amount of money – not to talk about the other ancillary income that will come from issuing cards, the net revenue from funds from transfers, the tenure payments and all of those things. So that is basically how it is going to play out. And I think we are extremely proud of what we're doing because we can see it mature every day. And we are going to expand from payday loans, expand it a little bit more based on algorithms that are being developed to customers who are in trading etc., and partnering of some of the skills, leveraging of some of the skills that have been developed from Diamond Bank with lending to the SME market. So those are the things which I think are fundamental and will keep us totally different from the rest of the industry.

We have also come up with several things which have to do with customer acquisition, particularly with respect to agency banking and making sure that customers are on-boarded and the journey is seamless. A customer is considered a customer only when he is properly on-boarded with a card and all of that. So the entire digital experience first of all with respect to providing loans to deserving customers right down all the way through to as well signing on fresh new customers who are just seeking to benefit from the wide products that we offer compared to the rest of the industry. Next question.

Ola Warikoru
Ladies and gentlemen, just a reminder, if you would like to ask a question please press star and then one. The next question we have is from Olawaseun Akinwale. Please go ahead.

Olawaseun Akinwale
I have a few questions concerning asset quality. You mentioned earlier that most of the loans in stage 2 are due to restructuring and the like. I just want your guidance. Firstly going into the full year how many of these loans should we expect to move down to stage 3or move back to stage 1? I just want what you are expecting for those stage 2 loans before the end of the year. Also still on asset quality I would like guidance on your Geometrics. I want to know what the state is right now. What has been done around Geometrics so far? So thirdly I want to take you back to the presentation for Q1 where you laid down some of the lines you are expecting for write-off and the like to be able to achieve your 5% loan book at the end of the year. I just want to know how much of those write-offs should we expect before the end of the year. And for you to achieve these write-offs how much provisioning should we look at towards the end of the year? I think those are my questions for now.

Herbert Wigwe
Thank you. I will let Greg speak to those questions.

Greg Jobome
Thank you. So with respect to potential migration from the restructured loans to possibly migrating downwards or upwards – I'm sure you meant two-way migration – in Access Bank we do a very thorough job with respect to the cash flow forecasted and we ensure that those cash flows… There is no point in restructuring if the cash flows are going to end up in a ditch within a few months' time. So given that we restructured a few of them over the last three to six months we are not expecting to see them sliding into NPL stage 3 between now and the end of the year. So that's number one.

Now, will there be some that might deteriorate down the line that may not meet the covenants that we have established? Of course. It's banking. So you might find a few that will not make the cut. Now, the record of the bank is that the rate at which restructured loans migrate into NPL is actually extremely low and it is in the neighbourhood of 5% or less in terms of the names that actually become NPLs post restructuring. And that is because of the careful way that we do our cash flow forecasting and the restructuring process itself. Of course that means that there are a substantial number of them that migrate from stage 2 into stage 1 over time because they do meet the requirements. And in line with IFRS 9 rules a few of them will also migrate back into stage 1. Before the end of this year you're not going to see too much change with respect to those migrations.

With respect to Geometrics it's a name that no longer exists on our books. In line with our commitments in respect to our write-off process it is fully provisioned and written off. We are now in the course of pursuing a full recovery. Of course the bulk of our write-offs are with full recovery, full recourse to the borrower. And the process in respect to that is in progress. We are fully engaged with it and it is a recovery prospect that we are holding very strong. Now, will there be more write-offs before the end of the year? There will be one or two. Again it is in line with our provisioning pattern. All the names where we have 75% to 100% impairments already taken a few of those loans will be written off before the year runs out. So I hope I've addressed all your questions.

Herbert Wigwe
Let me quickly add a few words to what Greg has said. We continue to clean the stable. Geometrics is one name that affected the erstwhile Diamond significantly. We have taken the additional provision like he said and we have written it off. However, there is a bit of good news, which is the fact that we have worked with Geometrics and they have obtained the relevant funding to complete the project. And that project is pretty much completed now. Our expectation is that they should start generating power in the next quarter and then we start to see recoveries over time. So in terms of provisioning this is one example of something that we want to see work back for the better. Whatever comes out of Geometrics now will be income. So we are signing the final documents with the rest of the syndicate to make sure that we put in place the appropriate governance framework to make sure that we see huge recoveries coming out of Geometrics even though we have fully provisioned and written off the facility. Thank you very much. Next question.

Operator
Ladies and gentlemen, just a final reminder, if you would like to ask a question please press star and then one.

Herbert Wigwe
Well, I think this brings us to the end of today's investor call. Once again I want to thank you all for dialling in. We look forward to the end of the quarter when we shall be sharing with you the performance of the third quarter. Thank you very much and have a good day.

Operator
Thank you sir. Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT