Conference Call Transcript

Operator
Good afternoon ladies and gentlemen. Welcome to the Access Bank Plc 2019 full year results presentation. All participants are currently in listen-only mode. There will be an opportunity to ask questions later during this conference. If you should need assistance during this call, please signal an operator by pressing * then 0. 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 very much, Irene, and a very good afternoon ladies and gentlemen. You are all welcome to Access Bank's Full Year 2019 Earnings Call. We have prepared a very detailed presentation highlighting all aspects of our business which we're going to be sharing with you right now. On the call with me today are Mr Roosevelt Ogbonna, who is our Group Deputy Managing Director; Greg Jobome, who is our Executive Director, Risk Management; Adeolu Bajomo, Executive Director, IT and Operations; Mr Victor Etuokwu, who is our Executive Director, Personal Banking; Chizoma Okoli, our Executive Director, Business Banking; Hadiza Ambursa, Executive Director of Commercial Banking; and Mr Seyi Kumapayi, who is our Chief Financial Officer.

As you are aware, we have completed our merger with Diamond Bank in 2019 and therefore most of the numbers I will share with you will reflect the impact of the merger. I will briefly go over some of the key performance highlights, after which we will allow more than enough time for a question and answer session with you.

Speaking to delivering on our strategy and merger synergies, as earlier said we have now completed the merger and operate as one organisation, one culture, one system, one set of processes, achieving the target value creation set for ourselves. We have realised merger synergies of ₦59.9 billion, comprising largely of recoveries, lower cost of funds and contract renegotiations. This puts us far ahead of our run rate, because at the time of sharing the merger synergies we saw coming from this combination, we expected about ₦155 billion over a three-year period. In the first year we have made about ₦60 billion.

The merger has started to create value as post-merger metrics have far exceeded those of the individual banks on a standalone basis. Some of the metrics are as follows. When we look at customer deposits, Access Bank as at the end of the first quarter 2019 had ₦2.9 trillion, Diamond Bank had ₦1.1 trillion, leading to a combined deposit of ₦3.9 trillion. However, we closed the year 2019 with ₦4.2 trillion of customer deposits. More interesting are the retail metrics. If you look at the retail transaction income for Diamond Bank for the first quarter of 2019 it was ₦6.7 billion. Access Bank was ₦4.3 billion. So if you combined it, it was ₦11 billion and on an annualised basis about ₦44 billion expected in 2019. However, at the end of the year we did about ₦52 billion which is 17% above the combined entities when you annualise the income.

The same thing with respect to point of sales collections. On a combined basis at ₦103.7 billion at the end of the first quarter, which meant annualising it would have been about ₦414 billion. We ended the year at ₦518 billion instead. Our card transactions on a combined basis was about ₦730 billion cards, which meant that in the full year we would have done about ₦2.9 trillion. But what we did was ₦4.1 trillion, which is about 39% growth. With respect to USSD transactions, we experienced the same thing. Combined it would have been ₦174 billion on a quarterly basis in terms of transactions, meaning that we would have run about ₦697 billion for the full year on a combined basis, but we did about ₦1 trillion. Mobile and internet banking basically on a combined basis would have been ₦3 trillion in the first quarter, meaning ₦12 trillion at the end of 2019. But what we did was ₦17 trillion. Basically it just shows that in terms of the combined entity with respect to the retail metrics we are beginning to see value coming out of this.

Let's go into the group performance highlights. Our gross earnings grew by 26%, closing at about ₦666 billion in the period compared to ₦528.7 billion in 2018, comprising of 81% interest income and 19% non-interest income. Interest income of course was up by 41% to about ₦536 billion. Key contributors to this growth include 86% coming from investment securities, which rose to about ₦193 billion in the period compared to ₦103 billion in the corresponding period of last year. We also saw a 28% rise in interest in loans to about ₦334 billion compared to ₦262 billion in the previous year, of course resulting from the combined and growing loan book. As a result, our net interest income from the overall balance sheet improved by 60% to ₦277 billion in the financial year ended 2019 compared to ₦173 billion for 2018.

Our operating income increased by 25% to ₦389 billion from ₦311 billion in the corresponding period of 2018, owing largely to the significant growth in net interest income and other operating income. The key drivers of our operating income were as follows. A 48% increase in our commissions and fees to ₦91.8 billion in 2019 compared to ₦62.1 billion in 2018. This was of course attributable to the increased retail transaction charges, commissions on channels and other e-business income as well as account maintenance charge. We will continue to gain traction on these income lines as we continue to extend our retail offerings and grow as one combined institution, basically stabilising for growth.

Also we saw a contribution from our other operating income which basically came from other financial services, gain on disposal of property and equipment and about ₦38.4 billion coming from the recoveries of fully written off bad loans, which was one of the things we said we were going to pursue aggressively as soon as the combination was done.

On the other hand, we saw a decrease in our net traded income to a loss of ₦17.7 billion from a gain of ₦72.6 billion in 2018. Of course this was accounted for by our current foreign exchange trading losses and of course the FX revaluation and reduction in the gain on derivatives and equity investments. When you analyse this properly you will see that there was significant unwinding of the underlying derivative contracts which were maturing as we moved closer to maturity of the instruments. However, as you will see in 2020 these have been very carefully modelled into our financial plans to ensure that there is minimal volatility in profitability.

Our interest expense increased by 25% to ₦259.6 billion in 2019 coming from ₦207.3 billion in 2018. This was largely driven by the size of the enlarged deposit base resulting from the merger and interest expense on our structured funding. We have largely wound down and repriced this book, and this is beginning to reflect in our cost of funding which has continued its descent by 50 basis points in the last quarter of the last financial year when you compare it to 5.5% as at December 2018, and today that figure is about 3.5% in terms of our composite interest cost. The full impact of that figure obviously will be felt in 2020 as we begin to enjoy the benefits of low interest rates and the fact that we have been able to migrate our cost of funds downwards significantly and increase our savings account and current account mix in terms of the overall proposition in 2020.

As regards to costs, our operating expenses were up by 31% year on year to ₦253.8 billion compared to ₦194 billion in 2018. Now, this was as a result of increase in personnel expense, depreciation, AMCON, IT and e-business expenses. The primary reason we have seen this growth was the fact that we had to minimize disruption of people and system to ensure that the integration would not affect our overall customer experience and service while we were coupling the two institutions. Secondly, we had to ensure that we harmonised our culture of the combined entity. As you will see in 2020 when we talk about the outlook, taking into consideration the effects of natural attrition of staff and all of that, the OPEX figure will wind down very significantly in 2020 as we go into the year.

With respect to customer deposits, this closed at about ₦4.26 trillion, which basically reflected a 66% year on year growth from ₦2.6 trillion in Dec'18 and a 0.4% quarter on quarter from September 2019. The growth was primarily driven by the 93% year to date increase in our CASA deposits. So what we are beginning to see is very significant growth as far as our current and savings accounts are concerned. You will see it more in 2020 from the sales account levels. We expect that very shortly we will cross the ₦1 trillion mark. This has basically come from our enhanced retail presence, leveraging on our innovative digital platform, and the synergistic effects of the merger. With respect to loans and advances this closed at about ₦3 trillion as at 31 December 2019, again up from ₦2.14 trillion in December 2018. Again this has come from the combination and careful risk asset creation to quality corporate names, and also the supporting retail segment in line with some of the things which the Central Bank intends to project.

Overall the group's asset quality remains under check as the non-performing loan ratio stood at 5.8% in the period compared to the nine-month period which was 6.3%. And of course the key sectors that are responsible for this are; oil & gas services at 14.8%, general commerce at 11.1% and real estate activities at about 7.4%. We will continue to drive down the non-performing loan ratio to our traditional levels where we used to be prior to the merger through a combination of write-offs, recoveries, declassification and loan restructuring. On a year to date basis we have written off a total of ₦93 billion and incurred full provisions on that.

With respect to our expected credit loss charge this was up by 27% to ₦21.7 billion in 2019 from ₦14.2 billion in the previous year. Of course this was to ensure that we have adequate cover in order to drive our non-performing loan ratios down to our traditional levels. Accordingly, our cost of risk at the end the year stood at about 1.9% in 2019 financial year. This would have been expected. In any type of merger like this you will find a couple of things which you didn't pick up before the merger in terms of loans. It is also coming from the changing macro, so we had to increase our provision before the end of the year. With respect to our capital adequacy ratio it was at about 18.2% on a full impact basis. However, if we consider the regulatory transition arrangements, our capital adequacy ratio stood at 20.0%. The liquidity ratio was at 47% and far in excess of regulatory minimum requirements.

What are the things we need to address? First is cost. Our operating expense was up by 31% year on year largely driven as I shared before by increases in depreciation, amortisation, personnel expense, regulatory cost and outsourcing cost. If you break it down you find the recruitment and training expense grew by 33% year on year, of course coming from the enlarged cross-training and harmonisation as well as increased salaries. We also saw depreciation and amortisation increase by 57%, reflective of the significantly larger infrastructural base and investments to support the larger institution and create enough room for our strategic drive with respect to more customers and increased activity.

We also saw about 67% increase in deposit insurance premium, driven by the large deposit base and the inclusion of nine months NDIC premium post Diamond Bank. The 13% increase in AMCON expense also reflects the growth in the asset base of Access Bank between 2017 and 2018. Our outsourcing costs also went up by about 92% due to our expanded branch network, as well as the harmonised compensation to the increased outsourced staff which we needed to support our drive, as well as the direct sales agents and some of the initiatives that we are pushing as far as agency banking is concerned.

Net trading income decreased by about 124% year on year due to a significant drop in the fair value gain on equity instruments and more importantly derivative instruments, coupled with foreign exchange trading losses and foreign exchange loss on revaluation. So we saw FX trading loss of about 500% year on year and gain on FX derivatives dipped by 60% on a year on year basis. And of course this was completely as a result of the unwinding of derivative contracts as we move closer to maturity of those contracts. Some of those contracts were three years old, and what we saw was in the last quarter of the year a very significant portion of it matured.

Moving to our retail strategy, we will continue to consolidate the gains from our various strategic decisions targeted at pushing our retail business in line with the next phase of our transformation. We are very heavy on analytics to facilitate and understand our customers' behaviour and preferences. This is done in order to tailor our product offerings and marketing efforts, thereby positioning ourselves to capture the huge opportunities in the market.

With respect to financial inclusion we will deploy the necessary resources to reach the underbanked and unbanked by increasing our agency banking network, strengthening our partnerships with telcos and leveraging technology. Today our agency banking network has increased by 2,000 agents to 18,607 across all the thirty-six states.

During the year we were able to reach places where there was low or no presence of banks while within demographic and economic requirements. Altogether this has helped us to deliver a value proposition such as Access CLOSA and BETA, which essentially refers to our endeavour to basically take moderately priced branches to the hinterland so that we can get closer and closer to the customer, and of course take our products to millions of customers. We facilitated transactions worth about ₦378 billion as at year end from ₦29 billion in the first quarter, which has shown very significant growth as far as our financial inclusion business is concerned. The Access Closa initiative was launched in August, later introducing digital transactions such as funds transfer, bill payments and airtime vending. Our Closa endeavour accounted for about ₦140 billion worth of transactions carried out by our customers.

On retail digital lending, our digital lending strategy continues to gain momentum as we make available opportunities to eligible customers to finance their dreams and lifestyle in fulfilment of our promise to deliver more and more to our customers. In the period we recorded a 107% and 129% year on year growth with respect to transaction count and volume respectively through this flagship product. This is basically our PayDay loan, our Salary Advance, our Small-Ticket loans as well as Device Financing. I think we were able to process about 3.1 million unique loans to different customers throughout the year.

With respect to our outlook for 2020 we are committed to driving an effective and sustainable business growth by intensifying efforts to:

- Extract value from new and existing accounts and migrate customers to alternative channels to enhance transactional banking income, which is getting stronger and stronger by the day.
- Reduce our operating costs by aggressively executing cost saving initiatives.
- Culture an aggressive recovery, which we have already done, and decisively deal with challenged facilities.
- Significantly increase the productivity of our people and resources to enhance our operational efficiency.
- Intensify our drive to reduce our cost of funds, thereby enhancing liquidity and margins. And this is particularly important because one of the greatest criticisms we had from analysts was our cost of funds. But I think where we are today we have basically closed the gap by about 85% when you look at us against comparator banks. We believe that by the end of the second quarter we should get the bank very close to the same cost of funds structure as our comparator banks in the industry.
- Enhance our core loan growth with increased focus on asset quality, which is what we are known for.

Let me try and give you guidance for 2020. With respect to profitability we expect that we are looking at getting our ROE anywhere between 20% and 25%. For asset quality ratios, our cost of risk we see anywhere between 1.2% and 1.5%. Our non-performing loan ratio will definitely be below 5%. With respect to our efficiency ratios we think our cost to income ratio will be anywhere between 55% and 60%. Our net interest margin will be about 8%, while our cost of funds is expected to be less than 3.5% composite as we average through the year. With respect to our prudential ratios, capital adequacy will certainly be north of 20%. Our loan to deposit ratio will be north of 65% and we expect to continue to maintain liquidity ratios north of 50%. Thank you very much ladies and gentlemen. We will now take questions from all of you. Thank you.

Operator

Thank you sir. Ladies and gentlemen, if you would like to ask a question Please press * and then 1 on your touchtone phone or the keypad on your screen. If you decide to withdraw the question, please press * and then 2. Again, if you would like to ask a question please press * and then 1. The first question we have is from Tolu Alamutu from Tellimer. Please go ahead.

Tolu Alamutu

Good afternoon. Thank you for hosting the call today. I have a few questions please. The first is on your foreign currency position. Can you maybe tell us whether you are short or long Dollars at the moment, and give us some idea of how short or long you might be? The second is on foreign currency liquidity.

Can you tell us how much you estimate that you have available to meet near-term maturities? And do you have any plans to return to the Eurobond market? Then can you also give us some more information on your exposure to Slok Nigeria? How large is that exposure? How much of it has been provisioned? Any information that you can give would be greatly appreciated. And then also related to asset quality, when oil & gas contracts were restructured in the past what oil price was assumed in those contracts, and how have you stress tested those exposures?

And can you also give us some idea of what the impact of a much weaker Naira would be on capital and other metrics? I remember in the past you had said that you had stressed your capital up to ₦450 to the Dollar or ₦500. Any detail that you can give on stress testing that you have done now would be appreciated. And finally, just going on the CEO's recent comments regarding your strategy and expanding into more African countries and so on, can you maybe give us an idea of what you would consider an ideal split in terms of revenue or profitability of Nigeria versus the rest of Africa? Thank you.

Herbert Wigwe
Okay. I will get Roosevelt to speak to asset questions on foreign currency position, short or long, on foreign currency liquidity, our ability to meet near-term maturity and whether we will be returning to the Eurobond market.

Roosevelt Ogbonna
So on the FCY position and FCY liquidity we are about square today. Given some of the actions we've agreed to do within the course of the next seven days we will be net long, but it is not a significant position in that sense. For us it is not to expose ourselves unduly. We are not seeking to make significant gains from it by taking any aggressive position from that sense. From an FCY liquidity perspective we looked at our maturity between zero and 180 day buckets, which are the more immediate pressure points. We are fine across all the buckets. We are positioning ourselves to ensure we have liquidity buffers about 10% of our overall portfolio just to protect ourselves in the event that there are any market shocks that happen that might affect our ability to meet near-term obligations. But zero to 180 days we are very comfortable. We have some negative gap between 270 and 360 days, and two years over we are very long on those positions. So we are comfortable, we are monitoring it very closely, and we have no plans of returning to the Eurobond market at this time at least.

Herbert Wigwe
Let me just quickly add to Roosevelt's comments. We try to use very sophisticated measures as far as liquidity management is concerned, more specifically around foreign currency liquidity management. And we use measures that are quite close to the [unclear] to make sure that from a contractual standpoint we don't run into any problems, particularly given how we see the market evolving over the next couple of weeks. We think, just as Roosevelt said, over the next 180 days we are clean [?] which represents the most significant pressure point given what the Coronavirus is doing to the international market and the capital outlook which we are seeing. So I think we are doing quite well. I would like Mr Jobome, our Chief Risk Officer, to basically speak to issues around Slok and the stress tests and the impact on capital adequacy.

Greg Jobome

Thank you Herbert. So with respect to Slok obviously whilst trying to skirt the borders of confidentiality overall I can say that we will do the prudent thing, as you know Access Bank for. We have taken significant provision. As we watch this space we will be able to tell you a bit more. But like I said there is only so much I can say for client confidentiality reasons. But if you can look back at the way we handled other significant exposures in the past you know we take decisive action on all of those names. This is not going to be any different. And with respect to potential devaluation, as we have heard in every meeting for the past number of quarters we have been very careful to anticipate the market as it relates to potential devaluation. Obviously no one could have predicted Coronavirus – unless the media reports turn out to be the case.

So we did anticipate should there be a devaluation up to ₦550 we stress our book up to that level and at those levels we were still meeting the regulatory requirements. So that gave us an upper band. Of course we don’t want to see those kinds of rates because at that exchange rate you will find that a good chunk of the market will face a lot of stress. Whatever sector we are in, whether oil & gas or manufacturing or general commerce you will have a bit of a problem. So our role is to be prudent and prepared should that eventuality happen. Like I’ve said, at those levels we will be fine. With the combination with Diamond bank of course that level now comes down. So at about ₦500 if we maintain the transitional regime that Central Bank has we will still be okay. At ₦550 the transitional regime we will still be okay. Beyond the transitional regime both our bank and every other bank will of course have to think again and probably [unclear] as well. But no one is expecting to see exchange rates at that level, so we keep our fingers crossed.

Herbert Wigwe
Let me speak very briefly with respect to our strategy, both African and international i.e. outside of Africa. I think what we are trying to create is an institution that is resilient, will stand the test of time, would be diversified not just across the continent but outside of the continent. You would see us having today one of the strongest African banks in the UK with increased contributions from a percentage standpoint, and also therefore creating the natural hedge because it operates in a very strong [unclear]. I’m talking about Access Bank UK. It also houses our operations in Dubai, which by the way are profitable. Our expectation is that over the next couple of years we will be present in two or three more of the world financial centres. What does that do? It helps to enhance our overall risk rating and to ensure that if you are in soft currency countries you would have hedged yourself and over time from a risk rating standpoint you could see very significant [unclear].

Now, our ambition as well of course in the course of the next five years or going up to 2023 is to be known as Africa’s gateway to the world. What that means is that we also need to be present in some of the major trade hubs within the continent. And so we will be present and we are spreading to a couple of countries outside of Nigeria as you see where we see huge trade volumes benefitting from trade volumes coming from the contiguous nature and networking around the continent as well as what we will refer to as one bank [?] names which are largely big African nationals that have presence across the continent. My expectation is that if we take our overall diversification efforts Nigeria still represents within the context of Africa a very significant player. For the rest of Africa to contribute up to 25% will take us a bit of time, but our expectation is that perhaps over the next five years the rest of Africa together with what we have outside of the continent should start to approach something like 40% contribution. And when that happens in full steam it will lead to an upgrade where we start to almost look as if we are beginning to pierce the sovereign ceiling. So that is how we see our internationalisation, not just within the continent but also outside the continent. Thank you. Next question.

Operator

Thank you sir. The next question we have is from Oyinkan Ogungbemile from Rand Merchant Bank Nigeria.

Oyinkan Ogungbemile

Good afternoon. I just wanted a bit of clarification on the unwinding of the swaps that you earlier discussed. If you can please clarify on what happened there.

Seyi Kumapayi

All right. If you recall at the beginning of 2019 we guided that we have seen an unwinding of about ₦15 billion a quarter on the derivative book. What has happened is not inconsistent with what we expected. What you see is that this comes on the back of the timing of the income recognition. We tend to see this unwinding towards the maturity of the instrument. However, what we have done is that we've carefully modelled our financial plans so that you don't see that volatility anymore. So that is what has happened on the short [?] book.

Herbert Wigwe

We had a very significant proportion with respect to the swaps which were of a two year tenure coming at the end of the last quarter of the year. I think going into 2020 we are going to think of how to model it a bit differently so that we are going to get out of this volatility. That is what Seyi is speaking to. We believe that the swaps also represent a very strong additional source of income for two reasons. One is that any institution which you lend to, particularly at a time like this – and this is going to be tested – and you are sure you will get your money back I think the sovereign must represent the best risk. That's the starting point. Now, secondly with respect to liquidity around it, we have been able to build up our liquidity base to ensure that we can carry this amount of swaps without any liquidity mismatch throughout the period.

Thirdly, I think from an earning standpoint what you are going to see is that in 2020 it is going to represent a smoother source of income with less volatility on a quarterly basis because of how it is going to be modelled. So we have come up with very stringent measures with respect to how we monitor the portfolio so that we don't see this type of volatility that we saw in the previous year. And finally and most importantly, we are not taking as long as we did in the past so you are not likely to see a two-year swap. All swaps are technically within one year. And as much as possible we try to ensure that if there is any spill over you will see it in the very early parts of the next year. So that is the thing we are doing. Thank you very much.

Oyinkan Ogungbemile

Thank you.

Operator

Thank you. Ladies and gentlemen, just a reminder, if you would like to ask a question please press * and then 1. The next question we have is from Rudo Maisiri from FMO. Please go ahead.

Rudo Maisiri

Good afternoon. I have two questions. The first one, it's possible that I could have missed in your explanation of the stress testing that you have done recently the impact of the lower oil prices. And the second question is on the loan to funding ratio which is lower than the current CBN expectation and what you plan is around that.

Herbert Wigwe

Okay. Greg will speak to the issue around the lower oil price, that impact on CAR, and I suppose the loan to deposit ratio.

Greg Jobome

Okay, so like I said earlier on, what we do as business as usual is anticipating potential market shocks. And in line with that we do stress for oil price. Typically, we stress this around $30 or $40 per barrel which is precisely where it is hovering right now. So with hindsight that was a decent benchmark to pick for the stresses. Now that was based on a certain exchange rate and typically that would take you anything north of ₦450, ₦500 or ₦550. Those are the levels we apply for our stress test. Like I said we have done this for a good number of years now so they are not even new tests that we do. So we are very familiar with this territory and we have prepared down to sectoral level what kind of impact for oil & gas borrowers, what kind of impact for manufacturers, what kind of impact for a whole raft of sectors. But what is common across all is that eventually every sector will be touched just like I said if those levels of exchange rate do crystallise. As I've said, those tests are to anticipate these developments and to prepare for them. So the benefit for us from those stress tests was we have taken steps as far back as 2016 and 2017 in anticipation of any sort of insurance.

With respect to LDR, naturally the goal is to meet all regulatory requirements and to support our regulator in every way possible, and that is precisely what we are doing. To balance that is our challenge. We do still have to be careful so that we don't end up creating an asset quality issue in 12 months' time or in 24 months' time. So we are striving to achieve that level of 65% or even exceed it, but with good quality names so that we do not have an asset quality or a capital issue on the back of that. So we are pushing that. There are two key areas we are looking to grow in which we are doing already. One is through investment grade names, which are the names you can count on in times of stresses just as we've seen with respect to the macro. So our investment grade names we have grown our loans to those names over the past six to nine months already. The other area that we are pushing is retail, so again we see some good significant lending that we've picked up with respect to digital lending and other aspects of retail lending. So these are two areas that we are pushing and we should see these numbers picking up with respect to meeting the LDR. And when other opportunities come we will take them safely as I've said already. Thank you.

Herbert Wigwe

Let me just add a little bit to what Greg said. As an institution we took a position to de-risk our balance sheet right from when we did our combination with Diamond. So some of the currency exposure that existed at that particular point in time we've made rapid efforts to de-risk to do this combination. And the simple reason was the fact that we believe that quite frankly this situation will not always remain the same over time. However, we know that our regulators obviously focus on price stability. We will do what is necessary together with ensuring whatever we need to do to boost our reserves we will ensure that price is managed. What we have done as an institution is to make sure that we try to insulate ourselves as much as possible from the problems that we see.

We note the recent excitement coming from the market that is making a lot of foreign portfolio investors to take their money out. But we also see monies coming into the system. And as a result of all of that what we've done is to basically revisit our portfolios and look at them very carefully with a view to stress testing them for currency risk, stress testing the whole thing for liquidity risk, and basically ensuring that we migrate very quickly towards the better quality names if we were to get any type of foreign currency exposure. So those are the things which we have done to insulate ourselves given the lower oil prices which we are beginning to see at this point in time. However, like Greg said, it is not possible for there to be a complete meltdown and any sector will be protected. But as much as possible the idea is for it to be in local currency where you know that the natural charge will be to earnings and you will be in a position to manage it. Thank you very much. Next question.

Operator
Thank you sir. The next question we have is from Simi Ojumu from Absa. Please go ahead, sir.

Timothy Wambu
Hi. This is actually Timothy Wambu. I just want to ask a few questions. The first one is how much scope do you see for lowering the cost of funds? You mentioned it is at 5%. That is quite high compared to the next bank. The other question is about your treasury yields which again when I compare to the next bank were quite high. Does that imply that you are probably invested in longer dated papers? I just want to get a sense as to why your treasury yield was much higher compared to the next bank. And then just lastly, what is your strategy in Kenya given that you have gotten your license? Transnational Bank being a fairly small bank, what strategy do you have in mind? What do you intend to achieve? Thank you.

Herbert Wigwe
Roosevelt, do you want to speak to them?

Roosevelt Ogbonna
Okay. So on cost of funds what you have looked at is historical average which was about 5%. If we look at what it is we've done between December and today, we have shaved off about 200 basis points on that cost of funds that you have. That is something we are tracking every day. The impact you will see on the Q1 numbers. Our cost of funds on the Naira side has dropped by 250 basis points, on the Dollar balance sheet about 150 basis points. So we have tightened that delta that existed between ourselves and the next bank as you referred to. And we expect that there will be another significant drop in March. And the next time we see a significant impact is sometimes in September/October. So we are confident that the delta will not be more than 100 basis points at the end of the year given all the work that we are doing and the repricing of our balance sheet that has gone on for the last three months.

On the treasury yields we are not doing anything significantly different from the rest of the market. So I guess the question would be what are the other banks doing that is not showing the real yield on their treasury portfolio? The numbers in themselves we show a yield that is well within market yields and returns of those instruments that we are carrying. So nothing exciting that we are doing and nothing different that we are doing. As you know the treasury and fixed income portfolio just manages excess liquidity at any financial institution at any point, and that is what we are doing with the significant liquidity we have.

On Kenya we are excited to be in the market. We recognise it is a different market from several African markets. Our idea with Kenya is that it is going to anchor a lot of the conversations we're going to have within the Eastern African market. We want to be dominant in Kenya. We don't want to remain a small bank. The platform of TNB just gives us an opportunity to get our foot into the market and begin to do interesting things as we see them. Trade finance is one aspect of the business in Kenya that we intend to focus on. I think beyond trade finance the retail banking opportunities that are there, recognising that we have to do so with scale means that we have to do things differently. I'm not going to give out too much of what we are planning to do with TNB at this point because that would be sharing too much. Clearly Kenya will be dominant for us for East Africa. We are going to acquire scale in Kenya, and TNB is just the beginning of the platform that we are going to use towards achieving that. Thank you.

Herbert Wigwe
Let me just add a little bit of light to the issue around the cost of funds. Like I mentioned earlier, that was one of the points we have been criticised for. And today if you look at our average cost of funds down to 3.5% like Roosevelt said compared to the next bank, if we had to split that cost of funds structure, if you take only the local currency part of it, we are probably very close to [unclear] level. It is about 2.38% for the local currency portion. I'm not sure that you have any of the other banks that are doing more than 20 or 30 basis points better than that. So what has happened is the long-term funding sources of our Dollars needs to be repriced and the structured funding. Now, as they mature we are repricing them. So you are going to see the full impact as we move on through this year. Now, none of them can get the full benefits as we would because from the efficiency that they have it is impossible for them to generate any better. But in our own case if we tighten that delta to 150 basis points to 100 basis points against a balance sheet of our size I think you will see the improvement in efficiencies of Access compared to the rest of the market as we move on. Thank you very much. Next question please.

Operator
Thank you sir. The next question we have is from Jerry from CardinalStone. Please go ahead.

Jerry Nnebue
Hello. Thank you for taking my question. I just want to know if we are to expect in 2020 more one-off costs, one-off integration costs. I know you said last year we did see some of this coming. Do you expect more one-off costs related to the integration to take place in 2020? Secondly, last year a lot of focus was on loan recoveries and restructuring and all that. I just want to have a sense of what your loan growth expectations would be in 2020. You had mentioned that you will be looking at investment grade names. So what sectors are you looking at in that regard? What sectors do you think will give you the kind of resilience that you want to see as you make your lending decisions? Those are my questions for now.

Herbert Wigwe
Okay. I think Seyi can speak to the issue.

Seyi Kumapayi
With respect to one-off costs the integration is done. We are now operating as one bank, one process, one people. So everything that you see will come in as business as usual. So there are no integration costs coming in for 2020.

Herbert Wigwe
Greg, do you want to speak to the issue around loan recovery and loan growth?

Greg Jobome
So as we advised earlier on in our previous calls we have enhanced [?] our loan growth expectation for 2020. So there is no change. We are still looking at 10% to 15% growth range. Of course with the current environment we have to keep watching that space. The variables are up in the air. But that growth we are targeting investment grade names like I said earlier on. There are a good number of sectors. So there are sectors that you might say this sector is not a good sector right now. The usual scapegoats are real estate etc. So we would not be looking to grow significantly there. But there are areas even in oil & gas with the right name you would be able to do some lending. Prior to now that would have held water, but of course with the current Coronavirus threat everyone is going to watch that space for a few months. So your good, stable manufacturing. Your good, stable fast moving consumer goods. Retail as I said earlier on. Those will always be [unclear] because they are reasonably diversified by definition. And conglomerates are also a good place to lend in times of uncertainty. So that is not going to be different. But investment grade names are the primary growth in whichever of these sectors we do play in. And retail is a primary [unclear] for us as well.

Herbert Wigwe
I will just add a few words to what Greg said. There are some interesting opportunities that are beginning to raise their heads in terms of areas to lend to, one of which is infrastructure done through a closed structure to ensure that you are not open to government risk and things like that. So that is coming up very strongly. There are things in the telecoms sector coming up very strongly. Some reasonably good foreign international oil & gas names, particularly the majors. Gas is looking to be interesting. So across all of those sectors. But one of the areas we want to be known for will be with respect to retail. We are investing a lot of money in analytics and artificial intelligence to understand lifestyle products and to look at how to integrate the entire retail lending. If you asked us three years ago or four years ago would we be lending to SMEs we would have said no. How much was the portfolio to individuals? We would have said very significant.

But what we are beginning to see is because of our sheer size the portfolio based on payday loans is very significant. There are some days when we give about 40,000 individual loans to people who are basically taking short-term loans to run their supermarket, to pay salaries, to pay people etc. The yields there are significant. And if you have the right algorithm the cost of risk is not that much. So we are beginning to develop aspects of our lending to make sure that it starts to grow. When you meet other international banks, Barclays or JP Morgan etc. those skills have been formed over time and they are able to lend to people in a manner that they can collect their money.

Working together with the central bank and what we just referred to as the GFI [?] we believe that we can strengthen that whole portfolio and make it profitable and all of that. Those are the significant reasons why we did the combination with Diamond. It would be wrong for us not to look at the lending side of the book while growing cheap retail deposits to make sure that the overall yield is enhanced. We have done it so far, and I think we are getting more successful at it. In terms of where the portfolio is growing to I think it is significant and it is diversifying and basically supporting the overall value chain. So those are the areas you are likely to see us doing a bit more.

Jerry Nnebue

As a follow-up, still speaking to loans and especially from an asset side of things, based on your experience last year dealing with some of the inherited or imported asset quality issues from Diamond Bank, can you speak to the kind of engagement that you had and what you expect in 2020? So of these loans how much of them do you think will be written off and how much of them do you think can be restructured based on the engagement that you've had with some of these obligors? I just want to know what the key driver is going to be to bringing the NPLs down, if it is write-offs or we're going to see some improvements in restructured loans from that side. Secondly, if you could speak to the implications or the impacts of what we have seen on the CRR side of things. It appears that the central bank has been a bit arbitrary in debiting banks. In what ways have that restrained your liquidity? You have said you are not looking to the market to realise a Eurobond so would you be getting funds domestically? Can you speak to that?

Greg Jobome

Okay. So with respect to the erstwhile Diamond Bank's loan book of course we have done a significant amount of work on this. We have been doing that for about a year now. Actually it is exactly a year now. The main thing that we've done has been around restructuring, which we have also shared with you in the past. Restructuring means that in some cases you will find some names that are in business, they are running, except that the structure that was in place at the old Diamond Bank no longer suited their current realities. So those were straightforward. These were willing and able players, and all we had to do was create the right structure. In some cases, it was migrating them from a clean vanilla term loan to a project finance facility. That has made a lot of difference. Over this one-year period some of them have already made the first payment post restructuring, which gives us confidence that we are on the right track. If the headwinds from Coronavirus do not subsist we should see them pick up and from then on migrate up the ladder to stage one at some point. So that's the first main thing.

The engagements like you alluded to have been very robust from day one. We have met all significant borrowers of the old Diamond Bank and name by name we have been able to agree actions to take. In some cases, where there was a cancel clause it was a clear case of recovery, taking a provision, write off and pursue for recovery. And even on the recovery side like Herbert said earlier on we have achieved a measure of success, and there are a few more which we had written off which we are still chasing for recovery. With respect to the outlook for those names post restructuring, now that they are on the right structure we do expect a good chunk of them to perform in line with expectation because the cash flows are fresh cash flows. There are some site visits to see exactly what they are capable of and we have verified those recent developments.

For those that are not able to meet it we do the normal prudent thing. So over a 12 to 24-month period depending on the structure if there are one or two that are not stepping up it will become BAU for the bank, just like we would treat any other Access Bank borrower. So that is the stage we are at now. There is not any distinction at this point between the old Access and the old Diamond. It’s just the cash flows that we have to see and the performance, and when we see any deterioration we will take decisive action.

Herbert Wigwe
Thank you. With respect to CRR I think that the central bank is determined to ensure that banks lend to the real sector. So I would not describe their actions as being arbitrary. They will take the actions that are necessary to ensure that banks continue to support the real sector. Obviously it puts everybody under pressure because rather than looking for the low hanging fruits we all have to concentrate on seeing how we can support retail and seeing how we can support the real sector. But I think we are known for our capacity to create good quality loans or create a good pipeline. So that is what we are working on. But are we coming back to the market to issue Eurobonds? I can tell you for now that’s not on the table.

We are determined to bring down our overall cost of funds. Even looking at the domestic market is it something that is not of high priority to us. What is more important to us is our cost of funds which is down to about 2.38% on a local currency side. How do we push it to at least the same level or not more than 20 to 30 basis points in terms of our comparator banks, and how do we bring down the overall cost of foreign currency on our Dollar balance sheet so that on a composite basis we will probably be at the same level? Even on our balance sheet we think that once that is done in terms of the overall returns, return on equity, return on assets and things like that, we will be where we’re supposed to be.

There is always a lot of excitement each time there is a combination. We also know that quite frankly, yes, we have done more than other banks in the industry and therefore we are in a better position to tell stories with respect to what can happen. There is no rule or thing that says that you cannot have another thing blow up or risk of concern if you like. But let me simply put it this way. The reasons behind the merger, the cost synergies and all of that, will always be far in excess of anything that comes out because I think we have gone through this balance sheet and assets with a toothpick to identify the quality and on a risk basis whether it is one, two or three whether the restructure is based on changes to the macro or the cash flow situation of the enterprise. So we have gone through all of that and we know that sometimes in some cases we may see some vulnerability. But in the main we think that the overall synergies that come from the combination will be far in excess of all of those things. Thank you very much. Next question please.

Operator
Thank you sir. The next question we have is from Wale Okunrinboye from Sigma Pensions. Please go ahead.

Wale Okunrinboye

Good afternoon. Thank you for your presentation. I have two questions. I don't know if it has been asked because I've just joined the call. One is with regards to inter-related trading. Early in January this year we saw you had a closed period at the end of last year and then were suspended. I would like to get a clear explanation of why the suspension took place. What is the internal policy in regards to trading during closed periods, or what is the policy around closed periods? And also around the suspending close period what informed most of those decisions? Secondly, the CEO has been selling down his shares for the last two years. What is driving that? Is he no longer convinced or what exactly is it, because he is sending a different message to those of us in the market. And then thirdly on the FX losses can you maybe provide an explanation on that? I suspect you have answered it earlier in the call maybe, but just a bit of colour on that. That will be all.

Herbert Wigwe
Thank you very much, Wale. My name is Herbert. Let me speak to the one that deals with me specifically, then I will let me colleagues speak to closed policy issue. In fact, I will let Roosevelt speak to it and then we will take it from there.

Roosevelt Ogbonna
Wale, thank you for your questions. With respect to insider trading and the issues that you alluded to the bank has continued to lead governance within our market. In respect to trading of key stakeholders in the institution that is no different. I know there is a lot of excitement. It's social media. We all get excited reading bad news or what we think is bad news. Unfortunately, in this instance that is not the case. So all the rules that apply to any listed institution were followed through. I'm sure you would have seen that both [unclear] and the NSE had nothing to say with respect to this. I don't think we should give it too much air, because if we do we are only supporting and encouraging sensational reporting to continue. Secondly with respect to Herbert's holding in the institution, I'm not sure where you get this information from about him selling. You can look at the bank's financial statements for the last 18 years and look at if his holding has been increasing or reducing. I think let's not give rise to excitement. Let the facts speak for themselves. The financial statements are there. You can review from 2002 when we joined the bank to 2019, the last report that you have, and then you can make a call yourself. So I'm not sure we should give it too much air. Thank you.

Herbert Wigwe
Seyi, do you want to speak to FX losses?

Seyi Kumapayi
I think I will just review what I said before. I don't know whether you were at the March investor call where we stated that we would see some unwinding, I think about ₦15 billion a quarter. And I think what we've seen is not inconsistent with what our expectations were. What is happening is this is a timing issue on recording of the income. When the instruments get to maturity all of these things tend to unwind. So we knew it was going to happen. We planned for it. And if you look at our financial model that we have this is already built in. So for us it was something we knew was going to happen and we have planned for it.

Herbert Wigwe

Let me just make a few comments with respect to some of the things Wale said and perhaps we can move to another question. We have run this bank for 18 years and a bit, and right from the very beginning we were determined to create an institution global in skill, global in scope, following best practise coming out of Nigeria with a truly global enterprise. We are also aware this can never be an easy task, and as you move on through life you will come across several hurdles. Some you have nothing to do with. Some you may have something to do with. Some are just communication issues etc. But in this part of the world what tends to happen more often than not when you grow inorganically you will see a lot of these issues come at you more than you would ever expect. We will not run away from these challenges. We will continue to adopt best practises and confront them when they come.

Suffice to say, Wale, if you were not on the call at the time we shared our strategy within the context of Africa and internationalisation, we are determined more than ever to create a global enterprise. For me that is what is most important. On a net basis we continue to have a greater shareholding than we have done before. We will not allow social media or wrong news or fake news to cloud our decision making or our determination to create a global enterprise. I hope that solves the surprises for you, and if you have any other questions which you wish to take offline please feel free to call me or my colleagues or my company secretary and we will answer those questions to the letter. Thank you very much. Next question.

Operator
Thank you sir. Ladies and gentlemen, just a final reminder, if you would like to ask a question please press * and then 1. We will pause a moment to see if we have any further questions, sir.

Herbert Wigwe
Thank you. In the absence of any more questions I just want to thank you all for hooking up to this call. I will look forward to seeing you in a few weeks when we will be taking our Q1 2020 presentation. Thank you very much.

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

END OF TRANSCRIPT