Conference Call transcript

HY2021 INVESTOR AND ANALYST CALL

Operator
Good day ladies and gentlemen and welcome to the Access Bank Plc HY2021 investor and analyst conference call. All participants will be listen-only mode. For the participants on the webcast, please type your questions in the webcast question box. For the participants that dialled in, there will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal for 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, Claudia, and good afternoon ladies and gentlemen. You are all welcome to Access Bank's half year 2021 earnings call. Let me start by thanking you all for dialling into our investor call. We have prepared a very detailed presentation highlighting all aspects of our business which I will be sharing with you right now. On the call with me today are Mr Roosevelt Ogbonna, our Group Deputy Managing Director, Greg Jobome, our Executive Director in charge of Risk Management, Ade Bajomo, our Executive Director in charge of IT and Operations, Victor Etuokwu, our Executive Director in charge of Personal Banking, Chizoma Okoli, our Executive Director in charge of Business Banking, Hadiza Ambursa, Executive Director of Commercial Banking, Mr Seyi Kumapayi, Executive Director of African Subsidiaries, and a few other people that constitute our bench of management talent.

So far 2021 has presented its own challenges, but I'm pleased to report that Access Bank has had a solid first half with robust revenues, profitability and increased distribution to our shareholders. 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. Looking at the macroeconomic environments, over the last quarter we experienced the highest GDP growth rate of 5.01% signalling significant improvement in the economy coupled with a reduction in inflation rate of 17.8%. We have also experienced strong recovery in crude oil prices and treasury bills.

As we reflect over the last 18 months since the start of the pandemic, there are signals that we are beginning to see economic recovery. And I think that we believe that this will enable us to achieve our FY2021 targets. As at June 2021 we had basically built up over 42 million unique customers and 50 million accounts. And this speaks to our increasing coverage and the scale of our franchise.

Our digital footprint is strong and growing with over 2,950 ATMs spread across strategic locations in the country. We also have about 63,675 point of sale equipment and about 10.7 million mobile and internet banking users. Our USSD subscriber base also stood at about 6.5 million unique users. We have wide spread of branches in major cities and financial inclusion centres with about 759 branches and about 75,231 agent locations. This reflects the sheer scale of our digital and physical presence in a bid to remain closer to our customers. Today we are present in 11 African countries, the UK and the UAE with three strategic representative offices in China, India and Lebanon.

On issues of diversity rating and recognition, which is important to us because of our sustainability ethos, gender diversity remains an extremely important subject for us as you know. Our employee mix is almost at equal distribution at 53% male to 47% female as at the end of the period. Our risk ratings are reflective of our strong financial performance with the risk rating capped by the rating of the sovereign. And we have maintained our risk rating except for Standard & Poor's which dropped because S&P downgraded Nigeria in 2020.

We've also received several accolades in 2021 for some of the good jobs which the team had done. Some of them include African Best Digital Bank from Euromoney, recognition for our strength in digital banking, deals executed in the agricultural space, and of course the ones that we are particularly and extremely proud of, which are CSR sustainability awards. For the fifth time in a row Access Bank was declared the winner of the Karlsruhe Award for Outstanding Business Sustainability Achievement. Karlsruhe seems to be the [unclear] as far as issues around sustainability are concerned. Speaking more on our sustainability efforts and ensuring Access Bank grows in a sustainable manner, we have today embraced ESG as part of our lives, whether it is the diversity of our board or our workforce, or the work that we have done with respect to sustainable financing. And it is at the core of what we do. We are also today the only climate lending bank on the continent.

Now moving on quickly to our group financial highlights. Our gross earnings grew by 14% year on year to about ₦450.6 billion during the period compared to ₦396.8 billion in the corresponding period in 2021 comprising of 71% interest income and 29% non-interest income. Interest income was up by 30% year on year to ₦319.7 billion as a result of the increasing yield environment. The key contributors include a 79% year on year growth in income from our investment securities to ₦132.2 billion compared to ₦74 billion at the half year of last financial year. And this was due to the improved yield environment and the fact that our investment securities book has grown. And a 9% year on year growth in interest on loans and advances to customers which grew to ₦182.4 billion compared to ₦167.3 billion in the corresponding period of last year.

This basically offset a 4% decline in interest income from cash and cash equivalents to ₦5.2 billion. The decline was driven by downward pricing of placements generally in the market place. Our net-interest income fell by 13% year on year to ₦130.9 billion from ₦150 billion in the corresponding period in 2020, and this was largely as a result of the significant drop in our net trading income and other operating income. As a starting point, there was a 41% decline in our net trading income to ₦40.7 billion from ₦68.6 billion in the corresponding period last year. This was a result of the Naira devaluation. And secondly, there was a 45% drop in our other operating income to ₦16.4 billion. Again this was underlined by the reduction in recoveries from written off loans. If you look at it properly, coming through the acquisition of Diamond most of the bad loans that can be recovered have been recovered. What we are now beginning to see is a tapering off in terms of the recoveries.

We also saw a 42% increase in commissions and fees to ₦73.7 billion compared to ₦51.8 billion in the corresponding period of last year. Again this is coming from the increased velocity across our channels and e-business and also some credit related fees and commissions. We will continue to gain traction on these lines as we extend our retail and loan offerings. Our retail banking business has seen consistent and continued to witness significant growth driven by strong focus on consumer lending, payments, remittances, digitisation of customer journeys and customer acquisition on a large scale. We are focused on generating sustainable revenue across all lines. All aspects of our business continue to grow or to show significant improvement because Access Bank is now more digital than ever before.

Our retail commissions have increased by about 27% per annum over the last three years while digital banking revenue increased by 63% over the same period. We have continued to see resilient income with improved margins. Our yield on assets increased by 80 basis points driven by the improved yield on government securities. This increase coupled with the decline in our cost of funds by 80 basis points came from an optimal and low-cost deposit base and helped us to improve our net interest margin. Our net interest margin increased by 157 basis points to stand at 6.4% and our loans continue to improve with moderation of our cost of funds. We expect that with all of this moving into the rest of the year we should begin to see better NIMs.

Our operating expenses were up 9% year on year to ₦189.8 billion compared to ₦174.3 billion, and this was well below the inflation rate. The growth we are seeing is driven by the recent acquisitions made over the past 12 months in Zambia, Kenya, South Africa and Mozambique. But if you look at the bank level our operating expense was flat, and this is in spite of the increased regulatory costs coming from the AMCON fees and premium as well as depreciation and amortisation expenses. So at bank level it remained flat, but the increased acquisitions which we have done which were not present in the previous year basically showed this slight increase in our operating expenses. Our cost to income ratio has shown increasing improvement with a slight decline of 570 basis points to 60.1% compared to 65.8% in the corresponding period of last year, while our cost of risk at 1.4% is in line with the bank's guidance for the year.

Looking at our balance sheet we've continued to grow and improve our deposit mix with deliberate low-cost deposit mobilisation. As at June 2021 customer deposits closed at ₦5.98 trillion which is basically a 7% year to date growth from ₦5.59 trillion in December 2020. Our CASA deposits, our current and savings account deposits, account for 62% of the total customer deposits, reflecting our increased retail presence, leveraging on our innovative digital platform and financial inclusion. Total savings account deposits closed at ₦1.37 trillion as at the period end, and this basically is reflecting a growth rate of 44% per annum over the last few years. Our subsidiary customer deposits stood at ₦1.73 trillion accounting for 21% of the group's total deposits from customers, with the main contributors being Access Bank Ghana and Access Bank UK.

Our net loans and advances stood at ₦3.99 trillion as at June 2021, which was up 11% from ₦3.61 trillion in December 2020. The growth witnessed was as a result of our deliberate and increased core loan growth while mitigating for situation risk. Our foreign currency exposure dropped by 390 basis points year to date to 22% of the total loan portfolio in the year, and this is because we are deliberately seeking to mitigate our currency risk. The gross asset quality remains under check as our NPL ratio stood steady at about 4.3% compared to the corresponding period of last year. Our provisions are the highest in the industry driven by our conservative perspective to risk. We are not particularly thrilled with our current NPL ratio, although they are the lowest we can see in the industry. At a bank level if you strip out Access Bank UK for instance, our NPL ratio is at about

2.6%. I think our results were affected by some of the increased provisions we had to take in Access Bank UK coming from some of the structured trade issues that came out of COVID. The key sectors responsible for our NPL ratio are general commerce, manufacturing and the real estate activities. We consider this level sustainable and do not expect further deterioration in asset quality.

Our capital adequacy ratio was about 21.3% on an adjusted impact basis based on the regulatory transition arrangement while our liquidity ratio also closed at 50.7% and these are well in excess of the regulatory minimum that has been set. Our subsidiaries continue to grow and make significant contributions to the group. Subsidiaries' contribution to the group's performance stood at 36%, recording total subsidiary PBT of ₦35.5 billion. The same period last year what they basically turned out was about ₦26.1 billion. The UK and Access Bank Ghana accounted for 86% of total half year 2021 subsidiary PBT with a return on average equity of 17% and 26% respectively. All our subsidiaries excluding Sierra Leone recorded a decline in their cost to income ratios year on year, reflecting the impact of our effective cost cutting measures across the group.

With respect to financial inclusion and lending we continued to deploy resources to reach the underbanked and unbanked through our agency banking network, leveraging digital technology. We have about ₦5.6 trillion transaction values recorded from agency banking transactions from about 75,231 agents. Our transactional value on our digital channels grew significantly by 52% year on year to get to about ₦20.9 trillion compared to about ₦13.7 trillion in the same period of last year. And this was driven by significant growth on our mobile banking with the deployment of the Access More application.

In terms of our outlook and financial targets for 2021, we remain committed to driving an effective and sustainable business growth by intensifying efforts to improve our asset quality, to increase transaction banking income by migrating our customers to alternative channels, and creating strong awareness of our flagship retail products. We will intensify our low-cost deposit drive to reduce funding costs, thereby enhancing our liquidity and margins and making us basically come to the same level of CASA to total deposit ratios as some of our competitors. We will enhance productivity across our branches and staff and extract value from our existing accounts, and of course reduce operating costs by aggressive strategic cost saving initiatives.

With market realities our FY2021 guidance remains as follows. We will achieve a return on equity greater than 20%. Our NPL ratio will remain far less than 5% as we've given before. Our cost to income ratio will fall again further below 60%. Our capital adequacy ratio shall remain greater than 20%. Our loan to deposit ratio should be about 65%, our cost of risk again less than 1.5%. Liquidity ratio should be slightly higher than 50% and we will expect our net interest margins to be well above 5%. We are confident in the momentum that we have built and are excited about delivering on our vision of being the world's most respected African bank. Again I want to thank you all so very much, and we will now be opening our lines for questions. Thank you.

Operator
Thank you very much, sir. For the participants that dialled in, if you would like to ask a question please press * then 1 on your touchtone phone or on the keypad on your screen. If you decide to withdraw the question, please press * then 2 to remove yourself from the list. Again, if you would like to ask a question please press *

then 1. Just another reminder, for the participants on the webcast if you would like to ask a question please type your questions in the webcast question box. We will pause to see if there are any questions. The first question comes from Tajudeen Ibrahim from Chapel Hill Denham. Please go ahead.

Tajudeen Ibrahim

Hello everyone, and thank you for the call, and congratulations on your numbers. I just have one major question and it speaks to your plan and strategy around fintech. I know that we have seen a lot of investments flow into fintech businesses, and most of these fintech businesses have enjoyed robust valuation in billions of Dollars. You have a very robust customer base, even more robust than most of these fintech companies, and your valuation is nowhere close to where we are seeing deals in that segment. So it would be useful in my view if you can let us know what you think about the fintech business generally and what probably your plan is. Thank you very much.

Herbert Wigwe

Is there any other question from Tajudeen?

Tajudeen Ibrahim

That’s all for now. Thanks.

Herbert Wigwe

Okay. Maybe we should answer that and then we will take the next question. Thank you very much, Taju. As you are aware we will be evolving sometime next year into a holding company structure, and that will allow us to get into other non-bank financial sector verticals if you like. We will come out with our own response to that whole industry on payments and all. But let me say we see fintechs as competitors, but we also will collaborate with them. It's not something that we are worried excessively about. We have also seen that they are attracting great valuations through the recent fund raise that they’ve all done.

But for us what is more important is we will create real value at the time at which we’re doing it. We have a head start in terms of the massive platform that we have. We already have 50 million customers who can basically create significant benefit for whatever we want to do in that whole space. And in our own case it will be real value. It will not be valuations based on float or anything of the sort or anticipated income. We will see the real value from day one. So I think as we go into that space sometime next year you will then see Access Bank’s response to that sector. And we are pleased with the participants and what they are doing out there, but I think that we will basically help in redefining that whole sector and making sure that from a compliance standpoint and how the regulator sees that sector that needs to be done differently. Thank you.

Tajudeen Ibrahim

Thank you.

Operator

Thank you. The next question comes from Toyosi Oni from Renaissance Capital. Please go ahead, Toyosi.

Toyosi Oni

Hi team and thank you very much for speaking to us today. My first set of questions is…

Operator

Toyosi, I'm so sorry to interrupt you. Would you speaking up or speaking closer to your device so that we can hear you?

Toyosi Oni

Is this better?

Operator

That's much better. Thank you ma'am.

Toyosi Oni

Thank you very much to the team for hosting this call. My first set of questions is around your margins. I wanted to understand what drove the growth in interest income from financial assets at fair value OCI to ₦73 billion in HY2021 from ₦22 billion last year. I also noticed that there was a 14% year to date growth in your term deposits. I wanted to ask what is driving this. And just on that line also we saw a 40% spike in your interest expense quarter on quarter. I wanted to ask what was also driving this and what rates you are currently offering on your purchase funds. And then just to wrap up the questions on margins, generally across the industry we've seen a decline in margins at the other banks, but Access bucked this. I wanted to ask if you could speak to us on your strategy here and the trends you're seeing going into the rest of next year.

My next question is on asset quality. So we saw the growth in your impairments year on year. And if I heard correctly you attributed this to the issues with Access Bank UK. I wanted to ask for an update on the agro processing names that you alluded to at your full year 2020 call and ask how these are performing now, or if this is what is driving the increase in impairments that we've seen again this reporting season.

My next question is on your non-interest revenue. Could you please talk us through your trading gains because they do look a bit volatile, especially when we look at it on a year on year basis? If you could just walk us through what's happening there and the trends that you expect going into next year. My last question is on strategy. And that's piggybacks on the questions that Tajudeen asked on fintech. We saw that you increased your stake in eTranzact to 23% in this reporting period from about 5% before. I wanted to ask why. Is this in line with your HoldCo strategy? How are you looking at the payments space? And if you are able to shed more colour on what was driving that move from Access. Thank you very much.

Herbert Wigwe

Thank you Toyosi. I will get Seyi Kumapayi to speak on the issues around margins, the growth in our interest income, the14% growth in terms deposits and the 40% spike in interest expenses last quarter and how it will play out in the rest of the year. Then I will get Greg Jabome to speak to issues of asset quality. Seyi will also speak with respect to our trading income and the suggested issues of volatility. And then I will speak to the issues of strategy.

Seyi Kumapayi

Thank you Toyosi. I will pick up on the issue of the interest income. So if you look at the breakdown of that portfolio you see that investment securities account for about 79% of the growth that you are looking at from ₦74 billion in 2020 to about ₦132 billion. It's a combination of two factors. So between June 2020 and June 2021 that portfolio grew about 40% from about ₦1.6 trillion to ₦2.2 trillion. So that's one factor. The other factor is the yield on that portfolio. The yield on that portfolio as at December was around 11% even while the market was near zero. So in December if you look at how we arranged our portfolio it's a combination of fair value though P&L, fair value through OCI and fair value through amortised costs.

Now, in December we had ₦1 trillion of that in fair value through OCI. Clearly that resulted in the OCI being about ₦58 billion that you saw in 2020. As we moved through the first half of the year a lot of this instrument had matured, and that's what went through P&L that we saw significant growth in the interest income. If you also look at the other comprehensive income you also see that what has happened is that following the maturity of those deals they've gone into P&L and they've been reversed from OCI. So really it's a combination of two things like I said the growth in that portfolio and the yield on that portfolio that retired at Access Bank.

In terms of margin, if you look at our margins they grew from about 5% to about 6.4% in the half year. And clearly it's coming from the yield that we've seen on this portfolio as well as the cost of funding. If you look at our cost of funding it has come down to about 2.9% at the end of July. So yield on assets of about 10.5% and the reduction in cost of funding is what is driving the margin that you see. How it's going to play out for the rest of the year, clearly we've seen pressure on funding costs given what has happened to treasury bills, government securities in the market. And therefore we expect that today we're at about 3.5% in terms of cost of funding, and that's where we expect that we'll be able to carry it through. So we want to try and hold the margin at the level it is today in line with what we projected to keep that at greater than 5%, more like 6%. That is what we are looking at for the rest of the year.

I will speak to the issue of the trading income. Now, if you look at our trading income portfolio, and as explained to you, you have to look at it as an aggregate between the derivative as well as the FX. When an instrument is active what you typically find is that the income on that is valuation. Now, when that instrument matures it goes into FX and earnings. It becomes a swap transaction. You then see a reversal on the derivative side. So you need to look at both of them together when you are looking at trading income. And what we've also done in December if you look at the financials, we also started to do some hedge accounting to take out some of the volatility coming from devaluation or FX adjustment. So really that's how you have to look at it. You have to look at the book together. The portfolio hasn't changed. We still have about $2.4 billion in swaps. It's just a question of timing, when these mature, when you do rollover. You have to look at the derivatives and FX income together to see what's happening there. In terms of what we see for the rest of the year we don't expect to see many changes. That number will be ₦15 billion to ₦20 billion on a quarter to quarter basis in terms of what you're seeing on the aggregate line on the trading side.

Herbert Wigwe
Thank you. Greg, do you want to speak to the issue around asset quality?

Greg Jobome
Thank you Herbert. Yes. So basically you are right. Quite a bit of the impairment in this period has come from the [unclear] as was described earlier on. We had the Diamond book in 2019. It came from 10.8% NPL ratio. We have steadily worked that down through a combination of restructuring where it made sense and the cash flow supported some right-offs. So through all of that process we also did some conversions, made sure that customers did some conversions to make sure they are able to manage the storm in Naira rather than Dollars. All of that has meant a very steady reduction in our NPL ratio. You would have seen, as Herbert said, probably 2.5% or 2.6%.

Now, the UK issue is a one-off COVID related. The ceiling of that was reached so there is nothing additional coming out of that. The COVID process was described on the last call, which is over a 12 to 15 month period. [Inaudible] so we have seen the worst of that basically. We expect to see significant improvement in the UK's asset quality as we go forward and therefore in the overall group NPL ratio as well. Thank you.

Herbert Wigwe
So like I mentioned initially, we are not excited by our current NPL ratio even though it appears to be the lowest in the industry. But like Greg said, as we resolve the issues in the UK first of all we don't expect NPL to worsen. We expect that our NPL ratios should go down to the traditional 2.5% and lower. Speaking to your last question around our investment in eTranzact let me quickly say that about 15 years ago we took a position that we are going to be very active in the entire payments space. So not just eTranzact. We also have a strong presence in all the switches in the country. And it was a strategic decision we took at that time.

Now, again in this last five year corporate strategic plan we had shared with the market the fact that we want to be known as Africa's gateway to the world, which means that we must also start taking a more serious look at the payment environment down to the switches and if possible consolidate and have significant holdings to help drive the strategy around that whole space. So eTranzact came to the market to raise money and we decided to increase our sake. That's where we are today, and if it's possible to take it up a bit more we will so that we will be more involved in driving strategy and making sure that we have a very strong presence as far as the whole payments industry is concerned. Thank you very much. Next question.

Operator
Toyosi, does that address everything?

Toyosi Oni
Yes. Thanks.

Operator
Thank you. The next question comes from Ronak Gadhia from EFG Hermes. Please go ahead, Ronak.

Ronak Gadhia
Thank you. Thanks for the presentation and taking my questions. Mine firstly is just a follow-up to one of the answers from the previous questions. This is with regards to the asset yields. I think Seyi, if I heard it correctly, mentioned as at December the bank was earning a yield of around 11% on investment securities portfolio whereas market yields were close to 0%. If you can just highlight how that was achievable. Also on that, now that that portfolio has been rolled over if we look market-wide yields have recovered from where they were in Q1, but they are still probably in the single digits, maybe low single digits. I'm just trying to understand how the bank is still able to achieve such high yields. By my estimates the yield that the bank achieved in Q2 was 13% which is much higher than current market rates. So I'm just trying to understand how that is achievable.

And then the second question is on your borrowings. On a quarter on quarter basis we saw pretty substantial increase. I think interbank borrowings increased by about 50% or more. I'm just trying to understand why such a significant pick-up, because if you look at the liquidity ratio it's quite strong. The loan to deposit ratio is relatively low. I'm just trying to understand why the bank needed to raise such significant borrowings given the liquidity on the balance sheet. Thanks.

Herbert Wigwe
Thank you Ronak. Let me try to answer those questions very quickly. I'm sure you appreciate that we have quite a significant swap book with the sovereign. So the yields on the swap bills that matured were about 11%. Some of it has been rolled over. A significant portion of it has been rolled over in the first quarter. The rest will be rolled over in the final quarter. So those deals attract a bit more generous yields than you see in the normal trading. So these bills attract a bit richer yields than normal.

Now, with respect to the borrowings that grew, those borrowings were largely around trade. They were used to support our large trade book which is for some of the large multinationals we have in the country that are trying to fulfil some of the big orders. So what you have seen there in terms of borrowings were largely trade related quite frankly. So that's basically what it is. And what you also find is as you have the borrowings coming the obligors or rather the guys who are using it for the trade would tend to start building up their Naira book to ensure that we get bids from the central bank. So part of what you start seeing is the significant build-up in our current and savings balances as we move through the year and of course as we fulfil those orders through our bids at the central bank. So that's what those borrowings were used for. Thank you very much, Ronak. I don't know if that answers your question.

Ronak Gadhia
It does. Just as a follow-up on the yield question, so you say it's partly that yield is because of the yields that you achieve on the swap portfolio. Going by what Seyi mentioned earlier the swap portfolio is about $2.4 billion. That's about ₦1 trillion give or take. The total investment portfolio at the end of the first half was about ₦2.4 trillion. Even if you're achieving yields of 11% or 12% on the OMO from the swap I would imagine the yield on

the rest of the portfolio would be quite lower, and therefore the overall yield should be much lower than 11%. I'm still struggling to understand how the bank overall achieved a yield of 11% for the first six months and around 13% for the second quarter.

Herbert Wigwe

It depends on the maturity of the bills that we are getting. In fact in the first quarter we had quite a lot of them actually roll over. I think those initial bills were probably yielding about 13%, that kind of interest rate. That's why you see it's a bit elevated. You are going to see the same kind of thing as we get towards the end of the second half of the year. So that's basically where it's coming from. It's about 13.5% that we've been able to achieve as far as most of those deals are concerned.

Ronak Gadhia

Thank you.

Operator

Thank you. The next question comes from Damilola Olupona from Chapel Hill Denham. Please go ahead, Damilola.

Damilola Olupona

Thank you very much. Please confirm that you can hear me.

Herbert Wigwe

We can hear you.

Damilola Olupona

All right. Thank you very much. I have technical issues so I did join the call very late, so pardon me if my questions are repetitive. First of all I'd like to seek clarity around the changes in your OCI. I can see that the changes in the fair value of financial instrument you made a loss coming from a profit of ₦5 billion reported in the prior year. I don't know if you can shed more light on this. Secondly, I also want to find out about the CBN's policy response to COVID. I understand last year one of the key measures put in place was the CBN allowed banks to grant moratorium to troubled sectors. How much of that has resulted in the lower NPLs you've reported? And I also noticed that your NPL books as well you reported NPLs from the transport segment. I also saw some NPLs coming through from the downstream oil & gas sector as well. Can you shed some light as to how your NPL has evolved on a quarter on quarter basis and the areas we should be looking at going forward? Thank you.

Herbert Wigwe

Thank you very much Damilola. Seyi will speak to the changes in OCI again, and then Greg, our Chief Risk Officer, will address the questions with respect to the CBN policy response with respect to COVID and the transformation of our NPLs over the last six months.

Seyi Kumapayi

Thank you Damilola. Just to speak to the issue of OCI, if you look at in December 2020 we will see a gain of about ₦58 billion which essentially spoke to the amount of the portfolio that we were carrying in OCI. Now, those instruments have matured and on maturity that income has moved to P&L and there is a reversal of that from OCI. So it's just a movement from where we were in December vis-à-vis the fair value OCI portfolio and where we are now, given a lot of those instruments have matured. If you booked a gain in OCI, once the instrument matures what you find is that it typically just goes back into P&L and then is reversed from your OCI. That's why you see that movement.

Greg Jabome

With respect to the forbearances I think we have shared this with everyone in previous calls. The central bank's policy was very much aligned to the global standard IFRS 9 treatment as well, which is that names should not be stage migrated just because of the COVID impact on them. CBN actually adopted that inclusively. What that means is that from an Access Bank perspective the names that were given forbearance were only names that were in stage 1 and a few names that were in stage 2. So no name that had a challenge pre-COVID is included in our forbearance book. That conservative treatment means that there is no expectation that any of them would go NPL other than in the ordinary course of the evolution of their lives as borrowers, the cash flows of their sector on an ongoing basis. So just to repeat, there is no expectation that out of forbearance there would be a presumed migration into stage 3. And the reason for that is we selected in the case of Access Bank to focus on names that were performing in their own right beforehand.

Now, the sectors were things that drove the selections, not so much the individual borrower. If the borrower was in a sector that was heavily impacted by COVID, therefore let it be in that bucket. If it is performing we will put it in that bucket. Potentially it could be affected. But as it turns out for Nigeria we did weather the storm reasonably well so far and many businesses sprung back into action soon after the lockdowns. So many of them the collections are coming in, building up [unclear] towards repayment. So really they have not given us a concern. Like I said, can any of them become NPL in the future? Of course. But that would be in the ordinary course of business as you would expect. We don't expect an automatic evolution into NPL from that.

The overall NPL trajectory and the different sectors, over the last few years since we did the Diamond Bank transaction it has been driven by the proactive stance that we took, ensuring that more and more of our borrowers are in Naira as opposed to Dollars. Even right now they would have ben struggling with the significant load of Naira equivalent exposures to carry at a very steeply devalued Naira. Therefore those proactive actions have really helped us, the same thing that we did even in the last crisis in 2015. So our loan book 22% in foreign currency means that it is reasonably protected well into the future against currency shocks. That was done deliberately and it is one of the reasons why the NPLs remain relatively low.

Now, with respect to the sectoral movements you will see now they are more around names that had challenges pre-COVID and before all of this, one or two from the old Diamond Bank which we have now impaired. So you will see a few impairments like the ones that you mentioned. There is one in real estate. There is one in transport. All of those are pre-COVID names which we are now treating in the course of business. So it has nothing to do with the current market or the current trajectory based on COVID. Thank you.

Herbert Wigwe
Thank you very much. I hope that answers your questions.

Damilola Olupona
Yes, it does.

Operator
Thank you. We have no further questions on the audio line at the moment. Herbert, can I hand over to you for questions from the webcast? Okay, you may proceed with questions from the webcast, sir.

Herbert Wigwe
This comes from [unclear]. Speaking to the bank's asset to revenue ratio are there any plans for the bank to cut down on its physical branches owing to multiple branches in the same location since the acquisition of Diamond Bank? I think the straight answer is that we are currently at what we refer to as an efficient level of branches and we are not cutting down much more. Our customer engagement has been both physical and digital. Given the sheer size of Nigeria and the customers that we intend to speak to, we think there are an optimal number of branches to be had at this particular point in time, and I think we are at that number. The rest of what we do shall we done digitally in terms of reaching customers and engaging them.

The next question is from Tunde Abidoye. Could you please elaborate on the drivers of NPLs for general commerce which has climbed rapidly to 34.8% from 15.9% at the end of December 2020? You also appear to have decreased specific provisioning coverage for stage 2 and stage 3 loans, for example, which fell to approximately 6% from 12% as at December. Could you add some colour to this? Again the general commerce is a result of currency shocks to mid-sized companies and trading companies from devaluation. The provisioning is very robust with a coverage of about 86% across stages. For the stage 3 I think we have as much as 106%. The provisioning done in the first half is about ₦57 billion which is probably half of what we did in the previous year or perhaps a bit more. And basically this has resulted in the dip in the coverage ratio.

Abdul Aziz. My question is about your target of revenue from the subsidiaries for the next three years if we can share. I think over the next five years our expectation is that we should be generating about 35% to 40% of our revenues from subsidiaries. And this is going to be very significant. And I'm talking about not just within Africa. I'm talking of outside of Africa, so the UK and its subsidiaries. Now, if you imagine the size of the parent it means that the subsidiaries have to be doing extremely well for them to be able to provide this level of contribution.

Jerry Nnebue asked a series of questions. Your interest income was impressive compared to that of other banks. Can you please throw more light? I think Seyi has spent a lot of time on that. What did you do differently and how much of that came from ex-Nigeria operations? You attributed the 41% decline in net trading income to Naira devaluation. Can you expatiate further? Do these relate to the unwinding of swap positions? What is your current swap position? I think we have already spoken to that. How do you assess the traction from your pan-African exposure? The argument is that you are very aggressive on that front and the rewards may take longer to materialise. Are you beginning to see the fruits already? What is the update on HoldCo? And then what's your view on the proposed e-Naira and implications for your digital payments business?

Okay. I think the first two questions have been addressed largely. With respect to HoldCo we will share a bit more information with you as we get to the end of the financial year, but it will be sometime in the second half of next year. With respect to e-Naira we see very significant opportunities and our regulator is taking a welcome lead and joining several other nations in launching a central bank digital currency. We've seen clearly that for the Nigerian population who have readily accepting crypto currency in recent years, which came with significant volatility risk, limited payments applications and lack of transparency, that they will basically like this initiative.

The e-Naira obviously is stable coin under a regulated market which gives it significant credibility. It is targeted at retail and mass market and will provide a low-cost payment tool. Just like cash, it does have its own risks. In terms of the implication for banks it depends on how the central bank comes out as far as its rules are concerned, and what you can use it for, and the extent to which it's going to be applied. But like I said, it's very early days yet. I think over the next six months it will be clearer what the regulators have in mind. We have our own views as to how it should be structured, but we will work with the regulators to make sure that what we do is optimal and appropriate for a developing market.

Then we have from Ayo. Dividend projection full year 2021. Ayo, our dividend policy is very clear. It is a residual dividend policy. We try to make sure that we achieve specific dividend yields. We try to make sure that we also have sufficient retentions to cover our capex. That's actually the first rule, and then we will take it from there. So I think given what we've just done now, which is a [unclear] dividend, we will basically run our models to check what needs to happen in terms of retentions. The capital adequacy requirement is also a critical point for us to make sure that at all points in time we have more than enough capital to support the business we are doing from a [unclear] standpoint, particularly given the nature of our institution and size of our institution and relevance to the Nigerian market. All of those things will be taken into consideration. So I'm not in a position to share with you right now the specific dividend we are looking at with respect to this financial year.

Average duration of the USD loan book and how does it compare to average duration of our USD deposits? Let me just say that in terms of our duration if you've spent time to understand how we've raised money in the bank our average tenure is somewhere between three and five years outstanding. So in terms of duration I would say it's about two and a half years to three years, particularly given the fact that we raised some money even though it's for trade for a much longer period in the more recent past. So I think two and a half to three years would be actually proper duration, or maybe slightly less. That's the kind of number that we currently see.

Next question. I can't see any more questions. Okay, Wale Okunrinboye asked a couple of questions. He speaks to the trading numbers I think which we've addressed. He speaks to the NIM outlook for 2021 and asked about higher rates or cheaper funding cost. And then the third question he raises on fines and penalties. Can we comment on the FX infractions and fines, the response on our violating FX rules between 2013 and 2020 and the fines on diaspora remittances. What was the issue? And then what are the plans for our pension custody business. Are we okay with our current market share?

I think the first two questions were addressed. The NIM was a bit tepid. The simple reason, apart from the fact we bought down our cost of funds and all of that, was just as we said in the course of the presentation. We were able to make sure that there was conversion of foreign currency loans to local currency loans at interest neutral pricing. The idea is just to make sure that we don’t find ourselves in a situation where we carry significant currency risks as far as our loan book is concerned.

On the CBN FX infractions, some of them had to do with things that we inherited from Diamond. Secondly, we also had a few situations of people using their cards and being charged pricing that was beyond the normal CBN rate. And the idea was to make sure that people don’t go and use their cards indiscriminately to basically withdraw Dollars offshore and sell in the local market and all of that. So we tried to make it a bit more expensive. That was the principle reason why those fines did some. Our pension custody business I think we will continue to grow. We are okay with it in terms of the current position. As you know we inherited it from Diamond. It has been repositioned and it will grow. We will push the market share as far as we can possibly do. But it is growing and becoming more profitable.

Tosi from FBNQuest. Is Access Bank Guinea expected to start operations in HY2021? It has started operations and our expectation is that it will actually break even this year certainly. They started on a very good note. We are aware of the fact that there is a little security issue out there in that country at this particular point in time, but it could happen in any West African country by the way. But I think as far as Access Bank Guinea is concerned they started on a good note and I think they will actually break even this year. That speaks to all the questions that have been raised. Let me once again thank everybody who has been on this call for joining us and we look forward to our later call which I think comes at the end of our financial year. Thank you very much and have a wonderful day. Bye-bye.

Operator

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

END OF TRANSCRIPT