Conference Call transcript

FY2021 INVESTOR AND ANALYST CALL

Operator

Good day ladies and gentlemen and welcome to the Access Bank Plc FY 2021 investor and analyst presentation. All participants will be listen-only mode, and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please also note that this event is being recorded. I would now like to turn the conference over to Mr Herbert Wigwe. Please go ahead, sir.

Herbert Wigwe

Thank you very much, Chris, and good afternoon ladies and gentlemen. You are all welcome to Access Bank's full year 2021 earnings call. Let me start by thanking you all for dialling into the call. We have prepared a detailed presentation highlighting all aspects of our business which we are sharing with you right now. On the call with me today are Roosevelt Ogbonna, our Group Deputy Managing Director, Greg Jobome, our Executive Director in charge of Risk Management, Mr Ade Bajomo, our Executive Director in charge of IT and Operations, Victor Etuokwu, our Executive Director in charge of Personal Banking, Hadiza Ambursa, Executive Director of Commercial Banking, and Seyi Kumapayi, whose is our Executive Director in charge of African Subsidiaries, and doubles as our CFO.

2021 presented small challenges in many respects with Access Bank demonstrating a clear-cut sustainable path to growth evidenced by increase profitability and dividend payments to our shareholders. During this call I will briefly go over some of the key performance highlights, leaving ample time for a question and answer session. The presentation obviously is hosted on our website, and you can please pull it from there if you need to follow me. Looking at the macroeconomic environment we experienced a GDP growth rate of 3.98% coupled with a reduction in inflation rates to 15.6% in the fourth quarter, basically signalling significant improvement in the economy. We also witnessed strong recovery in crude oil prices and treasury bills.

The defining factor to 2021 was obviously the mutation and evolution of the COVID-19 pandemic with accompanying economic uncertainties. As we reflect over the last 12 months there are clear signals that we are now on the brick of economic recovery, and we are proud to tell you that the group met most of its targets set out at the start of the year. With respect to our global network, customer base and digital capacity, as at December 2021 we had well over 45 million unique customers which is a testament to our increasing coverage and the great scale of our franchise.

Additional footprint is strong and emergent with over 2,921 ATMs spread across strategic locations and 74,000 point of sale terminals. We have a wide spread of branches in major cities and financial inclusion centres with 735 branches and about 95,000 agent locations. This reflects the sheer scale of our digital and physical presence in a bid to remain closer and accessible to our customers. Our presence spans across the ten African countries, the UK and UAE with three representative offices in China, India and Lebanon.

On our ratings and recognition our recent ratings are reflective of our solid financial performance despite being capped by the rating of the sovereign. We received several accolades in 2021, some of which include Africa's best digital bank and outstanding leadership as far as green loans are concerned, and as far as institutional and corporate governance, which has always been at the heart of our business, we show great diversity as far as our board is concerned, the work we've done with respect to sustainable financing with respect to the fight against COVID-19.

We recently partnered with the International Finance Corporation and the 2° Investing Initiative UK to determine our portfolio alignment to the 2° scenario. As you know, the 2° scenario is seen as a globally accepted limit of temperature growth to avoid significant and potentially catastrophic changes to the planet. Achieving a net zero target is important to us as signed up to by Nigeria, and we are setting a target for ourselves that takes into consideration the reality of our operating environment.

Coming to the group financial highlights, our gross earnings grew by 27% year on year to ₦971.9 billion during the period compared to ₦764 billion in the financial year ended 2020, which comprises 62% interest income and 38% non-interest income.

The interest income was up by 23% year on year to ₦601.7 billion, and the key contributors include firstly a 32% year on year growth in income from investment securities, which rose to ₦203.7 billion compared to ₦154 billion in the corresponding period in the previous year. And this is actually largely due to the large investment portfolio. There is also a 20% year on year growth in interest on loans and advances to customers to ₦388.6 billion. For last year the growth was ₦322 billion, basically offsetting the 21% decline in interest income from cash and cash equivalents, taking it to ₦9.7 billion. But for the corresponding period last year it was about ₦12 billion.

Our non-interest income grew significantly. It grew by 34% to ₦370 billion from ₦275 billion in 2020, owing largely to the significant increase in fees and commission income and other operating income. We saw a 27% increase in net trading income to ₦145 billion from ₦114 billion in FY2020 on the back of efficient treasury activities. We also saw a 48% year on year increase in other operating income to ₦65.9 billion. This includes the bargain purchase from acquisition of ₦2.5 billion and recoveries from written off loans.

There was also a 36% year on year increase in fees and commissions to ₦159.2 billion compared to ₦116.7 billion largely underlined by income from increased transaction velocity across all our channels and other e-businesses as well as credit related fees and commissions which grew by 33%. We will continue to gain traction on our income from these lines as we extend our retail and loan offerings.

On our retail banking business we have witnessed continued growth driven by a strong focus on consumer lending, payments, remittances, digitisation of customer journeys and customer acquisition on a large scale. Access Bank is digital and we are focussed on generating sustainable revenues across all lines. Accordingly you would have noticed that our retail commissions grew by 21% per annum over the last three years while the digital banking revenue increased by 36% per annum over the same period.

We were deliberate in lending to investment grade names and locking in pricing for term deposits to take advantage of the yield curve, so we also saw a decline in our margins. Yield on assets declined by 41 basis points year on year driven by the declining yields on government securities and lending to investment grade names. This decrease is coupled with a marginal increase in our cost of funds which has basically led to a decline in our net interest margin.

Our cost of funds increased by 11 basis points year on year, and this was coming from the fact that we failed to optimise the low cost deposit base despite the 35% increase in the overall funding base on the institution and of course the deliberate efforts we took to basically lock in price. Our net interest margin as a result decreased by 34 basis points, closing at about 4.3%. Now, as our loans continue to improve with moderation of cost of funds and increased lending to the retail we expect to see an improvement in our net interest margin.

Speaking to our cost profile, operating cost was up 14% and closed at about ₦371 billion compared to ₦326 billion in the previous year, which is below the inflation rate. The opex growth was mainly driven by the recent expansion in Zambia, Kenya, South Africa, Mozambique and Botswana and of course the new subsidiary we have in Guinea. If you look at the bank specifically the bank on its own did not grow by more than 2%. But the acquisitions that we made brought with it increased operating expenses from the various entities that we have before we start revving up the revenues derived from those entities. Despite the increase in this absolute cost, our cost to income ratio has shown a significant decline of 444 basis points year on year to 58.8% compared to 63.4% in the corresponding period last year.

Our cost of risk stood at 2% as a result of increasing impairment charges on loans in the period. Looking at our balance sheet we continue to optimise our deposit mix by locking in price for term deposits to take advantage of the yield curve. As at December 2021 customer deposits stood at ₦6.96 trillion, which is basically a 24% year to date growth from ₦5.59 trillion in December 2020. Our CASA deposits account for 58% of the total customer deposits, reflecting our enhanced retail presence leveraging on our innovative digital platforms and financial inclusion. Subsidiary deposits have also grown and now total ₦2.2 trillion, accounting for 20% of the group's total deposits from customers with the main contributors being Ghana and the UK.

Gross loans and advances stood at ₦4.6 trillion as at December 2021, reflecting a 22% increase from ₦3.8 trillion in December 2020. The growth witnessed was a result of our deliberate efforts to increase our core loan growth while mitigating concentration risk. Our foreign currency exposure declined by 616 basis points year on year to 19.7% of the total portfolio in the year. So this basically declined from 26% to about 19.7%. Our loan to deposit ratio declined to 50.8% as at December 2021 compared to 54.2% in the corresponding period in the last year. And this is as a result of our increased funding base to support the institution.

The asset quality remains under check as our NPL ratio declined to 4%. The same period last year it was 4.3%. We have made significant improvement in our NPL coming from 10% at the time of merger. We are not resting to ensure that we reach our desired target. At the bank level the NPL stood at about 2%. The key sectors responsible for our NPL ratio are general commerce at 17.1%, manufacturing 13.4% and other [unclear] 11%. We consider this level sustainable and do not expect any further deterioration to asset quality.

Our capital adequacy ratio was 24.5% on a Basel II basis, well above the regulatory minimum. The group capital has been assessed in terms of Basel III compliance and it meets the capital requirements including capital conservation and counter cyclical buffers. In terms of the implementation of the Basel III guidelines capital adequacy stood at 24.5%. Our liquidity ratio also closed at 51%, well in excess of regulatory minimum.

Our subsidiaries have continued to grow and make a positive contribution to the group. Subsidiaries' contribution to the group's PBT performance stood at 38% compared to 28% in the corresponding period last year, and of course recording total subsidiary PBT of about ₦67.7 billion compared to ₦35.7 billion it contributed in the same period of last year.

Most of the subsidiaries recorded a decline in their cost to income ratios, reflecting the impact of our effective cost management across the group including Guinea and South Africa, Botswana as well. These three countries had their first three months of operations, hence the high cost operating ratio that you probably see in Guinea, South Africa and Botswana. But for all the others they have brought the costs down.

Our financial inclusion initiatives continued to deploy resources to reach the underbanked and unbanked through our agency banking network whilst leveraging digital technology. About ₦14.4 trillion in transaction values were recorded from the agency banking transactions last year coming from our 95,000 agents. There was a decline of 13% year on year in the number of digital loans booked to 3.8 million compared to 4.3 million in the same period last year. Now, this is because of the implementation of more stringent eligibility requirements to mitigate delinquency.

However, what we lost was made up for by volume of transactions on digital lending. Our digital lending, which comprises of our payday loans, small ticket personal loans, salary advances and device financing, we have also seen an increase in the scale and velocity of transactions. Our digital lending value grew by 52% to ₦160 billion compared to ₦105 billion in the financial year ended 2020. The transaction volume on our digital channels grew significantly by 34% to ₦43.3 trillion driven by a significant growth in our mobile and internet banking and of course the deployment of our Access More app.

Providing an update on our strategy and corporate actions, last year we announced that we will be restructuring our business and transitioning into a holding company structure. The new structure will allow us to capture all the opportunities that the evolving financial landscape permits. Access HoldCo will consist of the Access Bank group itself, a payment and switching services company, a consumer lending business as well as an agency banking company and an insurance brokerage company. We are happy to announce that we've achieved the final approval from the Central Bank of Nigeria and the court sanction for the HoldCo. Also all the verticals now have the relevant approvals in place and are ready to run. According to plans the HoldCo should commence in the second quarter of 2022.

Through this organisation we will now have new revenue lines without taking additional risk for the enterprise and ensure there is diversification of earnings to support outside of Africa expansion. The payments company, which is basically a vertical of the holding company, fits perfectly with our five year corporate and strategic plan and will leverage off the strong suite of the bank's existing assets and the large capital base that we have. With the lending company we are going to strengthen our consumer lending and agency banking business which currently exists within the retail segment of the bank. With specialisation we will leverage on our digitised channel support and seamless remittance of fees to grow at scale.

Speaking to Access Insurance Brokerage, here we would adopt a dynamic accretive approach to ensure that we add value-added insurance broking business to customers which is focused on meeting customers' insurance protection needs. We have completed the pre-requisites and intermediate steps in our transition journey. At this final stage we are dotting our i's and crossing our t's and currently awaiting the final approval of the NGX which we believe should come in anytime this week. The HoldCo will play four key roles to deliver on our objectives. It will protect group assets. It will act as a centre of excellence providing services to our subsidiaries. It will attract and develop our talent across the group. And it will steer the banking group in terms of defining our vision, strategy and appetite.

Talking about the expansion strategy, it is broken into four clusters: the global financial gateways, essential trade hubs, key Africa markets and the rest of Africa. Our strategy is deliberate and disciplined focussing on five key principles, basically becoming an aggregator in Africa, focussing on the key markets to support digital trade, targeting scale in countries of presence, diversifying our risk and earnings, deepening our partnerships with financial investors and DFIs.

Our outlook and financial targets for 2022. We remain committed to driving an effective and sustainable business growth by intensifying efforts to build and operationalise the Access HoldCo and all the verticals. We are also focussed on improving our asset quality, increasing our transactional banking income by migrating our customers to alternative channels, and creating strong awareness of our flagship retail products, and also intensifying our low cost deposit drive to reduce funding cost thereby enhancing liquidity and margins. We will also enhance productivity across our branches more and more and extract value from the existing products. We will also ensure that in spite of the increasingly inflationary environment we will optimise costs by aggressively executing strategic cost savings initiatives.

In view of the current market realities our FY2022 guidance is as follows: Return on equity greater than 20%. NPL ratio less than 5%. Cost to income ratio less than 60%. Capital adequacy ratio greater than 20%. Loan to funding ratio greater than 65%. Cost of risk should be less than 1.5%. And liquidity ratio 50% and growing. And of course net interest margin should be north of 5%.

We are confident in the momentum we've built and we are excited about the next steps following the strategic decision to restructure our business, which will basically take us a step closer to becoming the world's most respected African bank. I want to thank you also very much. I will now open up the lines for your questions.

Operator

Thank you very much, sir. Ladies and gentlemen, at this time if you do wish to ask a question, please press * and then 1 on your touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. Participants on the webcast may submit their questions in the text box below the presentation. If you decide to withdraw the question, please press * and then 2 to remove yourself from the question list .Our first question is from Tunde Ogunleye of SBG Securities. Please go ahead.

Tunde Ogunleye

Good afternoon team. Thank you for the conference call and thank you for taking my questions. I think my first question is on your income line, particularly when I look at your investment securities. To properly dissect this I want to understand what portion of your investment securities do you have in special bills and what is the total you have in CRR. And just to look at the CRR, would you have said that there has been reduced CRR compliance from CBN [unclear] increased your investments in high yielding assets. That's on the first part. The second one is there seems to be a quite a significant.

Herbert Wigwe

We can hardly hear you. What you just said was what percentage or proportion do we have in special bills?

Tunde Ogunleye

What do you have in CRR so far in terms of your total CRR that you've been debited by the CBN? The second part is to know what is driving the spike in interest on loans to financial institutions. I think that line item seems to be quite significant. And also on your interest on loans to customers, I want to know if you repriced your loan book during the period. And also by what percentage did you reprice your loan book? The next question is on your foreign exchange income. I noticed there was a gain compared to the previous loss. I want to know what is driving that gain. And then just looking at your cash flow from operations, I noticed you have deducted these gains from your cash flow from operations. I would like to know what is driving that. And probably you could walk us through in terms of what is going on in the cash flow statement.

And on the back of that I probably want to know the split between your CBN and non-CBN swaps, and if you could probably tell us what you have outstanding in your swap transaction with the CBN. And the final part in on your effective tax rate. I noticed it was around 9.5% coming from 16.8% in the previous period. This is just different from what we've seen from your peers following the implementation of the new Finance Bill. So I would probably like to know what is driving that decline, and if you could also give us a guidance as to what your effective tax rate would be for 2022. I'll pause here for now. Thank you.

Herbert Wigwe

All right. We will try and remember all the questions as we move on. All right. So the first one speaks to our investment securities. What percentage is in special bills? It's not something that we have right now.

Seyi Kumapayi

We can always share that detail with you, Tunde, but that's not something we have. It's not a significant part of our investment securities. Our total investment securities today are about ₦2.2 trillion. Of that amount I don't want to guess, but it's not a significant portion of the book. We can always get those details and share with you.

Herbert Wigwe

Tunde, you asked about the repricing of our loan book. Given the fact that most of our loan book is to investment grade names there is not much we could do as far as repricing those loans is concerned. The only thing you would have seen is the growing amount that you see coming from the retail book, but not enough to alter the variable pricing of the book. Now, you asked questions with respect to the FX income, the gain this year compared to the loss in the corresponding period last year. Do you want to speak to it, Seyi?

Seyi Kumapayi

All right. I think the way to look at the gain on that book is look essentially around – just one second so I can speak to the numbers directly. The net gain you have there is about ₦101 billion. The way to look at this is this is coming essentially from the swap book that we have with the sovereign. I'll tie this to the other question you asked around what portion of our swap is CBN related and what isn't. The entire swap book is CBN related. In total it's about $2.4 billion as we speak today.

The gain that you see there is just an FX differential interest rate between the period at which the spot rate has reached the deal close and the spot trades at the point at which the transactions were booked. So a lot of these transactions are tenured for a maximum period of 12 months. If you want the exact details on each swap, I think we have four critical maturities in February, March, November and December. So we can share whatever details you want. But the exchange gain that you see there is the difference in the spot rate on the day the transactions were booked versus what the spot trade was on the far leg at maturity.

Now, I think just to speak to the larger issue, looking at that gain on a standalone basis you have to look at it in comparison with the gains on financial instruments at fair value. I think in that breakdown we go to note 11. I believe you will see that there is a loss of about ₦130 billion in FX gains. Now, when you take both together the net is what you should be looking at as against looking at the gain on a standalone basis. I hope that answers that question, Tunde.

Roosevelt Ogbonna

So with respect to the tax what you see is that our tax rate came down to about 9%. We had significant deferred tax liabilities. We believe that that in 2022 obviously on the back of the new Finance Act we still have a significant amount of unutilised capital allowance, so that will help us reduce the impact of that Finance Act. So we think that we will see between 200 and 300 basis points increase in our effective tax rate for 2022.

Herbert Wigwe

Thank you. Any more questions please.

Operator

The next question is from Konstantin Rozantsev of JP Morgan. Please go ahead.

Konstantin Rozantsev

Yes. Hello. I was on mute. Sorry. Thanks a lot for taking my questions. The first one I wanted to ask, you mentioned a number that Access Bank has about $2.2 billion in swaps with the Central Bank of Nigeria. Could you please share some indication of where this number is for the banking system in aggregate from what you think? And the second question, from the recent trades in these FX swaps with the CBN that have been priced with the local banks, what is the forward Naira rate that the central bank provides to the local banks?

Roosevelt Ogbonna

Would you mind repeating the question? It's really not clear from this end.

Herbert Wigwe

Konstantin, we didn't hear you quite well. All we heard initially was something referring to $2.2 billion of the swaps. We need to understand what the question was about. And also with respect to the forward rate that central bank is providing, I think. Is that was you asked?

Konstantin Rozantsev

Yes. What is the forward FX rate in Naira that is provided in the swaps?

Roosevelt Ogbonna

So I think there are two things to take into consideration here. So when we do the forwards we reference the FNDQ forward rates for equivalent periods. I think it changes based on the transaction. I think the last set of transactions were done at about ₦451 or ₦452 – I can't remember the exact details – versus the spot rate with the central bank that was at ₦410.

Herbert Wigwe

Okay. That is the traditional forward rates. But speaking to the RT200, which is a separate discussion altogether, it is basically a policy framework which is basically aimed at making sure that we all support exports and grow exports over the next three years to about $200 billion. What the central bank is doing is that it is providing various incentives starting from the fact that we should lend at single digit interest rate, 9%, to institutions that will be providing non-funded exports. Of course they will be also providing some cash incentives to support those exports that are generated on the basis of getting them to increase capacity for expansion over the next three years. That's what the RT200 does. It's separate and distinct from the pricing of the existing forwards under the swap arrangements, like Roosevelt said. The forward pricing the index is typically from the FMDQ which basically at all points in time determines forward rates over the next 90 days, 180 days or one year. Does that answer your question, Konstantin?

Konstantin Rozantsev

Yes, that's good. I think on my side I wasn't exactly able to hear the entire response. Could you please share the number what's your estimate of the volume of the FX swaps with the central bank for the entire system? Do you have the number in mind?

Herbert Wigwe
You probably need to dial in again, Konstantin, because we are not hearing your questions as they are coming. We hear it, but it's blurred.

Konstantin Rozantsev
All right. That's okay. I can come later on through an email.

Herbert Wigwe
[Unclear] and it's something we can respond to immediately.

Operator
Thank you immediately. I just want to check, sir. Can you still hear me clearly?

Herbert Wigwe
We can hear you clearly.

Operator
Thank you very much. Then the next question is from Mariana Villalba of William Blair. Please go ahead.

Mariana Villalba
Hello. Good afternoon. Can you hear me?

Herbert Wigwe
Yes we can. Thank you.

Marian Villalba
Okay. My first question is about the net interest margin guidance. Throughout 2021 we've seen the NII line decline quite significantly on a quarter to quarter basis since Q2 mainly on higher interest expenses. So I was curious to hear your comments on how you expect to improve net interest margin in the coming fiscal year. Will it be through a reshuffle in the composition of your deposit base or will there be any other line items? I understand the pricing of loans, to your point mentioned earlier about most of your corporate clients being blue chip companies there is not much to do in terms of lower yields. Will that additional NIM increase come from your investment book?

And my second question is about your capital ratios under Basel III. When you issued the Dollar AT1 back in October you reported then your pro forma estimated capital ratios under Basel III. But now the numbers we have are only Basel II, so I was curious if you have an update to that capital ratio under Basel III estimate. And my third question is about the interest income line. I think someone asked that earlier. When I look at the September numbers the interest income from loans and advances to banks was about ₦11.4 billion, and that more than doubled coming December. So there seems to be a big gain in interest income in loans and advances to banks in the fourth quarter. Can you please explain what drove that significant increase? It seems to be a one-off, but I was curious to hear about what exactly it was. Thank you.

Herbert Wigwe
Thank you, Mariana. I will attempt to answer some of the questions and I will get Greg and Seyi to support me. The general theme is simple. What you would find is that our fourth quarter numbers refer to a consolidation of some of the subsidiaries that we have brought in. Some of those markets do not have the nature of interest rate regimes that we have and have NIMs at about 4% etc. compared to the standard in some of those markets. As we move on we will find ourselves again also in Nigeria increasing the retail book, because at the end of the day what we've seen is that not much can be done to the wholesale side of the balance sheet whilst we continue in our efforts to bring down the overall cost of funds.

The expectation is that we should be able to get our net interest margin to better than 5% in the course of 2022. In fact, definitely better than 5% because we are now optimising our balance sheet in those countries where we follow that aggregator strategy, whether it's in Zambia or it's in Botswana or Mozambique etc. So you're going to start seeing improving net interest margins because we are trying to also bring down the cost of funds in those markets and improving the overall collection ratios to make sure that we can push the NIM a bit more. But in the context of Nigeria we will increase our retail book a bit more, one we are getting more and more familiar with. And hopefully that should be able to improve the overall NIM. I'll let Greg speak to the transition issues as far as Basel II and Basel III are concerned and the impact on our capital ratios. And he will provide the necessary guidance. Then Seyi will speak to the impact of the net interest income in the fourth quarter like you said.

Greg Jobome
Thank you Herbert. Basically as you are aware it's going through a parallel run at the minute, so both Basel II and the Basel III. Basel III is going through a parallel run with Basel II. That's supposed to run for about six months. I'm going to give you an idea of the numbers that we have. We have done around three cycles of reporting to the central bank on this. What you find is that our overall capital adequacy ratio at the group level is 24.5%. That's well ahead of the 17% minimum CAR requirement for domestic banks like ourselves. And in terms of the Tier 1 that's at 19%. Again that's well ahead of the 13.25% minimum requirement from the regulator. So it's quite a robust standing at the minute. So we don't know right now how the regulator is going to play at the end of the six month period. It ends next month. If there is going to be an extension for the trial run, or if the regulator based on the impact analysis from all of the industry they will make a call and advise us accordingly.

Herbert Wigwe
Okay. Roosevelt, do you want to speak to the net interest income?

Roosevelt Ogbonna
I think what you should take into consideration, Mariana, is there is a bit of cash drag in the fourth quarter given the Eurobonds that we raised in that quarter. Depending when allocation was done, what you find it that it

impacted on the overall net interest margin of the institution. I think Herbert spoke to the point around our subsidiaries. Last year we on-boarded the likes of Kenya, Botswana as well as South Africa. These are low interest income environments and the NIMs from those markets are not as healthy as you find in Nigeria. I mean their currencies are typically stable, so I guess what you might lose out from a NIM perspective you would gain in terms of how resilient the currencies are. So that in itself had an impact.

I think we shared this at our half year investor call, the conversions which we have done from foreign currency exposures to Naira. This was just to ensure that we mitigate foreign exchange devaluation impact on our balance sheet going into a pre-election year. We know what typically happens with the currencies if things are not well managed. In total from 2020 to date we've converted about $1.4 billion, several of those loans to make it interesting and attractive for these counterparties who earn Dollars but we needed them to convert to local currency. We needed to keep the local currency loans the same level that we were lending to them in USD. So you see that the impact of that came through Q on Q through the tail end of 2020 and then you see the impact play out in the rest of 2021. I think put us in a [unclear] of some sort.

So the interest rate on the loan side we couldn't aggressively increase because we were lending to the very top end of the market and they were not willing to take any price movement in interest rate. And of course the overall deposit liability base grew and there was a bit of drag that Eurobond provided. So those things combined to give the impact of the NIM. But I think as Herbert has suggested, as we go into next year 5% and above is not asking for too much. And the way this will be achieved is the retail loans for one. We will grow that not just in Nigeria but across the bank's entire 13 country presence. In Kenya for instance, the interest rate limits have been lifted by the regulator. So I think we will see a bit more margin coming through from the Kenyan loan portfolio.

Botswana, against lending on the retail side we're also going to be doing corporate lending and a lot of it will be trade related where we can get significant and healthier margins as against the margins that exist. The other thing to state in markets like Botswana is that a lot of their deposits are wholesale deposits and it's very pricey. If you look at the strategy we've deployed in Botswana is it to generate retail deposit liability which is cheaper and to help expand the margin in that market. And the same thing we are doing in South Africa. These banks on the deposit side were traditionally wholesale in nature. They could afford to do that because of the structure of their markets. We will see retail margin expansion in Botswana and in South Africa because of the deposit liability game we are playing there. In Kenya, however, it is just the lift of the limit that the regulator had placed on the interest rate that will drive that. The last thing, as I said, is just the retail expansion as you see.

On the interest income on loans to banks, that is essentially the Access Bank UK and the trade lines that we have to several banks across the African market. The bulk of it is between Nigeria, Ghana, Kenya and Angola. And then there are some in several other parts of the continent, but a good 70% to 80% are in these markets I just mentioned, Nigeria, Ghana, Kenya and Angola where Access UK acts as a correspondent bank to several banks in those markets and provides lending to support their trade business. That book continues to grow as Access Bank UK grows. I think at the last count the book was near $750 million, a growth of almost $200 million between 2020 and the 2021 financial year. Thank you very much.

Herbert Wigwe
Thank you Mariana. If you want further clarification we will share with you, but we go to the heart of our strategy and our need to diversify our income and earnings and of course reduce risk, which is what led to the conversions and getting people to convert into local currency from our foreign currency loans. So you will see in terms of our foreign currency book that ratio keeps coming down because we are extremely careful with how we want to manage our exchange rate risks. But thank you very much. Next question.

Operator
Thank you sir. The next question is from Ngozi Odum of CardinalStone Partners. Please go ahead.

Ngozi Odum
Good afternoon. Please can you hear me?

Herbert Wigwe
Yes. Very clearly. Thank you.

Ngozi Odum
Okay. Thank you. So I wanted to ask, we saw some significant derivative play in your full year 2021 numbers. Given the volatile nature of this source of income, can you give an insight to the bank's strategy of building a more stable source of earnings? And also should we expect a slowdown or ramp up in derivative plays in the near term? The second question, as we draw close to the end of the 2018 to 2022 corporate strategy what do you think will likely be your key strategic focus in this final year and what segments of your business operation would this strategy be focussed on?

And speaking to the FX outlook, I just wanted to find out how you are responding to the likelihood of the complete hold in CBN FX sales to banks this year. Also, do you see a reversal in tax spending limits in this year? Also, I wanted to have an insight on your outlook for your operating expenses and what it would mean for your cost to income ratio going forward.

And then did you take any loan repricing opportunities in the year to advance your loan book? And how do you assess your returns on your loan portfolio going forward? I think the last question on your tax has already been answered. I wanted to ask lastly on your transition to the HoldCo structure. How do you expect to build up your operations? Are you seeking any acquisitions to build operations and leverage already existing structures? Thank you.

Herbert Wigwe
Thank you very much, Ngozi. I guess if you've followed our history for six, seven, eight years this question around the derivative income and trading income is one that comes up every year. And if you look at the financials except where there has been an increase or a major shift as far as exchange rates are concerned, this continues to recur. And just to let you know, we continue to test the sovereign and we continue to get our monies back from time to time.

So from a risk standpoint or through Basel III rules we still are reasonably comfortable with carrying Nigerian risk. So in terms of looking at it as extraordinary income my simple answer to you is that is it not extraordinary income. We could have lent the Dollars. Some people choose to lend it to several oil companies and we have chosen to play it a bit differently because we believe in the strength of the sovereign and its capacity to build back. So I don’t think you will see a change as far as that is concerned.

Is there a need to continue to grow income from other sources? The answer is absolutely yes. You would have noticed increased income coming from our retail business, from our digitised business, from our card operations etc. Each and every line as far as retail is concerned is increasing. And that appears to be the best way to go. Now, we have also diversified outside of Nigeria. When Roosevelt was speaking to Kenya, speaking to Botswana, speaking to South Africa, while the NIM may not appear to be that rich, the fallout coming from the commissions and fees which is highly regulated in our market is not that regulated in these markets.

So in terms of the bottom line and the contribution to the overall group what you will see is that we’re taking those steps that will ensure continuously that our sustainable income is not threatened irrespective of what happens in the country from a regulatory standpoint. So that is how I’m going to answer the question around the derivative gain. All you need to do is go in year in, year out over the past five or six years. And I guess by calling it derivatives this is simply a swap with the sovereign, period. There is nothing extraordinary that is being done here for us to [unclear] the integrity of the numbers.

Now speaking to the last year of this five year corporate strategic plan that ends December 2022, I think a lot of the work would be around consolidation, making sure that the subsidiaries begin to sweat properly in terms of their ROEs, making sure that they operate within their appropriate risk profile, which they are doing, making sure that we continue to strengthen them in terms go the talents that are running those subsidiaries.

Now, as I look across our financials, country to country, deal by deal, you may see things that have to do with [unclear] concentration which reflects the fact that some of these deals are being done in an equity accretive manner, showing that we understand what we are doing. What is important is what happens after the acquisition and how they get the franchise to run a lot more profitably. So that is what is happening. You will see a lot of consolidation. And then of course you will see some form of cost cutting, making sure that we can bring down the overall cost of operations not just for Nigeria but across the entire franchise.

One of the things you would have seen coming into the financials in terms of the growth in the operating expenses is coming from the subsidiaries. And the whole idea is let us start to normalise that cost and bring it down. Seyi will speak to the issue around the estimated growth in operating cost. My sense is that that will tend to mirror inflation. We always try to bring it down below inflation, but I will give you a few examples of what is happening. The hike in fuel prices will distort people’s costs, whether we believe it or not. Now, we have [unclear] trying to make sure that that specific cost item does not destruct our overall operating cost. From a people standpoint we don’t think that that’s an issue because we’ve basically been able to ensure that we keep the overall staffing cost down to where it is supposed to be.

The others that are not within our control are the regulatory costs. There is nothing we can do about AMCON premium. It is a function of our size. Except if we choose to shrink, but that's not the idea. The idea is just to manage that and see how we can make sure that our cost to income ratio is still well below 60% as we have indicated. I think for last year what you saw was 58%. I think it will get better, but we try to err on the side of caution. Perhaps you will see it at about 55% in 2022.

Now, HoldCo. We are building up to our HoldCo. I think that over the next 60 days you will see a ramp-up in the activities. We have over time shown that as an institution we do understand M&A from a value accretive standpoint. So it will be a combination of organic plays and inorganic plays. And that will become manifest very quickly. I think you would see it happen coming from the month of May and June when each of these operating entities would have started to run. We have planned them out already, so all is settling down, making sure we get the right accounting structure to make sure that we capture the income coming from all of them, and hopefully they should be able to become profitable as we move into the rest of the year. I don't know if that answers your questions. Roosevelt, do you have anything to add?

Roosevelt Ogbonna

From the card spending limits I think given where the FX liquidity is I think every bank has had to adjust, no different from us. I think at some point it was $3,000. It was down to $1,000 and down to $300. I think we keep watching where the limits are, and if the FX liquidity situation doesn't change and customers are not willing to carry the FX risk – which we fully understand – the limit will stay at $300 at best or will have to be adjusted further down given where the market is. There is a significant income stream that we are losing today because we know how profitable our card business is. We have the largest card network within the system and many customers who swear by the bank's international credit cards and black cards.

Now that income stream sadly is something we are losing because we had to bring down the overall spending limits on the cards. But I want to speak to that issue a bit more. It's just reflecting the fact that as a country we find people who go just because they have the spending limit and spend the money indiscriminately. Several years ago that limit was about $3,000. It was used to some extent responsibly. The rates on the cards were basically the same kind of rates operating in the market. But I guess what has happened now is even taking the limit to $300 people are spending it almost indiscriminately.

So the banks are now forced since we have to be careful with the pricing on the cards to bring down that limit just because you have several people who are now abusing that limit. So that's the point. We know it's going to minimise the revenues from it, but there is no need increasing your open short position just because you just want people to be spending your cards and people are abusing those cards. So that limit actually is going to trend downwards maybe towards $50 if we are not careful over the next 60 days if we continue to see rapid spending by people on those cards.

Herbert Wigwe

On the complete halt on FX from the central bank, I think we take the central bank seriously and we take the word of the central bank literally as well. So the guidance that we've got is that by December the central bank will not sell foreign exchange into the market. I think the only caveat to that is this might come as a shock factor but it's important. It is meant to force businesses to start looking more seriously at the export side of things. So the central bank is willing to support local businesses to have the capacity and on the back of that seek for export markets in the African continent and beyond.

Actually the central bank governor has indicated that the first steps towards ensuring that will not even be in December. It will happen from June. The idea is to get banks to basically focus on pushing non-oil exports. And the other thing that is very clear, there are several other sources of Dollars and we need to push diasporas to make sure those Dollars come in. The central bank in several countries exists as an intervention. Perhaps what this is going to do to all of us is to ensure that we go and grab the other four or five sources of Dollars to make sure that we increase the amount of Dollar flow into the economy. If I look at what has happened since banks got wind of this small fact we've started seeing increase in diaspora flows month on month. I think with this new initiative by the central bank what is likely to happen is that people will now start generating more export earnings.

Export earnings have been going up, all of which will be captured officially. And the whole idea is to boost the country's reserves and make sure that there is increased FX liquidity. It might appear to hurt a little bit at the very beginning, but I think that's the best way to go and it's also going to make people start to think about manufacturing locally and adding value before they export and ensuring that the country becomes a lot more self-sustaining in terms of things that we produce and use in the country. I think it's probably the most important initiative that the central bank has come up with. Okay. Next question.

Operator
Thank you sir. The next question is from Damilola Olupona of Chapel Hill Denham. Please go ahead.

Damilola Olupona
Thank you very much for hosting the call. I have a few questions I just want to ask. First off I would like you to comment on your expectations for the interest rate environment going into 2022 and what that will imply for cost of funds. And if you can also provide your 2022 cost of funds guidance. Secondly, I realise that your 2021 financials you grew your loans aggressively, which is fantastic. I just want to understand if that trend would go into 2022. And you said you were also going to grow your retail loans. I just want to understand the kind of NPLs you are seeing in your retail loan book at the moment. And secondly, in terms of cost of risk I would imagine that the reason why we saw the slight jump in cost of risk in 2021 was because of the aggressive loan book growth. If that trend is sustained going into 2022, your guidance for cost of risk for 2022, is it not a bit too conservative? Those are my questions for now.

Herbert Wigwe
Let me start to try to address some of your questions. Now, you asked about our expectations for interest rates going into 2022. I don't think the interest rate environment will change fundamentally. And I will give a simple example. On some of the intervention facilities the central bank has requested that we maintain it at the existing

interest rate of around 5%. And of course for things that have to do with RT200 the expectation is that we will lend at 9%. What does that mean? It means that quite frankly the existing interest rates are not expected to change as far as lending to corporates and all of that is concerned.

Now, for some of us we do have an opportunity to actually bring down our cost of funding. Our cost of deposits as it is today is well below 2%. But the foreign currency deposits like the AT1 that we issued have made it a bit elevated to about 3.8%. That is the overall cost of funding. So what we are doing is to actually continue to force the low cost funds down to make sure that the overall cost of funding on the balance sheet is brought down even more. And if we can take it to about 3% or slightly below 3% it will be good, which means that the cost of deposits will be a lot lower. So that's our expectation, and therefore if we do that and we push our retail loans – and I'll speak to the questions you raised about retail loans – that should bring our overall NIM up higher than 5%.

Now, you were speaking to the cost of risk and you said that it was coming from the overall rise in the loan book. It's not exactly true. What you see is that coming from the acquisition that we did, we basically found ourselves taking increased provisions from countries like Mozambique, Botswana etc. so that we could clear that book. And what that did was to basically increase our cost of risk to our P&L, which basically got to about 2%. And of course if you look at the retail loans specifically in Botswana for instance, the overall cost of risk on the retail loans is 7.8%. So that is what you would find.

Now, Access UK had to take some increased provision coming from its structured trade exposure as a result of the increase in the loan book. That is why you see some of that in the NPL ratio. But apart from that I think that you will find that with respect to Nigeria that NPL ratio, that cost of risk is not significant. So by increasing our exposure on the retail side more to things that have to do with payday loans and asset device financing and things like that, we should start finding the overall interest on loans growing. It may not grow that significantly, but we will find that once you can grow that book to perhaps ₦100 billion the overall impact on the NIM would become more manifest.

So our expectation is that quite frankly we will see a cost of risk that is perhaps lower than 1.5% given the clean-up that we've done in the countries in southern Africa, and what we've done in Access UK, and the fact that we have an improved quality asset book. And of course the nature of the retail loans which we will be giving will be those that are basically payroll type or that we have basically through artificial intelligence found to be of good quality. So that is what we intend to see.

Now, is it going to be aggressive in 2022? I guess to ensure sustainable growth we will see the same type of loan growth we saw in 2021 yet again in 2022. That's the truth. We will push a bit more retail. We will consolidate on the wholesale business that we've always done, even though that is going to be from a strict interest standpoint. The margins will appear to have shifted, but the sheer velocity and making sure the value chain approach truly works as it is working we should be able to see an improved NIM. So that would be my own submission to it. My expectation is that this figure in terms of the NIM should move from 4.5% or 4.4% closer to 6% in 2022. And that 1.5% growth is very significant given the overall size of our balance sheet.

Operator
Thank you very much sir. The next question is from Gloria Fadipe of CSL Stockbrokers. Please go ahead.

Gloria Fadipe
Hello. Good afternoon. Can you hear me?

Herbert Wigwe
Yes.

Gloria Fadipe
Okay. Thank you for the call. My question is around your subsidiaries. The first is to get your view as to which of those three subsidiaries you are most enthusiastic about. Which of them do you believe will contribute most to the group profits when they all begin to run actively? And I want to also get a view of the payment space. So we've been seeing the outrageous valuations these fintechs are attracting. In your view do you think these valuations are unrealistic and how do you see competition within that space? And what do you think your competitive advantage would be as a subsidiary of a bank? And finally on the consumer lending business I just want to get a feel as to how the volumes are and what kind of NPLs you are seeing currently in that space. Thank you.

Herbert Wigwe
I think on the subsidiaries Seyi will speak a bit more about it. He will say that the bigger ones like the UK and Ghana will always contribute more and the others will come in. But always look at this whole thing as a portfolio and the fact that our strategy is basically to ensure that there is connectivity and the support of regional trade for instance in southern Africa that would help us to create returns that would be better than having each of the countries on a standalone basis. But I'll let Seyi speak to that before we go to the other topics.

Seyi Kumapayi
Thanks Herbert. From a subsidiary contribution perspective if you look at the P&L and balance sheet today our subsidiaries account for about 38% of PBT, around about 15% of assets and about 10% of deposits. How are we looking at this over the next couple of years? We expect that over the five year plan that we are putting together PBT will still be around that but total assets will grow to something like 35%. Just to pick up on the point Herbert spoke about, for us the thinking is that being in dispersed locations without ensuring that you have integration by your presence, it doesn't give you the benefit and the scale that you derive from expansion. And that's what we see. If we look at South Africa we are in four countries including South Africa, Zambia, Mozambique and Botswana. If you look at what is happening with those economies we see around $10 billion of trade going on across those countries. And if you are there and you are serving clients you tend to get the benefit. Just being in one country you won't see the impact. So we are very deliberate essentially looking at the key African centres, Kenya, Ghana. Strengthening our subsidiaries from a contribution standpoint will be the base of that contribution.

Herbert Wigwe
Okay. Gloria, you spoke about how we see the payment space, the valuations in that space. What is our competitive edge and how do we think we will get the valuations of the existing players? Now, HoldCo is going to

invest in a payment platform, which we have already started. And our idea is that it's not just a valuation game. It's about adding value to our customers, and then the valuation is secondary. What we are selling is we are creating a proper payment platform and making sure that payments, whether it is online, your card business etc. through whatever channels across the entire sub-Saharan Africa happens seamlessly. So that's what we are going to be doing. And it's a separate vehicle that we are doing it.

Now, the beauty of where we are today is the fact that we are present across these countries and we do have the merchants and we have the customers, 50 million customers across the entire continent. So you cannot necessarily compare us to the existing players because we have the benefit of the bank even as a separate company. We are able to ensure that payments occur seamlessly and we can on-board the existing merchants. That's the strategy. There is no macro strategy and there is no need to share that level of detail particularly at a forum like this.

In terms of how we will compete I think quite frankly we have the technology, we have the resources, we have the people and we are setting up that platform that would basically compete with all of them, and even better because of the existing customer base and merchants that we have. It is not going to be subdued by the heavy infrastructure of the parent or the heavy processes of the parent. That is why it needs to be kept separate. Whilst we are having strong compliance standards, it will operate differently and separately so that whilst it is serving the parent it is also serving the larger market to ensure that we get the full benefit.

My view is that if I look over time this is not the first time that we have institutions that are coming to the payment space or fintechs existing. We had them in 1999. Several fell by the wayside. Some succeeded. The benefits of where we are is that we have enough captive business because of our sheer presence to make it extremely profitable for anybody who chooses to invest to see the dividends that come out of it, rather than a valuation that is based simply on the number of transactions that you are carrying out. If that was the valuation that we place on the nature of company that the HoldCo is splitting, then I don't know what type of valuation that we're going to have for it. But the idea now is have a proper company, make sure that it is profitable in real terms, and it is covering and enhancing customers and providing value to them across the entire continent. I would like Victor Etuokwu to speak to the issue around consumer lending and the NPL ratio that we are seeing there.

Victor Etuokwu

Okay. Thank you very much. What we saw last year was an NPL ratio in our books of about 5%. And the plan this year is to ensure that we will have it below 5% at the end of the year. Now, if you notice when we discussed the [unclear] portfolio we saw a growth in the value but we saw a reduction in number of transactions. That was due to two reasons mainly. First, as we said, we strengthened our criteria for lending. But secondly, we knew that coming out of COVID the size and number of employees who were our target market has reduced in the economy because we had government having problems with meeting their payment obligations. So, many of the employees could not really service those consumer loans. So we saw a decrease in the number of employees.

For those that were well employed with good employers and were still able to manage and take better loans, we improved the returns by doing some risk based pricing. You saw last year even in the reduction in the number of loans we had almost double in terms of income that we made from that portfolio. This year we are focussed on doing a lot more. Now post COVID most of the employees are back to work and see there seems to be a return to normalcy to the payroll of most of the corporations. So we are hoping to have almost a doubling of the values of loans that we gave last year. And the returns will be better. The NPLs will remain below 5%. That's what we are projecting.

Herbert Wigwe
Thank you Victor. I hope that answers your question, Gloria. Any more questions?

Gloria Fadipe
Yes. Thank you very much.

Operator
Thank you. The next question is from Ope Ani of Coronation Asset Management. Please go ahead.

Ope Ani
Hi guys. Congrats on the results. Thank you for the opportunity to ask questions. A quick one on your asset quality. On write-offs I think over the last three years from 2018 to 2020 write-offs were about ₦88 billion per year on average. 2021 was about ₦85 billion. I understand this has to do with cleaning up legacy loans from Diamond Bank. The question is are we done with these large write-offs or should we expect this number to remain elevated?

Herbert Wigwe
Okay. [Unclear] may speak to it.

Greg Jobome
Thank you for that. Of course you are right. We had to do some clean-ups so the write-offs we've seen since 2019 is following the trajectory, an initial sharp rise at the point of combination. So it went up and it came down again. A trend is emerging, and that trend is the more we clean up there is less and less of that to do. So we should see that trending down. But of course don't forget that we have a normal course of business write-off process. Even before the last transaction we were doing write-offs every year. So that we still expect to happen, so an organic level of write-off that will join the trailing off of the clean-up process of the legacy institution's facilities. So that's the kind of trajectory you will see.

But of course all of that is rapidly followed by recoveries. So you also see a pattern of recovery as you are doing the write-off. We face the music and we bite the bullet upfront so that we can fight properly where it's required [inaudible segment] without worrying about impairment provisioning or classification etc. [Inaudible segment]. So that process has yielded significant recoveries. We have seen in some years ₦30 billion, in this 2021 about ₦48 billion coming out of those write-offs. So we don't make a loss at the end of the day. We have full recourse to those borrowers and we should see those recoveries working in tandem with the write-offs that we've seen in the past.

Herbert Wigwe
Does that answer your question?

Ope Ani
Yes it does. Thank you very much.

Operator
Thank you. The next question is a follow-up from Tunde Ogunleye. Please go ahead.

Tunde Ogunleye
Thank you for taking my questions. I think the next question I have is related to your asset quality. I didn't quite get your guidance on your loan growth for 2022. And I'm particular about it because I want to know which sector…

Herbert Wigwe
Tunde, can you ask it again?

Roosevelt Ogbonna
Loan growth for 2022. Is that what you said, the guidance for loan growth?

Tunde Ogunleye
Yes, for 2022. And in which sector are you seeking to grow your loan book? And you earlier mentioned intervention loans. I would like to know what percentage of your loan book are currently intervention fund. And still on asset quality, could you shed more light on what is driving the NPL ratio in the transportation and storage, oil & gas and ICT sector? Is this a sector-wide issue or is it related to a particular customer? If you could shed more light on that. I think the next question is on subsidiary. [Overtalking]. I would like to know the turnaround strategy for your Guinea and South African operations. It seems to be making loss. At what point do you expect these subsidiaries to start making profit? And also what is the strategy to bring down the high cost of income ratio in your Guinea, Mozambique, South Africa and Botswana operation? If you could also shed more light on that. I'll pause here. Thank you.

Herbert Wigwe
Okay. We will attempt to answer what we heard because you were muffled for the better part of it. Now, if you want an expectation for loan growth in 2022 I think it's going to be closer to 10%, perhaps 7.5%. Given the sheer size of our balance sheet to grow by 10% means you grow by ₦500 billion if you like. That's without taking inflationary impact or devaluation into consideration, which is not a joke. But I think we can achieve it most likely coming from other parts. I mean Nigeria will grow, but I think we see growth In the UK and South Africa where there are stable currencies. We should be able to achieve that.

Now the percentage of our intervention funds, that is about 10%, that kind of number. That's what you have. Given our size and all of that there are natural expectations that come from the system in terms of support, whether it is with respect to supporting government from an infrastructure standpoint and all of that. So today it is about 9%. That's what we have. I think that that figure will reduce particularly as we grow our loan book. It will also reduce from the payments that we are getting from them, even the previous ones that were booked four or five years ago etc.

I think what you were asking with respect to our southern Africa business is when do we expect South Africa to go past the corner. You have to understand that the entity we have in South Africa is a small entity. And in those markets it would typically take a couple of years for you to break even. But I think you may see a difference in how well it would break even in South Africa. I think 2023 should be an interesting year for us in South Africa where it would have broken even, and then it will start to make money. We need to continue to support them because those markets are very sophisticated and look at all issues inclusive of your risk rating even before you get retail deposits, not to talk of wholesale from government or from pension funds etc.

We are using our One Bank strategy and getting corporates who have had significant experience with the parent who are there in South Africa to basically do business with us even irrespective of the risk rating of the South African franchise. So you will see it coming to profitability in 2023 definitely. And then hopefully we will start seeing the increased contribution coming to Nigeria.

Now, Botswana is an interesting market, a stable currency market. I think it has been profitable. You will see a lot more contributions coming from it, the same way as Seyi spoke. We have basically done a lot of clean-up at the time the acquisition was done, and that is why you saw the related NPLs because of some of the retail clean-up that came from Botswana. Our expectation is that these two countries will increase their contributions to us.

Now, Kenya, which is one of our interesting markets, is a market where you have had interest rates capped. And that cap has been taken out. We will scale up in Kenya organically or inorganically, and the whole idea is to make sure that we are [unclear] because it represents a major trade hub which is important in the context of the continent. So I think all these countries, South Africa, Botswana, Kenya and Ghana in the context of Africa will be the most in terms of the size of the economy and what they will provide in terms of profitability. So that's what I need to say. Then of course complemented by Access UK which should start seeing greater contributions, perhaps north of 35% in terms of contributions both from a profitability and overall balance sheet size. We didn't quite hear the other questions you were asking. If you want to call back to let us hear we will be willing to answer the questions.

Tunde Ogunleye
Sorry, I just wanted to confirm the loan growth guidance. Is this 30% you mentioned?

Herbert Wigwe
Not 30%. 10%. 7.5% to 10%.

Tunde Ogunleye
Okay. The next question was what is driving the high NPL ratio in the transport sector and the oil & gas downstream? I wanted to know if this is an industry wide issue or it is related to a particular customer.

Herbert Wigwe
What did you say about the oil & gas sector?

Tunde
The high NPL we saw. The NPL in the sector used to be 0.7% and it has moved to 7.3%. And also in terms of transport as well it moved from 0.5% to 9.8%. I just wanted to know what is driving that increase. Is it related to a particular customer, or it's just a sector-wide issue?

Herbert Wigwe
Okay. Greg will speak to that. Thank you.

Greg Jobome
Thank you. What you find, that's the contribution of each sector to NPL. That's not the NPL ratio. That's simply saying general commerce is number one at 17% share of the NPL book. And the next one is the 10.4%, manufacturing, all the way down to oil & gas upstream. So why the variation between 2020 and 2021? It's that there was significant write-off of an oil & gas services name in 2021. So that loan that was removed meant that there was a redistribution of contribution amongst the remaining sectors. But basically in terms of the NPL ratios you look more to the right if you see that chart in front of you. That's where you have a better sense of ratios.

So the highest there is in agri from 11% to 14%. It's a very small part of the loan book for now, just about 1%. They are still quite small, so overall it hasn't started making a big impact. The others have come down sharply. You see manufacturing coming down sharply from 26% down to 13%. You will see transportation going up due to the combination. We see a few new entities that have come on stream, and therefore that stress point of impact, just like Herbert said earlier on, we saw those sectors moving up a little bit. But those are not positions.

The chart on the left shows the contribution. Then the chart on the right shows the ratios within each sector, the NPL ratio. So the oil & gas for example is down to about 0.6% upstream, 1% NPL ratio services. So that was oil & gas services, which was 11% last year. So a significant improvement in the key sectors that make a big contribution to the loan book. That is the big benefit of diversification and all the actions we've taken over the past year. In some cases the improvement is coming from new loans booked in those sectors, so that increases the base and it obviously looks better. You see general commerce has come down from 7.7% down to 5.9%, so that's an improvement supported by write-offs and a few new loans that were booked. So that gives you an overall picture.

Of course the overall NPL is 4% and that is an improvement from the 4.3% that we had last year. And at the bank level it is well below that at 2%. So there has actually been a reduction as far as Nigeria is concerned. So the impact you are seeing is coming more from the subsidiaries. Herbert mentioned earlier on about the UK as well. Some of the impacts are also feeding through from the UK, a bit from Botswana as it relates to some of the retail loans we see there. So that's the bigger picture. As those stabilise, we integrate them fully and they begin to grow properly, as Herbert has very clearly explained, we see the base picking up and therefore those ratios will trend down.

Herbert Wigwe
Next question.

Operator
Thank you sir. The next question is a follow-up from Ngozi Odum. Please go ahead.

Ngozi Odum
Thank you for taking my question again. I just wanted to find out; we saw that some of your peers actually alluded to the fact that they were able to take some loan repricing opportunities over the course of last year. I just wanted to know, was that similar to your case? Were you able to take loan repricing opportunities during the year?

Herbert Wigwe
Okay. Well, it was a bit tricky for us because I think it was Roosevelt who explained some of the drag that we had. We decided to concentrate on growing our loan book to investment grade names. We also made sure that some of these clients who had Dollar exposures had converted into local currency because we do not want to see any impact of devaluation on that loan book. And we had to basically give a concessionary interest rate. It's better to be safe in the future than have a problem today. For those reasons the full impact of any repricing could not have been seen. We did some repricing, but it was a bit trickier for us to get the benefits of that repricing. The only place we are going to see some benefits now will be for us to increase the size of the retail lending responsibly. And hopefully that should start showing improved profitability as far as our net interest margin is concerned. So that would be my own submission of what happened to us last year.

Operator
Thank you very much sir. We have no further questions on the conference call at the moment. Do you have any questions on the webcast you would like to address?

Herbert Wigwe
These are questions coming on the… Can you explain what's driving the decrease of CET1 capital ratio to 14.74%? Greg, do you want to speak to that, and what is our targeted CET going forward?

Greg Jobome
Thank you Herbert. So the Basel III kicked in from November of 2021, so our first return to central bank on this was in the first week of December. So what we have as at the end of the year is at the group level 14.7% CET1. And the regulatory minimum is 12.5%. So it's a clear buffer there. Our internal guidance on that is a buffer at 12.75% minimum.

Herbert Wigwe
However, what you would find as you move into the future is the fact that given our retention policy which outstrips the investments which we [unclear] the subsidiaries we should start seeing that heading north a bit more. But Greg has stated the absolute minimum in terms of CET1, but I think that quite frankly we should start

adding perhaps 75 basis points every year as we go into the future. There's a question from Meristem Securities. Can you explain the modification loss [break in audio]? Seyi, won't you speak to that?

Seyi Kumapayi

Yes. Thank you Herbert. What you see here is anytime you change interest rate or tenure on any particular loan you will have to do a PV of the change that you've made and compare it to the PV of the initial loan. It's that differential that gives you this modification loss or gain on your loan. So it's just an adjustment you do where you change tenure or pricing on a loan.

Herbert Wigwe

And the second question. Secondly, we observed moderation in assets [overtalking]. Questions from Toyosi of Renaissance Capital. We see that you made significant investments in BancABC in Botswana compared to other regions [unclear] Access pursuing a retail strategy versus a correspondent banking strategy. Can you expand on your strategy in Botswana and what makes this market attractive?

Toyosi, Botswana is a very stable country. It has the best risk rating today in the continent. BancABC is one of the larger banks in the context of Botswana. If you look at our regional play and the cross-border trades that happen between South Africa and Botswana, it is extremely significant. The southern African region is the largest from an economic standpoint in the continent. So the strategy of pursuing Mozambique, South Africa and Zambia is to make sure that that region [inaudible] $20 billion on an annual basis that we can basically capture and make money from.

So Botswana is intrinsically linked with South Africa. And the idea is for us to support the regional trade that happens there. Two, to support the diaspora banking that happens. They have a common border. They need transfers between Pula and Rand etc. So it's important for us to make money out of it. The fees are not as regulated as you find in this market. And the ROEs of the leading banks out there are significant even in real terms. Therefore it made the bank very attractive.

On the insurance brokerage how much initial capital will be injected? Not significant at all because that business does not employ much capital. I think just the sheer size of the business that we do in the context of Access Bank alone is going to make sure that it is reasonably profitable for the bank. It is a lot of money for the capital that will be involved because there is not much capital that is required. Of course this is a brokerage that traditionally is paid out to several of our institutions that will be captured in-house without any commensurate risk.

Now, the recent approvals for PSB licenses for a number of telcos, some of which with whom you have established relationships. At what point does it become competition and how are you responding here? My answer to you is simple. The PSB helps the GSM players as a financial inclusion tool and all of that. Yes, what will happen is there will be a lot more competition for the bank. But of course these PSBs also require banks where money is going to be kept. So we will continue to cooperate. I have not seen a market where you find the GSM players, even if they have got the equivalent of PSB licenses, disaggregate the banks. In any event, if you take our HoldCo structure we are coming up with more nimble verticals that will enable us to compete in this ever-changing environment.

The fourth point is to confirm that you have final approval for fintech payments and switching. When do you go live on this? I think this will go live soon. We are in the final stage of the switching license. We have gone through the approvals in principle, so I think we are right on track as far as that is concerned. My expectation is that you will see us go live by the end of June.

Questions from [unclear] of Insights Investments. Can you please talk about stage 2 loans percentage versus total loan book? Also, what is your current liquidity, FX in particular? Greg, I want you to speak to that,

Greg Jobome

Okay. On the stage 2 loans we have seen a very steady improvement. Currently we are at 9.2% stage 2 loans as a share of the total loan book. It is coming down from about 12.6% a year ago and even higher in 2019 at the point of combination. So good, steady improvement coming from all the actions that we took with respect to those names, the ones that we converted to Naira, eased their payments, and a few migrations out of stage 2 into stage 1 based on meeting all the terms in line with IFRS principles. So a very good, remarkable improvement in that book. I want to keep it that way. You find that this compares very well amongst our peers in the market.

Herbert Wigwe

Then another question from Toyosi. How are you preparing your DRC business for the incoming competition from Kenyan banks who have quite aggressive strategies in this market. Seyi will speak to it.

Seyi Kumapayi

So I will speak to that and I will take the last question on FX liquidity that was asked. On the liquidity side we've seen a liquidity ratio north of 50%. Foreign exchange liquidity is actually a lot more robust. There is one thing we are clear in the bank. We have a liquidity crisis in USD, which is not our functional currency. So it's north of 50% at any point. Our loan to deposit ratio on our Dollar book is a maximum of 50% and we have always operated well below that. The excess or the overflow is invested in [break in audio] as well as part of what you see in the swaps with the central bank. So that is a testament to how much liquidity we have. We try to stagger the maturity of the swap book to ensure that the bulk of them mature first second of the year. A mere 14% of it matures in the first half of the year and 50% to 60% matures in the second half of the year. And we have kept all our maturities of the swap to 12 months against what we used to do in the past of 18 to 24 months. So that in itself gives us a significant liquidity buffer.

Toyosi, on DRC I don't think the Kenyan banks, no matter how aggressive they are, will be enough to chase us out of the market. I think what we have to do is take the market and compete effectively. There are significant banks in that market today from which we are gaining market share. If you look at our DRC business it has grown every year for the last five years organically. There are opportunities in the market as well to look for an inorganic play. Where we find those plays and they make sense, we will scale for size.

But I think the largest banks in the market, the top three banks, they have been losing market share to more aggressive and nimble banks like ourselves. I'm not sure we have a lot to be afraid of. They should be worried about us and us gaining scale and leveraging that scale to continue to grow our market share within the context of the DRC market. So I think we welcome the Kenyan banks. It just makes the competition a lot more interesting and it gets focus on creating value within the DRC market which will be better for the customers that we are serving in that market.

Herbert Wigwe

Thank you very much. A point from Wale. Thank you for your congratulations. Where do we see Access Bank over the next 20 years from an equity shareholder returns perspective? Well, we are about to share with the market soon our five year corporate strategic plan and perhaps our ten year corporate strategic plan. We do have a ten year plan broken down into two five years and then updated as we go on. But there is nothing we have said in the past 20 years that we have not achieved. There is no reason why we will not be the largest bank in the continent, ensuring that there is greater interregional trade over the next ten years. It will definitely happen like that.

Now, from an equity shareholders returns perspective one of the things we need to do is to start communicating a bit more and better with the analysts for them to have a clearer picture of where our enterprise is headed. From a risk standpoint we think that we will pierce our sovereign ceiling in the manner in which we are growing and what we are looking for. And the nature of returns we have we think that in real terms will be superior to any other institution in the financial services in the continent. But I think this is subject to the larger presentation we will share with the market very shortly. I think that presentation will be communicated sometime within the next 30 days. Thank you very much, Wale. Any more questions? I hear there is one more question.

Operator

We have no further questions on the conference call, sir.

Seyi Kumapayi

All right. We declared EPS of ₦4 but your dividend per share remains under ₦1. [Inaudible] you are investing for the future. If you share price does not rise strongly, shareholders are not getting a good deal. How do you hope to deal with the issue to [unclear] of the future? What proportion of management compensation is tied to share price movement?

Herbert Wigwe

Okay, let me answer this for you. We don’t have any compensation that is tied to share price movements. I just spoke to this point a few minutes ago where we need to communicate clarity in the market. If some of our larger institutions that existed before we came had done some of the things we are doing, perhaps they would not have been subject to the vagaries of exchange rates that have happened and weakened such franchises in the context of their global competitiveness. So we are building an institution that is not just a Nigerian institution but will become a global institution. And part of the things we are doing is that we are also investing in the more stable economies, more stable than Nigeria, more stable than the continent of Africa etc.

So it’s an interesting struggle between the dividend per share and the amount that is being reinvested. Now, our expectation is that now that we’ve finished and digested all of Diamond Bank and we are seeing increasing contributions coming from our different subsidiaries, perhaps a lot of them will start paying a bit more dividend to the parent, and therefore it will become available. We will have to communicate with the market a bit more for people to have a clear picture of where we're heading and what we're doing. I expect, like I said, that will start happening from the next 30 days. But in terms of our strategy it is clear and I think that it is one that we believe in. We need to keep reinvesting in the future. If you are in a soft currency country one day you will wake up to find that you have been running only to remain at the same spot.

Our UK business remains predominantly profitable. Our business in Botswana, which is a stronger currency, will grow. Our South African business will grow. It's also in a more stable currency. And I think that as the UK expands one day perhaps you will find more than 50% of our revenues coming from stronger currency countries that will ensure that our business is sustainable in the very long term. We can't have a compensation strategy that is tied to share price movement. If we attempt that that will be actually dysfunctional, almost illegal [?] if you get the point I'm trying to make. So we focus completely on the fundamentals. How do we continue to grow our profitability, our earnings per share? Hopefully as the market understands what we are doing, it will be reflected in the share price. Thank you.

Roosevelt Ogbonna
Just to add it is now ₦1. It is not under ₦1 anymore. Given the final dividend that was paid it takes the dividend pay-out to ₦1.

Herbert Wigwe
And half year 2022 it will be better and keep getting better. I think we are ensuring a dividend policy that ensures that we are sustainable in the very long term.

Roosevelt Ogbonna
I think Herbert talked about [unclear] and the reason why that is important as well is we have a diverse shareholder base. The shareholders who are not looking for dividend return, they are long-term investors and they are buying investors. So they are willing to wait for the share price to inflate and reflect the fundamentals of the institution, particularly since the institution is still in a growth phase. We just follow the [inaudible]. We should generate internal capital and use that to invest as against paying it out as dividend and then going back into the same market to try and raise capital to fund our growth and expansion. That strategy we keep maintaining. We understand there are certain shareholders who are income shareholders and are waiting to see the dividend pay-out on an annual basis or on a semi-annual basis. That is something we have to keep managing. But growth is important, as Herbert has said, particularly growth in safer markets with more stable currencies than what we experience in sub-Saharan Africa.

Herbert Wigwe
Thank you. Any more questions? Okay. We want to thank you all very much for joining us on this call, and we look forward to the next period when we shall share perhaps our half year results with you. Thank you very much and have a good day.

Operator

Thank you very much, sir. Ladies and gentlemen, that then concludes this event and you may now disconnect.

END OF TRANSCRIPT