Conference Call transcript

HY2022 INVESTOR AND ANALYST CALL

Operator

Good day, ladies and gentlemen, and welcome to the Access Corporation HY 2022 results. All participants will be listen-only mode. There will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please note that this event is being recorded. I would now like to turn the conference over to Herbert Wigwe. Please go ahead.

Herbert Wigwe

Thank you very much, Irene, and good afternoon, ladies and gentlemen. You are all welcome to Access Corporation's half year 2022 earnings call. Let me start by thanking you all for dialling into the call given the short notice. It is the first earnings call for Access Corporation and we have prepared a detailed presentation highlighting all aspects of our business which we will share with you now.

On the call with me today are Mr Roosevelt Ogbonna, who is the Managing Director of Access Banking Group and a Non-executive Director of Access Corporation, Victor Etuokwu, who is Deputy Managing Director North for Access Bank, Chizoma Okoli, Deputy Managing Director South for Access Bank, Mr Greg Jobome, our Executive Director in charge of Risk Management for Access Bank, Hadiza Ambursa, Executive Director of Commercial Banking in Access Bank, and Mr Seyi Kumapayi, who is in charge of our African subsidiaries and a Non-executive Director as well of Access Corporation.

We also have Lyabode Soji-okusanya, who is the Head of Corporate and Investment Banking, Miss Morounke Olufemi, who has joined Access Holdings Plc as our Group CFO, Sunmbo Olatunji, Group Treasurer, and Mr Taiwo Fowowe, who is our CFO for the banking group itself. We have also taken the liberty of bringing in some of the directors of Access Corporation, Bolaji Agbede [?], who is the Executive Director in charge of Business Reports, and Mr Lanre Bamisebi, who was appointed last month as Executive Director in charge of Information Technology for the entire group. We do have the Managing Directors of our new verticals, [unclear], Hillary [unclear] and [unclear], as well as Wilson Ideva, who is the Managing Director of First Guarantee Pension Ltd to be soon renamed as Access Pensions.

Over the years, we have watched Access Bank demonstrate a clear, sustainable path to growth, evidenced by increased profitability and dividend payment to our shareholders. As we transition into the HoldCo structure from May 2022, this continues to provide the corporation with a platform to maximise revenues and value by establishing ecosystems, thereby becoming more customer centric and diversifying our risk as appropriate. During this call, I will briefly go over some of the key performance highlights, leaving ample time for questions and answers.

Speaking about our macroeconomic environment, the uncertainty in the domestic and global economies over the last few months remains unabated with significantly increased inflationary pressures and volatility across key markets in which we operate. The Central Bank of Nigeria raised the benchmark monetary policy rate to 14%, up from 11.5% in Q1 2022, the first time in over five years. The rate hike is intended to tackle inflationary pressures as we saw inflation rise to 19.6% in August 2022. The war between Ukraine and Russia is also triggering global inflation within the period and has contributed to the rise we've seen in oil prices. We have also witnessed increased Dollar demand while supply continues to decline.

However, and importantly, the Nigerian economy grew by 3.54% year on year in the second quarter, which is a sign allowing for cautious optimism. Recent reports by the National Bureau of Statistics showed that the contribution on the oil sector to national GDP decreased to 6.33%, which is basically down by 109 basis points from 7.42% in the second quarter of 2021. The technology sector contributed 18.4% of national GDP, which is a significant rise of 6.55% on the previous quarter. This is promising news for Nigeria as a whole as it shows the sector is growing fast, and with this comes opportunities for companies to provide more value to customers.

The key highlights from the regulatory landscape include the central bank has extended the 5% interest rate on all CBN intervention facilities for one year. However, they have been increased to 9% with effect from September 2022. The CBN also issued a revised guideline for the operation of non-interest financial institution instruments with the introduction of two new instruments, funding for liquidity facility and a [unclear] facility for non-interest banks.

Speaking of Access Corporation and our corporate actions, starting with this year's restructure we have transitioned into a holding company with became operational in May 2022. The new structure will allow us to fully capture all the opportunities the evolving financial landscape presents. Access Holding Plc consists of the Access Banking Group itself, a consumer lending and digital banking company, a payment and switching services company, an insurance brokerage company and a [unclear] company. Through this position, we have created new revenue lines without taking additional risk for the enterprise, and therefore ensuring diversification of earnings to support outside of the African expansion which the bank is doing.

The HoldCo will play four critical roles to deliver its objectives. The first is to protect the group's assets. The second is to act as a centre of excellence, providing services to our subsidiaries. The third is to attract talent across the globe. The fourth is to steer the group, defining ambition, strategy and risk appetite. Talking about the expansion strategy, the bank is broken into four clusters, the global financial gateways, the essential trade hubs, the key African market for the rest of Africa. Our expansion strategy will be deliberate and focussed, and basically focussing on five strategic objectives, the first being value creation, second, agility, third, scale leverage, fourth, talent, and the fifth, targeted consolidation.

Our mission is to build a sustainable global platform open for anyone to join, where people can be connected to exceptional opportunities, and our values remain unchanged, which are excellence, curiosity and empathy. Within the next five years, our PFA will become one of the top three in assets under management in the PFA space. And we will do this by deploying solutions and leveraging on the Access ecosystem. The payments company fits perfectly with our five year corporate strategic plan and leveraging on the strong [unclear] of the bank's existing asset and customer base. With this, we will have a super FinTech which will be Africa's most powerful business services network. The [unclear] the merchant and card are on track for going live in the fourth quarter of 2022 and first quarter of 2023 respectively.

With the lending company, we're going to strengthen our consumer lending agency banking business, which currently exists within the retail segment of the bank. But with specialisation and unique product offerings, we will leverage digital channel support and seamless [unclear] to grow scale over time. Our Access Insurance Brokerage will be live from the third quarter of 2022 and will adopt the dynamic and creative approach to provide a value added insurance brokerage service focused on meeting customers' insurance needs.

Access Pensions will be a modern, leading, customer-centric pension administration business which will help improve the corporation's overall share of customer wallets. As of May 2022, the corporation has received full regulatory approval for the position of the majority stake in First Guarantee Pension Ltd. Following this development, First Guarantee Pension Ltd, one of the leading pension [unclear] in the country, is now a subsidiary of the corporation and will provide strong [unclear] of our ecosystem strategy for the pension fund and administration industry. We have completed the divestment of Access Pension Fund Custodian in the second quarter of 2022 as it is not appropriate to have both a custodial [?] business and a PFA business under the regulatory guidelines out here in Nigeria. We expect our payments company and insurance company to be fully consolidated by the second half of the year.

In terms of recognition for some of the things we've done, we've received several accolades during the period celebrating the sustainable practises of Access Bank and the group continues to evolve our operations in line with the best global practices as is evidenced in our 23% year on year decline in our electricity consumption across the organisation. Our 6,048 employees serve over 49 million customers across the international markets, while our expansion strategy continues to focus on our five principles, becoming an aggregator of financial services, building a global payment gateway on the continent, and focussed on key banking markets to support regional trade across Africa. We continue to target skills in existing countries, diversify our risk, and finally, build on partnerships and ensure that our expansion strategy is modelled on strong strategic purposes. Our African strategy will continue to be enabled by four key business initiatives and enablers, trade, payment and remittances, retail and alternative channels, as well as strengthening our global relationships.

Coming to the group highlights, financial performance highlights, our gross earnings grew by 31% year on year to ₦591.7 billion during the period compared to ₦450.6 billion in the half year ended 2021. And this comprises the 63% interest income and 37% non-interest income. The interest income was up 16% year on year to ₦372.3 billion. And the primary driver of growth of interest income was income on loans and advances, which was 9% year on year to ₦256.2 billion due to deliberate effort to maintain a healthy loan portfolio. Our non-interest income grew by 68% year on year to ₦219.4 billion from ₦130.9 billion in the corresponding period of last year. This was a result largely from net trading income of ₦128.3 billion, which was basically 206% increase from ₦40.7 billion in the same period last year, [unclear] on the net gains from financial instruments on fair value and gains from foreign exchange holdings.

We've been able to prove that our business lines are resilient and sustainable. The trading strategy on our fixed income book has yielded significant gains over the past several years. And it is a strategy that has proven adequate and strong year in year out since 2012, and we expect the positive trend to continue. We also saw a 10% year on year increase in commission and fees to ₦81.1 billion, and this is largely underpinned by income from increased transaction velocity across our channels and other e-business. That growth was as much as 98% year on year. However, we saw a [unclear] decline in our other operating income to ₦10.03 billion, out of which 14% relates to recoveries and 33% relates to dividends from equities in other institutions.

The compression recorded in the equity securities of ₦34.9 billion during the period, while the banking group recorded a 25% [?] year on year increase to ₦3.3 billion during the period. Our overall cost to income ratio rose by 550 basis points to 65.6% compared to 60.4% in the corresponding period last year. However, if we strip out the impact of the three new loss-making subsidiaries, because we just acquired them, the figure drops to 64.5%. Speaking to our overall costs, our operating expenses were up 35% year on year to ₦206.7 billion at the half year 2022 compared to ₦189.8 billion for the corresponding period last year. The opex growth was mainly driven by the high inflationary environment, very significant regulatory costs, exchange rate movements, and the overall increase in cost of running the life [?] franchise following the entry into four new markets in Africa which were South Africa, Botswana, Cameroon and Guinea.

In key markets where we generate a significant amount of our profits, inflation is in double digits, including the UK where current level of inflation hasn't been witnessed in 40 years. High regulatory costs continue to be a major challenge as we currently have about 26% [?] of our total opex related to regulatory fees. As we grow our revenues, these regulatory fees also continue to grow in parallel. However, we take a long term view to our business and as economy gets better over the next couple of years, the full impact of growing our balance sheet and our deposits, our cost of funds will basically start to come down, and of course we will start to see improvement in profitability as these regulatory fees cannot continue [unclear].

Our cost of risk stood at 1.3%, which is better than [unclear] when compared to the first half of last year, which is a testament of the quality of our asset book. Profit after tax stood at 88.7%, up by 2% from last year, and we closed with a dividend per share of 20 kobo, basically being conservative given the current headwinds we see in the market. And basic earnings per share stood at 252 kobo, up from 248 kobo in the first half of last year. We saw a 1.4% year on year return on our average assets above the average industry of about 1.2%, and [unclear] return on average equity.

Our capital adequacy ratio is well above our regulatory limit, currently at 22.4% compared to what we had in December 2021 at 24.5%. And we have seen our risk weighted assets increase by ₦316 billion, which is 30% growth year to date and is driven by growth in our total assets and of course our loan book. The gross capital metrics are in compliance with Basel III requirements including capital conservation and counter cyclical buffers. Liquidity ratio also closed at 53.6%, which is in excess of what the regulatory minimum is for a bank of our size.

Our banking group financials. The banking group basically recorded a 3% year on year growth to ₦100 billion in PBT. Its yield on assets declined by 1.7% year on year to 8.6% due to reduced income from investment securities driven by a low yield interest rate environment. Our net interest margin decreased by 1.9% year on year to stand at 4.5%. We expect to improve our yield on assets by 67 [?] basis points over the next six months, given the fact that the central bank has also moved the interest rates on intervention facilities, and of course the repricing of the overall loan book, which we see about 67 basis point growth over the next six months.

The potential impact on our NIM is expected to [unclear] 30 basis points. Our cost of funds has increased by 30 basis points year on year to 3.2% as interest rates rose sharply in the second quarter, in conjunction with the devaluation. Of the Naira year on year, contributing to an increase in the cost of deposits. And I am now talking about foreign currency deposits. Looking at our balance sheet, customer deposits closed at ₦7.84 trillion [?] which is a 13% increase from the ₦6.96 trillion we saw in December last year. Our current and savings accounts stood at ₦4.7 trillion, accounting for 16% of customer deposits, and [unclear] leveraging innovative digital technology and financial inclusion to improve sustainable local deposits.

Our subsidiaries [unclear] we are seeing growth which amounted to ₦2.3 trillion, contributing about 22% year to date of our total group deposits. The gross loans and advances stood at ₦4.92 trillion as of June 2022, which is basically 11% growth from ₦4.45 trillion in December last year. Foreign exchange exposures also increased by 254 basis points to 22% of the total loan portfolio in the period, and this was due to our commitment and support to our customers. We're also very deliberate in our efforts at mitigating this currency risk [unclear] to extend facilities to these customers who needed some Dollar facility.

Our loan to funding ratio increased to 2.6% off the back of our increased loan portfolio. The group's asset quality remained very healthy, and our non-performing loan ratio declined to 3.7% compared to 4% in the full year 2021. And the sectors that were responsible for our current NPL ratio include manufacturing, which is the highest, transportation and storage, oil and gas downstream, food manufacturing, oil and gas at 6.9% downstream, real estate, 6.7%, and [inaudible].

An update on our digital lending. Our digital lending transaction value continued to grow, recording a strong performance. We disbursed about ₦80 billion in digital loans in the first half of the year. These products include our payday loans, salary advances, small customer loans and device financing. [Unclear] ₦9.1 billion in revenue, which is basically 84% quarter on quarter growth from ₦5 billion in the first half of last year. There was a 39% increase in digital loans disbursed quarter on quarter, and this came on the back of a more stringent eligibility criteria. Across our banking channels we recorded a ₦28.9 trillion transaction value during the first half of the year which shows a growth of 32.8% year on year from ₦21.8 trillion in the corresponding period last year.

Update on our subsidiaries. Our subsidiaries continue to grow, making significant contribution to the group. Subsidiaries' contribution to the group's PBT performance stood at ₦41.6 billion for the period. Our subsidiaries contribution to the banking group today is about 42% and it is up by about 38% from the corresponding period of the previous year. We have new subsidiaries, Guinea, South Africa, Cameroon and Botswana, which are in their first year of operations as at half year 2022. Three of the countries except for Botswana were making losses.

However, moving forward we expect much better profit margins from these countries by the time we post our full year 2022 numbers and update our overall cost to income ratio, which would improve.

Outlook and financial targets for 2022. Financial targets have not changed as we continue to build on the strong performance in the period and meet our objectives of Access Holding Company and improving on all the verticals as well as asset quality on the back of the bank. Increased transaction banking income by migrating our customers to alternative channels and creating strong awareness of our flagship digital products. Intensifying our low cost deposits to reduce funding costs, thereby enhancing margins. Enhanced productivity across our branches and staff, and extract value from all existing accounts. Reducing our operating cost by aggressively executing strategy cost initiatives across all the channels.

Our full year 2022 guidance is as follows. Return on equity of 20%. Our non-performing loan ratio, lower than 5%. Cost to income ratio about 60%. Capital adequacy north of 20%. Loan to funding ratio better than or equal to 65%. Cost of risk [unclear] 1.5%. Liquidity ratio [unclear] and our net interest margin greater than 5%. We remain very confident in our momentum that we've built, and we're excited about the next steps following the strategic decision to restructure our business and operating a globally connected community and ecosystem inspired by Africa for the world. Thank you very much. We will now open the lines for your questions.

Operator
Ladies and gentlemen on the conference call, if you would like to pose a question, you may press * and then 1. For those on the webcast, you may use the textbox at the bottom of your screen to pose a question. Once again for those on the conference call, you may press * and then 1 to ask a question. And for those on the webcast, you may use the textbox at the bottom of the screen to pose your question. At the moment, we have no questions on the conference call. I would like to hand over to questions on the webcast.

Herbert Wigwe
The first question is please throw more light to the cause of the reduction in dividend pay-out during the period. We had to reduce the dividend pay-out because of the increased cost of the HoldCo. As you know, this is our first year of operation and under current laws, you cannot pay a dividend if you are loss-making. So, part of the dividend that was declared was used to reduce some of the incremental costs of HoldCo. However, having said that, given that some of the new verticals are coming online and will be profitable, we expect to see a much better performance at the close of the financial year 2022. That's the first one. Second, we have been extremely paranoid, and conservative given what we see as increasing headwinds in the macroeconomic environment. We felt we should maintain our dividend ratio at a respectable amount just in case things get a bit more [unclear] in the operating environment. We will be able to push forward whilst making sure that we balance the needs of all our stakeholder groups.

Can you please provide an update on your CET1 ratio under Basel III as at half year 2022? And how are you going to manage going forward given the importance of this ratio? It would be incredibly helpful if you can start disclosing it in the presentation materials going forward. Thank you. Greg, I think you should speak to that.

Operator
We have a question from Damilola Olupona of Chapel Hill Denham. Please go ahead.

Damilola Olupona
Good afternoon. Thank you for the call. I would just like to ask. I understand that you recently acquired approval for the acquisition of First Guarantee Pension. In terms of contribution to earnings, what would the acquisition brings to the table at the moment? And in terms of the guidance, you have given before now, where you have mentioned that you expect that your non-banking subsidiary would contribute about 30% of earnings over a five year period, does that change the course of that strategy going forward? Thank you.

Herbert Wigwe
Okay, I will speak to that question and then Greg will answer the one on the webcast. The acquisition of FGPL, which is basically pension fund management administration business, we think will because of the nature of our franchise and the size of our franchise contribute significantly over time. I believe that that franchise will become one of the top three PFAs over the next five years. And I think that after this year we will start to see an ROE north 20% coming out of FGPL. With 50 million customers and growing by about 4 million customers every month, we think that using our ecosystem we will be able to migrate a lot of customers to that platform, as well as get very active as far as micro pensions are also concerned.

So, I don’t think much will change in terms of the guidance we’ve given with respect to the contributions coming from the non-banking subsidiaries as we move in time. However, as you notice, these are still in the infant stages. They will be profitable for those who are starting this year in 2023, but I think you will start seeing much stronger performance from an ROE standpoint particularly from First Pension next year and the others the year after. So that is what I can share with you as far as those businesses are concerned. You are not likely to see any losses at the group level after this. Thank you. Greg, do you want to speak to our capital and CET1 and how we intend to manage this?

Greg Jabome
Thank you, Herbert. So, as you know, the Basel III requirements have not yet kicked in formally in terms of the regulatory start of date. The parallel run has been going on since November of last year. The regulator has guided that they will let us know when that parallel run will end and when we can formally enter Basel III properly. However, following the Central Bank regulations we have started in-house reporting on Basel III. So that is going on. What I can say to you is that on CET1 we are well ahead of the regulatory minimum. We also have an in-house target for that, which we are also ahead of, especially for overall capital adequacy ratio.

As you know, the methods do not change. It’s the requirements that change. It is a minimum of 17% for overall cap, and as you've seen, we're currently at about 22.4%, so a good 500 basis points over regulatory requirements. That is what you will see on the tier one, a little bit less on the CET1, but also robustly ahead of minimum requirements. I think that should give you an idea of where we are. going forward as the regulator provides more clarity in terms of formal kick-off date, we will be able to give a bit more detail and deep dive on our numbers.

The same thing with respect to the leverage ratio. We are well ahead of that as well, and liquidity coverage ratio as well. Again, it has a buffer to minimum requirements.

Herbert Wigwe

Thank you, Greg. The next question I think Seyi will take. Why is the group effective tax rate so low despite the change in Nigerian tax regulations related to government securities?

Seyi Kumapayi

Thank you, Herbert. The point is that we've been investing quite a bit in IT infrastructure, physical infrastructure, essentially, to improve our service and also to get us ready for the future. So, these are significant capital allowance. That increases deferred tax assets and limits your tax rate. What you'll find is that by next year, you will start to see the impact of this regulation start to seep in, and tax will start to normalise from next year.

Herbert Wigwe

And the next question is this. Despite all the initiatives implemented by the bank over the last few years, why is the bank’s average cost of funding more than double the average for other tier one Nigerian banks? Okay. It is not more than double other Nigerian tier one banks. Today we represent the largest bank in the country in terms of balance sheet size. The only other bank that comes close to us as far as savings accounts is concerned is First Bank for instance. And the change in the monetary policy rates of the central bank and what that has done is that it has increased the average interest rate that people have to pay or that we have to pay with respect to savings accounts.

However, given how that funding comes through, and the fact that it is sticky, I don't think that we will intend to basically change our strategy of pushing savings accounts, and also pushing financial inclusion in our system. But more important than that is the expected duration on capping where we adopt a [unclear] looking at majorities, looking at issues around [unclear]. So, for instance, our foreign currency funding book has had to increase in price, given some of the things which we see happening in the US. The fact that there's been several repricing as far Dollar liabilities are concerned. And we don’t want to find ourselves having a mismatch from a funding standpoint given the liquidity risk that can happen as far as that is concerned.

People can get a cheaper cost of funds. However, we believe given our philosophy of moderate risk appetite and creating a focussed balance sheet that we should extend the duration of some of these funding sources to make sure that we minimise our liquidity risk. So, we have seen our funding from a pricing standpoint go up because we’ve extended duration a bit more. Finally, we’ve had to basically reprice some of our deposits given what we saw as an increasing inflationary environment. So, all of those things affected our cost of funds in the short term. But if we take institutions that have the same type of savings accounts like us, I think a 20 basis points increase in cost of funds is typically what you would have seen. But in the long term all of these things will normalise, given our size and scale, and the fact that as the economy basically settles or grows, the current monetary policy stance will change and the full impact of what we’re doing will be brought to bear as far as profitability is concerned.

The next question is, what's the average ROE for the group's non-banking non-Nigerian banking subsidiaries? Seyi will take that.

Seyi Kumapayi

Thank you, Herbert. I guess before I just give a bit of a context, what we do minority companies is that we have different ROE tools for each country, depending on inflation rate, what is the risk in that country, what is the acceptable risk premium that we accept for that country? So, it differs from country to country, so we don't have one. If you aggregate it, the African subsidiaries the ROEs are about 25%. And then if you take the international it's about 17% or 18%. So that's the type of ROE that you see, both in our international business and in our African business.

Herbert Wigwe

Thank you. The next question, Greg. I would like an update of capital adequacy at bank level split between tier one and tier two. The next part of it says on capital adequacy what is the impact of Basel III? I think you have addressed that. And then what caused the drop in capital adequacy over the period? Greg, if you can answer that.

Greg Jabome

Okay. Thank you, Herbert. So essentially, as we said, there was an increase of about 10% or 11% in the loan book. And that drives the risk weighted assets growth. That's, of course, part of the computation of the capital adequacy. So that is straight up the main reasons for the reduction in the capital adequacy ratio overall. However, you wanted a bit more colour with respects to group. You already have the group numbers. So, at the banking group it's pretty much the same because for now, there's no difference between the banking book and the group overall. The only other colour you can have would be at the bank Nigeria level. So, for that number, of course, a little bit lower, but still well ahead of regulatory requirements.

I can give you a bit more colour with respect to the tier one and tier two. That was the other part of your question. On the tier one we find we are 18.15% tier one. 4.29% tier two. That is a total of 22.4% at the group level. If you come down to the banking group level, pretty much the same thing as I've said before, so it's 8.18% and 4.29%, coming up to 22.4%. So, I hope that gives you an idea of the numbers for the banking group, as well as the overall group level. The Basel III numbers I already spoke about earlier on. The numbers are no different. And that's because methodology has not changed. What has changed for Basel III is the requirements, and the requirements are very well met, a significant buffer of 500 basis points with respect to the minimum requirement of 17% total cap.

Herbert Wigwe

The next question says elaborate on the motivation for having a standalone. And I think that's [inaudible]. How is it different from the current digital [?] strategy. Also, can you unpack the more stringent criteria for digital loans? I'm trying to understand what you're doing differently, and the lesson learnt from the previous approach. I will try to answer this question without divulging some of the detailed things which we're doing as far as the lending business is concerned. But let me put it this way. All Nigerian banks, apart from the newer and smaller banks, have legacy infrastructure and their approach to lending with respect to retail is very [unclear]. What we learnt from our retail business and our digital lending business was the fact that we could basically use consumer behaviour to predict consumer behaviour and lend based on certain algorithms that have been defined. Even though we represent the largest institution as far as [unclear] is concerned, we find that we are bogged down by legacy issues. The infrastructure which we use to sell it is a problem. The generation of codes [?] working with central bank is a problem. The people perspective from the legacy institution to handle these loans that are small loans, ₦1,000 or ₦10,000 or ₦100,000, it's just a lot of [unclear].

So, what we decided to do, and part of the rationale for the lending company is to come up with a softer type of institution that has the right apps, easier for the new generation to use to basically handle lending. Now, obviously the lending criteria have been refined. It's tied to payroll. And then of course, we have several partnerships that are being developed where we can use data and mine data and lend in a much more agile manner than you have in the legacy bank. The legacy bank that we have is [unclear] as far as digital is concerned. But you will agree with me that when you see banks that are heavy on digital internationally, they are softer and easier to use and appeal to a different type of demographic.

So, the second aspects of what we are doing is that we now have a digital bank that is leveraging off the learnings of the past and has a parent that basically understands and introduces some boundaries. It has a different work ethic and culture that seeks to address a different demographic in a much more agile manner. Those are the things that have led us to do this. The whole idea is that this particular enterprise can increase its overall customer base at a much faster base than we can do given our legacy banking infrastructure.

[Inaudible] can also attract its own capital from other capital sources, not just Access Bank. It will seek capital from other investors and then we will run a pilot, a separate entity, even though the boundaries will be set by the parent. And you will agree with me that the user is agnostic to the bank. And what users are looking for is they are looking for a much more agile bank, more responsive to their needs and all of that. I think that's a compelling reason for us to create something different that will support financial inclusion, support lending in a much more alternative manner and in a much more agile manner to most of the underserved market or to the younger generation.

The next question says I would like to have more colour on your derivative book. Any thoughts of smoothing the volatility in income from quarter to quarter? And can you share the size of the total derivative book between exposure to sovereign and corporate customers? Seyi, do you want to speak to that?

Seyi Kumapayi
So, I can speak to that. Thank you, Herbert. On the derivative book, what you find is there is a recycling that happens between when the instrument matures and when they roll over into new contracts. But if you look at it on a quarter on quarter basis, there is not much volatility if you look at the total buckets together in terms of the total FX income and what's coming from the derivative book. So usually, we pack everything into one bucket and look at it in aggregate. So, on an aggregate level, you won't see that volatility. In terms of what we have in the book as at today, what we have is about $2.2 billion. So that's what we have running in the book currently. I hope that answers the question.

Herbert Wigwe
And we had a consistent reduction, by the way, from about $3 billion to $2.2 billion where we are today. The next question is, can you share regional expansion timelines, and the countries marked as potential for future subsidiaries? How would you optimise the countries highlighted on page 21? What are the criteria for ranking? Seyi.

Seyi Kumapayi
Thank you very much, Herbert. So, in terms of regional expansion, and I guess the way you have to look at it is we highlighted key Africa markets. And that's why we see around us building around those key African markets. If you look at what we've done in Southern Africa, South Africa, so apart from Lesotho and [unclear], we will be in a lot of those countries within the next... Namibia, we already have approval. If you go to East Africa, we are in Kenya, we are in Rwanda, we are in Congo.

Obviously, there are two other countries that are of interest, Ethiopia and Tanzania, given the extent of the integration in terms of business in those countries. So, we have a timeline, and I think over the next 18 to 24 months, pretty much we will have completed what we're trying to do. We will be in enough countries, and we'll start to optimise and create synergies around trade, around signing large corporates, retail and payments, as well as remittances, those four core areas that from an expansion standpoint. So, we are clear about what we are doing and how we intend to get there.

Herbert Wigwe
The next question, I think Roosevelt can speak to this. Please explain Access Corporation's ability to book strong bonds trading gains in the hundreds of billions despite minimal shifts in the yield curve. And the second is despite the drop in Access Corporation's average yield [?] it remains higher than expected. Can you explain? Roosevelt, do you want to speak to it?

Roosevelt Ogbonna
Thank you, Herbert. This is one around strategy and what kind of instruments we are looking at. So, given the huge balance sheet that we have, several counterparties, including sub-nationals, and their need for liquidity in the bond market, in the private bond market, we are able to structure certain deals for those governments at very interesting yields and over an average duration of between three to five years on those instruments. Now, there's always a need, given the low interest environment at the start of the year, there was a need for several investors to look for alternative investment outlets. And these papers were very interesting to those investors, particularly retail investors who were looking for higher yield. So, without giving away too much, a lot of these bonds had durations of three to five years. Several were just plain fixed income instruments bought by the bank, sold down to retail shareholders. A decent margin, from those instruments. And despite the fact that the yield curve did not move, I guess it's around scale, and around an opportunity that presented itself at the start of the year. Thank you.

Herbert Wigwe

Thank you, Roosevelt. The next question is what caused the negative cash flow from operating activities in the first half of 2021? Seyi, do you want to speak to that?

Seyi Kumapayi
If you look at that cash flow statement, you'll see that the big investment in security, which is coming from the expansion and the growth in the deposit book, that's really that ₦664 billion that you see from the purchase of securities. It's just an investment that we've done in securities. That's why you see that huge cash flow, what appears to be a… So, it's not a negative cash flow in that sense. It's just because of investment in securities.

Herbert Wigwe
The next question is what proportion of the bank's e-banking income of ₦38 billion is attributable to USSD charges? We'll come back to that. [Background chat]. How do you intend to fund further expansion? What will be your approach to the international debt market now that yields are soaring? Also speak on profit outlook for 2022 with just 2% rise in that number in the first half. Seyi, do you want to speak to that?

Seyi Kumapayi
Yes. In terms of funding of further expansion, as Greg said, we have significant capital invested. However, what we're doing is we are pacing ourselves, and that's why we've given a period of 18 to 24 months. And we look at each of these opportunities based on the risk, based on what is our intended ROE, based on what we want to do on our strategy before we commit. So, a lot of it will be funded from tier one capital that we have accrued to date and that we will accrue in the future. So, we have a very disciplined capital plan, and we'll bring all of this into play when we're taking a decision as to when and how. There are some interesting structures that we use to do some of these things. And we can do a preference share structure. We can do some different structure that gives us time to accumulate capital as the case may be. So, we have a very clear plan when we get info foreign expansion for a number of these African countries.

Herbert Wigwe
Also speak on profit outlook for 2022 with just 2% rise in that number in the first half.

Seyi Kumapayi
So, if you look at the guidance we've given, we have given an ROE guidance of 20%. And that's what we give. We believe that the second half is going to be stronger. And we are doing what we can to ensure that we deliver on that 20% ROE in the second half of the year. And if you recall, we raised a tier one last year and we are just starting to deploy part of that in the second half of the year. So, we will keep the ROEs at 20%.

Herbert Wigwe
Thank you.

Morounke Olufemi

Just to add to that, we started to reprice our loans, and clearly the impact of the increase in NIM that we're expecting will clearly be coming through in the second half of the year. And that clearly will boost our ROE also by the time it gets to [unclear].

Herbert Wigwe
Thank you, Morounke. More questions. We've exhausted the questions that we have here on the webcam. So, if there are any further questions, please.

Operator
We have no other questions on the conference call.

Herbert Wigwe
Okay, the question with respect to USSD in terms of the split, the amount coming from USS in the first half of the year was ₦28 billion as part of commissions and fees. In terms of the financial inclusion and the significant activity that we have from the large banking population, we have ₦28 billion coming from USSD out of the ₦38 billion that came from the… that's transaction volume, not the profit. Okay. Thank you. So, we have seen a growth in the USSD, but we can't tell you the specific amount that has come out of it. Any further questions please.

Morounke Olufemi
There is a question on the intervention loan that has just come through.

Herbert Wigwe
Okay, what proportion of the loan book is intervention loans? Greg, do you want to speak to that?

Greg Jabome
Yeah. So, as the central bank led the intervention loans there are about 9% of them as a share of the loan book. 9%.

Herbert Wigwe
The next question is given the bank's elevated cost of funds and large concentration of expensive deposits, how does the bank seek to meet its NIM guidance of 5%?

Morounke Olufemi
Like I mentioned earlier, we're currently at 4.5%. And we started to reprice on our loans, both the intervention and the normal loan book. So clearly, over the next few months, we're going to see the repricing yield the extra 50 basis points that will take us clearly above the 5% guidance that was given to the market. So, we will be sticking to that 5% guidance for the NIM by the end of the year.

Herbert Wigwe
Just to support the overall point, somebody already asked the question about what proportion of the loan book is in intervention funds, which is 9%. I think that figure is about ₦500 billion or thereabouts. And we have an

increase in the interest rate from 5% to 9%, which is 400 basis points. And all of those things will [unclear] as far as NIM is concerned get to 5%. This is without talking about the other loans that are being repriced.

Roosevelt Ogbonna [?]
I think it is important to correct the impression that we have a concentrated deposit book because we don't. So, what you have there is the structure of our deposits, which includes significant Dollar deposits. And the Dollar deposits are priced at rates that are much higher. The Dollar deposit is what we're using to fund our trade loan book. The average cost on that book today is about 5.4%. And that book is about 28% of our total deposit boo. So, there's no concentration in the manner that you're saying. It's not like one single depositor has huge deposits with us. Top 20 or top 50 loans is not up to 25% of the bank's deposit book. So, we don't have a concentrated deposit book. The structure of our loan book includes significant Dollar deposits on trade and is elevated today almost a 100 basis point change from last year to this year, given the change in inflation and how central banks across the world have responded, particularly the Fed have responded to the inflationary trends globally. So, it's not a concentrated deposit book, just for clarity.

Herbert Wigwe
Thank you very much, Roosevelt [?]. Can you give your insight on specific strategies to grow your new HoldCo subsidiaries, the lending, payments etc. I think we're basically pushing a strong [unclear] strategy, leveraging off an existing institution, which is the bank that has over 50 million customers, working together with them to make sure that we can support the new subsidiaries, while ensuring that there is appropriate data privacy and all of that. They do have a parent institution that does have a strong brand and has a strong [unclear] for each of these different subsidiaries. Another question is, given the current Naira devaluation, how do you project its impact on your local currency NPL ratio? You want to speak to that?

Greg Jabome
Yes, I will. As you're probably aware, work on asset quality has been on for a number of years now. We did anticipate a lot of the devaluation that we're seeing today right from 2014 or 2015. We commenced our scenario analysis, commenced the stress tests around what can happen to the currency, and how would we work with our customers to ensure they don't fall prey to the devaluating currency. So, on the back of all of that work, a significant share of our loan book is currently sitting in Naira. As we saw earlier on, 22% of the book is in foreign currency. If you compare that to a number of our peers who typically would have about 30% or 40%, we are in a reasonably resilient position as it relates to potential devaluation of the currency. So, you will find that the impact on the NPL ratio is going to be very subdued, just given all the de-risking work we have done over the past number of years. So, I don’t expect to see any significant [unclear] local currency NPL. And the foreign currency ones that we have chosen to do are largely trade related and largely tied to investment grade names. So overall, it is something we are very conscious of, and we aim to maintain it that way.

Herbert Wigwe
Thank you, Greg. There's a question on how much of the USSD fees was paid to the telcos. I think I just need to make a clarity here. The bank is just typically a conduit for settlement as far as this is concerned. And the agreements between the banking industry and the central bank and of course the telcos is now automated. So,

for each transaction the settlement happens seamlessly, and payments are made straight to the telcos. So, it is nothing like the bank collects money for the telcos. It is just a straight agency [?] role. The transactions happen seamlessly, and it goes directly to the telcos. So, we don't have [unclear]. The answer is yes, but it's not necessary because [inaudible]. It is charged by the telcos for the specific transactions that they do, and we have automated the process.

There's another question. Could you provide the purchase multiples of your recent acquisitions? It's not a clear question to me. There are different types of deals that are done. In some cases, it is so value accretive that payments are made on a deferred basis. With respect to the PFA, there were arrangements that were done with respect to recapitalisation and all of that. So, there's no one answer for this question about having multiples for the acquisitions. Can you speak to the quality of intervention loans and their performance? Any worries in this regard? Greg, do you want to speak to that?

Greg Jabome
Yes. Absolutely no worries on this regard. Good quality book. NPL ratio typically zero. So, we are comfortable with respect to asset quality on the intervention transactions that we have.

Herbert Wigwe
I think just a general comment with respect to the devaluation we have witnessed and what that means. We took great care when we did the acquisition of Diamond Bank to make sure that most of the loans come at the local currency. And that is why you have 22% only of our loan book in foreign currency. And the quality of those loans is typically to investment grade names. Having said that, the devaluation can affect the overall capacity to repay. As Greg mentioned, from our standpoint, we are running scenarios on a day to day basis to test the scoring of obligors and their capacity to meet future payments are covered. And we think that today we are more comfortable than most of our peers in the entire industry, having gone through this several times before. Any more questions?

Morounke Olufemi
There's a question on why our treasury yields and higher than that of our… [overtaking]. The bulk of our treasury yields are actually backing some of our derivative transactions, which are at rates higher than what you have in the MTB market. So, this is why we see that we have a considerable portion of our treasury bills at higher levels than what you will see.

Herbert Wigwe
Given your investments in the pension subsidiary, what is your target market share for the person industry? As I mentioned, we will definitely be one of the top three players in that market over the next five years. There is obviously one top player that has almost 40% market share. In our case we believe that we will be north of 25% by year five definitely. Please can you clarify on the dynamic between your Dollar deposits and your trade book? I don't quite get the explanation. Roosevelt, do you want to speak to that?

Roosevelt Ogbonna

Yes, I will, Herbert. This is international trade. So, it's import book, so letters of credit book, not necessarily trade from a treasury perspective. So, in the past, as you know, Nigerian banks would have what's referred to as confirmation lines from international banks. Those correspondent banks in times of heightened crisis will call back these correspondent banking lines, because they are uncommitted lines as they were executed. So, what we have done from 2012, is that we're no longer keen to pursue confirmation lines from correspondent banks. So, the lines we wanted from our correspondent banks had to be cash collateralised lines.

So, you give us the line. It has to be one where we can draw the liquidity and it's committed. So, what we then did was change the structure so that our correspondent banks were willing to enter into trade syndicated loans for the bank. So don't give us the line of $100 million but in the time of crisis, you can just pull back the lines and say your credit department is not letting you draw. So, we do trade syndicated loans. You bring your lines into that transaction, and you commit the liquidity. That liquidity is what we then use to fund our trade book, meaning our LC and letters of credit and whatever importer transactions that we're doing. So, I think it's not trade from treasury. It is trade from international trade with respect to letters of credit. Thank you, Herbert.

Herbert Wigwe
Thank you very much. Any further questions? I think we've exhausted the questions from the webcam. Let's see if there are any more. Irene, are there any more questions from the audience?

Operator
We have no other questions on the conference call.

Herbert Wigwe
In the absence of any more questions, let me once again thank you all for dialling in to this call. We do appreciate the interaction we normally have with you, and we look forward to the end of the financial year where we should share our results with you, hopefully much stronger results. Thank you very much and have a good day. Thank you.

END OF TRANSCRIPT