2024-03-28 Access Holdings FY23 Results

<u>Speaker Key:</u>

OP	Operator
BA	Bolaji Agbede
IT	Idris Toriola
RO	Roosevelt Ogbonna
TW	Timothy Wambu
GJ	Greg Jobome
AD	Ayodeji Dawodu
DO	Damilola Olupona

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OP Good day, ladies, and gentlemen, and welcome to the Access Holdings PLC full year 2023 results presentation. All participants are currently in listen-only mode and there will be an opportunity for you to ask questions later in the call.

Participants on the webcast may submit their questions in the text box provided. If you should need assistance on the conference call, please signal an operator by pressing star and then zero. Please also note this event is being recorded. I will now hand the conference over to Bolaji Agbede. Please go ahead.

BA Thank you, Chris. Good afternoon, distinguished ladies, and gentlemen. You are all welcome to our 2023 full year investor call where as usual, we will be sharing our results. Thank you for being part of today's call. We have put together a comprehensive presentation that covers the Group performance for 2023, highlighting our growth as well as the challenges encountered in the year.

Before we proceed, I would like us to do a one-minute silence in honour of Herbert Wigwe, Chizoba Wigwe, their son, and all those who were involved in the helicopter crash. I pray that God Almighty grants the soul of our dearly departed eternal rest in Jesus' name, Amen.

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In discussing our full-year performance, I will update you of recent developments within our Group and I will ensure there is ample time to also provide you with answers with questions you may have during the Q&A session.

On the call with me today are Roosevelt Ogbonna who is the CEO for the Banking Group; Victor Etuokwu, who is the MD in charge of Retail North; Chizoma Okoli, the MD of Retail for the Banking Group; Greg Jobome, Executive Director, Risk Management for the Banking Group; Seyi Kumapayi, Executive Director of the

African subsidiaries for the Banking Group; Hadiza Ambursa, Executive Director of Commercial Banking for the Banking Group; Jenny Simeons, Head of Access International of the Banking Group; Lanre Bamisebi, Executive Director, IT and Digital for Access Holdings; Morounke Olufemi, Group CFO, Access Holdings; Taiwo Fowowe, CFO of the Banking Group; Kemi Okusanya, CEO of Hydrogen, our payment business; Dave Uduanu, CEO of our pensions business; Godwin Onyeke for the Access Insurance brokerage business and I also have with me other executives across the Banking Group and business verticals.

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As you are aware, our former Group Chief Executive of this Bank, Dr Herbert Wigwe, passed on 9th February 2024. Over the last two decades, Herbert played an instrumental role in driving the growth and substance of Access Holdings PLC as you know it today.

If Herbert were on the call today, he would be letting you know that the growth that he promised was exceeded and that without a doubt we are definitely on track to meet the five-year strategic plan ending 2027. In line with our robust succession plan, the Board of Directors of Access Holdings PLC announced my appointment as the Acting Group Chief Executive on 11 February 2024, demonstrating that we have built a strong bench of leaders over the past two decades, pointing to increased stability. This is in addition to bringing in new talent into key positions across the Organisation.

I, the Board, executive management, and other stakeholders remain committed to our vision, which is to create a globally connected community and ecosystem inspired by Africa for the world. The Board also announced the return of Mr Aigboje Aig-Imoukhuede, CFR, as its Chair.

Mr Aig-Imoukhuede will provide strategic oversight and guidance to the Board and executive management team. He will leverage his extensive experience, industry knowledge and exceptional leadership skills to consolidate on the growth and accomplishments of the Group.

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Access Holdings PLC comprises the Banking Group, our Payment and Switching Services Company, the Pension Fund business, and the insurance brokerage business. Before I go into the details of our macroeconomic and financial performance, I will kick off with some of our key strategic outlooks.

I am pleased to announce that in 2023 we successfully concluded the following deals and transactions:

We completed the $300 million capital investment facility into Access Bank, The Banking Group acquired 99.8% shareholding in Finibanco, Angola. The Banking Group also signed a share purchase agreement to acquire majority shareholding in select Standard Chartered Bank assets across Africa. They include Angola, Cameroon, the Gambia, Sierra Leone and then the consumer private and business banking business in Zambia. Additionally, the Banking Group entered into an agreement to acquire African Banking Corporation Limited in Tanzania.

The Banking Group, through Access' UK subsidiary commenced operations in Paris and has also obtained regulatory approval to set up a banking subsidiary in Hong Kong.

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This is consistent with our strategy of investing in strong markets. I'm also pleased to let you know that Access Pensions crossed the ₦1 trillion mark in assets under management (AUM) during the period. Access Holdings PLC also completed acquisition of Megatech Insurance to create Access Insurance Brokerage Limited.

Please turn with me to slide 7, and I will just give key highlights of the global and macro-economic review for 2023.

The Russia/Ukraine war has continued unabated with impacts on food security and destruction to global supply chains. In the first half of 2023 we saw tightening inflation and interest rates as Central Banks across the world saw a high volatility in food, energy, and transportation costs. This trend weakened in the second half of 2023 as major Central Banks held interest rates steady in Q4 2023, with strong indications towards rate reduction in 2024.

Moving on to slides 8 and 9, on this slide I will focus on the key macroeconomic and regulatory themes in 2023 for Nigeria. Inflation closed at 28.9% in December 2023 due to naira depreciation, rising food, energy, and transportation costs. The Nigerian autonomous foreign exchange market rate closed ₦951 with a year-on-year depreciation of 106% in 2023.

The NGX saw a substantial 46% increase in market capitalisation. This was partly driven by favourable performance of the oil and gas sector, farming sector as well as consumable sector. The Central Bank maintained NPR at 18.75% in the last quarter of the year.

Other notable regulatory events in 2023 includes CBN elimination of market segmentation in the FX market, consolidating all segments into the I&E Window, which ushered in the Willing Buyer-Willing seller principle for price determination on FX risk. The federal government also approved the securitisation of the ₦23.7 trillion ways and means.

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Over the past few months, the Central Bank has worked very hard to clear the outstanding FX forward backlog with conversations still ongoing regarding the last set of forwards. This action continues to send good signals to the investing community as all relevant agencies continue to drive activities which focus Nigeria for additional foreign investments.

The external reserves reached ₦34.1 billion this month. This is the highest it has been in the last 8 months. The current administration is consciously projecting strengthening of the naira in the medium term and a downward trajectory of inflation for macroeconomic stability.

Slide 10 is a snapshot of the interest rates, inflation rates and key highlights and policy pronouncements across other countries where our banking subsidiary operates in.

Moving on to slide 12, in 2023 Access Holdings extended its reach to serve over 59 million customers across diverse markets globally. We have a network of more than 700 branches across 22 countries, 4 continents and a dedicated team of about 8,000 professionals.

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I will move to slide 13. Our branches across Africa and globally continues to grow and we are very deliberate in our expansion strategy. Over the past 20 years, our growth strategy has combined M&A for inorganic expansion with a strong focus on organic growth. This dual approach has ensured we unlock the full potential of acquired businesses by leveraging our expertise and organic growth capabilities to drive internal growth.

Over the next two to three years our focus will clearly shift from investments to consolidation. We will seek to consolidate our investments across the continent with a longer-term view of providing stronger returns to our shareholders.

Slide 14. Our African strategy is supported by our presence in key international markets which enables us to do four things.

1. Focus on trade hubs with rich addressable market pools.
2. Tap into international trade flows covering remittances and cross-border payment flows.
3. Operate with annual revenues that exceed $1 billion.
4. Enhance our profitability without excess risk taken.

During the unveiling of our five-year strategic plan in 2023, we shared with you that we will be in around 26 countries by the end of 2027. This connotes that we have about four additional countries to explore before the end of the current strategic cycle in 2027. As we start to consolidate, we will continue to leverage our organic growth capabilities for stronger returns as we maintain a disciplined execution approach.

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Slide 16 is a snapshot of the ESG activities in 2023. We have been at the forefront of ESG as leaders and this remains a core part of how we go about doing our business. The awards and recognitions won across the Group attest to this.

Slide 17. We made gross revenues of ₦2.6 trillion. This is a significant increase of 87% from last year. There was significant growth across all balance sheet metrics. As Shareholders' Funds we have ₦2.2 trillion and Total Assets grew to ₦26.7 trillion, crossing a significant milestone and this represents a 77.9% year to date growth.

Slide 18. From a core sustainable earnings perspective, we delivered consistent growth across all key metrics. In 2023, we grew both our loan and deposit books. Across our digital channels, we saw significant transaction growth. We currently control about 20% of the lending and deposit market share in Nigeria. All this led to an excellent performance of the institution.

Net interest income improved to ₦695 billion, which represents a 93.5% improvement from last year. Liquidity ratio closed at 51.8%. Cost to income ratio improved to 44.6% in 2023, driven by higher revenues and positive outcomes from the various cost optimisation initiatives in the year.

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Moving on to slide 19, this slide captures our key income statement metrics with good improvement to our yield on assets, which moved from 8.6% in 2021 to 12.8% in 2023. We saw better yields from investment securities as we rolled over some of the sovereign swaps which matured Q4 2023, and assets repriced in line with current market realities. PBT grew by over 300% year on year from ₦167.6 billion in 2022 to ₦729 billion in 2023.

Moving on to slide 20, we have also seen our NPL ratio improve to 2.8% from 3.1% last year. This is as a result of continuous improvements and our mitigation of a strong internal risk management practice and an active monitoring framework. Consumer deposits and our loan book closed the year at ₦15.3 trillion and ₦8.9 trillion respectively, reflecting a 65.6% and 60.5% growth in both portfolios. Post Diamond merger yield on asset growth is three times X, is greater than 3X.

Moving on to slide 21, which speaks to the core business, gross revenue increased by 87% and this is driven by repricing of the risk assets as the Central Bank of Nigeria increased NPR rates during 2023 as well as growth in volume of transactions, loans, and deposits. There was a 100% year-on-year growth in interest income to ₦1.65 trillion, representing a 68% year-on-year growth and non-interest income to ₦940 billion.

Moving on to slide 22, our retail dominance continues, and we can see this from our key metrics across our channels. The digital lending business is growing and continues to be a significant contributor to the gross key metrics. Approximately ₦33.7 billion digital lending revenue is generated on a portfolio of about ₦141 billion in total loans booked, and we booked a total of 2.3 million digital loans were disbursed during the period.

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As we see changes in the macroeconomic conditions, we will continue to monitor the portfolio closely. We will recalibrate eligibility risk criteria when necessary.

Moving on to slide 23, the events in 2023 around cash prices in Nigeria showcased our digital channel capabilities. We saw phenomenal growth in count and value of transactions. We will continue to support this channel with robust technology and infrastructure.

Slide 24. As you are aware, the structure of our balance sheet over the past 13 years means we have consistently carried a swap position, which is off balance sheet with the sovereigns. The overall implication of this is that once we appear short on the on-balance sheet, our overall position on an aggregate basis is square.

FX Trading Income grew by 57% year on year as we saw revaluation gains from our trading book. As an institution, we have the largest dollar balance sheet and when you look at our strategy, we have consistently looked for the safest risk with returns that are consistent. Some we have found in fixed income securities, sovereign swaps and derivative transactions.

We consciously strive to maximize the yield on our dollar book, and this has been consistent over the past 13 years.

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Slide 25 speaks to the overall positive impact we have seen in our shareholders' fund for the Group as a whole. There was ₦954 billion value accretion moving the Group's equity to ₦2.2 trillion approximately in 2023. Given the resilience of our investment strategy and the natural hedging markets like the UK, Botswana, DRC that they provide, we expect sustainable real contribution over the coming years.

We will continue to leverage on the holding company structure to build non-cyclical revenues for the business, expand into new markets and business verticals. The values these businesses provide from an ecosystem perspective is complementary, given that they are capital light businesses with good annuity income generating capabilities.

Slide 26. The elevated cost of funds at 5.4% was due to interest payable on savings deposits of ₦2.8 trillion. We saw an increase, from 10% to 30%, of the MPR rate, resulting in a spike of interest expense paid, particularly in the second half of 2023. Additionally, the federal reserve elevated the Secured Overnight Financing Rate from less than 1% in 2022 to over 5.5% in 2023, adding significant interest expenses to the foreign currency portion of our loan book.

Also, we continue to proactively manage cost of deposits and portfolio repricing carefully so as to keep supporting a positive NIM growth. We have seen significant NPL rate hikes in the past month, 600 basis points in total, as the Central Bank of Nigeria continues to battle with a rising inflation. We expect there will be marginal expansion in NIM and the yields on assets of the second half of 2024, with an expected lag as we seek to reprice risk assets where feasible.

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Slide 27. Whilst Opex increased in the year, the cost to income ratio decreased to 44.6%. This is largely driven by higher revenues and positive outcomes from the various cost optimisation initiatives.

The key cost drivers in the year include adjustment to personnel costs which accounted to a 42.7% year on year growth to offset inflationary pressures, growth in regulatory fees by 18.7% year on year, replacement of IT legacy systems and infrastructure to improve end user experience across our network, which resulted in a 43.9% year on year growth. We will continue to keep an eye on costs. Given we are in a high inflationary environment, we expect our CIR to be in the region of 18% to 55% in 2024.

Slide 28. Our total assets grew by 77.9% to end the year at ₦26.7 trillion. Access Bank restricted deposits with the Central Bank grew by 45.6% year on year and has grown by 109% in the past three years. Return on average assets and return on average equity improved to 3% and 36.2% respectively, on the back of improved earnings and sustained asset growth.

There was a depression on in our return on average equity in 2022 due to the Ghana sovereign debt crisis where it incurred impairments of about ₦103 billion. This indicates an absolute increase of 14.5% year on year.

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Slide 29. Customer deposits increased by 66% year on year to close at ₦15.3 trillion in the period, and this is from new deposit incremental growth from existing customers as well as the FX rates unification, which accounted for about 14% of the deposit growth.

CASA account deposits increased by 66% and closed the year at ₦9.6 trillion of total deposits. Overall, our CASA mix remained at 63% as we continued the expansion of our agency network for financial inclusion, which enables us to provide accessible and affordable financial services to the underserved segment of the economy.

Slide 31. The Banking Group maintained a strong capital position, with CAR at 20.58%. This is well above the regulatory threshold of 15%. The Group's Tier 1 capital position constitutes 74% of total regulatory capital at ₦1.43 billion. Liquidity ratio closed at 51.8%, which is above the regulatory minimum as well. Capital and liquidity ratios have been stress-tested with sufficient buffers to withstand market shocks.

Moving on to slide 33, in line with our strategy of being a dominant player in the industry, we have continued to build a well-diversified loan portfolio, which emphasises strong asset quality, project monitoring and sound risk management practices. We also channelled investments into non-cyclical sectors of the economy, with emphasis on growth and sustainable recovery. There was a deliberate portfolio strategy to minimize exposure to FX headwinds while growing risk assets sustainably.

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Loan book grew by 60.5% to close at ₦8.9 trillion for 2023. 46.4% of the growth is due to devaluation, leaving 14.01% as the real growth. In absolute terms, FCY loans as a share of the loan book increased to 35.8%, post-unification of exchange rates.

Slide 34. Asset quality remains stable, with an improvement in the NPL ratio to 2.8% on the back of proactive monitoring and a disciplined approach to risk management. Adequate coverage ratio is at 134.6%, which is in line with our strategy of maintaining a healthy coverage of the loan portfolio.

Slide 36. The subsidiary PBT performance grew by 945% in 2023 and closed at ₦199.1 billion. Across our Africa subsidiaries our operating income grew to ₦217 billion, representing a 91% year on year growth. Deposits from customers increased to ₦2.6 trillion approximately, representing a growth of 123%. Loans and advances grew to ₦1.2 trillion approximately, representing an increase of 137%.

Our South African and Kenyan business were challenged in 2023. However, with the significant investment in people, technology and material resources, there will be a turnaround as they are also anchor countries of the regions. Our UK subsidiary has continued to demonstrate resilience with double-digit growth across key metrics, creating a buffer for the Banking Group with strong profitability, strong NIM and strong ROAE.

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Growth trajectories supported by stronger currency from the whole market adds a natural hedge in the Banking Group's balance sheet. Some of the key highlights of the UK performance include operating income of ₦135.8 billion which is an increase of 139% year on year and deposits from customers grew by 139% to ₦1.4 trillion approximately. Loans and advances grew by 182% to close at ₦1.465 trillion.

Slide 38. Our non-banking verticals also posted stellar results in 2023 and have seen impressive growth across both the Pension and the Payment businesses. With the expansion business, we became the second largest PFA based on registered RSA accounts of ₦1.2 million in Nigeria.

Based on assets under management, which was ₦1.1 trillion, we are the fourth largest PFA. Based on return of investment in the last three years we rank top five. The business drew operating income of ₦12.3 billion.

Moving on to slide 39, our payment business, Hydrogen, recorded milestone achievements in the year across its main business lines. They processed over ₦11 trillion in transactions on a switching platform. Hydrogen now has full coverage across the 36 states in Nigeria, providing payment services to SMEs. They onboarded over 11,500 matters on Hydrogen POS and Instant Pay in 2023.

They witnessed 540% month on month growth in transaction value on their POS terminals. Operating income was ₦2.1 billion with a PBT performance of ₦161 million in 2023.

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Slide 40. We improved across the major parameters we committed to at the start of the year, and we will maintain this trajectory going forward. We will leverage innovation, ecosystem orchestration and digital transformation to attain our strategic goals. We will continue to push for enhanced customer stickiness and growth in our network.

2023 was a very, very strong year for us. However, what's more important is what we do in 2024, which is the second year of our five-year strategic cycle.

Slide 42. In view of the current market reality, we would like to reiterate our guidance for 2024 as follows:

Return on average equity will be north of 25%. Return on average assets will be north of 2%. Yield on assets will be greater than 12%. Cost of risk will be below 2%. NPL will remain below 5%. Cost to income ratio will be between 50% and 55%. NIM will be greater than 5%. CAR will be above 20-%. LDR will be above 65%. And liquidity above 50%. Finally, we will grow assets under management for our Pension business to ₦1.4 trillion.

Q1 2024 has started on a strong footing from a business perspective. The Banking Group has commenced the position of the entire issued share capital of national Bank of KL Limited from KCB. KCB is the holding company of KCB Bank Limited which is KL's largest commercial bank.

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We also announced a proposed combination of ARM Pensions with Access Pension, which will not only create sustainable shareholder value but will also continue to contribute profitably to the growth and development of the Pension industry. There is a partnership agreement between Access Holdings, Coronation Group, Safaricom and M-PESA Africa that seeks to explore remittance solutions between West and East Africa.

We are highly confident about the future and will build upon the progress and achievements of 2023 and Q1 2024. Thank you very much for your time. We will now open the lines for questions.

OP Thank you very much. Ladies and gentlemen, if you do wish to ask a question, please press star and then one on your touch tone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. If you decide to withdraw the question, please press star and then two to remove yourself from the list. Participants on the webcast may submit their questions in the text box provided.

Our first question is from Idris Toriola of Stanbic IBTC. Please go ahead.

IT Thank you very much. Good afternoon. Please, can you all hear me?

BA We can.

IT Thank you and Congratulations on your performance, I have a few questions. My first question is what portion of your FX revaluation gain is realised? My second question is what is your current NOP, Net Open Position? My third question, you are talking about the update on acquisition of ARM Pensions. Congratulations on Access Pension costing 1 trillion AUM. Can you please give an update on where you are with the acquisition of ARM Pensions? Thank you.

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RO Do you want to take the first question again? What portion of the FX gain is what?

IT What portion of the FX valuation gain has been realised?

RO Okay, thank you very much. Firstly, I will start with the second question to help me answering the first. So, from an NOP perspective, I think when Bolaji was presenting, she made it clear that we do not keep a normal short position. We keep it square positioned on a no balance sheet consolidated.

So, NOP, given this recent guidance by the Central Bank is now short. We have already taken the decision to go now go short since the regulator is clearly keen to seeing that the market develops. I think we are short about 3%-4%, nothing aggressive. We are not taking any aggressive position.

Now, in terms of FX gains that have been realised, the bulk of the gains have been realised. As you would note, our FX gains were from trading position. We have significant transactions, large size transactions, multiples of those transactions in the course of 2023 and from our trading book, that is where those gains were generated. So, they have been realised.

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ARM Pensions and updates, we are going through an inventory process, and we are waiting for the final regulatory approval for us to conclude the transaction. Thank you. Next question.

OP Thank you. The next questions are from Timothy Wambu of Absa. Please go ahead.

TW Good afternoon and thank you very much for the presentation and for taking the time to answer the questions. Just my deepest condolences on the passing of Herbert. He will be missed.

My first question is a follow-up on Idris's question, the compliance with the Net Open Position. You are right when you say previously your on-balance sheet was short but when you include the off-balance sheet it was long before that. So, in compliance with that directive, did you have to realise...?

Because remember, I think banks are to conform, to comply within a day. So, I just want to understand whether there was perhaps a sale that led to some realised gains perhaps. I just want to understand whether that is something that we can look forward to in 2024. And maybe just to clarify, bonds cannot be long in any way. Is that the understanding of the directive? The second question is on the capital raising.

RO Are you done? My apologies.

TW No, let me just carry on. Thanks, Roosevelt. The second question is on the capital raising. We have just seen your AGM circular that indicates that there is potentially going to be a rights issue and at the same time you are looking to issue, I think, $1.5 billion which you say could either be through a bond...

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Do you intend to draw down on your AT 1 bond? I think I just want to get a sense of how you intend to raise $1.5 billion, and maybe give us a sense of... We understand the Central Bank has made it very clear they want their banks to reach their capital. What do you foresee from Access Holdings' point of view? What do you think could be the requirement, just to give us a sense of the expected recapitalisation?

And then, just lastly, just looking at your NPLs. I know you have explained this before but your improvement in your NPL ratio in an environment whereby you have to argue that it's been tough for pretty much everybody, from the manufacturers with their inability to source for USDs, constrained incomes. Just help us understand how the NPL ratio halves in such a challenging environment. Thank you.

BA I will start. I will take the question on capital and then Roosevelt will take the question on NOP. So, in terms of the ₦1.5 billion capital issue, it's important to note that currently in the Banking Group, they have the shareholders' approval but there is some more work to do. It is just to move this as a maximum amount of capital we'll be raising.

So, this is just based on a five-year capital planning exercise. We knew what we were going into the market with right now is from the rights issue that we're going in for, which is about slightly above ₦315 billion.

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So, that is what we're going about to raise right now in the market. And then later on we will then see if we need additional. We are hoping that at the end... Sometimes that will notify the market about what to do. But this is just to make sure we are able to get the shareholders' approval and then this gives Management the ability to raise funds subsequently.

RO Thank you, Bolaji. I will take the other questions, around compliance and NOP. When the Central Bank had provided guidance in terms of what they wanted from a long or short position, we were long, at about 7%, at the time. It is a small portfolio. It is a trading portfolio. So, really, it just meant that the counterparties on our side, we have to close the transaction.

So, nothing significant. And that was done within an hour of that glue coming through. And it was just intraday trades that are still from one day to the other. Those were closed out by the next day. So, we really stayed square and then it went short by the next day, when we then knew that we could then do more interesting things in supporting our customers' businesses.

On the CN capital rates and what our views are in terms of capital, I think Bolaji has just spoken to the idea that we are focussed now on the rights issue which is to raise 365-billion-naira equivalent in rights. You will note that as an institution we've always had a very disciplined capital plan, and this is typically embedded in a five-year cycle. We started the five-year cycle pre this cycle. We raised capital leading into the cycle. In the second year into the exercise, we are also going to raise capital.

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So, the capital conversation we are having, interestingly, has nothing to do with the Central Bank. I am sure several of you who are on the call today would have had conversations in mid-2023 and towards the tail end of 2023 around certain conversations we're having in looking at the best capital structure to support the five-year strategy as we accelerate execution.

So, this is in line with what we have always done. You do not need to take my word for it. What you need to do is go back in all our five-year cycles and just see the trend. Capital is raised just before the cycle starts and the first or second year into the cycle, we raise additional capital to accelerate growth. So, that is exactly what we did. It just happens to fall in line with the cycle of the Central Bank itself from a capital raising or capital conversation with the market. On NPL ratio, maybe I will let Greg take that and then I'll see what else is left.

GJ Thank you. Thank you, Bolaji, thank you, Roosevelt. Like you said, it's been part of our history, our ability to keep our NPLs low. If you look back over the last 14, 15 years, through at least three different economic cycles, we have deliberately taken steps and that is because that's where the risk appetite is, and that's where the Board has set targets for us at.

Now, we shared in the past that these are usually accompanied by proactive stress testing, proactive scenario analysis, which throws out the names that are vulnerable well before the incident crystallised.

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What we are going through right now, we have simulated a year, two years, three years ago. And the actions to take have been taken since back then. In some cases, it was converting loans asking the customer to convert their loans from dollars into naira. Very proactively. Of course, they pushed back.

Well, right now they are very happy they did because they converted their loans. Some at 300, some at 400, raised them all the way up to where it is today. So, you can imagine the preparation of the Bank through this period. Sometimes we have to take a hit in terms of return, just to ensure that those loans were in a safer currency i.e. in naira.

Now, having done all of that, of course we still do all the monitoring and following up and where there is a need, we will restructure, proactively again, so we are not restructuring in the heat of the moment when it has gone bad already, no. We do what we call a proactive restructuring to ensure that it does not actually get to that point that it goes bad. Of course, finally, if all has failed, you do your write-off to clean up the books and you pursue with recourse.

So, these terms are not new. We have done it for, I can say, 14, 15 years and the records are there to show the NPL ratio is typically 2%-3% on average, a little bit lower for banks. A bank level is about 2%. So, I am happy to keep discussing this but, really, that is the practice.

Now, what they are going through now, we will not see the full effect right now. So, you cannot see all the NPLs of the recent unification of rates. You will see that a bit later, maybe later this year, well into 2025 as well. So, those have all been modelled, as far as Access Bank is concerned, and the steps that we need to take that are taken proactively. Hence the results you are seeing today.

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RO Thank you, Greg. Next question.

OP Thank you. The next question is from Ayodeji Dawodu of BancTrust & Co. Please go ahead.

AD Hi, good afternoon, thank you for the call. My condolences on the loss of Herbert and congratulations on the fantastic results. My first question is just to get a sense of the FX market and how liquidity has been. We have seen a substantial and noteworthy appreciation over the last month or so, but would you say liquidity is at a decent level? The read across I would assume is that it is not quite there, given that we have not seen limitations on naira cards, for example, being used for FX transactions.

My second question is on the Net Open Position and apologies for, I guess, the multiple questions on this but just to be clear, if the currency closes at a higher rate in 2024 than 2023, would it be fair to assume that we should not see any FX-related gains or revaluation gains this year?

My last question is on the asset quality. How do you see this evolving over the next 12 to 18 months, given the mix between the higher interest rate environment and the potential improvements in FX liquidity? Those would be my three questions, please. Thank you.

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RO I will take them as you have ordered them. So, FX market and liquidity, in my logic it is not final, and I will tell you where the indicators are. The Central Bank has settled what is $4.6 billion of a $7 billion bank loan on the forwards. $4.6 billion has come into the banking system and either party have used them to repay and refreshen their lines and they now have a bit more headroom. But those parties who were discounted because they have used their own balance sheets, it just means that liquidity is back on their balance sheet.

Central Bank has also started intervening in the spot market. I think it is signal enough as to what exactly the expectations are. The Central Bank has also settled maturing swap transactions and they have brought down their swap exposures with the Nigerian counterparty banks. Take Access Bank, for example, the last time we had this call, Access Bank's swap position with the Central Bank was about ₦3.68 billion, that position came down to about $2 billion and it is back up to maybe $2.5 billion. So, door to door you see about $1 billion in settlement on our particular swap. I know that this is a conversation we have had with multiple banks or the various banks who have swap exposure.

So, if you have engaged all of that payment or paydown into the market including the Spots and the recent intervention with BEC, that's liquidity in some form, shape or the other that has come back into the market. We are not yet there where the market is trading freely, without the, what is the word, dislocation that typically happened at times like this. We are not there yet.

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But I think all the signals are positive and given where the interest rate is today, we will eventually get to that interbank market that trades as we normally would expect it to. The FPI's who come back or do come back and of course the international counterparties who local banks trade with should be more generous in terms of their counterparty limits for the local banks. So, I think that is positive.

Now, NOP and the impact if there is a devaluation by the end of the year, firstly, you know that based on the rule, no bank can keep a long position. So, I do not think after February, or January when the rules came through, that there's any bank in the market who will tell you that they're going to make a gain from exchange rate devaluation.

However, I think the story we said at the half year review is still consistent. We said that as an institution we have a stock of dollars that we are leveraging every time to ensure we find significant value. We set the market at a half-year investor call that there will be no exchange gain that you're going to see on the books of Access Bank.

However, because we have the largest dollar balance sheet, we are going to leverage that dollar balance sheet to maximise return. It will include the nature of transactions we can get into with the counterparties locally who are looking for banks who are dollar rich. That is one.

Two, it just means that there will be a revaluation on our balance sheet, based on the size of the balance sheet and the nature of counterparts. I think the example we gave in our half-year audit was on the swap book.

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We entered a swap book at the time, which was at about 461, when they will be rolled over... If they were going to be rolled over, they would have to be rolled over at the current market rate. So, when we gain the rollovers in November and December, we were doing that at about 960 naira to a dollar level. Remember, prior it was 461 but we closed December at 951. We did not roll over the entire 1.2bn., $400m was paid back. So, we rolled back $800 million at 960:1.

That increased the entirety of total assets and particularly our fixed income book, which then gave us the opportunity to be able to leverage that book to do interesting things. Policy of NPL, I think Greg spoke to that. Yes, of course, we will see some seasoning, just based on where the market is, high inflation rates, the devaluation that has come through many of our counterparties.

Firstly, we have limited the FCY loan portion of our dollar loan balance sheet to the maximum, which was 22% pre-devaluation. Post-devaluation it is ended up at about 35%. That is the maximum. When we are talking about devaluation, it has moved from 460 to 1,600. So, at 1,600 it was about 35% of the book. So, that is the maximum that has come through.

The second thing to note is that the quality of the obligors we have in our books. 55% of the Bank's total lending book is to risk-weighting 1 obligors, investment grade obligors. Most of those investment grade obligors, the structure for the transactions is cash-backed or cash-backed based on the quality of the structure that we put in place. So, yes, the first level impact might not be significant, but we understand that we operate within a macro.

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So, we will need the first level impact does not impact us directly. The second level impact might slip through into our balance sheet, and we do not expect a significant migration in asset quality from where we are. We will see it move. The guidance we are given is still 5% and below. We know it is a guidance we have been giving for the last ten plus years, and we have never gotten there. I do not think that you will see that threshold even under the same circumstances. Next question.

OP Thank you. The next question is from Damilola Olupona of Stonex Nigeria. Please go ahead.

DO Thank you very much for the opportunity to ask questions. My condolences as well on Mr Herbert. My questions are as follows. First off, given that the SSA market has been open to the foreign climes, we have started to see the likes of Kenya, cote d'ivoire and others, I just want to get a sense how are you thinking about your Eurobonds? I know they still have a shelf life of about three years until 2026 but are we going to be seeing assets tap the Eurobond market soon or how are you thinking about that? It would be interesting to know.

Secondly, I also want to find out in the light of the CRR adjustment made, can you just provide guidance on what the Bank's CRR is and how the relationship with CBN on that front is. So, there have been cases where we have effective CRR above where the regulatory minimum is. Those are my two questions for now, thank you.

00:56:02

RO Thank you. So, the Eurobond, as you rightly said, we have two years to go. We are trying to ensure we take full advantage of the two years. I see it as a long-term goal to get a sense of what that decision will be. I think what we have guided in the market is that by third quarter of 2025 we will be in a better place to make it up. For now, the Eurobond stays as it is. It is not giving us any sleepless nights and we will take that to the third/fourth quarter of next year.

On CRR, we closed last year at about ₦3 trillion. We will go to what is about... Just the initial adjustments, debits when they come through will take us to about ₦3.8 trillion. ₦3.7 trillion/₦3.8 trillion. Really, it is a lot more the discipline, is what the Central Bank is signalling. So, they have raised the CRR to levels where they are comfortable.

So, this is no longer going to be an issue and it will work the same way all of us growing up in banking used to know. So, there will be proper CRR refunds and CRR debits based on the size and scale of your deposits at any point in time. So, I do expect that you will have varying CRR levels across the Banking Industry be 42.5% based on the deposit liability position at any point in time. Our gross CRR will be near ₦4 trillion when this is done. Thank you. Next question.

OP Thank you, Sir. We have no further questions in the queue at the moment. I now would like to hand over for questions from the webcast.

RO So, I am just going to read out the questions as I see them. What do you make of the recent FX policies by the CBN lately, especially regards to the Bank's Net Provision Limit? How do you see this impacting the business in 2024? I think we have spoken to the NPL.

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In terms of the FX policies, we think, they are positive. There is better clarity in terms of where the CBN stands around it is FX position and its policy, and I think what that does is that it allows the market to be able to plan. So, we are positive from the policy perspective. In terms of seeing the real benefit, it would take another three to four months to see it come through.

I think what has also helped is the Central Bank governor engaging with the market and sharing his loan views and the philosophy of the Central Bank. That in itself is going to help build market confidence and allow investors, particularly portfolio investors, to come back into the market.

Given the inflation targeting that the Central Bank has signalled, that they are going to be doing, there is a lot more transparency, means people can better plan. We have also seen what that has gone to interest rates. For government securities normally we are about 24% to 25% and I think that makes it a lot more attractive.

So, stable foreign policy, stable FX rate and appreciating and, of course, more reflective interest rate market where the OMO bills and government bills are could mean that there will be a lot more interest in Nigeria as a market. Impact on the business, we have shared that. I am not sure if there is anything to speak about.

00:59:31

Can you please shed more light on your usual process of the proposed rights issue transaction disclosed yesterday? Overall, what do you make of the capitalisation plan of CBN? Has there been any engagement by the Central Bank with banks on the subject?

So, I think the Central Bank has really signalled. The Central Bank has not planned, if they have any particular threshold. I think what we are asking is that the market has shifted significantly from 2004 when the last capital guidance was given.

Just giving you what the exchange rate was then and what the exchange rate is now, it was ₦25 billion in 2004. Exchange rate at the time must have been just about ₦110 or thereabouts. Given where the exchange rate is at now, that means that banks are not as capitalised as they were in 2002 in real terms, and that is a view we share as well with the Central Bank.

For banking, more capital but it is clearly a market that is growing is actually welcome. It provides its own buffer and gives the institution an ability to pursue positive NPV projects where you see that you can mitigate and manage the risk. In terms of use of proceeds for general working capital, to support the Bank's growth across the various sectors that we are keen to pursue.

What is the Bank's core loan book for 2023? I think we have mentioned that when Bolaji was speaking. It was 14%, 14.1% to be specific. Headline growth was about 66%. We strip out the impact of the devaluation on the loan book and it came to about 14.1%. In the high interest rate environment, how do you plan to keep NPL? I think we have spoken about that.

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What is your current swap position with the sovereign? I have spoken about that, and it came to about $2.474 billion, about $2.5 billion, down from $3.68 billion, where it was at about the same time last year.

Should we expect FX gains in Q1? No, because we do not have a long position that we are carrying to have generated an FX gain. In your expansion, regions have you identified as potential business points and locations. Also, should we expect more M&A activities from you in the pension space?

In the pension space, I think post this acquisition or this transaction, we will be the second largest PFA in the market. I think we have gained the scale that is required to be able to grow organically, the focus going forward will then be organic growth essentially.

In terms of our Africa market and where we see potentials for growth, when Bolaji was making her presentation, she had spoken about markets and how disciplined we are in terms of the markets we have chosen to expand into. From her presentation, I think there are just four or five key markets that are left and those are the markets that we are going to focus on in 2024, and I think some still into 2025.

By the end of that period, we are shifting our focus essentially from investing to now consolidating.

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It is about consolidating and driving efficiencies and ensuring that all our businesses are profitable, they speak to each other, and we can truly create Africa's gateway to the world and of course build the payment platforms that we are seeking to do across the continent.

Access announced a filing to the NGX with plans to raise ₦1.5 billion. I think Bolaji has addressed this when she responded. Can you please discuss the parameters for your capital stress test? What levels of FCY rates, what level of government yields or what level of NPL growth?

So, what we have typically modelled is that we do the first and second level modelling around FX implication or FX devaluation. We are taking the devaluation to 2,100 and we are stressing to the point of default, looking at both the capital and liquidity pressures that will come through. At ₦2,100 dollars to a naira without any management action we will be in breach of our capital ratios as well as a liquidity ratio. So, that is the worst case we have modelled.

Now, we then factor management action on the back of the ₦2,100 foreign exchange rates. We will come to about 16.7% in capital without retention in earnings and without any additional capital raise. Now, when we model the capital raise or retention in profits in that number, we go all the way to about 20%. So, we model at ₦2,100 to a dollar.

With the planned capital raise, any concern about the size of the shares in issue? I guess the only concern will just be about servicing that level of capital. We are a much lighter bank today than what we were five or six years ago, or even two years ago.

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I guess we would have the capacity and the earning capacity as well as the administrative capacity to navigate that level of shares in issue and of course shareholders. It is a rights issue, so we're not getting new shareholders on board. It will be existing shareholders. So, the number of shareholders will still stay below the 1 million. We are about 900,000 shareholders to date, so it will still be about that figure.

The number of shares would have increased but I think given the scale and size of our institution and our profit levels, we will be able to manage the carry the cost of servicing that share in issue.

What else is left? Thank you for the presentation. With the development in FX, what is the outlook for FX traded income, loan quality for FCY? The NPL on FCY loans is less than 1%. We really could see NPLs coming through. Anyone outside of risk rating 1 and 2 who has an FCY obligation is for trade and trade loans, as you know, they are the safest kind of loans that they cycle out within the 180-day period from the outside and the 270-day period the trade loans are cycled out.

In terms of the outlook for FX, well, I think we have seen where the FX has gone to. Each time there is a macro shock and just the cost of noise, you will see an overshoot in terms of pricing of that commodity.

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We have seen the overshoot to 1,600 and with every overshoot, as you know, where economic unit begin to take decisions to moderate the price of that underlying asset, and this has been no different. So, we saw ₦1,610 then. Yesterday it was trading within ₦1,400. It ended the day at about ₦1,300. We saw Central Bank selling at ₦1,258. I think it is all going to adjust.

Now, I am not against that but if you read or believe anything that the likes of JP Morgan and I cannot remember the other institution, they suspect or they predict their projection is that the exchange rate will trade between ₦1,000 and ₦1,200. I have seen more optimistic projections, at about ₦900 to 1000, 800 to ₦1,100, but I think all of these projections is that the currency is only going to strengthen from where it was a couple of weeks ago, at the ₦1600 level and the indication in the short term is that that is where the trend is going.

With the planned capital raise, is there any concern...? I think I have answered that. To better manage anti-Nigerian sentiments and policy consideration. Any plan in the short term for disposal to go lower than 100%. I am not sure I understand what that means. If you can help provide clarity on what the question is, we can respond to that.

With your five-year up to 2027, has the organisation provided a quarterly forecast? We do not really provide a quarterly forecast. We have the half-year investor calls and we have been very disciplined in terms of taking those calls and giving investors like yourself an opportunity to ask questions. Now, beyond this cycle of ever semi-annual review, we have investors who engage an investor relationship to get information around where the institution is and where we are going.

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We always are available to provide that information and we have a group of shareholders or a group of investors who come together and want to have a conversation with Management across the Bank or the other verticals and I think the investor relationship team makes that effort, to bring everyone to the table, and we attend to investors when they do come and knock on our doors. So, that will continue.

Extend my condolences. Thank you for your excellent presentation. Thank you, Bolaji, for that. You mentioned that Access Bank has the largest shares in balance sheet. I am curious about impact to CBN directive on USD balance sheet which includes... CBN has nothing with FCY balance sheet. The only challenge they have is with keeping a long position on FCY.

From an FCY balance sheet perspective, it is just a bread-and-butter business, who trade in oil and gas whose functional currency is FCY. There are many customers who live in Nigeria today whose functional currency... They keep their accounts in dollars, they trade in dollars, they expense in dollars, and we happen to be the Bank to several of those institutions, including the very large IOCs who bank with our institution. So, I do not think CBN has an issue with that.

01:09:28

The only concern CBN has from an FCY perspective beyond NPL is your foreign currency exposure from a borrowing perspective to your shareholders' funds. And given the sharp devaluation that we have seen. I think we got a forbearance from the Central Bank to maintain the levels where they are post the recent market devaluation.

Please explain the rationale of conducting in light of the fact that access bank share price is below book value. It is a rights issue, so it is the same shareholders who are going to benefit. So, even if this means that it is below book value, and you are writing an invisible dividend cheque to shareholders, it is the same shareholders that are getting the benefit, based on their relative shareholding in the institution. So, we are raising it, as I said, to support organic growth and to drive the Bank's working capital requirements.

I think those are the questions that we see online, except if there is anymore. Chris, I will hand it over to you, just to see if there are any additional questions.

OP Thank you, Sir. We do have a follow-up question from Timothy Wambu of Absa. Please go ahead.

TW Thanks. Just two additional questions. The first one is really I just want your thoughts on the long Net open position directive. Do you think it is transient? Do you think with an improvement in dollar liquidity, it reverses? I just want your thoughts on that.

Second question is on the fair value gains on your investments. I think this has been a strong contributor to your non-funded income revenues in 2023 and I think even before that. I can see the bulk of it is the AFC, Africa Finance Corporation. Just give us a sense of the frequency of these revaluations and should we expect a further boost from this in the near term? Thank you.

01:11:40

RO On NPL reversing, we are not holding our breath on that. Even when the NOP was 10%, as I said, we kept a square position. We are not speculating in currency. We have never done that and I am not sure we're going to do that going into the future.

Capital gains on equity investments, you are right, slightly AFC. Again, we only revalue that at the end of every accounting period. So, when we are doing an audit, the auditors of course will revalue all the banks on the line assets and AFC will be done as part of that process. So, there is no special treatment that AFC is given in that process. I hope that answers the question.

TW Yes, it does, thank you.

RO Next question.

OP We have no further questions in the queue, Sir, and I would like to hand the call back to Bolaji Agbede for some closing remarks.

BA Thank you all for joining this call. Thank you also for the condolence messages you have given, and we look forward to hosting you in about six months' time. Thank you very much.

RO Thank you and enjoy the rest of the afternoon.

OP Thank you very much. Ladies and gentlemen, that then concludes today's event, and you may now disconnect your lines.

01:12:59