Access Holdings Plc Half Year 2024 Earnings Call Transcript

Key Speakers:

OP	Operator
BA	Bolaji Agbede
RO	Roosevelt Ogbonna
GJ	Gregory Jobome

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OP Good day, ladies and gentlemen, and welcome to the Access Holdings Plc, half-year 2024 earnings call. All participants will be in 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 start and then zero. Please note that this call is being recorded. I would now like to turn the conference over to Bolaji Agbede. Please go ahead.

BA Thank you, Irene. Good afternoon, distinguished ladies and gentlemen. And you are all welcome to our 2024 half-year investor call, wherein 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's performance for the first half of the year.

I will update you on recent developments within our group, and I will ensure there is ample time for us to provide you with answers to questions you may have during the question-and-answer session.

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On the call with me today are Roosevelt Ogbonna, the CEO of the Banking Group, Chizoma Okoli, the Deputy Managing Director of the Banking Group. I have Gregory Jobome, Executive Director, as well as the executive compliance officer for the Banking Group. I have Lanre Bamisebi, Executive Director in charge of IT and digitisation. I have Kemi Okusanya, who is the CEO of Hydrogen Payments Solutions Limited. And I also have Taiwo Fowowe, who is the CFO for the Banking Group. And I also have other executives across the Banking Group, as well as our subsidiaries.

I will start this presentation by sharing with you our key milestones over the last six months. We have crossed the ₦2 trillion gross earning mark in half year 2024 representing 134% increase over H1 2023. Today, we have the largest total assets base in the Nigerian banking industry, which is at ₦36.6 trillion. We also won three prestigious Euromoney Awards across three countries, namely Nigeria, Ghana, and Gambia.

In June 2024, the Central Bank of Nigeria licensed our consumer lending business, which is called Oxygen X Finance Company Limited. We are at the final stages of the ₦351 billion rights issue offer which is the verification by the CBN. We are grateful to you, our investors, as well as to all our shareholders, for your unwavering support during this capital raising exercise.

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We have completed the acquisition of ARM Pension. Access ARM Pension will not only create sustainable shareholder value but will also contribute positively to the growth and development of the pensions industry.

I will go to the slides on the macroeconomic and regulatory updates for the half year.

In the first half of 2024, inflationary pressures continue to persist across key global economies, although projections indicate that inflation will decline at a slower pace. Central banks continue to maintain elevated levels of interest rates as they work to stabilise volatile sectors, namely food, energy, and transportation. However, some central banks have signalled potential rate cuts, though actual reductions have been modest.

Moving on to the domestic landscape, Nigeria. Headline inflation rates rose to 34.19% in June, due largely to high prices and staples, higher electricity tariffs, rising costs in housing, utilities, and transport. The Central Bank of Nigeria raised interest rates from 18.75% to 26.75% through four rate hikes between February and June 2024. The cash reserve requirements ratio was set to 42.5%. The NAFEX rate depreciated on a quarter-on-quarter basis by 14%. In Q1 2024, it was at 1,303 naira to the dollar, and currently is at 1,488, as ofF Q2 2024.

External reserves grew by 3.19% to USD34.19 billion by the end of the first half of the year. In terms of key regulatory developments, the Central Bank released the banking recapitalisation schedule, which requires banks to increase their minimum paid-up common equity capital to a specified amount according to their licence category and authorisation within a two-year period. It is estimated that a total of ₦4.7 trillion is required to meet the recapitalisation benchmark.

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CBN has also maintained that banks' overall foreign currency assets and liabilities should not exceed a short position of 20% and a nil long position. It is now a requirement that all accounts that have been dormant for more than ten years should be repatriated to the CBN. There will be a dedicated office to manage dormant accounts and unclaimed balances.

Moving on to macroeconomic and regulatory highlights in the Banking Group's subsidiaryies. Ghana reached a deal to restructure $13 Billion of Eurobonds. Haircut on principal raised to 37% from 33% earlier proposal. In addition, the Bank of Ghana introduced a new CRR regime, linking the requirements to the loan-to-deposit ratio.

In the UK, the FDA released a roadmap for adopting UK sustainability reporting standards, which is in alignment with the International Sustainability Standards Board. In Angola, the interbank rate rose to 12.78% in May, up from 10.6% in April. In Botswana, the foreign exchange reserves increased to 4.73 billion in March, as against 4.98 billion in February.

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Moving on to the next slide, I will be talking about the pillar of our investment diversification approach, resulting in our ability to serve 60 million customers across a network of over 700 branches in 22 countries, spanning all continents, and a dedicated team of about 8,000 employees. Next slide.

Making a positive impact in Africa is essential to us. Therefore, ESG remains a core pillar in how we conduct our operations. The numerous awards and recognitions we have received across the group are a testament to our leadership and commitment in this area.

Our strategic focus remains on diversifying internationally by investing in subsidiaries located in higher return countries. This approach not only boosts revenue, but also allows us to pierce the sovereign ceiling, strengthen our balance sheet into a fortress of financial stability. Also, we are transitioning from an investing phase to a consolidation phase. Value accretion from our investments in subsidiaries, which acts as a natural hedge for us, results in value accretion of about ₦800 billion to our shareholders in the first half of 2024.

Looking at our financial scorecard, we recorded a milestone revenue of ₦2.2 trillion, up by 134% from the previous year. Total assets and shareholders' fund grew 37% and 30%, respectively, as our total assets is now currently at ₦36.6 trillion, and shareholders' funds grew to ₦2.9 trillion. Gross customer deposits increased by 31.3%, to close at 20.1%. Our loans and advances increased by 37.6% to close at ₦12.3 trillion. Shareholders' fund increased by 29.8% to close at ₦2.8 trillion. And our profit before tax increased by 108% to close at approximately ₦350 billion.

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Slide 23 captures our key income statement metrics. We showed good improvements to our yield on assets, which increase from 10.4% to 12.8% on a year-on-year basis. The return on average equity also significantly improved to 24.6% year-on-year, up from 9.3% in the preceding period. Our profit after tax grew by over 100% to ₦286 billion.

Speaking to our balance sheet metrics, we have seen our NPL ratio improve to 2.8%, from 2.7% year -on-year.

In terms of our revenue growth, we achieved triple-digit growth in earnings, despite the challenging macroeconomic environment. Interest income grew to ₦1.47 trillion, up by 143% year-on-year. Interest income exceeded the N1 trillion threshold in H1 2024. This was supported by higher yield on assets, and increase in interest-earning assets.

Our non-interest income grew by 117% year-on-year to ₦723.6 billion. The improvement in the non-interest income was supported by greater velocity of transactions from cards, payments, credit-related fees to services, and growth in our trading income.

Moving on to slide 26, the asset analysis. Access Holdings closed the first half of 2024 with total assets of ₦36.6 trillion, representing a 37.1% growth from the preceding year of ₦26.7 trillion. We have maintained a well-structured and growing balance sheet across our Banking Group, the non-banking subsidiaries, which is made up of our payment business, pension business, and the insurance brokerage business.

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The growth in the Banking Group's balance sheet was driven by an increase in the total asset base of Access Bank Nigeria, and accumulated year-on-year growth of 86% from the group's subsidiary, largely in the African subsidiaries, the UK and the international subsidiaries.

Our customer deposits grew by 31.3%, to close at ₦21.1 trillion. This is in line with the deliberate deposit mobilisation effort that focuses on CASA growth, which has continued to pay off for us. In terms of our CASA, this continues to account for about 66% of the liability mix, and there was an increase of 21% year-on-year to ₦13.4 trillion during the period under review.

Our cost of funds increased from 3.8% to 4.9% in the first half of 2024, due largely to the review in MPR, which has driven up the interest paid on savings accounts. We will continue to proactively manage the cost of deposits and portfolio repricing carefully, so as to keep supporting a positive NIM growth, seeking to reprice our risk assets where necessary.

The key OpEx drivers during the period under review were regulatory expenses, likely the AMCON charges and NDIC premiums, which increased by 63% and 37%, respectively, year-on-year. Investments in IT infrastructure, as well as inflation and devaluation impact from across the banking subsidiaries in the UK and Africa, also had an impact on our OpEx during the period. The impact of our cost optimisation strategy will be felt fully in the second half of the year.

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The Banking Group maintained a strong capital position with CAR at 19.76%, well above the regulatory threshold of 15%. Liquidity ratio improved to 57.2% in the first half of the year. Capital and liquidity ratios have been stress tested with sufficient buffers to withstand market shocks.

The net loan and advances grew by 38%, to close at ₦12.3 trillion. We've continued to build a well-diversified loan portfolio, which emphasises strong asset quality, prudent management, and sound risk management practices. There was a deliberate portfolio strategy to minimise exposure to FX headwinds, while growing risk assets sustainably. In absolute terms, FX portion of the loan book as a portion of total loans decreased by 150 basis points to 34.3%. There were minimal changes in our loan distribution during the first half of the year.

Asset quality remains stable, with a marginal improvement in NPL ratio to 2.7% on the back of proactive monitoring and a proactive approach to risk management.

The strategic expansion into higher rated geographies continues to yield positive results, driving organic growth and sustainable earnings. This growth is attributable to the skills built into the business and the cumulative impact of favourable currency conversion on the balance sheet, providing a natural hedge against foreign exchange volatility.

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Additionally, diversifying operations across different markets has helped to mitigate the risk associated with single country exposure, and enhancing our resilience and ability to withstand macro-economic shocks. This approach has contributed to a more balanced and robust financial performance, strengthening the group's overall profitability and long-term sustainability.

Today, we have the second largest PFA, with assets under management of ₦2.9 trillion. Our pension business recorded a 190% growth in operating income, to close at ₦16.1 billion in the first half of the year, while the profit before tax was 8 billion, representing a 207% growth.

For our payment business, total payment volume (TPV) of 13.8 trn was processed with the switching business contributing over 90% to total payment value, representing a 306% year-on-year growth. The business recorded a 1,871% growth in operating income to close at ₦3.2 billion, and PBT recorded was ₦337 million, as against a loss of ₦719 million in the previous year.

What are some of the key takeaways? Access Holdings continues to deliver strong results, supported by a diversified revenue stream strategy, growing customer base, as well as increased digital adoption. In addition, our revenue continues to grow in key markets with improved cost efficiency. Our regulatory ratios remain strong, providing ample buffers to withstand market volatility and liquidity shocks. With a capital adequacy ratio of 19.76% and a liquidity ratio of 67.2%, well above regulatory requirements.

Our proactive risk management approach will continue to ensure strong asset quality and sustainable returns to our shareholders.

In view of the current market realities, we would like to reiterate our guidance for 2024. In terms of return on average equity, it will be north of 25% while return on average assets will be greater than 2%. Our yield on assets will be greater than 12%. Our cost of risk will be below 2%. NPL will remain below 5%. Our cost-to-income ratio will be within 50 to 55%. NIM will be north of 5%. CAR will be above 20%. LDR will be above 65%. And liquidity will be above 50%. Assets under management will be in excess of ₦3 trillion.

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We are optimistic about the future. And as we begin to see the results of our efforts materialise, we are confident that all the guidance we have provided will be met. And this will enable us to continue to build on this progress that we have made and drive our successes further throughout 2024. Thank you for your time, and we are open for questions.

OP Thank you. Ladies and gentlemen, if anyone would like to ask a question, you may press star and then one on your own touch-tone phone or on the keypad of 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 question queue. For those on the webcast, you may use the text box at the bottom of your screen to submit a written question.

The first question we have is from Timothy Wambu of Absa. Please go ahead.

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TW Thank you very much. Good afternoon. Thank you, Bolaji and the rest of the team, for taking us through their presentation. And congratulations on the good set of results. Just a couple of questions from my end. The first one is on the unhedged derivative fair value loss of ₦335 billion. Could we get some more clarity on this? Is one to assume that you had taken a position against the dollar, hence why there's that ₦335 billion loss on your unhedged derivatives?

Second question is, you've mentioned that the haircut on the Eurobonds increases from 33% to 37% on the principal. Kindly tell us whether you have to take additional provisions for that, or whether you had provided significantly and previously?

And then the third question is just an update on the National Bank of Kenya acquisition. What's the latest there? Is there a hold-up?

And if I can just sneak in one more question, is the latest on the windfall tax? Thank you.

BA Thank you very much, Timothy. I will get Roosevelt Ogbonna to answer the questions on all your three questions.

RO Thank you very much, Timothy. I'll start with a very easy one, Ghana and the haircut. Yes, we've had to take additional provision, That was taken in our H1 number, it's already baked-in, in these numbers that you see.

Update on NBK, we’re making progress. We're just going through the regulatory approvals at both Bank of Kenya, as well as Central Bank of Nigeria. We expect that the timeline that has been created for that transaction will be met.

On windfall tax, I think we’re all waiting with great anticipation as to what it will look like, ultimately. The Act has not being gazetted, so we don't have real context in terms of what is contained. We also would expect that, post the gazetting of the Act, we should see a framework from the Federal Inland Revenue Service that will guide how it would be operationalised.

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I think there's still a bit of time to understand how best this will work, is it a narrow definition or a broader definition? I think we're clear that the timeline is between 2023 and 2024. The breadth of what it covers, is it trading gains from FX? Is it total FX gains within each subsidiary? I think we'll wait to see a lot of those things before we can get a view.

On unhedged derivatives, this is essentially around our cross-currency swaps or our FX swaps, rather, with the Central Bank. The idea really is that as these swaps mature, we are hoping to get them into cross-currency swaps, and that in itself provides a natural hedge. That's where we are with that. And I think it covers the four questions that you've raised. Thank you very much for this.

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

KR Thank you very much for the presentation and for taking my questions. I wanted to quickly ask four questions. The first question, has there been any clarity by now on how the windfall tax on banks is going to be applied? If you could please maybe comment on this, and in particular, if there is any indication if it's going to be applied to realised or to FX gains of banks?

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My second question is on the accounting of these FX gains. Do you expect that at some point later on, the unrealised or some part of unrealised gains become realised? And just to be more specific on this, banks have these swaps for the central bank. Should we expect that at some point later on, when these swaps mature or get rolled into new swaps, that some gains that banks realised on these swaps in the past become realised, actually become subject to this tax?

The third question, could you please comment on your plans with respect to your Eurobonds? In 2026, there is a CM [?] bond maturing, so would you expect it to replace with a new one or repay? And also in 26, there is a perpetual bond with the call date. What should be our expectation with respect to whether you want to call it or not?

And last question, fourth question. Hypothetically, if mid-sized bank in Nigeria faces some loan quality and solvency issues, how do you see is Access Bank, in a way, ready to step in and acquire and possibly bail this bank? Or you're not in this mindset at the moment? Thank you.

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RO Thank you very much. On midsize banks and insolvency and the need for bailouts, very, very remote. I think, given the guidance we've given to the market, where we are today, is that we are more focussed on consolidation. I think in Bolaji's presentation she had shared that, as we guided at the last investor call, I think it's worth reiterating. By half-year of 2025 we expect that all of the M&A that is currently going on would have been fully baked in.

From the second half of 2025 our consolidation play, which is now around extracting value from the assets that we have, should be in full swing. I don't see that any transaction within Nigeria is of any particular interest to us. We are now focussed on just extracting value for our various stakeholders.

On Eurobonds and our plan for repayment. Clearly, we don't want to be out of the market. We also always want to have a play in the Eurobond market. The bond you are referencing had a step-up clause, so depending on where the interest rates are in the market at the time, we need to make a call. But 2026 is still a a year plus away. We will make that call as we get into the second half of 2024. And then, of course, on the back of that, determine how we would treat each of these maturing bonds at a time.

On realised gains, as you're well aware, we don't have any. Whilst we talk about the windfall tax, and I take both together, it really will not have any impact on our numbers. As we had shared with the investing public and the market that last two investor calls, there's no significant FX gain to measure. We have a short position on our balance sheet just based on how we use our dollar assets. We have a huge FX swap with the Central Bank, and the rest of our investments is in subsidiaries.

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While you may not see the subsidiary investment come through P&L, you would have seen the impact on shareholders' funds. Value accretion to shareholders' funds, when you combine changed cumulative translation gain, as well as profits. In the course of the first half of the year, you would have seen about an ₦800 billion value accretion to shareholders' funds. And I think that's the best you see. You're not going to see it come through P&L.

For the swaps, what we are doing is that we're exchanging the underlying at the end of the swap, so there's no gain or loss as a result of that transaction. It's just the interest rate differential is where the income is being made on the deals.

We have to wait to see all of that play out to see the impact and the extent. There's a suspicion that some of those things and the numbers may reflect through group accounts. But, of course, the tax authorities in Nigeria, not sure how much leverage they will have over income that is generated in any other market outside of Nigeria. I think that is still left to be seen, what the extent of the full breadth of the windfall tax will be. Thank you. Next question.

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

AD Hi, good afternoon. Thanks very much for the call and congrats on the numbers. Just three questions, I would say, from my side. First one is really on the CASA mix, or should I say the deposit mix, pardon me. How do you plan on improving that going forward? It seems as though cost of funds has been a challenge for the bank over the last few years.

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My second question is around swaps with the Central Bank. This is quite an interesting topic, and it seems as though it's been a bit difficult to ascertain how the central bank has managed these positions with local banks. Could you provide some colour around your position, how that has evolved, maybe year-to-date, and maybe what the position is at the moment?

And then my last question would be around your Stage 2 loans. It seems there's been an increase there. Could you talk around maybe the driver of that increase year-to-date, and maybe what the coverage now looks like? Thank you.

RO On the topic of Central Bank, I think that's straightforward. You would have seen that there's been significant liquidity in the market, and you have to give Central Bank credit for what they've done. We all know the Central Bank has settled what is about $4.6 billion. That's liquidity that has come into the market.

On the swaps, and I just take Access Bank's own case. At some point, we have, as I speak, we have about $5.5 billion with the Central Bank in swaps and other instruments for which we are working our way through. That number today is down to about USD2.4 billion. If you look at it, about $3.1 billion in repayments towards over the course of the last 12 months is what you are seeing, Access Bank alone. Think about the other banks who are in the market, so clearly the Central Bank is honouring its commitments on the swaps as they mature. And any bank that is still in the swap, it's because the economics make sense.

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And of course, on the back of that, you are looking for the best way to deploy the assets that you have on your books towards ensuring there's significant liquidity and a decent return. The swaps are working fine, payments have been happening, we've seen payments come through on the forwards from the USD 2.4 billion. We've seen in the case of Access Bank total swap book price from our total FX obligations from the Central Bank from what is about $5.5 billion to about $3.1 billion or $2.4 billion today, seen a $3.1 billion repayment. That's liquidity that has gone into the system and into the banking sector.

On CASA mix, 60% at the last count. I know you referenced cost of funds. Let me state this clearly. Our naira cost of funds has actually dropped you, just the naira portion of our cost of funds. Where the increase has been is on our dollar cost of funds. While the numbers have increased in terms of the interest rate on dollar deposit, just given the size of our dollar deposits and what has happened in the global market.

The real play, however, is that if you go back to last year, we're paying what is an average of about 4.8% on dollar deposits at ₦460 /1 USD. If you go forward, cost of dollar deposit has gone to about 8%, and we're now being 8% in dollars at ₦1,600 / 1 USD Now, that's just what the change is. Naira deposits cost of funds have actually dropped slightly between 2023 and 2024. We have our retail banking team to thank for this. Today, we are the largest retail bank in Nigeria from a deposit perspective.

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The impact of that has cushioned a lot of the increase in naira cost of funds in the market. Even after taking into consideration the increased cost of savings that has resulted from the growth in MPR from what is about 18.75% at this time last year to about 27.25 this time this year. I'm saying even with that growth in savings account rate based on MPR, even based on the cost of deposit, generally, the market, our naira cost of deposit 2023 to 2024 has actually dropped.

The cost that you're seeing come through is actually the cost of our dollar deposit, which has increased in interest rates, and have also increased in absolute value based on the transition of the devaluation from 460 towards an average of about 1,500 over the course of the last 12 months. I'll let Greg take the question on Stage 2 loans. Greg, it's on corporate as well.

GJ Thank you, Roosevelt, and thank you, Bolaji. In the context of where we are in the market, of course, we've seen how things have transpired since last year with the harmonisation of the exchange rates and petroleum subsidy removal. These two factors will play into our scenario analysis and our stress testing. And on the back of that was the six sectors where we would have come to some judgements with respect to the outlook.

For some of them, we took the decision to downgrade some borrowers in some segments, having tested for their specific cash flows from Stage 1 to Stage 2. That was quite a deliberate and proactive step that we took.

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Now, which sectors were impacted? We'll provide some general comments, just for the fact that the operation cost was going to go up, or has gone up, actually, over this period. The feedthrough effect coming from the devaluation impact that we've seen, all of that actually validated the decisions that were made. That's where that came from, in manufacturing, and the copper and the oil and gas.

And in terms of repayment coverage, it's a very healthy coverage in terms of the total portfolio coverage it comes to about over 120%. And in terms of stage by stage coverage, the Stage 2 loans that specifically mentioned, is at about 60% or so, when you combine the impairment coverage and the tangible collaterals that are realisable for those facilities. Overall, a reasonable position to be, especially given the proactive decisions we have taken to keep them under close monitoring over the next number of months.

RO Thank you. Next question, please.

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

TW Thank you. Just a follow-up on my first question, Roosevelt. This is the unhedged derivative losses. And I think you've tried to explain, and you mentioned that these are cross-currency swaps for the Central Bank of Nigeria. I think what we've seen with other banks, with yourselves before, is that you loan the Central Bank dollars, and in this period of time, rather you swap dollars for naira denominated assets.

In this period of time, we've seen the naira depreciate quite significantly. What one would expect would be that you instead report a hedging, a fair value gain on the derivative. I think just try and explain a bit better how you ended up with this ₦335 billion loss, which is quite significant. Would you kindly explain cross-currency swaps with you being long US dollars?

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Second question is we've seen the cash reserve ratio being raised 50%. I can see your liquidity ratio was actually 57%. I'm just wondering, is there any deposits left, really, to lend to the private sector in such an environment? And just on that, when I look at your cash reserve ratio, by my estimates, it was nowhere near the 45%, it was actually at around 25%. Explain how it's been computed? And really, can a bank survive in such an environment?

And then just my last question is on whether the special bills still remain in effect? Thank you.

RO Do you mind taking the third question again, if you don't mind? The question on CCR.

TW It's to do with the special bills, the special bills that have been introduced, and whether they're still on the bank's balance sheet. Thank.

RO Thank you. I think the way to look at it, the CBN falls, it's seen as off balance sheet. If we look at the bank's books, we are short on balance sheet, and that's because we ask you on the liability side of the balance sheet, you see all the dollar deposits, but on the asset side, there's no asset on that side of the book. Because the assets is swaps, and swaps are treated as off balance sheet trades. On balance sheet, we're short. Anytime there's a devaluation, you will see the loss accrue from a devaluation.

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But I'm saying that it's not a real loss, it's notional to the extent that whilst we cannot make margin calls on the swaps and rollover the swaps, when the swaps terminate at maturity, we then are square on balance sheet. And whatever losses accrued in the period is modified. If you recall, last year at half year, we were explaining to the market that we are not particularly concerned around performance and banks that were showing significant earnings from their gains on balance sheet. We said we are just at the rollover of our swaps. We will then see the real earnings of the bank come through following that adjustment that will happen.

This is really a tiny difference based on the structure of the balance sheet. We have the liability on balance sheet. The bulk of the assets on the balance sheet, we are telling you these numbers that we're short on balance sheet at about anywhere between $2.3 to $2.8 billion. Any time there's a devaluation, that loss you will see.

But that in itself gets adjusted in the course of a 12-month period because then there's that rollover of majority of the swaps. We then have to cross it at the rates in the market at the time. So you really wouldn't see any loss in the course of a full-year period where you consolidate the return on the derivative book, as well as the loss on the on balance sheet, that would be a gain. And as I said, that gain is your IRD, the interest rate differential, between the various asset classes that you are carrying.

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On special bills, yes, it's still… Sorry?

BA We don't have any more.

RO No special bills in the books of the bank. On cash reserve requirement, yes, the increase has gone up by 50%. You see the restricted deposits at about ₦3 trillion between 2023 and 2024. And the reality is in 2023, our cash reserve requirement was well in excess of the 2.5 that was a headline number.

As you well know, before this Central Bank, there were indiscriminate cash reserve requirement debit, where the Central Bank at the time was trying to manage inflation and manage money supply.

Even after normalisation and cash reserve moved to 45%, we were still sufficiently able to meet CRR without having to provide additional funding to do so. I think there might be a need for some additional debits, but I think where we are today will just be about square, and the amount that the Central Bank will be getting is so immaterial that it really wouldn't have moved the needle from one positive point to the next. We're saying we are covered, given the cash reserve requirement that has been provided in the course of the last six to nine months. I hope that answers your questions, Timothy.

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TW Yes, it does. Thank you.

RO Thank you. Next question.

OP The next question we have is a follow-up question from Ayodeji Dawodu of BancTrust & Co. Please go ahead.

AD Thank you. Just a follow-up question to your explanation on the swaps. When do swaps then mature? Because I understand that there's no FX gains during the time period of the agreement, but when they mature, you then revalue the dollars at maybe the prevailing exchange rate. Does that, let's say, FX gain now become subject to this potential windfall tax.

RO The process is aggregating gain. They will not be aggregating the gain. Remember, there's a loss in the first period, and a gain in the second period where you consolidate it, there's really nothing in there.

AD Understood. Thank you.

OP The next question we have is another follow-up question from Konstantin Rozantsev of JP Morgan. Please go ahead.

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KR Thank you very much. I had also a follow up to what previous speakers asked on the FX gains. Just to repeat, because I didn't clearly get the response to the previous question. This gain that you reported maturity of the swap, it's unrealised, it's not subject to FX effect gain due to windfall tax, possibly, right?

And just on a related topic. The interest rate differential that you spoke about as applied to this swap, this interest rate differential is, my understanding, it was already set at the initiation of the contract. It's not affected by any means by any devaluations that happened during the period. This is not even recorded as an FX gain, right? And it's not FX based for this windfall tax, potentially. And how is it reported? This cost of the swap related to this interest rate differential, is it reported within FX gains in the P&L, or is it part of net interest income? Or where is it entering the P&L? Thank you.

RO It will be in fixed income gains from trading. Our trading book is where you find it. That's how it works. It's not going to be impacted by the windfall tax, because it goes through the trading book as part of our fixed income returns.

AD It's within trading gains on fixed income securities.

RO Yes, correct.

AD And the cost of the swap, it's matched with the yields on the deals, right? Is it how it's computed, because by my sense, it should be a loss, because But why do you report the gains? Is it meshed with some interest income on the other side or not?

00:50:52

RO We can share with you the details of the derivative [?] accounting. I'm not sure we can go through all the details on the call but suffice to say that the interest rate differential goes through our trading income, it's not impacted by the windfall tax because it's not an FX gain.

The other colour I'll give to you is that by the end of a swap cycle, from door to door, there's no exchange gain. I'm not selling foreign exchange to the Central Bank or buying foreign exchange from the Central Bank at the end of the trade. They are notional trades, so we can close out or begin the trade. Ultimately, the underlying are exchanged at nominal value, so there is no gain or loss on foreign exchange from the trades that we do.

The difference is IRD, which if you play out the numbers, is no different from investing $100 million or any amount of dollars you have in a loan or in a fixed income security. And I invest FX and I will get a return of 11 or 12%. We are still making in IRD terms 11 to 12% on our dollar investments. We just go through a derivative structure based on how our counterpart, the Central Bank, wants it, for us to achieve the same objective.

No different from lending and making it a pure loan transaction to the regulator. We'll still come out with the same return, and that has nothing to do with an FX gain. Next question, please.

00:52:39

OP Thank you. The next question we have is from Sodiq Safiriyu of SBG Securities. Please go ahead.

SS Thank you very much. Please, can you confirm that you can hear me?

BA Yes, we can.

SS Thank you very much, and congratulations on your results. For me, I would like to know if, at this point, the bank has any forbearances from the CBN, what the amount is that you contributed for the forbearances?

And also, I would love to understand, considering the exposure of the bank to the Dangote Refinery, what was the change going forward for the bank looking like. These are the two questions from me at the moment.

RO Yes, we have forbearances from Central Bank. And I think you're talking about credit forbearances. As we reported in the past, there were four names on the list. Initially, there were 16 names on the list, it's down to, what, five names? Five names on the list. As you recall, we had shared with the market as well that these were not because those loans in themselves were challenged. It was more sectorial, given the forbearance around COVID in 2020. And we had gone from a sectoral perspective to look at those potential sectors where we saw challenges could happen.

Now, last year, the Central Bank had guided that if any institution is not under any stress, there's no need to leave them. I think we started with about 30 names, or thereabouts. We're down to five names. Of the five names, if there's anyone that gives us concerns, we proactively manage, because the rest of them are largely performing today.

00:54:38

The forbearance ends at 31st December. And of the names that we are concerned around, we will do what we need to do before the end of the year, including provisioning and all of that, if necessary, to ensure that we don't get into any long conversation with the Central Bank. We're comfortable around that. I think if you look at the impact of the forbearance and all the restructured loans, as we reported to the market, as we speak, we’re at about 7%, I think 6.7 to 7%. Where we are now is just about 5%. Given all that has happened in the course of the past few months, it's not a significant part of our loan book and it really doesn’t give us that much concern.

On exposure to Dangote, significant dollar exposure on the refinery. I think as I speak, it was about USD300 million. You might be aware that they've met all their repayments and they’ve met all interest obligations to date. This last repayment that we've got was last month of about $60 million, so we’re not really concerned, given the refinery has started. If you recall, the refinery was not a source of repayment, so this was not a project loan.

The Dangote transaction was a public loan, for which Dangote Cement and the dividend accruing from Dangote Cement was the source of repayment. But now we have three sources of repayment on this loan. We have Dangote Cement and the dividend that accrues from that. We have the fertiliser plant, which on the average does significant volumes on a monthly basis.

And now we have the Dangote Refinery with significant return on export sales that they are doing. And these things happen month-on-month. A lot of those trades are very short tenured in nature, so you are seeing what is almost on a monthly basis, or sometimes twice a month, significant inflows that are coming towards servicing the obligations.

00:56:44

To be honest, if you have any concerns about Dangote, maybe two or three years ago, during COVID, that caused a delay of 12 months in the projects. We are in a much, much, much, much better place, given three sources of repayment than one. Given a naira repayment source and two-dollar repayment sources, as well as a naira repayment source, so Dangote is in a much stronger place than they were. $300 million doesn't give us any concern. As I said, the last repayment was $60 million. Those monies came through, and they met all the obligations ever since. Next question, please.

OP Thank you. At this moment, we have no further questions on the conference call, and I would like to hand over for any webcast questions.

RO Do we have webcast questions? A great job with the H1 results. I would like to get a sense of where we are with 2027 strategic plan. Can you give us an update of where we are with the plan for potentially reducing our costs. Bolaji, do you want to take that?

00:57:52

BA In terms of our 2026, 2027 strategic plans, we are on track. In actual fact, some of the things that we actually planned for the second half of 2025 that we have brought in much earlier. I will take them, based on the banking business, as well as the non-banking subsidiary.

In terms of the non-banking business, a number of the expansions into Africa, we're actually doing them now, and the plan is to complete them by the first half of 2025 even. We'll then start that process of consolidating, so we're very much on track. And as we do that as well, in terms of what you also see is there will be an improvement in the cost issues as a result of this as well.

Now, when we look at in terms of the non-banking business, and by that, we will start with the consumer lending business. You start to see a lot more of our activities in the consumer business in 2025. And our payment business is now doing much better. I talked about it, they're on track. And three lines of businesses that they were meant to start, but they are also on track with that.

In terms of our insurance brokerage business, you start to see a lot more activity in 2025, so actually a whole lot more. And a lot of the things that we're doing now and in the second half of H2 is just to lay all the conditions. And in 2025, we start that consolidation, so a whole lot of growth will come in much faster than we actually thought they will.

RO The next question. I think to answer that, as Bolaji alluded to in her presentation, the cost-to-income ratio by the end of the year will be in line with the threshold that we've set, which is anywhere between 50 and 55%, so we're still fully committed to that cost efficiency in 2024. And of course, it can only get better when we get into 2025, and consolidation begins in the second half of 2025.

01:00:03

BA The next one is, kindly share the Banking Group's capital position vis-à-vis the CBN recapitalisation policy/position of retail earnings as at June 2023 and efforts from the right issue. In terms of the efforts from the right issue, right now the right issue closed on August 23rd. We're all awaiting the Central Bank, as well as the Securities and Exchange Commission to come and do the verification process an basis for allotment. Once we finalise that, we will share the outcome of that with the market.

In terms of the Banking Group's capital position, we will be on track to meet the CBN's capital requirements well ahead of the timeline that was set. They have given a three-year timeline, but we'll meet it before the timeline.

RO Thank you very much. The next question. I think we've answered this on windfall tax. I'm not sure there's much colour to provide. I'd like to ask the following. Do you expect significant pressure on the profit margins in this business segment before full year, and to what extent? What does Access Bank predict its cost of funds to be by the end of 2024?

01:01:40

Let us take this first set of questions. I think on the margins, we've guided that will be north of 5%. I think that is healthy, irrespective of where the cost pressures are. What you see is an expansion in our retail business. And the focus now will not just be on savings account, but also on the current account side and mix of things. We expect that we will hold the cost of funds at the levels that they were in the first half of the year, and those drop slightly below the levels that we had discussed.

As I said, the interest expense has actually dropped, even in an expanding deposit base that grew quite significantly from one period to the next. I think the NIMs are going to remain healthy, even with any increased pressure, I think we'll keep cost of funds level at the 4.9% or lower, as we go into the second half of the year.

On the pension industry, I assume Access intends to become the leading player in the medium term, so I'd like to ask the following. Do you intend to grow mostly inorganically? How long do you think it would take for Access Pension to be the leading player in the pension industry?

BA I'll answer the question. In terms of do we intend to grow inorganically? We have completed, when it comes to the pension business, we're in the consolidation phase, so you wouldn't see inorganic growth there but more of an expansion of existing portfolio and opportunities for new business development.

In terms of what are we doing right now? The key efforts in this strategy is for us to be number two. And what we will then do is to make sure we defend that position so that we are a strong number two. As you are aware, there is a significant gap between number one and number two, but we will ensure that we will give number one a run for their money.

01:03:42

RO Thank you very much. Bolaji. What are the drivers of the impressive performance from Hydrogen.

BA In terms of what are the drivers of the impressive performance for Hydrogen, largely, it's a combination of our ecosystem play. First and foremost, they leverage the Access ecosystem in order to do this, and this is consistent with our strategy, and that's really the key driver of performance.

RO Thank you very much, Bolaji. Next question is the OPEX and cost to income ratio What are the major drivers for this? And is there any motive to reduce it going forward? The answer is yes, as we said, by the end of the year it will normalise. Anywhere between 50% and 55%, and I think is just in line with the trend of our performance. It's not necessarily a cost issue, it's a revenue issue.

And if you look at the bank's performance and you break it into four quarters, our best performance during the first and the fourth quarter. By the end of the year, when our full performance is consolidated, you will see that the cost-to-income ratio is within normal territory of 50% to 55% that you find amongst global banks. This is not just about a Nigerian conversation. Thank you.

The next question. Access Bank was well ahead in meeting the recent recategorization requirements of CBN, as advise. When is this expected to be completed?

01:05:22

BA I've got this as well. Right now, we're awaiting the CBN verification process, as well as the basis for allotment process. We're on track with all the process.

RO Like I said at the start, we thank our investors and the investing community for their faith and belief in the institution. I think that was well demonstrated in the support that we saw during the rights issue. There's nothing like that in the subscribed rights, but we found many shareholders who were willing to go above and beyond. And it was an extremely humbling process, particularly in times like this, when the market is quite tight. We just wait for the verification process from CBN and, of course, SEC to approve the allotment before we can then consolidate that. We expect all of this to happen well before the end of the year.

I seem to recall all the banking stocks being profitable, asides South Africa business case. Speak to the current performance and the outlook for 2024. All the subsidiaries are profitable, except Mozambique and South Africa. We've had regulatory changes in Mozambique that has made it an interesting market. We do expect that by the end of the year, for Kenya, South Africa, as well as Mozambique, save for those three countries, we expect significant value accretion across all our markets.

01:06:50

Now if you break the Access Bank subsidiaries into zones for the international, the banks subsidiaries into zones. If you take East, West, South and Southern Africa, all of them will be profitable. You might have one market in each of those, or at best, at most, one market in each of those that might struggle. But I think from a regional play, you are going to see significant, strong performance across both Southern Africa because of 2023 it has grown at almost 4 X The international business post the consolidation of our French business has grown too.

I think following the inclusion of Tanzania and some other markets, Rwanda, which has grown significantly, we've seen almost a 1.5 to 2 X growth across. There might be one or two markets that might struggle, but I think overall, our subsidiary business is a very strong play. I think that contribution in the course of 2024 will be almost about 50% of total PBT at the centre, which is significant. I think Bolaji and Irene, we've covered all the questions on the webcasts, and I hand it back to you.

OP Thank you, sir. I would like to then hand back to Bolaji for any closing remarks.

BA Thank you, everyone, for joining our investor call today. We thank you for the time and the attention that you have paid to the presentation, and the questions that you have asked. And we've reiterated what we're going to be doing over the next four months, actually, three is what we have. And we are confirming and committing that all the guidance that we have given will be met, and that we will have a strong finish in 2024. Thank you very much.

OP Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

01:08:56