Conference Call transcript

2021 INVESTOR ENGAGEMENT FORUM

Operator
Good day ladies and gentlemen and welcome to the Access Bank Plc FY2020 investors and analysts conference call. All participants will be listen-only mode. There will be an opportunity to ask questions when prompted. For the benefit of the participants who have joined via the HD web phone, please ensure that you've given your microphone permission to make yourself audible before accessing the question queue. For the benefit of the participants who have connected via the webcast, you are welcome to pose your questions in the question box provided on your screen. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please note that this conference is being recorded. I would now like to hand the conference over to Mr Herbert Wigwe. Please go ahead, sir.

Herbert Wigwe
Thank you very much, Judy, and good afternoon ladies and gentlemen. You are all welcome to Access Bank's full year 2020 earnings call. Let me start by thanking you all for dialling into our investor call. We have earlier prepared a detailed presentation to share with you now. On the call with me today are Roosevelt Ogbonna, who is our Group Deputy Managing Director, Greg Jobome, who is our Executive Director of Risk Management, Ade Bajomo, who is our Executive Director in charge of IT and Operations, Victor Etuokwu, our Executive Director of Personal Banking, Chizoma Okoli, our Executive Director of Business Banking, Hadiza Ambursa, Executive Director Commercial Banking North, and Mr Seyi Kumapayi, who is our Executive Director, African Subsidiaries.

2020 brought many challenges but also showcased our ability to weather the storm and stay focussed on our corporate objectives. I will briefly go over some of the key performance highlights after which I will allow more than enough time for any questions you may have. In terms of supporting our customers, staff, and the communities we serve in 2020, like I said it was a year like no other and the Nigerian and global economy was significantly affected by the twin shocks of COVID-19 and the fall in oil price. This led to the weakening of the Naira, inflation acceleration, economic slowdown and investment decline.

We also felt the impact of the twin shock in the bank in terms of asset quality, profitably, pressure on IT infrastructure, capital and liquidity, as well as how we operated during the pandemic. This notwithstanding the bank continued to deliver its mandate. In addition to the support granted by the government and Central Bank of Nigeria to vulnerable members of society and key sectors of the economy, we also put in place adequate measures to ensure that the impact of the pandemic was minimised. We are concerned about the safety of our customers and their businesses, ensuring that our office locations are safe for our customers and staff, and that the safety of our workforce is not compromised.

To minimise service disruption during the period we increased investment in our IT infrastructure to ensure that our alternative channels were up at all times, secure for our customers to ensure that transactions were carried out in a secure manner, and also supported our staff to work effectively in the face of the new normal. We initiated various media campaigns to sensitise our customers on medical and non-medical preventative measures advised by expats against COVID, to also raise awareness of the risk of cyber threats and suggested ways to keep their accounts protected, and also to enlighten our customers of other viable alternatives to access services conveniently and reliably. In safeguarding our locations and protecting our workforce we established a split teams arrangement and close collaboration as well to prevent gathering, sanitising of workspace, virtual meetings, and made provisions for our staff to work remotely.

On global network, our customer base and digital capacity, as at 2020 we had 40 million customers, which speaks to our coverage and scale. We also have a strong and growing digital footprint with over 3,000 ATMs spread across geographic locations, 9.8 million digital banking users, and over 49,000 points of sale equipment. Our USSD service has about 7.8 million subscribers. We have a wide spread of branches in major cities and financial inclusion centres with over 600 branches and about 58,000 agents. This reflects the sheer scale of our digital footprint as well as our physical presence. Today we have presence in ten African countries, the UK, UAE and of course three strategic representative offices in China, India and Lebanon.

On issues relating to gender and diversity rating and recognition, like you know gender diversity has been extremely important to us. We have almost an equal split between our male and female employees. Our risk ratings are reflective of our strong financial performance with the risk rating capped by the rating of the sovereign. We maintained our risk rating except for S&P which dropped because S&P of course downgraded Nigeria during the year. We received several accolades in 2020. Some of these include Arica’s Best Bank for SMEs from Euromoney, recognition for deals executed in the agri space, and of course one of the ones that we are extremely proud, which are our sustainability awards. We continue to win all sustainability awards provided by the Central Bank of Nigeria and that by the Karlsruhe Sustainable Finance Awards for the past five years.

Speaking more on our sustainability effort and ensuring Access Bank runs in a sustainable manner, we have embraced ESG as part of our lives, whether it is the diversity of our board or our workforce or the work that we have done with respect to sustainable refinancing. We are the only climate lending bank on the continent. Financial inclusion in Africa is critical given that over 370 million unbanked adults live on the continent. We have over 58,000 inclusion agents in order to ensure that there is greater financial deepening.

Let me speak more to the group performance highlights. Our gross earnings grew by 15% year on year to ₦764.7 billion in the year compared to ₦666.8 billion in the financial year ended 2019, comprising 64% of interest income and 36% non-interest income. Our interest income went down by 9% year on year to ₦489.2 billion as a result of the low yield environment, and the key contributors were a 30% growth in interest income from cash and cash equivalents to ₦12 billion offsetting a 3% decline in interest on loans and advances to customers to ₦332.6 billion. The decline was driven by repricing of investment grade loans and the CBN’s reduction of interest rates on intervention loans. We also saw a 20% year on year decline in income on investment securities to ₦154.6 billion compared to ₦193.4 billion in the prior year, and this came as a result of the sharp drop in yields on government securities during the year. This was in spite of a 61% year to date growth in the investment securities portfolio.

On operating income we gained 32% year on year to ₦515.3 billion from ₦389.3 billion in the financial year ended 2019, and this came largely as a result of the significant growth in our net trading income and other operating income. And the key drivers of our operating income were as follows. One, there was a 743% growth in net trading income to ₦114.3 billion from a loss in the financial year ended 2019 of ₦17.8 billion. And this was really on the back of net gains on derivative contracts and fixed income securities. We also saw a 27% year on year increase in fees and commissions to about ₦116 billion, and this came from increased transaction velocity across channels and other electronic business that we have. That was a growth of about 151%. We will continue to gain traction on these income lines as we continue to extend our retail offerings.

Our retail banking business has consistently driven by a strong focus on consumer lending, payments and remittances, digitisation of customer journeys and customer acquisition on a large scale. We are focussed on generating sustainable revenue across all lines and all aspects of our business continue to show significant improvement. Access Bank is truly digital. We are creating products that resolve lifestyle issues of customers, which became extremely important during the lockdown period. Over a period of three years our digital banking revenue has increased on an annual basis by 58% year on year with retail commissions increasing by 34% year on year in spite of the significant reduction in retail fees by the Central Bank of Nigeria.

In addition to margins, our yield on assets declined by 3.76% year on year due to the declining revenue on government securities. However, this decline has been cushioned by the decrease in the cost of funds by 1.69% due to sound treasury management and the yield on our retail lending. With respect to our net interest margin it declined by about 1.75% y/y to 4.9%, and this was underscored by the drop in asset yields. As our loans continue to improve and of course with the moderation of cost of funds we expect to see an improvement in the NIM.

Looking at our operating efficiencies, operating expenses were up 27% year on year to ₦326.5 billion compared to ₦257.2 billion. However, if you common size this, the increase is just 10%. This is as a result of the inflationary environment, 50% increase in VAT, increase in cost of operations required by the large franchise size. The largest contributors to the growth were increased IT and e-business expenses and regulatory costs, and of course the AMCON charge went up significantly. However, it is important to restate that 2019 numbers only had nine months of Diamond Bank's financials. If you were to now look at it in 2020 and common size like I said, you would see that increase was about 10%, which is below inflation rate. Our cost to income ratio has been showing improvements quarter on quarter. It declined 271 basis points to 63.4% in 2020.

During the year our impairment charge increased by 212% to ₦62.9 billion because of some asset quality issues arising from the pandemic and the need to write off challenged loans. Now, Access UK for the first time had to take significant provisions and its net impairment was ₦21 billion in 2020. This accounted for about 34% of the group's net impairment charge. Now, this charge was principally from its structured trade finance portfolio. It is a once-off COVID related recoverable, and it is recoverable over the next 12 to 18 months as it is backed by insurance cover from world-class insurers. Accordingly, the group's cost of risk increased by 1% year on year to 1.8% in the financial year ended 2020. It was 0.8% in 2019, and so there is 1% additional increase, now 1.8% compared to 0.8% in the previous financial year.

Speaking to synergies realised from the merger, at the beginning of the exercise we had proposed merger synergies of ₦153.9 billion over three years comprising ₦99.4 billion and ₦54.5 billion in revenue and cost synergies respectively. Thus far we have achieved total synergies of ₦133.4 billion accounting for 87% of the total synergies proposed. This is two years into the merger.

In terms of the balance sheet we have continued to grow and improve on our deposit mix with low-cost deposit mobilisation. Customer deposits as at 31st December 2020 closed at ₦5.59 trillion, which is a 31% year to date growth from ₦4.26 trillion in December 2019. The growth was primarily driven by a 46% year to date increase in our CASA deposits, so basically our current and savings accounts, and this reflects our enhanced retail presence leveraging on an innovative digital platform.

We have continued to grow our low cost deposits while replacing and repricing the expensive funds in the books. Total savings account deposits closed at ₦1.31 trillion at the end of the year, recording a growth of 66%. Subsidiary customer deposits also totalled about ₦754.7 billion, and that accounted for about 14% of the total group deposits with the main contributors being Ghana and the UK. In summary, what you would find is that this particular aspect of our business which showed high cost at the beginning of 2019 in terms of the overall cost of funds, apart from what we've seen in the interest rate environment has come down significantly to 3%. I think it is about two point something percent right now. What that means is that going through 2021 we should see significant pick-up as far as the NIM is concerned.

Net loans and advances stood at ₦3.76 trillion as at December 2020, up 15% from ₦3.26 trillion in December 2019. The growth was witnessed as a result of our deliberate and increased core loan growth. Our foreign currency exposure dropped significantly to 25.9% of the total portfolio in the year due to deliberate efforts to mitigate the currency risks which are imminent. The group asset quality remains under check as NPL ratio stood at 4.3% in the year compared to 5.8% in the previous financial year. The key sectors responsible for this are oil & gas services, which is about 42.1%, manufacturing, 17.9%, and general commerce about 15.9%. We consider this level sustainable and do not expect further deterioration in asset quality.

Our capital adequacy ratio was 20.6% on an adjusted basis based on regulatory transition arrangements. The liquidity ratio also closed at 46% which is well in excess of the regulatory minimum required. Our subsidiaries have also continued to grow and make significant contributions to the group. The subsidiaries' contribution to the group performance stood at 28% year on year, recording total subsidiaries profit before tax of ₦35.7 billion. UK and Ghana of course accounted for 86% of the total profit before tax for subsidiaries with a return on average equity of 5% and 27% respectively. But for the significant loan loss that UK took this number would have been significantly higher as we have seen in previous years. All subsidiaries recorded a decline in their cost to income ratio reflecting the impact of our effective cost cutting measures across the group.

Our financial inclusion and digital lending continued to grow deeper as we continued to deploy resources to reach the under-banked and the unbanked through our agent network and of course leveraging digital technology. Today we have about ₦8.38 trillion worth of transactions that we recorded from our agency banking transactions through our 59,000 agents in the last financial year. As regards our digital lending, which comprises of our payday loan, small ticket personal loans, salary advances and device financing, we have seen an increase in the scale and velocity. Our digital lending value grew by 48% to ₦105 billion from ₦71 billion in 2019. We also have about 4 million digital loans that were booked in the year 2020 which again represents an increase of 28% from 3.1 million loans that were booked in 2019. We also have seen that transaction values across all channels have continued to remain strong to deliver ₦33.9 trillion worth of transactions going through our channels as we saw in 2020, which has significantly increased from what happened in 2019.

As an institution we are realigning for growth and we have taken advantage of the opportunities that exist in the market to effectively tap this. So we will be transitioning to a HoldCo structure. The bank has receive the approval in principle from the central bank of Nigeria for the restructuring and the creation of the HoldCo which will consist of four subsidiaries in order to tap into the opportunities that are available in the consumer market, in the electronic payments industry as well as retail insurance.

On the outlook for financial targets for 2021 we remain committed to driving an efficient and sustainable business growth by sustained efforts to improve our asset quality, to increase transaction income by migrating our customers to alternative channels and creating strong awareness for our flagship retail products. We will continue the drive to ensure low cost deposits that will reduce our funding cost, thereby enhancing our liquidity and margins. We will enhance productivity across all our branches and extract value from our existing accounts. We will reduce operating cost by aggressively executing cost saving initiatives and of course continuing to drive our merger synergies across the respective segments.

In view of the current reality we have revised our initial financial 2021 guidance as follows. Our expectation for 2021 is that we will achieve a return on equity above 20%, cost of risk less than 1.5%, our NPL ratio will be less than 5%, cost to income ratio less than 60%, net interest margin will be more than 5%, our cost of funds will be less than 2.5%, our capital adequacy ratio greater than 20%, loan to deposit ratio about 65%, and our liquidity ratio greater than 50%. Despite the continued overhang from COVID and the economic downturn we expect to see materially better results in 2021 compared to 2020. We believe that the strength of our balance sheet and our growing retail base provides us significant or substantial runway to help mitigate the risks related to COVID-19 as well as accelerate the development and generation of sustainable revenue. Thank you very much, and I will now leave the lines open for questions.

Operator
Thank you very much, sir. Ladies and gentlemen, for the benefit of the participants who had dialled via the telephone lines, if you would like to ask a question you are welcome to press * then 1 on your touchtone phone to place yourself in the question queue. For the benefit of the participants who have connected via the webcast you are welcome to pose your questions in the question box provided on your screen. The first question from the lines comes from Tunde Ogunleye of SBG Securities.

Tunde Ogunleye
Good afternoon and thank you for the call. [Inaudible] on your e-banking income. Looking at your USSD volumes you are achieving 160% year on year. [Inaudible] in the light of the end user billing. And also on the telcos, what percentage of that debt is attributed to Access Bank? My second question is on your

operating expenses. I want to understand which of these expenses because looking at your other operating expenses I noticed there was an increase in communication expenses, IT and e-business expenses. In terms of looking at these expenses, which of these expenses is one-off and which is expected to reoccur in 2021? And the next one is just to give an update on the HoldCo structure. Could you give a timeline as to when you expect the different subsidiaries to be setup? And my fourth question is on your stage 1 loans. I noticed there was an increase in your stage 1 loans. If you could just also tell us a sense of the regulatory forbearance, the intervention fund, what percentage of your loans is restructured? And then the final question is on the tax [unclear]. I noticed that there was an increase in your tax year and year and it was quite significant in Q4. If you could just shed some more light on what led to the higher tax impact. I would have expected that the [unclear] could have led to a reduction in tax rate. Thank you very much. That's all for my questions.

Herbert Wigwe
Okay. We couldn't hear some of your questions properly, Tunde. I will speak to those that we heard and I will ask you to go back if you don't mind to ask those we did not hear. I will speak to the opex. I would also speak to the issue around the HoldCo. Maybe Seyi should speak to the opex. Then I will speak to the issue around the HoldCo. Seyi will also speak to the tax implications talking about the [unclear] of the PBT.

Seyi Kumapayi
Thank you Herbert. Let me speak to the opex. Just like Herbert mentioned, in 2019 we did the merger in March. We did the merger in March, and so what you saw in 2019 was nine months of the combined entity. So in terms of comparative if you were to common size overall in aggregate costs only increased by about 10%. Now, to the things you spoke about, if you look at IT and business expense it is directly related to what you also see on the revenue side because a lot of e-channel expense also corresponds to what you have seen. So this is the cost that is generating the revenue on the income side. Part of what we did as part of ensuring that people could work properly we also increased the number of bankers and we've seen the impact in terms of service for the bank.

Now, in terms of tax if you look at 2020 you will find that the tax exempt went down because of the income on treasury bills. Because of the yield on treasury bills that has come down that has also affected the tax exempt that we have gotten in 2020, so that's the difference between 2019 in terms of tax. I think we should receive your last questions. I think we didn't hear them.

Herbert Wigwe
Okay, I will speak to the HoldCo and if you don't mind, Tunde, you can go back and ask the previous questions so that we can address them. With respect to HoldCo in terms of timing as you know we received our approval in principle. On the various subsidiaries I think they will all become operational hopefully towards the end of the year. But in terms of the HoldCo proper coming up and fully running I think you should be able to see it perhaps towards Q4 of this year, worst case Q1 of next year.

Just to add to some of the things that Seyi spoke about as far as the operating expense is concerned, one of the large items you would have noticed there obviously would have been the AMCON charge which is a very significant charge coming from the combined entity of Access and Diamond. It will not come down because obviously your balance sheet is not shrinking. But the idea is that we continue to optimise, and as we move towards reducing our cost of funds and all of that on the same balance sheet size you should start to see more revenue. But a lot of those costs are variable in nature. We do hope we can try and reduce them hopefully through various cost cutting measures. But in the main this is the nature of opex inclusive of AMCON charge that is required to run the nature of franchise that we have today. I'll appreciate if you can repeat the first question with respect to e-banking, USSD and something that had to do with the telcos, and then of course the stage 1 loans.

Tunde Ogunleye
On the stage 1 loans I was asking what was the driver of the increase in stage 1 loans. And also if you could give a breakdown as to what percentage of your loan book was restructured given intervention funds. And the second one on the e-banking income is just with respect to are you seeing the end user billing affecting the USSD values? Even though you recorded more than 16% year on year, do you see that reducing over time? And then also in terms of the accumulated debt to the telcos, what percentage of this debt is attributed to Access Bank?

Herbert Wigwe
Okay. Thank you very much. I'm going to speak to the issue around the end user billing and the impact on profitability and the [break in audios] by the banks to the telcos, and then Greg will speak to what is driving our stage 1 loans and of course the restructured percentage of loans in the year. Tunde, the end user billing is not going to impact us at all. We were not charging anything and all we did was basically sent to the telcos what they were charging. I think there is a misunderstanding in the market. People think that we are probably making income from all of that. It's not true. We were just a pass through. And in fact what happened was that we were all adopting a corporate billing strategy where the [break in audio] technically asking the bank to remit money to them even for transactions that were not closed. So the banks were taking the risks of funded transactions, taking the risks of failed called etc. So the desire to create an end user billing arrangement was for the telcos to charge their customers directly so that we don't have to carry things that have nothing to do with us. So it has absolutely no impact.

Now, on what you have referred to as accumulated billings, there is no such thing, and I repeat, no such thing as amounts owed by banks to telcos. Very simply, when they choose to increase price the banks said, you know what, we don't want to do this service and help you with this service anymore. Why don't you bill your customers directly? They said no, we want to continue a corporate billing structure even after the banks had written formally. Now, it is true that we continue to provide this service, but this service has nothing to do with the banks, and the banks are not obliged to pay any money. So just to clarify that there is no such thing as an obligation that was due from banks to telcos. We chose not to make a public statement out of this because it was not appropriate for us to be fighting with telcos in the public. But clearly there is no amount that is due from any Nigerian bank to the telcos with respect to end user billing. Greg will speak to the issues of stage 1 loans and the percentage of our facilities that were restructured.

Greg Jobome
Thank you Herbert. Basically as you know we have reported a few calls back the nature of what we had to do on the back of the Diamond Bank transaction a couple of years ago. Now, fortuitously that was actually very good work because putting in the effort to resolve the loans we inherited from that bank

inadvertently helped us even better prepare for the COVID-19 when it came. By the time COVID came a lot of those names had been properly structured. The ones that had the wrong structure, term loans instead of project facilities, have been properly set up. The ones that were running in Dollars, many had been converted to Naira. So basically on the back of that proactive early work plus a more aggressive and firm collection strategy we were able to get them on a firm footing even before COVID came.

Now, with the onset of COVID we had to review all of those again, review the scenarios again. And with all the [unclear] we then had to take on top of that, inclusive of names that went into forbearance subsequently we saw a significant migration from stage 2 to stage 1. So that migration like I said is on the back of the early proactive work that we've done to ensure that the names we inherited from Diamond Bank continued to perform in a very solid manner. And truly they did, so we were able to now migrate a few of them in the course of the year into stage 1 from stage 2. So that's part of the story.

Now, on the back of that significant pay-downs even on the existing Access Bank facilities because we were very apprehensive about the COVID-19 situation the early steps that we always take – and this is reflected in our historical trajectory as well, If you go back to 2017 for example in a period of market turmoil we anticipated reasonably well and the steps that we took including conversions from Dollars to Naira and Herbert has mentioned, a significant shift from about 40% of the loan book that was in Dollars has moved to about 25% of the loan book. So all of those stabilised the book and there is no significant new exposures that are going to be [unclear]. Rather we're going to see an uptick in asset quality. So those are the things that you would see. In the absence of the issue with the UK you would have seen a further reduction in the NPL ratio in 2020.

Now, with respect to forbearance we were very strict with that. Our approach to it was if a name is non-performing it's not going to benefit from a forbearance process because there is no point in burying our head in the sand. So only names who were performing went into forbearance. No stage 3 name went in there. That's number one. Number two, we were also very careful in making sure that the loan book that is going into forbearance also reflected the overall performance of the bank in terms of asset quality. So we expect them to remain performing. The migration [unclear] took forbearance therefore there is some expectation it will evolve into NPL or stage 3, that is truly not the case because these were names that were just going to benefit from the little leeway that they have in managing their cash flows. Therefore they remain resilient in line with the regulator's perspective given the risk sector [?] float through this process.

So no migration is expected. Any deterioration that will happen will be in the course of business as usual. You cannot say there shouldn't be any NPLs coming out of forbearances. They are part of the portfolio. But it will not go anything outside the norm in terms of where we are today which is below 4% NPL ratio overall. Given our historical rate at which restructured facilities devolve into NPLs, it is again very low, probably about 2% or 3%. So overall the stage 1 loans improved because of the proactive steps we had taken from 2019 and 2020, and we do expect that trajectory to continue.

Herbert Wigwe
Next question please.

Tunde Ogunleye
Thank you.

Operator
Thank you. The next question comes from Adesoji Solanke of Renaissance Capital.

Adesoji Solanke
Hi Herbert. Good afternoon everyone. This is Soji Solanke from Rencap. I have a few questions. The first one is just around the issue you mentioned in the UK business. If you can just shed some additional colour around the underlying transactions, what led to the provisioning increase and how exactly COVID affected this. I'm also wondering because we didn't necessarily see an uptick in NPLs. So was this off balance sheet risks? I presume that's what it was because you said it was structured trade. The second question is around the write-offs, if you can just clarify the numbers again. I think you said it was well over ₦100 billion. Can you just clarify what drove the significant write-offs and how you much you are expecting for 2021? And the third question for now is the additional provisions you've taken through equity. I think it was about ₦25 billion or ₦26 billion. Can you just clarify what's behind this and why the central bank has required you to take additional provisions on these facilities? I'll ask the other questions after your initial response. Thanks.

Herbert Wigwe
I'll speak to the first one and I think Greg will address the issue of additional provisions that you had mentioned. With respect to Access UK it's one of the strongest banks in trade. They had a portfolio of agro processing companies that were based in Singapore and all of that. And the way it worked was that they issued bills of exchange which were processed across our counters. Now, those bills of exchange from their customers had been ordered if you like, but what had happened was some of those customers were unable to repay their loans. By the way, these things were backed by insurance. They were unable to repay their loans because their working capital cycles were affected largely by COVID. These are export processing companies if you like. So what has happened is that whilst they have shown weakening financials some of them have started producing good results again and servicing their exposures even between the end of the financial year and to date, whilst others have not come out yet. So what we've done is to put the claim against insurance because there was credit insurance that was taken fully on these facilities. So that is the specific nature of what happened.

Now, in terms of provisioning I think what we took was about $65 million of provisioning on what was a book of about $114 million. Our expectation is that over the next 18 months I think we should be able to see ourselves clawing back something like 75% of it because of how insurance works, 75% to 80%. I think we will see a portion coming in this year and the rest should come in the next financial year. So that's how we see it happening. I don't think we will see any further deterioration as far as that is concerned because we went into the book with our auditors, and as you are aware, for a bank that never had anything like this it created a lot of issues working with the auditors to find out what could have gone wrong. So I think we've come to the bottom of it. We will basically start to claw back some of it in the course of this financial year and next year.

Some of the obligors, like I said, have recovered a bit and have started posting positive results. So we do not have a problem on some of them. Those that are very weak, as we have seen, what we are doing is basically calling back on insurance. But I think the fundamental thing across all the facilities – and there are seven of them in total – is that there were no issues of criminal negligence or anything of the sort. It just came from the fact that processing their products, exporting their products, and the fact that supply chains were broken coming from COVID has affected all of those companies. Thank you.

Greg Jabome
Okay. Thank you Herbert. I will speak to the issue with respect to the write offs and the regulatory risk reserves. So the write-offs we always communicated over the past couple of years as part of our strategy for resolving some of the names we inherited from the old Diamond Bank. We did communicate in 2019 how much we were going to take to clean up the loan book. Again we always tried not to bury our heads in the sand. We would take the appropriate balance required in terms of impairments, do the write-off where we don't see a structured set of cash flows coming out, and there we chase very aggressively for recovery. That is why in the course of 2019 you saw significant recovery well above ₦30 billion, closer to ₦40 billion. In the course of 2020 the same thing, again well above ₦30 billion in recovery.

All of those come on the back of those write-offs that you see. So again as part of the strategic steps taken to clean up the loan book that's why you have seen the very rapid migration in terms of stage 3 loans as a share of the loan book from about 14% at the point of merger with Diamond Bank all the way down to 4.2% today. It's a combination of those write-offs plus the proactive steps that we took to having the appropriate structures for some of those loans, having the early conversions from Dollars into Naira. So it's part of that mix of measures that the bank has taken to ensure that we get the loan book very resilient and back to where it was before the combination with Diamond Bank. So that process is tailing off gradually. Obviously we have done significant evaluating around that. We continue to recover back some of those write-offs in the course of 2021 and 2022, but they are tailing off gradually as we tidy that up.

Now, you also spoke about the regulatory risk reserves. Now, that is the avenue by which the regulator balances off the difference between the IFRS 9 audited numbers and the regulatory landing point, because they do their separate independent audit of the book. Whenever there is a difference as you know they pass it through those regulatory reserves. So it's not as if there was a big jump or deterioration in asset quality. Rather it was more the central bank uses an escalation protocol, so we go to substandard and doubtful then loss. So the same number you saw in the previous year that was at 10%. If you move that name to doubtful then you see a ratcheting up between the central bank's provisioning and the IFRS 9 based provisioning.

Of course the IFRS 9 based provisioning takes into context the significant collateral support for those facilities. Hence we continue to see that gap. It goes up and down. It all depends on what happens with the stage 3 loans. So that is essentially an improvement in terms of overall NPLs as we have shared. However, the additional provisioning can come because CBN escalates from substandard to doubtful to loss, whereas under stage 3 it is all4 taken as one and it is the collateral that protects you. I hope that clarifies that.

Adesoji Solanke
Thank you. Can you hear me? Just a few follow-up questions. The first one is can you share what your outlook is for interest rates? There is a broad based pick up in interest rates going on. How do you expect this to affect your funding costs as interest rates pick up? And to what extent do you think you can reprice loans upwards in this environment considering the significant conversions you've done from FX to Naira facilities? The second question is around agency banking. So the transaction value you reported, I think that was ₦8 trillion if I got that correctly. But if I'm wrong, whatever the value was, can you break down your agency banking transactions into what is withdrawals, deposits, P2P transfers and bill payments? I don't need the actual numbers. Just in terms of percentages what is the share of these transaction types happening at your agency banking? And finally, what is your expected quarterly opex run rate for this year, and do you have some sort of nominal PBT guidance for 2021? Thank you.

Herbert Wigwe
Okay. I will speak to some of this. I will give you my own general view on interest rates so that you can have a better appreciation of how far the franchise has come and what we have come in 2021. I will let Victor Etuokwu speak to issues around agency banking, the volumes of ₦8 trillion, looking at the breakdown in terms of the transaction size, fees etc. and how we see this building up over the next year. I will speak and Seyi will support me with respect to opex and PBT guidance for 2021.

Now, let me put it this way. One of the areas we have been greatly criticised has been on our costs, more specifically our cost of funds in the past because we were seen as a wholesale bank. And before the combination with Diamond we had managed to bring this down a bit. At the time we did the combination two years ago it was still high when you looked at us against our comparator banks. They had cost of funds around about 3%. Our cost of funds at that time was about 5.9%. Now, what we've seen is that the interest rate environment and the fact that we've been able to double up on the growth of our savings accounts and current accounts has led to the cost of funds dropping from 5.9% at the beginning of 2020 to what is about 2.9%, actually less than that, about 2.7% at the end of 2020.

Now, on an average basis you wouldn't have seen the full effect because it takes time to wind down the overall cost portfolio to get to that figure at the end of the financial year. On an actual basis it is less than that. Let me put it this way. It is probably about 1.9% etc. So what has that done? It has brought us very close [break in audio] room for much more improvement if you like. What this has done is [break in audio] 300% difference in price [break in audio]. Now with interest rates picking up we are determined to hold our cost of funds. Obviously [break in audio] a bit of change, but our view is that in the main we will see our cost of deposits at less than 2.5%. But our overall cost of funding should be about 2.5% because the central bank debiting you, you having about 60% money in CRR [break in audio]. I believe we should find ourselves well below 3% through 2021 as far as cost of funds is concerned.

Now, are we repricing the loans? The answer is yes, we have to because of the increased price we are seeing on the deposit side. I think what is important and what you are alluding to is what type of NIM we are likely to see. Our expectation is that we should start moving gradually towards a 7% NIM ratio from what is about 4.9% right now. At about 7.5% we should be reasonable comfortable particularly given the risk profile of the clients that we have. So that is my view with respect to interest rates and the implication on our business. We will see benefits given what we've seen, even though prices are going to go up. In

Access Bank's case specifically we're going to see an expanding NIM because of how far we've driven our cost of funds down when you look at us compared to other comparator banks.

Now, in terms of opex I think we will hold at this point. We will now start to bring down our opex. As Seyi mentioned what you see on a common size basis is basically matched against inflation at about 10%. I think that we will ty to hold the figure to where it is. If we can we will bring it down, but I don't think you will see any uptick even though inflation is going to try to push that figure. I think it is safer to think that we will hold that figure rather than grow on it. If we can shrink it, we will shrink that figure.

On our PBT guidance – and of course Seyi will speak to these two points as well to support me – quite frankly you have seen a big expansion as far as retail earnings are concerned and digital banking revenue. You also have seen significant customer acquisition and increased customer velocity from what we are doing. My expectation is that if you begin to imagine that all of these things started perhaps in the second half of last year, given that [break in audio] really was nine months of Diamond, the impact of integration, I believe that in 2021 you will see in my mind a 25% increase at the minimum as far as commission and fees are concerned. I think you will see it in the first quarter. You will see it in the half year. Those figures are cast in stone because we have seen increased customer activity.

And in spite of the fact that we've done more mergers than any institution in the country and the continent perhaps we are seeing our systems now settling down and we are seeing phenomenal throughput in terms of customer transactions, velocity, NIP volumes etc. which is a reflection of the fact that we are getting customer activity to where it ought to be after the integration. But I will let Seyi say one or two more things about it and we will take it from there.

Seyi Kumapayi
Thank you Herbert. Just like you said we are expecting 25% year on year increase in commission and fees. This is outside of our other operating income. So this will take us to somewhere like ₦36 billion on a quarterly basis in terms of what we are looking at. If you look at 2019 to 2020 we grew commission and fees by 27%. So what we are seeing is not outside of what we have done before, so this is doable. I think we started to see that impact even within the first quarter of the year.

Victor Etuokwu
Thank you Soji. You asked questions around the ₦8.3 trillion worth of transactions around our financial inclusion segment. Now, this cuts across about 20 million mass market financial inclusion customers in the bank. And when these guys are transacting they do so in millions. Last year we had about 350 million transactions from these customers across the year and about ₦8 trillion, giving us an average of about ₦23,000 average transaction size. And this is across our agency banking where we have about 50,000 agents last year. This year we are going to close the year with about 120,000 agents. And we are doing an average of 300,000 transactions a day from those agents. That was last year. This year we are doing about 500,000. So we are expecting that we see north of ₦10 trillion in this segment in transactions in this year. And we are hoping to open about 3 million accounts from this segment. So this is across agency banking and better activities in the market place. In terms of transaction types they are largely around cash deposits, cash withdrawals and transfers. In terms of our proportion I would say transfers would be

about half of that, cash withdrawals 40% and 10% cash deposits. That is the structure and that is what we expect to do in 2021. Thank you.

Herbert Wigwe
Thank you very much.

Operator
Adesoji, does that complete your questions?

Adesoji Solanke
That's very helpful. So transfers is half, withdrawals 40%, deposits 10%. That's helpful. Thank you.

Operator
Thank you. The next question comes from Ronak Gadhia of EFG Hermes.

Ronak Gadhia
Good afternoon Herbert and team. Thanks for taking the time this afternoon and taking my questions. Three or four questions. Firstly on your payday loans, could you give a bit more information specifically on what kind of NIMs you earn on that product and what the underlying risk charge is? That's the first one. The second question is on your capital. If I look at your capital adequacy calculations I'm a bit surprised because if I look at the credit risk it seems to have declined by about 8% whereas when I look at your net loans it went up by around 10%. Could you maybe share some thoughts on why we are seeing opposing trends on those two items? My third question is on your trading income if you could just give some guidance on what you expect from trading income this year. And the final one is on net open position. Could you just tell us what the net open position is specifically for Access Bank Nigeria? Thank you.

Herbert Wigwe
Okay. So I'd like Victor again to speak with respect to our payday loans and the risk mitigation arrangements which we actually have. Greg can also speak to that so that you can derive some comfort. Greg will speak to the issues of capital adequacy. And of course Seyi will address the trading income and the LOP position.

Victor Etuokwu
On the payday loan they are digital loans. There are four types of loans. One is the payday loan. These are tenured loans especially for employees, ticket size averaging ₦25,000 to ₦30,000. We have the small ticket loans. These are also for employees, average ticket size ₦50,000. We have device financing which is essentially to buy phone in collaboration with telcos. And that is a 12 month facility largely again for employees, average ticket size ₦200,000. So these are the four types of digital loans that we have. Essentially these loans are largely for employees whose pay comes to the bank and we manage their accounts. And therefore we have a process where there is an auto collection mechanism where you pay down just upon getting the salaries every month. Now we have another group of customers who are not employees but small businesses who get a regular stream of inflows throughout the month. Those also come in.

And in terms of how we determine eligibility, first of all it has to be regular inflows. Two, it is a percentage of your [unclear] over a 12 month or 24 month period. And collection is done automatically. Now, we also set aside 1% of the [unclear] fees as a loss pool account for any kind of delinquencies that occur. We closed last year on this portfolio about 4.5% in NPLs. And that was far below the amount that we had set aside in loss pool account to cover it. So clearly it is a portfolio that is doing well. But we will keep improving the algorithms and efficiency of collections. That is what we will keep doing, and our plan is that it will remain below a 5% NPL portfolio. Thanks.

Herbert Wigwe
All right. I do hope Victor answered your questions properly. He tried to summarise it, but these are very stringent algorithms that are designed to pull out what sort of risk charges, what interest rates [unclear] 4% on a modelling basis I think in terms of the charges on an annual basis today. I think first of all even the NPL ratio is about 4.5% as far as that aspect of the loan book is concerned. Let me just speak a bit to the trading income and net open position. First of all our net open position is about 10% of our shareholders funds. It is about $210 million today. Our trading income that we expect in 2021 is not very different from what we saw last year. You can go back in time and see what it is by the time you look at the amounts made on the treasury bills and of course what you also see with respect to the [unclear] on the derivatives side. You would see anywhere between ₦86 billion in my view and ₦100 billion in 2021. Not more than that. Ronak, if you can repeat the question on capital adequacy. I think you were speaking to the reduction in risk weighted assets or something like that. Greg is going to speak to it, and if it’s not the exact question please I’ll appreciate if you can repeat.

Greg Jobome
Thank you Herbert. So I think you will find a couple of things that the bank has always driven in terms of how we approach our capital management. I will focus very strongly on efficiency. We’ve seen over the past three or four years. So we try to get our loans as supported and mitigated as possible by deposits. And as we’ve shared earlier on, we’ve seen a significant growth in the funding base of the bank. Now, that funding base, a good chunk of it is structured to also support loans that are within the bank. Now, that provides significant credit risk mitigation. And under the rules that we apply in Nigeria those mitigations are direct deductions before you compute your risk weighted assets. That’s number one. It’s a fundamental point.

The second one is around what is called credit risk here includes a whole raft of things. Some are even sovereign type instruments at zero percent weight. So we might see a growth in total assets but you will not see a growth in risk assets if a significant part of that is going to investment securities for example, which we did have in 2020. Now, those are zero weighted. All in the combination of zero weighted investment securities and significant credit risk mitigants like I shared earlier on, that combination has led to that lower growth in risk weighted assets overall. I don’t know if that addresses your question. If it doesn’t you can come back and I will throw more light.

Ronak Gadhia
That helps. Just maybe one or two follow-ups. Firstly on the net open position. Herbert, you indicated that it’s 10% of shareholder equity. I’m just wondering how you calculate that, because if I look at your

US Dollar balance sheet on the financials it seems the net open position could be as high as about ₦1.3 trillion when I take away your assets from your liabilities. Maybe if you could just help me get a better understanding on that. Then just a final one on your special bills that you received from the CBN in December. Can you just highlight how these bills have been classified? Are they marked to market at fair value through P&L or held to maturity? And if they are held at value, are you expecting to record losses on that given the yields have increased?

Herbert Wigwe
Okay. [Break in audio].

Operator
Apologies. This is the operator. Unfortunately we seem to have lost your sound. If you can perhaps move closer to your microphone.

Herbert Wigwe
Okay. I think if I understand you are trying to ask questions with respect to overall balance sheet aggregate and you are raising that we have a net open position of about ₦1.3 trillion, which is obviously not correct because I think you need to look at the aggregate balance sheet to understand what it is. And then issues around the fair value and what is taken into P&L I think. Seyi is going to speak to it. Then we will take it from there.

Seyi Kumapayi
Thank you Herbert. Let me take the special treasury bills. I think we have about ₦36 billion and it is fair value to OCI. That's how we've done the treatment. With respect to the open position, yes, if you look at the on balance sheet you will see that. But if you look at the aggregate both on and off balance sheet, what we see is actually $110 million. If you look at it you have to take both the on and off balance sheet, because what is causing that gap in the on balance sheet is the source [?] and you also see it on the contingent side of the balance sheet. And therefore you have to look at it in totality to really see the real position which is about $110 million as Herbert said earlier.

Ronak Gadhia
So it's $110 million short.

Seyi Kumapayi
Short. Short position.

Ronak Gadhia
Understood.

Operator
Ronak, does that conclude your questions?

Ronak Gadhia
Yes it does. Thank you.

Operator
Thank you very much. The next question comes from Kato Mukuru of EFG Hermes.

Kato Mukuru
Hello. Thank you so much, Herbert and team, for a very detailed call. I'd like to go to page 15 where you talk about your operating costs. I was reading the transcripts of the Diamond Bank acquisition when we had our last call. And I specifically remember and I saw in the transcript you talked about ₦30 billion a year in cost synergies. Can you tell us where the ₦30 billion were in the past year? I don't see the very strong cost savings in those numbers. Then I had a question. I noticed that the costs related to cash processing in FY20 went up from ₦3.7 billion to ₦9.9 billion. That's an amazing increase. How is that possible given the extent of the increase in your digitisation? I was so impressed to see your transaction values increasing 82% year on year. That was amazing. Why is stationery and postage and stuff going up from ₦1.9 billion to ₦5 billion in a year like last year? Lastly, I'm really focussed on the costs because that's where I thought the benefit of the merger was. That's why I'm asking all these cost questions. Business travel was only down 30% year on year in 2020 to ₦7 billion. How can business travel [break in audio] in a year like 2020? Thank you.

Herbert Wigwe
Okay. I will start to answer some of the questions with respect to opex and then Seyi will get into the more detailed numbers, whether it is with respect to travel, cost and all of that. Now, the cost savings you probably saw at the time we did the merger in terms of synergies. We spoke to a couple of issues. It had to do with overall cost of funds, overall cost of operations, and of course at that time we broke it down into things like head office costs, operating cost, bringing staff to the right numbers etc. That needed to be done and all of that. Now, it is that total that brought about what we saw as cost synergies of ₦30 billion if I recall. If you take the cost of funds for instance – and this was over three years.

Kato Mukuru
It was ₦30 billion per year. I'm reading the transcript right now. Sorry to interrupt you, Herbert. It was ₦30 billion per year.

Herbert Wigwe
Still not a problem. Now, if we take all of those cost items and we take the cost of funds for instance, the reduction that we've seen, we are already seeing our cost of funds at the time of the merger, which was about 7% or 8%, and today that cost of funds has come down on a nominal basis. Weighted average last year it came to about 3%. Cost of funds on an actual basis actually was 2.4%. Now, even if you took only that figure and you ask what it came to, I'm sure that it makes a mess of all of these numbers. Now you can say that the general interest rate environment crashed. But by how far did ours go down and what was the mix? What was the growth in savings accounts, which was one of the strengths we saw in Diamond, and some of the products we have pushed? I think today we are the second as far as savings volume is concerned. At the time of the merger our combined savings account volumes was about ₦600 billion. Today that figure is ₦1.3 trillion. And there is only one bank that compares to us as far as savings accounts are concerned, and I would say that is First Bank.

Now, if you do the same thing and you ask for current account, it's the same thing. Now, this is coming as a result of exploiting the benefits of the retail accounts coming from the merger. And we have not finished that process yet like I said. The system is only just settling down. And if I go to give you finer details, all you need to do is to look at our NIP volumes and that gives you a reflection of the number of retail transactions we are doing. Today I think we have about 19% or 20% of that market. When we started I think Access Bank probably had maybe 8%. Diamond Bank had about 6% or 7%. So that combined figure is now showing the real value. So those are the synergies we spoke about. In terms of cost of funds you will see it. Now, the other costs for instance, we saw we are rationalising. That has now been done, but the full impact of that has not even become manifest because those head office buildings that we do not require have been sold actually towards the end of the financial year 2020.

Now, obviously some of the costs could not have been obtained because as COVID came in the system did not allow us to do the rationalisation. I'm sure you saw quite a bit of the uproar that came up at the time at which we were basically trying to rationalise staff. The [unclear] said nobody was allowed to do anything at the particular point in time. Now, if we move on to the CBN cash deposits and all of that – those were some of the things we spoke about – we are going to see savings of ₦10.5 billion [?]. Let me tell you what has happened which is actually the contrary and better for us. When you see cash processing going from ₦3.7 billion to ₦9.9 billion what it has shown is a significant volume of transactions being processed through the bank. Again if you see what would have happened in terms of the build-up of money that we have with the central bank coming from the foreign exchange and customers who are depositing $10,000 or whatever it is, because of processing all of that has grown. But it is also manifest in the balance sheet. Now, the question would be how efficiently we are going to push that balance sheet for the benefits to come out. I think those are some of the things we are going to see in this year.

So in terms of the cost savings, Ronak, I want to confirm to you that we are right on track as far as those cost savings are concerned. Even any discussion that has come from the reduction as far as interest rate environment is concerned, I think the volumes that you see with respect to the current accounts and the savings accounts purely as a result of the new efforts that the merger has caused will deal with these cost savings. But I would like Seyi to speak to the other aspects of costs, issues that have to do with travel cost and all of that. Today we have been talking about ₦33 billion out of the ₦36 billion that we are expecting to see on an annual basis. Seyi, go ahead.

Seyi Kumapayi
Thank you Herbert. I think I will just pick up from where you stopped. And like I said earlier, these comparatives are not exactly correct because of the timing difference of three months. The numbers that you are seeing, ₦1.9 billion is not exactly – did we do the ₦30 billion in savings in cost? Yes, we've done it. And if you look at the issue around [inaudible]. Now, cash processing, clearly what has happened is that our transaction volumes have more than doubled over the last two years, and even with COVID we've seen that with normal transactions that we do. Now, one in every two transactions end or stop in Access Bank in terms of card [?]. And we are seeing it on the balance sheet. Maybe this is the cost of the balance sheet that we are carrying. This is what we are seeing in terms of cash processing charges. And for Dollar cash the cost of what we pay today has gone up, I think it is about 1.5% that we get charged for every Dollar that we process with the Central bank of Nigeria. So it is real cost of the business that we are doing.

Stationery has increased also because of the volume of the business that we are doing. Now, we had to replace some cheques for customers for free because we had to change stationery, change cards because even after the merger there were things that were left, and we put them into business as usual. We stopped counting them as merger expenses. So all that is pure ongoing. Now, business travel, I think at the last call we said that this business cost was going to come down, and it has truly come down. What we are going to see in 2021 is that that number will come down further. So it is a greater reduction and we believe that by the end of 2021 that number will be half the number that you are seeing, and we will get that to a level that we are comfortable with.
Thank you very much.

Kato Mukuru
Thank you, Seyi. Would it be possible going forward to have a slide that shows what you have done in terms of cost synergies versus your targets, just so we can have a way of saying Access has done a really good job on this consolidation and this is why? The last question on the whole consolidation is if you look at your return dynamics like return on investment or accretion/dilution how is it going versus what you expected from the acquisition? To what extent are you ahead or below target in terms of if you thought the deal with accretive in year one, how much more accretive has it been? I guess another way of looking at it, are you happy with what you paid for Diamond? Do you still think you got a very good deal? Thank you.

Herbert Wigwe
I will speak to that. I will speak to it theoretically and then if you need numbers to support it we will pull out the numbers. Now, just a couple of things. You know in the course of the merger we had shared with the market some of the things we were going to do. And if you recall we said we were going to close 100 branches. Obviously we have not been able to shut those branches. Well, we shut them because of COVID, but all that was shut in real terms was 50 just because of the difficulty in shutting branches. Now, have we been able to make sure that those branches become profitable? They have broken even right now, and so we start to see the benefits that will come from it. Two, Diamond Bank came with its own issues around bad loans and of course currency exposure. We were very quick to convert all of those into local currency and to start to take the provisioning on it as you have seen, and of course to do the recoveries.

If you see the recovery figures you will find out that quite a bit has been done. And I think we have basically recovered more than 50% of the figure that we said we were going to do. I think the real benefit was in the creation of a strong retail powerhouse. And I think without doubt that has become manifest. And you will see it in our current account numbers. You will see it in our savings account numbers. You will see it in the new and emerging cost of funds. You will see it in the retail commissions and fees coming from sheer transaction processing. You will see in the NIP volume. All of those things we are seeing that we wanted at the time the deal was done. For some people who may have thought that it was a bit expensive, I think quite frankly we are happy with what we've seen. The results of 2021 and going into the future which shows a settled, merged entity would reflect exactly what we are trying to do.

So today if you like in the main if you look at what Seyi said you will find out that we are far beyond the figures we had said as far as merger synergies are concerned. In terms of our accretive value we are far ahead. But I think those are not the numbers we are looking at at this point in time. We are in a competitive market. We have a strategic posture which we are trying to pursue. I think what is important for us is well beyond the accretive values of Diamond for us to be able to see ourselves as the leading bank in the country. Thank you.

Victor Etuokwu
Just to let you know, the merger synergies that we said we would do over three years was roughly [unclear] billion. At the end of year two we have done ₦133 billion [?] already, so we are well ahead of our run rate of those synergies. Secondly –

Kato Mukuru
Sorry to interrupt. Did you say you had done ₦130 billion?

Victor Etuokwu
Yes we are at ₦133 billion at the end of year two. This is year two of three years. Just remember before the merger we had about 12% or 13% market share of deposits. Today we are 25% of market share. Before the merger we had about 18% of customer accounts in the industry. Today we are over a third of the customer accounts in this country. We have 69 million bank accounts in the country. Today we have about 40 million of that. So in terms of accounts that are registered we have well over half of the accounts in the country. In terms of market share in loans we are also a quarter of the market share. So if you look at the size of the balance sheet of course you know we have the biggest balance sheet in the country. Now, all Herbert was talking about was that as you move by just this acquisition and merger into the third year and fourth year and fifth year, you begin to see a lot more efficiencies and then the profitability will now come to match the size of this. That's what you will see. But clearly every single expectation from the merger, most of it is well on track.

Herbert Wigwe
Thank you Victor. So the point is what price do you pay for sustainability for the size that we have. for the commission and fees which are becoming evident in the market as [unclear], for the active customer base that we have, for the robust balance sheet, for the emerging cost of funds – which was a great criticism that we had – those are the things we believe that coming out of the merger and the benefits and the learnings we've had we think that we truly got a good deal. And even for the Diamond Bank shareholders we think it was a fair deal to everybody. Thank you very much.

Kato Mukuru
Thank you very much.

Operator
Kato, does that conclude your questions?

Kato Mukuru
Yes it does. Thank you very much.

Operator
Thank you. Ladies and gentlemen, just a reminder, if you would like to ask a question you are welcome to place your question either via the webcast in the question box provided. Alternatively you are welcome to press * and then 1 on your touchtone phone to place yourself in the question queue. At this stage there are no further questions from the online attendees. I will now hand over for questions from the webcast.

Webcast
Thank you. We have questions from Wale Okunrinboye of Sigma Pensions. The first is given the reversal of interest rates observed thus far, what is the impact on your trading income, positive or negative? What would you say you've done to help mitigate any downside? Second, how much of CBN special bills did you receive from the CBN in Naira terms? How are you classifying these instruments' fair value or amortised costs? Thirdly, how quickly do you expect a repricing in loans to capture the interest rate environment? Then, what is your view on FX liquidity and the exchange rate in 2021? There are further questions. Would you like to answer those, or shall I continue?

Herbert Wigwe
Okay. I will start to speak to some of them. Those that we didn't hear properly we will ask Wale to ask again. I think first of all in terms of repricing of loans we have started repricing these facilities. Obviously there is a lag. I think that that lag in my mind will be anywhere between 60 and 90 days for us to reprice as far as the rates on loans. And I think we've started doing it and we will see the benefits. I think what is more important in our own case was how quickly and where we get the cost of funds. So I think you will see a NIM expansion, and that NIM expansion will take us to around about 7.5% in 2021.

With respect to FX liquidity I think we are seeing a growing FX liquidity from the central bank. Obviously there are a couple of things that need to be done. The I&E window needs to be a bit more active. CBN has been meeting its own end of the bargain. I think what we need to do now is push more investments, FDIs to come into the system. But the IMTOs have also shown a significant increase given where it was last year. And I think for most banks that figure has doubled. If you ask me, from what would have been about $400 million or $300 million a month, that figure is getting close to $1 billion in a month. Quite close. Not just yet. So we have seen a significant growth and I think by the end of the first or second quarter perhaps we can see as much as $2 billion in a month. So that is how I see FX getting better. But I think it calls for more planning and better planning. All that the central bank is trying to do is for people to basically ensure that customer demands are met in a logical and sequential manner. If everybody comes to the market at the same time irrespective of where you are in the world you will see a problem. So we think there are enhanced FX flows and it will get better as the IMTO volumes come in a bit more. I would like to speak to issues around reversal of interest rates in terms of interest rate direction and what it means to our trading income in 2021.

Sunmbo Olatunji
Thank you Herbert. So as we had expected the interest rates were going to up in 2021 from all the macros and the indices we had seen. So this would not have an impact on our trading income because we had foreseen this and we had taken the necessary positions. As at December when we saw that yields had gone very low, we also decided at that point to take some strategic positions which have paid off now as

we have seen rates on treasury bills and fixed income securities going up, and from indications they will still trend much higher especially as the federal government still has a lot of borrowing to do. So to answer in a nutshell, we are well positioned for this and we expect trading income to increase. Thank you.

Herbert Wigwe
Okay. Are there any more questions?

Webcast
Yes sir. There are some more questions. The question is what products would you say dominate in terms of digital lending: payday, device acquisition etc.? In view of recent transactions in this space, are there plans to spin off your payments business to allow shareholders to capture the deep value inherent in this entity? Then how do you define board independence?

Herbert Wigwe
I will let Victor Etuokwu speak to which of the loans in our lending business dominates. And do we intend to spin it off? The answer is yes. There is so much more value to be created from it, and we think that by being independent and the creation of more sophisticated algorithms and pushing the product a bit more outside the bank apart from the bank as a platform, there is still do much value to be created from it and value to the overall enterprise. I would like Victor to speak to which of the products dominates in that portfolio.

Victor Etuokwu
Like I said earlier, there are four products. But for now there are two of them that are frontrunners, the payday loans and salary advance. The payday loan is a facility, as I said earlier, for employees. And salary advance is a short-term six month to 12 month duration. At first the payday loan was almost 60% of the portfolio but now it’s down to 40% because the salary advance is now – we now have a few longer tenure loans coming in to six months. So that’s where it is. But right now for employees it is still payday loans. Thank you.

Webcast
Thank you, sir. There are two more questions. How do you define board independence in terms of shareholding? I can see there was a recent notification on the NSE that showed that the Access Chair, who is a INED, holds around 0.02% which may or may not fall within the threshold. I’m not sure. And then lastly, what drove the loss at your Kenyan subsidiary, and can you provide outlook on this segment going forward?

Herbert Wigwe
Okay. I think first of all I’m not aware of this notification, but I think 0.02% – I don’t know how many units that is – which is certainly not even up to 0.1% of what the bank has, is still within our acceptable threshold. But I’m not even aware of this specific notification. I will check it out and I’ll get back to you. Up until now the Chair has remained independent, so I will find out what it is, but I think it has remained within the threshold. I think the next question had to do with Kenya. Of course as you know the Kenyan subsidiary only just started. What we have done is maybe some of the provisions coming from the prior Transnational Bank have been taken and maybe that is what you have seen. But just to let you know, all

of those things we had factored in at the time the negotiation was being done with respect to pricing. So in terms of shareholder cost to us I don't think you would see anything significant. But that's what has happened there.

Webcast
Thank you, sir. There are no further questions.

Herbert Wigwe
Thank you. Any more questions please?

Operator
Confirmed, sir, there are no further questions from the lines and neither from the webcast. Thank you.

Herbert Wigwe
All right. I think that brings us to the end of the investor call for our full year 2020 financials. We look forward to seeing you in a couple of weeks or perhaps at the end of the half year for the investor call at that particular point in time. But thank you very much for what was a very active session. Thank you.

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

END OF TRANSCRIPT