Conference Call transcript

2021 INVESTOR ENGAGEMENT FORUM

Operator
Good day ladies and gentlemen and welcome to the Access Bank Plc 2021 investor engagement forum. All participants will be listen-only mode. For the participants that dialled in there will be an opportunity to ask questions later during the conference. For the participants on the webcast, if you would like to ask a question, please type the questions in the webcast question box. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please note that this call is being recorded. I would now like to turn the conference over to Herbert Wigwe. Please go ahead, sir.

Herbert Wigwe
Thank you very much. Good afternoon ladies and gentlemen. Let me start by thanking you all for dialling to our investor presentation. The purpose of our presentation is to share with you sufficient information with respect to how our institution has been realigned for growth, particularly given the various corporate actions that have happened over the past 12 months. It will also provide clarity to our investors on what is guiding our decision making and give you the complete picture of where the institution is headed. It will also serve to provide an update of our regional growth since the acquisition of Diamond Bank and a clear revelation that no African bank of our scale has embraced digital in the manner that we have.

I will start by introducing our executive management team, some of whom you are very familiar with. We have Mr Roosevelt Ogbonna, who is our Group Managing Director. We have Mr Victor Etuokwu, who is Executive Director Personal Banking. We have Mr Greg Jobome, who is our Executive Director Risk Management, Hadiza Ambursa, Executive Director of Commercial Banking, Mr Ade Bajomo, who is Executive Director of Information Technology and Operations, and Mrs Chizoma Okoli, Executive Director in charge of our Business Banking division, and our most recent addition, Mr Seyi Kumapayi, who is our Executive Director African Subsidiaries, playing a crucial role because of the growth we have seen within the continent.

I will start by speaking to Africa and Nigeria. Nigeria remains our primary market, our home market, a very significant market which we have to continue to entrench ourselves very quickly in. And by definition Africa, which is basically the continent through which we do business. And then we will basically start to look at our business outside of the continent. Now, this is extremely important because as we grow as an institution and attaining global skill it’s important for us to entrench a mixture just like other institutions that have followed this strategy in the past in more developed markets, and make sure that we’re extremely strong at home and our immediate environment. So Nigeria and Africa remain extremely important to us not just because we’re from here but also because of the skill which is available and the opportunities that we see. And of course to ensure that there is a proper balance we will also need to have reasonable presence outside of Africa to ensure both earnings and capital preservation given the stronger currencies we have outside of the continent.

Looking at Africa this is the slide you have in front of you. Basically it is [unclear] of the IMF and central bank. We have a population today of about 1.3 billion and of course rounding up to 1.4 billion by 2023. Nigeria is one of the most populous if not the most populous country on the continent with a current population of about 206 million people. By 2023 that will be 222 million. For Ghana, rising from 30 million people to 32 million people by 2022. And of course looking at South Africa which we see 62.4 million people by 2023. GDP growth rates, obviously everybody has been tempered by COVID but we expect that by 2023 overall growth rate in the continent should be about 4.3%. For Nigeria it is expected to be 3.8%. We do believe there are a couple of things which government is doing, and should they do well we should be able to see perhaps higher growth rates than that. Ghana at 7.4%, Kenya at 5.8%, South Africa at 1.5%.

Inflation rates again for the continent it will be about 6.9%, of course brought down by the averages of South Africa and Kenya. For Nigeria we still expect to see very low single digit inflation rate of about 11%. That is what we see by 2023, and from then about 6.8%. Interest rates are expected to be stable. I think we may see a bit more deterioration in the case of Nigeria just using interest rate parities. For Ghana obviously the same type of thing, Kenya the same type of deterioration. What you see across the continent is when benchmarked to global currencies and all of that you will see gradually some form of devaluation coming from the interest rate parities which we normally see across the world. The monetary policy rates are stated there. There is an assumption that oil price will improve from about $50 per barrel to about $66 per barrel.

So this is where Access Bank sits in the context of Nigeria and across the continent. This is a global network of scale. We have 42 million customers across the entire continent. Actually this is within Nigeria, which is basically more than 80% of African countries in terms of the population, which is very significant. We have a very strong and great digital footprint. We have about 3,000 ATMs, about 9.5 million new digital banking applications, 53,000 points of sale equipment, our unstructured supplementary service, USSD, has about 9 million customers, 633 branches and about 46,000 agents. This figure is growing by the day and shows the sheer scale of our digital footprint. We have presence in ten African countries. We do have a regional presence in the UK and of course in Dubai, and rep offices in China, India and Lebanon.

Our financial performance has remained strong. If you look at our nine months ended September 2020 gross revenues were at about ₦592 billion. It’s an interesting figure because it is larger than any other bank in the context of Africa. We have of course our profit before tax as well at ₦116 billion. Return on equity about 20.9%. That figure began to inch up after the acquisition of Diamond. What normally happens when there is an acquisition is that obviously you see some inefficiencies and before you start to sweat the equity you sweat the assets which you have, so that figure is now beginning to move up. Capital adequacy ratio at 31.2% and tier 1 ratio of 15.84% are healthy ratios in the context of the country and the continent which we operate in.

Again gender is very important to us, very strong gender diversity. It is almost an equal number. Sometimes it is higher than this, 53% male, 47% female as at the date at which this was done. We continue to have global recognition for our strong financial performance. These are the risk ratings. You will see a little bit of a change. Obviously your risk rating is capped by your sovereign rating, so Standard & Poor’s has basically downgraded Nigeria, so we are at the sovereign ceiling pretty much with respect to Standard & Poor’s. Fitch did not downgrade Nigeria so we've got to see where we are as far as that is concerned. But the risk ratings continue to show strong performance and an institution that is basically poised to remain here for a very long time and get much stronger as we grow and diversify not just across the continent but other parts of the world where you have stronger risk ratings, and that will continue to impact on it to a point where you never know, we may have a stronger risk rating than most of the countries which we operate in.

Again we've received several accolades in Africa for SME's from Euromoney, things which we've done in the agri space, and of course one that we've been extremely proud of is things that have to do with sustainability. We continue to win all the awards provided by Central Bank of Nigeria and that by the Karlsruhe Sustainable Finance where we basically won those awards five or six years in a row. We are really proud of what we are doing in that space.

Now, this is how we have created increasing value over time. This shows the compounded annual growth rate for different indices. For customers we've grown about 36% year on year from 2009, helped of course by the combination which we did in 2019 which was the Diamond Bank acquisition. So basically we've shown stronger growth rates than others. At the gross revenue end we've shown strong performance. So what we've done is we've taken the top ten banks as you will see from the MSCI index and brought them in here because they would typically be present in markets in which we operate, and that would be a good benchmark for us to look at ourselves. Profit before tax, obviously the numbers are geared to be getting significantly better, but the reason you have that number there is again coming from the combination. The huge expense costs which normally come with it, which are being absorbed as we speak, would normally taper that number, but as you see from the numbers, that has been resolved as we saw in the third quarter of 2020 and going into the future.

We are the largest customer base on the continent, and we believe that is still important – very important – but efficiency is almost equally as important and we need to sweat the assets to get full benefits of scale. We have shown these figures for 2019. We are at 36 million customers at the time at which this was done, out of which we had 19 million digital customers followed by KCB and some of our colleagues out here in Nigeria. I think the most significant part of the story has to do with the digitally active customer base, in the case of Access 44%. Now, when you superimpose that on the customer base it begins to show the benefit and the power of what will come out of it. Even though KCB has 62%, it has a much smaller customer base. Now, we grow our customer base in Access by something close to 500,000 fresh customers on a monthly basis. And that growth rate if you push out the efficiencies can basically start to spit out very large sums in terms of overall contribution to profitability as we go on. But that is an extremely important number because it begins to show the opportunity and potential that can come out given the size and scale of the institution.

So we will speak about our group financial highlights and look at our most recent numbers. That is not the most important thing, but again we begin to see the opportunities that come out of it. And then we look into the future, speak to things that have to do with how we've expanded over the last year, what we are doing, what the great opportunities are we see within the continent and outside the continent, and then we will take questions from you. So we continue to deliver very strong results. If you look at our 2019 and compared to 2020 numbers, again our gross earnings grew by 15% despite the difficult environment that 2020 showed. We ended up with gross earnings of about ₦592 billion, which is the highest that any of the Nigerian banks showed. Our net interest income took a little dive, coming from the low yields on assets, but all of this led to profit before tax of about ₦116 billion as at the nine months ended September 30th 2020 compared to ₦100 billion in the corresponding period of the previous year.

That increase you see coming from the operating expenses as a result of the fact that the figures for 2019 show three quarters of the combination with Diamond. The first quarter did not have Diamond, but the rest of it had. So we had three quarters of Diamond while in 2020 we had a full combined institution for the full year of a much larger franchise. So that is what the growth in the period is all about. So the financials as well reflect some form of growth. In 2020 we had to be very careful with growth rates given the impact of coronavirus. It was not a time to grow your asset book. What you see there largely as a result of some form of devaluation rather than a significant growth in assets in real terms. We have also seen a growth in customer deposits. That one was for real because we could see a big increase as far as savings accounts and retail deposits is concerned. And you will see it when you look at the financials, and of course an increase in our shareholders' funds.

With respect to prudential ratios we are on track. Our cost to income ratio continues to show improvement quarter on quarter. We continue to reflect strong capital adequacy ratios, strong liquidity ratios. Our loan to funding ratio dropped, not exactly what our regulator would want at this point in time, but because of the growth we have seen on the liabilities side without growing the risk assets in the same proportion that figure has dropped. But as we get into more stable times with clearer perspectives of risk given the credit environment we will begin to push that number up a bit more as we get into 2021 and 2022.

So we focus on generating sustainable revenue across all lines, and all aspects of our business continue to show significant improvement. But for us the one that is most important and which we feel extremely happy to share has to do with the retail banking growth and the increased velocity of transactions. A lot of things we have done are absolutely digital. We are tracking customer activities, creating products that resolve lifestyle issues of customers and which became extremely important during the lockdown period that we've had. Our normal forte is in the wholesale business we continue to optimise the value chain as far as that is concerned.

But again having said all of that, pure retail remains extremely important. It introduces diversity from an income standpoint into the books of the institutions. It introduces diversity on the lending side and on the non-lending commissions and fees and all of that. Last year we were regenerating 45,000 unique loans per day to customers, which meant that we were basically providing about 450,000 loans to unique customers on a monthly basis, slowed down again by corona, but it just shows the extent to which we are pushing retail. It does come with larger margins, larger commissions, but most importantly increased stickiness of customers to what we are doing. So we are prioritising margin growth by making sure we have the right balance sheet structure and bringing down our overall cost of funds.

We are emphasising payments, which is in line with our corporate strategic plan. Payment is a big thing, as you would see as we move through our presentation, within the country making sure that customers basically use our various point of sale equipment, points of contact branches, use our various devices in terms of telephones, internet banking, cards etc. and of course trying to make sure that we delight customers at every touch point. Some find it a bit difficult because you have 42 million customers, so any issue that happens in the overall market will impact you negatively. But we are coming up with ways and expanding our overall infrastructure to make sure we uplift the overall customer experience. That will be the main push as we get into 2021, making sure that all 42 million customers we can delight them as much as possible.

So we've seen, like we've said, scale is coming up and we are basically reaping the synergies of the combination. We are beginning to see some focus on efficiency to bring down our overall cost. And you see as we move down from quarter one all the way to quarter three, so far we've seen consistent reduction in our cost to income ratio. Quarter on quarter we see it drop. In the first quarter it was 62.2%, in the second quarter at 57.8%. This is quarter on quarter, and of course the third quarter 50%. The whole idea is that we will continue to push cost to income ratio over time. And we think that in line with global best practise once we can get it on average on an annual basis to about 50% then you get the full power of the institution and the full impact on revenue will be felt. So on an annual basis you will see it tick down, but of course over the next two years or three years you will see it exactly where it ought to be.

And the scale of the institution will spit out a lot of money, particularly when you have the largest gross earnings compared to any other institution in the country. The overall figure that will come to the bottom line will be so much better. We have digitised about 30% of our customer journeys, digitised all of our processes, consolidated vendor contracts. So all we have done is to make sure that we continue to improve on efficiencies and ensure that we are bringing costs tighter so that our overall profitability starts to basically inch up to where we want it to get to.

So retail expansion is important as I've said. Again there is a very strong focus on consumer lending. We have realised that the more we do it the more specialised it is comparing to what a lot of people think. Payments and remittances are critical, and all aspects of payment and creating alternative payment methods and methodologies, and making sure you have full control over the infrastructure. So all of these things are critical and enable us to basically set the pace for our customers and ensure that the cost of on-boarding customers is cheap over time, and therefore at the end of the day we will run a much cheaper operation. So today we have about 42 million customers and growing as at the first quarter. We have that number of customers, but the number of accounts that we have is 46 million obviously because there is some duplication. One customer may have two accounts. So we have 42 million unique customers and 46 million accountholders.

Again we have acquired 2.6 million digital customers in the period. Again we've seen about 3.2 million new subscriptions to our mobile banking platform. We've issued 6 million cards. Savings accounts are up to about ₦1.2 trillion. This is a very important thing. At the time at which the combination was done that figure was about ₦700 billion, a bit less than that. It has grown to ₦1.2 trillion. USSD users, 9 million of them, and of course we have about 9.5 million people on our mobile app platform. So when you look at the graph on the right-hand side which begins to share with you what this means in real longer terms, I would like to look at the bottom right hand.

The importance is that in 2018 the first nine months our digital revenue was ₦5.6 billion. In the nine months of 2019 same period it was ₦19 billion. The nine months of 2020 that figure has doubled. This is in spite of the fact that the central bank had introduced measures to reduce the cost to customers by as much as 30%. So if you gross up you can begin to understand what that figure means. Now, this is still at the point where we have about 17 million customers yet to be mined and optimised. So we see very big potential as far as this is concerned from the existing customer base even before talking about the growth we have seen on a monthly basis. The top part above it is just a subsection of what is there apart from the net interest revenue coming from the retail business which is growing from the lending book which we are creating.

We have continued to maintain strong capital levels. Return on risk weighted assets has moved up from about 2.96% to 3.96% so we are pushing the efficiencies. Our capital adequacy ratios have gone up as well, and we have seen that we are basically optimising our capital structure between Tier 1 and Tier 2. I think the right-hand side begins to show you the capital accretion which we have seen and the retention which has moved about 184 basis points from December 2014 which is about 14% as the CET1 ratio to close to 16% by September 2020. Basically what we are just saying here is that we have strong ratios and getting stronger through the increased profitability that we see.

It is important to state a couple of things here. As we continue to push in 2021 what you will see is that we pay attention to capital retention and strengthening the bank's capital position. You will continue to find us grow business outside of Africa, which is strong, the UK, Dubai etc. where they have stronger currencies, and continue to retain all of those earnings with a view to ensuring that we retain capital and strengthen the overall capital base given the fact that a lot of African countries normally see some devaluation over time. So this combination that we are strong at home and have strong ROEs will be complemented by making sure that our outside of Africa business remains strong as well. That way we create an institution that is sustainable and will be following the nature of trajectory that most of the very successful banks have done in the very developed markets to basically create global enterprises.

So where are we headed? Again I think digital remains a very important part of what we are doing on our existing customer base of 42 million, growing at about 500,000 on a monthly basis. We will be the clear cut digital leader on the continent. I don't see there is any African bank of scale that is growing digital in the manner in which we have done. We have digitised our customer journeys and a lot more work is being paid to advanced analytics etc. We are fully mindful of the fact that when you have the nature of customer base that we have you have to invest quite a bit in infrastructure to support them. And if you have problems with for instance the national switch and all of that, it impacts you the most. So you have to start creating those structures that ensure that your customers have an exciting customer experience. So we are doing everything that is possible. We are digitising subsidiaries and creating an integrated system to ensure that we are absolutely secure at a time when you have cybercrime growing in the manner in which it is growing. We will digitise our core and of course we are basically ensuring that our staff are a lot more efficient and of course digitise the entire lifecycle.

Now, what is important is we need the right type of people. I'm talking in terms of staff and training which we are doing. We need to build the appropriate partnerships in terms of our relationships with our various technology partners and create the right governance and processes to support all of these things. The digital and IT are extremely tricky things to do if you don't have the appropriate governance structures to support them. It's not just about having the infrastructure or understanding the mechanism of payments with respect to e-commerce, but also having the governance to make sure that the overall institution is protected as you continue to invest in all of those things.

This is where we begin to see some of the impact of what we've done. We've seen if you look at the nine months ended September 2017 and you ask the number of digital transactions, in Access it was 110 million transactions that we were doing on an annual basis. And that is a combination of ATM transactions, mobile and internet bank and USSD. By September 2020 what we've seen is about 800 million different transactions. So it has grown by 7.5 times. Now, the figures get a lot more interesting when you look at the volume of the transactions. We did ₦2 trillion of transactions in 2017. We are doing ₦20.2 trillion of those kinds of transactions in the nine months ended 2020. It just shows the power of what we're doing, and we are not even 50% of the way yet in terms of what we need to do with our customers to increase the level of customer stickiness. As we improve on our customer experience, provide and ensure that the alternative channels are working as efficiently as they should, this figure could double or treble, apart from the fact that we are basically making sure that we grow our customer base on a month on month basis.

We will speak about the international expansion, one that has been spoken about by quite a number of people, and share with you where we are headed. Now, I continue to mention that Nigeria is our home base and of course Africa is the continent on which we operate, and there are significant similarities across the continent even though there are peculiarities in specific markets that we can take advantage of including the Africa Free Trade Agreement. So if we are strong at home and strong in the continent we will have ROE numbers that outstrip the devaluation that we see. And if we continue to grow outside of Africa we will have a balanced institution that is basically ensuring that it is strong internationally, it is maintaining capital levels and growing over time whilst remaining one of the most profitable types of businesses within and outside the continent.

So in terms of Africa we shared the initial slides, but we still have about 370 million unbanked adults across the continent. We have about $5.6 trillion in terms of projected consumer spend by 2025. These are World Bank numbers. In terms of electronic payment revenue there is about $8.2 billion on the table; in terms of remittances or cross-border payments about $9.2 billion. We have Sub-Saharan trade about $830 billion. Now, these are very significant sums because you don't have proper African banks that are interconnected and making sure that we have the right payment mechanisms happening. We have about 400 customers that have over $1 billion in revenue, each of them.

We have 122 million active users of mobile financial services, and therefore strong potential retail names. And of course we have about 89 cities of over 1 million inhabitants by 2025. All this is just to show the potential and opportunity for growth in the continent. Now, when you imagine that some of these large Western banks are not present here it means that there is an opportunity for an African bank that is well done, that understands compliance and has capacity to support trade, correspondent banking and all of that, and the right technology infrastructure to support payment remittances without taking incremental risk. And we think we are best positioned to basically do most of all of that.

So for us our expansion strategy has a deliberate adjacency, and of course supported by key enablers. What are we doing? The focus is on becoming an aggregator in Africa. We are building a global payment gateway and providing trade finance support and correspondent banking across the continent and to institutions that are deserving of it. We are focussing on the key markets to support digital trade. A couple of them you will see on the slide, key regional places where you have huge trades etc. and certain of the payment gateways required to support all of that. And of course, providing the currency that is required for international remittances, leveraging on our Access Africa product to basically ensure that connections to wallets and payment platforms is happening seamlessly.

How will this be done? we need to have the appropriate operational hubs to ensure that each operational hub is well managed, whether it is in West Africa, East Africa, Southern Africa or Francophone, and ensuring that we have the right operational framework to support all of that, the right compliance framework to support all of that as well, and of course making sure that we have a centralised IT infrastructure in the operational hubs and at the centre to ensure that the whole group is being managed efficiently from an IT standpoint and we are getting robust benefits of scale.

Now, support functions required for the subsidiaries will have to be set properly and making sure that we benefit from the deepened centres of excellence. There will be parts of the world, in Southern Africa for instance, where you may see strong IT capabilities, where you basically take all of that learning and bring to West Africa etc. And just make sure that we are benefitting from what we see in the deepened centres of excellence. The approach will always be that in the countries we choose to go to we will have the right scale. We will not just be a dot in the country in which we are present. We will make sure that we physically have an impactful presence in each of the major countries which we are present in to basically reap the economies of scale and leverage digital.

In doing it we are also mindful of the countries in which we are going to diversify our earnings and risks in those specific countries and the risk rating of the specific countries to make sure at the end of the day all of these things are done in a manner that will be of benefit to the parent. And of course, as we do it we are working with our friends and partners, largely the DFIs who are co-investing with us across the entire continent. The whole idea is that it is going to be beneficial to the centre and to the parent in terms of the overall contribution and risk management framework that we are putting in place, and of course compliance which is extremely critical as we move along.

Now, this is Africa. You’ve all heard about African Free Trade Agreement which has started. I know there is a big announcement coming up in February. I think that where we are positioned we are going to take full advantage of all of this. We are going to use our digital framework to benefit. We have created products that allow settlement across the continent. We are using our subsidiary in the UK to provide correspondent banking services across the continent and all of that. We must be in a position to benefit and to support financial flows across the continent using our platform. And if you look at the benefits, intra-African trade is supposed to grow by 53%. We have strong players across the continent, whether it's the likes of Dangote, who are doing exceedingly well in cement, shipping goods across the entire continent and what they are doing with the upcoming refinery.

So all of these things will project significant trade across the continent. And that institution that is present in the critical hubs and has the strong technology platform will be able to use that platform to ensure settlement across whatever they are doing at minimum price. Again the GDP of the continent is supposed to grow to about $2.5 trillion over 55 countries over this period of time. We expect to see increased financial flows. We hear there will be an initial tariff on intra-African trade, whether that happens immediately or it is delayed. The overall point being made here is that there is an impetus to support African trade, intra-African trade. It may not happen at 100%. A 25% to 30% boost overall can change the fortunes of the continent. And that bank that is positioned to take advantage of it will make incremental income sometimes without incremental risk.

Being present in the countries which can connect the dots remains important to optimise everything. Now, if we are present in different countries in the past and you were not present at the critical anchor points you may not get the full benefit. But now our own objective, having done a lot of work superimposing it on what we see coming even this year, we think that we now have the presence given some of the things that have happened over the last 12 months to be able to take full advantage of Africa.

So again coming to Nigeria, I continue to emphasise Nigeria and Africa not because that's all we are doing, because we are doing things outside of the continent. We feel that there is still much to be done and we need to continue to entrench ourselves in the local market more and more. We have 72 million unbanked people in Nigeria. I think that so much needs to be done and Access Bank is best positioned to do it. There are huge payments or remittance flows and we've seen a 47% growth between 2015 and 2018 in the context of Nigeria. I think as Access Bank we continue to see so much that can be done. And we've done it, and we've demonstrated capacity to capture some of this.

Again, we are far from where we ought to be because there is still so much work to be done. If you take our digital lending book we've seen that whole thing grow on the strong customer base from where it was, about 25% in 2019, ₦80 billion to ₦100 billion. But the fact that we are generating 45,000 unique loans on a daily basis, over a million loans that are being created on a monthly basis, is something that shows that we have created that engine for rapid growth. If you see our digital income on that upward swing, it is something that will have to be maintained at the absolute minimum – I'm talking about the trajectory – to continue to increase in volumes. Now, I don't want to speak much about the LC volumes because I think people will know us as wholesale bankers. We think there is so much more that needs to be done over the period for us to get to where we are going to. We've seen a six times growth in our commissions and fees.

Now, our bancassurance partnerships, which is a big area for big growth in 2021 moving into the future, is one that we expect to capture so much funding from. There is micro insurance. We are partnering with Coronation

Insurance as far as bancassurance is concerned, and we think it's a brand new area that we can pursue things and optimise, particularly given the little capital base that is required in terms of ROE. Those are going to grow into very significant sums as we move into 2021.

So yes, having spoken about Africa and spoken about Nigeria and the opportunity around the African Tree Trade Agreement that is not enough. We are trying to create a global enterprise, one that is sustainable and one that we will be extremely proud of as Nigerians and as Africans. Now, we do realise that there are complications with the continent. Perhaps one of those complications is the fact that until we get our local indices right you will continue to see some form of devaluation over time. And so if you are not careful, from a capital standpoint you will see depletion over time. So what we are also doing is that we are using our Access UK for growth and we are basically ensuring that we continue to pursue growth outside of the continent. Access UK is the only African bank that is on the clearing platform in the UK, which is a very significant thing. So we don't need a correspondent bank ourselves. I'm talking about Access Bank UK.

There is so much that the institution is doing. We do have a presence in Dubai. You will see a couple of things coming up over the next couple of months or years which will basically show that this is leading to the creation of a proper global franchise, one that is strong at home, and building up in very significant currencies or in countries of single currencies and using it to ensure that there is strong capital retention. So we are diversifying our earnings away from volatile operating markets in Africa as well and we are positioning our operations as a global payment gateway using Access UK, providing correspondent banking services and the strong digital platform that the overall profitability of our franchise is one that is not just strong within the continent but we are creating a sustainable franchise, one that may be similar in several years to other institutions that have grown locally and decided to grow outside of their continent to make sure there is proper diversity.

So we obviously need to reorganise to capture all these opportunities, so we will be transitioning to a HoldCo structure. I think this is within public domain. Through this organisation we will create new product revenues without taking incremental risk. We will ensure there is diversification of earnings. And of course the support of our outside of Africa expansion will ensure that the institution remains very healthy. So the Access Bank HoldCo will consist of the Access Bank group itself, which is the banking group. I've mentioned payments, and this fits in our five year corporate strategic plan. We will have a very strong payments business, and I'm talking of not just the provision of infrastructure. I'm talking of that which has to do with the payments themselves.

We are going to strengthen our consumer lending and agency banking business. I've heard people say that this may sit well normally within a bank. As we've grown it into much more finer details at the SME end etc. we're beginning to see that this requires some level of specialisation. And if you get it right the return on equity coming from this can be very significant. So we will create that business. There is the insurance brokerage business that comes out as a normal fall out of our bancassurance business which will also enable us to optimise income as much as possible and as far as that business grows, given our large retail base, and what we do with that partner as far as bancassurance is concerned.

This is the banking group, one you are familiar with, broken down into Nigeria, Anglophone, Francophone, and of course the international which is anchored by Access UK. This table will continue to change gradually over time. Again this is done very deliberately, taking capital into consideration, taking return on equity into consideration and the risk ratings of the specific countries. We want to create an institution that will have a risk rating over time that will be better than most of the countries that we've invested in. And no one knows, perhaps it may get our sovereign rating up. We don't know. But the idea is to have a very strongly rated institution.

So the payment subsidiary is going to consist of a very strong suite of banking assets, and it is one that is not just going to cover Nigeria. We have the partnerships with Visa, with MasterCard and several of the others, with the GSM companies etc. And it's not one that will be restricted to Nigeria but basically we want it cut across the entire continent. We will be an FX issuer not just in Nigeria but in other African countries. There is huge potential for growth. We have shared this slide before. If you take our digital revenue that is growing, that figure will grow as we move into HoldCo.

The card transaction volumes and the efficiencies coming from what needs to be done and the efficiencies of supporting the entire franchise, we will see the number of cards and the income coming from it growing very significantly. Today we've done quite well as far as Nigeria is concerned, but I think there is still so much room for growth. Basically one out of three transactions generally from a value standpoint settle on our platform. We think that there is so much more room for growth as we have chosen to diversify our overall retail base, make it stronger, and make sure that perhaps over the next couple of years by 2023 maybe one out of every two Nigerians will be banking actively in Access Bank.

We shared the electronic space with you, the African electronic payments space with you. I think I already spoke to that. But what this slide also shows you are the potentials like [unclear]. They also come from the GDP growth we see. COVID, as bad as it is, has brought new payment habits to people. And of course, what we have seen is a growing shift from cash to non-cash payment methodologies. And we think that the growth in digital outpaced historical performance. Now, that institution that is present in the major hubs where you have a huge population and you have the major settling arrangements or banks of presence will take advantage of all of this. We think that more than any other bank, not just in Nigeria but across the continent, that understands how to place these markets, Access Bank will be able to take advantage of all of these things. So the electronic payments market is expected to do exceedingly well and by 2025 we would have seen very significant growth that would come from it.

The consumer and lending business like I've mentioned is one that is very specialised, whether it is providing payday loans in huge numbers. Perhaps one day we will be giving up to a million unique loans per month, maybe two million unique loans. It does come with benefits in terms of the spreads. It comes with a benefit in terms of fees and all of that. All those things will start to push our overall digital revenue in terms of the amount of income we make locally. But it's not just about making money locally. We are replicating this process across the continent and we are doing it in Ghana, we are doing it in Rwanda, we have moved it into Zambia. So we are beginning to become more and more expert at it. And the creation of the separate lending business that is coordinated properly and ensuring that all the franchises and of course the mother franchise is optimising income.

And the final has to do with insurance. Again we've talked about the bancassurance model which has started. There is a big follow up, which is the insurance brokerage, which would have to go elsewhere as well as continue within the group within our bank. This figure may not appear to be as significant as people think it is today. They have a high ROE. But over the next five years as people embrace insurance more and more down to the retail level, as we've seen it in parts of Africa, this figure could become anything. We've seen it if you take the PSBs for instance. When it first started it didn't appear to be that profitable. Over time it became profitable. We think the same thing may happen here and that will bring significant benefit to us.

So finally these are areas or things that are dear to our hearts, things that have to do with ESG, things that have to do with sustainability. And we will continue to prioritise our sustainability efforts and of course make sure that we continue to win all the accolades, not because we want to win accolades but because we think this is a responsible way to do business. As a financial institution that is aspiring to become global this becomes more and more important, and you will see us play a lot more in this space as we have done in the past. I think more than any African bank – if I have to say so myself – we have embraced sustainability to very high and significant levels.

Again, this slide just speaks to the fact that ESG has been a part of our lives, whether it's the diversity of our board, or the diversity in terms of our workforce, or things which we've done with respect to refinance. We are the only climate lending bank on the continent. It may not appear to be very significant right now, but we do understand how it's done and we are pushing it more and more. The Central Bank of Nigeria and the regulator has recognised it. Some of the leading institutions like Karlsruhe Finance have recognised it. And we think that it will play a much bigger role in the lives of every institution, particularly coming out of COVID and all of that as we move on. Then the true benefits of what we are doing will reflect.

Financial inclusion in Africa is critical given the levels of earnings that people have. We have created the agents to ensure that there is greater financial deepening. It is certainly profitable because we are now using technology to drive it, but it something that will lead to the overall change and growth in the GDP of the countries in which we are positioned. All of these things I think that given our leading status in the countries in which we are present and the markets which we operate in are things which are extremely important, not just from a profitability standpoint but also to show our regulators and the countries which we are operating in the fact that we contribute to those markets as well.

So in conclusion, like I mentioned at the very beginning, we have shown a disciplined growth over time which has been value accretive. We continue to lead on several metrics. We are the most digitally transformed enterprise and using it to support our skills and innovation. We will be transitioning to our HoldCo to capture continent-wide opportunities and support our international expansion, which is done deliberately in a deliberate manner to ensure that capital is preserved and enhanced. And of course making sure that our overall philosophy and approach, while it may be organic and inorganic growth expending on where we are, we have understood how this combination is one that is continuously driven by value. Capital accumulation and protection is important to us and we will do all that we need to do to ensure that over time we are not just growing capital in nominal terms in the continent, but because of the retention we are doing outside of Africa we are enhancing the overall value of the franchise. There is a deliberate strategy to diversify earnings and dilute exposure in soft currencies in which we operate.

We have a very strong pool of talent. It's one people have asked questions about with respect to our expansion. We have within our HR function a function of growing talent across the continent and making sure that we all have one culture. It has been affected by COVID, but we have tried to do it virtually and once COVID is finished we will make sure that those places where we have not ensured that there is enough assimilation in terms of people coming to spend time in Nigeria, that all of that is done. But in terms of the leadership team, the middle management team required to steer this institution to growth, we think we have invested enough. Never ever will it be sufficient, but we have enough to push us to where we are going to, and we continue to invest in it given the aspirations that we have. So we continue to execute in line with our five year corporate strategic plan. All of these things fit firmly on that, which basically ends in 2023. And hopefully we will emerge as perhaps one of the strongest African banks, one of the top ten banks in the continent by 2023. Thank you very much, ladies and gentlemen. The floor will now be open to questions and my colleagues shall support me in providing answers to whatever questions you may have. Thank you.

Operator
Thank you very much. For the participants on the webcast, if you would like to ask a question, please type the questions in the webcast question box. For the participants that dialled in, if you would like to ask a question, please press * then 1 on your touchtone phone or on the keypad on your screen. If you decide to withdraw the question, please press * then 2 to remove yourself from the list. Again, if you would like to ask a question, please press * then 1.

Herbert Wigwe
There is a question coming through with respect to capital and ROE impact given our African expansion. I will let Roosevelt speak to that. Roosevelt is our Group Managing Director. Roosevelt, maybe you should speak to that question.

Roosevelt Ogbonna
All right. Thank you very much, Herbert. Today we are present in about 12 African countries. From the map that we shared when Herbert was presenting you see that there is a very deliberate entry into the rest of Africa. What you would have seen on that map is that there are some other countries that are interesting from a trade and payment perspective. So we will look at those markets as we have said. All of this is being done on a very disciplined capital approach. We are not going to go into markets where we can't acquire scale, where we cannot meet the ROE threshold that we created as a group looking at weighted average cost of capital. We also are not going to go into markets or do any transaction, be it organic or inorganic, where it would be capital eroding even in the first year. So every transaction we've done in 2020 has been capital accretive. And that's the structure that we will run as we continue to expand across Africa. So it has been very deliberate. That doesn't

really give us concern. It's not a return on ego, as we say within the institution. We are very deliberate as to why we are going into those markets. It justifies the ROEs even within the first 12 to 18 months of their being set up. Thank you.

Operator
The first question comes from Adesoji Solanke from Renaissance Capital. Please go ahead, Adesoji.

Adesoji Solanke
Hi. Can you hear me?

Herbert Wigwe
Yes, we can hear you now, Soji. Please go ahead.

Adesoji Solanke
Okay. All right. Great. Yeah, thanks Herbert. Thank you for the presentation. I think one thing you guys do without failing is dreaming big. So thank you for how well and clearly you articulated the strategy. I do have a few questions, quite a few questions. The first one is just around progress you flagged around digital. You mentioned I think a 10x increase in digital transactions by value, which looks incredible. I'm just wondering, can you spend a few minutes just talking about how you were able to achieve this? It would be good if you can talk about how you managed to sustain the digital wins post your merger with Diamond Bank.

My second question is you somewhat mentioned about the global payment gateway. What does this mean and entail? My third question is in your presentation you spoke about some countries you consider major countries in which you intend to have scale. How will you achieve this scale? That's the first question around this. And the second one is looking into 2021 which new countries do you expect to get into, and how much capital are you allocating to this expansion? My final question is just around costs. Can you give any sort of guidance around what sort of opex run rate we should expect in 2021? Those are my questions for now.

Herbert Wigwe
Thank you Soji. Again we apologise that we were cut off a little bit. Let me just speak to some of the questions you've raised. Now, with respect to digital transactions, one of the things that we make sure we [unclear] the combination with Diamond was things that have to do with digital analytics, understanding customer behaviour. We introduced something we refer to as the grand prix. And all that was happening was how many transactions are being done through digital on a daily basis. We basically ensured that branches were competing among themselves and we had targets for account officers all the way down to those who [unclear] in the market. And we were asking them, how many customers have you signed on using cards? How many of them are using cards? The digital concierge in the branch is making sure that, wait a minute, this guy came with a cheque. How do we make sure he has a card, and how many transactions he did? The analytics framework as an engine to check the volume of transactions being handled digitally on a branch by branch basis was fine-tuned. So we started seeing that whole pickup.

Now, 2021 has started and we are doing this whole process again. We have what we call the XtraWin which are being adopted. A couple of other banks have tried to do the same thing, and we really don't mind about that. The whole idea was if you basically use digital channels up to a particular threshold you get a win. And it's almost like a raffle. This thing increased service accounts in spite of all that was happening. So those things have led to a significant increase as far as digital revenue is concerned. But it's not over yet. We use it as a tool to basically reactivate several accounts. I'm talking in terms of the activity levels of several accounts. We may have, to my mind, about 17 million accounts that need to be pushed a bit more. So we are using gamification. We are using all of those tricks in a digital manner to ensure that the amount of activity people are carrying out on the platform is significant. I don't think that in my mind we have gone 20% of the way. I don't think so. I think you will still see it in 2021, 2022 and going on. And as we get more and more customers you would then see the [inaudible] still so much more to be done.

Now the question of the gateway, in my mind it is almost a physical gateway. We want to make sure that transactions all the way from Nigeria to wherever you are in the continent happen seamlessly. By the way, that is almost happening now. Using Access Africa you can make a transfer within specific thresholds to anywhere in the continent, and it happens real time. I'm talking about instantaneously. So if you needed to pay your child's school fees in Ghana, the same way as you do a funds transfer to anywhere in the world, if you do that payment it gets there on the second. The same thing if you are transferring to Rwanda. The same thing if you are transferring to Kenya etc. So we are going to make sure we set up the switch network across the entire continent to make sure that it's almost as if you have a physical gateway with the right compliance framework tracking everything, ensuring cybersecurity to make sure that there are no [unclear] once this gets started.

Now, yes, we will be present in countries of scale. The map we showed identified physical countries. Scale means a couple of things. Scale means population. Scale means GDP. Scale means the opportunities and all of that. Now, if you check how we've gone all of these things, they have all been capital accretive. And the manner with which it has been done has been such that even [inaudible] taking additional capital. And that's what I can share with you right now. But I will tell you a couple of things. Now, scale is important for you to reap the benefits. Being a [unclear] in a specific country sometimes does not allow you to basically achieve what you want to do.

So you may see that you have an aggregator strategy in a specific country where you use your local subsidiary to buy a couple of banks and therefore increase in terms of size of scale and scope. And therefore you move from being number ten to number three in that country, and therefore you can institute the relevant compliance frameworks and all of that to support the country of that magnitude. But even if we do combinations we are doing it in a manner that is capital accretive and sometimes does not require you to take in additional capital into those countries. And by the time you look at it, with the right governance structures all of those things will become profitable. That is how we are doing those countries.

You will see in specific countries as we get to some of them we will not follow an aggregator strategy. We will not follow an acquisition strategy. We may choose to follow an organic strategy. And I'll give you a simple example. The rule around how you [unclear] Francophone countries and the nature of the laws given the standards we use may require us to follow a strict organic growth process so that you don't find yourself in a risk that you don't understand because of how they basically capture [?] themselves. So all of those things are things we are taking into consideration as far as growth is concerned. But I would like Seyi to speak to issues around opex and the nature of run rate we are seeing over the course of the year 2021.

Seyi Kumapayi

Thank you Herbert. As you recall, the accounting from AMCON, which is a large part, I think it is about 20% of our costs today, happens in the first two quarters. So you see significant variability between Q1, Q2 and Q3 and Q4. So on average over the course of the year you see between ₦75 billion and ₦80 billion per quarter. That's what we see. And on a year on year basis we've kept it very low in terms of about 5% or 6% which is well below inflation given the fact that our AMCON costs have increased. So if you were to make that adjustment, cost has actually come down year on year.

Operator

The next question comes from Ronak Gadhia from EFG Hermes. Please go ahead, Ronak.

Ronak Gadhia

Thanks for taking the questions. My first question is just a follow-up on capital. If I look at your capital base as at the first half you had roughly slightly more than $1 billion of capital in Nigeria. And if I take away the Nigerian capital from the group capital, that leaves roughly $350 million for the rest of the group. That looks quite insufficient especially when I compare to some of the big players in some of the countries that you are in, Kenya, Ghana, Cote d'Ivoire. Some of the bigger banks there have much larger capital bases. So I was just wondering if your strategy of gaining scale in these markets is feasible given the amount of capital that you are committing to these markets.

The second question is on your payments business. As you rightly mention, the growth potential there is quite significant. We are seeing a big migration from cash payments to cashless payments. But within that as well we're seeing increasing competition from non-traditional players, specifically telcos. Could you just share your thoughts on what you think of telcos and other fintechs as your competitors and how that might affect your strategy? And then the final question is on the historical numbers. So I was seeing a very big growth in mobile and internet banking. Could you maybe just share a bit more in terms of what kind of transactions you count within that? Thank you.

Herbert Wigwe

Thank you, Ronak. I will let me colleagues speak to that. I'll let Roosevelt speak to the issue around capital and sufficiency of capital in Africa and the partnerships which we are creating with some of our partners across the continent in a capital accretive manner. Roosevelt, do you want to speak to that?

Roosevelt Ogbonna

Sure. I think to give a background I recall this question coming up when we were starting out in the UK. It was always that this was a very mature market, significant players. What exactly is Access Bank going to do in the UK and how do we make it work? And I recall the conversation we had then, and that conversation continues to be relevant. It's around the strategy that you are going into those markets with exactly what it is you want to do. So we are not going into Kenya, South Africa, several of those markets that you mentioned, because we want to confront the number one and number two banks head on – at least not today. So the idea is that we are clear as to our strategy around one bank name, so what we refer to as our global relationships.

We've seen that work in Zambia. We've seen that gain scale in markets like Zambia. We have already started testing it in Kenya and it is working. As far as capital we've taken into Kenya, it is sufficient to be able to support those corporates. We are seeing it Mozambique strangely even in the oil & gas sector where we have significant IOCs. And those are naturally coming to Access Bank because of the global relationships that we have. So our strategy going into those markets is very clear and unique. The same way we drove our business in Access UK and correspondent banking and it's today the largest African bank that exists in that market, in the same way we are looking at each of these markets. South Africa for example is going to be the COMASA region. We know the level of trade that exists between South Africa, Mozambique, Kenya, Rwanda, Botswana and markets like that. And we see significant opportunities which today no one is looking at. It looks very obvious, but it's interesting to know that no one is looking at those opportunities today. And it is something that we think we can very quickly begin to take advantage of.

I guess the other thing to look at is in some of these markets we are also building partnerships. So we are not going there on a standalone basis as just Access Bank looking at the rest of the markets to compete. The markets where we can build scale, sometimes we are not actually buying banks. We are actually partnering with existing banks in those markets because we see that there are significant synergies that coming together will provide. It's a model we've tested in Mozambique. It's a model we are testing in Zambia, and we see that there's significant value accretion that is coming even with less capital that we have put into the market. For some of those businesses in the future there might be a need to buy out the existing equity holders, but where we are today suggests that we can play in those markets, be relevant and gain scale without having to put too much capital to gain control, and still gain control of course, which is very important to us.

Herbert Wigwe

Now, in terms of the payment space and competition I think it's a space that is opening up and we are embracing all players, fintechs, telcos etc. In the course of my presentation new spoke about partnerships, and that is something that we've lived on both as Access Bank and as a combination of Access and Diamond. If you look at the nature of relationships we've had with the telcos and all the things we've done, it's making sure that we've basically partnered with all of them. I don't think that's going to change. I think as we invest ourselves more and more, particularly given the HoldCo structure, it will ensure that we play in that space in a slightly different way than we've played as a traditional bank. So we would be able to compete with some of the players in that market, but in a manner in which nobody can [inaudible]. As an institution we have always been structured in terms of this digital aspiration and things we are doing to ensure that if there is significant competition [?] and things are going to happen we will [inaudible]. So we are not worried about it. We think it's a brand new market that all of us can benefit from, and it is only banks who choose to remain traditional that will suffer. So we are really at the centre of all of that.

Historically I think we spoke to the impact of mobile and internet banking. It continues to grow. I thought I answered it in the space of what I spoke to. I think that that particular contribution to income as part of our overall digital profitability will grow. We will see it in the 2020 numbers. You will see it in the 2021 numbers as we move on. I think there is just so much potential. When you look at those who are still using non-digital means to support what they're doing, it is very insignificant compared to those who are using digital means. And there is still so much room for growth. Roosevelt, you wanted to say something.

Roosevelt Ogbonna
I was just going to add to that. You would have seen the numbers from 2017 to date. We have seen a compounded annual growth rate of about 42.2%. And this is across profitability on our digital platforms. [Unclear] speaks to the fact that there is significant opportunities we've taken advantage of. As Herbert said, we are only scratching the surface. We think there is too much depth that exists in the market, not just because we will be growing our customers. We will be entrenching a stronger ecosystem and value chain, leveraging the key corporates that we have strong relationships with. So I think there is still so much room for growth. 42.2% looks aggressive over two or three years, but I think there is much more we can do.

Herbert Wigwe
Next question please.

Ronak Gadhia
Sorry, can I follow up, if that's okay?

Operator
Ronak would like to know if he can pose a follow-up question.

Herbert Wigwe
Please.

Ronak Gadhia
Sorry, just a couple of follow-ups on that. My last question on mobile banking, I just wanted to know what products you include within that. Is it just NIP [?] and a couple of other products within that? Because the growth seems extremely phenomenal and I just wanted to get a better understanding of that product. So that's just the first follow-up. And the second one is going back to ROE and scale. Roosevelt, I get your point. You are being [unclear]. But if I look at your own experience in Nigeria you didn't have the scale and your ROE therefore suffered as a result of that. That meaningfully changed when the bank acquired Intercontinental eight or nine years ago. So going back to that question, given that your committing about $300 million to these various countries, can you really get meaningful scale to earn decent ROEs out of these subsidiaries? Sorry, I'm just being a bit [overtalking].

Herbert Wigwe

Let me put it differently, Ronak. You will see from the partnerships that we've created over this year that figure may not be $350 million. It may be $700 million with limited injection from our own part. You will see us partnering with DFIs who continue to support. You will see different types of things, not just Tier 1 capital. I'm talking about supported by Tier 2 capital coming across to support all of these things. So $350 million as you look at it today is not significant. It is going to be complemented by monies we are going to raise from our different partners. In places where we see us doing combinations we are not paying out people. Those are mergers and are mergers that add value and are capital accretive to us. And that's not just it. We will basically get long-term capital to support a lot of those places.

Even in Ghana which we are present in we do have very strong capital ratios. And compared to the Ghanaian banks in market which is considered significant in the context of West Africa we do have enough capital. There would be a very fine balance to be achieved. Remember that in most of these countries you have currencies that devalue. You have to come up with a very intelligent construct of Tier 1 capital and a Dollar based Tier 2 capital that is not just going to be in local currency, supported with one bank names to ensure that from a capital standpoint you remain very strong. So you will see Tier 2 capital raise coming up which will ensure that we have the right capital to support all that is happening.

I will give you an example. There are several countries that have called for significant capital, and all that capital had to be converted to local currency. For banks that did that, that was a total destruction of value. So we are doing combinations that ensure that we meet the Tier 1 threshold but is supported by [unclear] maybe in foreign currency to ensure that capital is preserved. So it is something that we've studied and is a clear model for us, and we basically know how we are rolling out across the continent. We will not do anything that would not allow us sufficient capital to operate properly and efficiency given the target markets as we speak in the specific countries in which we want to have an operation.

Now, with respect to mobile and internet banking, Ronak, these figures you see there are still NIP type numbers. They are still numbers that are based on just [unclear] as we speak today as it is. We have not included some of the other implications of things which we are doing through digital wins [inaudible segment]. If one out of every three transactions [unclear] and then you are basically going to shift this a bit more at different target markets, I think that that number can still maintain the same CAGR that you see, if you get the point I'm trying to make. So there's still so much to be done. And it's even more painful because each time you have a problem with the national switch we feel it more than others. So we have to create the construct that protects us. That way we have a much stronger customer experience and much more profitability coming from our digital offerings. Thank you. Next question.

Operator
Thank you. The next question comes from Tunde Ogunleye from SBG Securities. Please go ahead, Tunde.

Tunde Ogunleye
Good afternoon and thank you for the call. I just wanted to clarify on the new holding company structure. You mentioned you are going to be creating a separate lending segment. I wanted to find out if the core banking

Access Bank group or it's going to be with the payments business, just for clarity on the lending segment. And the second question is on your expansion into the South African market. In your press release you stated that you made an initial cash consideration of 49% and will increase it to a majority stake in the second half. So when is the second anticipated to be completed? And the second charge, is it going to be by cash consideration as well? And the final question is on your application to the digital banking space. So you have launched payday loans and then Access CLOSA in the digital banking space. So I wanted to know if you have more innovations coming in 2021. That would be my questions. Thank you.

Herbert Wigwe
All right, Tunde, I will let Roosevelt speak to all of those questions.

Roosevelt
Sure. So the payment business is not going to sit within the bank at maturity. That is a separate aspect of our business. I think when Herbert was speaking he did mention one of the things we've found out is that there's a bit of specialisation that exists in each of those businesses. So you could do it within the bank but the benefit that we should get from setting up a pure payment business would be lost if we didn't do it in the manner in which we are thinking. So it would be outside of the traditional bank and it would focus specifically on payments. So that's what that is.

On South Africa it will be a one transaction flow. We are not going to break it into two, the 49% and then subsequent. We were advised by the regulator it was much quicker and faster to do it in the manner which we initially had proposed. So this will be done as one transaction. The question you asked around capital and what happens. I think in South Africa, yes, there will be a capital demand. It is not significant, nowhere near what you would imagine. And we are going into South Africa again as partnership with two other institutions. We will be the dominant bank in that partnership controlling. From a Tier 1 equity we will be north of 80%. Our partners are coming in with Tier 2 capital and with some preference shares. And the preference shares will be held in USD. I think throughout this call the idea of retaining capital in very strong currency and ensuring that we don't go into a market and two or three years later just because of devaluation we see that we are shrinking in size and scale. So for South Africa we will as well be a partnership. Yes, we will fund some Tier 1 capital – not significant – and then our partners, who are DFIs as Herbert mentioned earlier, some strategic investors in FI across Africa as well will be working with us in the South African market. Thank you.

Operator
Thank you. We have no further questions on the audio line. Can I hand back to you for questions from the webcast? While we are waiting for questions from the webcast can we take another question from the phone line?

Herbert Wigwe
Yes please.

Operator

Thank you. The next question is a follow-up question from Timothy Wambu from Absa. Please go ahead, Timothy.

Timothy Wambu
Hi. Thank you. First of all I'd say congratulations on this strategy. It is quite ambitious I would say. We've seen some of your peers venture to East Africa and to Southern Africa as well. And you know when we track their performances – and this is referring to your Nigerian peers – we've seen them not really grow. They have been [break in audio] in those markets. Just to start off I just want to find out whether you are willing to divulge what multiples you are paying for BancABC Mozambique and what you paid for Cavmont Zambia and maybe the ROEs of those. I think that would be helpful. And maybe also what you paid for Transnational Bank and the ROEs.

Then maybe after that could you just give us a sense of the positions in those markets? Are they tier one, tier two or tier three banks? Just to get a sense of from a scale point of view where exactly they sit. I know for instance that Access Bank Kenya still remains one of the – it is a small tier three bank. I just want to get a sense of Zambia following the acquisition of Cavmont where that sits, and also the position of BancABC as well. My other question would be on strategy. You have spoken about your ambition to scale up. So let's say in Kenya, is it going to be a retail driven strategy? I heard you mention in the presentation that you're looking to bank corporates. So I would assume this is largely intra-Africa corporates doing a lot of intra-Africa trade. Maybe just expand bit on that strategy on how you intend to grow your [unclear] business. Then just lastly on your payments business is there any possibility that you're interested in the payment service banks which I think banks in Nigeria are potentially looking at being a part of? Thank you.

Herbert Wigwe
Okay. Thank you. Several questions asked in one, but I will try and see if I ca answer the different questions. I think one of the things you were asking about had to do with the positioning in the different markets in which we've basically done acquisitions. You know, in the course of my presentation I mentioned to you that in the key hubs we will not just be a [unclear]. So we will continue to take whatever actions required to scale up to the point that is required for us to serve the markets that we want to serve. So in Zambia we have done the acquisition of Cavmont. We think that has shifted us to a tier two type institution coming from one of the smaller institutions. We continue to look for ways in which we can improve and enhance our position in Zambia. The overall capital of Access Bank Zambia has changed, and I think if you were to look at the top seven banks from a capital standpoint already we are getting there. We will do several other things required in Zambia to basically take us to the tier one number. Now, we will be a top five bank definitely in Zambia over the next year, definitely. You can take that home to sleep.

Now, with that level if you begin to understand that the level of imports or trade between South Africa and Zambia is about $5 billion I think, if I recall, and of course to Mozambique, maybe a bit less to Zambia, there is significant connectivity in terms of business between those countries. In Mozambique we've basically taken ourselves up through the combination with BancABC and that combination hopefully should be concluded imminently because most of the things have already been done. If that happens we are moving from a tier three play to a strong tier two contender. So definitely we will be one of the top ten banks in Mozambique. And based on the capital that we've had from a capital [unclear] it will propel us to probably one of the top five. So you can see that in each of these.

And by the way, the ROE computation is such that in all of these franchises you will see a 20% ROE over the next three years. None of them is going to be loss-making from day one. The vigour that we are putting in the combination and the structure and all of that is such that we are making sure that a lot of the problems are dealt with at the very beginning. It is true that you will never see everything. Some of the skeletons may come out after. But I think you should give us a little bit of credit for one institution that has done more combinations than any other institution in the continent to date.

Now, speaking about the payments business, it is important that we establish ourselves firmly, particularly given our growing retail expansion within the context of Nigeria and the continent. Are we going to get a PSB license? It's anybody's guess. We will continue to look for the best way to basically optimise value within the regulatory constraints that we face. But let's just put it this way. Even from just [unclear] up on what we have that business will be extremely profitable from day one.

Now, on the webcast I see a very interesting question coming out, and that came from Greg Barker of Sustainable Capital and spoke to the fact that with respect to the dividend pay-out ratio being 28% for Access compared to 50% for our comparators, i.e. I think one or two banks he is talking about. And are we going to pay more dividend out? Greg, my simple answer is this. We have a residual dividend policy. Our dividend policy is to achieve two things. One, make sure that we can support the expansion growth and infrastructure requirements properly. And secondly, make sure that our capital adequacy is north of 20%. And then of course make sure that our dividend yield does not go below the threshold of 5%.

But I've got to tell you something more interesting. The growth we are creating is about creating a franchise that will stand beyond us and will ensure that perhaps three to five years from now we would be seen as a strong global player whilst maintaining that balance with what needs to be paid to those shareholders who require some cash. So a lot of the money we will retain to support our growth trajectory. In some countries like the UK we will not pay any dividends because we are using it as our own capital edge, if you get the point I'm trying to make. The whole idea is to make sure that we create an institution, whether it's like [unclear] or some of the other global players that have been mentioned at this point in time, while making sure that you have adequate capital to support yourself.

With increased profitability obviously we may see the need to pay out a bit more dividend, and I think that will happen given what we are seeing with respect to the increased profitability coming from retail and all the things we are doing. But it's not to say that there a firm dividend ratio, a firm dividend pay-out ratio. The idea is to make sure that out of what is considered a strong capital we retain earnings that are required to support our growth and that dividend payment in terms of cash is residual. But hopefully we will be sufficiently comfortable to ensure that that amount continues to grow and becomes significant even in the hands of the retail shareholders.

There’s another one that speaks to the transition to HoldCo. We have started the process obviously. There are legal things that need to be accomplished. We expect to go through it in the course of the year and be careful with giving you any specific dates because obviously there is some timeframe and legal things that need to happen. But I think that if we take this year it should happen sometime in the later part of this year.

How would Cavmont affect the bank’s bottom line? I think Cavmont basically is value accretive to Access Bank Zambia and the ROE of the combined entity will be north of 20%, so it will be profitable. Well, in terms of 2020 which has just passed it will not be anything because Zambia is a tiny little component if you look at it in the context of the overall size of Access. The profit of Zambia is maybe something [unclear] but nothing in the context of the overall size.

What are the expectations for how the expansion will drive the share price on the local [unclear]? I don’t know. All we are doing is creating value. We will push value. We will grow the profitability. We will grow the ROE. That’s what’s important to me. We will continue to make sure in terms of scale and scope and global relevance that the institution continues to get its own, and of course the market will price as well as we move on.

There is a question on the growth in agency banking. What are the risks involved and how is the bank mitigating those risks? How is the bank going to ensure the culture rubs off on the agents? A very tricky question. That is also going to be moved to HoldCo because the number of agents is an issue. There are operational risks, but let me put it this way. If you look at the overall contribution to our savings account business, which doubled actually in 2020, those operational risks amount to nothing compared to what has happened. Like you said, we need to speak about culture issues, so we need to create a separate vehicle that will manage what that means from an earnings standpoint and their expectations and their career path etc. So that is how we intend to deal with that. [Unclear] was the one who asked that question. That covers all the questions we’ve seen on the webcast and I’ll leave it to the telephone lines to see if there’s any more questions before we draw today’s presentation to a close.

Operator
Thank you. Ladies and gentlemen, just one final reminder, if you would like to ask a question, please press * then 1. If you would like to ask a question, please press * then 1. The next question is a follow-up question from Adesoji Solanke from Renaissance Capital. Please go ahead, Adesoji.

Adesoji Solanke
Hi Herbert. I just wanted to ask in terms of Nigeria and M&A. What is your view in terms of how things play out from a strategy viewpoint? Do you think you could potentially buy another bank? And also, how are you assessing the responses from your peers to the competitive dynamics in the Nigeria market? Thanks.

Herbert Wigwe
Okay. Soji, let me put it this way. We have acquired very significant scale through the combinations we have done, and we are digesting what we are doing. And that remains our focus for now. I think that if you go around the market there is no other institution that understands M&A like we do. People are [unclear] which is fine

quite frankly, but understanding M&A is a different skill altogether. We want to focus on making sure we have one culture, some of the teething issues that come from combinations are resolved, some of the SME [?] issues are resolved and some of the culture issues are resolved.

It doesn't mean to say that if there was an opportunity that was compelling and would add value that we would not look at it. But the idea for us now is that with this trajectory we have started forcing down those costs which we were criticised for. One thing is clear to me in my mind. The market will understand all we are doing, and all we've been doing is investing for the future. All you need to do is just cast your mind back eight years, nine years, ten years ago. Who would have thought that we would be where we are today? We haven't even started because we are building a global franchise, we are investing for the future, and anything that will make us strong at home in Nigeria specifically and of course in the continent, and creating the framework for us to expand outside, we will look at it because we understand the framework and we've put in place the framework to do it.

Now, with respect to the strategic responses from our colleagues, I think that quite frankly from a risk standpoint the Nigerian banking industry is so much better than it was maybe ten years ago. People are playing according to their strengths. If you don't understand M&A and you grow organically and you want to attempt it, it does come with its own issues. There are branch issues etc. But then there is only so far organic growth can also take you. So people are looking at all of these opportunities and looking for how to grow. I think at the end of the day what you will see is that for us it's not just competition with Nigerian banks. We are in a global market space. The world is changing. The environment is changing. You may wake up one day and find out that you are talking to the wrong competitor. And what we need to do is keep our eyes on that larger ball and make sure we're getting there. You will see a lot of Nigerian banks that have the same aspirations if you like, but it's a race against time and we are determined to be ahead of everybody else.

Adesoji Solanke
Thank you. Just one quick follow-up. Just in terms of what's been going on locally – because there's this softness of liquidity in the local market – I know this is not an earnings call, but if you can just talk around how you think the low interest rate environment could affect the profitability of the industry. What sort of responses could banks potentially have to this environment? Because it's a [unclear] clearly. I'm just keen to hear your thoughts.

Herbert Wigwe
It is. It is. And we saw it as far as the interest income is concerned on our own financials. It dropped because obviously the government is intending to pursue a low interest rate regime. And that is basically due to some expansion in terms of credit to the real sector and all of that. Is there merit in it? There is merit. Are there questions around it? There are questions. But the central bank will continue to [unclear] to make sure that it continues to protect itself and support the growth in the real sector. Now, how will banks respond to it? Obviously people are looking for where to lend money and what to do etc. We have pursued a retail growth and we think that even growing from the transaction banking that we are doing can make up for a lot of that loss which people have seen. And you have seen it in the balance sheet and you've seen it in our P&L. It's not an earnings call, but that is what we are seeing.

Will we keep pushing margins on our retail loans? The answer is yes. Is there room for people to take those loans? The answer is yes. If you look at us compared to everybody else in terms of the crash in terms of the cost of funds, we have brought it down faster than anybody else. So for us an initial significant advantage overall at the time of the combination. But for us we have come down very significantly while [unclear] to achieve. So at a time when people are going to suffer and profitability will remain reasonably flat, in our own case it will be moving up compared to our comparator banks. It will create significant pressure on banks in 2021 because of the low interest rate regime. We think we are on the better side of it given where we are coming from. And the combination we did was just fortuitous. How could you have known that this was what was going to play out? So we start to benefit from it. But it’s a very competitive and intense period, so people have to look for creative ways to actually lend to the real sector.

Operator
Herbert and team, we have no further questions in the queue. Can I perhaps hand back to you for closing comments?

Herbert Wigwe
Okay. All that is left is for me to thank everyone who has been able to come onto this call. It was not an earnings call. I think this shows some insight in our institution and we also felt the need to share with you where we’re headed. We look forward to the more appropriate earnings call after our financials are approved. And once again thank you so much for dialling in. Have a great day.

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

END OF TRANSCRIPT