Conference Call transcript

FY 2022 RESULTS PRESENTATION
20 April 2023

Operator
Good day, ladies and gentlemen, and welcome to the Access Holdings Plc full year 2022 results call. All participants will be in listen only mode. For the participants on the webcast, you may type your questions in the webcast question box. For the participants that have dialled in, there will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal for 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 Mr Herbert Wigwe. Please go ahead, sir.

Herbert Wigwe
Thank you very much, Chris, and good afternoon distinguished ladies and gentlemen. You are all welcome to our investor call at Access Corporation, where we will be announcing our full year 2022 results. Whilst we don't usually have quarterly calls, I guess in the course of this presentation, we shall have our Q1 results also posted for those of you who want to see and to ask questions. We prepared a detailed presentation of the group's performance over the last year highlighting the programme, the growth and the strength of our business, as well as the challenges experienced during the year.

In 2022, we generated a record revenue, just a bit shy of ₦1.4 trillion. We finished the year with over 58 million individual customers across an extensive network of subsidiaries and business segments. We also introduced Access Corporation to the world. And with that, we formally launched our pensions and payments businesses. In addition to our financial performance, I'm excited to discuss with you today some of the developments across our group.

On the call with me today are Mr Roosevelt Ogbonna, who is the CEO for the banking group, Dr Greg Jobome, Executive Director at a group level for risk management, Mr Seyi Kumapayi, Executive Director of African subsidiaries, Miss Bolaji Agbede, Executive Director of Access Corporation, Mr Lanre Bamisebi, who is the Executive Director in charge of IT and digitisation, Ms Morounke Olufemi, group CFO, Access Corporation, Ms Kemi Okusanya, who is the CEO for Hydrogen, our payments business, Mr Hilary Daudu, CEO of Oxygen, which is our digital lending business, and Mr Dave Uduanu, who is the CEO of our pension business. We also have other executives across the banking group and business verticals to support us.

I will go briefly over the presentation, after which will allow enough time for questions and answers. Now, first speaking to the macroeconomic and regulatory updates, I would like to speak on the global environment where we have an ongoing impact of the Russia Ukraine war, which affects global supply chains and oil prices. We saw central banks struggle across the world to hike interest rates to combat inflationary pressures. In Nigeria there were four interest rates hikes at the monetary policy rate in 2022 alone. In addition to this, we saw a heightened Dollar against the Naira and the world's major currencies, and increased risk of recession across key markets.

Highlights of the Nigerian domestic economy in 2022. Within Nigeria, we were not immune to the impact of the Russia Ukraine crisis, as earlier mentioned. We experienced high inflation rates with significant increases in food and energy prices. Nigeria had a GDP growth rate of 3.1% in 2022, and the price of crude has stabilised at about $80 a barrel. Now, oil production ended the year very strongly on the back of intervention by the government to tackle oil theft. And so far in the first quarter of 2023, we have the healthy increase in the oil production revenues and figures reaching 1.6 million barrels per day at the end of Q1. We also expect to see some positive impacts from the Dangote refinery within the 2023 financial year.

There was a 9% depreciation in the Naira's official rate, mostly due to the FX liquidity and shortage of Dollar supply to the market, and in the first quarter of this year, we witnessed the sovereign downgrade in Nigeria by key rating agencies, specifically Moody's and Standard & Poor's. This clearly had financial implications which resulted in impairments of approximately ₦4.3 billion in the 2022 financial year numbers.

Slide eight and nine speak to the regulatory landscape of Nigeria and the rest of the continent. On the regulatory side for Nigeria, the apex bank announced the Naira redesign policy in October 2022 with the intention of mopping up excess liquidity outside the formal system to control money supply, and to a lesser extent, ensure the promotion of more digital payments and transparency. There was an estimated ₦2.7 trillion held outside the banking industry. In addition to increased transparency, the policy implemented was intended to support the cashless initiatives of the central bank and the use of electronic channels and improved financial inclusion.

In the pension industry we also saw the Pension Commission increase the minimum required regularly capital from ₦1 billion to ₦5 billion within the pensions administrations base. In 2022, we acquired a significant shareholding in Sigma Pensions and First Guarantee Pensions, and therefore completed two M&A transactions within two quarters. The combined entity was unveiled as Access Pensions and currently ranked among the top PFAs in Nigeria today.

With respect to the African subsidiaries, sticking to the regulatory highlights across the rest of Africa, notably amidst the Ghana sovereign debt crisis, the Ghanaian government announced plans in December 2022 to restructure its debt portfolio. Local bondholders were asked to swap about ₵137.3 billion worth of domestic debt for new bonds. The domestic debt exchange closed on 10th of February and the result of Ghana's Ministry of Finance showed participation in the exchange was approximately about 85% of eligible holders. Discussion with the rest of the Eurobonds is currently at an early stage.

Now, unfortunately the debt crisis in Ghana resulted in a huge impairment write down of about ₦103 billion from a 30% haircut to cover both local and Eurobond exposures to Access Bank, and this has depressed the overall 2022 figures for the corporation. However, this is a one-time event, and we do not anticipate any future write-downs at this stage. In Kenya, we saw some stringent checks on digital lenders leading to the deregistration of several small digital lenders at the market.

Slide 11 speaks to a global network of scale. Access Corporation continues to grow and expand into a connected ecosystem. As at the end of 2022, we had about 58 million individual customers and about 63 million unique accounts in 17 countries across the world, and with a network of over 600 branches and over 6,000 professional staff. And this continues to grow. We are established market leaders for sustainable business practices in Nigeria and Africa. Our digital banking network continues to expand, leveraging innovation and best in class technology infrastructure to make budget seamless and convenient for our customers.

Our vision remains to create globally connected community and ecosystem inspired by Africa for the world. Growing our network on Africa, we have been able to build a strong universal payment gateway to support trade across the continent. With respect to economic, social and governance initiatives, we issued a senior unsecured $50 million step-up green bond in May 2022 with a five year tenure due in 2027 in the international capital market following the original five year green bond issued in 2019, which was the first of its kind from a corporate in Sub Saharan Africa. And on the back of that commitment to ESG, we have been identified as global players in the Nigeria Sustainable Banking Principles Steering Committee, the United Nations Principles for Responsible Investments, the Equitable Principles, the United Nations Task Force for Climate Change Financial Disclosures, and as a result, we have been recognised with several international and local ESG accolades.

At this point, I'd like to just provide a highlight with respect to our 2018 to 2022 five year plan which is just ended. For the benefit of those who only just joined us recently, or halfway through the last cycle, it's good to recap the key achievements of the last strategic cycle which was concluded in 2022. Access Bank worked towards the vision to become the world's most respected African bank, the number one bank in the country, and a strong franchise outside of Nigeria over the five years. We have executed and expanded our footprint in a clear, disciplined manner in this whole process. In 2017, we were present in nine countries, and we have now seen that grow to 17 different countries.

Our retail business is second to none. It's now at 58 million individual customers and 63 million accounts, surpassing the original 35 million accounts that was planned. We've also built a universal payment gateway ensuring seamless payments across the entire continent between 2020 and 2022. We continue to boast of a very strong, robust risk management framework, and this is demonstrated in our healthy ratios including our non-performing loan ratio of 3.1%, which is possibly one of the lowest in the industry. The strategic importance of the network we have built, and which we continue to build in Africa and beyond Africa, cannot be underestimated. For our corporate clients, we have been able to build key trade finance routes, encouraging value chain businesses through increased correspondent banking services within the franchise, allowing us to offer a vast array of enterprise solutions.

In January 2023, we unveiled our new five year corporate strategic plan from 2023 to 2027 to the market, highlighting our strategic objectives, and how we will achieve them by leveraging the Access ecosystem through increased collaboration. Africa is ripe with growth potential. All the metrics tell the same story. And over the last few years, we have finally started to see strides across the financial services market on the continent and the global stage. And it's our belief that properly managed for risk, and with emphasis on payments, we believe that we would benefit from a very strong presence.

With respect to global footprint, and in line with our African expansion strategy, we commenced full operations in four African countries between 2021 and 2022, which are Botswana, South Africa, Kenya and Cameroon. We have also received regulatory approval to commence operations in other European countries, fully reflected in 2022. We expect to kick off operations in the second half of 2023 with our presence in France, basically to support our Francophone business and trading. We will continue to capitalise on these opportunities to expand into countries with better risk ratings and a complementary business landscape. Egypt, the United States of America, Angola, Morocco and Tanzania are some of the several markets we will explore opportunities that will bring value to shareholders.

I will now proceed to the financial and operating highlights of our performance in 2022, starting from slide 17. Our institution had a gross revenue of ₦1.388 trillion, which is a significant increase by about 3% from last year. Our shareholders funds now stands at ₦1.2 trillion whilst our total asset is currently about ₦15.1 trillion. Access Corporation is the first banking group to cross ₦1 trillion in gross earnings and over ₦15 trillion in total assets in the industry today.

Over the past years, we have seen a steady growth in structural inefficiency in the businesses which we'll cover in greater depth in subsequent slides, having significant impact on overall margins. The level of inefficiency we have seen is quite disproportionate, given our size and growth rate, particularly in Nigeria. And we expect that when this is corrected, there will be a significant upside for Access Bank and allow us to get a bit more monetary cash reserves that the central bank has asked for in excess of the statutory cash reserves. However, we've taken a long term view, but nonetheless, we will continue to be very profitable even in the short term.

On slide 18, we will see a snapshot of our financial performance as we delivered stellar earnings with a solid balance sheet and improved efficiency across key performance metrics. Our net interest income increased or improved to ₦309.4 billion, which is a 19.2% improvement from last year. And the growth for the revenue line was largely driven by a corresponding 25% growth on our gross loan book. Our non-interest income stood at ₦561 billion, representing a 51% improvement from last year. Operating expenses increased by 35% to ₦502 billion driven by double digit inflation environment, continuous investments in technology and innovation to drive skill across Access Corporation. We also saw the full impact of the newer banking subsidiaries recognised in 2022.

Our profit before tax, PBT, before impairment was ₦275 billion, and this represents our core sustainable numbers and represents a 55% growth from last year. Our PBT post impairments, and this is more speaking to the issues around Ghana, stood at ₦167.6 billion, which is basically 5.1% down from our numbers last year. Still on slide 18, our loans and advances, customer deposits and total assets all had double digit growth of about 25% last year. Now, this is driven by several factors, including our channels optimisation strategy, our customer deposits across business segments, credit disbursements to critical sectors of the economy to support growth and development, and our overall strategy of building a strong and resilient balance sheet.

Our regulatory ratios are well above the minimum thresholds with our capital adequacy ratio and liquidity ratio at 19.6% or 35% respectively. Our cost to income ratio improved by approximately 90 basis points as we continued to implement our various efficiency drives across the corporation. Return on average equity dipped to 13.4% off the back of a lower profit after tax which was driven by the impairments from the Ghana debt restructuring programme. And of course, the fact that we have recently added additional tier 1 capital which has basically helped to dilute some of these results.

Our cost of risk increased by 20 basis points year over year to 2.2% – last year, it was 2.0% – again, on the back of the sovereign debt impairments from Ghana, while our cost of risk excluding impairments dropped from 2.0% to 1.4%. We continue to see a persistent drop in NPL ratio as you move on. Slide 19 and 20 show the pictorial highlights of our overall performance in 2022. On slide 19 I would draw your attention to the yield on assets, which has improved to 9.2%. And cost to income ratio with the year-on-year improvement of about 90 basis points despite the high inflationary environment.

On slide 20, customer deposits grew to ₦9.25 trillion from ₦6.9 trillion in 2021, while our loans and advances grew to ₦5.6 trillion from ₦4.4 trillion in the corresponding period last year. Our NPL ratio improved to 3.1% from 4% in 2021, which is well below the regulatory ceiling of 5%. Our CASA ratio improved to the 63% in the financial year ended 2022 from 58% in 2021. On slide 21, we will see the full impact of the cash reserve ratio on principle ratios. And this is very important. When you assess our performance, you will understand the significant amounts of mandatory cash reserves separate from the statutory required and the overall impact on the institution.

Now, Access Bank's restricted deposits with the central bank has grown at a rate of 39% over the past five years, and it now stands at ₦2.1 trillion, representing 40% of total assets. Now, the whole idea is that as you grow and the bigger you are, this whole ratio acts disproportionately in terms of how it affects you. Now, this has continued to put a strain on our net interest margin and liquidity ratio, considering the material growth in non-interest bearing assets over the years. The cash reserve ratio was increased to 32.5% in 2022 from 27.5%, which further sterilised an additional ₦675 billion in deposits.

On slide 22 we see the impact of the regulatory cost again coming from our size, and the banking group has continuously paid the highest regulatory fees out of the five tier 1 banks since 2020 with the CAGR 18% between 2019 and 2022. As we continue to grow our asset base, this figure will continue to grow. But despite all these pressures, we have continued to grow our revenue lines throughout the year and intensified our efforts on income diversification and making sure that we continue to be extremely profitable as we move on.

Slide 23 focuses on the breakdown of our revenue across the franchise which basically attests in this case to the resilience and diversified nature of our revenue streams. Now, our gross earnings grew by 43% year on year to close at about ₦1.39 trillion in the period, comprising 60% of interest income and 40% of non-interest income. Our compounded annual growth rate increased by 35% over the past three years, which denotes sustained growth above ambition in the business. Our interest income drivers, we saw a 31% year on year increase in interest on loans and advances to ₦481 billion despite the high inflationary environment. And the increase in interest income was also driven by a corresponding year on year growth by about 35% of our loan portfolio. So, it was both a volume game and a price game.

We also saw a 64% year on year increase in interest income from investment securities to ₦333.6 billion from ₦203.7 billion last year as yields continued to improve across the markets in the second half of 2022. Now, with respect to non-interest income, we saw a 23% growth. At our full year ended 2022, that figure is at ₦566 billion. And of course, we also saw a 131% growth in our trading income to ₦335.5 billion from ₦145 billion in 2021. And of course, this was largely driven from the significant increase we made in the local currency and foreign currency investments, which are basically invested in treasury instruments for both private and public sector counterparties that are a very safe investments. We saw a 24% year on year increase in our fees and commissions to ₦197.6 billion, and this was largely driven from the credit related fees and commissions especially which grew by about 107% year on year.

On slide 22, we see double digit growth in interest income. Our interest expense also grew by double digits year on year due to the high interest rate environment that existed of both local currency and foreign currency. In Q1 2023 we have had already debit of ₦243 billion, further exacerbating the pressure on our NIM and other ratios. But again, we expect to see a growth in interest expense, which will be driven by higher cost of fund, because each time you find a significant increase in cash reserves, technically, what you're likely to see is a rearrangement as far as our cost of funds within the system is concerned as part of the interest rate regime which has shown consistent increases as far as interest rates are concerned. To practically support healthy margins across the business, we will continue with the initiatives of basically making sure that we manage our deposit mobilisation – and I'm talking about our current accounts and savings accounts – to support the NIM growth. And of course, good quality loans at healthy margins to support the business segments.

Slide 25 shows the positive impact of our customer acquisition and retention strategies on deposits. We saw customer deposits increase by 33% to ₦9.25 trillion from the impact of our channel optimisation strategy on customer acquisition and deposit mobilisation. CASA account deposits increased to ₦5.7 trillion from ₦4.1 trillion, accounting for 63% of deposits. And at the end of 2022, Nigeria showed a higher CASA mix of 67% to 37% compared to what happened in 2021 of 60% to 40%.

On slide 26 we have the breakdown of operating expenses. Our overall cost to income ratio improved year on year to 57.9% coming from 58.8% as our revenue base improved. And we have concurrently doubled down on cost containment strategies. This is approximately 550 basis points reduction over the past two years despite the significant growth in inflation across the entire continent in the period. We spoke to the market about our continuous investment, and it's evident that we are beginning to see the positive impact of this investment in our revenue growth. The year on year growth you see in opex was impacted by the double digit inflation environment, driving inflation, currency devaluation, material growth in regulatory fees which I have shared earlier, significant investment as far as IT is consent, and of course, the increasing number of subsidiaries and number of staff.

Our cost of risk focussed on the core loan book excluding impairments taken on Ghana sovereign debt, and this dropped from 2.0% in 2021 to 1.4% in 2022. If the Ghanaian impairments are factored in, our overall cost of risk increased from 2% to 2.2%. So, without Ghana risk, it would have come down to 1.4%.

Slide 27 shows a consolidated snapshot of the revenue contribution of the business verticals across key performance indicators. From the dashboard we can see the banking group still contributes a significant portion of revenue along with fee income lines. This will become more diversified as we progress in the current strategic cycle as the other business verticals begin to make money and transition from their respective gestational phases to creating collective value. We're excited about the opportunities in the pensions, payments and lending verticals, given the market size and growth potential across different jurisdictions.

With respect to our banking group performance highlights, I'll be speaking to the performance of the banking group from slide 29 onwards. Here we see the result of our commitment to building a resilient balance sheet across capital, funding sources, deposit mix, regulatory ratios and risk assessment portfolio. Our capital adequacy for the banking group is above regulatory limit of 15% at 20.2%. Our risk weighted assets grew by ₦1.9 trillion, primarily driven by strong, cautious and quality growth in the group's asset portfolio. Our customer deposits continue to dominate the bank's funding strategy mix at 62%. And as we deepen market share or wallet of our corporate, commercial and retail customers, we expect that this ratio will continue to show great improvement. Our liquidity ratio remains well above the regulatory minimum at 39.5%, 50.7% in this time last year. That was largely affected by the significant jump in our CRR.

If I move on to slide 31, we will see the loans and advances distribution per segment where we have a well-diversified loan book of ₦5.6 trillion, reflecting our approach of mitigating concentration risk with quality credit to critical and growth sectors of the economy. The foreign currency portion of our loan book increased to 23.7% as we continued to support our customers to grow their businesses during periods of low FX availability. Our loan to deposit ratio closed at 58.7% as of 31 December 2022, reflecting a healthy and cautious growth in the loan book.

On slide 32, we show the breakdown of our NPL analysis. It clearly illustrates a continued improvement in asset quality. Our asset quality continues to improve with our NPL ratio down to 3.1%, below the regulatory ceiling of 5%. And it also hints at the proactive arrangements as far as loan disbursement is concerned and robust risk management practices we have.

If you turn to slides 34, 35 and 36, we speak specifically to the performance of the banking subsidiaries. And on slide 34, we will see the key takeaways on the performance of Africa and international subsidiaries. As far as African subsidiaries are concerned, we saw a 30% growth in revenue, but the impairments up by 329% largely due to the Ghana debt crisis. Deposits increased by 10% and is now about ₦ 1 trillion, while loans and advances grew by 9%. The Ghana sovereign debt restructuring impacted the Ghana subsidiary standalone PBT by as much as 132% as that company had to take a loss.

But on international subsidiaries outside of Africa, we saw a 52% growth in revenue, impairments up by 8%. Deposits increased by 10% at approximately ₦400 billion, while loans and advances grew by 36%. We've secured approval from the registry authorities for our planned subsidiary, and we will hope that by the second half of this year, it to be able to open its doors for full operation.

Here on slide 35, we have reached the update on Ghana's sovereign debt crisis. And we are committed to ensuring that our Ghana business will continue to be profitable. Slide 36 shows the banking subsidiaries by country. The subsidiaries' contribution to the banking performance stood at 11% and was dampened by the impairments taken from the Ghana debt crisis. Now, Access Bank UK and Ghana accounted for 59% of banking group subsidiaries operating income of ₦198 billion, up 11% year on year.

Access Bank Ghana reported a PBT loss position of ₦22.3 billion due to the 20% loss in the value of investment securities in African subsidiaries. But total deposits in subsidiaries amounted to ₦2.67 trillion, 23% of our total banking group deposits.

This presentation will not be complete without touching on our digital lending business, which is a significant growth area. And of course, the year-end performance is on slide 38 and 39. Now, on digital lending, the portfolio continues to show strong sustainable growth. Disbursements increased 15% year on year although there was a 24% decrease in the actual number of digital loans issued in the year because of a more stringent eligibility criteria that was established for the payday loans. But in terms of revenue, digital lending generated about ₦23.6 billion, which was up by 85% from our 2021 position. On our retail channels, our transaction values have grown at an annual rate of 46% since 2020, recording a transaction value in the same period of about ₦69.5 trillion. We continue to make investments in customer experience and our IT infrastructure to ensure smooth service delivery across all channels.

Our outlook for 2023. Here we have the guidance for 2023 and our 2027 targets. In view of the current market realities, our guidance for 2023 will be return on average equity of 18% with the impact of the freshly increased capital of $300 million. A return an average yield of over 2%. A yield on assets of greater than 10%, and cost of risk of 2% or below. Non-performing loan ratio less than 5%. Cost to income ratio less than 60%. A net interest margin of over 5%. Capital adequacy ratio north of 20%. And finally, we will grow our assets under management for our pension business from approximately ₦1.3 trillion.

In concluding, we are confident in the momentum we've built so far. We're excited about the coming year as we go a step closer to creating a global connected community and ecosystem inspired by Africa for the world. I want to thank you all so very much for your time. I will now open the lines for all your questions covering the last financial year, and for those who are interested, the first quarter of this year if it has already been hosted, as it must be.

Operator
Thank you very much, sir. Ladies and gentlemen, if you would like to ask a question, please press * and then 1 on your touchtone phone or on the keypad on your screen. If you decide to withdraw the question, please press * and then 2 to remove yourself from the list. Again, for the participants that have dialled in, if you'd like to ask a question, please press * and then 1. Just a reminder for the participants on the webcast, if you'd like to ask your questions, please type your questions in the webcast question box. One moment please while we pause for questions. The first question comes from Kato Arnold Mukuru from EFG Hermes. Please proceed with your question, Kato.

Kato Mukuru
Hello, everybody. Can you hear me?

Herbert Wigwe
Yes, we can.

Kato Mukuru
Thank you, Herbert, for a detailed presentation. I really appreciate you making the time. My first question is, I was looking at your currency risk analysis in your FY 22 financials. And I noticed that your US Dollar deposits increased by ₦1 trillion at the half year. For the full year they actually fell roughly around ₦300 billion. So, over the full year, they increased by about ₦700 billion. To put that into context, GTB, for example, just to put it in context, had a Dollar book that increased about ₦160 billion. What drove this tremendous increase? Because it was actually in the first half of last year, not actually during the demonetization at all. In a country that actually has no Dollars, how did you manage to grow that book so strong in Nigeria? And I'm almost certain it's Nigeria, because if I look at your country segmentation analysis, that's where the growth in deposit was. So that's my first question.

My second question is your net trading gains increased from ₦44.8 billion in 2021 to ₦281 billion. That's over sixfold, isn't it? How did you manage to do that? If I look at your peers, again, nobody's making that type of money, with the exception of one. I don't need to name. In trading, what exactly happened? Because if I look at your bond book, the treasury book did increase, but not by that much. If I look at the treasury book and your bond book, they did increase, but nowhere near by that amount. What is it that you're doing that the rest haven't figured out on the trading side? Thank you.

Roosevelt Ogbonna
Thank you very much. Kato, thank you, and good afternoon. So, I'll start with the FCY deposit growth. I think we've been very deliberate. I suspect, and I think I'll be right in saying this, we happen to be the only international Nigerian bank that banks all the IOCs and has active relationships with IOCs. The IOCs remain a large provider of FCY deposits in the books of banks. Anytime there's a market fracture, as you know, there's always flight to quality, and we have been the beneficiary of that flight to quality. So, we've seen, without mentioning names, IOCs who have moved from what was zero to about $330 million in deposits with the bank. We also bank the sovereign oil company. And in the course of the last 12 to 18 months, we've built such a strategic alliance that has seen that deposit growth also happen on our balance sheet.

I guess the third is our Access UK business. That business has grown its balance sheet and a lot of that balance sheet is Dollarised as well. So, you've seen the deposit growth either through some of the sovereign relationships that we have, or the large corporates that the bank has in the UK that has seen that deposit grow. The deliberate pay down at the end of the year, which has seen that trend from about a $1 billion to $700 million was just us managing costs. You would have seen the Fed increasing interest rate about three or four times in the course of last year. Our customer deposits outside of the IOCs, which is really a transactional balance, has grown. And so, when we did raise cheaper sources of funding, we had to try and reduce those payments. Some of it came through from the pay down on the swaps with the sovereign. So, as those monies came through, we applied the funds towards bringing down the cost of deposits, and of course, the cost of doing business.

On the net trading gains, two things have driven that. If you look at our books, you'd have seen that we grew… I like the comparison you are making, but you will also see that the Nigerian bank grew about ₦2.2 trillion in deposits, overall deposit. Now, that deposit had to be deployed. In a market where there's a liquidity conundrum and we're not lending aggressively, as you'd have seen in our loan to deposit ratio, we had to deploy that liquidity. And a lot of it, as you'd have seen, as Herbert alluded to in his presentation, the mix of that deposit has moved from a 60/40 CASA to total deposit towards about 67/33. And if you look at today, we have crossed the 70% threshold, which is something we struggled with for several years. So, that's a cheap source of deposits.

We are signing 1.5 million accounts every month, raising that deposit from financial inclusion. It was at near zero, or at least it was 1.1 in the course of most of last year. And what we've done is deployed to fixed income. So that had a significant impact in terms of returns. It could have allocated to the loan portfolio or it could have been in fixed income. But as I said, given the liquidity conundrum, we chose to invest in fixed securities. The second, and I think quite instructive, is just our swap book. The fixed income securities that we invest in Naira liquidity that comes through was priced at an average of about 12%. In the course of the last 12 months, we've seen interest rates trend up. We have a significant part of that group that matures after April. So, we have seen the impact of that interest increase or gain that will play out in the course of that period. So, we saw what was an average of about 12% on the book to about 16.5% or 17%. So, almost a 400 to 450 basis point increase. It made that impact.

I think the last thing you'd have seen in this gain is the exchange gains that would have come through. At the time the deals were booked, the Bloomberg forward rates versus where they were at the end of the year showed some clarity. All of that contributed to that net trading gain. I think the way to look at it is just to look at the overall earnings. I mean, we could have deployed this in capital, in loans and advances, and we would not have quarrelled that we had growth in interest income. So, it’s either net interest income or it is net trading gains. Ultimately, it’s just about how we deployed the ₦2.4 trillion deposits that were generated and how efficiently we run our balance sheet ultimately, working with the counterparties that we've dealt with.

Herbert Wigwe

Kato, just to support Roosevelt’s point, I think the rate of growth of the institution, the cost of funds, the tilt towards CASA is creating such a strong institution in terms of earnings. And I guess the deployment of those resources is what you're seeing in the results. And of course, you'll see it more and more as we go into this financial year. But thank you very much. Next question.

Operator

Thank you. The next question comes from Konstantin Rozantsev from JP Morgan. Please proceed with your question, Konstantin.

Konstantin Rozantsev

Yes. Thank you very much for the presentation and for taking my questions. I had a few questions that I wanted to ask. The first one, I'm looking and comparing the results for the bank for the full year and for the nine months of last year. And I see that during the last quarter of the year, there has been a quite a significant drop in the capital ratios. So, tier 1 was down by about 4.5% and probably total capital adequacy was down about 3%. So, could you please attribute that decline? What specific losses or changes resulted in such a large drop in the capital ratios in the fourth quarter?

Then probably related to that also, in the last quarter of the year, there has been a fairly significant increase in the regulatory risk reserve, which I guess is excluded from the capital calculation. That's provisioning for what kind of risks in the balance sheet? What was the reason for that increase? And the last question. So, the bank has recently announced this $300 million investment from the holding into the bank. Could you please share some colour? How was this kind of money funded on the holdings balance sheet? Thank you.

Herbert Wigwe
Let me start on the last one. So, that was a $300 million investment by the holding company, in AT1 instruments of the banking group. Now, the source of funding for the deal done with Afrexim, which is for a tenure of 10 years. So, it was a 10 year debt instrument issue, and was invested in the AT1s. And the whole idea is to continue to strengthen our franchise in foreign currency without convention and to support our growth. So, that's what has happened. I will let Greg speak to the increase in the risk reserve and the capital adequacy ratios which came from the increase, obviously, in the loan book and all that. But Greg is going to address the first two questions.

Greg Jobome
Thank you. Thank you, Herbert. So, with respect to the regulatory risk reserves, I'm sure you're familiar with how it works, has worked over the years. So, the bank goes through its own IFRS 9 process. The central bank does their own. And whatever the differences between them is passed through regulatory risk reserve. So, that has been in practice since 2017, 2018. Sometimes a bit higher, sometimes a bit lower. For 2022, that is the figure. And the impact is of course deducted from your core capital. That's what has happened on that. But in terms of the overall trend or direction of the ratios for the full year, we would have seen the impact with the risk weighted assets.

Herbert spoke earlier on about our tremendous growth in terms of lending. Now, that growth in lending, of course, has a risk weighted asset components to it. And that's largely to good, investment grade names. So, we're not concerned about the asset quality for that. But that's one reason why you would have seen that impact on the risk weighted assets. Of course, there is the impact coming indirectly from the impairments Herbert spoke about coming from the Ghana issue. So, that impact also hit the capital. So, that's why you said that one-time reduction on the capital ratios that Herbert mentioned. Of course, it is already beginning to reverse. As you will see from the Q1 numbers, both of those capital metrics have already picked up.

Herbert Wigwe
Just to let you know again, the Q1 numbers are already posted. If it would help your questions and understanding, please feel free to refer to them. Thank you.

Konstantin Rozantsev
Thanks a lot, but just to quickly confirm. So, this increasing regulatory risk reserve, I believe that that's effectively a provision requested by the Central Bank of Nigeria in addition to what you have under IFRS. Right. And so, that additional provision is for what kind of exposures? What types of exposures? Is it Nigeria or externally? Which specific segment is this for?

Roosevelt Ogbonna
It's not to any specific segment. As you will recall, during COVID the central bank had gone through that forbearance around sectors. So, what they've done is that across oil and gas, general commerce, there were specific sectors that they had highlighted. And given the forbearance that the central bank had given in 2020 and 2021, the loans that were provided forbearance in the course of that period, even if they are performing, still stayed as forbearance loans. What the central bank has done is that they have their own metrics in terms of how they will do the valuation. So, on a straight line basis, I think what they had done was taken about 15%. And they did this across the industry. In the course of last quarter, we added an additional 4%. So, what you will find is that 15% and the additional 4% on that CBN forbearance book coming from 2020 is what the regulatory risk reserve entails. As Greg has said, I don't want to say it’s business as usual, but it's now normalised because that is how the central bank has dealt with the industry. So, it's not specific to Access Bank.

Herbert Wigwe
It was supposed to be heading towards 30%. But let me quickly add that as far as those forbearance names are concerned, they are all performing loans as we speak in Access Bank. So, it's not as if they are loans in default. They are performing loans as we speak. But until those loans run off, you will continue to see it.

Greg Jobome
So, if I can add, basically the forbearance regime would end in December of this year. So, at the end of this year, you should then see this treatment disallowed, basically. But as Herbert has said, the names that we granted forbearance to, it was based on the sector they operated in, and not on performance. So, we will find about 75% to 80% of them were stage 1 names, and the balance were stage 2 names. So, there were no new names inside the originally approved forbearance names. Selection was based purely on which sectors you operated in. And remember at the time when COVID started, the idea was that sectors like oil and gas, because oil prices went down to $20 a barrel, so the CBN as well as the banks were keen to make sure that whatever forbearance was done was on the basis of which sectors they operated in, and not necessarily on current performance. Anyone that had challenges in terms of their performance was treated under the existing regime. I can add that just for clarity.

Herbert Wigwe
More questions.

Operator
Thank you. The next question comes from Timothy Wambu from Absa. Please proceed with your question, Timothy.

Timothy Wambu
Hi, thank you. Thank you, Herbert. Thank you, Roosevelt. Just a couple of questions on your non-funded income. And the first one is really there are some gaps which I was hoping you'd help fill in for me when I look at your trading numbers. When I look at your annual report, if you don't mind, I'm looking at page 192 and note 11A. I’m just curious if you could kindly just fill in that gap. So, it shows on your financial

instruments fair value through profit and loss is a ₦74 billion loss. But at the bottom, it shows that there was a gain of ₦95 billion. So, perhaps these are derivative gains. Maybe just shed some light on that? What actually fills up that gap?

And also, 12A as well, just looking through again. On your foreign exchange gains/losses realised gain of ₦66 billion. Then you have a total net FX exchange loss of ₦34 billion. So, just kindly provide some colour on that. The second question is on the doubling in your credit related fees. We've seen loan growth, but loan growth in the 20% range, but a doubling in your credit related fees. Is this more to do with a change in how you recognise revenues? And then just lastly, on the gains that you reported on disposal of financial instruments held through other comprehensive income. There was a huge gain, ₦185 billion. When I look at note 25, it shows that there's a drop in your government bonds. I'm just trying to understand, with yields having gone up, how or what bonds are these that you're still able to book these gains on disposal. Thank you.

Herbert Wigwe
Okay, whilst we are trying to understand your questions, let me start from the credit related fees. So, that growth comes from a combination of things. One is the loan growth. And you have to understand that some of the deals we were doing were not term loans. They are loans that were repaid several times in the course of the year. And if you listened to my presentation with respect to digitisation, you will be shocked what has happened to our retail loans and the fee income that comes from those loans. So, it is the combination of that, as you have seen, that has led to significant increase as far as our credit related fees and commissions are concerned. And you will continue to see more and more of it because our payday loans, for instance, are repaid every 90 days. Some of them are 30 days. There is no transaction there exceeds perhaps 120 days. You will find less than 5% of the book goes in excess of a year. So, that is where you see a very significant portion, a very significant growth coming through. But that is supported, like I said, by what is over ₦1 trillion in terms of core loan growth, not from term loans but from facilities that are being very quickly repaid.

Roosevelt Ogbonna
I guess, Timothy, I will add to the point that Herbert has made. The focus we have always shared is that as we build a larger platform, we are seeking to create an ecosystem that transactions start and stop within the system. So, there's increased acceleration of transactions within the bank. You might well know today that one third of payment transactions in the market today starts or finishes with Access Bank. Right. So, that's a significant increase in the course of the last 12 to 18 months. Well, it has its good sides, as you can see, in terms of the non-credit fees. It also has its bad sides in the sense that when the payments infrastructure is down in Nigeria, if another bank has one complaint, you might have ten, just because of the volume of trades and transactions that are happening within the bank's system. So, that's some of the things that we see. So, it’s non-credit related fees as well as credit related fees that grew just based on the velocity of transactions that are happening.

In terms of the non-funded income and income from trading, I think I explained it earlier to Kato. What you see, essentially, we're taking advantage of the fixed income book that we have created. We're taking advantage of the structure of the swap that we have with the sovereign. The bills that typically are given to us for those bonds saw a movement from what was about 12% to 17%. Remember that in course of last year, interest rates were low up until August or September before we started adjusting. So, as those bills were maturing in the course of 2022, we took advantage of that opportunity. And the structure of the swap book means that we have huge fixed income securities maturing in the month of February. We have April. We have June, and we have November. So, if you look at the income streams and where those significant gains were taken, it is in those months.

Interest rates were pretty low at 4% or 5% levels until we got to the end of third quarter and into fourth quarter. Essentially those gains are coming from the swap book, as well as derivative gains from foreign exchange earnings towards the end of the year, given the spot rate at the near leg of and what the spot rate ultimately at the far leg was. We can share greater detail and take you through that on a one on one basis too, if you're so inclined to look at the numbers specifically.

Herbert Wigwe
There may be an underlying value captured here, which is clear for all to see. There are other deals, but these are in local currency with large corporates and all of that, which are done and are traded, out which significant sums of monies are made. Some of them are done with sub-nationals as well. So, maybe we need to share with you in a bit more detail how those details because at the end of the day, fixed income that are generated in government securities are traded and are of a short-term nature. So, thank you.

Operator
Timothy, does that answer all your questions?

Timothy Wambu
Yeah, it does. Thank you.

Herbert Wigwe
Thank you.

Operator
Thank you. At this time, we have no further questions on the phone lines. If I could please hand over to the management team to read out questions from the webcast. Thank you.

Herbert Wigwe
Can you please let us know how Access Holdings will fund the $300 million AT1 capital injection? I think we've spoken to that. There was a bilateral deal done for 10 years and the monies were what we're used to basically fund the AT1. Can you provide information on your CET1 and how you want to manage it? Is this the amount of capital it should look to increase? Greg, do you want to speak to that?

Greg Jobome
Okay, I can speak to that, Herbert. Thank you. So, for the CET1, as you know, is not yet a reporting requirement. We've been doing the parallel run with the Basel II and Basel III. The Central Bank of Nigeria will provide further guidelines in terms of how and when Basel III will kick off. Of course, we do run the numbers internally, which we did even before CBN’s initiative. So, we keep a close eye on that. We are where we wanted to be at the minute, given our risk appetite, which is the main driver for the internal

targets that we have set for that. There will be risks that we're taking and we're looking to push both the CET1 and AT1 in line with our strategic drive.

Herbert Wigwe

I think it's important, if you go to the balance sheet of most banks in the developed markets, you will see a capital structure that shows different types of capital, CET1, AT1, etc. It's only in Nigeria you tend to see just one type of core capital. Now, I've heard people try to compare AT1 and CET1. And I think that comparison was made very clear in the case of SBB that happened in the US, and the Swiss banks where the AT1 was considered even stronger than the CET1. But that's not our point here. The simple point we are making is that we'll continue to strengthen our capital base in both CET1 and AT1 until we have what we refer to as an optimal balance sheet. So, it's not either or. We strengthen both of them. The CET1 we have will be sufficient. Our AT1 will be strong enough, and so on and so forth, to support the great business that we do.

Now, the final question is what's the exchange rate that was used for your statements? It was the closing rate because it's a balance sheet item. And the closing balance sheet that came up on the central bank was ₦461. So, that was the closing rate and that was the rate we used for our financial statements. Are there any more questions on the webcast if you move down, please? We can see some. Despite the significant increase in customer numbers, why is the bank's average cost of funding more than double its peers? Roosevelt, do you want to speak to that?

Roosevelt Ogbonna

So, I mean, this is cost of funding. So, two things. The first is that we have a larger Dollar book than our comparator banks. You would have seen that the average cost of Dollar funding has moved from what was about just shy of 5%. About 4.7% was our average cost of funding on the Dollar side. That moved nearer to about 10% by the end of the year. So, with the feds increasing rates that aggressively over the course of 2022, the impact on our balance sheet was clear. The second is we are the largest retail bank in the market today. We have over ₦3 trillion of our deposits in retail deposits. If you recall as well, the central bank has been increasing the MPR rates. We started with the savings account deposit price at 10% of MPR, which was about 1.1%. We saw that trend very quickly to about 30% of MPR, which at some point was about 4.5%. As of today, with MPR at 18%, we've seen that rate go from 1.1% to 5.4%. So, almost 430 basis points increase. So, this is just a reflection of the scale. Now, with this deposit growth, if the savings account rate was not changed, we would have seen the real impact it would have had on the cost of funds because it would have averaged down. Unfortunately, it's the reality of the business that we do. If central bank changes the rate from 10% to 30%, we have to bear the brunt of that. Our Dollar book moved from an average cost of 4.8% to near 10%. And that is what you see coming through on the books. If you just take our Naira balance sheet on a standalone basis, we're no different from any other bank in the market.

Herbert Wigwe

After adjusting for loan write offs, the rate of new NPL formation was 3%. Why is it so high, Greg?

Greg Jobome

3% new NPL formation, I'm not sure I fully understand what you mean by new NPL formation of 3%. But definitely if you look at the trajectory over the years of Access Bank, you would have seen that we typically have if not the lowest, then definitely one of the lowest in the industry over a ten year period. So, definitely, whatever formation rate you are estimating, over time it will come through this system. We don't see new formation at 3% every year. For bank, Nigeria, for example, you will see the ratio is actually below 2% at 1.8% or 1.9% NPL ratio for bank. With the new subsidiaries we have added, we see a little bit of an increase coming from those, which were part of the considerations anyway for those transactions to happen that we take them over and turn them around. So, you will see that little bit of an impact.

But definitely, we've consistently been one of the lowest NPL ratio institutions in our market. And it will remain that way. With the new subsidiaries coming on stream, they typically have a goal to get well below 5%. They get to 3%, then they push 2%. And you will see that going down further. We also have to look at our markets. It is still a market where with all the challenges, infrastructure, recovery options available, your ability to hold customers and borrowers to account for a whole range of different things, it’s not quite as strong institutionally in terms of the market. So, given that context, I think it's a robust position to work from definitely, well south of 3%.

Herbert Wigwe
Okay. Opex growth, why is it so high? A couple of things. First of all, please let's not underestimate the overall installed capacity of the institution. From an IT standpoint there are huge foreign exchange costs which we are carrying. But that is being worked on consistently with a view to making sure that that is reduced. The second is the growth rate, and in terms of new subsidiaries that are coming on where we have to pay salaries in Dollars, it is also an issue. So, all of these things are things that have led to an increased growth.

But I think the more important thing is our cost to income ratio has reduced. And you will continue to see that. So, we are expanding our installed capacity. The revenues are growing. I think if the Ghana incident didn’t happen, we would have seen a further improvement in the cost to income ratio in spite of all of this. So, I think it is distorted by some arbitrary issue that has happened. But we have basically invested in significant expansion, both in technology and in subsidiaries and all the things that we're doing.

Now, can management indicate the potential impact on the bank’s capital adequacy, asset quality, due to depreciation of about ₦600 to the Dollar? Greg, you want to speak to that?

Greg Jobome
Thank you, Herbert. So, of course, this is a typical thing that we do as part of our routine stress testing menu. In fact, we stress right up to ₦800 or ₦900, as you would expect in terms of a prudent approach to preparing for worst case scenarios. And definitely at ₦600 the bank is still well above minimum required regulatory requirements. You get to much ahead of that before you see a little bit of pressure with respect to the regulatory metrics. The last time we tested, we were very close to ₦900 before you see that kind of impact. And that's because we’ve done a lot of de-risking as it relates to the foreign currency book. So, you will see is a 23% or 24% foreign currency of the loan book, whereas several of our peers who are operating at mid-30s, some at 40%. So, that de-risking started happening a good number of years back when we saw how the macro was unfolding. And given the nature of our economy, it is still an

emerging market, so we do expect some of those shocks coming through from currency devaluation. So, we're well prepared for that.

Herbert Wigwe
Why is our tax rate so low? Taiwo, do want to speak to that?

Taiwo, Fowowe
Thank you, Herbert. So, you will find the tax rate relatively low. However, if you compare it to what we saw last year as well, it’s somewhat the same level. And that's largely coming from income exempt transactions that we saw. So, though the exemption on treasury bills has been removed, a similar exemption on long tenure and government instruments. So, for example, government bonds are still tax exempt. So, those types of transactions are thing that gave rise to that low effective tax rate. So, if you look at the balance sheet, you'll see that the deferred tax asset has also grown a bit. So, that is where that impact is coming from.

Herbert Wigwe
Okay. I see a question about what decreased profits by ₦100 billion. We spoke to that. It's the Ghanaian debt crisis and coming from a resolution as to the provisioning requirements with all the auditors there, which required about 10% provision. That was what led to about ₦108 billion provisioning coming purely from Ghana that has affected the profitability. John writes, are your growth plans too ambitious? How will you adapt your growth plans if international capital markets remain closed? Roosevelt, do want to speak to that?

Roosevelt Ogbonna
Sure. Thank you very much, Herbert. I think two things. One, the plans are not ambitious. I think they have been well thought through. This is something we've been executing from 2017. We've been quite deliberate in terms of the markets that we're going to and why. We've shared that with the market from 2017 to date. And you will see the impact of those investments coming through. We said we're going to use the UK as our beachhead towards ensuring that we build a natural hedge on our balance sheet. The significant growth that you've seen in our international subsidiaries has come from markets like the UK. Our investment in Botswana paid dividend from day one. It's been profitable. We are profitable across all the markets we've gone into except in Guinea, which is less than 12 months old, and been extremely positive. It was a loss for last year. By second quarter of this year Guinea will be comfortable. And I think the other market that will definitely break even is South Africa, just given the scale and investments that we're having to make at the onset to fully optimise our business there.

We have funded this growth largely from internal capital. I think we demonstrated that at one of our investor meetings where we shared the bank's corporate strategy and why investing in new markets and growing geographically, as well as building resilience in the banking book was important, where I shared that a good 74% of all international expansion has been funded from retained earnings. So, we continue to grow. We continue to remain profitable. The international markets are important as where we seek alternative debt structures or alternative capital structures.

You should also understand that we have a very strong relationship with the DFI community. So, even without the public markets being opened, our DFI partners have continued to fund our growth where it's required. So, the likes of the IFC, the FMO, the DEG, EIB have always found a strategic position with the institutions and have funded growth where external capital is required. But be comfortable with the fact that all our subsidiaries are profitable, bar two which are those new subsidiaries. We expect them to be profitable in the course of 2023. Secondly, 74% of all our expansion has been funded internally. So, whilst it does appear like we rely on the external international market, the foreign market to grow, that really is not the case. It only makes up what is 26% of our investments to grow our subsidiaries. Thank you.

Herbert Wigwe
Thank you. What was our CET1 ratio for the group and the bank as at the year-end 2022? The capital ratio on slide 29 refers to share the Nigerian bank ratios? Greg, do you want to speak to that? And then the issue around devaluation.

Greg Jobome
Okay. So, for the CET1, I think I explained that earlier on. That's still on the parallel run with the regulator. But definitely we do compute that internally, and we have done even before the central bank's requirements came on stream. So, we have numbers internally that meet our requirements in terms of our risk appetite and what the board has set. Now, the capital ratios on slide 29, those refer to the banking group. Those refer to the banking group, like Herbert said earlier on. So, the Tier 1 there was 15.2%, and total CAR 3.2%. So, I hope that gives you a flavour for that. For bank the numbers are not presently here, but they're not vastly different for bank and group.

Herbert Wigwe
Sensitivity of capital ratios to devaluation of Naira?

Greg Jobome
Yes. So, this I also spoke to. There was an earlier question on it. So, the earlier question was around if it went up to ₦600 to the Dollar, would we still be okay. But you know, 10% that you propose here is well below even the ₦600. You need to go as high well over ₦800, probably close to ₦900, before we talk of a regulatory breach as far as the regulatory CAR numbers are concerned. But of course, that's without any actions on the part of the bank. If the bank took management actions, that number is even higher than what I've just…

Herbert Wigwe
And together with our freshly issued AT1 and all of that in Dollar terms, honestly, even at ₦1,000, we don't expect any issue from all the sensitivities that we've done. If it is the CET1 specifically, then we will have to start thinking about management action around it. But let's go on. Ronak says, why did the e-commission income decline despite the strong growth in transaction volumes and values?

Roosevelt Ogbonna
So, when you speak about the e-commission, I think you're talking about the digital income. So, what you find is that it in the course of the year we grew market share. We are in several new markets. We started

a new strategy, leveraging our Closer branches. So, what we have done is we built new branches called Closer branches in select communities. And we're focused on seeing how those branches very quickly move from what was zero to an average of ₦5 billion and then breakeven. Going to all those markets, yes, we increase volume. But what we had to do was to ensure that there were concessions that were granted to enhance volume of business that was done within the period. So, I think it's a combination of new markets hoping to break even.

If it's any comfort, I think there were 12 branches that were opened in the course of a 12 to 18 month period. All of those branches broke even within that period. And we're now using that as our strategy going into the future. So, in the course of 2023, we have what is about 31 new locations. 17 of them are on course for opening before the end of half year of this year. These are smaller branches. We will grow deposit liability leveraging those branches. We will increase our customer base upwards about 1.5 million customers on a monthly basis, leveraging those kinds of branches. And I think the trade-off which we have made is to get these communities more comfortable with banking services. We might have to trade off a bit of the average commission earned per transaction. I think a long run, it will increase customer stickiness as you increase significant inflows that will come from the deposit liability that will grow in those markets.

Herbert Wigwe
What is the expected subsidiary allocation of the $300 million AT1 investment in the banking group, for example, 30% in Ghana? No, no, no. We will give a bit more to the UK, which is our anchor in terms of supporting trade and all of that. So, if there is a significant allocation, that is where it will be. But most of it will remain in the parent.

Roosevelt Ogbonna
I think we've shared with the Investment community as well our African expansion strategy. So, this is not a question of baking a cake and dividing it amongst countries. We are led by the economic rationale that we defined at the very start. And any investment that we're making is following that conversation. I think in the course of Herbert's presentation, he has shared the markets that we're proposing to get into in the course of the 2023 to 2027 strategic plan. And that is what's exactly going to lead us. So, it's more economical, or more economics in the group expansion plan.

Herbert Wigwe
Thank you. And the most important point is that it is still funded by retained earnings. Yes, we raised this money to support us, but the whole idea is to strengthen our balance sheet while we continue to support that growth from internally generated revenues. Outlook in the oil and gas sector. We want to understand how you see the transition of NNPC to a limited liability company and the opportunities you expect to see with the PIA implementation. Well, let me just speak about the PIA and the transition of NNPC, and the fact that it is going towards a more market related system, and the fact that there will be more active trading.

To add where we sit, we think it's good for the entire industry, as I see ourselves doing a lot more as far as that is concerned. In the institutions there are probably people who are strong on risk management who will be participating in the other IOC. So, I think the jury's out. From the initial things that they're doing, we think that brings significant opportunities to the industry. Now, with regards to the full implementation of the PIA, let me just say that we do have our reservations as to how the implementation will happen.

Now, how do we expect the regulatory environment to evolve with the new administration? I'll say the regulatory environment has been extremely bothersome. Do you expect more on the same over the next four years? Well, difficult to answer on a public call. What I'll just say that it will depend on the specific agenda of the new regime with respect to foreign exchange, with respect to how they see monetary policy, and all the things around the capital ratios as it is being currently implemented. But let us just say that things are not as easy as people may think. And some of the initiatives that have been pursued by the central bank today were initiatives to ensure that there's price stability.

Now, depending on what happens to subsidy and how the government feel about merging all the exchange rate regimes which I think will happen, that is when we can get to understand and speak to this. I think we'll see the change. I think that we will find a gradual migration to a single exchange rate. It will happen to reduce some of the current situation. You will have price transparency, and all of that. And, of course, at the end of the day, that will determine how demand is for those items priced at where the markets will be.

Now, with the bank’s exposure to Ghana Eurobonds via Ghana local currency, would you expect any further improvement? Like we said earlier when we answered this question before, we don't expect any further impairments. 50% of our exposure came from the local currency bonds, 50% from the Eurobonds. What is the current FX swaps with the Central Bank of Nigeria? That figure stands at about 2.8 billion. 2.4 billion is a swap and 400,000 is a forward. As you can tell, that has come down by what is near $500 million to $600 million in the course of the last 12 months.

Herbert Wigwe
And because central bank is committed to reduce it, we've had a reduction even two months ago. So, it's happening. But the whole idea is not to pull out the entire money, but gradually to work with the central bank and over time for the figure to be reduced. Like I said, it's coming down. We are happy with how it is coming down.

The breakdown of the net gains of financial instruments, net FX, other income. I think Roosevelt has dealt with that. If you need any further clarification, please feel free to reach out to us. We have spent more than enough time on it. Please, can you remind us of the size of your total customer base that is active, and how do you define an active customer? Roosevelt, do you want to speak to that?

Roosevelt Ogbonna
So, our total customer base today is about 58 million, as Herbert has said, with 63 million accounts. We have a domestic rate of about 15%. We are on a project in the bank to reduce the dormancy in the course

of the next 24 months through education and through active customer engagement to 10% and below. So, that's where we are.

Herbert Wigwe

Okay, now the next question [overtalking]. What is your competitive advantage in South Africa? I will speak to it for a little bit and then Roosevelt will join me. I think our South Africa franchise will support trade across the entire Southern Africa. And we have basically put in place people who have the appropriate strengths to do it. That's one. Secondly, we do have a significant number of one bank names, customers in Nigeria who have a presence in South Africa. They will bank with us. The third is that we have a large diaspora within South Africa, who are not currently being banked properly within the country. And we're speaking to Nigerians or Zimbabweans, etc. to make sure that we continue to provide services to support all of them.

We are leveraging off the learning points of what we did in UK. When we got in there and people asked us what our competitive advantage to the UK was, today we are the strongest African bank in the UK. We are putting in place trade finance structures out of South Africa supporting the entire region, and it is beginning to happen. It's a competitive market, but it is happening. Now we're seeing continuous sign offs on a day to day basis etc. From a lossmaking situation that loss has reduced. We think that in the next couple of months, hopefully, we should get a break-even point, and then we will start to see accretion from them going into the into the future. But it's a very detailed plan, and not enough time to share it on the public system. But I think that's what powers our SA strategy in a nutshell. Roosevelt, do you want to speak to that?

Roosevelt Ogbonna

So, without letting out too much trade secrets, I think we're excited about South Africa and the opportunities that it presents for the institution. Herbert has given some key highlights in terms of the markets that we want to focus on. We're not going to South Africa to compete with the large four banks. We are not for everybody within the market. You might well know that we are a leader in the FinTech partnership business we refer to as alliance banking. That business give us access into a retail play, just based on the value chain strategy. We have focused on supporting corporates and trade and correspondent banking. I think I'll leave it at that for now.

But we're excited at the opportunity that South Africa presents. It's important to make this clarification. We are not going to compete with Absa, Standard Bank, at least not today or not within this strategic cycle that ends in 2027. We're going to build significant capacity within South Africa to serve the Access Bank business in South Africa all the way up to Kenya and markets like that where they share a common economic zone. As you all know, COMASA has the largest banking pool within the continent. And if we're in South Africa, using South Africa as the anchor, we can do a lot more things within the region and it gives us access to people, talent as well as capital. So, South Africa is important for us. Thank you.

Herbert Wigwe

Thank you. The final question. Is the new AT1 parcelled with the AT1 of the Eurobond? They sit at the same table. But the simple point to make is that this particular AT1 is coming from the parent, 100% from the parent. And this is an institution that has only one parent invested into the subsidiaries. So, I don't know how you want to make of it. But they sit at the same table.

Roosevelt Ogbonna
From an accounting perspective, there's no difference.

Herbert Wigwe
There is no difference. All right. I think that's the last question. Yeah, that's the last question.

Operator
Thank you very much. At this time, I'd like to hand over to Mr Wigwe for closing remarks. Thank you, sir.

Herbert Wigwe
I want to thank all our investors and analysts who have come in on this call. I want to thank you for the depth and the rigour of your questions. We look forward to seeing you at the end of our half year when we would have finished another hopefully half year audited accounts. And we continue to thank you for the interest that you have in our institution. Thank you very much.

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

END OF TRANSCRIPT