Conference Call transcript

H1 2023 RESULTS PRESENTATION

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Operator

Good day, ladies and gentlemen, and welcome to the Access Holdings Plc half year 2023 results presentation. All participants will be in listen only mode. There will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing * 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.

Herbert Wigwe

Thank you very much, Chris. Good afternoon, ladies and gentlemen, and you're all welcome to Access Corporation's half-year 2023 investors call. We appreciate your presence and engagement in today's discussion. We've prepared an in-depth presentation that will provide insights into our group's performance, highlighting our strengths, opportunities harnessed, and challenges faced over the year. Thank you for joining us. We look forward to sharing our progress with you.

With me on the call today are Mr Roosevelt Ogbonna, who is the group CEO for our Access Banking Group, Dr Greg Jobome, Executive Director of Risk Management, Seyi Kumapayi, who is the Executive Director in charge of Africa, Mr Lanre Bamisebi, Executive Director in charge of IT and Digitalisation, Bolaji Agbede, Executive Director in charge of Access Corporation as well, Morounke Olufemi, our Group CFO, Taiwo Fowowe, who is the CFO of our banking group, Kemi Okusanya, who is our Manager Director for Hydrogen, which basically is our payments business, and David Uduanu, the CEO of our pensions business. We have other executives out here across the banking group and business verticals who will basically be ready to answer questions alongside myself.

Access Holdings Plc encompasses various live entities, including the Access Banking Group, our payments and switching services company, and the pension fund company. As we engage in today's conversation and share some of the developments within our group, I will provide a concise review of the key performance highlights, ensuring that we have ample time for us to basically get into a Q&A session. Our vision remains to create a globally connected community and ecosystem inspired by Africa or the world.

Now, looking at the macroeconomic and regulatory updates, I think over the course of 2023 we've seen huge spikes in inflation and interest rates as central banks across the world seek to address this key economic macroeconomic matrix. Inflation has continued to rise due to high volatility in food and energy prices, significantly and has significantly impacted by the global supply chain challenges that we've seen today. In the first half of 2023, we saw the US Dollar strength significantly across the markets and against the world's major currencies. And I think Nigeria was not spared as well.

In slide seven, we speak to the highlight of the Nigerian domestic economy. And I think that with respect to the GDP performance in the second quarter, GDP expanded by about 2.51% from 2.31% in the first quarter of 2033. The growth was driven by diverse economic factors. While the oil sector contracted by 13.43%, the non-oil sector expanded by 3.58%. At the end of June 2023, inflation stood at 22.79% and at the end of August, it went as high as 25.8%.

With respect to CBN's monetary policy, in May 2023, the Central Bank of Nigeria raised the monetary policy rate to 18.5% as part of its efforts to stabilise inflation and other key macroeconomic indices. The Naira depreciated by about 81% year on year against the Dollar, as the GFX Bank unified all segments of the foreign exchange market, abolishing all segmentation and collapsing all windows into one in a bid to improve liquidity, stability and prosperity. The willing buyer willing seller model at the I&E window was reintroduced, as well as the restatement of other rules to ensure transparency of orders and seamless execution of trades. The rates climbed and got to ₦769.25 to the Dollar at the end of June 2023, as FX supply remained under significant pressure. This is expected to continue in the near term until liquidity in the market improves.

Slide eight and nine deal with some of the regulatory updates across the rest of the business. The more interesting, or the more important strategic updates follows from slide 11. With respect to the strategic updates in Access Holdings Plc. We continue to pursue a global presence on expansion. At the end of the first half of 2023, Access Corporation extended its reach to well over 63 million customers across diverse markets globally. With a network comprising more than 700 branches and a dedicated team of about 8,000 professionals, we maintain a commitment to delivering superior customer services across 20 countries and our footprint continues to expand.

The Access UK subsidiaries obviously commenced operations in May 2023, taking our network to 20 countries as of June 2023 in line with our strategic goals. We also acquired Finibanco in Angola, and as of June, our interest in the bank was 51%, and it has subsequently been increased to 99%. Additional countries we expect to see by the end of 2023 include Tanzania, Namibia, Uganda, Hong Kong, and Malta. Our global strategy is about finding our five-year core strategic plan and is supported by our presence in key international markets, which enable us to diversify our energy way from the volatile operating market environment in Africa, to orchestrate operations as a global payment gateway, to enhance our profitability without excess risk, and also manage our risk and exposures to soft currencies as we push to pierce our sovereign ceiling.

Strategic updates on 2023 also highlight our agile execution mindset, and you'll see it on slide 12. Despite the headwinds in the global markets, we continue to push forward with our strategic agenda, and in the first half of the year, we've completed a capital investment of $300 million into our flagship subsidiary, Access Bank Plc, with the use of proceeds devoted towards our capital expansion strategy. Over the years, Access Bank has made significant strides towards obtaining a strong market presence in the key countries which drive trade and payment across the African continent. The investment into Access Bank by Access Holdings took the form of a mandatory convertible instrument qualified as Tier 1 capital, which is materially accurate to the balance of the Access Holdings Tier 1 and total capital ratios.

On the asset management business, our Access Pensions Limited, which is basically a subsidiary of Access Corporation, achieve a milestone by surpassing the one trillion mark in its assets under management. Speaking further about our global footprint, which you will see on slide 13, to add value to each expansion through controlled regional development, we continue to use our excellent M&A capabilities and capacity for organic growth by prioritising a stronger sovereign credit rating and a compatible business environment. Inorganic M&A prospects will increase size inside market in a way which adds value to the parent.

As part of our enhanced governance, we have continued to strengthen our regional structure to ensure enhanced oversight over the different countries in which we have a presence. Following the recently completed acquisitions, Moody's Investors Service also noted that Access Bank acquisitions of selected Standard Chartered businesses in Africa will boost its franchise profitability by expanding its local presence in key markets. It will also support the bank's strategy of aggregating cross-border transactions across Africa, including international payments, trade finance transactions, and corresponding banking deals. It also states that the acquisitions also offer an opportunity to diversify assets, earnings, and risk away from Nigeria's challenging operating environment towards stronger markets as I already mentioned.

With respect to our ES and G performance as you see in slide 14, we remain at the forefront of ES and G as far as Africa is concerned, because this remains a core part of how we do business and how we continue to win multiple accolades globally with respect to ES and G activities.

I will now proceed to the financial and operating highlights of our half year performance in 2023. And if you move to slide 16, you will see those highlights as our organisation continues to make great progress and made a gross revenue of ₦940.3 billion in the half year, which is basically 68.9% growth over last year. There was also significant growth across all balance sheet metrics, as shareholders' funds stood at ₦1.7 trillion and total assets grew to ₦20.9 trillion. And total assets crossed a significant milestone representing 39% year-to-date growth.

Next, we will see a snapshot of our financial performance as we deliver sustained positive earnings with solid balance sheets and improved efficiency across key performance metrics, as you see on slide 17. From a core sustainable earnings perspective, our net income improves to ₦224 billion, which represents a 13.5% improvement from last year. And we see our non-interest income of ₦333 billion, which is again a 51.9% improvement from last year. Operating expense grew by a bit more, 23.1%. And this was driven by the high-efficient environment and the continued investments in technology and innovation to drive skills across the entire access corporation.

Our capital adequacy ratio stood at 18.9% for the bank and for the banking group at 22%, both above the regulatory thresholds of 15%. We continue to maintain strong liquidity ratios at 50%, which is 20% above the regulatory minimum, while our cost to income ratio improved to 60.7% in the current half compared to 65.6% in the corresponding period of the previous year. Return on average equity improved marginally to 19.3% which shows our ability to navigate the peculiarities of the markets we are operating.

Now slides 18 to 22 show the pictorial highlights of our performance in the first half of 2023. However, I would like to spend a bit more time on slide 21 and 22 to share the implications for the currency unification on our total earnings as well as our capital. Now, speaking to our key income statement metrics, which are drivers of shareholder value on slide 18, you'll see that that slide basically captures the improvements with respect to yield on assets which moved from 8.6% to 10.4% as a result of the better yield from investment securities and repriced assets in line with market prices. But more importantly, that the cost to income ratio continues to improve, if you look at it compared to the corresponding period of the previous year. And on the balance sheet metrics, you will see an improvement in terms of our non-performing loss ratio to 2.8% from 3.1% in the previous years, which is a stronger indicator of our strong internal risk management practices.

On slide 20, again, as I said earlier, our overall growth across non-interest income was 52%, driven largely by commission and fees, which grew by 54% to ₦125 billion, largely from increased volume of transactions across our robust digital channels, banking services and credit related fees and electronic banking income, while our trading income grew by 50% to ₦192 billion as a result of investments in high-yield fixed investment securities and government-related instruments. As you are aware, the structure of our balance sheet over the last 13 years has meant that we've consistently carried a swap position, which is off balance sheet, and that swap position has been with the sovereign. The overall indication, speaking to that swap, is that when you look at our balance sheet, on balance sheet our overall position we may appear to be short, but when you look at the overall balance sheet the aggregate position is long.

Now, to speak to that implication a bit more, if you look at slides 21 and 22, let me share with you some of the key highlights for the first half so that you can deduce the strength of our strategy. First of all, with respect to trading specifically, we do not expose ourselves to positions as that could expose ourselves to adverse market movements, which is basically what we are busy keeping a watch to ensure that we do not have as far as currency unification is concerned. However, for our on and off balance sheet position, given the movement in currency, we saw a loss of ₦52 billion on an aggregate basis. Now, it is worth highlighting that we are currently short on balance sheet, given that we are not actively in sectors which are predominantly Dollar based, such as oil and gas, and power. Rather, we have a swap book with the sovereign.

Thirdly, we have a natural hedge. As you are well aware, and we have shared with the market several times, we do have a long-term strategy around piercing the sovereign ceiling and the roles that our international subsidiaries will play. As a result, we have a natural hedge and long position on our balance sheet with Access Bank UK business, which currently has a capital of $700 billion and has an ROE of 20%. If you look at the maturity profile of our swap book, there is a timing difference in terms of income recognition. And so, we expect that we'll have the nominal revaluation gains in the fourth quarter of 2023 and first quarter of 2024 from the value of maturing swaps given the unification of exchange rates. That is when you see a phenomenal change coming from that unification.

Finally, given the superiority of our investment strategy and the natural hedge that we've built, we continue to earn significant returns from our Access UK subsidiary. And this is superior because not only do we have the numbers gains that we see across the entire industry as we go towards the end of the year, the returns are also sustainable and material when you look at the implications coming from the capital structure which have moved from ₦1.2 trillion at the beginning of the year to about ₦1.7 trillion coming from that devaluation or currency unification, which affects your capital on the balance sheet of the bank.

With respect to FX income analysis and impact of capital changes in equity, again, you see this slide 22. Following on from the previous slide on the FX income position as of half year 2023, the slide 23 speaks to the overall positive impact we've seen on our shareholders' funds as I mentioned earlier. Given the unification of exchange rates, we saw a translation gain of foreign subsidiaries of about ₦340 billion, which impacted the balance shareholders' funds positively, improving from ₦1.23 trillion at the end of 2022 to ₦1.8 trillion as of half year 2023. We also saw a 22% year to date accretion to equity in half year 2023, creating more room for expansion into new markets and business opportunities in line with our five-year corporate strategic plan. We continue to leverage on our holding company structure to build non-cyclical revenues for the business and expand it to new markets and new business verticals.

Slide 23 speaks to the increased pressure on margins and our cost of funds increased as we began to see the full impact of the continued changes in the monetary policy rates and the US Fed rate hikes as central banks around the globe continue to battle with inflation. Now, as you know, we are the largest retail customer base in Nigeria today, and the overall impact of the MPR increases are quite material. Minimum interest rates on savings balances increased from 10% in 2032 because the NPR rate was 11.5%, to the current 30% of MPR rates, which is 18.75%, leading to a significantly higher interest rate over the past year. Our savings accounts volumes have continued to grow and the impact of that is the 400 basis points increases as MPR continues to adjust, although we continue to see an increase in the cost of funding as the Fed reserves increased rates by about 1% in 2022 to over 5% after the half year, in the half year ended in June 2023.

Slide 24 deals with our cost to income ratios and growth in opex review. The cost to income ratio, as I mentioned earlier, improved from 65.6% in the half year ended June 2022 to 60.7% in the corresponding period in 2023, reflecting our commitment to leveraging technology to lower costs while expanding our services. We spoke to the markets about our continuous investments and it's evident that we are beginning to see the positive impact of this investment in strong revenue growth of certain increased operating expenses, which basically raised gross by about ₦350 million in the corresponding period.

Again, part of what you have seen as far as the present expense is concerned includes the AMCON and NDIC regulatory costs for 2023, which is ₦5 billion, which basically continues to grow as our total assets grow. Now, it's important to note that our long-term strategy is to continue to grow our balance sheets so that when the time comes that the government revises the rule with respect to some of these regulatory costs, we will be able to see increased sustainable earnings. In recent times, there have been conversations from the administration around unwinding the AMCON charge, which has been impacting the profitability across over the past decade. And that will have significant impact for us that have the largest balance sheet, the largest assets, and this will mean significant accretion to our profitability. And so, we expect to see uplifts once AMCON levy is scaled back.

With respect to our total assets as we saw on slide 25, they grew by about 39% to ₦20.85 trillion over the period representing a 57% growth. However, Access Bank's restricted deposits with the central bank grew by 87.6% over the past four years, with an increase in the cash reserve ratio debit of ₦315 billion in the first half of this year alone. There's an aggregate position of about ₦2.5 trillion, which is non-interest generating, representing 12% of total assets. A return on average assets and return on average equity shows marginal improvement reaching 1.6% and 19.3% respectively, despite challenges in the market. However, we continue to take a long-term view of our growth and of course the implications on the markets whenever some of these changes are made, whether it's the cash reserve ratio or it is with respect to regulatory costs and its significant impact on profitability that will be derived there from whenever those changes are made.

Slide 26 deals with our deposit mix. And our customer deposits surged by 38.1% year to date to ₦12.5 trillion, coming from ₦9.5 trillion in the corresponding period to 2022. These growths came from our new customer deposits, and organic growth from existing customers, and the overall effect of the unification of FX rates. Our current and savings accounts grew to ₦7.6 trillion compared to ₦4.74 trillion in the corresponding period last year. Again, this was largely from new customers deriving from the increased digital platform usage and expansion of our agency's banking business, which has a lot to do with financial inclusion and therefore bringing more customers into the Access Bank ecosystem.

Now, speaking about our capital and liquidity management, I will move into our banking group specifics, and that's on slide 28. The banking group maintained a robust capital position with a CAR of 22% surpassing the regulatory threshold of 15%. 75% of the total regulatory capital equating to ₦1.2 trillion is from the Tier 1 capital. Our capital assessments have been conducted at different currency unification levels. The capital levels have consistently met the necessary requirements, ensuring sufficient buffers on the balance sheets. We will continue to improve our capital adequacy ratio, growth in retained earnings, and other non-dilutive methods, aligning with our corporation's vision.

In line with our strategy of being number one player in the industry, we continue to build a well-diversified loan book, which emphasises strong asset quality and one which strategically targets key sectors of the economy, promoting growth and facilitating economic recovery. You will find that on slide 30. Our loan portfolio grew by 37% yesterday, reaching ₦7.6 trillion in the first half of 2023, compared to ₦5.6 trillion in December 2022. While our foreign currency generated portion of the loan group increased to 28% in the first half of the year from 23% as of financial year-end 2022, as we continue to play a long game in the more resilient and Dollar-generating sectors.

As a banking group, our overall improvement to asset quality and NLP. Again, asset quality remains stable with a decline in NPL ratio to 2.8% based on proactive monitoring and our disciplined approach to risk management. We also maintained adequate coverage ratios, including the regulatory risk reserve at 100.2% right now and compared to 98.6% as of September 2022. And the current NPL coverage ratio is clearly in line with this strategy of maintaining strong coverage for the loan book consistent with our risk management approach.

Speaking to the subsidiaries' performance of the banking group, you will find that on 2023. You find your credit income improved by 13% to about ₦78.3 billion. The customer deposits grew by 60% to ₦1.85 billion. Our loans and advances rose by 78% to ₦888 billion. Excluding South Africa, all our subsidiaries and reported profits at both PBT and PAT levels. We expect significant growth in the final quarter 2023, and next year, as we see improvement from all the key subsidiaries. Our aggregation strategy continues unabated, following the completion of the Standard Chartered deal which saw us acquiring majority stakes in five Standard Chartered entities across Africa in July 2023. We will be able to provide more follow-up on these entities after we fast-track the integration into the Access Holdings from the second half of 2023. Overall, we are very proud of the traction that we have seen across the continent for all our businesses.

Now we want to look at the UK and international subsidiaries. Our UK subsidiary has continued to demonstrate resilience with double digit growth across key metrics, focusing on trade and business flows. We opened our Paris branch in May 2023 and we are equally proud of the achievements coming out of the international subsidiaries. Worthy of mention is the year-to-year improvement in the cost-to-income ratio as efficiency initiatives combined with good operating income yielded a cost-to-income ratio of 24.6%, which is basically a reduction of 7.3% from 31.9% achieved for the same period 2022. There was also an increase of 107% in the PBT to ₦31.94 billion, and the proactive business strategy for commercial banking, trade, finance, and correspondent banking business was what basically led to all of that. We saw operating income increase, customer deposits grew by as much as one trillion, and we saw significant improvement as far as repayments are concerned, as that went down to ₦3.6 billion from ₦4.4 billion in the corresponding period of the previous year.

Slide 34 basically shows the breakdown of the subsidiaries' performance by country. And then if you look at our group retail banking and digital lending, our retail banking and digital lending business is growing and continuing to be a significant contributor to the group's key metrics. Our digital lending portfolio continues to show strong sustainable growth as we partner with participants by 2026. Speaking to our digital channels, we'll turn on slide 37. The events in the first quarter of 2023 around the cash crisis in Nigeria showcased our digital channels And across all our channels, we saw transactions that amount to over 1.4 trillion accounts, up from 0.9 trillion in the first half of 2032. While the value of the transaction is up from ₦28.8 trillion to ₦49.8 trillion, largely driven by transactions on the mobile app and internet banking as well as our USSD platforms. We continue to support these channels with robust technical infrastructure.

On our non-banking verticals, which basically took off in the first half of 2023, we're seen impressive growth for both our pension and payment business. Our pension business is now the second largest with respect to the number of RSA accounts, but the fourth largest as far as assets under management, crossing the ₦1 trillion mark as of June. With respect to Hydrogen, which you see on slide 40, we've been able to achieve notable progress in the past half with an extensive product portfolio covering inter-payments, processing, settlement, and cards. Hydrogen processed well over 3.0 trillion volume in transactions and achieved a 400% growth in month-on-month with respect to the POS terminal transactions and of course improved uptime of accounts switching within the period. In terms of its financials, it is expected to break even in the fourth quarter of 2023.

Slide 42 will share with you our guidance for the rest of the year. We expect to close the year with a return on average equity not of 20%, return on average assets north of 2%, yield on assets greater than 10%, cost of risk below 2%. NPL ratio will remain below 4.5%. Our cost to income ratio of course will be less than 60%. Our NIM will be between 4.5% and 5%. Capital liquidity ratio north of 20%. Loan to deposit ratio above 65% and liquidity above 50%. And of course, with respect to the pension fund business we will grow our AUM by more than ₦1.2 trillion.

In conclusion, as a corporation, we are steadily growing with a strategic and disciplined approach with clear plans to harness the African market opportunities. We are confident about the group's future, aiming to establish a globally connected community influenced by Africa for the world. I want to thank you very much for your time, and we'll now leave the lines open for questions.

Operator

Thank you. Ladies and gentlemen, if you would like to ask a question, you're welcome to press * and then 1 on your touchtone phone or on the keypad on your screen. If you however wish to withdraw the question, you may press * and then 2 to remove yourself from the question queue. Once again, if you would like to ask a question, you are welcome to press * and then 1. The first question we have is from Timothy Wambu of Absa. Please go ahead.

Timothy Wambu

Thank you. Thank you, Herbert and team. Thank you very much for the detailed presentation and taking time to answer questions. I've got three questions. The first one is on capital. And so, when I look at your Q1 numbers, we had seen that you had drawn down about $300 million and your Tier 1 position was higher. Looking at your half-year numbers, it seems that there is no appearance of that $300 million. But I see in your financials, you do mention that there will be a convertible bond maturing in 2031. My question is why is it not reflecting in your half year numbers, yet it was reflecting in your Q1 numbers, and I think that had the effect of boosting your capital position.

Second question is on your trading income. And I know you've tried to explain in the presentation but unfortunately we had access to your numbers a bit longer than the presentation. But when I looked at page 163 there was a gap that I was seeing there when I was looking at your gains on financial instruments, fair value through profit and loss. And I was hoping you could fill that gap that I'm seeing there whereby you've got minus ₦32 billion loss and then you add it up and then you end up having a minus ₦37 billion loss. Yet there's ₦84 billion in fixed income gains. Maybe you could shed some light on that trading conundrum because I'm not sure I'm understanding how we're moving from that space of plus ₦85 billion there.

And maybe this slide to trading also, just give us your swap position. I know you mentioned that you expect to see gains in Q4, Q1, etc. Just give us a sense of the size of your swap position with the sovereign. And then just lastly, on your cost of risk guidance, you say you expect it to be below 2%. In the current environment with tough macros, you've seen your peers more or less report very high cost of risk. Just give us the thinking behind that, thank you.

Herbert Wigwe

Okay, I think Greg will speak to the issue of capital, the $300 million invested by the parent, by the holding company in the bank. Or maybe Roosevelt could do that. It did not appear on the financials, but he will speak to it. And of course, what you refer to as a conundrum, breaking down our trading book with respect to the gain on P&L, and of course, the gains also that come from the trading of fixed income instruments. With respect to the swap position, I think Roosevelt will speak to it. Some matured obviously before the devaluation. Some matured in the first half, in the first quarter, so January, February, and March. And of course, we do have a significant amount maturing in the month of November and December. So, we'll share that figure with you. It was about $2.3 billion. Roosevelt will speak to the implications of that for the numbers. And I think Greg, you want to talk about the cost of risk of 2%, even though that is the kind of figure that we have shown consistently over the past, almost over the past 15 to 20 years. But Roosevelt, I'll allow you to speak to it.

Roosevelt Ogbonna

Thank you, Herbert. So, thank you for the questions. I think if you look at the financials, you have seen on note 38 additional Tier 1 capital as $206 billion. What you have there is the initial AT1 that was done of $500 million and the additional AT1 that was done of $300 million. You have to understand that it's equity, so it doesn't revalue. So, you have to translate this at the cost, at the exchange rate that was prevailing at the time it was done. So, I think if you're trying to do numbers using ₦800 to the Dollar then you would not see those numbers. You have to look at what the exchange rate was at that time. This is on the equity side of our balance sheet. And you well know, it doesn't revalue. So, the $206 billion on note 36 is reflective of the $800 million in total. As you are aware, we did an initial $500 million, which was a public issue, in October 2021. In the first quarter of 2023, we had done the additional $300 million, which is $800 million.

On the trading income, I will give you specific details. As we said, the loss that you are seeing on an aggregate level, you see gains as well as a loss. The net position from our trading income was a gain. I beg your pardon. It was a loss of about ₦52 billion. Those details we can share with you if you do need them. On the swap position, I think we shared with the market it hasn't changed. It's about ₦2.68 billion. It's reduced from a peak of about ₦3.4 billion where it was two years ago to about ₦2.68 billion where it is now.

I think Herbert has spoken to the cost of risk guidance. It's no different from what we've seen. To be honest, in the course of 2011 to date, we've seen spikes in 2011 post the acquisition of Intercontinental Bank, we saw spikes in 2019 post the acquisition of Diamond Bank. I think with each one, we've shared with the market transparently how we worked down our NPL levels, and of course on the back of that, the cost of risk that passes through our P&L numbers. So, this is consistent, actually. You just need to look at the trend of the bank's performance over 2011 to date. That's 12 years. And I think you see that there's nothing that is unusual about the cost of risk guidance.

Now, within that period, we've seen crises. We saw the tail end of the 2009 global credit crunch. We've seen the 2014/2015 oil and gas crisis. We've seen the 2017 currency crisis. We've seen 2022 COVID. And I think we've shown consistently that we know how to manage our balance sheet and our risk assets without seeing significant deterioration on our books. Thank you, Herbert.

Herbert Wigwe
If I were just to add, if we're going to determine the impact of unification on our swap book, I think what you would see is that the benefit from that unification will be about $1.3 billion before the end of this year and perhaps around $300 million in the first quarter of next year which will benefit from these nominal gains you typically see in the market about this time coming from that unification. Next question.

Timothy Wambu
If I may, could I follow up? Thank you. Roosevelt, just to follow up again, I totally understand when you say that you don't work with the ₦800 conversion when you're looking at equity. But again, just basically Q1 numbers where the AT1 position was ₦230 billion and then in Q1 it appeared to increase to about ₦300 billion. And let me confirm what the figure was. ₦345 billion. Then you've seen it ease back again to ₦206 billion. I just want to understand how that has happened and maybe just explain that better because you mentioned in total you've drawn on about $800 million.

Roosevelt Ogbonna
Let me answer that quickly. So, I think we're looking at two different accounts. So, when you're looking at a holding company report, which is what you have, that number, the additional $300 million is not sitting in the holding company as equity. It's sitting in bank. So, the bank's books reflect the entire $800 million. So, I think we're just looking at two different accounts. From the holding company perspective, that's not additional capital. Because that was invested by the holding company into bank. So, if you look at the period we're looking at was bank as well as holding company. So, at bank level, the entire $800 million is reflected. At holding company, all you will see is $500 million because the $300 million additional at bank level was as an investment from the holding company. So, I think that's the number that you're looking for. I don't know if that explains it.

Timothy Wambu
Yes, it does. Okay, thank you.

Roosevelt Ogbonna
All right, thank you.

Herbert Wigwe
Next question, please.

Operator
The next question we had is from Oluwaseun Arambada of FBNQuest. Please go ahead.

Oluwaseun Arambada

All right. Good afternoon and thanks for the opportunity to ask questions. I have a couple. Permit me to take you back a bit on your swap. I am not sure if I got it. If you mentioned how much you were maturing in Q1 of 2024 and Q4 of 2023. I would appreciate if you could take that again. So, moving on, I want to also touch on your impairments as provisions. I mean looking at it on a Q2 standalone basis, it declined by about 20% year-on-year. And just like Timothy said earlier, I am just trying to understand how you are thinking of the macros, especially if you look at your holding of Ghana Eurobonds with the unification of the exchange rate. I think that should mean something. Is management not thinking of taking some impairment on that to cater for the movement and the exchange rates? And with your cost of risk guidance, does it mean that you're bullish about the macro going forward? I just want to get your thinking around that.

That leads me to your loan growth. Looking at what you've done yesterday, you've done about 32% loan growth year to date. I just want to understand from that 32%, how much of that was organic and how much was due to the impact of the Naira unification. Still on your loan book, how are you looking at growth for the rest of the year, considering the CBN's loan to deposit ratio guidance. We know that there's a new sheriff on board and we might see a more… what's the word to say now? We might see a stricter directive for banks to comply with this guidance. So, I just want to know how you are thinking about your organic loan growth going forward.

Then lastly, it would be on your capital adequacy position. Just a little bit of confusion for me. So, your CAR that I see on page 28, which is 22%, is different from what was reported in the press release, which is a 18.7%, and also that's the same thing we have on page 42 of your presentation. So, I just want some clarity on that. Thank you.

Herbert Wigwe
Okay, I'll just speak a bit about the swap. Roosevelt will take it up from there. Greg will speak about the issues that have to do with the macro, the interesting issue about the Ghanaian Eurobonds, which we basically covered, and loan growth, organic and inorganic. And I guess Roosevelt is going to address the issue of the CAR going into the future. Now, we do have swaps maturing November and December for $1.25 billion. If you are trying to do computations of some of the benefits. And of course, for Q2 of next year, we have $435 million. And of course, the rest is later in the year. So, that is basically what we have maturing over the course of next year. I don't know if you got the specific figures. Roosevelt, do you want to speak to that a bit more? And then Greg, you want to go into the issue about the macro and of course Ghanaian Eurobonds and the loan growth for the remaining half of the year.

Roosevelt Ogbonna
Thank you very much. So, as we've guided, almost four years ago, we changed the structure of our swap arrangements with the central banks. We used to have what were two-year tenure transactions. We reduced those to 12 months. So, in the course of every 12 months, we have all the Eurobonds maturing. And we get into a renegotiation with the central bank in terms of are we collecting our USD back or are we rolling them over via fresh swaps that are booked. As I said, at the peak, it was about $3.4 billion. What you've seen is that in the course of the last 12 months, we've gotten payments back of at least $600 million plus, which has seen the swap book come down to about $2.6 billion.

The way it's structured is that we have, as Herbert has rightly pointed out, typically we have maturities in the fourth quarter of the year, first quarter of the year, some maturities in June. So, those are the three maturity buckets that you have. So, if you look at the impact of the devaluation on that book, given the context of when the devaluation happened at the end of June, all of those has happened after the Eurobonds have been rolled over. The way the swap structure is done as well, at least currently, is that there are no variation margins that are called on it. So, you can't make any variation margin call on the central bank. So, we're stuck with instruments that cover the swaps at the nominal exchange rate of ₦461 at the time these transactions were done. So, the next set of rollovers, which is a point that Herbert was speaking to of $1.25 million in November, and an additional $450 million in the first quarter of next year will be rolled over, if at all, at the prevailing exchange rate.

Of course, just being the nominal change from ₦461 to ₦750 or ₦790 million, or even the forward rate that is trending near ₦1,000 million today, would mean that the nominal value of instruments or liquidity that the Central Bank is going to have to provide in the event that we move out of the swaps will be almost two times the value that we have to get. So, nominally already you can see that that in fact will double, just nominally. I think the other conversation we have around the swap book is that the question is always been asked around, is the book static? Is it coming down? Is the Central Bank honouring its obligations? We've seen clearly that that peak of $3.4 billion is down to $2.68 billion.

For Access Bank, this is only an asset allocation play. So, we have a stock of assets, which is the Dollar liquidity that we raise. How we deploy that liquidity depends on the opportunities that we find. As you very well know, we're not aggressive in the indigenous oil and gas sector or the power sector where you see a lot of banks in the sector have invested significantly. They have their benefits because they create a long position on balance sheet. But of course, the challenges that have come with some of those loans are real. We've avoided those challenges. And I think when Greg speaks to the banks' cost of risk and our very moderated NPL levels coming from the conservative risk appetite, you can understand why it has been at those levels over the course of the last 12 to 13 years. So, I'll let Greg speak to the risk asset issues and I'll come back on capital adequacy.

Greg Jabome

Thank you, Roosevelt, and thank you, Herbert. I think, Herbert, you've already made the point, and Roosevelt also strengthened it. You'll have to go back probably to 2014, 2015. Those were the periods when we started doing our very robust scenario planning processes, which meant taking different steps on the whole. So, what is playing out today is no different from what played out in 2014, 2015, and 2017 as well, in the middle of COVID as well. And through all of this, what was consistently clear was that at some point, this kind of reunification would happen. So, Access Bank planned for it. And then, we know the actions that we've seen over the years. Even in the last call, we discussed how Roosevelt said we avoided the power sector because it was Dollar driven. And we saw all the conversions that we did in terms of foreign currency loans. Even on the back of some acquisitions that involved Dollar loans, we converted all of them. Now, all of that was preparatory to exactly this kind of scenario.

So, ironically, we're very well poised to reap the benefits of that decision that we held ourselves accounted for. Even at the cost of foregoing spending, nominal accruals in Dollar terms, that's the benefit we're going to begin to see now, stability coming from that. The cost of risk is below 2% today is the outcome of all of that heavy lifting that we've done in the past. And that's going to continue. The reason why it can continue is that that discipline process is now well-embedded in how we operate, the limits that we've set, how we monitor, etc. So, that takes us to the impairment process.

Now for the impairments, what I've described already drives the impairment process. So, the fact that, on the back of the whole Diamond Bank transaction, you saw impairments going up as we cleared up that book. We propose that you should expect some level of trending down. There will be things like Ghana. We will bump it up from time to time. But Ghana will also absorb quite a bit of that early shock with the 30% haircut that was done at the industry level. It wasn't just Access Bank specifically. So, that's out of the way. Will there be additional impairments in the journey? It is possible, but that major shock was already absorbed. All the analysis, the reviews, all of that is still ongoing. Should there be any additional thing, it will not be something that will come significantly. We absorbed ₦100 billion shock of that for the last financial year. The bank pretty much took it in stride and now we are ready to go on the back of that.

The last thing around the cost of risk guidance is, again, with that discipline approach, we'll expect it to stay well below the 2%. For others who guide higher or where you've seen higher cost of risk, 5%, 6%, 7%, well, they are probably playing big in the Dollar area. We have just 28% of our loan book of foreign currency by design, not by accident. Some of that, probably 50%, 60% is Dollars, which means that the vulnerability to these shocks will continue for probably the course of the next few years. So, the asset quality issues for some will crystallise over time. But for those who have grown that fence around quite tightly, which means that in the short term, the shocks are going to be minimal. So, we are comfortable with the 2% cost of risk guidance. Should there be variations on that, we don't expect it to swing significantly beyond that guidance.

In terms of loan growth and how this has been evolved so far, we've had about a 37% increase in loan growth December to June. However, of that, 26% or so was driven by the unification of the exchange rates. And that was obviously a major shock. Now, how much more can we see in the course of the rest of 2023? We are not going to see that kind of magnitude of shock anymore. So, we are guiding in the neighbourhood of 15% in real terms, in terms of potential loan growth. Because the real growth, December to June, was around 11-12% if you strip out the unification. So, we're thinking about the same rate, 12% to 15% for those who might be on course for that. So, I think those are the main points that we raised with respect to loan growth and the impairment process.

Herbert Wigwe

So, before you get into risk guidance, just for your information, we have a perspective to taking provisions on Dollar exposures because we're speaking to the Ghanaian Eurobonds and literally speaking to the fact that with exchange rate devaluation, what have we done. We actually do take these provisions in Dollars. So, whatever provision we're taking in Ghana is not going to be revalued because quite frankly, we have actually hoarded Dollars for that provision. But I'll let Roosevelt speak more to the guidance for our capital adequacy ratios of the banking group.

Roosevelt Ogbonna
So, I think on CAR, yes, you're correct. 18.7% is at the bank level. 22% is at the group level, at the banking group level. So, that's what you're seeing. So, I think in some references, we're speaking to banking group. In other references, we're speaking to bank as in Nigeria. So, if we're facing our regulator in Nigeria, we reference the 18.7%, which is Access Bank Nigeria. But as a banking group, our total capital is 22%. 22.04% to be precise.

Olawaseun Arambada
Thank you.

Operator
We have no further questions from the conference call. I would like to hand over to any written questions.

Herbert Wigwe
Okay. Do you want to share the written questions?

Question
The question is, what's the latest foreign exchange exposure? How comfortable do you feel with declining capital buffers? If any acquisitions are considered over the next quarter, where does the funding come from?

Herbert Wigwe
Greg, do you want to speak to that point?

Roosevelt Ogbonna
So, I can take that. So, the reason I can share, on balance sheets we have a short position of what is about $2.2 billion. On an aggregate level, we have a long position of about $410 million because of the swap of about $2.6 billion. On aggregate is $2.6 billion. On balance sheet is a negative of near $2.2 billion. So, the net is a long position of what is $410 million. How do we feel around the declining capital buffers? I think we do our stress test in today's market and we're looking at ₦1,200 to ₦1,500 to the Dollar. We've taken what we believe, given where the market is, the worst case scenario. The currency has to cost ₦1,500 to the Dollar for us to breach the capital adequacy ratio.

The reason for this is what we explained earlier, of our total loan book, the risk weighted assets is the largest part of the risk that we have on our books. Our credit is the largest part of the risk weighted assets we have on our book. And the USD loan book only represents 28% of our total loan book. As you recall, in 2022, it was 23%. Given the impact of devaluation is moved from 23% to 28%, but that is still well below the industry average, as you well know. I mean, the industry average is below 50%. We think the industry average of the top five banks it is well above 50%. So, we're nowhere close to where our peers are, and the implication is that each time there's a devaluation, the impact on capital and our capital buffers is not significant at all.

Herbert Wigwe
So, these figures that Roosevelt quoted are figures without taking into consideration management intervention as well as increased profitability that comes in the corresponding period. So, that is a stress test as it were without looking at ploughing back profits and management intervention. Next question.

Roosevelt Ogbonna
So, the last point is the funding of acquisitions. So, as we said in the past, a good 76% to 78% of all our acquisitions are funded internally. We do need to raise additional capital to do so to make sure that there's a disciplined process. So, whilst you might read the headlines around acquisitions, payments for those acquisitions are done in a staggered manner towards ensuring that it doesn't have significant impact on CAR. So, we will continue to do what is near 80% of the funding of these acquisitions from our internally generated capital. Thank you.

Herbert Wigwe
I think you answered this question, which is an obvious question. When looking at the bank's financial statements, we notice an increase in interest expense. So, what extent is this increase related to the hike by CBN, talking about the MPR, on cost of funds versus increase in deposits?

Roosevelt Ogbonna
I think it's both. We have grown our savings accounts. I mean, it's an interesting conundrum we find ourselves in. The more resilient deposits are current and savings accounts. The savings account today is second only to one bank where we have about ₦3 trillion in savings account deposits. It's the more resilient part of your liquidity. But given the change in price by the central bank, we see that that strip of deposit liability has increased in cost by about 400 basis points. In 2022, savings accounts were tied to 10% of MPR, which was about 11%, 11.5%. As we speak today, the savings account is tied to 13% of an 18.75% MPR. So, you move from what's about 1.1% to about 5.45%. So over 400 base points are added as additional costs on what is about 25% of the bank's total liability. So, our total liability is about 12.1. Savings accounts is about ₦3 trillion. So, that 25% as increased by 400 basis points. So, try as we may, that cost is almost like we traded off stability in the liability and balance in liquidity for increased cost. This is the cost that we need to deal with today because it protects the bank from any liquidity.

I think on the second part of that is just the increase in FCY deposit rates. Given that the Feds have increased rates almost nine times in the course of the last 12 to 18 months, we've seen what was below 1% FCY borrowing rate or Fed rate to what's about 5.5% to the now cost and also found this way through. But of course, in nominal terms, the bank's deposit liability has grown. So, you see that we grew from what's about ₦9 trillion to ₦12 trillion. So, there's a ₦3 trillion growth. Even if you back out ₦1 trillion that came through because of devaluation, in real terms, there's a ₦2 trillion growth, the largest of any institution within our market. And that's just come from harnessing small businesses and encouraging the retail businesses to do more transactions with the bank.

Herbert Wigwe

So, the next question is, does the acquisition of Standard Chartered subsidiaries have an impact on recapitalisation of other Access Bank subsidiaries? And I think the answer is no. The Standard Chartered acquisition was an aggregation strategy. And therefore, we found individual countries having sufficient capital to basically do those acquisitions. So, in terms of its impact on the capacity of the banking group to basically invest or recapitalise on other Access Bank subsidiaries, the answer is no. Excluding the impact of devaluation, what was the loan book growth year to date? You want to speak to that, Greg? You already did.

Greg Jabome

Yeah, I think we already spoke to this earlier on. So, it's about 11% net of devaluation impact or the unification of exchange rate impact.

Herbert Wigwe

Okay, the next question says, I notice the 0.7% decline in yield in first half of 2023 given the current interest rate environment. What's in the outlook for yields on assets and its attendant impact on yield on NIM through the rest of 2023? Two, of the 10.9% growth in loans and advances, what are the groups' core loan growth during the period, excluding the impact of devaluation? I think that has been answered. Three, provide an update with regards to your exposure to Ghana securities. Any further impairments to be taken in the rest of the year? Roosevelt, do you want to speak to the NIM implications of over hedging and Ghana?

Roosevelt Ogbonna

I would. I think the guidance we have on yield on assets, you saw it expand from what is about 8.4% to over 10%. Our guidance for the rest of the year is that it will still be greater than 10%. On the NIM, the projection is that it will end the year at around the same levels we saw in 2022, around 4.5% to 5%. The repricing of our assets, as well as the repricing of our fixed income security, as well as the government paper, will happen towards the end of the year. To give you a sense, we have what is near ₦1.1 trillion in government securities that is maturing in the month of November and the first week in December. All of that is repriced at the rates that we saw in the market in 2022. They were a one-year payment and they are maturing in the course of November and December, so now can be repriced. So, it will further expand the yield on assets from the 10% plus where it is to near 11%, as we see it. And of course, the repricing of our risk assets and the other assets that we have on our balance sheet, we see the NIM expand to around the 4.5% or 5% levels that we saw in 2022.

On Ghana, as Herbert has properly stated, we have taken an initial impairment of 30% on the Eurobonds. And that amount has been provided for in USD. So, in nominal, the devaluation has had no impact on making any additional provision. However, as you all know, the cocoa bills were not taken into consideration as of the end of the year. For half a year, we took that into consideration because the government of Ghana has provided guidance as to how the cocoa bills will be treated. That has been an additional impairment of what is about ₵10.5 million that we've taken for half a year. And also giving the ECL models that we had on our books, we've also seen what's near $1 million in additional impairments on the Ghana books.

But as we've already stated, we're guided by the ECL model that was provided by the Bank of Ghana working with the Monetary Association in Ghana. And we're actually well in line with the guidance that have been provided. Even with this additional $1 million in provision as well as the ₵10.58 million additional provision we're taking on the cocoa bond bills that we've had to take. And that was in local currency. Thank you.

Herbert Wigwe
Would you please provide the CET1, Tier 2, Tier 1, CAR for the banking group and HoldCo, Greg?

Greg Jabome
Well, as you know… Thank you for the question. As you know, the CET1 requirements are all tied to the Basel III guidelines. Of course, the central bank had released the guidelines for this a couple of years ago. Provisionally, there was a six-month trial run, and at the end of that initial six months, it would then make the decision in terms of when we go live with the Basel III. But so far, it hasn't happened. So, that trial period technically is still ongoing, and the regulator will still do their qualitative impact analysis before any final landing with respect to when it goes live. But of course, internally, as part of our risk management tool, we've been ahead of the curve and we do deploy several of those Basel III tools internally for our in-house risk management. But of course, it is where the regulator then makes a pronouncement with respect to data applicability that we can then begin to have the reporting that is based on Basel III. So, for now, yes, we do run internally to guide our risk management processes. In terms of public disclosures, it is around the Tier 1 and the CAR, which you do have in the presentation slides that we share.

Herbert Wigwe
Thank you. The NPL target of less than 5% in 2023 seems conservative, given the already low level of 2.8%. I think this has been answered correctly. Is there any uptick or pressure you're expecting over the second half of 2023 that is causing you to leave such a buffer? Greg, do you want to speak to that?

Greg Jabome
Yeah, so basically, we try not to be changing the targets every quarter, every year or every year. So, these are long-term goals in line with our five-year strategy to keep our NPL ratio well below 5%. So that's again remains. Even if we go down to 2% or 2.8% or 3% in the interim, it does not change that long-term goal. So that's what is captured here. So, it is not an anticipation of fresh stage 3 loans between now and the end of the year. No. That is the long term target that we hold.

Herbert Wigwe
I would like to know your thoughts on recent government initiatives and the likely impact on the corporation. I think we dealt with this in speaking to the unification of currency, and I don't think that there's any more we can speak to as far as that's concerned. What are your expectations for Naira for year-end? Do you expect it to be fully liberalised? Very difficult question in terms of expectations but let me just say that we're certain that the new administration, working with the Bankers' Committee and all of that, will do what is necessary to make sure that

we build up our supply of Dollars in order to protect the currency, if I can put it that way. So, what are the expectations for year end? I think that it will be fairly as governments try to do what is necessary.

However, there are several things that are outside anyone's control, obviously. There could be further escalations in things happening outside of Nigeria or with the Fed, which can have its own impact on the currency and affect the ability to increase supply locally. But on the face of it, everything being equal, given where we are, we don't expect to see much more volatility than where we are right now. What is your guidance for NIM? I think Roosevelt has addressed that sufficiently. For clarity, it's ₦244.33 billion on net real realised gains, revaluation gains from swap maturities that were caught during the year. Roosevelt, do you want to speak to that? But the answer to that is no.

Roosevelt Ogbonna
So, I need to be sure where it was coming from. But just to be clear, I think what you said in your presentation, you have said that the net FX gain was a loss of ₦52 billion. What we're taking into account is loss on the short position on balance sheets, as well as the gain on our trading portfolio on a swap position. So, what you see is that it's a negative of ₦82 billion, at least as at half year. The ₦244.33 billion number, Josh, you will need to take this offline and see exactly where this number is coming from so we can reconcile it working with you.

Herbert Wigwe
But if there is any confirmation we can give to you, is that it is not the revaluation gain on the swaps. You will see that revaluation gain in the second half of the year given the swaps that mature in November, December and of course in the first quarter of next year. Are you looking at North Africa for expansion, particularly Egypt, given the size of the economy? It is an attractive industry. It is an attractive market. However, you would have seen in our five-year corporate strategic plan – and we are disciplined in how we pursue it – that that's not where we're going to just yet. The Maghreb requires a bit more understanding, and I think we are looking at that. And Egypt is not within our radar in this particular case. Also, is the loss on non-hedging derivatives the loss from OTC future contracts? Greg, you want to speak to that? I know Roosevelt spoke to the point already.

Greg Jabome
Yeah. [Overtalking]. We don't have OTC. So, just going back to the point that Roosevelt made earlier, so if you look at all the income or losses that happen through FX transactions, what you find is the total loss that Roosevelt spoke to earlier. So, what we've just done is from a hedge accounting perspective, we've just broken the bucket into the various… not direct transactions, but from an accounting perspective the various events that led to those losses. But on a net basis, it's net loss of about ₦50 billion just like Roosevelt mentioned earlier.

Roosevelt Ogbonna
So, Josh I think we can go through each line item. I guess because of the way we've shown it on the financials, I've seen the ₦244 billion, so I have a bit more clarity. I think it's note 10 or note 12 actually, on page 163. But we can share with you the breakdown of those. On an aggregate basis, just given how we account for the derivative book, the net loss was about ₦52 billion. And we can show you on an aggregate basis how that was arrived at. You have

to understand that this is not just bank, it is bank and the holding company as well. So, I think at the bank level it is about ₦155 billion and at HoldCo, just given the nature of assets, it carries about ₦80 billion. I think the combination of both is what comes to ₦244 billion. But we can take that offline if you provide clarity.

Herbert Wigwe
Okay. Any further questions?

Operator
Sir, we have more questions from the conference call. We have a follow-up question from Timothy Wambu of Absa. Please go ahead.

Timothy Wambu
Yeah, thank you. Certainly, it will be very helpful for that breakdown, particularly on the trading position. I think you've seen the number of questions that have come up on that. So, looking forward to the detailed breakdown. And if you could just clarify again the nature of the non-hedging derivative loss. Sorry, maybe that's what you would explain to us when you give us a proper breakdown. That would be useful. Just to come back to the AT1 bond position, I just want to understand. Of course, the programme is for $1.5 billion. You've only drawn down about $800 million. What's the plan around that? I see it's callable by 2026. Should you expect it to draw down further as you carry on with your geographical expansion? I think that will really help. And maybe just on that is that Roosevelt, from your financials, from the audited numbers, I can see that it does appear as a group, not under company. So, again, just some clarity on that. The $300 million that was drawn down in Q1. And then maybe just lastly from a regulatory standpoint, is the loan to funds ratio still being affected by central bank? Thank you.

Herbert Wigwe
Okay. Now, you spoke about a $1.5 billion book for AT1 and what we've drawn on is $800 million. Are we going to issue fresh AT1s? And I think that's the question you are speaking to. We do have a very disciplined capital plan that takes into consideration our growth, our returns, and also takes into consideration what is required at any particular point in time. We think from a capital standpoint as we speak today, we think that we do have enough capital to support us. We are also wary of how the market is at this particular point in time in our decision making. But it suffice to say that as we roll through to the end of this year, we will basically revisit our position and see what it means given our situation. But as we speak right now, we think we do have enough capital to support our growth as we move towards the end of this year and going into next year. That of course does not mean that if there is an opportunity for us to strengthen our balance sheet even more in a non-dilutive manner that we will not look at it, but it will always be weighed against the costs on a reasonable basis. The issue around changes in inequity...

Greg Jabome
So, I think you could just go to slide 22 on the deck, maybe it will be easier to have that conversation. If you look at slide 22, we ended last year in December of 2022 at $1.231 billion. Embedded in that figure is the additional $500 million Tier 1 capital that is reflected in the bank. As you go forward, you will see the profit per year. Under

our cover of AT1 the translation difference of about $340 million, as well as the AT1 for 2023, or what's about $130 billion. And of course, equity at the bank is showing what is near ₦1.9 trillion. So, at bank level, equity has grown from what it was at ₦1.23 trillion to about ₦1.9 trillion.

However, because the AT1 is an investment of the holding company, as you consolidate accounts, we have to back out the impact of the AT1 at holding company level. So, when you back that out, it takes us to the ₦1.73 trillion or ₦1.74 trillion that we referenced. So, the AT1 is at the bank level. The investment was by the holding company into bank. So, at bank level, you see it reflected. However, at holding company level, the AT1 is not reflected in the numbers because just based on the accounts, those numbers would not reflect. I don't know if that answers the question and provides the clarity we're looking for around the accounting on the AT1, particularly the additional $300 million.

Herbert Wigwe
If you do require further clarity, please feel free to reach out to us. We will take you through the accounting in much more detail. It's group accounting. So, some of it is kneeled up. At HoldCo level, we also remember that the $300 million is seen as a debt instrument, so you will not see it at equity level. But please feel free to reach out to us and we'll take you through it.

Roosevelt Ogbonna
On the loan to deposit ratio and our views on it, so we are at 61%. We're not doing the government any favours if we get to 70% or 80%. It is in our interest to do so. I would expect that interest income or fund-based incomes should make up almost 70% or 80% of the bank's earnings. I agree that given the strong retail push that you have seen, with almost 54% growth in our retail commissions and fees when you compare last year to this year, that the contribution from fund-based income will continue to drop. That just means that we're earning more income from not taking significant risk and the capital impact is lower. But I think pushing for a loan to deposit ratio of 65% plus provides some kind of resilience from an income generating perspective.

So, we will push that with or without the central bank. It's interesting that before we started our retail banking drive four or five years ago, the loan to funding ratio was always above the cap or was almost near the cap of 80% that the central bank has set. But just given the scale and size of the deposit liability growth post the Diamond Bank acquisition and the retail in 2019, our loan to deposit ratio has at some point dropped to about 54% and has only grown from 54% two years ago to 61% where it is today. We expect that that number will continue to grow.

I guess the other thing to make it to consideration at this point is that part of the loan to funding ratio takes into consideration all our Dollar liabilities. The bulk of that liability is not sitting on our balance sheet as loans. It's sitting off balance sheet as swaps. So, if you bring that back on balance sheet, you see that the loan to deposit ratio is well in excess of the 65%. But just given the way the central bank or the regulator looks at loan to funding ratio, the swap is not considered part of lending. So, it's not taken into consideration when the LFR is computed. Even with that, we'll expect to cross the 65% and those point of issue before the end of 2024.

Herbert Wigwe

Again, the final point on this matter, Roosevelt has spoken about the compliance if you brought the swap book on top of the balance sheet. On balance sheet, you would also struggle a little bit when you take into consideration the huge CRR debits that we get from the central bank. And given our size and scale, we need to make sure that we remain and continue to have very healthy liquidity ratios in case you find a big shift in the bank. But having said that, we continue to struggle to improve on that loan to funding ratio, given our balance sheet. All right. Any further questions?

Operator

We have a question from Ngozi Odum of Cardinal Stone. Please go ahead.

Ngozi Odum

Thank you for taking my call. I just wanted to ask about how we should be thinking about dividend payments this year? I mean, amongst the likes of your tier one peers I saw that dividends were lower. Should we be thinking of the bank maintaining its dividend culture over this year's profits?

Herbert Wigwe

I think what is important is that we do have a very clear dividend policy, which is a residual policy. That policy seeks to ensure that we have enough funding to cover our capital costs in the next year coming and also to make sure that we maintain a minimal dividend yield. As we continue to see greater profitability, obviously, that residual policy means that the dividend payments will improve, as you see here in terms of equity and things like that. It's important also to note that while it is critical to pay and maintain stakeholder value by paying healthy dividends, you must also watch the macro and understand the implications it has to you with respect to your capital adequacy, not just for today, but depending upon the market unfolds. Having said all of that though, we will continue to see improvements in our dividend policy in real terms as we move into the future, given the fact that our franchise is getting more and more profitable, and we find out that our subsidiaries are getting more and more profitable, and are willing to pay dividends from now going into the future to their parent. So, I think that is the best way to summarise it. Any further questions?

Operator

We have no further questions on the line. Would you like to make any closing comments?

Herbert Wigwe

Well, I want to thank you all for dialling into this call and for your contributions, which we don't take for granted. And we look forward to the end of the financial year where we shall have another call with the community. But thank you very much for calling.

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

END OF TRANSCRIPT