Event: Wema Bank PLC H1 2015 Results Conference Call

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Operator: Hello and welcome to today's Wema Bank PLC half-year 2015 results conference call. For the first part of this call, all participants are on listen-only mode so there's no need to mute your own individual lines. And afterwards, there'll be a question-and-answer session. Just to remind you, the call is being recorded. I'll now hand you to our host, Segun Oloketuyi who's the CEO of Wema Bank PLC. Please begin your meeting.

Segun Oloketuyi: Good afternoon, ladies and gentleman. My name is Segun Oloketuyi. I'm the CEO, Wema Bank. Thank you for joining us on this conference call for our half-year results. I have with me a couple of my management team. Ademola Adebise, the Executive Director is here, Tunde Mabawonku, the CFO is here, Robson Samuel is here with us, works in the performance management area of the Bank, Akinlolu Ayileka, the Divisional Head for Brand Quality Management is here, and we have with us a partner of the Bank, Nick Chambers as well. Thank you once again.

Our – this presentation will be in two parts. I will take the first part and Tunde Mabawonku, the Chief Finance Officer of the Bank will take – take us through the figures for half year. If you have your presentation slide, we move to slide number 4 which is just a quick overview of the operating environment.

In the first half of the year, we're all aware of what is going on in the global space. The Greece issue, discussion in Iran, tapering in the US by the Fed, all of this has implication on business in a year, especially on portfolio investment. We changed – our decision changed in May. But before then, a lot of activity went into preparing for the election. So largely the first half of the year prior to what that happened on 29th May was largely in the economic sphere focused on the local general election.

Muhammadu Buhari took over 29th May. We see with – within policy thrust of the government, some delay has been experienced in that space, but we hope pretty soon would have the direction for economic policy of the government and we hope likely that we'll have within the thrust investing long-term in the economy here in Nigeria.

Oil prices has been down. This is carryover from what happened last year. What that had done for Nigeria economy – because we depend a whole lot on oil. Whatever happens in the oil market has immediate impact on the economy in Nigeria. The depression that we have so far in the traditional global oil price is at – had a vibrated effect on the local economy here as well.

Exchange rate has been the major battle here. Depreciation in the last – over the last six months or so is about 25%. And again, scarcity of the foreign exchange also has had its major impact on business. In effect, a good number of customers using our products and our services have also been impacted – negatively impacted. The regulation in the banking industry has remained tight because of the short supply of foreign exchange and the need for the regulator to ensure that there is no market depreciation to – to the naira has led to a lot of liquidity squeeze out of the market and that has affected lending opportunities and lending capacity of most operators in the market.

Demand from the consumer has also been very slow especially in the retail space. Government revenue that has really shrunk over the period has led to some cases failure of workers to even get their salaries on time. So consumer power is – has been largely impacted and that has affected again opportunity to do what we would love to do in the consumer banking space.

I will move over to slide number 5. We did some commitments for 2015. We had our conference call – the first conference call I think it was in April. And some commitment was given for 2015 financial year. What this slide is saying[?] like this to run us through what we have done.

We – we're going to grow – we set out that we – this is a good faith in the transformation project for Wema Bank. And we set out to grow our business, we – year on year, we – 2014 – 2013, 2014, deposit growth was good but we saw a decline in the first half of the year compared to where we closed in 2014, there was a decline of 9.6% in deposit.

We set out to increase lending to our target and our core market. Year on year, comparing 2013 to 2014, we did 16.5%. For half year, we did by 9.86% in the – in our loan portfolio. Top line earnings and gradual shift of our loan portfolio from – I mean, gradual shift from money market which was a lot of what we did in 2013, we did – we grew loan by 16.5 in 2014. The position – what we had wanted to do was actually to grow our loan but under a more cautious and reinvented in 2015. Income from loan in 2014 compared to 2013 was 33.9%. Same period in 2014 compared to this period, in 2015, we were able to do 29 – 29.37% in income growth.

We set out to increase – to improve on our capital and funding for the Bank. We gave indication of what we were doing around capital raise. Tier 2 capital, we started with – we started the process end of the year. We're still on course. We are at the point of documentation – finishing on documentation on the $100 million – the 1st tranche of $100 million out of $250 million we plan to raise this year.

We have a Tier 2 capital, about 50 billion on our books which we took in 2010. Repayment actually started January this year. We have made repayments successfully. We have five more to go. Tier 2 capital, we have planned for this in the – for the fourth quarter of the year. Our plan is still very much on course. We're working the process already so that in 2014 – I mean, 2015 the capital is for Tier 1.

In the course of the year, we also have raised commercial paper to improve – to increase funding for the banks that allowed us take advantage of some short-term investment opportunity in the loan space that we have. We said that we raised about 10 billion in short-term facility. The process of that commenced in the month of July.

Efficiency is also in major thrust for us – a major goal. OPEX is – remains largely flat. We'll grow OPEX by just 1% comparing 2014 year end and to the first half of 2015. Cost-to-income ratio, so far a little bit. We closed the year with 87% but this is largely on the back of the declining – decline in revenue, in trading volume and in revenue – in trading volume largely and in the revenue of the Bank so at 90 today.

Again, a major part of our transformation project is to refresh and expand our branch network – refresh our branch and expand our branch network. In the course of the year, we did a whole lot of renovation but I – on our existing branches, we were able to do five. We also have opened five new branches in Lagos and the South West part of the country. Seven additional branches are under construction in Lagos, Port Harcourt, and Abuja.

We also set out to change our licensing to – from Regional Banking and enhance International Bank. We have submitted our request application for that to the Central Bank of Nigeria. The approval process is going on in CBN. And we're hopeful, before the year runs out, we should be able to conclude that.

Alternative channels have been a major focus for us. Continued deployment of ATMs, point of sales terminal, those ATM has increased – deployment increased by 14% during the period, point of this terminal equipment 47% during the period to 3,261. The number of cards increased – active cards that is, by a customer increase by about 50%. Currently we have 356,763 active cards in operation.

Please click. If move to page – slide number 6. We gave a rundown about: what we've been able to achieve in our transformation journey. Brand identity, we – and this, we were working on our position on our lookout[?] fields on March – on 2nd May. Actually, incidentally, that was the day we turned 70 as a Bank. We offered a new identity for the Bank – we have a new logo reveal. The feedback we got has been very encouraging – we have a more vibrant lookout field today.

And we have recorded appreciable increase in our capital. That is comparing where we're coming from in 2009 when capital was actually negative of 45 billion to where we are today at 45 billion positive. Our plan is on the way to reach additional capital for Tier 1 and in Tier 2.

Ratings was very poor especially because of the situation of the Bank when we started this project – the transformation project. Today, capital liquidity ratio is at 19%. And we got rated by two rating agencies. Our two rating agencies, Agusto; we have a BB- – BBB- and Fitch, they did also gave us a BBB-.

Our strategy: we are on course. We stay focused on our core area which is retail business and we have an existing development plan that we are pursuing in the Bank and we are encouraged by the results that we're getting. We did have the market share a little bit above 1.5%. We were well-less than 1% when the transformation project started.

We had positives all across board have improved significantly. And technology is robust. We have mobile platform. It's very, very good. We're also encouraged by the feedback we're getting from customers and by the – amount of transactions we are able to process through this platform, both mobile and internet platform.

NPL, again NPL is at 2.9%. I think we closed last year with about 2.4%. A slight dip but still within the threshold of 5% set by regulating agents. But the increase in our NPL is not because of the loan portfolio alone but the fact that the loan volume has also gone down. So we're comparing non-performing loans against a reduced loan portfolio and that accounted for the slight increase in NPL. Profitability has been positive through the period steadily causing profits in 2013 and we have set that performance up to now.

I will stop here for now. I will come back again to wrap up on outlook for the Bank for the next half of the year. I will then hand over to Tunde Mabawonku for the presentation of the financials.

Tunde Mabawonku: Okay. Thank you very much, sir. Good afternoon, ladies and gentleman. My name is Tunde Mabawonku. I will quickly run through the financial numbers for the Bank.

If you kindly turn to slide 8. I am on slide 8. Several things have shift the first half of 2015 like the CEO mentioned among which includes the CRR quality, the exchange-rate policy, a number of initiatives by the CBN. So what the Bank did very early on in the year was three things: to restructure, reprise and realign the balance sheet. Our focus was really, how can we get the balance sheet slightly more efficient?

Unfortunately, the monetary policy regime also affected some of our earnings within the Treasury space. So you see the declining PBT from 1.7, the previous half year to 1.2 billion this half year. On the second box, you notice a decline in deposits by 250 – from 258 billion to 234 billion. What is important to point out is that in quarter one, the Bank took a view. We lost deposits, a move from 258 to 217 billion. Largely, for us, it was to let go of the remaining public sector funds that we had and also the slightly higher price deposits which slimmed down our size in the first quarter. So actually, deposits have moved from 217 billion in the first quarter to 234 billion in the second quarter. And what impact has that been? You see an improvement in the cost of funds. Cost of funds have gone down from 5.21 to 4.66. So like I said earlier, we focus on restructuring the balancing sheet, repricing and realigning for better efficiency. Our loan book also – we had a slight decline and I think I will explain the subsequent slides on what we did on our loan book.

Net interest margins are 7.72, slightly lower than last year but the margins still remain strong like Segun mentioned earlier, NPL is at 2.9, largely on the back of a slightly lower loan growth. So really, this year's performance profit-wise from 1.7 billion to 1.2 billion, but we believe that we have a slightly more efficient balance sheet as we show in subsequent slides.

If you move to Slide 9, what we're doing in Slide 9 is just highlight some critical balance sheet elements and that is really number one. It dropped in cash and cash equivalents. It dropped in the money market investments and that's impacted both our interest income and our net revenue. And what basically happened was that the Bank, at the beginning of the year, like I said earlier to get rid – to let go of some deposits. But unfortunately, the CBN had its tight monetary policy stance. Financial institution that lost deposits were not refunded their cash reserve ratio amount.

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So we let go of public sector funds, removed some TSA accounts to CBN but CBN did not reimburse or refund the CRR equivalent. Eventually, that policy was changed in the latter half of second quarter. Our team showed improvements in our Treasury. So technically, to date, financial institutions in Nigeria are faced with 31% CRR and 30% liquidity, implying that only 39% of bonds are really available for lending. So what we just like to show in this slide 9 is a slightly smaller balance sheet but with – the pricing of the balance sheet is much better.

If we move to slide 10: slide 10 is just a summary of the growth earnings, some of the cost to income and some of critical issues. So from 2011 to 2014, we remain largely flat on cost in terms of our growth projections. Yes, that was a small decline in the first half of the year. But subsequent slides we'll show you our plan is to catch up to the volumes, so that is slide 10.

If we could move to slide 11, slide 11 is basically in two halves. The first half of the slide dwells on the interest income elements and if we look at that first half, you'll see improvement in interest income on loans and advances from 10.45 billion, half year 2014 to 14 billion, half year 2015. So if we see, the group is interest income alone. But the next line shows the declining interest income from investment securities and that's the fallout of the CBN, CRR on tight monetary policy.

So we had bonds but we do not get the quick release from the CBN. And so those volumes remains very profitable and we're seeing year-on-year improvements in interest income. The lower half really does highlight what we've done in terms of fee income. And I think it's important to mention that the number of the – the number of fee income elements are tied by regulation. So what we can charge our loan renewal, what we can charge on new loans. But there are still opportunities embedded within this area.

So for example, trading income from treasury, where there are opportunities for arbitrage, we've gone ahead and we've made some income. Like, you can see the line of net trading income. Also where there are opportunities within electronic banking space, we've taken advantage of it and we think for us that's an area where we can make a lot more non-interest come. So the summary of slide 11 is interest income from loan and advantage continue to do very well.

Now, in terms of the liquidity, CRR policy of the Bank, we believe there will be improvement in interest income from investment securities.

If we move to slide 12: slide12 largely highlights the efforts we've made, in terms of cost-reduction. The first half looks at interest expense of the Bank. Interest expense went up by 6.1% between H1 2014 and H1 2015. But embedded in that, like I mentioned earlier, is the drop in cost to funds. So what we now have is a slightly more efficient deposit mix.

So a deposit of 250 at full year – now a deposit of 234, but with cost of funds, that's much better for the Bank. In operating expense, what Wema Bank has been known for year on year, is to give – keeping a lid on its operating expenses. I think inflation is doing average of 8% to 8.5% but for us our OPEX growth has been less than 1% in the last four years and is largely on the path of using technology and too many resources and getting a better bank for each naira spent.

Of the operation expense elements that are tied to regulation, we also continue to look for ways of aligning our balance sheet within that regard. So the story on slide 12 really is, interest expense has improved, in terms of cost of funds and we've seen that impact. And in operating expenses, we continue to keep a lead on that in the Bank.

Slide 13 highlights the funding structure of the Bank. The first half looks at how we are funded from deposits from customers and from borrowed funds. And one – two things will come out here. There was a decline in funding but – in the Bank in the first half of 2014 and this was driven by two things. First and foremost like we mentioned earlier, the drop in deposit liabilities; second was a drop in borrowed funds. If you recall, at the corporate call beginning of the year, the Bank did indicate that we had a Tier 2 capital on our books that we have started the process of repayment. So every quarter we make repayments on the Tier 2 capital. The process for replacing that has started and we believe, for the end of the year, we'll get in more funds at even a slightly better cost than the existing one that we are carrying.

So the decline in funding for the Bank was really to get better alignment. So right now the difference from customers is that it's better cost and the borrowed funds, in terms of Tier 2 capital that will come in, will also be at slightly better cost of funding.

The lower half of slide 13 does highlight the deposit mix but I think if we go to slide 14, there we'll see the true story of – or we'll see a better perspective of the deposits mix of the Bank.

So we'll go to slide 14. Slide 14: the first half shows deposits mix in 2014 and compared to 2015. One of the things we noted in 2014 was really our mix was not good. Our cost of funds was not good so we took a deliberate attempt, how do we reprice better? And how do we consciously continue to grow our retail liabilities, our retail and SME funding? And you can see that with deliberate focus, there have been improvements.

Lastly, our fixed deposit was 44%. We have dropped that to 40%. Current accounts was 43%, is up to 45%. Savings was 13, is up to 15.

So what you see now is that 60% of our funding is from low-cost deposits at cost below the 3% mark and that is some improvement we've seen in 2015. We believe we'll continue to build on this offset for the second half of the year. The lower half also shows the improvement in the mix in terms of where we get funding form. Yes, for commercial banks, the handwriting is on the wall as we got better deposits. A number of accounts that haven't – that are outside to the TSA and show you single accounts, those have been moved to the Central Bank. The revenue collection accounts have been stripped on a daily basis, so all that – we are trying as much as possible to let go of the force and minimise the impacts on the Bank.

Public sector funds this year as a share of deposits have moved from 22% to 19%. But it's important to mention here that the remaining public sector funders that we have are really funded from tertiary institutions. The CBN still classifies those funds as public sector, but Wema Bank has a strong presence in a number of government institutions, state government institutions. And also if we have some partnership with some state governments, especially in the South West and we think there are opportunities in that in the short-to-medium term. So the deposit mix of the Bank has improved more than slightly from the retail and commercial space and we've seen that impact on cost of funding. And we think we'll continue to build on this success going forward.

If we move to slide 15: slide 15 looks at the loan volumes of the Bank, from 2011 to 2015. And figures year on year, between 2011 and 2014 growth in loan volumes and obviously the decline in MPL. The decline in MPL was largely due to recoveries and you can see that drop between 2012 and 2013 and from 2014, it has been also on the back of a stronger risk management framework. But one of the things we did earlier in 2015 was to take a close look at our loan portfolio and dimension and analyse that where will be the economic head winds and which customers, as the loans are maturing and are repaying, we don't want to renew.

And we took a view that in sectors that are highly accessible, our customers that are on the borderline which will give loans to renew, some of the mandates and focus really on the high – better liquid customers. And we saw a slight reduction in our loan volume which was deliberate attempt by Wema Bank. We're less focused on customers that we know have the capacity and capability to weather the storm in the first half of the year. And we have seen a slightly better loan volume in each one, 2015. You can see the spread of commercial banking, 60%; corporate banking remained strong at 32%.

Retail, we took some deliberate attempts to be cautious within the retail space especially in terms of lending to salary payments with some more clarity on what will happen within the government space.

Going to slide 16, shows the breakdown of the loan portfolio of the Bank. Largely there has not been any major change between the loan portfolio in 2014 and in 2016 and in 2015. What – like I said is, we focus more on the number of customers that we're sure that were a little bit more resilient than the rest and lending remained within those sectors. So year on year, we still continue to play within the same space. The loan portfolio shows we don't have any sector accounting for more than 20% of our loan book and that was a good achievement.

In terms of a non-performing loan, obviously, you will see hotel and leisure at 32%. It's actually one legacy loan that the Bank is working with the customer to try to get a better appreciation of the transaction. But the structure of the NPL have remained constant in the last six months. We have a number of customers, we continue to work with them, to work out the facilities that remain on the books. NPL issues are 2.9, it could be low in industry threshold.

Slide 17, does give the summary: we don't tell the story that – yes, there was a slight decline in the fourth half but we remain – the Bank remains on track to delivering a number despite the initial slow down and from what we're putting together in the balance sheet, deposits slightly better price, loan volume very liquid. We think we should be on course to achieve the remaining target for the second half of 2015. Slide 18, largely just shows us the ratio and three important ratios for us really – the net interest margins like we mentioned earlier, the cost of funds which have shown some reduction and we think will remain below the 5% mark this year.

Liquidity ratio at 33% is above the industry threshold of 30. Like I said earlier, liquidity ratio at 33%, but cash is 31. That means that 64% of our funds really a lot of – some extent we setup back so it's how to play around with the remaining liquidity and obviously we have plans to raise capital to show off funding for the Bank.

If we go to slide 19, most importantly for Wema Bank is on the back of the four – the 4% growth in the last four, four-and-a-half years, on the back of the economic climate, on the back of what we've seen happen within the global space, managing risk remains a major focus for the Bank and we've kept a close eye on that. The CU has added that to soft point earlier on in this presentation, the impact of declining government revenues, especially on the regional portfolios. And we have kept a close eye on our recent portfolio to ensure that we have started managing by quickly moving in and working with the customers within that space. There are some changes happening by regulators, in terms of measuring capital adequacy.

Right now, we are doing some parallel reporting, but what we've done is just stress test our balance sheet and eventually when CBN deploys this, we think we'll still remain on track. There might be some impacts on capital adequacy moving down to 150%, 170% basis points on our capital adequacy competition. But until CBN makes that a law, we'll continue to work with that guideline. Also two of that risk elements that we're keeping a close eye on are technology-related risks. As a lot of banks are moving to the electronic space, doing contactless solutions, doing a number of electronic solution, it's important that we keep a close eye on managing our risks within the space and we believe we are doing good – so far so good within that space.

And largely, the volatility within the FX space remains a concern for, I think, almost all financial institutions. So monitoring exposure, monitoring customers balance sheet that will exceed 2% of our loan book so we don't have any major exposures in this space. Anything exceeding 2% of the loan book, it's important to keep a close eye on what is happening, in terms of exchange-rate volatility.

Slide 20: slide 20 also just summarises the various risk-management metrics. So I think in summary, the Bank remains extremely well run. In terms of our financial numbers, we believe we are on track for our ability to solidify and both for what we see in the first few weeks of July, we think things are picking up and we are keeping a close eye on the changing macro-economic dynamics and how that affects the balance sheets of the Bank. The capital management plan that was communicated in the first half of the year, we're struggling to actual executing and continuing – and you will see stock in the impact of that on our capital adequacy and our long-term funding go forward.

At this stage, I'll hand over to the CEO, Mr Segun Oloketuyi to take the remaining part of the presentation. Thank you.

Segun Oloketuyi: Thank you, ladies and gentlemen. I'm back on the line. Please, if you turn to slide number 22, is what we see from our slide here, what we foresee for the rest of the year, in terms of outlook for 2015.

Domestic fiscal policy, will likely shape what the economy will look like for the rest of the year. We think – from what we see from the body language of government, that could – we express some discipline in the fiscal space. We have waited the appointment of a cabinet and I think that what at large will respond to the kind of team the new administration is putting together. The impact of the bailout, that the federal government had worked with the Federal Bank, to give to the state to be able to – to give them some soft landing around a very terrible economic situation in the States. We also have to shape the direction of this for the rest of the year.

In terms of monetary policy, we see a continue tightening of the monetary policy, the regime remains very tight. So hopefully, the volume of business that we will be able to do, we would think should – may improve slightly but it's not going to be anything major in the sector especially if 39% is all we have to lend, in terms of free deposit. When you take out, liquidity ratio at 30 and cash desired requirements at 31. Headline inflation is expected to rise. Stability of foreign exchange is crucial for me if oil prices continue to drop and we see that happening in the negotiation with Iran succeed, and the pile of crude that they have is released to the market. So we may have another softening of the price of crude. And if that happens, ability to earn more because there is a challenge for Nigerians.

On the global space, the impact of potential risk has been deferred in the US and will have its own impact on the global economy. I mentioned different international oil price. We do not see the oil price firming up quickly especially if the sanction on Iran is lifted. We have a project that is actually running a business here with that in mind. We shared this with our audience the last time we had this conference call. The overarching objective is to efficiently grow our market share. Some success recorded, but we're working on the numbers to ensure that we get what is our equitable share of this market. And we're doing that on the back of improving efficiency, sticking out for business with good yield, partnering with banks and other entities like a financial institution or syndication so that we can take on some bigger volumes.

We're using technology to drive down our cost. So that bottom line can get better than what it is today. Growing our market share where – the focus on our core business of retail and commercial is to grow the market. Strategically, we focus on savings account and demand deposit account to bring down the cost of deposit. And we also deploy, in some very significant number, alternate channels.

I will – I'll give you a rundown of number. We have grown cards issued by 50%. We've grown POS by 47%. We have also grown agent deployment by some reasonable percentage in the course of the year. We're also working on our network, in terms of number of branches. First, we want to become a national bank. We're hopeful that, that position ends sometime this year – before the end of the year. We're focusing largely on areas of high retail and commercial banking. That is where we are setting up our new branches today. And we also have come up with even setting up in a more a cost efficient manner. So we're building monuments. What we're doing today are cost efficient smaller unit. And we demonstrated that with about five in the course of the year. We're happy with what we're getting.

In terms of service level: service level hasn't declined just because they are not big and we're hopeful that this branch will be able to breakeven – even more quickly than the bigger ones that we used to do.

We're increasing capital. I have given an indication earlier, the $100 million Tier 2, we are at this point of finalising our documentation and we are hopeful in the second half of the year that money should come in. The process for Tier 1 will start in quarter 4 and we continue to ensure efficient use of our balance sheet and minimise capital charge against what we have been able to put together as our capital today where we continue to re-engineer our workforce in terms of recruiting good talent, and in terms of training the entire workforce so that they can match up with competition in terms of skills, and in terms of general business development initiative.

We're improving our processes. It's a considered improvement, in terms of processing, so that we are on the cutting edge of modern technology, modern tools to do our business. We also said we would position the Bank. We have done a lot about this. We have a new identity. We have a new look and feel. And we considerably engage our shareholders on investing and the general public through transparent and consistent investor relations, like we are doing this conference call today.

If you move to slide number 24: it's guidance for 2015. And in the light of our performance, in the first half of the year, we have had to revise a couple of our guidance for 2015. Deposit growth, we suffered from a decline the first half of the year. We're hopeful that with stability, with election concluded with the thought of economic policy of the government on build shortly, putting a team together. Our business activity is expected to go off and take an upswing. And we projected our plan to grow our deposit anywhere between 12 – I mean, 10% and 12%. We'll consistently leverage on our mobile solution and technology to deepen our performance and to reach a good number of our customers.

Cost-to-income ratio, 87 close of business last year, 90, first half of the year. But if you look at what we've done in absolute terms, we actually grow OPEX by 1%. The cost-to-income ratio at 90%, so at the back of income that had been somewhat a little bit impacted negatively in the first half of the year. Our expectation is that we will ramp up on income. If that happens, we have to keep it neat on our cost which we should. We should be able to do cost-to-income ratio of 80%.

NPL, we project within 3% and 3.5%. At 3% and 3.5% because in the retail place – in the consumer lending space, it's taking a bit of time for government to sort issues of salary payment. A number of these – of our consumer-lead borrows are in the government are public service. Salaries are delayed and we have an executive recognition for NPL in the consumer stage. If it's not paid in 90 days we classify it. We think for the rest of the year, it would take a bit of time for them to sort out backlog of salary. So we projected about 3 to 3.5% percent in our guidance. But the good news is that this is the below the regulated threshold of 5%. Cost of – cost of risks rather, we projected is at less than 2%. I want to maintain that. We'll keep that to the end of the year.

Net interest margin was around 7.5%. Alternate platform, a number of our customers have switched to alternate platforms. And we see the shift from internet banking, the shift to mobile banking and these numbers we see are very encouraging and we continue walk on this to ensure many more of our customers sign off on our services on the alternate channel. Card activation, POS deployment, will continue to get very good attention for the rest of the year.

In terms of performance, we think we will go back and achieve a low volume of 1.5 billion by the close of the year. We're at 134/135 now. For the other half of the year, we should be able to take this back up to 145 billion.

Improved ROE, we estimate ROE to be between 7.5% and 8% by the time we close the year. We also – we continue to improve on our in-branch costs cross-selling and grow our retail for that services to a level that we have or supposed in a very respectable performance at the end of the year.

This brings me to my presentation. We have some other slides in the pack and appendixes that will give some more information that you may want to know about the Bank.

Ladies and gentlemen, thank you very much. I will now give time for questions from the – from you. Thank you.

Operator: Thank you. We'll now begin the question-and-answer session. If you'd like to ask a question, please dial 01 on your telephone keypad now to enter the queue. Once your name is announced, you can ask your question. If you find your question is answered before it's your turn to speak, you can dial 02 to cancel. So once again, that's 01 to ask a question or 02 if you need to cancel. There'll be a brief pause now whilst your questions are registered.

Once again, if there are any questions, please dial 0 and then 1 on your telephone keypad now. Okay. We have our first question coming through. That's from Soji Solanke of Renaissance Capital. Go ahead, your line is open.

Soji Solanke: Hi. Good afternoon. I don't need to but I think what I just wanted to get a sense of from you was – if you can, kindly give us some colour in terms of what you think is going on with petrol in the country? You know, are banks funding petrol imports?

And also – just also to pick your brain, what – what are you thinking in terms of the announcement made in the last two weeks, with the respect to Central Bank and DMO intervening in terms of banks – in terms of commercial loans by state – you know, commercial loans owned by state in terms of restructuring those, will that be happening on that front? I'll just appreciate if you're going to get more colour for me, in terms of what you think. Thank you.

Segun Oloketuyi: Thank you. Okay. Our banks form the petrol imports. I think our response for the petrol import is a bit tapered. And it is because we do not have a clear guideline yet where what the position of government will be on subsidy. If subsidy is invoked then petrol becomes, just like any commodity like rice, like sugar, like flour, and then you look at profitability and then you import. But if you want to fund import on the – in subsidy regime, then you need to know what position government is taking about subsidy and that is not clear yet. There's a lot of pressure if our subsidy is to be removed. Once that is clear, I think banks will be a bit comfortable. And if you're going to look at what is being owed, I think I was listening to some news on one of the channels, local channels in Nigeria yesterday, the acquisition of imports of petroleum products claims owing them in excess of 350 billion subsidy. When that debt overhang is there, we don't have a clear direction on how that is going to be paid. I don't really not – I don't think that's anything –

Operator: I apologise for the interruption. The speaker line is disconnected. If you bear with us, we're just going to reconnect that for you. You'll just be on hold whilst we do that. Okay. Ladies and gentlemen, apologies for the delay, we're now once again live.

Segun Oloketuyi: Hello? Are you back with us?

Soji Solanke: Yes, I'm still here.

Segun Oloketuyi: Okay. All right. Sorry, the line went off. Sorry, about that. I think I just wrapped up on petroleum importation. I think it's not particularly exciting unless we have a direction on how the debt that had piled up will be sorted out. So banks are cautiously, perhaps with assurances from high quarters, financing petroleum importation. The other question has to do with the DMO and the CBN intervening in commercial loans granted to some government, state government. Actually, a backup committee may be calibrated on this in addition, it wasn't just CBN. We took a very – what I think is a practical solution to what obviously is a problem. A lot of these are oil revenue driven. Revenue at the federal level where a lot of – all this is actually gets their major – the chunk of their revenue from. There's a kind of – totally not in anticipation that where prices will come down to the level they are today. Getting those loans will make this debt totally insolvent and it inevitably will make their overhead significant.

So we took a practical decision and the practical decision is to pull all of this loss together under a bond, a 20-year bond trade in at market value and we merge all of the loans into this bond. Every bank takes a proportion in the bond, really – I mean, whatever loans you have in aggregate to state, that'd be your investment in the bond over a period of 20 years. What this does? I would say we win-win. We take some – some here and certainly whether you have a performing asset on your books. And for this case, they print liquidity back to the state so they can – the business of governance doesn't go hampered by huge loan overhangs. And I think a lot of lessons learned sometimes when we take this decision we should know and consider in the future. But I think it's an orderly way to resolve what will have been a major crisis in the economy and a major crisis in governance, in fact, a big crisis for banks that will have had to take provision on all of these loans.

Soji Solanke: Yes, let me just clarify, so that 600 billion figure that we've read in the press, that essentially is commercial loans from banks and not necessarily bond issuances by the state.

Segun Oloketuyi: No, not bond issuances. Well, some indicator here is – we need to sort out the loan issue first and then look at the realistic cash flow of government. If there is going to be orderly repayment of those loans in addition to services obligation under the bonds, the bonds will run their cost. If it's going to be a problem, I think perhaps we'll have to look at the bond as well but then –

Soji Solanke: Okay, okay, yeah.

Segun Oloketuyi: But then, I mean, lengthy repayment even on the bond, it is going to be a problem but no decision yet on that.

Soji Solanke: Okay, well, the 600 billion figure, you know, that – you know, that, I think the Central Bank

Segun Oloketuyi: Look at the red loans to state, not the bond. The bonds are – yeah, it's outside of that.

Soji Solanke: Okay, that's fine. Excellent. I have a few additional questions but I can come back if there's no one else on the queue or I can go ahead, I don't know. I can come back to see if there's anyone else on the queue. Thank you.

Segun Oloketuyi: Alright.

Soji Solanke: Thank you.

Operator: Currently we have no further questions in the queue, once again, if there are any further questions please dial 01 now. Nope, we don't have anyone else coming forward, so please feel free to ask your further questions.

Soji Solanke: Okay, hello, can you hear me?

Segun Oloketuyi: Yes, I can.

Soji Solanke: Okay, the other question I just wanted to get a sense of from you is: we've been reading articles around the depreciation of FX, you know, within the banking system, you know, how big of an issue is this? You know, just help us understand the total extent, is this really affecting the banks?

And also there was an announcement at the Central Bank banning certain items from access to FX. To what extent do you think this could potentially affect commission income for you, going forward?

And just finally, what are your thoughts on the current monetary-policy environment and when do you think an event could happen? Whether that's in terms of the cash reserve ratio. And also, do you think – you know, what are your thoughts in terms of the currency as well? When do you potentially expect the Central Bank maybe might ease in terms of FX restrictions? Thank you.

Segun Oloketuyi: I mean, obviously the scarcity of foreign exchange. And that has led to a list being compiled or a list compiled by Central Bank with 40 items on the list, they call it the exception, FX official, FX exception list to manage the scarcity. Scarcity occasioned by falling oil prices; scarcity occasioned by even the glut in the oil market which is another type of problem, really where we seem not to be able serve even everything that we are producing. So the scarcity – so obviously, to manage the scarcity what the Central Bank has done in the wisdom of the regulator is to come up with a list of items that you do not consider so essential to – to our lives at its way.

And that's a one basis. On the other is to see there are opportunities to make some items happen locally. No one is banning you from importing them but if you want to import them, the official funds are not available for them. And a couple of items are on that there's a fall into the category of banned items that Central Bank believes we could produce locally. Some are adjusted to extra that adds no value to anyone, not to the economy and not to anybody. They took those ones out of the list.

And I think that list was there for a while. So the scarcity of foreign exchange: so to what extent would this affect? If you find – if have the right importer who does some thousands of tons of rice a year, two letters of credit, you have lost opportunity for fee income in the period. You have lost opportunity for even float income. So certainly this will impact income across board in the Bank. Now, how quickly we can respond to fill in the gap and fill in the hole and I think that's what every Bank has to contend with.

But overall, I think the volume of trade in the economy may not suffice significantly as the result of the exception list because people will look for alternatives. And those alternatives is where we need to key in and see how we can help our customers and if I bring even new customers on board. But arguably it will affect fee income in the short term. But I think things will regularise itself in the course of the year.

Third, on monetary policy, I believe is has not significant improvement in the price of oil, monetary policy – will remain and which is tightening. The – I think the Central Bank today took a position, that first and foremost they want to ensure price stability. Price stability increments in inflation. Because largely, if you allow inflation to creep in at the weak purchasing power that most consumers have, therefore when that is eroded then it makes life difficult. So in a sense, what we're doing here is to – if you keep a tab on inflation, we are able to keep some value in what they earn that they will continue to make money as it is. But if you allow a free flow and then inflation comes in, still I'm finding it difficult, government is finding it difficult so they won't pay their wage bills. So an increase in salary, we jump totally out of it. And I think that's the truth; that's the thinking of the Central Bank as they have this option, time and time again, that they are a Central Bank that is focused on price stability which is price inflation.

And foreign exchange certainly in that regard, the value of the Naira to the international currencies, actually play a major role on whether inflation is up or inflation is down. Do I – my thoughts on easing, in terms of the CRR, honestly, I don't think that will happen this year. And I think the government needs to come up with its own policy, the economic team needs to be put in place. And then when we see the policies of government around the economy, then we'll – as a set up, I will then look at it and decide whether it's trying to ease or is trying to tighten this quarter. That's my own deal. Thank you.

Soji Solanke: Okay thanks. Thank you very much for your answers. Thank you.

Segun Oloketuyi: Thank you.

Operator: Okay, once again if there are any further questions on the line please dial 01 on your telephone keypads now. Once again, any further questions please dial 01. Okay, gentlemen, there seems to be no further questions on the line. I'll hand back to you for any closing comments.

Segun Oloketuyi: Ladies and gentlemen, we just want to express our appreciation and thanks to you all for joining us on this conference call. And we hope you will join we us when we do the third quarter and we look forward to that in October. We have another two months to run and we look forward to you joining us when we do this conference call for our third quarter results. Thank you very much.

Operator: Thank you. This now concludes the call. You may all disconnect. Thank you very much for attending.