[Start of Recording]

Operator: Good afternoon and welcome to the Wema Bank full year 2018 Conference Call. I will now hand you over to the MD/CEO. Please, go head.

Ademola: Good afternoon, Ladies and gentlemen, my name is Ademola Adebise, MD/CEO of Wema Bank. I welcome you to the Full Year 2018 Investor Conference Call. With me on the call is Mr. Tunde Mabawonku, our Chief Finance Officer. I also have Mr. Bakare, our treasurer. Our presentation is going to come in three forms. I'm going to be talking about the business operating environment. The 2018 performance review will be taken by the CFO and I would close up with the outlook and the strategies.

Wema Bank is a 74 year old Bank. We are the oldest indigenous bank in the country with it's rich heritage. For the year ended 2018, we recorded improvements in key indices. We will delve into these as we move on in the presentation. Earnings improved by 9.6% to 71 billion. We on boarded 350,000 new customers. ALAT, our fully digital Bank continues to gain traction in the market, winning accolades. In terms of our credit rating, we've maintained our credit investment grade credit rating from Augusto, Fitch rating, and GCR and we continue to improve on all the other indices as we'll see as we move on in the presentation.

Slide four. On the global scene, the trade tension continues to slow down the global GDP numbers. China continues to show slow growth. This is also impacting the emerging economies. We do not have clarity on the direction of Brexit but we believe that this would further worsen the situation. On the domestic scene, the first and second quarter of 2018, witnessed very slow growth but picked up in H2. Preparations for the elections also affected policy making. Inflation closed at about 11.44% compared to 15% in 2017. In terms of oil price, foreign reserve and borrowings, oil price trended downwards towards the end of the year closing at $53.8 from a high

of about $84.8 in October.

Through out the year, the Nigerian FX reserve was kept at above 40 billion. Slide five. In terms of a policy environment, the MPC retained a key parameters all through the year. Key events that happened during the year was the introduction of a PSB Licensing regime. Payments Service Banks. We also saw the currency swap, the Renminbi currency swap, the take over of Skye Bank to Polaris Bank, and we also saw an extension of the list of 41 items banned for foreign exchange.

Slide six. In terms of our strategic direction, we remained very much on course with our strategy to double our performance leveraging innovation and technology in the next two years. The six pillars making up that strategy will continue to see improvement in all the key pillars. We've successfully raised beyond of Tier2 capital last year. Deposits moved from 264 billion to about 370 billion while the loan book grew by about 30 billion. In terms of retail we continue to ramp up deposits on this space. We've re-organized ourselves by emphasizing the retail structure and we're making a lot of progress in this space.

In terms of customer experience, we've defined clearly the journey, identifying the clear pin-points and we're addressing all these. Last year we were adjudged as having the best contact center on the KPMG customer service index. Again in terms of our digital journey, we continue to improve on our key infrastructure. We embarked on a refresh of our core banking application and the key servers. We believed that this will proposition us for the growth that we envisage as we move on our digital journey. We also introduced a number of initiatives in the digital space to improve efficiency and to reduce the cost of doing business.

In terms of people, we continue to empower our people. We continue to increase the capacity within through a very robust competency framework that we put in place. For the first time we're also ensuring that we implemented almost 100% our

training plan for 2018. And our training is focusing on key areas like data analytics, design thinking, and innovation. The next slide, slide seven. In terms of ALAT, our digital bank, we continue to gain traction in the market, winning more awards also in 2018. We continue to onboard more customers. 2018 alone, we've boarded close to 250,000 customers.

You can see the numbers here very clearly. And of course because we're building an ecosystem, we continue to increase our partnerships. One key that we also embarked on in 2018 was the convergence of our old traditional mobile banking platform unto ALAT. Now we have ALAT as our digital platform. ALAT will onboard customers digitally - customers that are also onboarded traditionally, ALAT will serve as their digital platform. So we have basically two funnels through which we're onboarding customers.

One other thing that we're also doing, that we have embarked on is converting, moving ALAT to become not just a digital but to be a digital platform where we can bring value creators and value consumers to operate on that platform. We believe that with this, we'll be able to bring on more people to the Bank. The numbers are also growing in terms of our digital channels. USSD for example, grew by over 118% in 2018, from about 59.6 billion in terms of volume of transactions to about 129.8 billion. Please move on to the next slide, slide eight. As I said earlier, the Bank witnessed a leadership transition in the year.

Mr. Segun Oloketuyi, the ex-while Managing Director, retired from the Bank effective September 30 2018. And my humble self took over as the MD effective October 1, 2018. We also elevated Mr. Moruf Oseni to become the Deputy Managing Director of the Bank. Through out the year, we continue to improve on our brand and our visibility threshing full twenty branches, ten new branches, and then ten other new branches were renovated. As a responsible corporate citizen, we also continue to support the society

through various initiatives, as you can see on this slide. I will now hand over to Mr. Tunde Mabawonku, the CFO to do deep dive into the financials and then I will come back to close the presentation. Tunde.

Tunde: Okay. Thank you very much Sir. Good afternoon again. My name is Tunde Mabawonku. I will spend the next few minutes just walking you through our financial performance and doing a deep dive into the numbers. So please join me and turn to slide or page 10 that you have in the front of you. The slide titled 2018 Financial Highlights. If you look at the slides you will see that it's broken into four sections; talking about earnings, efficiency, revenue generation, and margins.

One key point really is that the Bank has done well or the bank did well in 2018. If you look at the top left, you will see a growth in PBT of 59% from 3.01 billion to 4.8 billion, improved capital adequacy from 14% to 18.01. You will recall that the threshold for a commercial Bank of national authorization is 10%. So the Bank is significantly above this. Deposits grew by 45% year on year from 254 billion to 369 billion. MPL ratios, if you look at the bottom right, closed at 4.98%, still below the regulatory threshold of 5%. If you look at the bottom left, we still have some work to do in the cost to income section.

And as I go into subsequent slides, I will shade some more colours on this. But in summary, you can see 2017 compared to 2018 was a slightly much better bank for Wema Bank in terms of its financial performance. If you move to the next slide, slide 11, its just shows more details on earnings comparing 2017 to 2018; PBT, gross earnings, non-interest income. And like I mentioned earlier, you see the growth in profitability from 3 billion to 4.8 billion. Fee based income also went up slightly from 12.2 billion to 13.9 billion. One key area was the operating expenses that went up from 25 to 35 billion largely on the back of additional investment the Bank had to make in technology, some increased staff cost as we expanded our

branch networks and additional regulatory charges.

Really, but the core task for Wema bank continues to remain how we ramp up while keeping our funding costs down. If you move to slide 12, this does a deep dive into earnings in the last five years, and you can see the year on year growth in earnings, from a low base of 40 billion, earnings almost touching the 80 billion mark. The split between interest income and non-interest income still appears constant. But embedded within those ratios are year on year growth. So non-interest grew by almost 3 billion while interest income itself grew by close to 16 billion. So if we check the chart on the bottom left, you will see the dark-shaded colour is the interest incomes on loans and advances while the white one is the interest income on investment securities.

Adversely as we had some slight dip in money market yields that affected the revenue from that platform. But all in all, the Bank continues to sweat its balance sheets to generate more fees and more income. One key area which I mentioned is a sort of work in progress is the costs. If you go slide 13, it shows a breakdown of operating expenses and the key drivers, and largely for Wema Bank one ratio is [zic4] but lets take a step back. I think it’s important to point out that measuring cost to income, what we do largely is operating expenses divided by operating income.

Operating income is largely interest income minus interest expense plus fees. So net interest margins plus fees. So the better we can get our net interest margins by bringing cost of funds down, the better we can get the topline. So one key task for Wema Bank is to continue to bring down costs of funds thereby increasing the NIM and that will also help our cost to income ratio. But like I mentioned earlier, we also had some one-off cost drivers that happened last year. The investment in technology, increase in AMCON levy, and some staff costs.

We don’t see the technology cost growing at that rate in 2019. So we think we made investments and now is to get the value back from the asset that we have deployed. Moving on to slide 14, it shows more colour on the assets yields and the net interest margins. Obviously for Tier2 Banks, we have some slightly higher elasticity to changes in sovereign rates. So when rates move, our customers quickly come to try to reprise. But what Wema has done is to reprise and drop down its cost of funds at a rate faster than the yield on its money market and fixed income securities.

So you see net interest margins improving to 7.08%. Still not there but improved year on year. yield on assets was relatively flat. The drop in yield for money market was offset by the improvement in interest income from loans and advances. And largely for us as we ramp up in 2019, we expect the lower funding costs to continue to translate into better net interest margins. The next slide just would zoom in again on operating efficiency. You can see PBT was relatively flat for almost four years and those were the periods of some economic challenge within the country; 2015, 2016, and part of 2017 when the country was in recession.

But what we did was to ensure we weather the storm, keep numbers constant and then start ramping up. And you can see the movement in growth between 2017 and 2018. On the bottom left, you see ROE numbers, still single digits but upper single digits. We believe that as we've started this year, ROE numbers will start trending towards the double digits and where we can now show more competitive returns to the providers of capital. Talking about returns to providers of capital, the next slide, slide 16 gives more colours on earnings per share and the dividends yields.

Given the improved numbers in the Bank, given the regulatory ratios and regulatory requirements, Wema Bank has meet all requirements as highlighted by the Central Bank in the dividends payment policy, and we've obtained the consent of

the regulators to go ahead and propose our marginal dividends payment to our shareholders on the back of this improved performance. This will be the first dividends the bank will be paying in quite a while and we think it’s the first step into providing results for the transformation of the Bank. We expect this trend to continue into the future.

But the Balance Sheet is driven - the numbers we've mentioned in the last few slides, PBT, interest income, interest expense, is largely driven by a number of Balance Sheet indices; deposits and funding, loans and advances, and capital. The next few slides, I will just briefly touch on those key parameters. If you go to slide 17, it shows the breakdown of the deposit liabilities in the Bank. The top left shows the growth from 254 to 369, the bottom left shows the mix. The top right gives some pie chart depicting the types of funding.

Fixed deposits at 51% is still not a good ratio but if you look to the bottom left you will see that growth in CASA averaged 32%. CASA is current Accounts and Savings Account, year on year. The growth still lower than the growth in fixed deposits but the good point is that the cost of fixed deposits has dropped significantly. We were able to reap the benefits of lower funding costs. An interesting thing is the bulk of the savings account is also largely attributable to the changes we made in our digital platform and the platform itself like the MD still mentioned earlier.

As we get more traction from the retail numbers, we will start seeing that start replacing the fixed deposits that we have. Our expectations is that deposit mix will turn around in this 2019 financial year, and we'll start having a larger chunk within the current and savings accounts space. If you move to slide 18, this shades some colours on the loan book of the bank. The left hand side shows gross loans where we moved from 220 to 261 billion year on year. And if you take a close look at the table you will see that the

loan growth of the Bank was largely skewed to short tenure transactions.

It was important for us to shred the Balance Sheet of the bank so emphasis was on short tenure transactions within general commerce, within oil and gas down stream where we can do two or three cycles within the year and get more revenue into the bank. Some other areas you see some interventions here and there but largely the loan book growth was largely in short tenured areas. But you can see from the mix that it still remains a fairly diversified loan portfolio with no sector accounting for more than 20% of the loan book. But the key point in the loan book is the MPLs. What are the MPL numbers doing? And going to slide 19 gives you more insight into the MPLs of the Bank.

The Bank with non performing loan ratio of 4.9% lower than the regulatory threshold of 5%. The bulk of the MPLs are largely local currency with just a very marginal - less than 1% share in foreign currency. But largely all the loans are fully covered with the coverage ratio above 120%. And based on the stress testing, the impact of IFRS-9, the impact of the ECL models, we saw some additional impairment charges. But the bank has enough in its regulatory risk reserves to accommodate the increase in impairments, and we therefore did not have any need to take advantage of any of the Central Bank incentives to amortize impact of IFRS-9.

Going to slide 20, you can see the details of the capital adequacy ratio which I mentioned earlier at 18% above the threshold of 10%. Shareholders fund at 50 billion. You will recall a couple of years ago, Wema Bank shareholders funds was at 40 billion. So in the last four to five years, we've been able to add an additional 20-25% to shareholders funds from internally generated returns and we think we can continue to build on this. The Bank also raised additional Tier2 Capital during the year.

We did a second tranche offer of 20 billion and

based on the rates in the market, we're able to take on board 17 billion of the 20 billion that we raised and that also improved our capital adequacy ratio. But one of the things the bank also did was to continue to approach bilateral and multi-national funding agencies to also get long term funds to able to properly intervene in certain segments of the economy. You can see some of the names we listed there; ADB, ICB and a number of others that we brought on board.

But largely the Balance Sheet still remain funded by deposit liabilities. I think in summary, if you go to slide 21, it shows the year on year performance of the bank in the last five years and you will see that 2018 was a good year for the bank where the Bank was able to increase its market share, grow its loan book, generate better profitability, while keeping MPL ratios down and continuing the work down its costs to income ratio. At this stage, I will hand over to Mr. Adebise the MD/CEO for the concluding part.

Ademola: Thank you, Tunde. May I request that we move on to slide 23? On the back of the Bank's performance in 2018, we believe that 2019 will be even a much better year despite the challenges that we face in the global markets. The key issue is around the trade tensions, the Brexit and the slowness in the growth of China which will eventually affect emerging markets especially in Africa. Despite all these, we believe that for us on the domestic end, with the elections over, we believe the federal government will embrace continuity in economic planning.

We believe that hopefully we should have a much stronger cabinet to be able to push all the economic restructuring that the government has been working on in the last four years. And we believe on the back of these, we are positioned to take advantage of it. We also see inflation also dropping with the figures in February showing 11.31%. All these put together, we believe that there will be opportunities; opportunities in agriculture, manufacturing, trade, and ICT.

On the domestic market we believe that with the accretion in the foreign exchange reserves, and with the elections over we believe that the foreign exchange regime will remain stable and of course, we will begin to see the inflows of FDIs and FPIs. We also believe that with the US federal reserves, signaling to the market that further increases will be subject to market conditions, we believe that some of these funds will begin to come back to the frontier markets. For us as a Bank, we remain focused in terms of our strategy, doubling our performance in the next two years, working on the six pillars that we highlighted and we're very confident that we would be able to achieve our targets very clearly.

If you move to slide 25, where we've attempted giving the guidance, we believe that we should be able to hit our numbers. This year, our targets is to cross the 500 billion mark in terms of deposits, more day growth in loan growth, and we believe that key indices like the cost to income ratio, we intend to bring it below (80%). We are very clear in terms of what we need to do and with you, our investors, our customers, we believe we can achieve these. I thank you all for joining us on this conference call and I would now yield the floor for questions.

Operator: Thank you. So we would now be taking and answering your questions. To ask a question, please press "0" on your keypad and to cancel a question please press "7". Okay. Our first question is from Samuel. Please, go ahead.

Samuel: Okay. Good afternoon. Such an impressive and my question is, we saw the CASA mix declined by 3.20% despite the fact we saw growth in the CASA accounts. But we saw that as a contribution to the total deposits, we saw it reduce by 3.20%. So what is the forward guidance for CASA mix this year? What percentage will CASA be in deposit mix? And also you [?] income ratio and you gave a forward guidance over the cost income ratio in

2019. And you made mention of the fact that you're looking at the cost of fund declining to improve the cost to funds ratio. So the question now is, the moderation you are looking for in the cost to income ratio, is it only through the cost of funds or is there another strategy that you should be looking forward to in terms of moderating the cost to income ratio? That's my question for now.

Tunde: Okay. Thank you very much Samuel for that. Obviously like you saw the mix of CASA was 51 to fixed deposit, 49 to CASA. I think as the first step to what we're committed to do was to bring CASA to 55%, fixed deposits to 45 in the short run, and then in the long run start getting to 70:30. But the immediate is the 55:45. 55 CASA, 45 FD. In terms of cost of funding, what is the approach to moderating cost to income? The cost of the funds hovered around 8% averages last year. As rates have more of less become stable this year, we see cost of funds dropping slightly. One of the things we've seen is that the rate for retails is a marathon and not a 100 meters dash.

So as the retail numbers continue to ramp up, numbers in savings, numbers in ALAT, we start seeing that impact and then with that we start switching and migrating a lot more customers through CASA. So we see it as a long term play. We think cost of funds should be able to drop by at least a 100 bases points this year 2019. We are pushing together from 100 to 150 bases points. But in addition, outside of cost of funding, we also have a number of initiatives around reducing growth in Opex. To mention, a lot is happening on the digital space, digitizing the back office, digitizing operations, digitizing onboarding.

So our plan this year is before the end of the year, no customer will be onboarded through traditional channels or paper. All the customers can be onboarded digitally and we track the records and we get the information. That also saves a lot of costs. And as they transact more

with digital channels, we start letting go of some of the traditional costs elements that impact on the branch. So to answer your question, CASA mix will get better, we think it will be 55.

Samuel: Okay. Thank you. That’s my question for now.

Operator: So to ask a question, please press "0" on your keypad, to cancel the question, please press "7". I repeat, to ask a question on your keypad, please press "0", to cancel a question, please press "7".

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Tunde: Okay. Hello Samuel, I hope that gave some clarity. Sorry we dropped off along the way.

Ademola: Samuel I think I need to also add that in addition to what Tunde has said, we're also looking at other things around power, adopting renewable energy to generate power for our different locations. I think all these things put together should begin to impact our cost to income ratio. However, it is also important to note that, yes, while we are working hard on these, we should see Opex going up but the whole idea is to ensure that we work on the toplines to ensure that we keep our cost to income within the guidance that we've given.

Samuel: Okay, thank you very much. That answers my question.

Operator: Thank you. So to ask a question, please press "0", to cancel please press "7". There are no more questions at this time. Please go ahead for closing.

Ademola: Ladies and gentlemen. I would like to thank you for joining us on this Conference Call. For us we are committed to serving our customers and to begin to return reasonable returns to our shareholders. Our strategy is well cut out for us. We are going to play heavily in the digital space and we believe that this will impact the bottom line effectively to improve shareholders

value. Thank you joining us and I hope that you will join us when we do the next quarter investor call. Thank you very much.

Operator: Thank you. That concludes the call for today.

[End of Recording]