WEMA BANK

FULL YEAR 2021

INVESTOR/ANALYST CONFERENCE

CALL TRANSCRIPT

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Start of Recording

FEMI: Good afternoon and welcome to the 2021 Wema Bank Analysts and Investors Conference Call. My name is Femi Akinfolarin, and I will be moderating this session. The presentation that we will be showing to you today has already been shared with everybody earlier today. We had also published the financials in the dailies earlier in the week. So, all these information is already in the public domain. At the end of the presentation, we will be taking Q&A and you will be required to just put your questions into the chat box on Zoom. We will make sure that all questions are responded to by the management of the bank. I will now handover to the Managing Director/CEO of the bank, Mr Ademola Adebise to take us through the presentation itself. Thank you.

ADEMOLA: Good afternoon, ladies, and gentlemen. Welcome to the Wema Bank FY 2021 Analysts and Investors Conference Call. My name is Ademola Adebise, the MD Wema Bank Plc. I am being joined today by my colleagues, Moruf Oseni, Deputy Managing Director, Wole Akinleye, Executive Director, Corporate and Southwest Business, Wole Ajimisinmi, Executive Director Lagos Business, Emeka Obiagwu, Executive Director North and Southeast Business, Tunde Mabawonku, Chief Finance Office, Sylvanus Enenche, Chief Risk Officer and Funmilayo Falola who supervises Marketing Communications and Investor Relations function.

During this call, we will discuss our FY 2021 business performance and cover the outlook for 2022. Statement or comments on the outlook will be based on expectations as of today, actual events and results will differ materially due to the several risks and uncertainties. The bank continues its strong growth trajectory as we see during this presentation. We continue to push on our ambitions, corporate goals, and we have grown our asset base over the last two years while increasing our profitability by 108% in 2021. Our digital play is defining the market. Our improved financial performance is supported by efficient balance sheet management. We have seen strong growth across all parameters including high net interest income and non-interest income. Our efficient ratios have improved significantly.

We have also seen strong growth in profitability; we were intentional about driving down costs and improving our profitability ratios. Our cost of funds declined by 24.9% to about 3.25%, and our cost to income ratio improved to 78% from 83.8% last year. Despite the very challenging environment, we recorded a very decent performance, and this is largely because we improved the efficiency of our balance sheet. There was a growth in our loan portfolio; originations, monitoring practices and risk management have improved significantly. We continue to use data analytics to improve our decision-making. During the year we also had changes on the board, and this was in line with the corner roads. This you can see from the financial statement published. This was basically to engender diversity; to ensure that we continue to have diverse experience on the board. The digital landscape continues to be the focus, especially because of our digital heritage. We continue to improve our capabilities and offerings in this space.

We have revamped our mission and vision statements and have also come up with a new corporate strategy which aggressively focuses on digital play. The strategy is focused on eight pillars because we know these pillars are key to the growth of the bank, and to position ourselves as a place of the future to work in. Data is the new oil, and we continue data analytics. We are also focused on our people – our people are the greatest asset that we have. We also continue to focus on our back office. It is one thing to appear to be digital on the outside, but it is also important that we are digital all through to improve customer experience. We continue to do these and a lot more believing that this will eventually lead to our aspiration to be a dominant digital bank in Nigeria. At this point, I would handover to Tunde, our Chief Finance Officer, who would do a deep dive into the numbers and the facts behind the numbers. Thank you very much. Tunde.

TUNDE: Thank you very much, Sir. Good afternoon, ladies, and gentlemen. My name is Tunde Mabawonku, the CFO of Wema Bank. As Femi had said earlier, we had sent these slides. So, I will not be going slide by slide. I will just do a brief overview. The detailed financials are in slide 11-23 where you can do a deep dive. However, I will talk on four key points very quickly for you to note.

Number one is around funding, and our strategy in 2021 was around pricing before growth. Bearing in mind all the things we saw within the regulatory landscape around debits, it was important that we focused on keeping our cost of funds down, while working on our deposit mix. We were able to get some good deposits at good pricing that enabled us drop down our cost of funds significantly. Year-on-year (YoY) we grew deposit by 15%, but we were able to keep interest expense almost at the same level. On the digital side, you can see on the slide, we got a lot better in ALAT, USSD, Agency Banking and across all platforms. We grew over 100% YoY, both on transaction count and value. Our plans only resonate around growing aggressively and dominating the payments on the digital landscape through our organic growth and our partners.

The second part is on the loan book. The loan book of the bank remains diversified. We don’t have concentration on any of the sectors. We grew Loan YoY around 15% and APL numbers below 5%. We took significant hit on impairments in 2020, so in 2021, we able to moderate the additional impairments taken as the loan book also got better in quality.

The third point I want to quickly mention is on revenue and expense. If you do the deep dive in numbers, you will see that revenue grew YoY largely on the back of N10 billion growth in interest income. We also had a N2-N3 billion growth on fee income. There is still some work to be done in fee income especially on the digital landscape, but as we get better with stability and using insight from data analytics to drive customer engagement, we expect to see our fee income on our platforms get a lot better. The last point is around capital. You would recall that last year we came up with a two-stage process in driving and raising capital. First was to do a scheme of reconstruction – to reconstruct the shares of the bank and get it a lot efficient from 38 billion units to 12 billion units. That process took a while, but we concluded it two weeks ago and technical suspension on our shares was lifted last week. So, the reconstruction process is done with. The next part of the process is the Rights’ Issuance and is expected to start in the next one or two months. So, after Reconstruction, we get the final approval from the regulatory authorities and then we start the Rights Issuance of N40 billion. In the meantime, we have continued to accrue and retain earnings. Shareholders’ funds are now inching close to the N70 billion mark. Dividend yield and payments are also improving – we have doubled the proposed dividend that is going to shareholders for their approval at the AGM.

To conclude, if you look at the numbers, we had improvement in PBT of almost a 100% YoY. Return on equity is keeping strong at 17% and we expect these numbers to continue to drive in 2022 barring any major shocks to the economy and to the industry. I will pause here and open the floor for questions and answers for those that have gone through the detailed slides. After the Q&A, we will come back for the MD to close the conference. Thank you very much. I will hand over to the Moderator.

FEMI: Thank you very much Mr. Mabawonku. You can submit your answers in two ways. You can either type your questions in the Q&A section or you can unmute and ask your questions directly. Once again, if you have questions, kindly type them in the Q&A.

I can see someone has already done that. “Thank you for the presentation. Please what sectors were responsible for the increase in NPLs and how has this been managed?" from Mr Ologun.

The second question is, "Although cost to income ratio declined YoY, what is the bank doing to further reduce its cost profile?"

Can we take those two questions together? The first one being what sectors where responsible for the increase in NPL and how are we managing the increase, and then another one around cost to income ratio declining YoY and what initiatives the bank is introducing to further reduce its cost profile. We can see several other questions coming in but let us just take those first two.

TUNDE: Let me start with that and then I will yield for more questions. Please note Mr Okunriboye's hand is up, so we can take the physical ones at the next batch. Regarding the question on Cost to Income ratio, several key drivers contributed to that. First for us is revenue growth – we saw increase in net income YoY outpace the increase in Naira terms in the operating expenses. We have largely kept opex growth below inflation. One of the key areas in which we have seen growth are largely on the statutory expenses, and that is expected. So, if we grow balance sheet by 50%, AMCON levy will grow by 50%. If we grow deposit by a 100%, NDIC premium will almost certainly double by a 100%. The key drivers remain around technology in managing those costs. Digitizing processes, like the CEO mentioned, we have digitized to the outside, let's digitize on the inside. End-to-end straight processing so you don't need to carry papers from initiation to posting is done on the system. We are also looking at our physical branch network and how to migrate them to alternative solutions. We have seen what has happened to the price of AGO and the price of power in the last 3-4 months. Again, it's to look at the branches network and see what we can do to manage those costs. We plan to do that largely through technology, initiatives around energy and working with contractors/vendors on certain bulk purchases. Where there are concerns around inflation or FX, we quickly buy and lock in on the price early so we are not subjected to changes in inflation or exchange rate. Regarding the comment around the NPL, we did a further breakdown of the loan book on slide 15 or 16 (slides 18 & 19). There you will see the breakdown of the key drivers to the NPL numbers. It was a combination of NPLs within the general, that is, personal trading, and NPLs from some of the more commercial traders.

Largely, what we have done is to keep a close eye on those customers. A number were affected by changes in exchange rate and prices, each affecting the ability to supply or execute certain contracts. There was no major sector that was the primary driver, it cuts across a number of the SBUs. Thank you. Moderator, over to you.

FEMI: Thank you, sir. There are quite a number of questions in the chat box, but can we take Mr Okunriboye whose hand was up earlier. Does he want to unmute his mic and ask his question before we go ahead with the Q&A? Mr Okunriboye? Let's just proceed with the other questions for now. Mr Abdulahi Muktar says "Thanks for the presentation and congrats on the results. How did the bank's restructured loans perform? Is the increase in NPLs coming from the restructured facilities?" That is the first question. Mr Dibuti Shama says "Team Wema, congrats for the successful 2021 excellent result. Please talk about NPLs and how are you managing your FX allocation?" Should I take one more so you can take all three together?

TUNDE: Yes, please. The CRO is on standby.

FEMI: Excellent. Another question is, "At what point do you think the fresh capital injection will be concluded?" So, three questions. One on capital injection, one on NPL and asking how we are managing the FX allocation and then, one asking if the increase in NPL is coming from the restructured facilities.

TUNDE: Okay. We will get the CRO talk on the NPL questions to give additional colour. The CEO will come in to speak on capital and capital comments and on FX allocation. So, CRO, Sylvanus Eneche.

SYLVANUS: Good afternoon all and thanks once again for joining the call. My name is Sylvanus Eneche and I just want to say that the increase in the NPLs were not necessarily from the restructured facilities. Indeed, what the CBN did was to grant some regulatory concessions which allowed some of these businesses that were hard hit during the COVID-19 pandemic to kind of weather the storm. What we saw, however, was that once the impact of the movement in the currency devaluation happened, a number of traders found it difficult to meet up with their commitments. So, we took a more prudent view and classified some of those accounts and as you take a deep dive into our account, you will find out that the key changes came from the trading in general commerce where we have some of those accounts. Also, we found a number of individuals and groups were challenged because of decline in their revenue during the pandemic, and we also took a prudent view to classify those. So, by and large, I would say that largely as a result of regulatory imperatives, and some of the concessions that were granted, a number of businesses were able to weather the storm. So, that is where we are. We have continued to be prudent and that is why you can see growth in the NPLs today. So, CFO do you want to quickly speak on managing the FX allocations?

ADEMOLA: Let me come in there. Thank you very much Sylvanus. Mr Shaman, thank you for the comment. I think in terms of FX allocation and capital, I will talk about capital. We have just concluded the reconstruction and we are about to commence applying for the capital raise. We need a number of regulatory consents from various regulatory agencies to start this process. Based on our experience on the reconstruction, we reckon that we should be ready to hit the market by Q3, all things being equal. Basically, impact of capital will probably be felt around Q4. I would believe that with this, a number of the ratios will improve, even things around FX allocation will also possibly improve because of that. For FX allocations, we are all managing this as an industry. There have been several efforts by the Central Bank in helping to improve on FX available for business. We are continuously inching up in terms of FX, of course we are aware that we must grow the business. As we grow the business, the more the FX requirements. One thing we have done as a bank over the next one year is to deepen financing of our export customers. This is so that the export proceeds coming from there could be used to manage the requirements of our customers in terms of FX. That is ongoing and it has yielded a lot of results. In addition, the RT200 program of the Central Bank is also coming at the right time. We are all working assiduously to ensure that we position ourselves to be able to meet the objectives of the RT200 set by the CBN. So, those are the kinds of things that we are working on. As we speak today, we are engaging and profiling our customers, both existing and prospects, so we can increase the export potentials of our customer base with a view to reducing the impact of having to go to Central Bank to buy FX for our customers.

FEMI: Thank you, MD. We still have a number of questions. Mr. Abdulahi Muktar comes back in to ask, "Could you please give us a sense of the bank's preparedness for Basel 3?"
"When is CBN expected to mandate banks to transition to Basel 3 and reflect the standards in their reporting?".
Mr. Jude says, "Were there any significant impact from the COVID-19 pandemic on the bank's operations in 2021?", and then someone else asked a question around, "Regarding balance sheet size growth, does Wema have a mind to achieve a sizeable asset size?" I wonder what a sizeable asset size is. Maybe you can clarify that.

Finally, I want to apologize to Mr. Wale Okunriboye. His mic was muted and that is why he couldn't ask his question. Could we take the first three questions, and then land on Mr. Okunriboye's question? I think he has three (3) questions also. So, the first question – When will Basel 3 transition happen? The second – were there any impact from COVID-19 in 2021, and the third, when will Wema Bank achieve a sizeable asset size? Thank you.

TUNDE: Okay. Let me start pending when the CRO comes on board. I will start with COVID and growth, and then we will land back on comments around Basel. The impact of COVID in 2021 was largely muted. It didn't compare with 2020, which was the main year where we had a series of lockdown. I think slowly in 2021, from the point of view of operations of the bank, we were almost back to normal. All branches and SBUs were opened, and the Head Offices and larger locations, we had to do a mixture of both remote and physical work. Regarding the impact of customer business, I think the CRO had said earlier, some of those that had certain concessions in 2020, we slowly eased them off those concessions in 2021 and they were able to do well. We did not have any major strain regarding customer obligations or exposure. So, largely, in 2021, we had gotten better in both our economy, industry and as a bank.

Regarding the question around sizeable growth, it is always good to put in context. For us, our strategy next three years is to be dominant digital bank in Nigeria. Now what does dominance mean? It is not necessarily a function of balance sheet size. While we will strive to drive and achieve Year-on-year growth of balance sheet size, but for us it is in all those transactions. You enter an Uber today that is powered by Flutterwave that is a partner to Wema Bank. You want to pay for AirBnB today and at the backend is Wema Bank. You are paying your toll fees, at the back engine is Wema Bank. You are paying fees to the state government or taxes and what have you, at the backend is powered by a Wema wallet or a Wema facility. So, what we want to do is to dominate that payment landscape at eventually at the frontend. You will not see Wema, but it Wema that is powering a lot of those transactions and we will be everywhere. Add data and insight, we can then do a lot more customer engagement.

As per Naira and Kobo, finally, we have crossed the one trillion-naira mark with total assets. The push is that by the end of the year, deposits will also cross that mark and we will continue to inch. Once we raise additional capital, that will give us the room to scale up the loan book and do a lot more. But the future is digital, and we want to dominate through payments across the industry. Is Eneche back to take the question on Basel 3?

FEMI: Maybe we can circle back to that? But we can go ahead with Mr Okunriboye's questions, he's got three. He says, "What does your capital adequacy look like?"

SYLVANUS: Can I speak, Femi? Am I audible?

FEMI: Please proceed. We can hear you.

SYLVANUS: So, Mr Okunriboye, as regards your question on Basel 3 and reporting. The Central Bank came with some guidelines about September last year mandating all banks to do a parallel reporting with the current templates for another six months. It is expected that all these key indicators will be reported in every bank's 2022 accounts. So, yes, Basel 3 implementation is ongoing, and all banks have already started parallel reporting. The CBN is already looking at those key indices that we are reporting on - like the liquidity ratios (a deeper dive into them), and the risk treatment of our credit and regulatory capital. Indeed, it has started, and Wema Bank is meeting those reporting deadlines. Thank you.

FEMI: Thank you Mr Eneche. Please hold on a bit because that was Mr Abdulahi Muktar's question you just answered. Mr Okunriboye's own is actually, "What will your capital adequacy ratio look like under Basel 3?" "What would your leverage ratios look like under the same Basel 3?" Do you want to take that, or can the Chief Finance Officer take that?

SYLVANUS: With regards to the regulatory ratios under Basel 3, we are still compliant. As you may well know, for national banks, the regulatory capital is about 10% for the capital adequacy ratio. But again, in preparation for growth under a stress scenario, that is the reason we feel it is necessary that we raise additional capital. Like the CEO and CFO might have mentioned already, we expect that this additional tier one capital should come in sometime in the third quarter of this year. That will prepare us for growing the balance sheet growing the books. So, even under Basel 3, we are meeting all the regulatory benchmarks.

FEMI: Excellent. Thank you very much, Mr Eneche. There are three more questions I think we can take together. Two from Mr Okunriboye and one other one.

The first question is, "What are your views around interest rates for the rest of 2022?" and "What portion of your investment security portfolio is CBN SPEBs (Special bonds, I think)?" The last question is, "Does Wema Bank plan to expand into other non-banking financial services?" I think this is a question around becoming a holding company.

SYLVANUS: I don’t know if the CFO is back on. So, CFO, do you want to take these questions? Tunde are you on?

TUNDE: Yes, I am. I will quickly take two of them and then the strategy one, I will yield to the MD. Questions around SPEB, if you are referring to the special treasury bills in our portfolio, we had around 80 billion of special bills in 2020, out of liquid assets of 350. So, I will say 20-25% in those special bills given in 2020. For views around interest rates in 2022, from what we have seen, we will start the year slowly and then there will be that continuous growth in interest rate. The regulatory authorities will try to keep rates down, but we are juggling a number of balls. There is the FX rate, there is inflation and there is interest rate. It is difficult to keep all three down. At the end of the day, one will have to hitch up. Unfortunately, we have seen the impact of inflation now with high energy prices, and we think invariably our outlook for interest rates will be one where they will remain elevated from the second quarter of the year. We see that trending up as we also lead into what will be an election year in 2023. So, our outlook for rates is one that rates should be elevated between now and the rest of the year. On the larger question around strategy, I will yield to the MD/CEO. On questions regarding the capital adequacy and other ratios, we had put some disclosures in the presentation and in the account, where we did a special section on Basel 3. We will share again with the people on this call. Thank you.

ADEMOLA: Thank you very much. Mr Okunriboye, basically, our strategy is based on organic and inorganic growth. In terms of the way we exist today, one key thing is to improve our capital base. Improving our capital base will allow us to do quite a number of things. In the first instance, the digital play for us is very key, and for us to deepen our business in that space, we need to allow ALAT to really grow. In doing that, one of the things that is possible and is part of our plan is to try to get the best out of ALAT, rather than allow it to be subsumed by the bank at the moment. Again, referring to what Femi said about Holdco, it is not about going Holdco, but we believe we will focus on things that will hold crucial value for us. We cannot pull through a Holdco at this time with our current capital structure. That is why I said a lot of things is dependent on the capital structure. Largely, we will be going in that direction and will still build around our digital play and go into other areas that speak to our digital aspirations. That is all I will say at this point.

Talking about inorganic growth, we have various discussions on the table, but of course, we will inform the market once we have a firm position. In terms of expansion and growth, we are in partnership with Bank of Africa and several other parties outside of this space. We are a national bank, but we can also tap into the African market on the back of AGFA and PAPSS so that we can take advantage of what is going on. Digital play is beyond just operating in your geographical region, it is operating outside your geographical region in a very creative way. So, in the interim, we are having partnerships across Africa, but in the long run, we would be able to look at a more structured approach to doing this. I hope I have been able to answer your question.

FEMI: Thank you MD. We still have quite a number of questions. I will try to get through them as quickly as possible. Funmilayo Abdulrahman wants to know what is expected for NPL ratio for 2022 and beyond. I think the Chief Risk Officer can take that. Mr Okunriboye has come back in to ask that he saw CBN fine on cryptocurrency and can the team provide more information around this fine. Then, Mr Abdulahi Muktar has come in again to say considering the uncertainties in both the Nigerian and the global market, and the recent bearish sentiments on Nigerian banks' equity, do you foresee any risk to a successful capital raise. So, three questions around NPL ratio going into the rest of the year, cryptocurrency fines and then how successful do we think the capital raise will be. Mr Okelana, we will come to your question last. I saw your comments on finally being able to get into the session. We really like the fact that you made an effort to come in. We will come to your question last. Please can we take the three questions.

SYLVANUS: Well, I believe that some guidance would have been provided regarding revenues and our profit. With regards to NPL, we continue to maintain a very conservative stance around loan growth. We keep managing our loans to ensure that we do not go past the regulatory ratios. Yes, the environment is tough, but we do not expect there will be any significant spike in our NPL ratio come the end of the year. The business environment seems to have opened a bit this year, safe for the crisis brought on by the Russian-Ukraine crisis. Despite that, some sectors have opened again - the hospitality business is back on track. Despite the challenges with some of the nuance and the agricultural growing sectors, we still see that there has been a good harvest which has helped to calm down the growth in food inflation. We feel that all in all, the NPLs will continue to remain below the regulatory threshold. Maybe I will just take the question on the CBN cryptocurrency fine. Yes, there was a cryptocurrency fine for a number of banks. What happened was that the CBN had banned banks banking those that were into cryptocurrency. If for any reason, the CBN identified a particular trader banking with any bank, they will fine any bank that has any such name. In our case, there was one of the traders that had an account with us. It was not an active account, but the mere fact that we had that account in our system, we were fined. I think that answers the issue on the cryptocurrency. Since then, there has been a concerted effort by banks all around. So, we have come together, we have shared information and details, so there is no way that any trader or group of traders can circumvent this. If you are flagged in one bank, your account will be closed in every other bank. Thank you.

FEMI: CFO, do you want to take the question around the bearish sentiment on Nigerian banks' equities and what do you expect for NPLs going forward? Finally, the last question will be the one from Mr Olatunde Okelana – are later likely to go beyond the national banking license? Thank you.

TUNDE: Okay, I will just attempt some and will yield to the CEO on the larger strategic issues. On the capital, it is important to point out that we are doing a rights issuance to existing shareholders, and we have done some earlier engagement to get everyone on board. With the improved numbers, impressive results, doubling of dividend yield, shareholders are aligned and have given their commitment to participate in the process. Once we have all the final regulatory approvals, we will commence the rights issuance. Yes, we are mindful of the overall economic outlook, but given the performance and expectations for the future, we believe that interests are aligned. Also, quick comment regarding capital adequacy. For capital adequacy, we will keep adjusting as the bank scales up. What capital adequacy measures is your capital divided by your risk-weighted assets. As we grow our loan book and expand (now we are above one trillion naira in total assets and loan book of almost N500 billion), we expect that slight deep in CAR as we continue to scale up. We will keep accruing to capital through retained earnings (we have grown to N70 billion this year), and through our capital raise. Once we do those two, you will see our capital adequacy numbers again ramp up to comfortable levels. It is important to mention that the minimum required for a commercial bank of national authorization is 10%, and Wema with CAR of around 15% is still significantly ahead of that. Femi, can we then yield to the CEO for any final comment.

FEMI: I would like to crave your indulgence. Mr Bamidele Ogunwusi has had his hand up. Maybe he can be the last question that we will take before yielding the floor. Mr Bamidele Ogunwusi, can you ask your question. Maybe he has dropped off, I am not sure. Let's handover to the MD/CEO now.

ADEMOLA: Thank you very much. I would like to thank everyone on the platform for joining us today on this conference call. It is exciting to have you on. The quality of the questions asked shows your interest in the growth of the bank. We will continue, as management, to see how we can raise the bar. The digital play is very hot for us, and we will continue to push this. ALAT, being our digital platform will continue to play a very important role here. I choose the word 'platform', not a 'digital bank' very carefully. This is because platform is the way to go, and we are pushing very hard to become a platform. A platform, basically, allows you to do quite a number of things across different verticals and segments of the market. We are looking beyond even Nigeria, but within the confines of our license, we are going to be having different partnerships across the continent to be able to advantage of the AGFA and the PAPSS payment platforms. In terms of the national license growing to be an international license, this will be driven by business imperatives and opportunities. As I said, we will continue to have engagements daily on opportunities that may exist in the inorganic space. Yes, our aspiration is to be a systemically important bank, and capital forms a major part of our plan to achieving this. Even at that, we continue to look at creative ways of creating value for our shareholders, and we are quite excited. Although it is a tough environment, but we will continue to push. What are the likelihoods of success for capital raise? I think the CFO has addressed that. We are optimistic, we are engaging our key stakeholders and we believe that in due time, we be able to cross that bridge. I want to thank everybody for joining us this afternoon. AGM will be fixed in May, and we will be able to deep dive on a number of things from there. Thank you very much. I would like to handover back to the moderator at this point. Thank you.

FEMI: Thank you MD/CEO and thank you everyone that has been able to join us today. Have an excellent afternoon ahead. Thank you.