WEMA BANK

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INVESTOR/ANALYST CONFERENCE

CALL TRANSCRIPT

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Start of Recording

OYEWOLE: Ladies and Gentlemen, welcome once again to Wema Bank’s Half Year 2022 Investors Conference Call. My name is Oyewole and I will be moderating this session. Please note that the presentation was shared earlier today and is also available on our website, www.wemababnk.com for your use. At the end of the presentation, we have left ample time on the agenda for questions. Instructions for participation in the question and answer will follow at that time. Once again, thank you for joining this call. I will now handover to Mr Ademola Adebise, Managing Director, Wema Bank Plc to proceed. Sir, over to you.

ADEMOLA: Good afternoon, ladies, and gentlemen. My name is Ademola Adebise, the MD Wema Bank Plc. I will be handling the Conference Call for H1 2022 for the bank. I will be supported by Mr Tunde Mabawonku, the Chief Finance Officer of the bank. With me on the call this afternoon are my colleagues, Mr Wole Akinleye, Executive Director, Corporate and Southwest Business, Mr Chukwuemeka Obiagwu, Executive Director North and Southeast Business. I already mentioned Tunde Mabawonku, Chief Finance Office. We also have here, Mr Dotun Ifebogun, our Head of Retail, Mr Segun Adeniyi, Chief Digital Officer, Mrs Ololade Ogunbero, Chief Human Resource Officer and Mr Uche Obazeh, Head of Credit Analysis.

As it has been said, the presentation will cover the financial highlights, the strategy update, the governance, and the projections for 2022. Despite the tough situation in the economy, we delivered positive results based on our strategy drive. We have about 3.7 million customers operating through 150 branches nationwide. We also have connections with banks in 16 countries in Africa for bilateral trade arrangements. We recorded growth in revenue, total assets, shareholder’s funds and return on equity in H1. We will talk about these numbers in more details in subsequent slides. Our credit ratings are also above the investment grade which is a stable outlook. We have over 1.1 million ALAT customers today. We believe that the digital space is important, hence we pay attention to this segment of the market. Our POS terminal count increased by 91%. ATM count, mobile wallets and ALAT users also recorded significant increase. We introduced new features on ALAT to make the lives of our customers better. Year-on-year transaction count on ALAT increased by about 666%. We have also won a couple of awards in the digital space this year.

On the digital front, our offerings continue to drive growth and ALAT continues to record stellar performance. We have over 1.1 million unique and transacting users on ALAT. We have also added new features such as the Spend and Save, Domiciliary account and the NIN verification on ALAT. We are leveraging the 416 ATMs, over 22,000 POS terminals and over 660 mobile wallets to drive customer engagement. In H1, we processed over N1trn in transaction value and disbursed over N2.7bn worth of loans. We are making sustainable growth across our topline and driving efficiencies within the business to translate into profitability. PBT grew by 43% to N6.1bn and this is driven by both interest income and non-interest income. This growth was made possible through efficiencies in our balance sheet where we also recorded 7% increase in our Net Loans. Deposits recorded 14% increase. Our risk management practices are also supportive of the growth in our loan book. Our board remains versatile and diverse. We made strategic changes on the board in line with best practice to sustain our corporate governance aspirations. More details will be provided later in this presentation.

Sustainability continues to be critical for us as we make positive impact through our initiatives. On the environment, we focus on recycling, energy efficiency, advocacy and other initiatives that contribute positively to the environment. Some of our milestones include the enrolment of 60 of our branches in recycling initiatives, solar power for 25 branches, hybrid power for 400 ATMS, paper reduction by 80% and prioritizing environment and social consideration in our lending practice. On social, we impacted over 70,000 lives with our Salary for Love initiative. This is what we do at least once a year. All members of staff will contribute at least one day’s salary and we use this to make impact in society. Over 270m was disbursed to female entrepreneurs, and over 50,000 students supported and so on. Our governance practice remains world class with the board committed to sustainability. At this point, I would like to handover to Mr Tunde Mabawonku who will take a deep dive into the numbers and the facts behind the figures. Tunde, over to you.

TUNDE: Thank you very much, Sir. Good afternoon, ladies, and gentlemen. What I would do in the next seven minutes is just walk through a couple of the key points. We have already uploaded the slides and sent in the links so that you can spend some more time to go through. The key message for Wema Bank’s performance is largely around resilience and growth. If you look at the left-hand side of this slide, you see implemented a number of the metrics, gross earnings up 50%, profit before tax up 43%. Some will keep getting better on cost to income ratio. Our target at end of the year is somewhere around the 70% mark. On the right-hand side, you see some muted growth around customer deposits and net loans and advances. But then embedded in these numbers are some interesting stories. For example, around deposits is how we tend to manage growing deposits will rise in interest rates. In loans, how we tend to get the loan book to create shorter cycle transactions and earn more yields. Going to other slides, I will explain in more details. The next slide shows updates on revenue lines and here, the story starts coming out clearly. Interest income has grown 50% year on year, largely on the back of those 7% growth in loans and some 15-20% growth in liquid assets. Well, what has happened is the yield environment has improved. We've gotten more of a money market instrument from placements and what have you. Most importantly, we are repricing the loan book in light of present realities and the areas of concession as post-Covid has already wound down. So year on year, we’ve seen an improvement in interest income. One of the things we've also seen is the fee income lines have grown 29% year on year. This is not where we want to be. Our target really at the end of the day is to start seeing fees from digital business, fees from intermediation, having at least 50%, 60% share of our fee base. As a function of customer transactions, we have grown our fee lines and we expect to see a lot more traction in the next few months.

One area where we will keep a close eye on is cost. Costs, unfortunately, went up 26% year on year but largely on the back of three things. Number one, increase in regulatory levies. Expectedly, as we grow the balance sheet year on year, the following year, we get a higher regulatory charge. AMCON, NDIC as all those are function of deposits and total assets. But we also had to increase year in personal expenses, and it was largely to make sure that we attract, we retain, we reward best in class talent. Where you see the benefit is when you look at the earnings and you can see better productivity per staff. So personal expenses up, but productivity year on year has improved.

Going to deposit liabilities; like I mentioned, you will see the 14% year on year growth. We closed the year with N927 billion, this half year, we have done N1.05 trillion. What we have tried to work on is, while we ramp up deposit growth, is how we manage our cost of funds. How do we make sure the deposit mix remains efficient in light of the rising interest rate environment?

You will see a slightly lower deposit growth, but you will see better balance sheet efficiency as we improve on the mix and make sure our cost of funds remains in line with our expectations. The loan book remains diversified. We do not have any major sector accounting for more than 15% or 17% of the loan book, and it is largely within the trading and general commerce areas. The story here is, we will continue to grow. It remains diversified, but we are focusing on the shorter end of the markets. So, 90-day, 180-day transactions wherein we will be giving an amount of capital that can turnover twice or thrice in a year and make more yield per asset. The story here is one of the shorter tenor, one of the higher yields and one of diversification.

Same for NPLs, we have gotten improvement in non-performing loans on the back of paydowns. For a number of customers that had some challenges have started paying and we have seen a lot more traction. Some that we had to work with to make sure that with time all those exposures have been done. NPL the year on year has dropped from the 4.9 to 3.2. Loan book has also grown, but we expect some more traction on a loan book in the next five or so months of the year. But for NPLs, there are no major strain, no major sectoral exposures and we continue to get some improvements in NPLs.

The balance sheet of the bank remains 83% funded by local currency deposits. Again, this is not as efficient as we want it to be. In the coming months we still have plans around capital raise and plans around getting long term funding both local and foreign currency to further diversify our funding base and make the bank a little bit more resilient. Still, talking on the customer, the next few slides show what we've done in the retail space - the agency business, USSD business, digital business, and you see a lot of traction here. One of the things we did early on in the year is through partnerships, we embarked on some aggressive customer acquisition campaign. And between January and June, we've been able to add almost a million customers to our bank network. What now needs to be done in the second half of the year is those customer engagements, making sure they are active, make sure they transact, and they use a lot of the platforms. But from USSD to agency, we've seen a growth year on year in all our alternative platforms and it all speaks to WEMA Bank’s target of dominating the digital landscape. And lastly, before I handover, it is important that we talk on capital. Here, I will point out a couple of things. Number one, capital adequacy ratio is at 11.97, still above the regulatory minimum of 10%.

What has happened here is that we have adjusted for dividend payments during the year after the AGM, but we have not factored in profit earned in the year. The expectation is by the end of the year, if we meet our PBT numbers, the profit earned in the year will be added to our capital computation and we expect that to get back from that between 14 and 14.5 regarding CAR.

The second comment is on what we are doing on Basel III compliance, ILAAP and ICAAP, and that largely we have been compliant with all the requirements. We've stress test the balance sheet and stress test our ratio, making sure that there are no exceptions, and we are working professional firms to get that done. The last point is around the capital raise. We are done with the share’s reconstruction, and the new shares have been listed on the NGX and Wema Bank has been trading with the new shares. We are finalizing the engagement of shareholders on the rights issuance. So our expectations are that this year we will conclude the rights issuance. We will bring in minimum of the N40 billion additional capital that we want to bring in. So the 40 billion comes in, the profit for the year also comes in and our expectations for CAR, we’ll get it back to at least to 20-22% capital adequacy ratio.

To summarize, we continue to have a strong digital play. We’ve grown year on year with customer acquisition. The PBT numbers remain robust; year on year PBT growth at 50%. We've seen that resilience come out and we've seen improvement in market share. Sorry, I think I took seven and a half or so minutes. What I would do now is to hand over to the MD for the concluding part of the presentation. Thank you.

ADEMOLA: Thank you very much, Tunde. Thank you. Just to speak to our strategy, we are optimizing our balance sheets to make it a bit more efficient. About two years ago, we set up our strategy, which we christened DD3 - Digital Dominance in Three Years. It was based on eight plans - optimizing the balance sheets; customer growth and sales; we want you to remain innovative and to be one of the best places to work in the country; we want to leverage data intelligence supports our decision making to make our customers achieve, to make our customers feel better, to make their lives more interesting, and to develop new products for them. So, we are very much on course in terms of strategy. On each of those plans, we have initiatives that we have set out to work on and we are making a lot of progress on those initiatives. Now, you probably see the last pillar, which is on hand bar for inorganic growth. What we've said here is that, yes, we are open to M&A if the opportunity arises. This is going to be basically on an opportunistic basis, and that is why it is hand bar at the moment. But on all on the other plans, we are making some appreciable progress in ensuring that we actually deliver on our strategic aspirations. We remain committed to that focus to be the leading digital player in the in the country and also to have a befitting return to our shareholders. Tunde has already mentioned the issue of capital. It's a major issue for us this year, and we hope to deliver that before the end of the year.

In terms of the board, the board continues to provide the needed strategic direction for the bank. Our diversified thirteen-person board consists of five executive directors, and eight non-executive directors, which is inclusive of three independent non-executive directors. Today, we make bold to say that in terms of female representation, we are at 31%, and we're looking at improving this as we move on. We are committed to gender diversity position. Our non-executive directors have a balanced tenure with maturity between 0 to 2 years. So, we still have quite a number of years ahead of them to bring in the dynamism on the board and to shape the future of the bank. All our NEDs are considered, by the board, to be independent in character and judgments.

As mentioned in the previous slides, we are on track with our 2022 aspirations. We have surpassed the guidance on total assets. We are on track to meet the rest of the KPIs that we set for ourselves. We will continue to work towards meeting these targets.

In closing, as a national player with a global focus, we will continue to work on our networks by expanding our presence across all the key locations. We offer a broad range of services from retail banking, SME, corporate banking, treasury, trade services, financial advisory to our expanding clientele. With a network of

150 branches backed by a robust ICT platform across the Federation, we are committed to long term sustainability in our business operations, while maintaining the highest standard of social responsibility, corporate governance, and diversity in our operations. Our strategic pillars are supportive of our ambition in the short, medium and the long term. We will continue to monitor our operating environment closely to enable us to serve our customers better. I want to thank you for making time to listen to us this afternoon. I will now proceed to the Q&A session. Thank you very much.

OYEWOLE: Thank you very much, MD and CFO. Thank you, everyone, for listening in. The floor is now open for questions. You can ask your questions either by sending a message using the Q&A icon at the bottom of the screen, or if you choose to ask your questions live, kindly please raise your hand and the operator will unmute so you could speak. Yes, we're fine now, and you can go ahead to your questions. Please indicate your name and your company when you want to ask a question.

Okay. So we have a question already from Gbenga Magbagbeola. This question is to you, CFO. Gbenga says, you've mentioned in your presentation that the bank is looking to bring down cost to income ratio from 81% to 70% levels. How realistic is this target and how do you intend to achieve this?

TUNDE: Okay. Thank you very much for that. Historically, the CIR has been a high and we have been bringing down. We started from 88 to 85 to 81, and we think we are on track to get to the seventies. What are we going to do? It is a combination of two things. The most important is the top line earnings. Cost to income is operating costs divided by operating income. If I can grow the income a lot better and then I am keeping costs constant, I should be able to lower my cost to income. One of the things, like I said earlier on, is improving yield on assets. Yes, we will price our risk assets in light of market realities but at the same time we understand our balance sheets and the areas that we focus on.

Number two is by being shorter cycle transactions. For every 100 million naira, if I do overdrafts, if I do trade finance and do things that I can cycle twice a year, I can turn around the money at a lot faster and make higher income on the back of the same exposure, rather than locking the money in for five years or doing a seven-year transaction.

Again, look at the fee income lines. The more stable the platform is, the better or more customers will interact through ALAT or USSD or any of our digital platforms, and then we have opportunities to charge more for the value-added services. So platform stability, reliability will also flow to fee income and better earnings. Last, the number of initiatives we are doing to manage costs. Things from energy efficient branches to reviewing operating hours in light of higher energy prices, that is going fully paperless. Our ambition as an organization is within the next 12 months, we want to eliminate people in WEMA Bank. So where they don't see paper, they don’t see manual processes, and everything is digitized end to end. It's a tough target, but we want to bring down cost to income to industry average within 12 to 18 months and we believe it's doable. Thank you.

ADEMOLA: Can I also add to what Tunde has said in terms of cost to income ratio? One of the things that we see is that on our path on the digital journey, what we intend to do or what we are doing right now with a number of promos is that we are trying to migrate the traditional customers onto the digital platform. We believe that if we're able to do that successfully, it will impact heavily on the cost to serve these customers. I think that's one plan that we are aggressively working on and a number of activities in that space to migrate our traditional customers to the digital platform. Thank you.

OYEWOLE: Thank you very much, MD and CFO. Mr. Gbenga, I hope that answers your question. So we have another question here from Uche Njoku. It says, what sectors are responsible for the decrease in your non-performing loans and how has this been managed? CFO, you might want to answer that question or the CRO, please.

TUNDE: Thank you. Uche, go ahead.

UCHENNA: Yes. Thank you for that question. So for the reduction in the NPLs and we have them largely from our general and general commerce sectors spaces. Those are largely trade transactions. Like the CFO had said, mentioned earlier, they are short tenure transaction types. So of course, we know that there had been some shocks in recent times stemming from macro events in the international space with the war and all that.

For a number of these customers, those shocks have eased, and things have come in, and then they've started to cycle out. So we've also had increased collections in those spaces. Thank you.

OYEWOLE: Thank you, Mr Uchenna Obazeh for answering the question. I hope that answers the question, Uche. We have a question here from Babatunde Babalola. It says, are you on track with your expectations for 2022? That’s your guidance for 2022, are we on track? CFO over to you or MD, please.

ADEMOLA: Yes, we are very much on track. As I said earlier on, as we speak, we have made targets on total assets, and we are very much on course to meet the other targets, based on the other key indices that we've set out in the guidance. Tough, though, but then we are very committed to ensure that we meet it. Thank you.

OYEWOLE: Thank you, MD. Ladies and gentlemen, we are still taking your questions and providing answers. Please you could use question and answer icon at the bottom of the screen to send in your questions. If you choose to ask your question live, please raise your hand and we will unmute you so you could speak. All right. We have Sadiq, and he has sent in his questions.

Thank you, Sadiq. So, it says - question one, I would love to know the impact of the rights issues on the capital adequacy of the bank. I'll just take the two questions so we can answer them together. Question two says What has been the impact of the rate hike on the interest, income, and expense of the bank?

I'd like to reiterate. The first question is I would love to know the impacts of the rights issues on the capital adequacy of the bank. Second question, what has been the impact of the rate hike on the interest, income, and expense of the bank? I believe Sadiq is referring to the monetary policy rates for question two. CFO, would you like to take this, please?

TUNDE: Yes, I will. Good afternoon again. For the rights issuance, like I mentioned, it hasn't opened. We will open and conclude this year. Our capital adequacy ratio as at half-year is 11.9%. When we capitalize the earnings for the year, we believe capital adequacy ratio will inch up to at least 14, 14 and a half percent. If and when we add the rights issuance of 14 billion naira to it, capital adequacy ratio will be as high as 22, 23%. So to answer your question, so a capital equation issue will be above 20% once we conclude the rights issuance.

On the second comment around impact of interest rates. Yes, expectedly is hard impact on both sides of the balance sheet. Number one, several our savings deposit lines are tied to the monetary policy rates. Once NPR changes our savings, our interest rate changes, obviously that impact on interest expense. Expectedly, depositors will also reprise are they see that rates are going up or inflation is inching up. But what we have also done is we've gone back to our customers we lent to and shown them the reality of the day. We have gone ahead, in instances where the economics allow, to increase the interest rate on the loans. We have a less than .5 basis points increase in cost of funds, but we have more than 150 basis points increase in average interest rates on our loans. It's been net positive for us, but we are keeping a close eye, especially on depositors. So that's why I mentioned earlier on that we will grow deposits but will grow cautiously. Focus is on making sure that our cost of funds is managed aggressively at this point in time. Thank you.

OYEWOLE: Thank you very much, CFO, for that detailed answer. We have another question here from Oyikansola. I believe this has been answered during the presentation. I'll read it out just in case you want to buttress a little more. It says, on the half year, 2021 conference call, the management team stated that inorganic growth was an option. Is there an update on this planned expansion and approach?

I believe the MD has answered this during this presentation, but I'll leave it open just in case you want to buttress a little more.

ADEMOLA: Well, let me let me come in here, Oyikan. Thank you for the question. Yes, we left that open because part of our operation is also to scale efficiently. We cannot but ensure that we leave all the options open. Yes, a number of discussions, but nothing firm that we can hold on to or make public at this point in time, but we are open to discussions. The fact that we're talking about M&A means we're also looking at fintechs that you can also acquire if the opportunity arises. So it's quite fluid, and we're not fixated on that a particular course of action. All we're looking at is, at the end of the day, what will be in the best interests of the bank to scale. I think that's why we have that option there. Thank you.

OYEWOLE: Thank you very much indeed for the answer. So we have another question here from Nwokoro Nathan. Thank you, Nwokoro. It says, what is the trend of the bank's free cash flow in recent year on year? What is the trend for the bank's free cash flow in recent year on year?

TUNDE: That's an easy question. The trend has been upwards year on year. As required by regulation, we publish the nominal cash flow statements. We also show computation of free cash flow, which is equity less fixed assets. But year on year, in the last 4 to 5 years, it's been positive and positive accretion to cash flow. Cash flow has remained one of the lesser concerns for the financial institution. Thank you.

OYEWOLE: Thank you very much, CFO, for that answer. We have another question here from Deji. It says, can you share some of your sustainability initiatives and efforts in 2021 and your plans for 2022? Well, I believe the MD dealt with this extensively. Wema Bank has a sustainability focus built around economic empowerment, health, education, financial literacy, and environment.

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OYEWOLE: Apologies, I was muted. So we have a question here from Toju. Toju says, where do you see banking trend in in the next 12 to 24 months? Where do you see bank banking environment trending in the next 12 to 24 months? MD, would you like to take that question?

ADEMOLA: Okay. In the next 12 to 24 months, we'll continue to see a lot more innovation in the banking space. A lot more players will be moving towards the digital play. We are going to see a lot more collaboration within the ecosystem. We'll begin to see a lot of banks moving towards trying to provide services to different verticals.

So what you will see then would be a lot of banks moving into the fintech space. We'll also see banks requiring more capital to be able to expand. Those are the kind of things that you'll begin to see in the next 12 to 24 months. Capital raise will become very major for banks and lots of digital play. A lot of collaboration in ecosystems. Banking will now be moving towards being platforms rather than just banking services. You might be providing a lot of life lifestyle services to customers. Those are the kind of things you will begin to see. One of the things that is also important considering our economy, you will see a lot of play in the export business, export markets; basically a drive towards generating more FX to shore up our reserves. Those are the kind of things you will begin to see. Your regulation will also be tighter. You will see more and more proactive regulator. That's really where I see things going. Thank you.

OYEWOLE: Thank you very much for that question. For the answer, sorry. So we have another question here from Kayode Olusola. He is asking about digital banking platform. He says, what new features should we expect on ALAT? Is ALAT still dominating the digital banking space in terms of value add to the bottomline? I will throw that question open. What new features should we expect on ALAT? Is ALAT still dominating the digital banking space?

ADEMOLA: Can we ask the CDO to take that question? Segun.

SEGUN: Good day everybody. I think the summary of what I would speak to with regards to new features is a lot of flavours on the lending services. We are going to be looking to releasing various layers to our lending offerings. We will be looking at clusters to supporting a bit of social lending. We will be looking at industry segments, in some cases, maybe narrowing down specifically to gamers and the gaming industry. To support that, will be rewards. This essentially means we will be partnering with various multi-industry entities looking at how we can reward customers for doing more with those parties on ALAT and vice versa; doing more with ALAT and then redeeming some of those benefits from any of those third parties. So, two key areas - rewarding and incentivizing our customers as a way of attracting them to do more and stick with us and then secondly, exposing different flavours to the lending offerings to them. Thank you.

ADEMOLA: I want to add to what Segun has said. I think the summary is that ALAT is gradually becoming a platform. By the next couple of years, ALAT would become a full-fledged platform where you will be dealing with not just banking services, but a lot more things. That is why we have a thriving partnerships team that is working actively with the fintechs in the environment. As you know, as the leader in the digital space, we are working with most of the successful fintechs today in the market. We are building an ecosystem where you will begin to see so many services beyond just banking being provided to our customers. Thank you.

OYEWOLE: Thank you very much MD, CDO for your detailed responses. Ladies and gentlemen, we are still taking your questions and providing answers. If you want to ask your question live, please raise your hand. We will be wrapping up the session in the next one minute. Thank you for joining us. Please ask your questions before we round up the session.

Alright. There seems to be no more questions. I think the presentation dealt with most of your questions and, we provided as many responses as possible to the questions. Thank you very much, ladies and gentlemen, for joining this session, Wema Bank's Half Year 2022 Investors and Analysts' Conference Call. We look forward to having you join us when we present our full year results for the year. We hope to hear from you. If you have any more questions, please reach us via our email addresses on the presentation and you could also reach us via our mobile phones. Thank you, ladies, and gentlemen, do enjoy the rest of your day.

ADEMOLA: Thank you very much.