Audited 2018 Half Year Results Presentation:
Transcript of the GMD/CEO's Presentation and Closing Remarks

Good day everyone and thank you for joining us on this call.

Please permit me to formally start today's call with a summary of the operating environment. I believe it should provide a good background to the review of our financial performance. Ugo, our Group CFO, will provide some colours on the financials and review our 2018 guidance, after which we will like to take any question and feedback you may have for us today.

The recovery of Nigerian economy remains relatively modest, with GDP growth waning down to 1.5% in the second quarter of the year. Albeit, we are constructive on the second half of the year, as consumer demand gradually improves. More so, stronger oil production and implementation of the 2018 budget should support GDP growth going forward. Impressively, the CBN has effectively stabilized the price environment. The Naira has found equilibrium at N362 to a Dollar at the Investors and Exporters window, as consistent FCY supply puts out speculative demand. Notwithstanding the reversal of capital flows and lower oil export in the second quarter of the year, all genuine FCY demand are been met across different segments of the market. The CBN initiated the Yuan auction, following the USD2.5 billion currency swap with the People's Bank of China. It also removed the charges on FX sales for invisible transactions. Interestingly, the much anticipated FX rate convergence is happening already, as the NiFEX Fixing now trades around N353 to a Dollar. Whilst the external reserve has shed some weight in the past two months to its current level of USD45.6 billion, it is still almost a year of import cover. Hence, the downside risk to Naira stability is remote at this time. Inflation has eased to 10.2%, the lowest level in the past 30 months. Whilst monetary policy remains tight, the yield curve paradoxically shed an average of 400bps in the first half of the year, reflecting the demand and supply dynamics in the Treasury bill market, particularly as the DMO used proceeds of Eurobond to refinance maturing local currency obligations. However, sovereign yields seem to have bottomed out, as foreign portfolio outflow in the past two months continues to send yields north, especially at the long end of the curve.

The regulatory environment has been relatively stable, as the CBN adopts moral suasion and developmental philosophy towards stimulating credit growth. Recently, the framework for on-lending programme under the differentiated CRR was released and our regulator has also provided clarity on the appetite of the CBN to invest in bonds of Tripple-A corporates. The CBN also introduced the Non-Oil Export Stimulation Facility (NESF). Issuance of CPs by corporates may weaken prospect for loan growth and influence the pricing of wholesale deposits, the impact of which could be material. The Pension Commission implemented the multi-fund structure, which is aimed at aligning the investment policy statements and strategies of the funds to the profile of the pension contributors. This has no impact on our contribution and cost. Overtime, we think it should further stimulate the growth of pension industry asset and thus will be positive for our custody subsidiary.

On the fiscal side, revenue generation has improved, from both oil and non-oil sources, thanks to strong oil price and enhanced tax compliance. Subsequently, the statutory allocation to the three tiers of government has grown to new highs and this improved liquidity has largely helped to resolve outstanding salary and other obligations of the State governments. The FGN is also working on settling outstanding contractor obligations through issuance of debt notes, which should further stimulate liquidity and rev up economic activities. Whilst we remain prudent on the run-up to elections, we are constructive on the democratic values and maturity of Nigerian electorates, and thus we think the downside risks from election is modest.

Having spent time on Nigerian macros, being our single largest market, with 60% earnings contribution, I will now review a few developments in some of our other markets in Africa. In Ghana, inflation is down to single digit, with headline rate printing at 9.6% in July, which is within the Bank of Ghana's target of 8% plus or minus 2%. Motivated by the benign inflation outlook, monetary policy authority has reduced the MPR by 300 basis points to 17%. Thanks to the 28% year-to-date recovery in cocoa prices and the strong oil price, Ghana boasts of a trade surplus and foreign reserve rose to USD7.8 billion or 4.2 months of import cover in May, although it has shed weight in the past three months, as foreign portfolio outflows put pressure on reserve and the Cedi. The currency, which only depreciated about 3% in the first half of the year has weakened 5% between July and August. Albeit, the fundamentals of the economy remain strong, with the GDP growing 6.8% in the first quarter. Credit growth remains tepid, as banks focus on NPL resolution and recapitalization, ahead of the December 31, 2018 deadline. I am pleased to note that UBA Ghana is very close to meeting the GHC400million capital requirement from internally generated earnings. More so, we are committed to further investment in Ghana, if need be just as our co-shareholders are also supportive. The Bank of Ghana as well as the government is very proactive and committed to financial system stability, and this stance has been demonstrated over time, including the recent regulatory action on some banks in the country.

In Kenya, the debate on rate cap has been a stalemate, as the MPs insisted on leaving lending rate cap, though with a compromise to remove the floor rate on deposits. Given our corporate and middle market play in Kenya, our business has been less vulnerable. That been said, the decision to remove the floor rate on deposits should be supportive of our effort towards lowering funding cost in Kenya. As the impact of the previous drought eases, food prices are moderating, thus keeping headline inflation rate around 4.5%. Notwithstanding concerns over the impact of 16% VAT on fuel, headline inflation rate should remain within the CBK target. The Shilling should remain stable, with the external reserve at USD9 billion, an all-time high, which can fund up to 6 months of import.

Zambia has been in the news lately on concern that lower copper prices and uncertainties around the IMF facility would dampen economic progress. Yields on the Sovereign Eurobond rose to 16% and market is tight on concern of monetary and fiscal policy reactions.

At this point, let me quickly highlight a few points in the Audited 2018 Half Year Results, before I invite Ugo, to review the accounts in more details.

Our ALM initiatives improved asset yields and grew interest income by 21%, despite prevailing yield environment. I am particularly pleased with the results of our renewed commitment to the retail market, with an impressive 24% growth in retail savings and current account deposits. This underpins the increasing penetration of our digital offerings. We maintained net interest margin at 7.4%, notwithstanding price competition for wholesale deposits and the impact of rising global interest rates on our foreign currency funding.

We closed the first half of the year with ₦58 billion profit before tax and ₦43.8 billion profit after tax, translating to pre-tax and post-tax return on average equity of 23% and 17% respectively. We are committed to delivering our 2018 targets and more importantly investing in the future sustainability of our business, as we believe our investment in people, technology and processes will distinguish our franchise over the long term.

Our broader Africa network continues to grow in significance, contributing 40% of Group's profit. Our large network provides earnings diversification and an increasing ability to benefit from group synergies, driving our capability to leverage scale and scope economies. I am happy with the rapid rollout of our Virtual Banker, Leo, in eighteen markets. This novel offering which debuted on Facebook messenger has now been launched on WhatsApp, taking banking to chat platforms and integrating service into our customers' lifestyle. This is just one example of how we can rapidly implement new products and services across Africa. We are re-engineering our global offices in New York, London and Paris, particularly as the recent Authorization of the PRA and FCA to our subsidiary in United Kingdom brings significant new opportunities to deepen our international trade business and enhance our positioning as the preferred conduit for capital flows between Africa and Europe.

At this point, I would like to hand over to Ugo, our Group CFO, to discuss the results in more details. Thank you.

Closing Remarks:

Once again, thank you everyone for your participation on this call. We duly appreciate your time and interest in UBA Plc.

We are committed to our digital banking initiatives and broader Customer-First strategies, which we believe will earn us our desired market share. We are integrating banking into our customers' lifestyle, simplifying processes for routine transactions and driving financial inclusion by making banking services accessible and affordable to everyone. In recognition of our pioneering innovations, we are rated "Africa's Best Digital Bank" by Euromoney.

We are creating opportunities for wealth creation and economic progress, as we empower our customers, through innovative platforms and solutions that support their personal and business growth. In doing all of these and many more, towards delighting our customers, we are sure of consolidating our position across all our chosen markets in Africa. More importantly, these sustainable approach to market share gain will ensure our long term profitability and enhance our capacity to delivering superior returns to shareholders over the long term.

Once again, we appreciate your time in joining us on today's call and more importantly your interest and investment in UBA Plc. Should you have any enquiry, please do not hesitate to contact Abiola, our head of investor relations. Thank you.