Conference Call transcript

Operator

Good afternoon ladies and gentlemen and welcome to the Access Bank's Q1 of 2019 results presentation to investors and analysts conference call. All participants will be listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing star and then zero. Please note that this conference is being recorded. I would now like to hand the conference over to Mr Herbert Wigwe, the group Managing Director of Access Bank Plc. Please go ahead, sir.

Herbert Wigwe

Thank you very much. Good afternoon ladies and gentlemen. You are all welcome to Access Bank's Q1 2019 earnings call as a combined entity with a new brand. Our presentation to you is very detailed and highlights all aspects of our recently enlarged business. On the call with me today are, Roosevelt Ogbonna, who is the group Deputy CEO, Greg Jobome, Executive Director of Credit Risk Management, Adeolu Bajomo, Executive Director of IT and Operations, Mr Victor Etuokwu, Executive Director Personal Banking, Chizoma Okoli, Executive Director of Business Banking, Hadiza Abulza, Executive Director of Commercial Banking North who has journeyed up from Abuja, and of course Mr Seyi Kumapayi, our Chief Financial Officer. As always, our presentation is hosted on our website.

Let me begin this presentation with a recap of our transformation journey in our quest to build a solid, sustainable banking franchise with a global reach. Access Bank Plc has grown in the last 17 years from a Nigerian corporate banking institution to a formidable diversified banking franchise. In 2017 we built a strategic aspiration for the next five years and in 2018 we signed a memorandum of agreement with Diamond Bank which is a large franchise and a remarkable brand which we have today. The merger is bringing about significant value creation for our shareholders and customers in the following areas. Firstly, we have a balanced business mix alongside a strong balance sheet. Secondly, there is market leadership across business minds on this combined experience and proven management team and finally, the values from cost and revenue synergies which far exceed the merger premium.

I will not briefly go over some of the key performance highlights, after which we will allow more than enough time for a question and answer session with you. To preface the group performance highlights, I want to speak to how we accounted for the acquired balance sheet along with the profit and loss accounts of Diamond Bank. As you are aware, the effective date of the merger was March 19th 2019 and in line with IFRS 3, which is basically the standard for business combinations, we consolidated the balance sheet whilst the profit and loss was accounted for through the net asset value as of the end of March, as you would have seen in note 14 of the accounts. That is basically the standard through which the accounts for mergers and acquisitions. The acquired entity in terms of the profit and loss in the intervening period is taken through the net asset value while the balance sheet is consolidated.

With respect to the group performance highlights our gross earnings drew by 16% to ₦160.1 billion in the period compared to ₦137.5 billion in the corresponding period of the last year. And it consisted 69% in interest income and 31% in non-interest revenue. Our interest income was up 16% with the large contributors being firstly, 159% year on year increase in income from investment securities to ₦50.8 billion. Now because this is a significant item, I think I'd like to just say something about it. You will recall that over the last six months we stopped to optimise our Dollar liquidity and we started on several IOC's last year which has strengthened our Dollar liquidity position.

In addition, we have also built up our Dollar liquidity as you know for the repayment of our Eurobonds which mature in May and June this year. We have also entered swaps to raise our liquidity to invest in government treasuries. What we understand at this position will wind down by the end of the second quarter; we believe that by that time the benefits of our original business, given the capacity we now have, we will deliver significant transaction banking income to offset any decline that may arise from the winding down of those government treasuries.

We also saw a 21% year on year decline in interest on loans and advances of customers to ₦58.4 billion coming from ₦74.2 billion in the current funded period of the last year. Now, this is as a result of some of the refunds to the oil and gas customers because the federal government basically gave promissory notes and we technically had to forgive significant interest. And of course some reduction in our users book and the effect of write offs following our IFRS 9 day one adjustments.

Our interest expense rose by 6% on account of growth in a structured funding and tenure deposits during the period. Net interest income grew to ₦56.8 billion in Q1 from ₦44.7 billion as Q1 2018. So we have an operating income of ₦103.6 billion which basically was an increase of 22% year on year arising from an increase in net interest income. The key drivers of operating income were one, we saw a 32% decrease in impairment charges of about 3.4% given the significant impairments that were taken at the end of last financial year and there was a 48% increase in other operating income to ₦7.7 billion. Now obviously this other operating income comes from income on other financial assets, dividends on equity investments and income from other investments and of course our agency and brokerage business. We also witnessed the 309% increase year on year in our FX trading income to ₦10.9 billion from a ₦5.2 billion loss in the corresponded period of the last year. But of course this was offset again but on realised loss of ₦4.7 billion with respect to our foreign exchange revaluation.

On the expense side, it shows ₦55.4 billion for the quarter, which basically increased moderately by 5% from ₦52.5 billion in Q1 of 2018. And a primary reason for this is a 4% increase in staff costs alongside a 21% growth in depreciation and amortisation charges and a 4% rise in other operating expenses. We have started to recognise the merger and integration costs and we expect that this will come through in the cause of the 2019 financial year.

Our loans and advances stood at ₦2.6 trillion which is basically up 30% from ₦2 trillion as of the close of business in 2018. And this basically comes from the combined loan book with Diamond Bank. The group assets quality deteriorated during the period under review with a reported NPL ratio of about 10%, really about 10.2% compared to our typical ratio which is normally about 2.5% if you look at the same period last year. And this came primarily from the impaired loans in the books of Diamond Bank. However, efforts are being made at bringing the ratio down in line with regulatory requirements and these have started yielding positive results.

With respect to our expected credit loss charge this declined by about 32% to ₦3.4 billion in the first quarter with cost of risk declining to about 0.5% in Q1 2019 compared to 1% in the same period last year. Customer deposits closed at ₦3.92 trillion compared to ₦2.5 trillion at the end December 2018, which is basically 56% growth. And we've seen 75% increase in our CASA deposits. We believe and are committed to ensure that we continue to pursue this retail expantial growth in a bid to attain the intended business mix and of course the attendant costs of funds that will come from it. Our capital adequacy ratio stood at 19.5% which is basically 20 bps increase from December 2018 levels, reflecting the impact of the merger. However, if we took regulatory transition basis, the capital adequacy ratio would be as high as 22.6% and our liquidity ratio remains far in excess of the regulatory requirements, standing to be at about 47.6%.

With respect to Q1 2019 performance, we believe that the group recorded a solid quarter which was underlined by 16% year on year growth in interest income. Notable also is the margin compression during the quarter resulted from the impact of combining the balance sheet of both these institutions and of course at the P&L side only the income of Access Bank was recognised. However, if you were to look at the funding costs today, you will see that it has been positively impacted yielding a 140 bps reduction and thereby offsetting anything you can decline in net interest margin.

Our non interest revenue increased by 18% from ₦41.9 billion in the financial year 2018 to ₦49.3 billion in the first quarter again of 2019, despite the fact that our fees and commissions were basically flat. We expect our fees and commissions to pick up, you know, as we basically continue to push our retail business and of course position ourselves with increased engagements. Our expense lines continue to underscore the impact of cost containment strategies as our cost to income ratio has declined from 62% as at financial year close 2018 to 53% as we see ourselves today, and of course on the back of a strong revenue growth.

With respect to asset quality, the expected short-term deterioration as a result of assets acquired during the period made our NPL ratio to be about 7%. And when you look at it compared to 2.5% which we recorded consistently over time it appears to be significant. However on a standalone basis, the NPL ratio of Access Bank went up by 60 basis points to 3.1% as a result of additional classification of one of the obligors in our oil and gas services business. We expect to push the NPL ratios down to the traditional levels of about 2.5% or 3% as we continue to drive our recovery efforts.

On channel performance, we are now leveraging on the combined entities' digital technology and its capability therefrom to drive our retail ambition. These platforms will ensure that we focus on delivering products and services which cater to the needs and lifestyles of our customers. In the next quarter we will share with you the restructured retail business as we reposition ourselves to take advantage of market opportunities while leveraging our expanded franchise and highly digitised platform. Looking ahead we remain obvious as we demonstrate the strength of our retail and wholesale benefits while leveraging on critical enablers to deliver value across Africa.

Before I close, I would like to speak to the acquired assets of Diamond Bank because as I am aware it may have created some excitement from the analyst community so that people can see how decisively we've dealt with it. It's also basically highlighted on slide 21 if you go to our website. The loan size of Diamond Bank at the financial year end 2018 was ₦787 billion and the total NPLs of Diamond Bank as of that date was ₦269 billion. Impairments taken as of that date was ₦219 billion which is a very significant coverage ratio in terms of the NPL coverage. However, as at 23rd December 2018, ₦44 billion was actually written off on the back of the ₦119 billion day one IFRS 9 charge against capital. And of course when netted against the regulatory risk reserve it is ₦160 billion impairment impact.

In the first quarter, which is basically from January to March 31st, there's been additional write offs of ₦61 billion, there's been loan repayments of ₦63 billion and there's been recoveries of about ₦4.5 billion. So really what we've seen is that the loan portfolio has witnessed a drop of ₦130 billion out of which ₦61 billion relates to impaired NPL facilities. So if you look at the combined entity, you look at the financials of Access Bank which is basically the enlarged entity now inclusive of the financials of Diamond Bank, the new loan size would be ₦2.9 trillion. And there is an NPL of ₦297 billion. But the impairment taken is ₦243 billion, and of course we have regulatory reserves of ₦19 billion. So the NPL coverage really is 88.1%, which means that [break in audio] we've dealt largely with the bad loan book of the erstwhile Diamond Bank.

The effective impact of all of this is a capital adequacy ratio of about 19.1% full impact without taking into consideration transition provisions. However, if we were to take the transitional arrangements it would be as high as 22.6%. And of course this has been enhanced by retentions and the issuance of tier two capital. This concludes the performance overview. I will now leave the lines open for questions which I will take, all those questions and answers, we have more than enough time to deal with them. Thank you very much.

Operator

Thank you very much sir. Ladies and gentlemen, at this time if you would like to ask a question, you're welcome to press star and then one on your touchtone phone or the keypad on your screen and that will place you in the question queue. If however you decide to withdraw the question you are welcome to press the star then two on your touchtone phone to remove yourself on the question queue. Just a reminder, should you wish to ask a question, you're welcome to press the star and then one. For the benefit of the participants who have joined via the webcast, you are welcome to pose questions in the question box provided on your screen.

The first question on the line comes from Tunde Abidoye of FBN Quest. Hello Tunde, your line is open. You can go ahead and ask your question. We are not getting a response from Tunde's line. I'm going to go on to the next person, Tolu Alamutu of Exotix Capital

Tolu Alamutu

Good afternoon, thank you for hosting the call today. I have three sets of questions please. The first is on capital. Could we get your view of the current ratios taking the full impact of IFRS 9 into consideration? And could you maybe update us on further tier two issuance plans? I think you had previously said that you would raise $250 million in total, so I guess there is some more still planned. And related to that, are there any further plans to return to the Euro bond market? That's on capital.

Secondly on NPLs, thank you for highlighting the slides on that. Just on the power and energy NPLs which are obviously a significant part of the whole portfolio, is that just Geometric [?] or are there other exposures that we should be aware of in that portfolio or in that sector? And can you maybe update us on your expectations for recoveries from the NPL book? I think before you had said it would potentially be between 25% and 30%. And finally I know in previous calls you've talked about the exposure to steel rolling mills, has there been any update on the cases to do with Access Bank there? And then finally, just on your longer term strategy, you talk about potentially becoming the leading bank in Africa rather than Nigeria, should we assume that that could mean more M&A in the short term or has Access Bank done enough? Thank you.

Herbert Wigwe
Okay, well I will answer the different questions. Seyi will speak to the issue of capital, the impact of IFRS 9 even though we've spoken to it before.

Seyi Kumapayi
I mean in terms of the impact on IFRS 9 on capital, I think we've spoken about this. Basically what you see is that the impact that you have even with all of this write-downs and write-offs is about 19.1. So we factored in the full impact of IFRS 9 in whatever number that you see. If you are to use on a transitional basis, it actually goes as high as 22.6. So this is full IFRS 9 impact that you've put into the number that we've shown on slide 21.

Male speaker
On the tier two, yes we have come to the market and we have stated we will do the $250 million in two tranches. I think we have completed the first tranche of $160.5 million. The plan is to complete the balance of that figure before the end of Q2. So we are well on track on that conversation. On the Eurobond, not in 2019. There's no conversation around coming into the market in 2019. We are focussed on paying down the maturities in May and June of this year.

Greg Jobome
Yes, and on the asset quality issues, you mentioned about the power sector and the extent of Geometric as a player, as a main player there. Well actually, it is probably about 80% to 85% of the exposure to power sector, so really it's almost a one obligor book as far as power book is concerned. The other smaller ones are not significant enough to delve into. You asked about expectations for recovery. As we have shared in the past, all of the write-offs that Herbert shared earlier on, all of them are with recourse. Therefore they are all fair game in terms of active pursuit, they are going to be seeing quite a bit of action on that which has started as far back as a few months, even whilst we were going through all the articulations for the actional steps. Now, for the rest of the year we shall see between ₦25 billion and ₦30 billion as our target for recovery and the goal is to push that as hard as you can to extract their value.

You mentioned about the steel rolling mills. I think as an industry we will continue to be cautious about the fact that the macro level, there are other issues for a while. We are managing our book so it hasn't grown. We are trying to keep it as is and trying to manage our way out of a sticky patch for that particular industry. But of course at the macro level, it remains a vital industry for Nigeria. And we are hoping that the market once again will be able to play more actively in that sector, but for now we are biding our time.

Herbert Wigwe

With the aspect to being the leading African bank, I think maybe it's been slightly misunderstood. But there are different perspectives to it and the issues around sustainability where we are the leading bank in the continent. We are pushing it to say they have to do with rations, both prudential and regulatory ratios. But more importantly – and I think this is the place you picked it up from – we want to be known as Africa's gateway to the world. So settling transactions, being the leading bank from a payment standpoint and generating revenues from just payments and receipts if you like and correspondent banking and things like that. So we want to be seen at that bank that basically has taken up the role of other global banks that were present in the continent but left as a result of the cost of compliance because of how well they don't know the continent. Next question please.

Operator

Thank you. The next question comes from Ola Ogunsanya of Renaissance Capital.

Ola Ogunsanya

Hi, good afternoon thank you for the presentation and taking my questions. My first question is on the interest income line. So if I look at interest income from financial assets fair valued through profit and loss of the ₦14.8 billion figure for bank only. Does that relate to non-pledged trading assets as well as some of the fair trading assets reported in the 20 and 24?

Herbert Wigwe

Sorry, can you repeat the question?

Ola Ogunsanya

So for the bank only figure of ₦14.8 billion and the interest income on financial assets at fair value through the profit and loss, does that relate to non-pledged trading assets as well as some of the pledged trading assets disclosed in the 20 and 24?

Seyi Kumapayi

Yes it relates to both assets because it is only pledged and not sold, so you continue to recognise the interest income on the assets.

Ola Ogunsanya

Okay, so the reason why I asked this is if I try and work backwards to deduce the yield on these instruments, I get analysed rate of close to 30%. So I just wanted a bit more clarity on what sort of instruments you invested in and why the yields on these assets are so high.

My second question is on your capital adequacy ratio. If I look at your risk retail assets of about ₦2.8 trillion, and this is for the bank only, I compare that to your actual balance sheet size and I try and deduce just based on the risk weightings of loans and all your other assets, the ₦2.8 trillion seems a bit understated. I think it should be closer to ₦4 trillion. So even if I am saying yes, there have been some risk mitigants against those risk weighted assets, I think the difference appears a bit wide. So if you could just please give a bit more clarity on that.

And my third question is, could we please get a breakdown of your loans into stage 1, stage 2 and stage 3 as well as the provisions against each of those stages? My final question is on leverage. I think I have mentioned this on the call, the last full year call on how leverage remains very high and it seems to be going even higher. And obviously this is a way from the liabilities we acquired from Diamond, so I just want to get your thoughts on that. Thank you.

Herbert Wigwe

Okay, we'll speak to some of the questions you've raised. First of all, I don't know how you got your yield of 30%. What we know, and basically we can take it up one on one with you, but you will notice that as we mentioned we have basically built up a significant treasuries starting from the end of last year. And I think that figure was built up probably close to ₦300 billion. I think the nature of yields you would have seen is closer to 17% if you like, so that is what is throwing out those numbers. And you will have seen it build up steadily. So I don't know where you are getting that yield from, but if you want a detailed computation we can take it up with you right after this.

Now, the second question, Seyi would speak to that with prospect of risk weighted assets. In fact, Greg will speak to that as well as the breakdown of the loan book, the combined loan book into stage 1, stage 2, stage 3 and you will get the levels of provision around it. Greg.

Greg Jabome

Okay, so with respect to the risk weighted assets, as you know currently it isn't a standardised approach. So what you do find is the major difference which you have on balance sheets and the actual risk weighted asset is the extent of credit mitigants you have. And I think over time we have demonstrated that we have a very robust set of practices around security for our facilities. And that's why you will find a significant enhancement there. Now, the combination with Diamond Bank fortunately through similar practise they have pretty well collateralised exposures, which put together that had considerable credit mitigants. So that's what you will find in that. But again if you want more detail on this at some point or if you want a one on one, we can also take you through all of that.

Now, with respect to the staging, you will find is a total book of ₦2.69 trillion gross of which stage 1 facilities are ₦2 trillion or ₦2.1 trillion, the stage 2, ₦499 billion, and the stage 3, ₦298 billion by exposure grossing to ₦2.98 trillion gross exposure. Now, in terms of the provisioning levels, we are at ₦49.4 billion, stage 1, ₦49.3 billion, stage 2, and ₦144 billion stage three, totalling ₦243 billion. So that's full coverage. Now in terms of the stage by stage coverage, all you take is the percentage to the NPLs. So your coverage is in the level of 2.3% of stage 1, almost 10% of stage 2 and almost 50% for stage 3.

Herbert Wigwe

Now, the issue of leverage and it's been high. I think that first of all, what we are focussed on right now is how to ensure that we drive our ROEs within acceptable risk boundaries which is important. So when you are looking at leverage, you are probably looking at what we are doing in terms of the liabilities which we are raising and all of that. The question is, what are we putting it into? And in 2018 it was about ten times. Today this figure is probably slightly higher, but what is important is what it is being used for? If it is being used for secure transactions, then it makes life a whole lot easier, at least you can achieve a higher ROE that way. Much better than going to risk tier one capital but well within our risk appetite definition of ensuring that there is moderate risk. So we are not taking currency exposures in the manner other people would take and all of that, so I think that would address the issue of leverage, it's not fundamentally different from what it was in 2018, in 2018 it was ten times and I think right now is about 11 times with the increased retentions which we have, I think that issue of leverage would be addressed between now and half year. Next question?

Ola Ogunsanya

Thank you, I'll follow up off line.

Operator

Thank you. The next question comes from Wale Okunrinboye of Sigma Pensions.

Wale Okunrinboye

Good afternoon. Thank you for your presentation. I have just two questions. One is on your fee income line. Why did your fee income line decline of the period even though I suspect you…? Does it include Diamond as well or just standalone Access Bank? The second question is on your operating expense line. I suspect that does not include a large component of Diamond Bank in it. What the likely quarterly run rates if you include Diamond Bank in it? Or what do you think the quarterly run rate is going to stabilise at over the rest of 2019 for your operating expense line?

And lastly is just on your… I think it is the same question the last caller asked as well. Your risk weighted assets appears when combined with Diamond Bank appears more than what it should have been. I don't know, maybe you can just be straight or how you sort of arrived at that because you are merging with a bank which had to reduce its loan position at the end of 2018. Why are we saying that now you've merged your risk weighted assets are lower than what it should be? It appears a bit understated. That is all really. Hello?

Operator

Hi Wale. Please remain on the line. Thank you. Ladies and gentlemen, apologies of the delay, please remain on the line, the main menu will be re-joining shortly. Thank you. Ladies and gentlemen, we have been rejoined by the main menu. Please go ahead. Wale, would you like to pose the question again?

Wale Okunrinboye

Okay, hello. Okay so question, two things. On your fee incomes, what's your outlook for your fee income line because it appears as if things that things slowed over Q1 2019? The second thing is on your operating expense line. What are your expectations for your quarterly run rate for operating expense because ₦55 billion that you posted in Q1 appears roughly in line with the normal number with your operating expense line? Now you have Diamond Bank in the mix, is that [inaudible] rest of the year or what's your view on the quarterly number you expect to see for your operating expense line in subsequent quarters? And third question is just on your risk weighted assets, just around the same thing. It appears as if it's slightly lower than what it should have been. Maybe you could just talk us through.

Herbert Wigwe

All right, first of all let me apologise for the dropped line. These technology challenges will happen from time to time, but we apologise. Now, the fee income dropped slightly as a result of two things. First of all, we think there was reduced economic activity because of elections and all of that. But secondly, what we also noticed was the fact that because we were sort of given a transactional settlement between Diamond and Access Bank was basically going to be free of charge it reduced what we refer to as [unclear] transactions. So there was a reduction in all of those types of things.

And of course the third is that again, mindful of the elections and all of that, there was a reduction in the credit related fees if you like that you would normally see in the first quarter. We had been a bit sceptical and cautious about lending on any type of transactions that had any form of obligation that was related to government or government related and things like that. So we basically cut down on our loan growth that we would typically see at the beginning of the year. I will let Seyi speak to the issues of the opex and what it means for the combined enterprise.

Seyi Kumapayi

Thank you Herbert. Yes, you are correct. In terms of how the opex for Diamond Bank was in Q1 was passed through the net asset bases, as Herbert explained it. So what you are saying is only the opex of Access Bank. In terms of what we see going forward, if you recall we said that we're going to have about ₦30 billion in cost synergies and I think ₦20 billion revenue synergies. We are working towards that. And from a projection perspective we expect that which is still between ₦66 billion and ₦70 billion a quarter now. This is because, for this quarter, given the fact we are amortising the AMCON expenses for six months going to the next half of the year it will come down to about ₦60 billion a quarter. So that's just the type of range of quarterly opex numbers that you will see going forward.

Greg Jabome

Okay and for the risk with those assets, I think I spoke to this earlier on. The main factor there is in the credit risk mitigates and the deliberate strategy that we apply to ensure that for capital efficiency, facilities as structured around cash as much as possible. So the availability of cash enables you to do that credit risk mitigation and that is what counts from the point of view of central bank's risk weighted asset rules. So that's what you have seen. And across both entities that are combined the same practices were being enforced and that's why you see that dampened risk rated asset impact.

Herbert Wigwe
Okay, but let me just close Wale's question. The issue around the fee income is not really a big issue because recall that you will now see the combined impact of ourselves and Diamond in this quarter and in the rest of the year. We are the leading institution as far as [unclear] business is concerned. We have the cards in issue, active cards in terms of the retail outlets and retail growth and the implication of fees coming therefrom. You will see significant growth in terms of fees and commissions coming from just pay and receive this quarter and in the next quarter and going into the future. So that is not something to bother about. Now Seyi spoke about opex, alright, coming from the increased size of the enterprise. I think you should also look at the increased revenues as you reflect on it. I think you should also think about the reduction, significant reduction in the cost of funds that also derives therefrom.

And most importantly, I think just as he mentioned you would also notice significant benefits coming from the cost synergies, some of which have started coming in. The branches that will not exist anymore, the savings in terms of operating costs they will come there from. Assets that need to be disposed and the revenues that derive from all of that. So I think at the end of the day whatever you see that's come in from the increased operating expenses will be made up for more than significantly by all of these synergies and benefits that come from. For us, we have given many times towards guidance, have been even on the previous calls, we will still be able to attend those guidance numbers as we will speak to them a lot later but our costs to income ratio, we don't think we'll be higher, anything higher than 60%, you know I'm talking of irrespective of how this play out in the rest of the year. Next question.

Wale Okunrinboye
Just a follow up, do you think the 30% ROE is sustainable over 2019?

Herbert Wigwe
Well you know, we are given targets at the beginning of the year. We know that the ROE will be north of 20%.

Wale Okunrinboye
Okay. All right. Thank you.

Operator
Thank you. Ladies and gentlemen just for the benefit of the participants online, you're welcome to press the star and then one should you wish to ask a question. Thank you. The next question comes from Clement Adewuyi of RMB NS.

Clement Adewuyi
Good afternoon. Thank you for taking my call. My question is a follow up. I just want to be clear. Seyi was explaining that the staff cost of your operating expenses of Diamond Bank was [unclear] to the net assets. So given that the merger actually off March 2019, I was expecting a portion of that to be passed through the income

statements. And also, I also want clarity on whether a portion of income of all the revenue from Diamond Bank actually reflected in the PNL that we saw in Q1.

Then my second question is on how you computed your cost of funds. The following cost of 4.4%, is it written based on the period in which you have the total interest bearing liabilities from Diamond or is it just an average to get that cost of funds of 4.4%? Because my own understanding, the interest expense on those deposits from Diamond Bank would not fully reflect in your interest expense in Q1. Thank you.

Seyi Kumapayi
Let me speak to the question I think on opex. At the beginning in terms of how we accounted for the balance sheet and the profit and loss, just like we said, the merger was March '19. And in line with IFRS 3 on business combination we consolidated the balance sheet while the profit and loss was accounted through the net assets at the end of March. So you wouldn't see anything relating to P&L item relating to a Diamond Bank, Access Bank income statement. Where you find it is in the net asset that was acquired which has been part of what you see in the net assets of Diamond Bank as at end of March 31st. So does that answer your question?

Clement Adewuyi
Okay, but what about the computation of the cost of funds? Did you use interest-bearing liabilities?

Seyi Kumapayi
What we did with that was that we took the interest expense related to Access Bank and using the average of the combined deposit. On the cost of funds side when you did that competition like that you get a better result. You also effect on the yields and assets side. So it was a simple average that was done given the consolidated balance sheet. So if you adjusted the number that you do will be a bit different from what you have. [Overtalking].

Operator
Next question comes from Frederick [unclear] of Ghana International Bank.

Frederick
Good afternoon. Thank you very much for your presentation. I've got three questions. The first one relates to the NPL ratio. You mentioned that the NPL ratio is 10% which we understand is more than the Central Bank of Nigeria's minimum rate of 5%, although you've mentioned that you put in measures to ensure that you reduce it. Can you please shed more light on the measures that you've put in place? My second question relates to Diamond Bank's bonds which is due to be repaid in May. Can you please confirm that a payment will be as scheduled? And the last one relates to Paul Usoro, the non-executive director's case. Could you please share your position on the case for us? Thank you.

Herbert Wigwe
With respect to the NPL ratio of 10% coming down to 5% we think is something that is doable and best way to achieve it there are three or four ways. First of all is to basically get additional write-offs. The second is basically to take the final provisions of one or two other assets. I give you a simple example, if you took the final provision

on Geometrics, it will bring it down significantly. So over a two year period we remain extremely confident that it's not an issue getting down to 5%.

Now, with respect to the Diamond Bank bond, I think if you've been following our history you would know it a lot better. Definitely it will be repaid at the end of the month. Also, with the instrument that is falling due on Access by 30th June, thereabouts, they will both be repaid. Now… Sorry we will call it. Not repaid. It will be called in because it's of no use allowing it to run the tenure.

I think the issue of Paul Usoro is a very simple issue and I don't mind taking it here, but if you need that information it will be taken offline. There is clear evidence that there is no issue. Our compliant guys have basically reviewed all the issues and the case with respect to Paul, who is currently the President of the Nigerian Bar Association, and we remain comfortable that he falls well within the guidelines and for him to remain on the board. So there is no such issue and I don't think that the charges against him are a thing that we can say anything about it at this particular point in time. If you basically speak to your lawyers at such a time that there's any conviction of any sorts before issues can be taken. Because as we know Paul. He is a respectable gentleman. He is the President of the Nigerian Bar Association, which by any stretch of imagination represents a person of significant integrity. Thank you very much. We shall take the next question.

Operator
Ladies and gentleman, just a reminder, should you ask a question you are welcome to press star and then one. There are no further questions on the line, sir. Do you have any closing comments?

Herbert Wigwe
Well just to thank everyone once again for basically dialling in to our first quarter results. We look forward to the end of Q2 where I will share with our half year financials, audited. We look forward to speaking to you at that time. Thank you very much and have a good afternoon.

Operator
Thank you very much sir. Ladies and gentlemen on behalf of Access Bank, that concludes this afternoon's conference. Thank you for joining us, you may now disconnect your lines.

END OF TRANSCRIPT