Conference Call transcript

18 March 2019

FY 2018 RESULTS

Operator
Good day ladies and gentlemen and welcome to the Access Bank Plc 2018 results conference. All participants are currently in listen-only mode and there will be an opportunity for you to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing star and then zero. Please also note that this call is being recorded. I would now like to turn the conference over to Mr Herbert Wigwe. Please go ahead, sir.

Herbert Wigwe
Thank you very much and good afternoon ladies and gentlemen. You are all welcome to Access Bank's Full Year 2018 earnings call. We have prepared a detailed presentation highlighting all aspects of our business which we are sharing with you right now and our presentation is posted on our website. On the call with me today are Mr Roosevelt Ogbonna (Group Deputy CEO), Mr Greg Jobome (Executive Director of Credit Risk Management), Adeolu Bajomo (Executive Director of IT and Operations), Victor Etuokwu (Executive Director of Personal Banking), Mrs Titi Osuntoki (Executive Director of Business Banking), Sumbo Olatunji (Group Treasurer), Hadiza Ambursa (Executive Director of Commercial Banking) and of course Seyi Kumapayi our Chief Financial Officer.

I will go briefly over some of the performance highlights after which we will allow more than enough time for questions and answers with you. Now in terms of our group performance highlights, our gross earnings grew by 15% to about ₦528.7 billion in the period compared to ₦459.1 billion in the financial year ended 2017, comprising largely of interest income of about 72% and 26% non-interest income. So interest income was up by 19%. The key contributors were the 332% year on year growth in interest on cash and cash equivalents to about ₦15 billion. The equivalent for 2017 was ₦3.5 billion and it was mostly due to a 90% increase in our foreign currency bank placement by our subsidiaries, basically access UK. We also saw a 25% year on year increase in income from our investment securities to about more than ₦3.8 billion compared to ₦83.2 billion in the corresponding period of last year. And this came on the back of strong treasury management which led to growth in interest earning assets during the period.

There was also a mild increase, about 12% in terms of interest on our loans and advances to ₦262.1 billion compared to ₦233 billion in the corresponding period. And of course one of the things that led to this was the loan conversions from foreign currency into local currency and of course the translation rate change that positively impacted yields.

We also saw a 33% increase in interest expense, and this came as a result of the interest on our structured funding and tenured deposits during the period. Yes, we saw that increase but it was more than made up for by the strong treasury activities with which we use this funds to basically engage.

Net interest income grew by 6% to ₦173.6 billion in financial year ended 2018, up from ₦163.5 billion in the corresponding period. So bottom line, we saw operating income at ₦311.8 billion, which is a 6% increase in both net interest income and non-interest income by 6% and 5% respectively. The key drivers of the operating income were a 64% increase in other operating income to ₦13.2 billion which is largely as a result of income from assets on the management, loan recoveries, and of course dividends on our equity securities. And also a 6% gain in Net Fee and Commission to ₦52.5 billion from our credit related transactions and commission received on virtual products, we basically saw a 3% decrease to ₦72.6 billion from ₦74.5 billion in the corresponding period.

Now of course you know our performance was somewhat down slightly by our operating expenses of ₦194 billion which basically was a 6% growth from ₦182.8 billion in the previous year. The real reason for this was the increase in regulatory charges, largely the AMCON fees and of course this came as you know on the back of the change in terms of how it was calculated and including off-balance sheet items. The moderate increase was tapered by disciplined implementation of our cost reduction programmes. And we will remain unrelenting in terms of improving on our operational efficiency and this is also reflected in our guidance for this current year.

Our loans and advances, looking at the balance sheets, stood at ₦2.14 trillion in 2018, which is basically flat, maybe about 3% increase from ₦2.06 trillion in the same period for the last financial year. Obviously for the period, there was very cautious growth in terms of the loan book as we spend more time managing the quality of our assets given the authority of the micro level.

In terms of our NPL ratio, it remained within acceptable limits at 2.5% in the period, basically an improvement from 4.8% given the results of the previous financial year. And this was largely the result of the declassification of EMTS which is basically Etisalat following substantial repayments in the course of the year. Accordingly, expected credit loss charge was about ₦14.7 billion in the financial year 2018 which was a big decrease from the corresponding period of the last year at ₦34.5 billion. So our cost of risk has come down significantly to about 0.7% in the financial year closing 2018.

Customer deposits was at ₦2.56 trillion, again a 14% increase compared to ₦2.24 trillion in the same period of the last year. And of course it was driven largely by about a 19% growth in CASA, which is basically our current and savings accounts from the same period of last year. As we continue to pursue our retail expansion, as cost of funds remains on our minds, so we will continue to make efforts required to basically continue to see an increase in our current and savings accounts.

In terms of our capital adequacy ratio, it stood at 19.9% which is basically a 20 basis points decrease from 20 something levels in the previous years and this is basically reflecting the full impact of our IFRS 9 implementation in the year. However, on the regulatory transition basis, CAR would be up 20.8%. Our liquidity ratio has always remained well in essence of our regulatory minimum and include at about 50.9% as of 31 December 2018.

I'd like to share a little bit with you all on the merger by way of an update. As you are aware, the shareholders of both Access and Diamond Bank voted to approve the merger at the court appointed meetings that were held on March 5th 2019. Following that, I'm pleased to inform you that we have received Central Bank and SEC approvals and we anticipate the final court sanction shortly after. Subsequently, we will proceed with the launch of our new brand and begin business operations as a single entity by April 1st.

On the financial year 2018 performance, you would also have observed that we had a very strong quarter which was underlined by our ability to maximise yields on the increased stock of government securities in the last quarter. This grew by ₦330 billion, resulting in a yield pick-up and consequently interest income in that period. Similarly, we saw interest expense go up however on a net yield basis in the quarter; we saw significant accretion to our net interest income. We also saw a decent performance on the transaction banking income as highlighted in the growth on all our channel indices. And this would become a recurrent theme and a significant part of our presentation as we go into the future because we believe that our retail business is where we need to pay a lot more attention to going forward as far as our ROE's concerned.

Our quarterly cost also went up on the back of the 0.5% on the contingent items coming from the AMCON charge of ₦2.5 billion and it was charged fully in that quarter because we did not get a favourable resolution with the Central Bank. With respect to merger synergies, if you recall during our update in January, we had identified cost and revenue synergies of about ₦150.3 billion, derived from processes including IT integration, Branch consolidation, capital allowance and process alignment, amongst others. The integration teams of both our Banks are working hard to deliver these and have gained very significant traction which we will be able to share with you in the next couple of weeks ahead.

Well as far as 2019 priorities are concerned, our focus is to deliver a seamless integration and an unbeatable customer experience with Diamond Bank and to drive sustainable growth of the combined entity. As such the following metrics reflect growth potentials we anticipate from the synergies to be realised in the course of the year. We believe that we'll be able to achieve an ROE north of 20%, we will bring our NPL ratio's down to well within 10% or single digit range. Our cost of risk, we think will be well within or rather less than 1.5%. We will bring our cost of income ratio in spite of the combination to well below 60%. We think we'll be able to maintain a net interest margin not of 6%. Of course the capital adequacy ratio in excess of 20%. A loan deposit ratio again of about 60% and our liquidity ratios remain north of 50%. This concludes the performance review. I will now leave the lines open for questions. Thank you very much. Questions.

Operator
My apologies sir. Ladies and gentlemen, at this time if you do wish to ask a question please press star and then one on your touchtone phone. If you decide to withdraw your question, please press star and then two to remove yourself from the queue. Again if you wish to ask a question please press star and then one now. Our first question is from Clement Adewuyi of CardinalStone.

Clement Adewuyi
Good afternoon. Sorry correction. That's Clement Adewuyi from RMB. My first question is Etisalat. I just want to get some on clarity around that. Am I correct to say that the loan has been declassified as an NPL? And if yes, then the restructured loan, what's the outstanding balance of the restructured loans and as the supervision I was taken on the previous 9Mobile loan, has it been rolled back? And if not what's the effective coverage of the current restructured loan? Then my final question on that is when do you expect the first payment from the new obligor? When do you expect that to come in? Then my second set of questions around your derivative income, I would like to know what currently the balance of your derivative books? Did you get into a new swaps and what's the average duration on that book? Then also generally what's your outlook for that line item in 2019? Then finally I also want to get a sense of currently where does your effective CIR [?] stand? Thank you.

Herbert Wigwe
All right. Greg, I think you should speak to Etisalat.

Greg Jobome
Thank you Herbert. Well basically what has happened was back to Etisalat. As the industry level resolution which we have also spoken about on this call in the past essentially we had taken in the neighbourhood of 30% provisioning with respect to that exposure. As a result of all the discussions, there was a haircut that was also to be taken by Access Bank. So essentially that entire haircut record was fully provisioned and we have written it off. So what is left is just the residue and the back of that. So we moved down from about ₦50 something billion to about ₦26 billion in exposure. So it's a significant change from where we were about a year ago. Not only have we fully covered and written off the portion the haircut was applied to, but what is left we still have way back to be considered to be [unclear]. So there is the moratorium period that is running. So you're asking when the next payment due is. I think it's being counted from 2020 is when you get a first payment coming due. But they remain in business. They're a going concern. They're still the top four player in our markets. We get collections of about ₦3 billion monthly. So really the stage we are in now is a vast chain from where we were in the last year.

Herbert Wigwe
Not only that, I mean we are watching… we are not overly concerned about the exposure, we are also cautious as far as how we manage it. We will take decisions with respect to what do the residue as we move on. But we don't have great concerns about that. Already from what Greg has shared and I think if you got perhaps a bit in that in terms of the residue from Etisalat, I think we probably have about 60% coverage, if you look at it theoretically the initial amounts. But in terms of derivative income, the amount outstanding in terms of our swop book is about $1.4 billion, and not exceeding one year. We don't do things that are in exit of one year. So in terms of reversals and all of that, it… everything happens within the current financial year. Outlook, we continue to manage a strong treasure position. As we've said several times and there will always be a replacement for anything that we… I mean this book has come down significantly. It was about $2.3 billion to $2.4 billion and of course yet we still maintain strong numbers with what we have in a shorter duration. And I think we have a larger product range these days other than that to basically should have income from that mind

will be maintained. Our cost reserve issue on the average is about 30%. It's not of 30% actually, coming from the restricted cash reserves of the Central Bank and the normal cash reserves. Thank you. Next question.

Clement Adewuyi
Hello. Can you hear me?

Herbert Wigwe
Yes.

Clement Adewuyi
Yes. Sorry, I just want to follow a question. Yeah, it seems like you have… You've see some improvement and [unclear] lately because my thought was it was close to 40% initially. Then that's one. Then secondly, I want to make sure I heard you correctly. Did you say you have 60% coverage on the balance of the ₦26 billion that you… the residue amount from the 9Mobile loan?

Herbert Wigwe
No. If I start… Let me put it this way, the initial exposure on Etisalat was as high as ₦70 billion if you recall. If you remember.

Clement Adewuyi
Yes.

Herbert Wigwe
I'm given the exchange rate. And we are now down to below ₦26 billion. Okay.

Clement Adewuyi
Okay.

Herbert Wigwe
We've written off the haircut with the money that we received and the provisions we've made, all right. So that's why it comes down significantly. So I'm looking at it. I'm using a reference of where we were at the beginning. So that's the point I'm making. Okay.

Clement Adewuyi
Okay. So what you currently have to say there's no provisions on your outstanding balance?

Herbert Wigwe
On the residue? There is [overtalking] provision on it. Not specific but we [overtalking].

Clement Adewuyi
How much is that?

Herbert Wigwe
Even though... Can you hear me? In stage two…

Clement Adewuyi
Yeah, I can hear you.

Herbert Wigwe
In stage two [Background noise]. Anyway, it's transferred as stage two. And so we are taking standard and regular provisions in line with our stage two provisioning and policy on it. Now…

Clement Adewuyi
All right.

Herbert Wigwe
On cash reserve issues concerned, I mentioned to you it's well north of 30%. That was the point I made. I don't know about the efficiencies. Maybe the growth in liabilities is also reflecting on it, but it's well north of 30%. Okay. Next question.

Operator
Thank you very much sir. The next question is from Oleyinka Ade of SBG Securities. Please go ahead.

Ola Warikoru
Hello. Thanks very much for the presentation. My name is Ola Warikoru and I have a couple of questions. The first one is in reference to earnings drivers on a Q on Q basis. So does the strong improvement in net interest income and investment securities are up of 12% key on key. However, if I'm looking at… On a year on year basis it seems that there was some reclassification done, so I would just like some clarity. So the net gains on financial instruments are fair value through profit. There was a negative regarding for full year 2017, minus ₦33 billion, and it's currently at ₦95 billion for FY2018. So I like to get more clarity on that.

In reference to asset quality, I would like if you could elaborate on the steel rolling mills sector and what impairments are made, because I was just looking at the composition of NPL's for 2017 versus 2018. There seems to be a lot of movement apart from the sectors where you've mentioned that there were repayments done. Then also looking at the dividend policy for 2019, just taking out how dividend has declined between 2018 and 2017. Just like to get more clarity on what the outlook would be given the combination with Diamond Bank. And I will ask the rest of the questions later. Thank you.

Herbert Wigwe
Okay. Seyi, you wanted to speak to…

Seyi Kumapayi

Yeah. Although I'm not sure I understand the first question. I think what I heard was around the classifications. There were no reclassifications.

Greg Jobome

Earnings drivers for fourth quarter comparing that Q on Q for 2018.

Seyi Kumapayi

Okay. So and I guess Herbert mentioned it at the start that we had a very stronger [unclear] in the fourth quarter. So if we look at the securities and investment book it grew by 330. And what we do was to maximise the yields on that book. And therefore so if you look at the interest income quarter on quarter you see an increase and if you look at interest expense, so really the earnings drivers were our ability to improve the yield on government securities book. And I think you see that across all the revenue lines relating to that. And this will be something that usually going forward as well.

Herbert Wigwe

Greg, you want to speak to asset quality on the steel rolling mills sector?

Greg Jobome

Yes, yes. So basically the first thing to say is that between the two periods we are looking at you would have observed a very sharp reduction in the NPL amount from ₦101 billion and ₦55 billion. What that means is that in terms of the sectoral distribution you've had significant shuffling, not because of drastic changes in some cases, but because the one that was probably 1% in the past, now is moving to 4% just because of it dropping out of EMTS, due to its reclassification.

Now, having said that there a couple of areas where some new impairments came in, in the course of the year. Bear in mind that we have about 4.8% NPL ratio to 2.5%. All of it is in context of that development. The couple of sectors where you would see some new names will be around the steel rolling mills you mentioned. So that one is essentially one name. Now the NPL volumes are now of order where you know one significant name looks like a very big movement in terms of the impact on how it is displayed in this pie chart. So you see a bit of that there.

You also see a bit inside general, called general. Now on that general that's typically where you find our personal lending book. Now the main change there has been around under IAS 39 we were pretend a smaller exposure than personal banking under what we used to call collective impairments as a bucket. Under IFRS 9 they have to be treated totally differently in line with IFRS 9 principles. Therefore, several of them are stubbed in [?] then for the first time as stage three names because the collective impairment treatment is no longer applicable. So that's why you also see an increase from 1% to 13% on that general, which like I say is the personal banking area. Other than that the rest of them are a bit more like I said the quantitative impact of EMT dropping out which we have to now redistribute the balance across the other sectors.

Herbert Wigwe

Let me speak to the dividend policy question that you raised, Ola. You would know that we have a residual dividend policy and our dividend policy runs as follows. First of all, you must retain enough earnings in the existing year to cover up all capital expenditure, all right that you basically incur in that year. That's the first thing. The second is that you make sure that you maintain a capital adequacy not of 20% as a group level. The third is to try and achieve a dividend yield, not of 5%. So what you'd have seen in 2017 or 2018 would have been an attempt to try and balance all of those things. However, going into 2019 the policy continues.

We believe that our combination with Diamond result in stronger earnings and perhaps we start to see in terms of dividend pay-outs perhaps you know digit numbers, but enough to assured that all of those three order points are properly maintained. We are optimistic of our future and want a nice quarter and of course healthier bears in mind and of course the fact that we've traditionally paid half and full year dividends, whilst we maintaining a residual dividend policy. So I think not much it would happen. You will see a residual policy, but you will also see that we just basically try to ensure that we can basically achieve a bit more in terms of pay-outs. Thank you.

Ola Warikoru
Thank you.

Herbert Wigwe
Next question please.

Operator
Thank you. The next question is from Ola Ogunsanya of Rencap. Please go ahead.

Ola Ogunsanya
Hi. Good afternoon and thank you for taking my questions on this presentation. My first question is on the NPL issue guidance of less than 10%. I just wanted to understand what is that based on, because if I recall you know following the announcement of the transaction with Diamond, the panel was to write off NPL's before combining both entities together. Secondly on your ROE's of 19%, so that was largely driven by leverage. So if I look at your leverage it's the highest it's been for a while at nine times. So I just wondering is this the strategy going forward to drive your returns with high leverage, because then you also just successfully raised subordinated debt. If you could also just clarify what pricing on that subordinated debt was? And again just to clarify, so the guidance on page 29, is that for the combined entity? If it is, it seems to assume there will be a similar integration process. Where do you think the key adhesion risk lie? And do you realistically think you know in the first year of a merger, are you … would be able to achieve you know some of the targets that you set? These are all my questions for now. Thank you.

Herbert Wigwe
Thank you.

Roosevelt Ogbonna

I want to speak to that.

Herbert Wigwe
Okay. I'll let Roosevelt speak to the issue around our NPL re-issue guidance, ROE. I will chip in a little bit at that point. The price of the subordinated debt of course the combined guidance while I will speak to the key execution risks.

Roosevelt Ogbonna
Okay. So the guidance that we have in the pack is for the combined entity for 2019. I hear you when you say issues around key execution risk and if we're not being too optimistic in the numbers or guidance that we are put in our head. But I think this has been done after a lot of work and careful thoughts as to how both institutions will be fully integrated and begin to threw out significant numbers even in 2019 to expect that the merger will be very creative even in the course of 2019.

So the asset quality as well as the efficiency ratios and the potential ratios as well as profitability are for the group combined figures. Yes, ROE of 19%. So leverage of 9. I think what you see traditionally is we've been anywhere between 6 and 8. So on the face of it this seems out of the band. I don't think that's what you see as we go into the future. We will continue to be within 6 and 8, which is well within where the industry is currently. On the NPL ratio guidance as I said is for combined entity and we are keen to work to ensure that this happens. Yes, we have write-offs which Diamond Bank will make for full year 2018. I think those write-offs will be seen when they release their own 2018 numbers. And I think what we've done is to ensure that the combined entity is moving ahead into the future without any significant overhang in that trends. We're also been careful around our capital planning.

I think Herbert just spoke not too long ago about our internal thresholds of 20%. And we have to do what it takes to be able to ensure we don’t go below 20%. And that’s where the tier two comes into account. So the tier two, the first tranche has been drawn. The overall pricing on that transaction was about 10.25%. And as you know the transaction structure was for ten years with a five-year moratorium. So there is a significant mileage and benefits we get. And the premium over straight bond was actually not significant. So we are very happy with the pricing structure and the overall deal structure for that tier two. Thank you.

Herbert Wigwe
I will just add a little bit to what Roosevelt has said. Speaking as to whether ROE will be driven by leverage going into the future, I think it’s not a fair comment because there is so much which is going to happen. I think the starting point is that the merger brings phenomenal retail capabilities. Shared transaction volume and income will generate in themselves very significant non-interest income that comes from 25 million customers transacting on your platform. The cards business will bring a lot of money. I’m talking of whether it is in terms of debit cards or credit cards or things like that. So leverage is not the only thing. I mean optimising the balance sheet is fine, but I think income that comes from non-leverage activity is also going to be extremely significant particularly given what we are beginning to see from what this combination will bring.

In terms of the key execution risks, like in everything all mergers will come with their own issues. But I think one of the strengths that we have is the fact that we've gone through this process a couple of times and we are becoming more and more expert at it. There will always be people issues. There will also be a culture issue which we are managing. But I don't think that that is so much of a problem because the inherent values that exist between the two institutions are largely the same.

IT and the capacity to couple the two institutions together, even though we use the same back-end application, will test us a little bit. But I think there has been enough preliminary work that has been done and it has been quarantined separately to make sure that the systems can function perfectly as one system come April 1st. And I think to a large extent I know it is nothing like a live environment, but I think it has been tested and tested and tested. I think from a security standpoint, which is also a critical issue particularly at a time like this, we have strengthened our overall security framework. So I think a lot of things that I think would make us not sleep at night have been resolved. But there will be increased anxiety obviously as you move in.

The other area will always be around concentration issues and how you deal with them. But I think the merger itself helps to resolve several of the concentration issues. There may be a few lumps, but I think all of those have been resolved. So I think we are too close to the finishing line to be overly concerned. The real issue will have to do with the synergies and how quickly we basically pull out those synergies so that it can be value accretive to shareholders.

And I think we are taking steps without breaching the boundaries to ensure that all of those synergies which we have identified in the previous call will materialise very quickly, significant in the first year, and of course the rest in the subsequent year. We are also paying a lot of attention to the revenue synergies that we expect and we are putting in place the framework to make sure that we start capturing them from day one. And that is also happening.

The other things around opex, which is important, we are basically dealing with them decisively so that we don't see a significant increase save that which would naturally come from the combination as we move into the April one, which is important for the cost as we move into the future. The change of control issues is also typically a big issue with every merger in the world. I think the mere fact that we've done it before and we do have a proper template to ensure that all of that is managed, and the fact that we are working closely with our colleagues in Diamond, I think to a large extent will mitigate those risks. So by and large I think this will be one of those mergers that would be a world-class merger in terms of the process and governance that has supported all of it to ensure that it is value accretive. Thank you very much. More questions.

Ola Warikoru
Thank you. I have one follow-up question please. So will the Q1 numbers be of the combined entity or will that only happen in Q2?

Herbert Wigwe

So the confirmation I can give to you is that first of all we need to wait to get the final regulatory sanction which is the court sanction. And of course that will determine how it's going to play out. However, irrespective of how it plays out you will have a combined financials. You will also have the opportunity of seeing independently how both institutions performed. And this I think will not be any later than the second week of April.

Ola Warikoru
Thank you very much.

Operator
Thank you. The next question is from Jerry Nnebue of CardinalStone Partners. Please go ahead.

Jerry Nnebue
Hello [unclear]. And thank you for taking my questions. I just wanted to have an idea of what your loan growth guidance was for 2019. It wasn't indicated in your presentation slides, so what is your loan growth guidance and what sectors do you expect to drive loan growth in 2019 for you? Secondly, I would like to know if it's available what your integration cost could possibly be as a result of the combination and if that is also factored into the projected cost to income ratio that we saw. At 60% it is almost similar to what we saw last year, so I would like to know if that was factored into this. Thirdly…

Herbert Wigwe
I didn't hear your second question.

Seyi Kumapayi
It is integration cost.

Jerry Nnebue
Yes. Is that factored into the projected cost to income ratio?

Seyi Kumapayi
Thank you. I got it.

Jerry Nnebue
Thirdly, also on your cost of funds I'm seeing a guidance of less than 5% which is similar to what we had last year. I'm wondering, one of the synergies you expect to see from your combination with Diamond Bank is improvement in cost of funds. And this in our opinion does not necessarily translate that. So I would like to know if you can explain that. I expected the guidance for cost of funds to be 100 basis points lower than what you have here. Thank you.

Herbert Wigwe
No problem. Okay, let me speak to all of this. First of all, you will have replacement loans. We basically referred to the residue of what was in Diamond which is being taken on into the merged entity. So I think in terms of real

loan growth you're not going to see that. We're going to spend a lot more time ensuring that we basically maintain and actually improve on the asset quality of the combined enterprise. On integration costs I think it is easier for you to wait until we get to the conference call that will be anywhere between the 14th and 16th April for us to give you that figure. We are trying to put it together. But let me put it simply. It is going to be well within the cost synergies even in the first year. We are giving you cost synergies that were north of ₦30 billion I think. I'm saying whatever it is even that which occurs in the first year the estimated integration cost will be well within the figure which you will see even in the first year. So I don't think it's anything for you to be overly concerned about in terms of the impact on our cost to income ratio even in the first year.

Now, we gave a guidance of less than 5%. I think on a bootstrap basis you would see the cost of funds below 4.8%. Now, let me put it differently. When you see an institution going through a merger like what we are doing with Diamond, obviously there are some liquidity implications that will happen coming from the heightened anxiety initially on the existing customers of Diamond. Still there will be a little bit of run-off, which is being resolved as we speak to take it back to normal. Those are all the things that have led to a slight increase perhaps of what you would have seen in Diamond, which is basically coming down again. So we have given guidance of 4.8% anyway. It could be 4.5%. It could be 4.3%. We are just careful with the commitments that we give to you so that you don't say that this was the guidance you gave. What we can assure you is the primary reason around this whole merger were several cost synergies, inclusive of cost of funds, which we made extremely important even within the first quarter or rather the first year of our merger.

Jerry Nnebue
Thank you.

Herbert Wigwe
Next question.

Operator
Thank you very much. The next question is from Peace Bosah of FBN Quest. Please go ahead.

Peace Bosah
Good afternoon. My name is Olwasu [?], Peace's colleague. I just joined the call so I just want to ask you a question. I don't know if it has been answered. Thank you very much for the presentation first of all. Quickly, Diamond Bank has a Eurobond that is due to mature in May. I would like to know if the bond will pay down or it is going to be refinanced. What effect will that have going into the future knowing that in the following month, which is in June, Access will have a 2021 Eurobond callable in June? We have information on the grapevine that it seems Access Bank is going to pay down that Eurobond. So I just want to know what is going to happen and the current cash flow of the combined entities going forward. Thank you very much.

Herbert Wigwe
Thank you very much. I am sure you appreciate the fact that we in the course of due diligence and assessing our capacity to handle this transaction that we have reflected very deeply on the foreign currency obligations that

we have as well as Diamond's. I can confirm to you that the Eurobond of Diamond that is maturing in June will be repaid. The Eurobond of Access Bank which is maturing in June which is callable will as well be paid. It will be called and paid back in June. So both exposures, which I think come to about $600 million, you can rest assured will be repaid.

Peace Bosah
Thank you very much.

Herbert Wigwe
Next question.

Operator
Ladies and gentlemen, a final reminder, if you wish to ask a question please press star and then one now. We have no questions in the queue. My apologies, we do have a follow-up question from Oleyinka. Please go ahead.

Ola Warikoru
Hello. Sorry it's Ola Warikoru from SBG Securities again. So just to follow up, I think I missed what you said the deposit growth forecast would be. That was asked by the previous caller. Then I also wanted to find out about the digital loan book. There seems to be considerable growth, and I would just like you to elaborate on the features of the product, the typical tenures and loan size, and also the delinquency figures and if there are targets for 2019 and beyond for the digital loan book. Then also on the rest of Africa performance we see strong profits in Ghana and recovery in profitability for Zambia. So if you could just shed more colour on what is happening in those regions as well as the London subsidiary. Thank you.

Herbert Wigwe
Okay. We will try to remember all the questions. I will let Roosevelt Ogbonna address them. But if we didn't quite hear you properly please feel free to tell us what it is.

Roosevelt Ogbonna
So I think your questions were around deposit growth, the growth around the digital loan book and the rest of Africa. I will start with the rest of Africa. I think what you will see is from 2017 all the African subsidiaries including our subsidiary in the UK became positive. And all the subsidiaries have been delivering a positive contribution to the bank's numbers. One of the things we've done I think if you go back to 2016 the subsidiaries that struggled were the likes of Zambia. We have capitalised those institutions so they are stronger and better capitalised. On the back of that they are making significant investments in retail opportunities in those markets.

We are beginning to see the impact of the retail opportunities coming through in those markets. So Ghana for instance we started a significant retail drive two years ago. Today we have about 700,000 retail customers in Ghana. We have succeeded in carding. When I say carding I mean giving them cards, about 400,000 of those customers. I will be honest to say that only 200,000 of the 400,000 carded customers are active. But this is something we have achieved in two years. The projection for 2019 is that we will have all 700,000 accounts properly carded and about 60% of them will be active on the cards. And that story and initiative we have taken across the African subsidiaries, Rwanda, Ghana, Zambia and the rest. We have actually hired a gentleman who oversees all our retail opportunities across our African subsidiaries. So we are banking and taking a significant bet that the African subsidiaries will continue to contribute and it will be largely driven by growth in the retail space.

Retail loan growth is something we started two years ago. We are extremely proud of what we've done. We were clear innovators in that space. I think when we started two years ago we have seen transaction value of about ₦1 billion a month. In the course of last year, we saw that grow to about ₦2.5 billion and peaked at about ₦3 billion on a monthly basis. Projections for 2019 is that we should see about ₦4 billion transaction value on a monthly basis, so a growth of about ₦1 billion monthly. So that is the projection that we have for that.

And from an NPL perspective as you ask it is well within the ranges that we expected. It is less than 2% today, and the 2% is because we have a very tight matrix from a risk perspective. So any payment that hasn't happened in a 90-day period, irrespective of the fact that it might be delayed payments from the employers of those parties, we classify the loans and make sure that we maintain a very strict risk management around those loans. Deposit loan growth, the guidance we have given for the combined entity as we go into 2019 is 10%. And I think it's something that we believe is easily achievable and we work towards delivering those kinds of numbers.

Herbert Wigwe
I would like to just add a little bit more with respect to digital loan growth. I think today in the course of 2018 we basically did about 1.3 million disbursements. 1.5 million disbursements. Now, begin to imagine what that means on the combined entity with north of 26 million customers. We think that we can grow this base significantly. And what we tend to find is that the overall peak on the loans may not be that significant. Just the sheer velocity of what is taken and repaid on a daily basis is what is important. So the critical value is how many of these transactions were booked in the course of the year. We think we will be able to extend this perhaps to more than double in the course of 2019 on the enlarged entity. And what that will basically start to show is the sheer amount of transactions happening within your system, people who are transacting. It does have high returns because of how it is structured. The cost in terms of NPLs is even lower. So it is one of the areas that we are going to see significant growth in the course of 2019. More questions please.

Ola Warikoru
Thank you.

Operator
We have a question from…

Herbert Wigwe
There are more questions on the webcast and I think Mr Kumapayi would like to speak to them.

Seyi Kumapayi

Ronak of EMG asked two questions. I think the first is if the ₦20 billion of financial losses included in interest income and whether this was a revaluation gain. The answer is no. It is pure interest income. It is just representation in line with IFRS 9. That is why we brought it out to show specific valuation to P&L. I think the second one is around the ₦35.7 billion gain in respect of equity investment. You will recall that during IFRS 9 implementation available for sale instruments are allowed. So you had to make a call whether you wanted to value them through OCI or value them through P&L. We elected to value them though P&L and this is the first time that is happening. And so that is what you are seeing. So any increase you see, because these instruments are held in foreign currency and therefore could likely lead to maybe a devaluation therefore these are [unclear] to grow unless there is any devaluation or the company itself make significant profit. So really it's an IFRS 9 implementation that we've done that has led to this.

Herbert Wigwe
More questions.

Operator
We have a question from the conference call from Dimeji Adeyanju of Standard Chartered Bank. Please go ahead.

Dimeji Adeyanju
My question is around your strategy. Last year you mentioned that Access Bank wanted to be an intermediary for payments across Africa. I wanted to know what we are expecting to see between now and the five-year period, and what is the estimated [unclear] you are expecting from this strategy. Other than the few functions that have been launched and also the larger market that you have what are the other benefits [?] you expect to see typically? Thanks.

Herbert Wigwe
Okay. Dimeji, let me share with you the pillars of what we call Access Africa, which is basically making sure that we will be seen and known as Africa's gateway to the world. The starting point is that you must have an absolutely rock solid compliance framework, a strong KYC and anti-money-laundering framework, which we have done working with Access UK to make sure that all transactions that are being posted across our platforms pass that scrutiny. So that we have done.

Now, the next thing is that the [unclear] on strong correspondence banking framework. So it means that you are technically replacing some of the other international institutions that would normally provide correspondent banking lines in different countries across the continent, countries that are sufficiently robust to handle the correspondent banking lines. And I think our subsidiary in the UK is basically already doing that to several countries, not just Nigeria or places where we have country presence but to other countries across the continent. And more and more people are knowing them as a strong trade partner across the continent.

The second has to do with diaspora flows, which means that most payments that come from the diaspora into Africa – by the way that figure comes to close to $200 billion – most of them should basically be consummated on our platform. It means that you need to have a strong relationship firstly with the various IMTOs that handle money transfers into the continent. And secondly, you must have local switching arrangements to make sure that apart from Nigeria in other countries where you have a physical presence, or perhaps where you don't, you have the arrangements necessary for those transactions to happen. More and more all of that is happening and we are seeing several in terms of the percentage of market share that we have across all platforms – and I'm not just talking about Western Union or MoneyGram – we have seen significant market share coming to us not just in Nigeria but in other parts of the continent.

Now, the third and most important one to us has to do with intra-African payments. So cross-border trades between Nigeria and Ghana, Nigeria and Rwanda, Rwanda and Congo, South Africa and all of that. Again what we have done from what you've seen is the fact that we've basically put in a product that ensures that even digitally you can transfer payments across the continent. With your phone you can do a payment to any person within the Access Bank group and it will happen instantaneously. Now, for banks that are in countries where Access Bank has a physical presence again it happens almost instantaneously.

Now, the final point around it is how do you ensure in those countries where you don't have a presence you are also handling payments. So we are setting up those correspondent banking arrangement and arrangements with IMTOs and certain other partnerships with MasterCard to ensure that all of that is happening. So more and more we are spreading out based on a strong compliance framework and ensuring that digitally payments are happening across the continent. And even if you were to use trade we are handling a lot of the settlements hat are happening. So we are seeing increased market share, and I think 2019 we will see yet a bigger job. As you know it takes time for these transactions to get to the critical mass for those volumes to begin to make significant sense in terms of their contribution to our PBT. But you are likely to start seeing it from 2019 and over the next five years. Next question.

Dimeji Adeyanju
Thank you.

Operator
We have no further questions on the conference call, sir.

Herbert Wigwe
We do have a couple of questions that have come through on the webcast that have to do with our capital adequacy and things like that, and I think Mr Jabome will speak to them.

Greg Jabome
Okay. Thank you Herbert. You were asking whether our CAR at 16% bank standalone was adequate to absorb the Diamond book and in terms of the guidance for the future. Basically obviously come day one we then have a combined set of books. Currently the audited figures we don't have yet. It is going to add some colour to that. So what you are probably working with on the Diamond side are probably still their September 2018 numbers which were released publically.

So having said that the plan that we have – and it is a very well-tested plan as Herbert has already spoken to in terms of the preparations that have been made and as part of that very intense due diligence process that we went through – we are looking at by half year we should be able to achieve well above that 16.2% that you mentioned within six months. Actually within three months of this whole combination because of actions which were taken which you have not referred to in your question. Herbert mentioned the tier two raise which I'm sure you did not factor in. Once we factor that in plus the retentions that we have planned from all the synergies that Herbert also spoke about, we are looking at significant recoveries.

So by half year we are definitely going to be north of that 16.2% that you mentioned on a bank basis. Of course if you then take that to group level it becomes a very different figure, about the 19% kind of range. And if you stretch that all the way to the end of the year then you are talking about the kinds of figures that were shared earlier on in terms of outlook, north of 20% for group and just below that for bank. So that is the plan and we are confident and disciplined about it.

Seyi Kumapayi
I think that there is another question from the webcast which is essentially a follow-up to my response. I think Frank is asking whether the election to P&L will not introduce volatility on the bottom line. It won't because the only time you have that is the first time you do that, the first time adoption. Subsequently you don't expect to see any significant volatility on that book. And this we have seen over the last six months once we have done this recognition. So I don't think we will see volatility.

Herbert Wigwe
Thank you. Any further questions?

Operator
We have a question…

Herbert Wigwe
I think there is one more again from the webcast. Go ahead.

Operator
It is from Wale Okunrinboye of Sigma Pensions. Please go ahead.

Wale Okunrinboye
Thank you. Good afternoon. Thank you for the call. I just have two questions. Quite a number of my questions have been answered earlier. In Q4 your interest income from loans declined. Can you give us an explanation as to what happened there? And secondly, I observed that in the CEO's shareholding in Access has come down from where they were last year. Is there any explanation as to that?

Herbert Wigwe

I heard the second one. Seyi will speak to the interest income.

Seyi Kumapayi

Okay. So there were a number of things that happened. First of all, Etisalat, so that was about ₦67 billion in terms of balances that we were carrying, of which we took a haircut. And the balance is now about ₦27 billion. So that's one. We also had a lot of pay-downs particularly from foreign currency loans that were converted given the pricing. So these were essentially paid down. A reduction in the [unclear] loan book for that period is what accounted for the drop you are seeing on interest income in loans and advances.

Herbert Wigwe

Okay. In terms of my shareholding I think for those who have followed us for the past 20 years I don't think there has been any difference. All of a sudden I started hearing questions about thresholds and all of that. So basically I had to divest of a very insignificant sum to fall within the thresholds that were determined. As you would know, some of us have a vested interest in this entity having been part of it for almost 20 years. So I want to just reassure you that it was just to ensure that no further questions should be asked as to threshold limits, even though those have remained the same for almost 20 years. Any questions?

Wale Okunrinboye

Okay.

Operator

No more questions on the conference call.

Herbert Wigwe

Thank you all so very much for joining us on this call, and we look forward to the next couple of weeks when we will be sharing with you our first quarter results and that of Diamond Bank, by which time definitely we would have started operating as one institution. Once again we thank you very much and look forward to speaking to you in about a month. Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, that concludes this conference call and you may now disconnect your lines.

END OF TRANSCRIPT