Conference Call transcript

19 December 2018

DIAMOND BANK MERGER INVESTOR CALL

Operator

Good afternoon ladies and gentlemen and welcome to the Access Bank Diamond Bank merger investor call. All participants will be in listen-only mode. There will be an opportunity 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, group Managing Director of Access Bank Plc. Please go ahead, sir.

Herbert Wigwe

Thank you very much, ladies and gentlemen. I want to thank you all again for joining us today. My name is Herbert Wigwe and I'm the group Managing Director for Access Bank Plc. I have with me today a joint team of both Diamond and Access Bank staff. With me from Diamond Bank is Mr Uzoma Dozie, who is the group CEO. We have Robert Giles who heads their retail banking business, and Mrs Chizoma Okoli [?]. From Access Bank I have Roosevelt Ogbonna, our group Deputy Managing Director. I have Adeolu Bajomo, our Executive Director in charge of Technology. I have Victor Etuokwu, our Head of Retail, and our CFO, Mr Seyi Kumapayi.

Our presentation has been hosted on the website of both Access Bank and Diamond. And I will appreciate if you can follow me through this presentation. We are here to discuss the proposed merger between Access Bank and Diamond Bank which I'm very delighted to say has now received no objection from the Central Bank of Nigeria. Whilst the transaction is still subject to shareholder and regulatory approvals we thought we should take this opportunity to provide you with further details beyond what we announced on Monday when we announced the memorandum of agreement. The merger of both institutions will create an enlarged tier one bank in Nigeria and the largest bank in Africa in terms of the number of retail customers.

In terms of the headline terms it's a combination of a cash and share deal and valued Diamond Bank at about ₦72.5 billion or the equivalent of $200 million. Diamond Bank shareholders will receive ₦1 per share in cash for the shares that they hold, and will have two Access Bank shares for every seven Diamond Bank shares, which means that in total it is about ₦3.13 per share. In terms of pro forma ownership Access Bank shareholders will own 81% of the enlarged enterprise while Diamond shareholders will have 19%.

Easily one of the things Access brings to the table is a very strong record of mergers and acquisitions. We have done this about six times over the past 15 years. We will create a joint integration committee which we have already established to basically determine the revenue, balance sheet and cost synergies. But for us until we conclude the legal merger it is business as usual with focus on customers and customer needs. But let me quickly say that Diamond Bank has also implemented IFRS 9 as far as impairment is concerned and the enlarged enterprise on a pro forma basis come 31 December 2018 will remain strongly capitalised from day one, even though we know that legal merge is going to happen sometime next year.

For Access Bank our historical capital levels have been north of 20% [?] and even without a capital raise today we have the full capacity and headroom to consummate this merger and still leave significant capital in line with what is required for international banks in Nigeria. However, to comply with international best practise and create a strong capital buffer we are just about concluding a $250 million tier two capital raise which we have started before. We have also obtained regulatory approval for a rights issue to raise up to ₦75 billion, which is about $200 million, and this will happen before the end of the first half of next year. I think we will be issuing AGM notices in the next couple of days to call for shareholders to approve of all of that. We expect that on completion at the date of legal merge the capital adequacy ratio of the combined enterprise will remain 20% as Access Bank but for the entire group will be north of 32%.

I will appreciate if you will follow me through to this agenda as we go through today's call, and also let you know that we will be carrying out more calls in the next weeks and months to keep you informed of the progress we are making. In terms of the key highlights and terms I think I've already shared that with you, but the merger is subject to obtaining full shareholder which requires a 75% majority of those voting at the court ordered meeting. So we will having court ordered meetings to achieve shareholder approvals sometime in March followed by court approvals and of course the panel regulatory approvals to come in by the end of May next year. So technically this whole merger should be concluded before the end of the first half of next year.

Let's talk about the compelling rationale for this deal. For those who know Access Bank we have created and built a strong wholesale business with very significant market share across most corporates. We have also built a very strong value chain proposition which we have continuously pursued in growing our retail base. We have built a strong digital banking business through the creation of a digital banking division which is growing significantly. However, Diamond Bank has an unparalleled retail proposition which would take our proposition to the last mile with very low cost of funds in the retail space. If we take our combined digital propositions to all our 12 countries this will create a phenomenally exciting opportunity for all customers or potential customers of Access Bank.

The combined entity will create a very extensive versified bank with low cost of funds and very extensive retail reach in Nigeria. We are confident we will be able to achieve this because we have a previous track more than any other Nigerian bank as far as M&A is concerned that will be value accretive. And finally, just like Diamond Bank for those who are familiar with both institutions we actively support women banking, financial inclusion and sustainably. Putting these two institutions together that have built very strong credentials along these verticals you can imagine what that means to the entire retail space. Our cultural space and our value system are very much aligned. I will allow Uzoma to make a few words as far as this combination is concerned.

Uzoma Dozie
Thank you Herbert. At Diamond we are rightly proud of our digital and mobile expertise across our 19 million customers we have more than 13 million mobile users and our digital offerings are really among the best in Nigeria. As many of you would have heard me say before, the change in consumer and lifestyle trends in Nigeria and Africa more broadly demands a strong digital and mobile proposition. Diamond is in full alignment with this and has been at the forefront of this industry innovation. This will prove extremely valuable to the combined entity going forward. The combined operation will also have relationships with both MTN, Airtel and other FinTech organisations, ensuring that together we can do more to include the marginal and financially excluded Nigerians who cannot access a bank branch.

Those 19 million customers also bring with them around ₦1 trillion in low-cost retail liabilities which will drive some of the balance sheet synergies that we will come to talk about later. Over the last four years our digital transactions have grown from around 70% to almost 90% of all our transactions. Before I end I would also add that in terms of the combination both we and Access Bank use the same technology platforms. From a customer point of view the integration will be seamless and the convenient and accessible digital experiences they have come to expect from Diamond Bank will continue unchanged. In fact, they will be enhanced through much more touch points. So for me the synergies and value creation opportunities are clear, which is why I'm really delighted to be here today presenting with Herbert.

Herbert Wigwe
If we go on to the next slide which talks about the creation of a leading tier one banking franchise in Nigeria, which is slide six, that slide basically looks at various indices to see how both banks perform. For Access Bank we are easily the top three or worst case top four irrespective of the metrics. And when we combine this with Diamond Bank even on a pro forma basis we will be a very significant tier one banking franchise across all metrics. Now, combining the wholesale franchise with a leading retail franchise then you see a bank that is relevant to every person and every business in Nigeria.

We want to build on our track records of financial inclusion and reach even more of the Nigerian unbanked. Diamond's retail or indeed digital and mobile capabilities will be extremely instrumental in achieving this goal. At the other end of the spectrum, which is the wholesale end, in fact it will enable us to become much more relevant to most of the large corporates and international corporates that exist in Nigeria. Today we have well over 100 of those corporates where we already have significant market share. The sheer scale of this merger will enable us to compete much more strongly with full service international banks operating within and outside our region.

In terms of our delivery of value to various key stakeholders this transaction is one that will create value for customers, for staff, for shareholders and regulators. The scale that it will bring will enable us to invest further in customer experience, digital platforms and various forms of artificial intelligence. Our treasury, corporate and risk management expertise deeply complements Diamond Bank's retail and SME focus. There will be significant synergy opportunities created by applying our value chain approach to Diamond Bank's existing 19 million strong customer base. Begin to think of some of the cross-selling that can exist when we use our payday loan products and Diamond Bank's other products that have to do with payday loans to the entire enlarged customer base, which will be about 29 million customers.

You will also see synergies from integration and consolidation, things that have to do with headquarters, IT, [unclear] and branches as we've already explained. Our experienced integration team will work alongside Diamond Bank staff to plan every aspect of the integration to achieve the synergies. The merger enables us to build a mass market presence as well, reaching out to about 45% of the banked market in Nigeria and also reach further to most of the unbanked, leveraging off the strong relationships we have with the existing telecoms companies in Nigeria.

For our customers there are several touch points as Uzoma mentioned. We would have more than 500 branches. We would have more than 33,000 POS terminals. We would have more than 3,300 ATMs and so on and so forth. So technically our customers would be able to reach us through several touch points more than they have ever done before. For staff, which is important, they would be part of creating a great future and creating a major tier one institution with a large international reach. And of course we will draw on the diverse talent of the two institutions to successfully plan this large enterprise. There will be new career opportunities particularly for colleagues coming from Diamond Bank because of the large scale of the institution that has already been created by Access Bank.

The other aspects or synergies that derive can be seen from a revenue standpoint, from balance sheet as well as from the cost standpoint. Now, as far as revenue is concerned you will see significant transmission income coming from just pay and receipt and 29 million customers without taking additional credit risk. Now, when you leverage off some credit facilities that come from salary-based loans etc. you begin to see the yield that comes therefrom. There are other things that can be pulled out through on the revenue end in terms of executing better and better on the large customer base.

With respect to the balance sheet I don't need to say much about this because I think by the time you have put Diamond Bank's strong retail base, strong low-cost retail on what we have – even though it's getting better – we find that our cost of funds will be at par at the minimum with most of our comparator institutions and therefore would begin to bring us significant revenue. Our expectation is that on the cost side we will see synergies that amount to at least ₦30 billion per year over the next three years, and they will be driven by IT consolidation, integration of support functions, centralisation of group functions, just the shared benefits of scale and all of that. I think we will be creating a very interesting and exciting platform for the future. This platform would basically allow us to bring banking to millions and millions of customers in Nigeria. We are 200 million strong as a people. There is so much room for banking the unbanked. With the technology base that we find coming from Diamond we think that that would create the ability to reach several more people than most of our competition. Uzoma.

Uzoma Dozie
Thank you Herbert. As you and I have discussed over the last few days we share a passion for supporting Nigeria's youth and internal talent as well as the commitment to financial inclusion. This combination creates the platform that will enables us to do that even better, and reach more people than ever before, and drive greater economic prosperity in this country and beyond. If you combine that with the commercial benefits you have set out so clearly I am convinced that it is the right combination

and it is a positive development for all stakeholders associated with both banks. Fundamentally the combination of two strong and admired brands with shared values and complementary strengths will be a strong source for positive change in the Nigerian and African retail landscape. The merger marks an exciting new chapter and I'm really encouraged by the opportunities that lie ahead.

Herbert Wigwe
Thank you. I think the final slide, which is basically slide ten, would speak to the time table with respect to integration. Let me just say that we are doing this in the first half of next year. We have created an implementation steering committee, established under my leadership, and have employed people across both businesses to lead the integration as well as the planning. Every aspect of the two businesses from branding to products and from distribution to risk management will be considered. We will bring the best of both banks together in a way that benefits the customer and provides the best opportunity for future growth. We will align our processes so that we can retain our focus on compliance, risk management as well as capital efficiency.

Let me add or summarise by saying that there are huge cost synergies that come out of this merger, and that it is basically earning accretive by nature of the deal that we are doing, and it would have Diamond Bank shareholders join Access Bank shareholders to be part of this exciting growth journey. For us as you all know it is all part of our five year plan, and this is a very big step towards becoming Africa's gateway to the world. Thank you very much. We will now take questions which will be answered by the combined team.

Operator
Thank you very much sir. Ladies and gentlemen, at this time if you would like to ask a question you are welcome to press star then one on your touchtone phone and that will place you in the question queue. If you however decide to withdraw the question you are welcome to press star then two on your touchtone phone to remove yourself from the question queue. Just a reminder, should you wish to ask a question you are welcome to press star and then one. The first question comes from Tolu Alamutu of Exotix Capital.

Tolu Alamutu
Good afternoon and thank you very much for hosting the presentation today. I have a few questions please. The first is on the tier two capital raise that you mentioned. Can you maybe tell us a little bit more about that? Is that coming from an IFI or similar institution, or is that going to come from the market please? The second question is about the Access Bank subordinated bond. Mr Wigwe and Mr Kumapayi very helpfully said on the previous call that the bond would be called. I just wanted to confirm that that was the case or if things have changed.

The third question is also about capital. Obviously you're announcing that you're going to be doing a rights issue next year at some point. I just wanted to know whether that means that there are still some concerns about large potential problem assets as well, or whether you expect any of those concerns to be dealt with when Diamond Bank takes additional impairments in its FY2018 results. And any detail that Diamond Bank can give on the size of those impairments would be extremely helpful please. And then the final question, if I may, is on the Diamond Bank UK sale. Any update that you can give on the timing and also on the potential proceeds from that would be really appreciated. Thank you.

Herbert Wigwe
Thank you. We would like to answer the questions one after the other so that we can give you sufficient clarity. I think with respect to the tier two capital raising we've pretty much finalised it for drawdown end of January or early February in 2019. And it is coming from DFIs. So it is specifically a deal that has been put together with various development financial institutions. Just like we mentioned in the last call the bond which is callable end of June next year will be called because there is no value in keeping it beyond that period. With respect to the rights issue let me put this in perspective. This merger can be consummated without additional capital. However, as a CP [?] and given how we've operated over time if you've seen our capital adequacy levels consistently, particularly because we are in a developing market, we tend to ensure that it is north of 20%.

We feel the need to create additional capital buffers to support us in this project. However, it was already part of our five year strategic plan. All that has happened is that we have had to fast-track all of this. Now we have obtained board approval early in 2018 for it, but we are thinking about doing it a bit later, not this year, perhaps early next year. But it was exactly part of our five-year strategic corporate plan. Now, this merger with Diamond Bank, all that the capital raising serves to achieve is to make sure that this enlarged enterprise is sufficiently robust with adequate capital to ensure that it is competitive across the different markets in which we choose to operate. I would like Uzoma to speak to what we consider the potential size of impairments and well as the sale of Diamond Bank UK.

Uzoma Dozie
Thank you Herbert. The easy one first, the sale of Diamond Bank UK. We have identified a willing buyer and we are going through the process of change of control. The regulator, the PRA, already has the documents and it's a matter of days before hopefully we get positive approval. And in terms of the outlook from there we are looking at about $14 million in capital and liquidity in excess of about $200 million when that deal is finally consummated with the buyer. On the impairments, as Herbert said in the presentation we have taken impairments by the year end and we are looking at around ₦150 billion to ₦180 billion.

Herbert Wigwe
So basically the critical question which is around what happens to the bad loan assets of Diamond, what Uzoma is confirming is that it will pretty much bet written off at the end of the year, 2018. Next question please.

Operator
Tolu, does that answer all your questions?

Tolu Alamutu
Yes. Thank you very much.

Operator

Thank you very much. The next question comes from Olamipo Ogunsanya of Renaissance Capital.

Ola Ogunsanya
Good afternoon and thank you for this presentation. My first question is really seeking some more clarity on your overall transaction [unclear]. And I ask this because it seems a bit rushed. So it would be interesting to know if there were any bidders and how Access was selected as the preferred bidder. Was it based largely on price or are there other factors at play? My second question is what the management team would look like. At the board level also will Diamond Bank have any representation? Thirdly, I would just like to understand the rationale for announcing a rights issue after issuing a significant number of shares for this merger transaction. I know Herbert said something about the pro forma capital adequacy ratio being 20% which doesn't sound right. On our numbers the best case capital adequacy ratio will be 16% if you don't factor in the new capital raise. So if you could just give a bit more clarity on that.

And considering Uzoma's comment on a potential ₦150 billion to ₦180 billion write-off, don't you think that the price for this transaction was then a bit steep if you're likely to see that sort of impairment come through by the end of the year? And my final question is on… I hear you regarding all the synergies of this transaction, but why should we believe that it would take Access to the next level? Yes, your previous transactions achieved that target, but in terms of profitability you haven't outperformed your peers that haven't necessarily followed that merger and acquisition track. So what makes this transaction different from your previous transactions? Those are all my questions for now. Thank you.

Herbert Wigwe
I will let Uzoma speak to the process, and then perhaps the management team, and then my team, and then I will basically speak to all the other issues around rights issue, pro forma CA and all of that.

Uzoma Dozie
Thank you Ola. So I think the capitalisation process began a long time ago and we as management hired some advisors to give us options as to the best track for stakeholders. And I think we ended up at either looking at raising capital through a rights issue or looking at possible combinations. We went through a process that was approved by the board, and I think we looked at capital raise. We appointed two advisors to look at a capital raise and look at combinations. And we short-listed banks that we felt might be complementary to Diamond Bank and therefore results in maximum stakeholder value. And we had offers or bids from both local and international. And in considering Access Bank it was a combination of what was good for stakeholders from a customer perspective, from staffing, shareholders, but also what would be good for the final entity. And I think as Herbert has presented here the combination of Diamond and Access presents a great platform for not only economic prosperity on multiple levels but also across Africa. I think the synergies that we have identified will justify the work that we're going to go through to make this a successful entity. Thank you.

Herbert Wigwe
Well, in terms of management team we are combining the best of both institutions. Diamond has shown very strong leadership from a retail standpoint. So they will feature very prominently as far as our retail business is concerned. So we are basically combining talents. In areas where they have very strong

people we will bring them to basically lead in those aspects of the business. Now, before we do our final approval in principle we will come up with a proper org structure which will show where different people will be. And that is basically about one week from today. So no definitive statement can be made apart from the fact that because they have shown very strong capabilities you will see them feature very strongly as far as retail is concerned. I would like Roosevelt to speak to our rights issue as well as our pro forma capital adequacy ratio and all of that.

Roosevelt Ogbonna
All right. Thank you very much. I think for those of you who have followed the Access story from 2002 at the start we boasted about trying to create a Swiss banking model. And essentially if you understand a Swiss banking model it is around significant liquidity, even if it comes at some cost, and significant capital buffers. We have several times in the course of our life since 2002 kept a capital adequacy ratio north of 26%. In more recent terms we have kept CAR of 22% and above. If you look at our nine month financial performance review as at September of this year we had a CAR of 20.1%. You would agree that is far in excess of the regulatory threshold and well in line with our own internal guidance that we have shared with the market several times.

The idea about raising the rights issue was well embedded in the bank's five years strategic plan as Herbert shared earlier on. If you look at our five years strategic plan 2018 to 2022 it is no different from a capital perspective. Looking at the other strategic plans we have given we clearly articulated that we would have a capital adequacy north of 20% and we would have significant growth within the five year plan. So the capital, both debt and equity, that we are raising was to execute the bank's strategic plan as well articulated in our five year plan. So for those of you who have followed us closely we had shareholder approval for debt instruments which included mezzanine tier two capital and different variants in 2017. In 2018 we got the board's approval for a tier one capital raise which was meant to be done as a rights issue, no different from what we did in our last five year strategic plan. So this is on course towards accommodating the growth that we anticipate in our next five year strategy as well as showing that we have significant buffers as an institution.

You raised the question around pro forma post deal and Herbert's point that we will have a CAR of 20% and above. If you want the details we cans hare those with you. You can always reach Seyi Kumapayi who can provide the details. And on the back of that if you still think there are issues we are very willing to sit and take a call with you. But at least we have done our numbers and we are very keen to share that with you as well.

Herbert Wigwe
Okay. Your final comment had to do with synergies. And your question that we have basically not shown that in previous years, I will speak to that. Perhaps I will speak to the issue around non-performing loans you spoke about with respect to Diamond. At the time we were doing the transaction pricing our view was the fact that at least within public domain and all of that the bad loan book is probably about ₦180 billion. Now, it is true that in most mergers that figure may not be exactly accurate. Perhaps it will be ₦20 billion, maybe it is ₦220 billion. Under any circumstance I think we will be able to accommodate it because the whole loan book is not bad and they still have the retail loan book, most of which is performing.

Let me come to the issue around the synergies. Since we came into Access Bank in 2002 we have never made a commitment to the market that we did not keep in terms of performance. Our five year corporate strategic plan showed us transforming from number 64 in 2002 to becoming one of the top ten banks by 2007. It was achieved. The one which came after 2007 to 2012, we came to the market and we shared the projections, basically where we were going to get to and that we wanted to become one of the top five banks in the country. And we achieved it. We achieved it in terms of size. We achieved it in terms of profitability and all of that. The last corporate strategic plan which ended 31st December 2017 we said we were going to be one of the top three banks in this country. We achieved it on most indices. And I think the only place where it was not achieved, where we became number four, was in terms of profitability or ROE.

So I don't think it is a fair comment to say that we have not reaped the synergies of the different deals we have done. No bank our size in 2002 exists today, not one, because they just couldn't make it. Now, if you look at our returns after we did Intercontinental, Intercontinental was a totally different institution from Diamond. Diamond remains a going concern with good people, with a great value proposition, and one that we can basically take significant advantage of. Intercontinental was a junior CBN intervened bank. And what we met in Intercontinental was wholesale deposits. But in spite of that we were able to transform that institution to becoming one of the top three banks in the country. I have absolutely no doubt that our objective of getting to where we want to get to over the next five years will be achieved.

I think if there is any question that anybody can ask with respect to our growth trajectory, you just have to look at our unique history. It is one that we are extremely proud of and one that we've achieved everything we've chosen to do. The only place where you could have questions about cost management. What has happened to your cost of funds? And if there is anything that has kept us in any way, shape or form slightly behind our comparator banks – and there are just two by the way – that is what it is. This combination transforms us. It is transformational for Access Bank. It is transformational for Diamond Bank as well. But what is more important for us is what it does to our customer base, what it does for our shareholders and what it does for our country. So I think quite frankly this is a different case, and you will see the results over the period. Next question please.

Ola Ogunsanya
Thank you very much.

Operator
The next question comes from Clement Adewuyi of RMB Stockbrokers.

Clement Adewuyi
Good afternoon. Thank you for the presentation. So my first question is on the impairments you intend to take. You said you are going to take between ₦150 billion and ₦180 billion. In your presentation you mentioned that is in line with IFRS 9. First I thought you already implemented IFRS 9 earlier on in the year. And secondly, is this adequate for Access Bank? Do you think this is adequate or should we expect it [unclear] up post-merger? And if we are going to expect extrapolating [?] up post-merger from Access Bank do we expect this to be one-off or is this going to be over a period of time? My second

question is on your NPL guidance post-merger. What is your NPL guidance post-merger? Are you expecting a surge in cost of risk also post-merger or do you expect the clean up to be taken by what Diamond intends to take by full year 2018?

Then my third question is on cost of funds. From my analysis I discovered that post-merger your CASA mix should improve to 65%. But this still lags your peer average of over 70%. So what is the strategy now? How do you intend to achieve a more favourable CASA mix going forward? What is your target cost of funds also post-merger? How significant is the expected improvement in your cost of funds post this merger? Then also my last question is on operational efficiency. Looking at the track record of Access Bank and Diamond Bank, Diamond Bank cost to income ratio has been around 70%. Access Bank has been around 65%. These are extreme when you compare it to the industry standards. So what are your targets? What do you intend to work it down towards and what are your concrete strategies you have to achieve this? And how long do you expect also for this to happen? Thank you.

Herbert Wigwe
Thank you. Lots of questions. I will let Jobome deal with most of the risk issues and then I will allow Mr Kumapayi to deal with the CASA mix, cost of funds implication as well as the operating efficiency cost measures.

Greg Jobome
Thank you Herbert. As has been shared by Uzoma we are looking at ₦150 billion to ₦180 billion in additional impairments, and this on the back of an IFRS 9 that has been completed by Diamond Bank. Of course as part of our due diligence we did have access to those stagings, stage one, stage two and stage three. And that has given us some comfort because we have seen the top 100 names in terms of their exposures. It is a relatively concentrated book because the top 100 names make up a very big chunk of the book. Therefore we had visibility of that. Like Herbert said earlier on, even if it stretches up to ₦200 billion on further review, at the end of the day the important thing is that we have the action steps to begin the resolution processes, potential for recovery, potential for write-offs between now and June because the actual legal merger doesn't happen until June 30th. So that figure we are going to get a lot closer to in terms of visibility but also resolution will come well before the June 30th position. So ₦150 billion to ₦180 billion by year end, and after year end potential for even further resolutions. So by the time we conclude the merger it will be an even position to be in.

You also asked about post-merger guidance with respect to NPL and cost of risk. What I would say about that for now is that of course there is a full year audit coming up for both institutions by the end of this year. By the end of January, early February we will have a clearer view with respect to our forward guidance. For NPL ratio for standalone Access Bank we have always provided guidance of below 5%. Currently we are well below that. Combined there will be guidance provided by the end of the first audited position following this discussion.

Then for cost of risk, for the cost of risk you can then build in what is going to be done now as well as what is going to be done between January and June to get the post-merger position. So what I'm saying is that the post-merger guidance [unclear] a period of evolution over the next few weeks, probably a couple of months for better clarity. So we don't keep revising the guidance that we are giving to the market. But the standalone Access guidance stays as long-term ambitions for the group. Just like Herbert said with respect to CAR, we have always had a CAR of around 20% as our long-term goal. Now, that goal remains on the NPL side below 5%, and cost of risk we also said Access standalone that 1.5% was our guidance. Of course we now have to review that post audit post full due diligence and post-merger, so there will be further guidance to come on those.

Herbert Wigwe
Let me just add a little bit to what Greg has said. This merger is a bit different from all the others. And we are working very closely with our brothers and sisters in Diamond in terms of supporting them and letting them know the appropriate strategies towards a recovery of some of the bad loans which they have. Some of those loans may not necessarily have been bad, but [unclear] management and all. But also the deployment of the appropriate legal infrastructure for recovery is one in which we are basically helping to provide assistance. The whole idea is that the earlier recoveries can be made in spite of the provisions that have been taken to make sure that the emergent enterprise will be stronger and show stronger better NPL ratios the better it is for all of us.

As you know this is not the second or third time we have done a deal like this, so we are very conscious of the various prudential ratios and what it means to shareholders. And so we know even from a static standpoint you have seen the implication and what it means in terms of NPL ratios and we are taking the appropriate steps even now to support them in terms of their recovery mechanisms. I will allow Mr Seyi Kumapayi to speak to issues around post-merger CASA composition as well as cost of funds and then speak to the issues around operational efficiency.

Seyi Kumapayi
Thank you Herbert. I think I will start with the operational efficiency. If you look at Diamond Bank costs year on year they have been flat. And even in 2018 Access Bank's cost has dropped by 6% now. What you see on the Diamond Bank side is earnings per share is leading to an elevated cost to income ratio. So from a cost perspective it actually has been flat. Now, going into post-merger we have a lot of... Herbert shared some of what we are going to do on the synergies. So there is a synergy on cost. Headquarter rationalisation, support function consolidation. So we looked at those numbers and we believe that post the merger going into 2020 the cost to income ratio will start to drop to below 60% and then about 55%. So clearly we see significant synergies that would bring down our cost to income ratio and increase our operational efficiency.

Now, in terms of cost of funding, yes, you are correct. The mix comes up at 65/35 post-merger if you just do the analysis right away. For us on our own we have started to bring down our cost of funding. For Access Bank we are going to close the year at 5.2% actual from about 6.3% that we started with. So there is a lot of work being done here as well as the very strong positive deposit mix in Diamond Bank. So the plan is that we are going to see this cost of funds come to below 4% going into 2020.

Herbert Wigwe
Thank you. Next question.

Operator

The next question comes from Tunde Abidoye of FBN Quest.

Tunde Abidoye
Good afternoon gentlemen. Thank you for hosting the call. I have a couple of questions. I know you have spoken on your synergies, but I just want to get an idea of your revenue synergies. I know you mentioned in the presentation that you are still estimating them, but can you just give us an indication of the size of the synergies that you expect? That's the first point. Secondly, given the extent of the premium how long do you expect that will take for you to realise this premium? And the third one, what are the potential risks that you see in the implementation process in terms of customer losses and what steps are you taking to mitigate this risk? That is all for now. Thank you.

Herbert Wigwe
Okay. Speaking about synergies, it would be unfair for me to give you a signal right now with respect to revenue synergies. It is that straightforward. The implementation committee is determining the exact figure. All we know is that we have 27 million customers that we can optimise. The obvious one that anybody sees is what it does to your cost of funds. But there are several layers of different cross-selling. I don't want to give you a figure that you are going to hold me to right away. But let me just simply put it this way. How long do we think we're going to take to recover that premium? That premium comes from the result of what we see as the synergies that can exist between both institutions etc. and the fact that they are now going to become an integral part of the enlarged Access Bank. But I can tell you that the cost synergies – we are not talking about [unclear] synergies, we are talking about real synergies instantly – that you see on the cost side are ₦30 billion every year for the next three years. I don't want to give a revenue figure that you would start holding me to right now, but suffice to say that we are fully aware of the burden that I think [unclear] mentioned earlier to support the large shareholder base and the enlarged shares in issue before we went ahead to do this deal.

Are there potential risks? Like in everything there are. There are people risks. But we have gone through this process several times and we are engaging people much better than we ever did both on our side and on the Diamond Bank side. Fortunately we have had people who have worked for both institutions who are using institutional memory and relationships to make sure that staff properly get into the spirit of the things we intend to achieve. There is talk about lay-offs and all of that, which is actually in our view just the social media making its rounds. We are keeping and combining the best of both worlds and using the talent and optimising them to make sure that we get staff to perform at their very best. So that would have been the first risk. Obviously once you engage staff properly you will find that engagement of customers we will not keep it static. The whole idea is that before legal merge we actually get the savings accounts of Diamond up as well as those of Access on a standalone basis so that it is accretive from day one.

The other potential risk that most people will raise would be technology. But we use exactly the same technology platform, so I think an integration from a technology standpoint will be easier than most. And we have the same people who have worked here and Diamond on both sides of the divide. So I don't think it is going to be an issue. Customer experience is important. We are going to make sure that even the refreshed brand combines the strong element of Diamond's retail business with Access to ensure that customer experience and emotional connect to the brand is kept alive. Those are the critical points. Culture is an issue. We are engaging people a lot better than ever before, and I think for the first time in terms of how we reach out to our people on both sides, the town hall meetings that are probably going on, we will be able to [unclear] better than we have ever done it before. Next question.

Operator
Thank you. The next question comes from Ola Warikoru of Stanbic IBTC.

Ola Warikoru
Hello. Thank you for the presentation. I have a couple of questions. My first question is regarding the synergies that have been discussed. So evidently there is what we see in terms of market share, but then in terms of integration it is always a different ball game. And given Access' history in previous deals such as the Intercontinental I just wanted to ask if you can share possible best practises that would be applied into this new combination as well as things that didn't work that would be looked at closely going forward looking at Diamond Bank. My second question was regards the retail franchise of Diamond. Currently it appears to be really strongly linked to the brand. How does Access plan to deal with this?

Also in terms of the overlap that might occur with branches and the roles of some of the staff I just wanted to ask are there any pre-approvals given by the regulators? In the recent past some banks have complained while they have been trying to optimise their branches they haven't been given approvals to close down certain branches. So I just wanted to get clarity on if that's something that can be discussed now. Then I see the combination statistics for number of customers that the combined entity would have. I just wanted to ask based on the current 36 million how much of that currently are active customers? Thank you.

Herbert Wigwe
Okay, thank you. With respect to synergies you heard the issues around market share and all of that. I was extremely careful to answer questions around revenue synergies because I didn't want to be held to it. But the cost synergies, which like you said in real life could be different, came to about ₦30 billion. But let me tell you some of the things that have happened from a best practise standpoint at a time like this and what we really need to watch out for. The first are operational risks. Every merger irrespective of the people being combined comes with its own pain to people. And the heightened risks of fraud and all that do exist. What we have done is that our MOA specifies clearly how we would embed both Access and Diamond in the various operational areas of high risk to make sure that that risk is mitigated. That is number one. Number two, we mentioned the fact that Diamond is basically taking significant shifts to make sure it clears up the bad loan portfolio. Our sense is that generally from a recovery standpoint you could see about 30% recovery generally. That is the kind of thing you see. Now, by the time you take away the cost of those recoveries you probably receive around 25%.

Thirdly, culture evolves over time. We refer to those practises as things that people are used to doing and just their mode of operations. What we have to do is spend a lot of time in terms of our town hall meetings with people to ensure that most of them get to share the values that we typically want to keep. Now, in reality you could find a situation where some people who are too emotionally connected to the brand decide that they don't want to stay. What is important is to make sure that you create the enabling environment to train people in line with the expected culture and treat people fairly and with respect. And over time you win the minds and souls of most people. That is basically how it happens.

Now, in terms of the retail franchise you are absolutely right. It is strongly tied to the Diamond brand. And that was why I mentioned the fact that we will be extremely careful with respect to the evolving brand. We will create focus groups of both Access and Diamond to make sure that the new refreshed brand is one that appeals both to Access customers and Diamond Bank customers today. But now more than ever before is a time for our people to stand up in front of the customers so that the customers actually don't take a decision to leave. And by the time we find both Access and Diamond working together in our various locations, even before legal merger supporting themselves, that is the best way to retain and actually grow market share from a customer standpoint.

Let me tell you about branch overlaps and what we learnt in Intercontinental. You would be totally shocked at the relationships between branches from a connectivity standpoint. A branch in [unclear] can be so close to Sagamu. I think if we go to close the branch in Sagamu you would be totally shocked what it means to your overall liability profile as an institution. We are not rushing to close branches. But Diamond have already taken a decision based on deep analytics as to what is required and what will not be required, because they have been able to move most of their customers onto their mobile platform. What we will do is test it against our own branches and decide which is redundant and which we intend to keep, and determine what the optimal number of branches may be. I know that you may be talking about overlaps on the same streets and all of that. We will merge gradually over time so that our customers do not vote with their legs, take their liabilities and leave. It is a gradual process to make sure that you get the minds and souls of the customers internally before you shut down specific branches, except those side branches that cannot carry their costs. So that is basically how it would work.

Now, you mentioned about the combination and number of active customers. Now, it's a bit difficult depending on the parameters you use to determine customer activity. In some places it is 30 days. In some places it is 90 days etc. But let me just give you the sheer scale of the dimensions we are looking at. Out of Diamond Bank's customer base there is about 8 million to 10 million that come in through the arrangement with MTN and can be optimised. And the reason they have not been optimised is that they do not currently do not have VBNs [?]. One of the first things we are doing is to ensure that all of those customers are VBN enabled. By so doing you shoot up the overall number of active customers by 8 million to 10 million fresh customers. So I think for me what is important is the fact that even if we took it on a bare bones basis we will have the largest number of active customers in the market. But in terms of the potential even more. It dwarfs most other institutions on the continent. Thank you. Next question.

Operator
The next question comes from Sam Epee-Bounya of Wellington Management. Hello Sam. Your line is open. You can ask your question. We are not getting any response from Sam. We will go on to the next question which comes from Gbolahan Ologunro from CSL Stockbrokers.

Gbolahan Ologunro

Thank you very much for holding this conference call. I have a couple of questions. The first is as regards Diamond Bank. You have a Eurobond maturing in 2019 of $200 million. Considering the fact that you also intend to take additional impairments of about ₦150 billion to ₦180 billion what would the main source of FX liquidity be to settle that maturing Eurobond? And my second question would be looking at the major positions on the board now can you give an idea of the percentage of seats that Diamond Bank directors are likely to have in the combined entity?

Herbert Wigwe
Okay. I would like Uzoma to respond to the issue around the 2019 Eurobond and repaying that bond before the conclusion of the merger.

Uzoma Dozie
Well, before the conclusion of the merger I believe that's why Herbert and I are sitting here together. Even if we were doing it on a standalone basis we are expecting the sale of DBUK and the liquidity that would come from there. But beyond that we also have made provision for the liquidation of that Eurobond. So that would not be a problem at all.

Herbert Wigwe
Thank you. And on board positions I would suggest, Gbolahan, that you wait until you see the organogram and see those who are going to play respective roles in whatever position. There is an MOA but we have our own governance practise in terms of how we allocate board seats. It has nothing to do with shareholding but the values that anyone can contribute to the group board. Next question please.

Operator
The next question comes from Paul Wallace of Bloomberg.

Paul Wallace
Hi. I missed the first part of the presentation, so sorry if this has already been covered. I was just wondering, Uzoma, what your position will be in the combined entity. Are you going to stay there? There have been a lot of rumours in the press saying that you will leave once the takeover is complete. Could you just say what will happen to you? And if you are staying at the combined bank what will your role be? Thank you.

Uzoma Dozie
I don't know what I will be doing, but I know that I will be an ambassador of the entity and possibly a shareholder as well.

Herbert Wigwe
Thank you. Next question.

Operator
The next question comes from Kato Mukuru of EFG Hermes.

Kato Mukuru
Hello everybody. Thank you for this presentation. Herbert, congratulations. I remember seeing you about ten years' ago when you were just getting into tier two category, and now you've done it. You've got the biggest bank in Nigeria. So congratulations to you. Uzoma, my question to you – to both of you – on this transaction is when I first saw it and I saw the valuation of a third of book for Diamond Bank I thought Access got a good deal. But now on this call I'm hearing that there is an additional ₦150 billion to ₦180 billion of provisions. Just after you had published your third quarter figures which stated clearly that you had ₦100 billion of NPLs, where did the additional ₦150 billion to ₦180 billion come from? And if there were additional ₦150 billion to ₦180 billion of NPLs why was there no communication to the market that those figures published in the third quarter numbers were woefully incorrect? Because the idea is one has to wonder as an Access Bank shareholder why we should support the buying of a bank that misstated its numbers so woefully. You know, it's actually shocking.

The second thing I'd like to ask is what was the process, because from my understanding the board did not have two independent members at Diamond Bank? Nor did you have a Chairman at the time of making the agreement to go ahead and do this merger. How is that possible that the board felt it had a sufficient quorum to make such a very important decision if independents were not represented and the Chairman was not present? And again I would like to go back to your role in the new entity because I think it must be clarified. What is that role? And more importantly, as a board member representing Kunoch Holdings I would like to ask you very clearly now, does Kunoch Holdings have a loan out from Access Bank, and what is the status of that loan? I have many more questions but I would really like to start there.

Uzoma Dozie
Thank you very much. I think you talked about the loan book moving from ₦100 billion to ₦150 billion. As you know the new guidance came out from central bank on IFRS 9 which is what we have applied, and that is why you see these figures. And that guidance came between September and December. Now, on governance…

Kato Mukuru
You had already made adjustments.

Uzoma Dozie
We hadn't.

Kato Mukuru
I find that amazing. Everybody has made adjustments for IFRS 9 at the beginning of this year. How can IFRS 9 more than double your NPLs in less than a month? What are these NPLs? How could ₦150 billion to ₦180 billion just happen over a two month period? And I'm worried that… [Overtalking]. Sorry.

Herbert Wigwe
Kato, let me just step in here. Maybe I can help to provide some clarity. I think if you want further details with respect to the NPLs it is something that you can basically take offline and you will get all the details. I think the objective of this call is to show transparently what the numbers are, where we are

headed and all of that. And we have done our due diligence. We have seen what the numbers can be or where they are right now. Obviously no due diligence covers everything. We have built up enough slack for potential NPLs perhaps if they were not fully covered by Diamond. The agreement clearly is that all the write-offs with respect to the potential bad loans will be taken by 31st December 2018 and whatever is outstanding will be taken if we find out by the end of business before the legal merge.

Now, obviously the loan book of Diamond in a gross sense is about ₦700 billion. If we are seeing apart from that which they have taken before that there are additional impairments of ₦150 billion to ₦180 billion there is only so much more that can go bad if you like. But our own experience from what we saw came from different names that are being better and better managed. The retail institution still had exposures to great names in Nigeria like Dangote and like MTN. we can go on and on. So it does have a good part of the portfolio. But what is important to us is how we deal with all of this going into the combined entity to make sure that we have enough capital and we take care of what the bad loan probably is and make sure that the recoveries happen either next year or once the process is concluded. On our own part you asked why… [Overtalking].

Kato Mukuru
Thank you very much for that. You do agree therefore that the numbers published for minority shareholders in the third quarter numbers were a misrepresentation of what was going on. And this is what really hurts. We rely on the management publishing, as you have always done, Herbert, your NPLs to your utmost honest ability. But for somebody to say that all of a sudden our NPLs are more than half my book, that is over half his book. You had ₦100 billion and now you're adding almost another ₦200 billion. [Overtalking].

Herbert Wigwe
I understand your concern, Kato, with respect to the numbers you saw on Diamond. But let me just quickly say that we respect your view, but let's focus on the transaction and the outcome of due diligence. I think that is what is important. We understand your viewpoint. But what has happened subsequently is what is critical. We have done the due diligence. We have seen what the numbers look like. We have subjected the institution to some stress and come up with a number. So that has formed the basis of our transaction and the capital adequacy ratio which we have shared with you. And we still have a capital adequacy ratio for group which is north of 20%. I understand what you feel and how you think about the results of the third quarter published by Diamond, but I think it's a new beginning and I think this combination is going to portend much greater potential than you have always known. You have probably been a shareholder… [Overtalking].

Uzoma Dozie
Kato, with respect to the board I think we had a newly appointed [unclear] committee whose job was to look and advise and recommend to the board on our capital options. We also by regulation we had a board that was fully functional. According to CAMA you can elect your Chairman amongst equals, which was done. I think we went through all necessary process. We had no objection by the central bank which reflects that we went through the appropriate proceedings. And we will go to all the other regulatory bodies to get necessary approvals to conduct this exercise.

Herbert Wigwe
Let me tell you what… [Overtalking]. Let me tell you what we have seen and what is important particularly on our own side and all of that. There was a process that was followed and there were several institutions that came up in the process, a very rigorous process. There was appropriate governance as far as the different bids were concerned. Everybody had to make a decision with respect to information that was shared and the due diligence. We basically used the best of advisors, local and international. We used [unclear] Bank out of London. We used Chapel Hill out of Nigeria. Diamond hired international financial advisors, Exotix, to ensure that international best practise was followed to determine the ultimate final outcome. Now, Uzoma has answered the question with respect to the board, but as far as we are concerned the process that led to the determination of where we are today was a proper process properly sanctioned by the relevant parties that ought to have been involved. Thank you very much, Kato. Next question.

Kato Mukuru
My last question wasn't answered on Kunoch Holdings. Is there a loan?

Herbert Wigwe
I want to make it very clear, abundantly clear. There is absolutely zero conflict. I have had this thing several times by different people in the media and I think it is absolutely [unclear]. It is privileged information that I can't share with the public, but let me say that there is nothing significant in terms of any type of exposure from Kunoch or any related institution to Kunoch in Access Bank. Just to make it very clear.

Kato Mukuru
No, no, that is not my question. My question was does Access have a loan to Kunoch, not does Kunoch have an investment in Access. No, I'm not suggesting that. [Overtalking].

Herbert Wigwe
That is the point I'm making. Let me repeat. I don't know where you are coming from, but let me make the point again for you. There is absolutely no conflict in terms of any exposure of Access to Kunoch. Access have had relationships with Kunoch in the past, but totally and absolutely insignificant. If you listen, absolutely insignificant. Not in any way, shape or form near what we are talking about. So there is no basis to think that there is any form of conflict or there is any significant loan, even a loan that runs into billions. There is no such thing. There is no such significant exposure of any sort from Kunoch to Access Bank.

Kato Mukuru
Okay.

Herbert Wigwe
I hope that answers it. Next question please.

Operator
The next question comes from Michael Oloyede [?] of Stanbic IBTC Pensions.

Michael Oloyede
Hello. Good afternoon and thank you very much for taking my questions. I have a couple of questions. I will start with how long the due diligence took before the transaction was agreed upon. Because I remember like a month or so ago both companies issued a denial that there was no such ongoing talks. [Inaudible segment]. So I wanted to find out whether discussions before the denials were issued or did the discussions start after the denials were issued. My second question is, what are the lessons that were learnt from the prior merger with Intercontinental and how would that apply in this new combination? My third question is on ROE guidance. After the acquisition of Intercontinental the ROE in my opinion hasn't gone as expected and the dividend growth has basically been flat or even declining. So what is your take on how [unclear].

My next question is for your synergies you said ₦30 billion of cost synergies. I wanted to find out if you could give more colour on that. And the second point is, what is the viability of those synergies being realised? Would you put a 100% probability to it? Would you say it is 10% probability? My other question is what is your guidance on the integration cost of merging both entities? And then my next question goes to Uzoma. When will Diamond Bank's board… The four independent directors that resigned, will they be replaced or will the board be incomplete if I may use that term until the merger is concluded? My next question goes to the same question that Kato raised. We are concerned here too because we are minority shareholders. If I state the value of my investment to be ₦1 and then somebody pays 3 kobo it implies that maybe something is not very accurate. A bit more colour on that. Thank you very much.

Herbert Wigwe
Okay. All right, Michael, let me start with respect to the discussions and all of the things that happened a couple of weeks ago. First of all is there an international best practise with respect to how long a process should take in terms of determination of whether you have a preferred bidder or not. The answer is no. But there is best practise with respect to governance, with respect to disclosures and all of that. And there is an appropriate time to make a disclosure. I think the issue around the disclosure, it was done at the appropriate time. Let me just share with you in real life how sometimes these things happen. If you take Access Bank's case for instance, in 2003 we were doing – as we always do every year – an environmental scan where we basically see what could happen in our marketplace. For instance today the telecoms have been given a banking license. What happens if you have a telecoms company combined with a bank? What happens if you have a FinTech institution combined with for instance a tier two bank? What happens if there is a combination of a tier one and a tier two bank? What happens if a foreign institution comes and buys a tier two bank?

So several combinations are done. And you continue to look and ask yourself where you fit in, how you play and how you redefine your market. Now, that happens consistently for everybody. Now, in the hands of the wrong person people can say, oh, we are contemplating a merger with any particular enterprise, which may not even truly be the case. Now, if you have two institutions that have similar values eventually they begin to speak to each other. Nothing truly has happened yet until you have approval by their respective boards and an agreement of some sort is reached. If people see you talking to another institution and go and break some news – oh, there is a merger discussion happening – obviously nothing has happened. And it is an embarrassing situation and institutions must basically respond to all of that. Now, once you reach a valid point where you need to share permission because it is material, and you need to disclose, and you are signing a document, there is best practise. And that is the point at which for instance we have made that disclosure early this week. So that deals with that point.

Michael Oloyede

Can I comment on that point? My response to that would be yes, I understand the need to control the information flow. But my take on that also is that remember that the market moves on information and every day people are buying and selling the shares. The fact that the release of that information that has come to the market, you denied it in a statement. People are also going to trade on that information. And that can cause… that increases the risk of what happens in the market. Someone might know something… [Overtalking].

Herbert Wigwe

That is a very… Correct. Let me answer that question straight up. That is a very unfair way to look at it because there was more than one institution that actually was talking to Diamond Bank if you want to know. If the market felt, oh, people are looking at Diamond Bank and are doing their own combinations people would say they think the most probable given the probability. It is not my fault because truly there was nothing formal between ourselves and Diamond Bank at that particular point in time. There were several institutions. There were at least three or four different institutions who have engaged Diamond Bank, or perhaps even in the course of this rigorous exercise actually put in their bids for Diamonds Bank. So it is nothing that you can hold any of us responsible for.

But let me go to the other issues. In terms of the lessons from Intercontinental, there are several. One had to do with the fact that the branch closures were done too quickly without understanding of the linkages. But perhaps it was expeditious to do it because we had to manage costs very quickly at that particular point in time. So yes, it is a lesson, but if we were to do it we would do it again in the same way, because I don’t know what we would be telling shareholders about in terms of paying dividends and all of that if we hadn’t closed those branches to minimise the costs. Now, in terms of return on equity let me put it simply. If you look at the Nigerian banking industry you may complain about exactly where we are today, and the simple reason comes from the cost of operations, largely our cost of funding strategy. But everybody is going through almost the same amount of pain.

The difference in our own case was because of our late entry into the retail space which ought to have been used to reduce our overall cost of funds, which is basically what Seyi was speaking to earlier on, which is what we are addressing. If you look at Nigerian banks again in the course of this year and you look at their ROEs definitely we would be number three or number four. Now, obviously you cannot compare us to merchant banks who are a very small scale and all of that. But in terms of banks of similar type of business that is where you will find us. But we will pull out the synergies in this particular case. We will make sure it remains very profitable. We will make sure that we stand out in the same manner which we have managed ourselves over the past several years.

In terms of integration costs I will allow Seyi to speak to that in terms of giving you some dimension, but let me put it very simply actually. I cannot right now tell you what that figure would be because we may have a pro forma number, but I don't think it is right to put it in the public domain just yet. The whole idea is that we don't want to miscommunicate so that people don't claim that we've shared with them information which we are not able to abide by. But let me put it a bit differently. We have investor calls early next year. People will see. We will share with the public the way we have done transparently for the past 16 years. You will see what the numbers would be, and we will go after those numbers. Now, the valuation methodology was one of the issues we spoke about. There are different ways in which it could have been done. Diamond brings with it a significant level of low-cost liabilities. What that does to the emerging enterprise and the synergy of both institutions is why we are doing it.

Michael Oloyede
Hello, my question was not about the valuation methodology. My question was about the fact that I have an investment in Diamond Bank at ₦1 book value, and they sold at 0.33x the value. From my perspective that is a significant write-down as a minority shareholder. That is the angle I am coming from, not from the valuation side.

Herbert Wigwe
I cannot tell you how the market has valued your particular instrument on that day. All we know is that from a retail standpoint we can work with those fundamentals. But we have to do an appropriate valuation based on several things for this combination. I cannot tell you several institutions are trading at 0.4x book, 0.3x book etc. None of us can answer that question. But the market trades on information. The market trades on external issues etc. So that's basically what it is.

Michael Oloyede
[Inaudible segment].

Uzoma Dozie
You've got the book value. The book value question, we engaged international advisors, paid good money for them to give us the valuation of our stock and what we would get in the current market conditions. And they came up with a range that was fair and possible. And I think that we got a price that was good for all stakeholders. I think there was a clear process. And also it creates an opportunity for existing shareholders as well to gain from the upside of the new entity that we are talking about here that shows a lot of promise. And on your comment about incomplete board, the board was very complete when it went through all the processes that it went through. So there was no incompleteness. And as and when due we will either add more if it is appropriate board members to the governance of the organisation.

Herbert Wigwe
Okay. Next question.

Operator
The next question comes from Ruda Mazuri [?] of FMO.

Gerhard Van Kampen
Good afternoon. It's actually Gerhard Van Kampen from FMO. Two questions. First of all, thanks Herbert and Uzoma, to be on this call. Already I think a lot of information has been shared with those attending the call and extremely informative. My two questions actually are related. One, in my experience there is no such thing like a walk in the park when it comes to a merger or acquisition. Now, we are very well aware obviously of the track record of Access Bank in its growth strategy. I would be very much interested to hear from you apart from all the confidence that you have in doing this successfully what the three main risks are that you were running by consummating the merger as announced. You have already alluded to Intercon as the benchmark. That was a bank that in essence had stopped trading after being set aside by AMCON, whereas here we are dealing with a large and well-known institution that is trading as a bank. So that is a different circumstance altogether if you ask me. Where will you be hurt in the process?

Two, and related to that – and I'm happy to hear that Uzoma is on the call – from the little that I know there seems to be a fairly strong allegiance by the clients of Diamond Bank with the founders of the institution particularly from the background where the bank originated in the south-east of Nigeria. I have heard from Uzoma saying 'I will be acting as an ambassador in the process', and that's fine. But really I would like to hear some more flesh on the bones how actually all of you would see the process of keeping clients on board throughout the process again particularly as it is a live bank still as we speak. Thanks.

Herbert Wigwe
Okay. Gerhard, I want to see if I could understand your question. You mentioned that there is no such thing as a walk in the park in mergers. You are absolutely correct, and each merger is different from the other. We have done this not once, not twice, not three times. But three critical risks, first of all you have people and culture, you have operational risks, and I think the next I would just mention would be technology. I think all of it can be captured in here. Now, what we are doing very early on in this particular transaction is to engage people more and more. There are about 13 different segments that need to be engaged. One are people, two, customers, three, other stakeholders like investors – which we are doing right now – four, the media, regulators, I could go on and on. But about 13 work streams as we speak just in these different segments.

Now, with respect to people, when we set up the integration committee we will be looking at specific items and people from the two institutions. By the way, people is separate from culture because it is a different work stream to handle all of that to ensure there is a culture integration in the process. Now, in the case of Intercontinental we attempted to do it. It was not done in this particular manner because the circumstance was very different. So we are addressing Diamond right now. We are speaking to them and getting involved. They are understanding the intentions. And I think if anything from the feedback I get just walking with Uzoma, speaking with people and having town hall meetings with Diamonds, it is basically allaying most of their fears. If that is not done early enough what you tend to see is that people will leave the institution, customer engagement will be weak and all of that. So we are getting them to actually stand right in front of the customers right now to ensure that we don't see any value diminution. Rather we start to see value accretion coming from increased customer base, increased deposit base and all of that very early in all of this.

Now, the operational risks obviously all mergers come with their own fear of change in terms of people, increased and heightened fraud etc. One of the things we have agreed very early is to have people seconded from Access to work with their colleagues in Diamond in areas of risk compliance and operations. That way we can ensure that we can manage and curtail the possibility of any type of risks coming from fraud and things like that out there. The third is technology. We will also have counterparts working out there apart from the straight work streams, partnering with them to ensure from the viewpoint of cyber security and the potential things that can come from there that we actually strengthen all of that to ensure that we protect the franchise.

I already spoke to issues around branches and the science around keeping or closing branches earlier on. But we have got so much better at that. Fortunately Diamond has very strong analytics as to what branches they planned to close before this whole arrangement came into play. What we need to do is look at what is complementary and what is the overall customer base and activity before we actually close those that we ought to close even before we merge. So that is basically it. Now, with respect to the issue around technology like I said, we share the same platforms and all of that. So we have our own people working with them in terms of strengthening security around the technology platforms. But from an integration standpoint this is going to be easier than we have ever done before. When we did Intercontinental the versions of FLEXCUBE that were being used were fundamentally different, almost no resemblance to the other. So you could have the same as two separate technologies even though they were from the same vendors. But in this particular case we basically will keep it.

Now, Uzoma will speak a bit later with respect to is ambassadorial role as he put it. But a question was raised earlier on with respect to affinity to the Diamond Brand particularly by people in the east. Let me tell you one of the things we have learnt over time. The larger the ecosystem that supports a merger the better it is. And so ensuring that all the stakeholders, all the large shareholders on all sides – and this we have done from the beginning of the very first merger that we did in 2003, and we will keep doing it until now – that we keep retaining them and using them in those markets in terms of interacting with customers, and understanding that what is being done is not just to keep the Diamond Bank brand but a refreshed brand that combines the strength of both institutions. So the branding will be key so that customers in the east or wherever who are Diamond Bank customers will continue to see the bank as theirs. We are going to create a focus group and also utilise the services of the people who have worked in creating Diamond Bank's brand as well as our own to sit down and come up with a refreshed look that captures the essence of both institutions. Thank you very much. Next question.

Operator
The next question comes from Emmanuel Adeleke of ARM Investment Managers.

Emmanuel Adeleke
Thanks for the presentation. I have just one question. In terms of the synergy we have seen CASA deposits for Diamond Bank declined by about ₦250 billion year on year. Can you shed light on this? And also have you factored a further decline following the news of the merger? Thank you.

Herbert Wigwe

We didn't hear your question. Can you repeat it if you don't mind?

Emmanuel Adeleke
Okay. In terms of the synergies we have seen CASA deposits for Diamond Bank decline by about ₦250 billion year on year. Can you shed light on this? And also have you factored the possibility of a further decline in the bank's deposits following the news of the merger?

Herbert Wigwe
Are you talking about deposit decline?

Emmanuel Adeleke
Yes. Yes.

Uzoma Dozie
Oh, deposit decline. I think we have two types of deposits, high cost and low cost. If you break that down we saw significant declines in our fixed deposits and high-cost funds, where we saw growth in our retail deposits. So if you look at the share of high-cost funds to low-cost funds in the last 12 months you will see that although total deposits might have declined the deposit mix is where we want it to be where we have a higher proportion of low-cost funds which means that our cost of funds has come down. So our cost of funds basically stays flat through the period despite the pressure on yields during that period.

Emmanuel Adeleke
Sorry, from my numbers I can see that CASA as a share has declined from about 83% last year to 70% now. In terms of the deposits also I have seen the CASA deposits have declined about ₦250 billion year on year now.

Uzoma Dozie
I didn't hear that question well. Sorry. You might need to speak up if you don't mind.

Emmanuel Adeleke
In terms of the cheap deposits…

Uzoma Dozie
You may need to speak up because we are struggling to hear you. [Background chat].

Operator
Emmanuel, it would help for you to speak a bit slower and closer into your microphone please. Thank you.

Emmanuel Adeleke
Can you hear me now?

Operator

It has improved. Please go ahead.

Uzoma Dozie
Yes. Sorry. In the last 12 months we have paid down $700 million equivalent of TSA and that is what is primarily responsible for the drop in CASA. But business as usual funding has grown.

Herbert Wigwe
Okay. I think if you have any more questions please feel free to reach out to us, because I can see several questions coming up on the webcast and it is appropriate for us to address those questions. But most of those questions have to do with the price to book and more importantly the process through which approvals will be governed for this merger to be consummated. Let me just say that first of all it's a three stage process. The central bank has given us no objection. We still need to go through extraordinary general meetings, court ordered meetings where shareholders will have a right to vote as to whether this deal can go through. And what is required is 75% of shareholders present and voting for it to happen.

There is a question with respect to valuation and looking at the price to book. The merger was done at ₦3.15. Well, there is the market price and there is also an expert valuation at which a deal could have been closed. Most banks are not trading even at 1x the price to book. So that was basically an industry issue and they were advised by their own advisors, we had ours, and a valuation process was gone through to determine what value we could put on the institution. Now, it would not have changed the outcome as far as I'm concerned, because at the end of the day remember that there is an exchange ratio and you are working with another institution. So if a price was determined the same methodology would also have been used. In the case of Access we had to use the market price to determine what the exchange ratio would be.

Ladies and gentlemen, I know that there wouldn't be enough time for us to keep answering all these questions, but we remain open. Our investor relations teams in Access and Diamond as well as our CFOs are available to continue to provide additional information particularly with respect to things like synergies, which has become very topical, to give people reasonable comfort. I think that brings us to the end of what is almost a two hour call, or at least a one and a half hours call. We thank you all for dialling in to this investor call. We will keep you abreast and have several more calls between now and the date of legal merge. Once again thank you very much, and we look forward to your support for this transaction. Thank you.

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

END OF TRANSCRIPT