Agusto & Co

2013 Bank Rating Report

ACCESS BANK PLC

RATING

ACCESS BANK PLC

Rating assigned: A

Outlook: Stable

Issue date: 19 June 2013

Expiry date: 30 June 2014

Previous rating: "A-"

ANALYSTS

Edward Olajide
edwardolajide@agusto.com

Yinka Adelekan
yinkaadelekan@agusto.com

UBA House (5th Floor)
57 Marina.
+234 1 2707222-4

RATING RATIONALE

Agusto & Co. hereby upgrades the rating of Access Bank Plc ("the Bank" or "Access Bank") to **"A"**. The upgrade is supported by Access Bank's good capitalization, improved asset quality, good liquidity position and funding capability. The rating is also upheld by the Bank's experienced management team and improved market share. However, Agusto & Co. has also taken into cognizance the thinning margins in the corporate market space (Access Bank's niche area) which is likely to threaten earnings sustainability and lapses in risk management, evidenced by regulatory infractions by the Bank.

As at 31 December 2012, Access Bank's balance sheet footing stood at ₦1.7 trillion on account of consolidation with Intercontinental Bank Plc (ICB) in October 2011. This propelled the Bank to the fifth largest in Nigeria on the basis of total assets and contingents. However, loan growth was moderate at 15% during the year, largely reflecting the Bank's cautious approach to lending as it gains systemic importance in the industry. The level of impaired credits has also declined to 4% of gross loans, compared to 8% in the prior year. In our opinion, the Bank's loan portfolio exhibits some degree of obligor concentration, which has a potential to raise the level of impaired credits.

The ability of the Bank to withstand externalities is good, as evidenced by its adjusted capital to risk-weighted assets ratio of 20%. This is above the regulatory minimum of 15% for an international commercial bank. When subjected to our stress test, this ratio stood at 16%. We believe Access Bank's capital is good for its current business risk.

Access Bank's liquidity and funding profiles are, in our opinion, good. Funding ability has been strengthened by an enlarged branch network following consolidation with ICB. This has availed Access Bank an opportunity to increase its pool of low-cost deposits. In the year under review, local currency deposits (excluding interbank takings) grew by 129% to ₦910 billion. Deposits adequately funded the loan book and Access Bank's liquidity ratio stood at 69% as at year-end 2012, well above the regulatory minimum of 30%. Access Bank is active in the Nigerian money market and has good access to long-term funding from foreign financial institutions.

In line with its peers in the Nigerian banking industry, Access Bank's profitability improved supported by activities in its Commercial Banking Unit. In the year under review, The Bank's pre-tax return on average equity (ROE) improved to 17.4% (2011: 6.6%). Though we expect profitability to remain good, we note that pricing pressures in the corporate segment could temper growth. We also believe that declining yields in the money market is likely to impact earnings in the short term.

In our opinion, Access Bank is yet to fully exploit the synergistic advantages of the merger with ICB. We believe that the increased branch network gained from ICB should lead to a diversified deposit base, which should aid reduction in funding costs, as well as widen its client base for asset creation. In addition, we are of the opinion that Access Bank needs to adhere strictly to risk management policies of the enlarged entity. Nonetheless, on account of the Bank's improved asset quality, good capitalization and funding capabilities, we hereby upgrade the rating of Access Bank to **"A"**

Strengths

- Good liquidity
- Good capitalization
- Enhanced distribution network & client base

Weakness

- Obligor concentration in the loan book

Challenges

- Sustaining earnings in current market conditions
- Compliance with risk management framework

FINANCIAL DATA	December 2012	December 2011
Total assets & contingents	₦ 1.69 trillion	₦ 1.01trillion
Total local currency deposits (excluding interbank takings)	₦ 909.9 billion	₦ 397.3 billion
Net earnings	₦ 110 billion	₦ 52 billion
Pre-tax return on average assets & contingents	2.7%	1.3%
Pre-tax return on average equity (ROE)	17.4%	6.6%

Directors		Shareholding (%)
• Gbenga Oyebode	*(Chairman)*	0.68*(Direct & Indirect)*
• Aigboje Aig-Imoukhuede	*(Group Managing Director)*	3.27 *(Direct & Indirect)*
• Herbert Wigwe	*(Group Deputy Managing Director)*	3.27 *(Direct & Indirect)*
• Obeahon Ohiwerei	*(Executive)*	0.13 *(Direct & Indirect)*
• Taukeme Koroye	*(Executive)*	0.09
• Okey Nwuke	*(Executive)*	0.14
• Ebenezer Olufowose	*(Executive)*	0.12
• Victor Etuokwu	*(Executive)*	0.03
• Cosmas Maduka (*ret. 18 Dec. 2012)*		1.80 *(Direct & Indirect)*
• Oritsedere Otubu		0.16 *(Direct & Indirect)*
• Babatunde Folawiyo		0.62
• Mosunmola Belo-Olusoga		0.01
• Anthonia Ogunmefun		Nil
• Emmanuel Chiejina		0.03
• Ernest Ndukwe *(app. 18 Jan. 2013)*	*(Independent)*	Nil
• Mahmoud Isa-Dutse		0.01
		10.37

Significant Shareholders

Blakeney GP	6.45
*Stanbic Nominees Nigeria Limited	26.03

* Held indirectly by the company in its capacity as custodian of the underlying shares for various investors. Stanbic Nominees holds no beneficial interest in the said shares.

Management Team

Mr. Aigboje Aig-Imoukhuede is the Group Managing Director of Access Bank Plc. His banking career spans two decades covering his tenure at Access Bank Plc and Guaranty Trust Bank Plc, where he rose to the position of Executive Director. He became the Managing Director of Access Bank in March 2002. Mr. Aig-Imoukhuede holds a Law degree from the University of Benin, Edo State and was called to the Nigerian Bar in 1987. He is an alumnus of the Harvard Business School Executive Management Programme. He has also attended several other business schools and institutes including the Citicorp Institute of Finance and IMD Lausanne, Switzerland. He is a Honorary Fellow and Council Member of the Chartered Institute of Bankers of Nigeria.

Mr. Herbert Wigwe joined Access Bank in March 2002 as the Deputy Managing Director. Prior to joining the Bank, he worked with Guaranty Trust Bank Plc, where he rose to the position of Executive Director. During his tenure at Guaranty Trust Bank, he was responsible for the commercial and corporate banking business segments. He holds a B.Sc. in Accountancy from the University of Nigeria, Nsukka. He also holds a Masters degree in Banking & International Finance from the University College of North Wales and a Masters degree in Financial Economics from the University of London. Mr. Wigwe is an alumnus of Harvard Business School and a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN).

Other members of the senior management team are:

Okey Nwuke	Executive Director - Institutional Banking Group
Ebenezer Olufowose	Executive Director - Investment Banking Group
Taukeme Koroye	Executive Director - Operations & Technology
Obeahon Ohiwerei	Executive Director - Commercial Banking Group
Victor Etuokwu	Executive Director - Personal Banking

BANK PROFILE

Access Bank Plc was incorporated in Nigeria as a private limited liability company in February 1989, and began operations in May of the same year. Access Bank became a public company in March 1998, whereupon its shares were listed on the Nigerian Stock Exchange (NSE) in November 1998. The Bank was granted a universal banking license by the Central Bank of Nigeria (CBN) in February 2001. However, in line with the 2011 CBN guidelines on the "Scope of Banking Activities', Access Bank has opted to continue operations under an international commercial banking license.

Access Bank's growth since 2005 has been both organic and inorganic. In October 2005, Access Bank acquired Marina Bank Limited (a small-sized merchant bank) and Capital Bank Limited (a mid-sized commercial bank) to shore up capital in line with regulatory requirements. In October 2011, Access also acquired a 75% controlling stake in Intercontinental Bank Plc (ICB), a larger but predominantly retail focused bank. The acquisition propelled Access Bank into the top tier segment of the Nigerian banking industry, with one of the highest market shares of total assets and contingents, deposits and branch network.

As at 31 December 2012, Access Bank had 73 foreign institutional and 992 individual investors and 841,385 domestic investors listed on the register of shareholders. Ownership is well diversified, with one custodian (Stanbic Nominees Limited) holding 26% of shares on behalf of various investors and Blakeney GP (6.45%) disclosed as the largest investors. The custodian holds no beneficial interest in these shares.

Access Bank's 15 member board of directors comprises 7 executive and 8 non-executive directors. In the year ended 31 December 2012, Mr. Victor Etuokwu (formerly a General Manager) was appointed an Executive Director (ED) in charge of Transaction Service and Information Technology Division; he is currently ED, Personal Banking. The Board also appointed Dr. Ernest Ndukwe as a non-executive independent director. Dr. Ndukwe is an Electrical/Electronics Engineer, with over 36 years experience in the Telecommunications Industry. He was the Chief Executive Officer of the Nigerian Communications Commission ("NCC") between 2000 and 2010. He is a graduate of the University of Ife and an alumnus of Lagos Business School. Dr. Ndukwe is also on the faculty of the Lagos Business School, where he heads the Centre for Infrastructure Policy, Regulation and Advancement. Members of the board control (directly & indirectly) 10.4% of Access Bank's equity.

Business structure and strategy

Access Bank has a large customer base. The Bank caters to individuals, commercial companies, large & medium sized corporates and multinationals. Access Bank's service offerings include current and deposit accounts, electronic banking services, trade finance, foreign exchange services and loans. The Bank's borrowing clients are predominantly from the upper-middle and top tiers of various economic sectors.

Access Bank's medium term goal is to be one of Nigeria's three largest banks. To achieve this goal, management intends to further strengthen its retail activities as a means of supporting corporate and commercial banking activities. Access intends to deepen its relationships with corporates by exploiting opportunities down the value chain, as well as leverage ICB's foothold in the retail segment to grow market share.

Access Bank's corporate office is located at Plot 999c, Danmole Street, Victoria Island, Lagos. Operations are organised into four core business divisions (Institutional Banking, Commercial, Retail and Financial Markets Divisions), which are overseen by members of the senior management team.

Subsidiaries & Associates

As at 31 December 2012, Access Bank had ten banking and nine non-banking subsidiaries located in nine African countries (including Nigeria), as well as the United Kingdom. However, as at same date, nine of these subsidiaries (see table overleaf) were at an advanced stage of liquidation. Access Bank has indicated that its holdings in Access Bank Cote D'Ivoire, Access Bank Congo, Access Bank Zambia, Access Bank Sierra Leone, Access Bank Gambia and Finbank Burundi will be diluted, while management intends to retain Access Ghana, Access Rwanda and Access Bank as wholly-owned subsidiaries.

Access Bank also has two associate companies - Associated Discount House Limited (38%) and Magnate Technology and Services Limited (40%).

BANK PROFILE CONT'D

Table 1: Subsidiaries

Subsidiary	Designation	Ownership Stake	Status
Access Bank Ghana	Banking Subsidiary	94%	To be retained
Access Bank Rwanda	Banking Subsidiary	75%	To be retained
Access Bank UK	Banking Subsidiary	100%	To be retained
Access Bank Congo	Banking Subsidiary	100%	Ownership to be diluted
Access Bank Zambia	Banking Subsidiary	100%	Ownership to be diluted
Access Bank Sierra Leone	Banking Subsidiary	98%	Ownership to be diluted
Access Bank Gambia	Banking Subsidiary	87%	Ownership to be diluted
Finbank Burundi	Banking Subsidiary	87%	Ownership to be diluted
Access Bank Cote D'Ivoire	Banking Subsidiary	94%	Ownership to be diluted
Intercontinental Finance & Investment Limited	Non-Banking Subsidiary	100%	Undergoing liquidation
Intercontinental Registrars Limited	Non-Banking Subsidiary	100%	Undergoing liquidation
Intercontinental Capital Markets	Non-Banking Subsidiary	63%	Undergoing liquidation
Intercontinental Securities Limited	Non-Banking Subsidiary	51%	Undergoing liquidation
Intercontinental Trustees Limited	Non-Banking Subsidiary	100%	Undergoing liquidation
Access Homes & Mortgages	Non-Banking Subsidiary	100%	Undergoing liquidation
Intercontinental Wapic Insurance Plc	Non-Banking Subsidiary	58%	Undergoing liquidation
Intercontinental Homes and Savings Loans Plc	Non-Banking Subsidiary	100%	Undergoing liquidation
Flexmore Technologies Limited	Non-Banking Subsidiary	100%	Undergoing liquidation

Information Technology

Access currently runs a core banking application (Flexcube) and several ancillary applications to support various aspects of the business. In order to ensure seamless service delivery to clients, Access Bank has migrated Intercontinental Bank's customers onto its core banking application.

Access Bank's transactions are processed on the 'Flexcube Retail 6.2' and 'Flexcube Corporate 3.4' banking applications. These applications interface with e-delivery systems that facilitate deployment of multiple delivery channels including mobile devices and the internet. The Bank relies on Access Bank Credit Portal (ACP) application for credit risk management. Other ancillary applications used by Access Bank include 'Kastle' software for treasury and market risk operations, 'Fintrack' for financial performance management, 'Flex Finance' for IFRS applications and 'Human Manager' for HR management. In addition, service delivery capabilities are enhanced by a network of 1,552 active Automated Teller Machines (ATM) and 8,480 Point of Sales (PoS) terminals distributed nationwide.

Access Bank maintains separate primary and secondary data centers in Victoria Island (Lagos), as well as a Disaster Recovery Centre (DRC) at Alausa (Lagos). The DRC is connected to the data centers via dedicated fiber links. Branches are linked to the head office and to one another through dial-up or leased lines, VSAT communication systems and radio links.

Correspondent Banks

Access Bank maintains correspondent banking relationships with: Bank of Beirut, Bank of China, BNP Paribas Paris, Byblos Bank, London, CitiBank London, CitiBank New York, CommerzBank AG, Credit Suisse AG, Danske Bank, Deutsche Bank, FBN UK, Handelssbanken Int. (Svenska), HSBC Bank, IFC, ING, J.P. Morgan, KBC Bank Belgium, Mashreq Bank, Nordea Bank, Standard Bank of South Africa, Standard Bank of South Africa, Standard Chartered Bank, London, Sumitomo Mitsui Banking Corporation Europe Limited, Access Bank UK Limited, UBS, Union Bank UK, United Bank for Africa New York, WESTLB AG, Germany and Zenith Bank (UK) Limited.

Overview of Financial Performance

As at year ended 31 December 2012, Access Bank had a balance sheet footing of ₦1.69 trillion. Capitalization ratios for Access Bank remain good, with adjusted capital to risk weighted asset ratio of 20%. Credit quality improved in the period under review, with impaired credits to gross loans ratio declining to 4% as at year-end (2011: 8.1%). The Bank also recorded improved profitability, with pre-tax return on average equity improving to 17.4% in 2012 (2011: 6.6%) and pre-tax return on average assets of 2.7%.

ANALYSTS COMMENTS

The 2012 Financial Statement of the Bank has been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

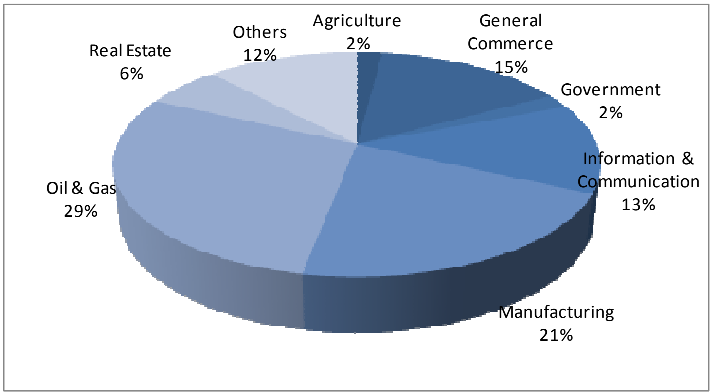
ASSET QUALITY

The 2012 statement of financial position reflects the first full year of ICB's assimilation into Access Bank Plc. Consequently, the Bank's total assets and contingents increased by a significant 67% to ₦1.7 trillion. Growth was most pronounced in the Bank's portfolio of liquid assets, with AMCON bonds increasing from ₦43 billion to ₦239 billion to reflect the impact of the delinquent assets which ICB sold to AMCON. Government securities, which includes 'held to maturity' government instruments, grew by 54% to ₦184 billion. Cash and cash equivalents grew by 147%, culminating in overall growth of 154% in liquid assets. Liquid assets accounted for 34% of total asset and contingents as at 31 December 2012 (Dec 2011: 22%). Access Bank's other key asset classes as at year-end were loans & advances (35%) and contingents (10%).

Access Bank's business and lending strategy traditionally focused on corporate and commercial market space. However, the Bank has recently deepened its relationships to the broader value chain of clients. These include individuals in various strata of the retail market from high net worth individuals to professional employees and the under-banked population. The Bank will also intensify its focus towards the Small and Medium Enterprise. Access Bank's loans comprise overdrafts, term loans, distributor credit plans, trade finance credits and note issuance facilities. During the year under review, the loan book grew by 15% to ₦591 billion, with a 78% exposure to corporate clients.

In terms of composition, the oil & gas sector accounted for 29% of the Bank's loan book, which was spread across the upstream, mid-stream and down-stream sub-segments of the industry. The manufacturing sector accounted for 21% of the loan book. This comprised exposure to various sub-segments, including food, building materials and packaging.

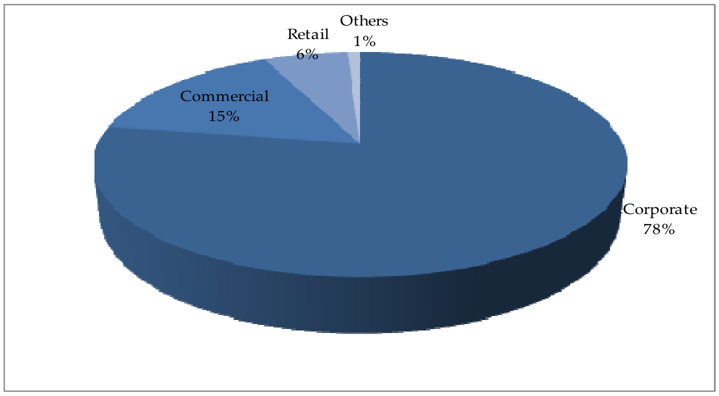
Figure 1: Distribution of loan book by sector



Obligor concentration in the loan book remained high, with the twenty largest exposures accounting for 45% of loans as at year-end. However, we recognise that this marks an improvement from prior year's 51%. We are unable to ascertain the credit quality for some of these names as at the time of this rating exercise. However, we do draw some comfort by the fact that 84% of lending is secured.

Director-related credits amounted to ₦82.6 billion, constituting 14% of Access Bank's credit portfolio and 35% of shareholders' funds. As at year-end, all insider credits were classified as performing. In 2012, Access Bank was penalized by the CBN for breaching the single obligor limit and for granting credit facilities to three directors in excess of 10% of its paid-up capital. However, we do note that one of the Board members is not a significant shareholder of any of the companies to which a substantial facility was granted.

Figure 2: Distribution of loan book by customer type

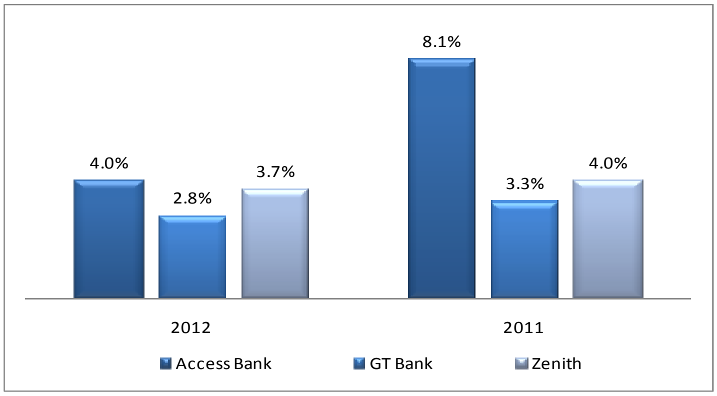


As part of its growing systemic importance to the Nigerian banking industry, Access Bank continues to strive to achieve a balance between expanding loan portfolio and growing earnings. The approach to addressing the former has been to continually evaluate its risk acceptance criteria. This has led to a gradual shift in the risk rating structure of the Bank's loan portfolio. According to internal classification over the last three years, the percentage of risky assets considered investment grade by the Bank has improved from 16% to 42%, while those considered standard grade have declined from 58% to 34%. However, non-investment grade range has moved from 26% in 2010 to 24% as at year-end 2012.

The change in the level of the Bank's risk appetite is also reflected in the level of non-performing loans. In the year under review, impaired credits declined by 43% to ₦23.9 billion to account for 4% of gross loans (2011: 8.1%). Nevertheless, this NPL ratio is higher than selected peers (see figure 3), but below our 5% recommended threshold. Credit losses for the year totalled ₦11.6 billion, translating to a charge-off ratio of 8% (2011: 25%).

ASSET QUALITY (CONT'D)

Figure 3: Non-performing loans to Total loans



Access Bank's exposures to the general commerce sector accounted for the highest incidence of loan delinquency at 30%, followed closely by Oil & Gas at 24%. In all, four sectors accounted for 81% of the Bank's impaired credits as at balance sheet date. In our opinion, continuous monitoring of loans to these sectors is important if asset quality is to remain good. As at year-end, cumulative loan provisions amounted to ₦33.3 billion, providing coverage for the entire Bank's impaired loans.

In our opinion, Access Bank's asset quality has improved significantly. The Bank has re-iterated the intention to focus on recoveries in 2013, with ₦2.94 billion so far been recovered as at 30 May 2013. As at the end of Q1 2013, Access Bank's unaudited financial statement revealed NPL to total loan ratio stood at 3.97%. Management has also pledged to place risk objectively at the centre of any credit decision, thus helping to minimize credit losses. Nevertheless, we believe the ability of the Bank to uphold the current good asset quality remains to be seen and is contingent upon adhering strictly to its own policies.

Risk Management

Access operates a centralized risk management and compliance division. Access Bank's Board Risk Management Committee and Board Credit Committee are responsible for providing risk management oversight at the board level and ensuring compliance with risk policies. Access Bank also has a Risk Management Division that sets policies, defines risk limits and provides a framework for managing risk. The division oversees internal control, as well as credit, operational, market and business risks. In 2012, the Bank added reputational risk unit in recognition of its growing systemic importance upon the acquisition of ICB. Access Bank's ERM Group is headed by a Chief Risk Officer who reports to the Group Managing Director and Board Risk Committee.

Access Bank's Enterprise Risk Management (ERM) framework spans credit, market, liquidity, interest rate, operational and other material risks. In line with ERM, Access conducts enterprise-wide stress tests based on a variety of economic scenarios to better understand the probable impact of these factors on the Bank's risk profile.

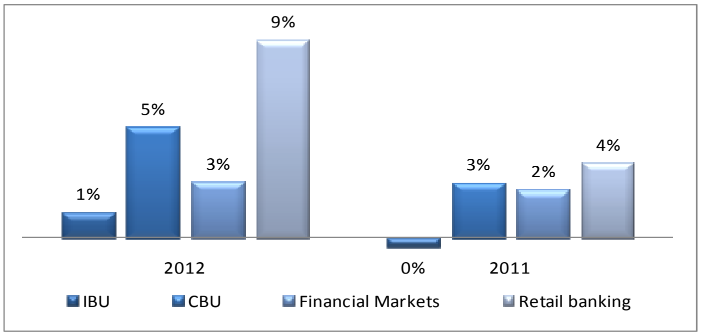
The Credit Risk Management (CRM) Group is structured along business product and stakeholder lines. Credit Risk Management now comprises 8 units: Commercial Credit Risk Management Unit and Monitoring; Institutional Credit Risk Management Unit and Monitoring; Personal and Business Banking Credit Risk Management Unit and Monitoring; Remedial Asset management Unit (subdivided into teams arranged by geography); Credit Administration and Portfolio Management; Portfolio Management Unit; Credit Risk Quality and Audit unit; and Credit Documentation and AMCON unit.

The Bank has successfully executed its integration with ICB. This has created a larger institution, with greater systemic importance in the Nigerian Banking industry. We believe that management has responded positively to this change by placing risk management at its centre of operations. We also recognize that through the creation of the Sustainability Management Committee, which evaluates industry-wide management of issues ranging from environmental to financial inclusion, Access Bank understands the impact these factors may have on business operations and financial performance. Given the business climate, it is imperative that management strictly adheres to its policies if these wide-ranging developments are to deliver their intended benefits.

EARNINGS

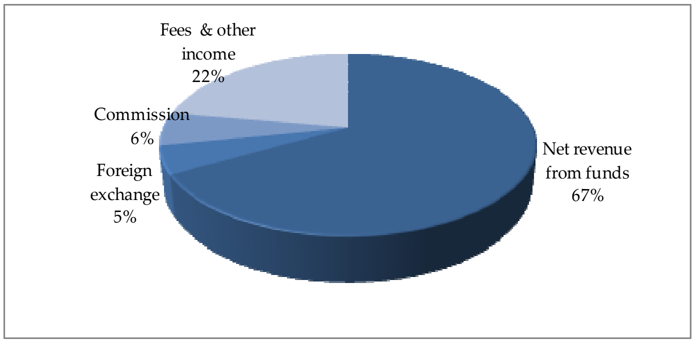
Access Bank generated net earnings of ₦110 billion in the year ending 31 December 2012. This represents a 111% growth over the prior year. Financial intermediation remains the driver of earnings, with net interest income accounting for 77% of net-earnings. Notable among the constituents of interest income was revenue from investment securities, which grew by 283%. The growth reflects the high yields on treasury bills and other government securities during the year. Among the Bank's four major strategic segments, the Retail Banking Unit (RBU) recorded the largest growth in revenue in the period under review, largely due to the acquisition of a retail-focused ICB. However, the Commercial Banking Unit (CBU) is the main driver of business, contributing 53% of revenue. The CBU provides commercial banking products and services to the non-institutional clients, medium and small corporate segments of the Nigerian market. The RBU recorded the highest return on asset over the last two years at 4% in 2011 and 9% in 2012. This was followed by the CBU with 5% in 2012, while the Institutional Banking Unit (IBU) has been the least profitable over the last two years (see figure 4).

Figure 4: Pre-tax return on assets by operating segments



The Bank's net interest margin declined from 65% in 2011 to 59% in 2012, and further reduced to 49% as at Q1 2013. We believe this reflects the Bank's high cost of funding. Management has indicated that it is addressing this issue by paying down interbank funds and aggressively focusing on growing Access Bank's share of low-cost deposits.

Figure 5: Breakdown of Net earnings



Access Bank continues to support margins with good performance from ancillary income. Commission on turnover (COT) grew by 75%, while credit related fees & other income increased by 84% to form the largest contributors to ancillary income. Income from foreign exchange trading grew by 62% during the period under review. With changes to various bank tariffs in 2013, we believe this will put added pressure on thinning margins among operators in the banking industry. However, we expect Access Bank, with its enhanced footprint to be among the banks that can better withstand this challenge.

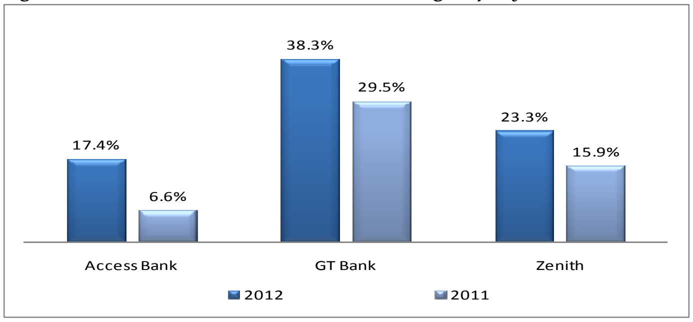
During the year under review, operating expenses amounted to ₦72.7 billion, which represents an 83% nominal growth over the prior year. Staff cost grew by 103% due to the assimilation of former ICB staff into Access Bank. Staff cost represented 38% of operating expenses in the period. Nevertheless, on account of strong earnings by the Bank, cost-to-income ratio declined to 66% at year end 2012 (2011: 76%), though it remains higher than its peers (GTBank: 41% and Zenith Bank: 55%). This ratio increased further to 70% as at Q1 2013.

Pre-tax profits amounted to ₦37 billion for the year 2012, an improvement on the ₦12.1 billion recorded in 2011. Access Bank's pre-tax return on average equity (ROE) strengthened to 17% (2011: 7%), while pre-tax return on average assets (ROA) also improved to 2.7% (2011: 1.3%).

Access Bank's profitability indicators for the year were lower than its peers. For the quarter ended 31 March 2013, Access Bank's annualised pre-tax ROE and ROA trended downwards to 14.6% and 2.2% respectively. We believe to some extent that this reflects the lower returns on government instruments, compared to last year. We expect earnings to be pressured, particularly if growth in the loan book remains subdued.

In our opinion, Access Bank's profitability is good.

Figure 6: Annualised Pre-tax Return on Average Equity



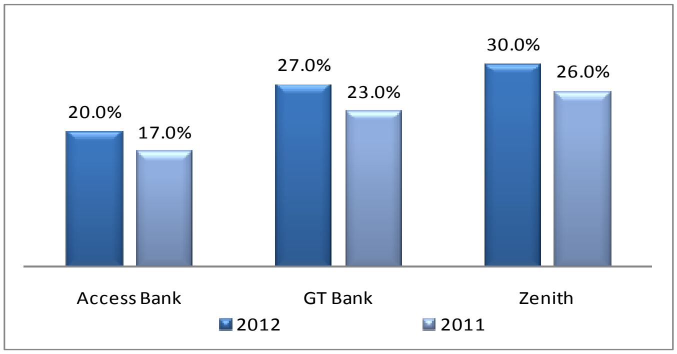
CAPITAL ADEQUACY

In 2012, Access Bank issued additional shares (1 share for every four) to Intercontinental Bank Plc's shareholders. This increased the number of issued and fully paid-up shares from 17,888,251,478 of 50k each to 22,882,919,908 of 50k each. Access Bank's ownership comprises both individual and institutional investors. As at 31 December 2012, Access Bank had 841,385 domestic investors listed on the register of shareholders.

Tier I capital amounted to ₦237.6 billion as at year end 2012, funding 14% of total assets and contingents. Retained profits grew almost 5 fold (459%) on the back of improved financial performance. Access Bank's Tier I capital accounted for 103% of adjusted capital, significantly higher than the regulatory minimum of 50%.

Access Bank's adjusted capital to risk weighted assets stood at 20%, in excess of the regulatory minimum 15% for an international bank. When we stressed capital for additional losses, this ratio remained good at 16%. In our opinion, the Bank's capitalization is adequate for business risks.

Figure 7: Adjusted capital to risk weighted assets ratio



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LIQUIDITY AND LIABILITY GENERATION

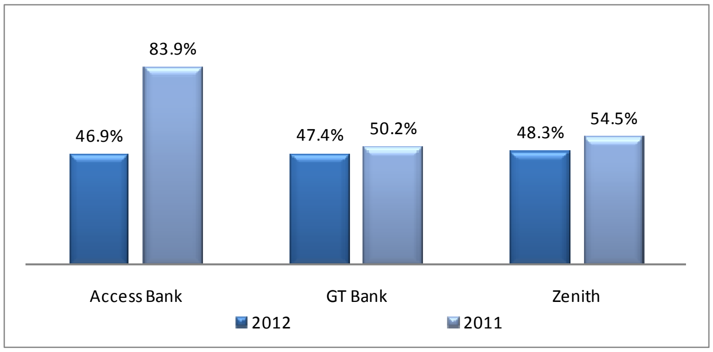
The immediate advantage of the acquisition of the much larger ICB is seen foremost in Access Bank's deposit liabilities. The combination of an aggressive deposit mobilization, as well as inheriting a strong deposit base form ICB, led to a 90% growth in local currency (LCY) deposits over the prior year. LCY deposits amounted to ₦927 billion and funded 55% of total assets & contingents. There has also been a shift in the structure of Access Bank's deposit liabilities. Historically, the Bank's deposit structure constituted largely of high-cost tenured deposits. However, this has moved in favour of low-cost demand and savings deposits, which grew by 94% to ₦678.6 billion in 2012, and jointly accounted for 74% of LCY deposits (excluding inter-bank).

In the period under review, Access Bank recorded a 92% increase in interest expense on deposits from banks. This increase has been attributed to the large inter-bank position inherited from ICB, as well as the increase in cash reserve requirement by the apex bank from 8% to 12% in a generally tight monetary policy environment. As a result, the Bank disposed some of its AMCON bonds (at a loss of ₦7.4 billion) to reduce the level of the expensive inter-bank liabilities. Weighted average cost of funds (WACF) increased from 3.8% in 2011 to 4.9% in 2012. In our opinion, the Bank's funding cost is not reflective of its size and mix as a result of high cost deposit (interbank) acquired during the merger, which Access Bank has continued to unwind.

A review of Access Bank's funding by source reveals that LCY deposits are predominantly from corporate clients, who account for 73%. However, deposits are well diversified, with the twenty largest depositors accounting for a moderate 30% of LCY funds (excluding interbank takings). A significant 52% of these top 20 deposits are volatile public sector accounts. However, Management has indicated that these deposits are largely stable as most of them are current accounts used by these parastatals to fund their operations. We derive further comfort from the fact that these public account deposits constitute a moderate portion of the overall portfolio of deposits.

Access Bank's ability to secure funding from foreign institutions remains good. As at 31 December 2012, the Bank had confirmed credit lines with 23 correspondent banks in excess of US$1.2 bil-

Figure 8: Net loans as a percentage of deposit liabilities



LIQUIDITY AND LIABILITY GENERATION (Cont'd)

lion, which are used primarily to meet clients' trade finance needs. Foreign currency borrowings, representing on-lending facilities granted by a multilateral institution and a five-year semi-annual note issued by the Bank, amounted to ₦57.8 billion. To mitigate exchange rate risk, foreign currency loans are granted strictly to clients with dollar denominated revenues or to clients who purchase hedging products from Access Bank.

Access Bank's liquidity ratio stood at 68% as at December 2012, significantly higher than the statutory minimum of 30%. Loans to deposit ratio of 51% reflects the subdued growth in the Bank's loan book, but an indication of ample headroom to grow risk assets. In our opinion, the Bank's liquidity position is good and the ability to refinance is also good.

OWNERSHIP, MANAGEMENT AND STAFF

Access Bank Plc is listed on the Nigerian Stock Exchange, with 93% of its authorized shares issued. As at 31 December 2012, the Bank's shares were held by over 800,000 investors. Stanbic Nominees, a custodian, held 26% of shares on behalf of various investors, while Blakeney GP held 6.5% equity stake in the Bank. No other entity directly controlled up to 5% of Access Bank's shareholding.

Access Bank is governed by a 15-member board, made up of eight non-executive directors and seven executives. The Board currently has one Independent director. Management has indicated that a second Independent director is currently awaiting approval from the CBN. The Board met eight times during the year in review.

The Board carries out its oversight function through four standing committees, each of which has a charter that clearly defines its purpose, composition, and structure, frequency of meetings, duties, tenure and reporting lines to the Board. These are the Board Audit Committee (BAC), Board Risk Management Committee (BRMC), Board Credit and Finance Committee (BCFC) and Board Governance and Remuneration Committee (BGRC).

Access Bank was penalized by the CBN during the year for four infractions. These include granting credit facility in excess of its single obligor limit; granting credit facilities to three directors in excess of 10% of its paid-up capital and transfer of funds to an off-shore subsidiary against CBN guideline.

Mr. Aigboje Aig-Imoukhuede is the Group Managing Director, while Mr. Herbert Wigwe is the deputy Group Managing Director. They are supported by a senior management team comprising 5 Executive Directors and 14 General Managers. In line with the CBN guideline limiting tenures of deposit money banks' Chief Executive Officers to a maximum of 10 years, Mr. Aig-Imoukhuede will cease to hold the GMD position of Access Bank by the end of the year. Pursuant to the Bank's clearly defined succession plan, Mr. Herbert Wigwe will take over the management of affairs at Access Bank. Agusto & Co. expects this transition to have minimal impact on the strategic direction or operations of Access Bank.

Access Bank's staff strength doubled to 2,896 persons (2011: 1,257 persons), which reflects the assimilation of its subsidiary, Intercontinental Bank Plc, into Access Bank. Consequently, staff productivity, as measured by net earnings per staff, declined by 9% to ₦38 million in 2012 and was lower than one of its industry peer.

Table 2: Staff productivity indicators

Indicator	Access Bank ₦'000	GT Bank ₦'000	Zenith ₦'000
Cost/Staff	9,545	7,369	6,221
Net loans/Staff	192,558	263,432	124,980
LCY deposits/staff	320,295	376,479	224,795
Net earnings/staff	37,875	56,549	28,712

OWNERSHIP, MANAGEMENT AND STAFF (cont'd)

Staff cost per employee also declined by 12%, following growth in staff numbers. We expect to see further improvements in staff productivity indicators, as the Bank deploys more technology in its service delivery.

Management recognizes that employees are integral to successfully executing the Bank's strategic objectives. To this end, Access Bank intends to significantly increase the number of entry-level candidates trained through the Access Bank School of Banking Excellence in order to improve the pool and quality of recruits. The Bank also intends to conduct refresher programs for existing staff.

In our opinion, we believe short term challenge for the Bank in the area of personnel remains the re-orientation of former ICB employees into "Access Bank culture". Management has recognized that this is an on-going facet of employee management, but we believe this will be fundamental to achieving a seamless attainment of corporate strategies, given that former ICB employees make up a third of the Bank's workforce. We believe Access Bank's management team is stable and proactive.

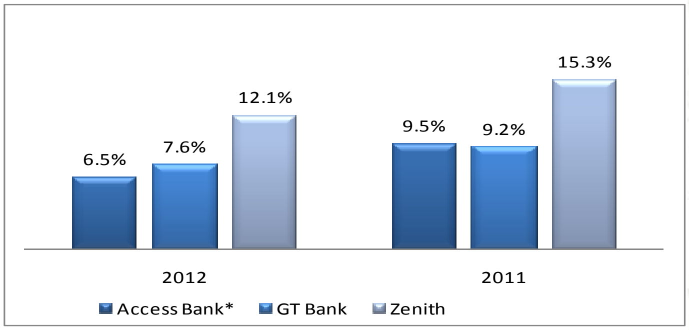
MARKET SHARE

Access Bank has emerged within the top tier banking segment as a result of its merger with ICB. As at 31 December 2012, Access Bank ranked fifth on the basis of total assets and contingents of ₦1.7 trillion. This represents an estimated 7% of the Nigerian banking industry's balance sheet footing as at same date.

The Bank's 349 branches at the end of 2012 has also availed the Bank a larger pool of deposits. Agusto & co. estimates Access Bank's market share of local currency deposits (excluding inter-bank) at 8% as at year end 2012.

We believe that the merger provides impetus for Access Bank to further grow market share given an expanded resource base. However, we do expect competition to stiffen within the Industry, which in turn has the potential to curb synergy gained through the acquisition.

Figure 9: Estimated market share of total assets and contingents



**Access Bank's market share for 2011 represents the Group's figures.*

OUTLOOK

The acquisition of ICB has given Access Bank the opportunity to become a diversified bank. Opportunities have been created both in terms of the markets in which Access Bank now has the strength to compete within and the wide range of products it can offer to customers in various segments of the economy. The Bank's enlarged branch network provides a footprint to reach across the country, while increase in low-cost deposits has provided the financial flexibility to match its competitors.

The growing competitiveness of the banking industry, security challenges in the country, regulatory risks, operational risks inherent in running a large financial services group are some of the risks likely to curb Access Bank's drive for improved margins and market share. We are relatively satisfied that management is aware of these risks, and prepared to place risk management as a driver of its strategic decisions in the short to medium term.

Agusto & Co. expects Access Bank's profitability and liquidity to remain good, while the transition of management should have minimal impact on business. Capitalization ratios are also expected to remain compliant with regulatory requirements. We believe that keeping a tight rein on asset quality will remain integral to achieving the Bank's strategic growth objectives.

We hereby attach a "**stable**" outlook to this rating.

ACCESS BANK PLC

	BALANCE SHEET AS AT	31-Dec-12		31-Dec-11	
		₦'000		₦'000	
	ASSETS				
1	Cash & equivalents	123,413,630	7.3%	49,986,886	4.9%
2	Government securities	184,332,246	10.9%	119,960,386	11.9%
3	AMCON bonds	238,833,801	14.1%	43,319,854	4.3%
4	Quoted investments	29,304,080	1.7%	13,759,009	1.4%
5	Placements with discount houses				
6	LIQUID ASSETS	575,883,757	34.1%	227,026,135	22.4%
7	BALANCES WITH NIGERIAN BANKS	66,311,886	3.9%	35,782,236	3.5%
8	BALANCES WITH BANKS OUTSIDE NIGERIA	687,665	0.0%	18,536,179	1.8%
9	Direct loans and advances - Gross	590,960,753	35.0%	513,048,138	50.7%
10	Less: Cumulative loan loss provision	(33,314,034)	-2.0%	(21,394,872)	-2.1%
11	Direct loans & advances - net	557,646,719	33.0%	491,653,266	48.6%
12	Advances under finance leases - net				
13	TOTAL LOANS & LEASES - NET	557,646,719	33.0%	491,653,266	48.6%
14	INTEREST RECEIVABLE				
15	OTHER ASSETS	47,247,409	2.8%	9,627,613	1.0%
16	DEFERRED LOSSES	7,007,387	0.4%		
17	RESTRICTED FUNDS	107,833,227	6.4%	33,391,194	3.3%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES	45,190,496	2.7%	80,400,287	7.9%
19	OTHER LONG-TERM INVESTMENTS	46,667,957	2.8%	34,776,507	3.4%
20	FIXED ASSETS & INTANGIBLES	61,277,960	3.6%	18,188,680	1.8%
21	**TOTAL ASSETS**	**1,515,754,463**	**89.8%**	**949,382,097**	**93.8%**
22	TOTAL CONTINGENT ASSETS	172,985,515	10.2%	62,274,335	6.2%
23	**TOTAL ASSETS & CONTINGENTS**	**1,688,739,978**	**100%**	**1,011,656,432**	**100%**
	CAPITAL & LIABILITIES				
24	TIER 1 CAPITAL (CORE CAPITAL)	237,624,211	14.1%	187,037,078	18.5%
25	TIER 2 CAPITAL				
26	MEDIUM TO LONG TERM BORROWINGS	95,594,904	5.7%	29,243,818	2.9%
27	Demand deposits	537,042,807	31.8%	329,829,483	32.6%
28	Savings deposits	141,564,258	8.4%	19,861,471	2.0%
29	Time deposits	231,276,094	13.7%	47,611,439	4.7%
30	Inter-bank takings	17,689,951	1.0%	91,470,543	9.0%
31	TOTAL DEPOSIT LIABILITIES - LCY	927,573,110	54.9%	488,772,936	48.3%
32	Customers' foreign currency balances	215,607,736	12.8%	192,106,198	19.0%
33	TOTAL DEPOSIT LIABILITIES	1,143,180,846	67.7%	680,879,134	67.3%
34	INTEREST PAYABLE				
35	OTHER LIABILITIES	39,354,502	2.3%	52,222,067	5.2%
36	**TOTAL CAPITAL & LIABILITIES**	**1,515,754,463**	**89.8%**	**949,382,097**	**93.8%**
37	TOTAL CONTINGENT LIABILITIES	172,985,515	10.2%	62,274,335	6.2%
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**1,688,739,978**	**100%**	**1,011,656,432**	**100%**
	Proof				
	BREAKDOWN OF CONTINGENTS				
39	Acceptances & direct credit substitutes	172,985,515	10.2%	62,274,335	6.2%
40	Guarantees, bonds etc..				
41	Short-term self liquidating contingencies				

ACCESS BANK PLC

	INCOME STATEMENT FOR THE YEAR ENDED	31-Dec-12		31-Dec-11	
		₦'000		₦'000	
42	Interest income	144,421,360	79.9%	78,190,414	79.4%
43	Interest expense	(59,424,878)	-32.9%	(27,444,955)	-27.9%
44	Loan loss expense	(11,616,078)	-6.4%	(19,155,497)	-19.4%
45	NET REVENUE FROM FUNDS	73,380,404	40.6%	31,589,962	32.1%
46	ALL OTHER INCOME	36,304,490	20.1%	20,327,647	20.6%
47	**NET EARNINGS**	**109,684,894**	**60.7%**	**51,917,609**	**52.7%**
48	Staff costs	(27,643,575)	-15.3%	(13,619,532)	-13.8%
49	Depreciation expense	(9,678,299)	-5.4%	(4,247,587)	-4.3%
50	Other operating expenses	(35,334,873)	-19.6%	(21,909,028)	-22.2%
51	TOTAL OPERATING EXPENSES	(72,656,747)	-40.2%	(39,776,147)	-40.4%
52	PROFIT (LOSS) BEFORE TAXATION	37,028,147	20.5%	12,141,462	12.3%
53	TAX (EXPENSE) BENEFIT	(674,504)	-0.4%	(6,892,596)	-7.0%
54	**PROFIT (LOSS) AFTER TAXATION**	**36,353,643**	**20.1%**	**5,248,866**	**5.3%**
55	NON-OPERATING INCOME (EXPENSE) - NET				
56	DIVIDEND	(12,588,539)	-7.0%	(5,366,467)	-5.4%
57	**GROSS EARNINGS**	**180,725,850**	**100%**	**98,518,061**	**100%**
58	AUDITORS	KPMG		KPMG	
59	OPINION	CLEAN		CLEAN	

	KEY RATIOS	31-Dec-12	31-Dec-11
	EARNINGS		
60	Net interest margin	58.9%	64.9%
61	Loan loss expense/Interest income	8.0%	24.5%
62	Return on average assets (Pre - tax)	2.7%	1.3%
63	Return on average equity (Pre - tax)	17.4%	6.6%
64	Operating Expenses/Net earnings	66.2%	76.6%
65	Gross earnings/Total assets & contingents	13.4%	10.2%
	EARNINGS MIX		
66	Net revenue from funds	66.9%	60.8%
67	All other income	33.1%	39.2%
	LIQUIDITY		
68	Total loans & leases - net/Total lcy deposits	51.0%	89.6%
69	Liquid assets/Total lcy deposits	68.6%	43.1%
70	Demand deposits/Total lcy deposits	57.9%	67.5%
71	Savings deposits/Total lcy deposits	15.3%	4.1%
72	Time deposits/Total lcy deposits	24.9%	9.7%
73	Inter-bank borrowings/Total lcy deposits	1.9%	18.7%
74	Interest expense - banks/Interest expense	22.3%	25.2%
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	(214,920,071)	(173,570,019)

ACCESS BANK PLC

	KEY RATIOS CONT'D	31-Dec-12	31-Dec-11
	ASSET QUALITY		
76	Performing loans (₦'000)	567,099,734	471,335,015
77	Non-performing loans (₦'000)	23,861,019	41,713,123
78	Non-performing loans/Total loans - Gross	4.04%	8.13%
79	Loan loss provision/Total loans - Gross	5.6%	4.2%
80	Loan loss provision/Non-performing loans	139.6%	51.3%
81	Risk-weighted assets/Total assets & contingents	54.4%	62.0%
	CAPITAL ADEQUACY		
82	Adjusted capital/risk weighted assets	19.9%	16.8%
83	Tier 1 capital/Adjusted capital	125%	176%
84	Adjusted capital/Total loans - net	33%	21%
85	Capital unimpaired by losses (₦'000)	230,616,824	187,037,078
	CAPITAL ADEQUACY STRESS TEST		
86	Adjusted capital (₦'000)	183,086,818	105,490,379
87	Cumulative loan loss provision (actual reserves)	33,314,034	21,394,872
88	Equity before all provision (line 86 + line 87)	216,533,155	122,261,594
89	Required reserves*	66,290,568	70,937,494
90	Equity after required reserves (line 88 - line 89)	150,242,587	51,324,100
91	Equity after required reserves/risk weighted assets	16.4%	8.2%
	STAFF INFORMATION		
92	Net earnings per staff (₦'000)	37,875	41,303
93	Staff cost per employee (₦'000)	9,545	10,835
94	Staff costs/Operating expenses	38.0%	34.2%
95	Average number of employees	2,896	1,257
96	Average staff per office	22	10
	OTHER KEY INFORMATION		
97	Legal lending limit(₦'000)	46,123,365	37,407,416
98	Other unamortised losses(₦'000)	NONE	NONE
99	Unreconciled inter-branch items (₦'000) DR/(CR)	NONE	NONE
100	Number of offices	131	131
101	Age (in years)	24	23
102	Government stake in equity (Indirect)		
	MARKET SHARE OF INDUSTRY TOTAL	**Estimates**	**Actual**
		2011	2010
103	Lcy deposits (excluding interbank takings)	7.9%	4.0%
104	Total assets & contingents	6.5%	4.7%
105	Total loans & leases - net	7.7%	7.5%
106	Non interest income	5.4%	4.2%
107	Net interest income	7.8%	6.3%

*: This is calculated as 100% of non-performing loans, 5% of performing loans (including direct credit substitutes disclosed as contingent assets) and 1% for all other assets excluding cash, federal government obligations, placements with discount houses and balances at CBN.

RATING DEFINITION

Aaa A financial institution of impeccable financial condition and overwhelming capacity to meet obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) are unlikely to lead to deterioration in financial condition or an impairment of the ability to meet its obligations as and when they fall due. In our opinion, regulatory and/or shareholder support will be obtained, if required. Typically, a financial institution in this category will score more than 89% on our scoring grid.

Aa A financial institution of very good financial condition and strong capacity to meet its obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a slight increase the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain strong. Although regulatory support is not assured, shareholder support will be obtained, if required. Typically, a financial institution in this category will score 80% to 89% on our scoring grid.

A A financial institution of good financial condition and strong capacity to meet its obligations. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain largely unchanged. In our opinion, shareholder support should be obtainable, if required. Typically, a financial institution in this category will score 70% to 79% on our scoring grid.

Bbb A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due. It may have one major weakness which, if addressed, should not impair its ability to meet obligations as and when due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution. Typically, a financial institution in this category will score 60% to 69% on our scoring grid.

Bb Financial condition is satisfactory and ability to meet obligations as and when they fall due exists. May have one or more major weaknesses. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly. Typically, a financial institution in this category will score 50% to 59% on our scoring grid.

B Financial condition is weak but obligations are still being met as and when they fall due. Has more than one major weakness and may require external support, which, in our opinion, is not assured. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly. Typically, a financial institution in this category will score 40% to 49% on our scoring grid.

CCC Financial condition is very weak. Net worth is likely to be negative and obligations may already be in default. A financial institution in this category will score less than 40% on our scoring grid.

D In default.

A "+" (plus) or "-" (minus) sign may be assigned to ratings from Aa to C to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.