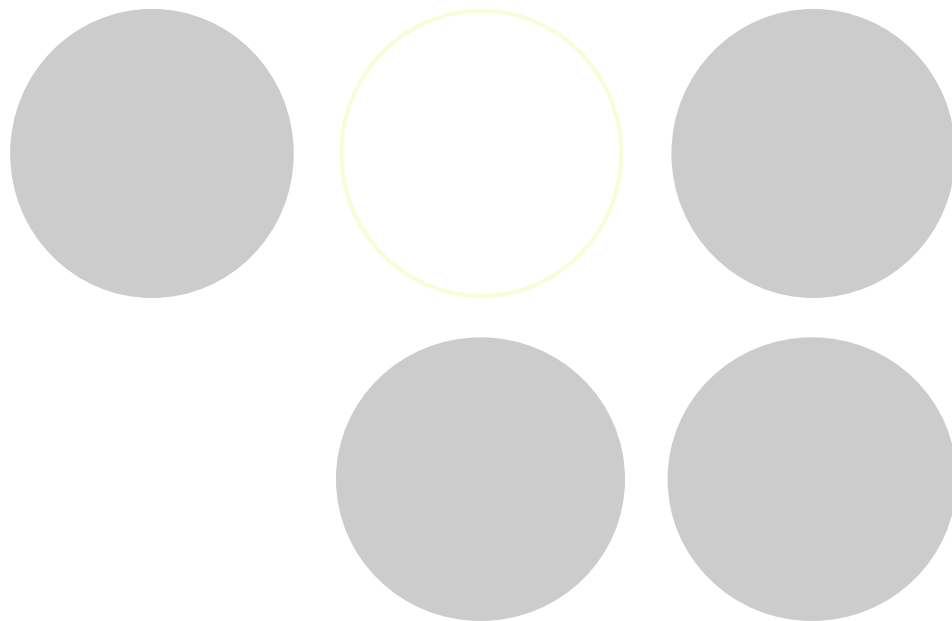


# Agusto & Co

## 2014 Bank Rating Report



**ACCESS BANK PLC**

**© COPYRIGHT 2014 AGUSTO & CO. LIMITED  
ALL RIGHTS RESERVED**

The copyright of this document is reserved by Agusto & Co. Limited. No matter contained herein may be reproduced, duplicated or copied by any means whatsoever without the prior written consent of Agusto & Co. Limited. Action will be taken against companies or individuals who ignore this warning.

The circulation of this document is restricted to the subscriber to whom it has been addressed. Any unauthorised disclosure or use of the information contained herein is prohibited.

**RATING RATIONALE**

Agusto & Co. hereby upgrades the rating of Access Bank Plc (“the Bank” or “Access Bank”) to “A+”. The rating reflects the full synergy of the merger with Intercontinental Bank Plc (ICB), which has propelled the Bank to be one of the systematically important banking institutions in Nigeria. The rating also recognizes good liquidity position, satisfactory capitalization, as well as improved risk management framework and its positive impact on asset quality. However, the rating is constrained by elevated funding and operating costs, which have resulted in lower margins and profitability ratios. We also believe that strong competition for low cost deposits, as well as thinning margins in the corporate market space is likely to continue to threaten earnings.

In 2013, Access Bank ranked fifth on the basis of total assets and contingents while the Bank’s extensive network of 310 branches has created improved visibility among the banking population. This has translated to good market share of the industry on most market indicators. In line with this growing stance, Access Bank has made changes to risk management processes, which has helped improve asset quality. Impaired loans to gross loans ratio stood a low 2.4%. This was the lowest recorded in the last five years and compares favourably to industry average of 3.6%. We expect this ratio to remain below the 5% benchmark during the life of this rating.

Access Bank’s liquidity profile is good, with liquidity ratio of 57% as at 31 December 2013. This is far in excess of the regulatory minimum of 30%. Over the last two years, the Bank’s funding ability has been strengthened by the enlarged branch network acquired through the acquisition of Intercontinental Bank Plc (ICB). However, in our opinion, the branches are yet to be optimized. Access Bank’s deposit per branch ratio is markedly lower than peers. In the short term, we expect funding costs to remain higher than peers. The Bank remains active in the Nigerian money market and has good access to long-term funding from foreign financial institutions.

The ability of Access Bank to withstand externalities is good, as evidenced by Agusto & Co. adjusted capital to risk weighted assets ratio of 17%. This is above the regulatory minimum of 15% for an international commercial bank. This ratio was further enhanced to an estimated 20% in June 2014 when Access Bank successfully raised tier II capital in the form of \$400 million Eurobond. We believe this provides sufficient headroom for the Bank to achieve a targeted 20% asset growth in 2014.

Access Bank’s earnings was pressured by various regulatory pronouncements in the review period. Furthermore, the ongoing modernization of some of the acquired branches through the merger with ICB pushed up the Bank’s cost profile. Consequently, Access Bank’s cost to income ratio headed northwards while interest margins, pre-tax return on average equity (ROE) and Assets (ROA) declined and were below peer levels. Nevertheless, we expect profitability to remain satisfactory. We also expect the Bank’s market share position to remain unchanged in the short term by maintaining a top 5 position in the Nigerian Banking industry.

**Strengths**

- Good risk management framework
- Good market share
- Enhanced distribution network & client base

**Challenges**

- Improving margins and consequently profitability
- Reducing funding costs to peer levels

**Weaknesses**

- Obligor concentration in the loan book
- High cost to income ratio relative to peers and the industry

FINANCIAL DATA	December 2013	December 2012
Total assets & contingents	₦ 1.89 trillion	₦ 1.69 trillion
Total local currency deposits (excluding interbank takings)	₦ 933.9 billion	₦ 911.0 billion
Net earnings	₦ 124.6billion	₦ 113.3 billion
Pre-tax return on average assets & contingents (ROA)	1.6%	2.7%
Pre-tax return on average equity (ROE)	12.1%	17.1%

**RATING**

**ACCESS BANK PLC**

Rating assigned: A+

Outlook: Stable

Issue date: 19 May 2014

Expiry date: 30 June 2015

Previous rating: “A”

**ANALYSTS**

Edward Olajide  
edwardolajide@agusto.com

Yinka Adelekan  
yinkaadelekan@agusto.com

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

**Current Directors**

		<b>Shareholding (%)</b>
• Gbenga Oyebo	<i>(Chairman)</i>	0.68 <i>(Direct &amp; Indirect)</i>
• Herbert Wigwe	<i>(Group Managing Director)</i>	3.27 <i>(Direct &amp; Indirect)</i>
• Obina Nwosu	<i>(Group Deputy Managing Director)</i>	Nil
• Victor Etuokwu	<i>(Executive)</i>	0.03
• Roosevelt Ogbonna	<i>(Executive)</i>	0.04
• Ojinika Olaghere	<i>(Executive)</i>	0.02
• Elias Igbinakenzua	<i>(Executive)</i>	Nil
• Titilayo Osuntoki	<i>(Executive)</i>	Nil
• Oritsedere Otubu		0.16 <i>(Direct &amp; Indirect)</i>
• Paul Usoro		0.01
• Mosunmola Belo-Olusoga		0.01
• Kemi Ogunmefun		0.002 <i>(Indirect)</i>
• Emmanuel Chiejina		0.03
• Ernest Ndukwe	<i>(Independent)</i>	Nil
• Ajoritsedere Awosika	<i>(Independent)</i>	Nil
• Mahmoud Isa-Dutse		<u>0.01</u>
		<u>4.26</u>

**Significant Shareholders**

Blakeney GP	6.06
Stanbic Nominees Nigeria Limited*	29.26

\* 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. Herbert Wigwe** joined Access Bank in March 2002 as the Deputy Managing Director. He was appointed Group Managing Director/Chief Executive Officer Designate of Access Bank on April 25, 2013 and assumed office on December 20, 2013 following the retirement of Mr. Aigboje Aig-Imoukhuede. Mr. Wigwe has over two decades of banking experience. Prior to joining the Bank, Mr. Wigwe worked with Guaranty Trust Bank Plc where he rose to the position of Executive Director. He is a Director of Access Bank Ghana and The Access Bank UK.

Mr. Wigwe holds a B.Sc. in Accountancy from the University of Nigeria; a Masters degree in Banking & International Finance from the University College of North Wales, as well as 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 executive management team are:**

Obina Nwosu	Group Deputy Managing Director/Chief Operating Officer
Victor Etuokwu	Executive Director, Personal Banking
Ojinika Olaghere	Executive Director, Operations & Technology
Elias Igbinakenzua	Executive Director, Corporate and Investment Banking
Roosevelt Ogbonna	Executive Director, Commercial Banking
Titi Osuntoki	Executive Director, Business Banking Division.

## **BANK PROFILE**

Access Bank Plc (“Access Bank” or “the Bank”) 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, and its shares were listed on the Nigerian Stock Exchange (NSE) in November 1998. In line with the 2011 Central Bank of Nigeria (CBN) guidelines on the “*Scope of Banking Activities*”, the Bank operates under an international commercial banking license.

Access Bank’s rise to become one of Nigeria’s systematically important banks was a result of acquisitions and organic growth. In October 2005, the 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 Bank also acquired a 75% controlling stake in Intercontinental Bank Plc (ICB), a larger but predominantly retail focused bank. This acquisition propelled Access Bank into the top tier segment of the Nigerian banking industry, with large market share of total assets and contingents, deposits and branch network.

Access Bank has a relatively large, diversified investor base comprising domestic and international shareholders. As at 31 December 2013, the Bank had 901 foreign and 827,000 domestic investors listed in the register of shareholders. A significant number of shareholders (40.75%) are domestic retail investors, local institutional shareholders have an 18.05% stake, while international institutional shareholders hold a 35.38% stake in Access Bank. Government ownership at 5.57% is below the CBN threshold of 10%. International retail shareholders made up a low 0.26%. Stanbic Nominees Limited, a custodian which held 26% of shares on behalf of various investors and Blakeney GP (6.45%) were disclosed as the largest investors. The custodian holds no beneficial interest in these shares.

As at 31 December 2013, Access Bank’s 16 member board of directors comprised seven executive and nine non-executive directors. In December 2013, Mr. Aigboje Aig-Imoukhuede retired as the Group Managing Director (GMD) having completed the maximum ten years stipulated by the CBN. He was succeeded by Mr. Herbert Wigwe, the erstwhile deputy GMD. In addition, four executive directors (Messers Koroye, Nwuke, Ohiwerei and Olufowose) and one non-executive director (Babatunde Folawiyi) also retired in December 2013 having reached the end of their contractual engagements with the Bank. In November 2013, the Board appointed five new executive directors (Mrs. Osuntoki, Mrs. Olaghere, as well as Messers Ogbonna, Igbinakenzua and Nwosu). Mr. Nwosu joins the board as the Group Deputy GMD and Chief Operating Officer. He has over two decades of banking experience garnered from Guaranty Trust Bank Plc and Access Bank Plc. Mr. Nwosu was the Bank’s Divisional Head, Retail Banking till December 2012 when he took a study leave for a programme at Columbia University New York. He joined Access Bank in 2002 from Guaranty Trust Bank. Mr. Nwosu was a director of Wapic Insurance Plc and Access Bank’s subsidiaries in Rwanda and Burundi. He holds a Master’s Degree in Business Administration and Second Class Upper Degree in Accountancy from University of Nigeria, Nsukka. The Bank also appointed Mrs. Awosika as the second independent director in compliance with the CBN’s Code of Corporate Governance. Members of the board control (directly & indirectly) 4.26% of Access Bank’s equity.

### ***Business structure and strategy***

Access Bank has a large customer base, which grew materially following the acquisition of ICB. The Bank caters to multinationals, large & medium sized corporates, commercial companies and affluent individuals. 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 corporate office is located at Plot 999c, Danmole Street, Victoria Island, Lagos and operates through 310 branches in Nigeria. Operations are organised into four core business divisions - Commercial Banking, Business Banking, Personal Banking and Corporate & Investment Banking - which are overseen by Executive Directors.

Access Bank’s medium term goal is to be among the three largest banks in Nigeria. To achieve this goal, management intends to gradually transform from being a predominantly wholesale banking franchise to a diversified bank by deepening relationships down the value chain. The Bank also intends to leverage ICB’s stronghold in the retail arena and an enlarged branch network to generate low-cost deposits and reduce funding costs.

### ***Subsidiaries & Associates***

As at 3 June 2014, Access Bank had seven banking subsidiaries located in six African countries and the United Kingdom. Access Bank has indicated that its holdings in Access Bank DR Congo, Access Bank Zambia, Access Bank Sierra Leone and Access Bank Gambia will be diluted, while management intends to retain Access Ghana, Access Rwanda and Access Bank UK 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
The Access Bank UK Limited	Banking Subsidiary	100%	To be retained
Access Bank Ghana	Banking Subsidiary	100%	To be retained
Access Bank Rwanda	Banking Subsidiary	75%	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 Gambia	Banking Subsidiary	88%	Ownership to be diluted
Access Bank Sierra Leone	Banking Subsidiary	98%	Ownership to be diluted
Access Bank Finance B.V.	SPV	100%	

**Information Technology**

Access currently runs a core banking application (Flexcube) and several ancillary applications to support various aspects of the business. 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 11,615 Point of Sales (PoS) terminals distributed nationwide.

Access Bank maintains separate primary and secondary data centres in Victoria Island (Lagos), as well as a Disaster Recovery Centre (DRC) at Alausa (Lagos). The DRC is connected to the data centres 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, Handelsbanken Int. (Svenska), HSBC Bank, IFC, ING, J.P. Morgan, KBC Bank Belgium, Mashreq Bank, Nordea Bank, Standard Bank of South Africa, Standard Chartered Bank, London, Sumitomo Mitsui Banking Corporation Europe Limited, The Access Bank UK Limited, UBS, Union Bank UK, United Bank for Africa, ABSA Capital, Banque de Commerce ed de placements (BCP), China Exim, First Rand Bank, FMO, Fortis, NATIXIS, Ned Capital, UBS and Zenith Bank (UK) Limited.

**Overview of Financial Performance**

As at year ended 31 December 2013, Access Bank had total assets and contingents of ₦1.89 trillion. Capitalization ratio for Access Bank was satisfactory, with an adjusted capital to risk weighted assets ratio (based on Agusto & Co.’s computation) of 17%. Credit quality improved in the period under review, with impaired credits to gross loans ratio improving to 2.4% as at year-end (2012: 4%). This improved further to 2% as at Q1 2014. However, profitability ratios declined with adjusted pre-tax return on average equity falling to 12.1% in 2013 (2012: 17.1%) and pre-tax return on average assets of 1.6% (2012: 2.7%). These ratios strengthened in the first three months of 2014, with the Bank posting annualised pre-tax ROE and ROA of 17.4% and 2.4% respectively.

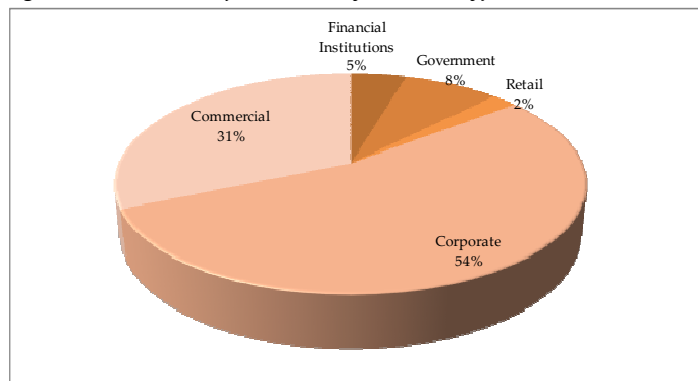
**ANALYSTS COMMENTS**

**ASSET QUALITY**

During the year ended 31 December 2013, Access Bank’s total assets & contingents grew by 12% to ₦1.9 trillion, firmly establishes the Bank among the five largest banks in Nigeria on the basis of total assets. Following the retirement of the substantial stock of Asset Management Corporation of Nigeria (AMCON) bond held, there was a slight structural shift in the Bank’s asset composition. The level of AMCON bonds declined by 75% to account for 3% of total assets and contingents (2011: 14%), while investments in government securities increased by 40% to ₦259 billion or 13.7% of total assets and contingents. Cumulatively, the level of liquid assets dropped to 24% of total assets as at 31 December 2013 from 34% a year earlier.

The Bank’s portfolio of loans and advances increased by 29% over the prior year to ₦761.6 billion and formed a significant 40% of total assets and contingents as at year-end 2013 (2012: 35%). As at same date, foreign currency loans accounted for 38.9% of net loans. These loans are used primarily to fund trade finance related transactions and are usually short tenored in nature. Access Bank’s business and lending strategy is to grow the level of core corporate borrowers while further diversifying into personal, small and medium sized enterprise (SME) lending segments. As at 31 December 2013, corporate clients accounted for 54% of gross loans, while commercial and public sector clients accounted for 23% and 8% respectively.

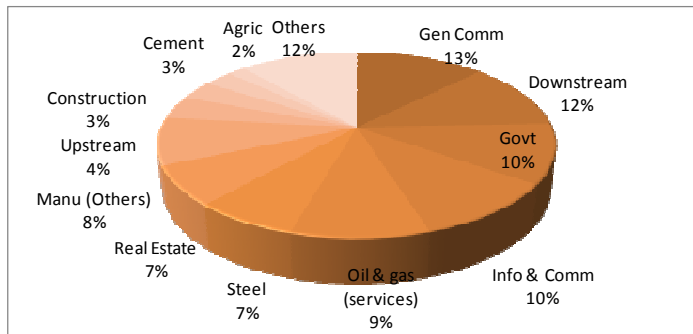
*Figure 1: Distribution of loan book by customer type*



Access Bank’s loan book is fairly diversified, with the largest sector accounting for 12.59% of total loans as at June 2014. Exposures to the oil & gas sector accounted for 25.57% of gross loans. However, these exposure were spread across various sub-segments including downstream (12% of gross loans), services (9.44%) and upstream (4.07%). We expect to see further diversification of the Bank’s loan book, given management’s indication to grow loan book in the services, agriculture and entertainment industries.

Obligor concentration in the loan book remained high, with the twenty largest exposures accounting for 44% of loans as at year-end 2013 (2012: 45%). Further elevating concerns over this level of concentration is the fact that 44% of the value of the top exposures are to the oil & gas industry.

*Figure 2: Distribution of loan book by sector*



Disclosed director-related credits amounted to ₦72 billion, constituting 29% of shareholders’ funds as at 31 December 2013. All insider credits were classified as performing. In addition, relevant obligors also have credit balances and deposits with the Bank to mitigate exposure.

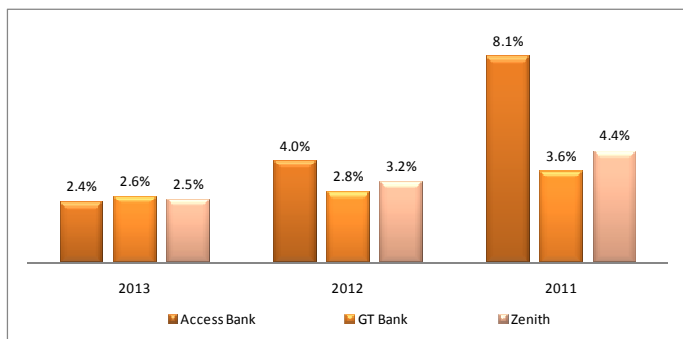
Over the last two years, Access Bank’s loan book quality has improved through better risk management framework and write-offs. This has led to a gradual shift of obligors with better risk ratings in the Bank’s loan portfolio. According to internal classification, the percentage of risk assets considered investment grade by the Bank has improved from 43% to 52%.

In the year under review, Access Bank’s loan portfolio benefitted from credit recoveries totaling ₦7.8 billion and the strategic acquisition of a major delinquent credit facility valued at ₦20 billion by AMCON. Various initiatives, including improved quality of obligors, effective loan monitoring and remediation, stress testing, as well as restructuring also contributed to lower levels of impaired credits. As at 31 December 2013, the Bank’s level of impaired credits amounted to ₦17.9 billion. This reflects a 25% decline over the prior year and accounted for a low 2.4% of gross loans as at same date (2012: 4%). The ratio was lower than selected peers (figure 3) comprising Guaranty Trust Bank Plc (GTBank) and Zenith Bank Plc (Zenith). When we stress the portfolio by including loans categorized as ‘past due but not impaired’, the ratio of non-performing loans to gross loans ratio increased to 4.9% in December 2013 (2012: 4.9%). On a positive note, collateral coverage against loans categorized as ‘past due but not impaired’ and ‘past due & impaired’ was strong at 9.5 times (2012: 8.8 times). As at the end of Q1 2014, impaired credits to gross loans ratio remained good at 2.3%.

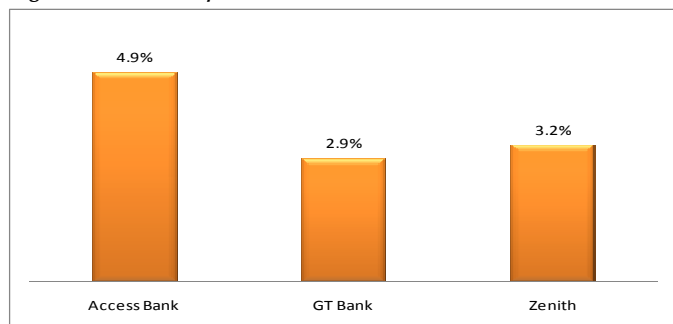
Access Bank’s exposures to the oil & gas sector accounted for the highest incidence of loan delinquency at 30%, followed closely by information & communication at 29%. In all, five sectors accounted for 87% of the Bank’s impaired credits as at 31 December 2013. As at year-end, cumulative loan provisions provided 74% coverage for the Bank’s impaired loans. This improved to 136% when we include regulatory risk reserves.

**ASSET QUALITY (CONT'D)**

*Figure 3: Impaired loans to gross loans*



*Figure 4: Stressed Impairment ratio (2013)*



Access Bank’s asset quality has improved over the last two years. In order to forestall deterioration in credit quality, management has made improvements to credit risk management. This includes the set up of an analytics department that is responsible for analyzing credit behaviour with the aim of identifying assets that are likely to be challenged. Nonetheless, as the loan portfolio grows across the spectrum of the Bank’s target market, we believe adherence to the Bank’s risk management policies will be vital in order to minimise credit concentration risk & potential losses.

**Risk Management**

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. The 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. Access Bank’s ERM Group is headed by a Chief Risk Officer (CRO) who reports to the Group Managing Director and Board Risk Committee. In 2013, Access Bank provided another layer of oversight by embedding risk consideration within each strategic business unit (SBU). A divisional head of risk, who is responsible for all facets of risk management within each business division, was appointed to provide risk oversight for each SBU. Divisional heads of risk report to the Group CRO.

Access Bank’s Enterprise Risk Management (ERM) framework spans credit, operational, market & liquidity, legal & compliance risk, strategic, reputational and capital risks. Access Bank 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 and to ensure risk appetite is maintained. Risk appetite is defined by volatility of earnings and the maintenance of minimum regulatory capital requirements under stress scenarios. This is measured and expressed using qualitative and quantitative risk metrics, including earnings at risk (or earnings volatility), liquidity and economic capital adequacy. In addition, a variety of risk limits, triggers, ratios, mandates, targets and guidelines are in place for all the financial risks (e.g. credit, market and asset and liability management risks). These include geographical, product and obligor risk rating limits.

In the period under review, there were changes to the credit risk management (CRM) function, including full automation of credit processing and collateral management, creation of dedicated CRM teams for Personal Banking and Business Banking to support the Bank’s strategy of growing the retail end of the market.

The operational risk department is in the process of implementing an operational risk management software, which is intended to enhance the ability of the department to fully automate risk controls. The Bank is also seeking to renew its ISO 2700 certification, which is aimed at ensuring information security remains a priority.

In recognition of the systemic importance of Access Bank to the Nigerian banking industry, management has placed a more stringent emphasis on regulatory requirements by creating buffers. These buffers are designed to give the Bank ample time to respond to market or liquidity risks that may emanate in stress period.

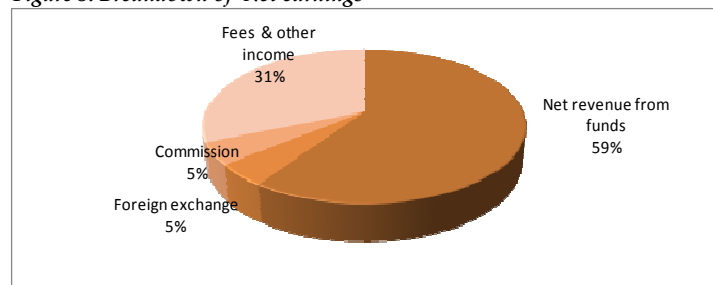
In our opinion, the Bank’s risk management policies are adequate. The Bank has invested resources into improving risk management policies and practices over the last two years. Nevertheless, we believe adherence to these policies remain integral to maintain good asset quality.

**EARNINGS**

Similar to most banks operating in the Nigerian terrain, Access Bank’s earnings came under pressure from regulatory headwinds in 2013. There were various reforms that impacted earnings, including the reduction in ancillary charges, raising of cash reserve requirements (CRR) for private and public sector deposits, as well as increase in AMCON contributions. During the year ended 31 December 2013, Access Bank generated net earnings of ₦124.6 billion (2012: ₦113.3 billion).

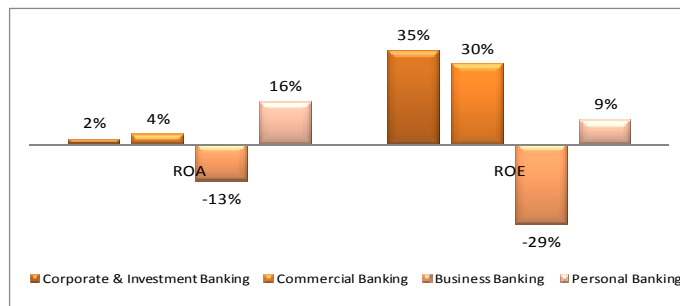
Although financial intermediation remains the driver of earnings, its contribution to net earnings dropped in 2013 to 60% from 71% achieved in the prior year. Declines in all major constituents of interest income were recorded, with interest income from loans & advances, as well as investment securities falling by 9% and 21% respectively. The decline in income from loans & advances reflects the lower yields realized on foreign currency denominated loans. Interest expense for Access Bank amounted to ₦61 billion in 2014. Management has indicated that the elevated level of interest expense reflects the continued premium paid on some expensive term deposits inherited from the merger with ICB, as well as increase in CRR. Interest expense on deposits from customers grew by 26% in the review period. Consequently, the Bank’s net interest margin declined further in 2013 to 52.2% from 59.9% recorded in 2012. Access Bank’s interest margin has traditionally been low and the acquisition of ICB was intended to help moderate funding costs. However, interest margin remains lower than peers and has recorded a steady decline since the acquisition.

**Figure 5: Breakdown of Net earnings**



In 2013, Access Bank restructured its business units along four lines - the Corporate & Investment Banking Division (CIBD), Commercial Banking Division (CBD), Business Banking Division (BBD) and Personal Banking Division (PBD). The CBD unit was the largest contributor to revenue, accounting for 42% of total revenue from continuing operations in the review period. This was followed by CIBD (27%) and Personal Banking (20%). The CBD unit provides commercial banking products and services to the non-institutional clients, medium and small corporate segments of the Nigerian market whose annual turnover is above ₦1 billion. The division also provides financial services to public sector, commercial institutions and Oriental corporates. Among the Bank’s four major segments, the PBD Unit and CBD recorded pre-tax return on asset higher than the Bank average of 2% in the review period, while all units with the exception of BBD and PBD recorded pre-tax return on equity in excess of the average 12%.

**Figure 6: Profitability Indicators by operating segments**

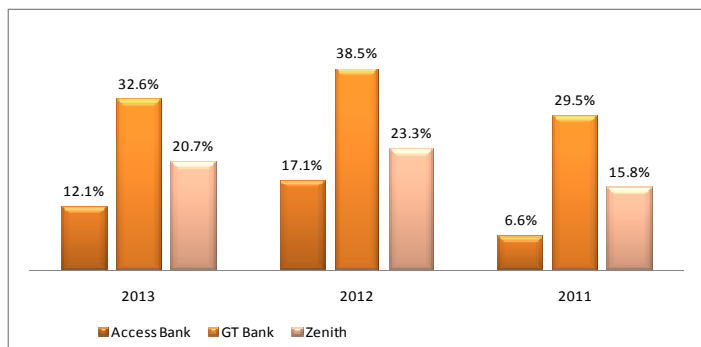


In 2013, Access Bank’s earnings were supported by strong growth in ancillary income, which grew by 55% to ₦50.4 billion. Reflecting the sizable growth in loan book during the year, credit related fees and commissions climbed by over two and half times to ₦8.2 billion from ₦2.3 billion achieved a year earlier. Other major contributors to ancillary income include ₦1.8 billion gain on financial instruments held for trading and a ₦4.8 billion fair value gain on investment property. We recognize that these are unrealized gains allowable under IFRS, but do err on the side of caution that this income does not form a stable part of the Bank’s earnings. Although the property is in a prime location in Nigeria, the potential for fluctuations in the real estate market makes earnings volatile. Consequently, by taking a conservative approach to Access Bank’s earnings, we have backed out fair value gains on the disposal of property of ₦2.1 billion from the Bank’s earnings in 2013

The Bank’s operating expenses amounted to ₦95.3 billion, which represents a 24% nominal growth over the prior year. Major contributors to higher operating expenses include a ₦8.9 billion increase in AMCON charges and a ₦13 billion increase in administrative expenses. Included in the AMCON charge is ₦4 billion surcharge accrued by ICB in 2011, while the increase in administrative expenses reflects maintenance cost and ongoing developments in some of the old ICB branches. Consequently, cost to income ratio (CIR) of the Bank for the year stood at 76.5%, higher than the 68% recorded in the prior year. Access Bank’s CIR was significantly higher than Industry peers (GTBank: 42% and Zenith Bank: 60%). When we back out the effects of the ₦4 billion AMCON surcharge accrued by ICB, CIR still remained high at 73.3%. In Q1 2014, this ratio moderated to 68.8%.

After backing out the gains on the disposal of property, adjusted pre-tax profits amounted to ₦29.2 billion for the year 2013, a 19% decline over the prior year. Profitability ratios measured by pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) fell to 1.6% and 12.1% respectively (2012: 2.7% and 17.1% respectively). If we included the gains on disposal of property, ROA and ROE stood at 1.8% and 13.0% respectively. Access Bank’s profitability indicators for the year were lower than its peers. For the quarter ended 31 March 2014, the Bank’s annualised pre-tax ROE and ROA strengthened to 17.4% and 2.4% respectively.

**Figure 7: Pre-tax Return on Average Equity**



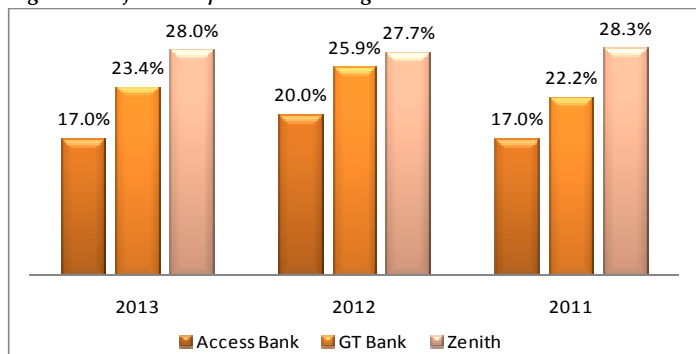
Various regulatory pronouncements impacted the earnings of banks in 2013. However, the effect on Access Bank was multiplicative given a restricted asset base in the form of the relatively illiquid AMCON bonds and high funding costs. In our opinion, operating costs show no sign of abating in the short term as Management continues to revamp some of the old ICB branches. However, this will only have a moderate impact on profitability if revenue can be enhanced. Therefore, we expect earnings to remain pressured in the short term. In our opinion, Access Bank’s profitability is below its potential given its resources and size.

**CAPITAL ADEQUACY**

As at 31 December 2013, Access Bank’s Tier 1 capital amounted to ₦245.2 billion, funding 13% of total assets and contingents. Tier 1 capital comprised paid up capital (70%), statutory & non distributable reserves (20%) and revenue reserves (10%). The Bank’s Basle ratio (based on Agusto & Co.’s computation) stood at a moderate 17% as at year-end 2013 (2012: 21%), reflecting the surge in risk assets in Q4 2013. This ratio was higher than the regulatory 15% minimum for a commercial bank with an international banking license. When we stress capital for additional losses, this ratio declined to 12%, which is at par with our minimum benchmark.

The Bank’s capital adequacy ratio was enhanced in Q2 2014 to an estimated 20% following the successful issuance of \$400 million Eurobonds which was classified as tier II. Management has received shareholders’ approval to raise up to US\$1 billion additional capital in tranches when required in order to strengthen targeted business growth. In our opinion, Access Bank’s capitalization is adequate for its business risk.

**Figure 8: Adjusted capital to risk weighted assets ratio**



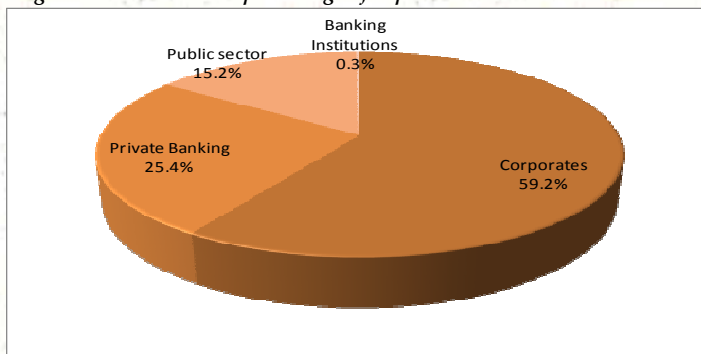
**LIQUIDITY AND LIABILITY GENERATION**

Access Bank’s acquisition of ICB was a key part of the strategy to diversify from the predominantly wholesale funding segment by enhancing the Bank’s presence in the retail market. This in turn is to help reduce funding cost by growing the pool of low-cost current and savings deposits. As at 31 December 2013, Access Bank’s local currency (LCY) deposits (excluding interbank) amounted to ₦933.9 billion (2012: ₦911 billion) and funded 49% of total assets & contingents as at same date (2012: 54%). However, on a year on year basis, the quantum of low-cost LCY deposits declined marginally by 2%, while the expensive tenured deposits also fell by 8% as Access Bank paid off the interbank deposits inherited from ICB. As at year-end 2013, low cost LCY deposits jointly accounted for 51% of deposits (2011: 54%), while the more expensive tenored deposits formed a significant 49% of deposits (2012:46%). Access Bank’s branch efficiency is low compared to peers. On average, Access Bank’s 310 branches in Nigeria were able to generate an average ₦3 billion of deposits, compared to ₦5.7 billion by GTBank (221 branches) and ₦5.4 billion by Zenith (340 branches).

Similar to other banks, Access Bank faced pricing challenges in 2013 following monetary tightening policies from the CBN. Amongst a raft of policies introduced during the period, the apex bank raised cash reserve requirement for public sector deposits from 12% to 75% during the course of the year, resulting in most banks including Access Bank shunning some of these deposits. As at year end 2013, public sector deposits accounted for 15% of total deposits. In line with regulatory changes and the increase in deposits, interest expense on deposits from customers increased by 26%. Positively, the Bank paid down on the large, expensive interbank deposits inherited from ICB to reduce interbank expenses by 80%. Cumulatively, funding cost declined for Access Bank during the review period, with weighted average cost of funds (WACF) declining to 4.5% (2012: 4.9%). Nevertheless, this remains higher than peers in the top 5 cadre.

Corporate clients form the bulk of Access Bank’s deposit base, accounting for 59% of deposit liabilities. However, deposits are well diversified, with the twenty largest LCY depositors accounting for 24% of LCY funds (net interbank takings). Furthermore, the pool of deposits was also well diversified, ranging from telecommunication, oil & gas, and public sector customers. In contrast to prior years when volatile public sector accounts formed significant volumes of the Bank’s large depositors, only 23% of these large deposits emanated from this segment.

**Figure 9: Net loans as a percentage of deposit liabilities**



**LIQUIDITY AND LIABILITY GENERATION (Cont'd)**

Access Bank’s financial position remains fairly liquid. Liquid assets, largely comprising government bonds, AMCON bonds, cash and cash equivalents amounted to 24% of total assets & contingents as at 31 December 2013. As at this same date, the Bank’s liquidity ratio stood at 57%, higher than the regulatory minimum of 30%.

A period end contractual maturity gap analysis reveals that loans and deposits are mismatched within various tenors. Approximately 39% of loans mature over 360 days, but funded by less than one percent of deposits (0.7%). Typically, most of these short term deposits are rolled over beyond the initial contractual period. Shortfalls are usually covered by the Bank’s confirmed credit lines from international banks, on-lending facilities granted by multilateral institutions and a five-year semi-annual note issued by the Bank. We consider exchange rate risk to be fairly minimal, as foreign currency loans are generally granted to clients with dollar denominated revenues or to clients who purchase hedging products from the Bank; though we note a few obligors without foreign denominated revenues. Exchange risks are also mitigated through the use of open position limits recommended by the CBN as well as intra-day and risk exposure limits specified by the Bank.

Interest rate risk emanates from a variety of sources, including risk assets, deposits and long term borrowings. Fixed rate liabilities expose the Bank to cash flow interest rate risk, while financial liabilities issued at fixed rates expose the Bank to fair value interest rate risk. According to Access Bank’s own model, liabilities under 12 months and above are the most sensitive when there is a 100 basis points increase in interest rates. Cash flow interest rate risk is estimated at ₦2.2 billion loss, while fair value risk is minimal with expected loss of ₦114.5 million loss for a 1% increase in interest rate.

As at year-end, the Bank’s ratio of net loans (LCY) to LCY deposits of 39% (after backing out loans funded by free capital) was lower than our minimum expectation of 60%.

In our opinion, the Bank’s liquidity position is good and we believe Access Bank’s reputation in the Nigerian money market provides the ability to refinance should the need arise. We expect that the Bank will continue to push for low deposits mobilisation to moderate funding costs. However, we do believe the ability to bring this down to peer levels in the short term remains a challenge to the Bank.

**OWNERSHIP, MANAGEMENT AND STAFF**

The shares of Access Bank Plc are listed on the Nigerian Stock Exchange, with 95% of authorized issued and fully paid for as at 31 December 2013. As at same date, the Bank’s shares were held by over 800,000 investors, with institutional investors accounting for 53.4% of shareholders. Stanbic Nominees, a custodian, held 26% of shares on behalf of various investors, while Blakeney GP held 6% equity stake in the Bank. No other entity directly controlled up to 5% of Access Bank’s shareholding as disclosed in the annual report.

Access Bank is governed by a 16-member Board, made up of nine non-executive directors and seven executives. The Board is the Bank’s highest decision making body responsible for governance. In the period under review, the Bank appointed a second independent Director in line with the CBN Code of Corporate Governance. The Board met seven times in 2013.

The Board maintains effective control through a Committee structure that provides focus on the Board’s responsibilities. Control is effected 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 eight infractions. These include incomplete reporting of public sector deposits, retaining a Director on the Board after expiration of tenure and non-compliance with the regulator’s Cashless initiative. However, we do note that management has taken steps to address some of these issues, including the appointment of a second independent Director.

Mr. Herbert Wigwe is the GMD, having officially taken over from Mr. Aig-Imoukhuede in December 2013. Mr. Obinna Nwosu was duly appointed as the new Deputy GMD and directly oversees Operations department, as well as the activities of the Bank’s subsidiaries. They are supported by a senior management team comprising 5 Executive Directors and 14 General Managers.

Access Bank’s workforce declined by 15% year-on-year, to stand at 2,461 persons as at 31 December 2013. The decline reflects the result of the performance review conducted in 2013. Aided largely by the decline in staff numbers, net earnings per staff improved by 29% to ₦50.6 million in the review period. This was comparable to peers.

**Table 2: Staff productivity indicators**

Indicator	Access Bank ₦'000	GT Bank ₦'000	Zenith ₦'000
Cost/Staff	10,540	6,220	8,596
Net loans/Staff	304,083	293,814	170,304
LCY deposits/staff	379,067	400,005	275,683
Net earnings/staff	50,621	54,679	35,207

**OWNERSHIP, MANAGEMENT AND STAFF (cont'd)**

Staff cost per employee increased in the period by 12% despite the decline in the workforce. We expect to see further reduction in staff numbers in the short term as the Bank continues to strive for efficiency in the business combination with ICB. We also expect to see an increased use of technology in Access Bank's service delivery.

Management has emphasized the importance of employee welfare and has put in place a series of initiatives to improve the work-life balance and ultimately productivity. Nevertheless, we believe adherence to these initiatives will be integral in achieving the desired level of productivity. In our opinion, Access Bank has a proactive management team and staff productivity is satisfactory.

**MARKET SHARE**

In 2013, Access Bank reinforced its position as one of the five largest banks in the Nigerian banking industry on the basis of most market share indicators examined by Agusto & Co. As at 31 December 2013, Access Bank ranked fifth on the basis of total assets and contingents of ₦1.9 trillion. This represents an estimated 7.0% of the Nigerian banking industry's total assets and contingents as at same date (2012: 7.1%).

Buoyed by the surge in the loan book in Q4 2013, Access Bank's share of industry's total loans grew to 8% from 7.4% in the prior year. However with increased competition for low cost deposits in the industry, the Bank's market share of deposits declined to 6.7% from 7.7% in the prior year.

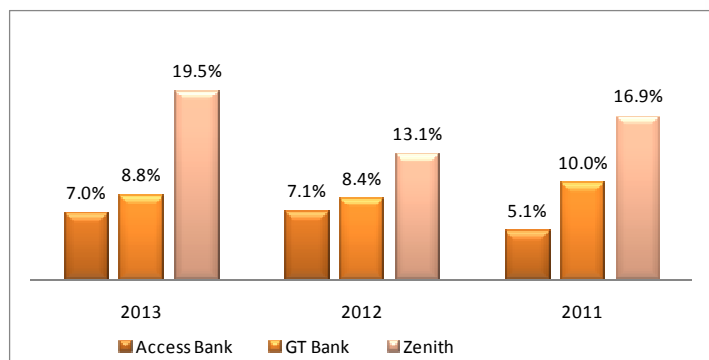
Access Bank is one of eight banks designated as systemically important banks by the CBN. This designation has been earned largely on the basis of the Bank's size and systemic importance in the Nigerian banking industry. We expect the Bank to maintain this status as it continues to build on the potential synergy in the merger with of ICB.

In our opinion, the Bank's market share is good.

**OUTLOOK**

Access Bank Plc has re-defined the strategic business units in an attempt to move from the customary wholesale focus to becoming a diversified bank. Management has also strengthened risk management processes to preserve asset quality as the Bank seeks to expand its client base and enlarge focal areas to include some of the emerging sectors in the Nigerian economy. However, in order to achieve these targets in a competitive market with its peers having lower funding costs, there is a need to build up the pool of low cost deposits. In our opinion, the ability to generate these deposits, as well as maintaining good asset quality, will be the main driver of earnings. We expect the Bank's cost profile to remain elevated, and this will continue to have a bearing on efficiency and profitability ratios. Nevertheless, we attach a "stable" outlook to this rating.

*Figure 10: Market share of total assets and contingents*



**ACCESS BANK PLC**

	<u>31-Dec-13</u> N'000		<u>31-Dec-12</u> N'000		<u>31-Dec-11</u> N'000	
<b>STATEMENT OF FINANCIAL POSITION AS AT</b>						
<b>ASSETS</b>						
Cash & equivalents	134,430,561	7.1%	109,917,046	6.5%	49,986,886	4.9%
Government securities	258,866,374	13.7%	184,332,246	10.9%	119,960,386	11.9%
Stabilisation securities	59,123,792	3.1%	238,833,801	14.1%	43,319,854	4.3%
Quoted investments	104,918	0.0%	173,725	0.0%	13,759,009	1.4%
Placements with discount houses						
<b>LIQUID ASSETS</b>	<u>452,525,645</u>	<u>23.9%</u>	<u>533,256,818</u>	<u>31.6%</u>	<u>227,026,135</u>	<u>22.4%</u>
<b>BALANCES WITH NIGERIAN BANKS</b>	89,433,649	4.7%	66,311,886	3.9%	35,782,236	3.5%
<b>BALANCES WITH BANKS OUTSIDE NIGERIA</b>					18,536,179	1.8%
Direct loans and advances - Gross	761,598,821	40.2%	590,960,753	35.0%	513,048,138	50.7%
Less: Cumulative loan loss provision	(13,249,429)	-0.7%	(33,314,034)	-2.0%	(21,394,872)	-2.1%
Direct loans & advances - net	<u>748,349,392</u>	<u>39.5%</u>	<u>557,646,719</u>	<u>33.0%</u>	<u>491,653,266</u>	<u>48.6%</u>
Advances under finance leases - net						
<b>TOTAL LOANS &amp; LEASES - NET</b>	<u>748,349,392</u>	<u>39.5%</u>	<u>557,646,719</u>	<u>33.0%</u>	<u>491,653,266</u>	<u>48.6%</u>
<b>INTEREST RECEIVABLE</b>						
<b>OTHER ASSETS</b>	44,399,035	2.3%	68,439,045	4.1%	9,627,613	1.0%
<b>DEFERRED LOSSES</b>	9,847,853	0.5%				
<b>RESTRICTED FUNDS</b>	171,944,537	9.1%	107,833,227	6.4%	33,391,194	3.3%
<b>UNCONSOLIDATED SUBSIDIARIES &amp; ASSOCIATES</b>	39,551,804	2.1%	45,190,496	2.7%	80,400,287	7.9%
<b>OTHER LONG-TERM INVESTMENTS</b>	82,177,299	4.3%	75,798,312	4.5%	34,776,507	3.4%
<b>FIXED ASSETS &amp; INTANGIBLES</b>	<u>65,864,798</u>	<u>3.5%</u>	<u>61,277,960</u>	<u>3.6%</u>	<u>18,188,680</u>	<u>1.8%</u>
<b>TOTAL ASSETS</b>	<u>1,704,094,012</u>	<u>90.0%</u>	<u>1,515,754,463</u>	<u>89.8%</u>	<u>949,382,097</u>	<u>93.8%</u>
<b>TOTAL CONTINGENT ASSETS</b>	189,806,599	10.0%	172,985,515	10.2%	62,274,335	6.2%
<b>TOTAL ASSETS &amp; CONTINGENTS</b>	<u>1,893,900,611</u>	<u>100%</u>	<u>1,688,739,978</u>	<u>100%</u>	<u>1,011,656,432</u>	<u>100%</u>
<b>CAPITAL &amp; LIABILITIES</b>						
<b>TIER 1 CAPITAL (CORE CAPITAL)</b>	245,181,997	12.9%	237,624,211	14.1%	187,037,078	18.5%
<b>TIER 2 CAPITAL</b>						
Foreign Currency Borrowings	120,342,026	6.4%	103,872,441	6.2%	29,243,818	2.9%
Demand deposits	372,484,100	19.7%	347,191,190	20.6%	329,829,483	32.6%
Savings deposits	106,197,345	5.6%	141,564,258	8.4%	19,861,471	2.0%
Time deposits	455,231,840	24.0%	422,272,257	25.0%	47,611,439	4.7%
Inter-bank takings	7,161,530	0.4%	8,267,867	0.5%	91,470,543	9.0%
<b>TOTAL DEPOSIT LIABILITIES - LCY</b>	<u>941,074,815</u>	<u>49.7%</u>	<u>919,295,572</u>	<u>54.4%</u>	<u>488,772,936</u>	<u>48.3%</u>
Customers' foreign currency balances	337,397,330	17.8%	190,996,164	11.3%	192,106,198	19.0%
<b>TOTAL DEPOSIT LIABILITIES</b>	<u>1,278,472,145</u>	<u>67.5%</u>	<u>1,110,291,736</u>	<u>65.7%</u>	<u>680,879,134</u>	<u>67.3%</u>
<b>INTEREST PAYABLE</b>						
<b>OTHER LIABILITIES</b>	<u>60,097,844</u>	<u>3.2%</u>	<u>63,966,075</u>	<u>3.8%</u>	<u>52,222,067</u>	<u>5.2%</u>
<b>TOTAL CAPITAL &amp; LIABILITIES</b>	<u>1,704,094,012</u>	<u>90.0%</u>	<u>1,515,754,463</u>	<u>89.8%</u>	<u>949,382,097</u>	<u>93.8%</u>
<b>TOTAL CONTINGENT LIABILITIES</b>	189,806,599	10.0%	172,985,515	10.2%	62,274,335	6.2%
<b>TOTAL CAPITAL, LIABILITIES &amp; CONTINGENTS</b>	<u>1,893,900,611</u>	<u>100%</u>	<u>1,688,739,978</u>	<u>100%</u>	<u>1,011,656,432</u>	<u>100%</u>
<b>BREAKDOWN OF CONTINGENTS</b>						
Acceptances & direct credit substitutes	172,985,515	9.1%	172,985,515	10.2%	62,274,335	6.2%
Guarantees, bonds etc..						
Short-term self liquidating contingencies						

**ACCESS BANK PLC**
**STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED**

	<b>31-Dec-13</b> <b>N'000</b>		<b>31-Dec-12</b> <b>N'000</b>		<b>31-Dec-11</b> <b>N'000</b>	
Interest income	127,710,965	71.7%	148,277,802	82.1%	78,190,414	79.4%
Interest expense	(61,025,846)	-34.3%	(59,424,878)	-32.9%	(27,444,955)	-27.9%
Loan loss expense	7,508,216	4.2%	(8,006,142)	-4.4%	(19,155,497)	-19.4%
NET REVENUE FROM FUNDS	74,193,335	41.7%	80,846,782	44.7%	31,589,962	32.1%
ALL OTHER INCOME	50,384,996	28.3%	32,415,240	17.9%	20,327,647	20.6%
<b>NET EARNINGS</b>	<b>124,578,331</b>	<b>70.0%</b>	<b>113,262,022</b>	<b>62.7%</b>	<b>51,917,609</b>	<b>52.7%</b>
Staff costs	(25,937,818)	-14.6%	(28,412,192)	-15.7%	(13,619,532)	-13.8%
Depreciation expense	(7,780,207)	-4.4%	(9,678,299)	-5.4%	(4,247,587)	-4.3%
Other operating expenses	(61,629,925)	-34.6%	(38,944,809)	-21.6%	(21,909,028)	-22.2%
TOTAL OPERATING EXPENSES	(95,347,950)	-53.5%	(77,035,300)	-42.6%	(39,776,147)	-40.4%
PROFIT (LOSS) BEFORE TAXATION	29,230,381	16.4%	36,226,722	20.0%	12,141,462	12.3%
TAX (EXPENSE) BENEFIT	(5,153,552)	-2.9%	(443,919)	-0.2%	(6,892,596)	-7.0%
<b>PROFIT (LOSS) AFTER TAXATION</b>	<b>24,076,829</b>	<b>13.5%</b>	<b>35,782,803</b>	<b>19.8%</b>	<b>5,248,866</b>	<b>5.3%</b>
NON-OPERATING INCOME (EXPENSE) - NET	2,135,015	1.2%	32,808	0.0%		
PROPOSED DIVIDEND	(19,450,480)	-10.9%	(12,588,539)	-7.0%	(5,366,467)	-5.4%
<b>GROSS EARNINGS</b>	<b>178,095,961</b>	<b>100%</b>	<b>180,693,042</b>	<b>100%</b>	<b>98,518,061</b>	<b>100%</b>
AUDITORS	PWC		KPMG		KPMG	
OPINION	CLEAN		CLEAN		CLEAN	
<b>KEY RATIOS</b>	<b>31-Dec-13</b>		<b>31-Dec-12</b>		<b>31-Dec-11</b>	
<b>EARNINGS</b>						
Net interest margin	52.2%		59.9%		64.9%	
Loan loss expense/Interest income	-5.9%		5.4%		24.5%	
Return on average assets	1.6%		2.7%		1.3%	
Return on average equity	12.1%		17.1%		6.6%	
Operating Expenses/Net earnings	76.5%		68.0%		76.6%	
Gross earnings/Total assets & contingents	9.9%		13.4%		10.2%	
<b>EARNINGS MIX</b>						
Net revenue from funds	59.6%		71.4%		60.8%	
All other income	40.6%		28.6%		39.2%	
<b>LIQUIDITY</b>						
Total loans & leases - net/Total lcy deposits	39.1%		54.6%		89.6%	
Liquid assets/Total lcy deposits	57.3%		64.9%		43.1%	
Demand deposits/Total lcy deposits	39.6%		37.8%		67.5%	
Savings deposits/Total lcy deposits	11.3%		15.4%		4.1%	
Time deposits/Total lcy deposits	48.4%		45.9%		9.7%	
Inter-bank borrowings/Total lcy deposits	0.8%		0.9%		18.7%	
Interest expense - banks/Interest expense	4.4%		22.3%		25.2%	
<b>NET FOREIGN CURRENCY ASSETS (LIABILITIES)</b>	<b>(337,397,330)</b>		<b>(190,996,164)</b>		<b>(173,570,019)</b>	

## ACCESS BANK PLC

### KEY RATIOS CONT'D

	31-Dec-13	31-Dec-12	31-Dec-11
<b>ASSET QUALITY</b>			
Performing loans (N'000)	743,674,642	567,196,490	471,335,015
Non-performing loans (N'000)	17,924,179	23,764,263	41,713,123
Impaired Credits/Total loans - Gross	2.4%	4.0%	8.1%
Loan loss provision/Total loans - Gross	1.7%	5.6%	4.2%
Loan loss provision/Non-performing loans	73.9%	140.2%	51.3%
Risk-weighted assets/Total assets & contingents	59.9%	54.7%	62.0%
<b>CAPITAL ADEQUACY</b>			
Adjusted capital/risk weighted assets	17.0%	20.6%	16.8%
Tier 1 capital/Adjusted capital	120%	124%	176%
Total loans - net/Adjusted capital (Times)	26%	34%	21%
Capital unimpaired by losses (N'000)	235,334,144	237,624,211	187,037,078
<b>CAPITAL ADEQUACY STRESS TEST</b>			
Total shareholders' funds (N'000)	190,094,205	105,490,379	105,490,379
Cumulative loan loss provision (actual reserves)	33,314,034	21,394,872	21,394,872
Equity before all provision (line 86 + line 87)	223,540,542	122,261,594	122,261,594
Required reserves*	66,333,616	70,937,494	70,937,494
Equity after required reserves (line 88 - line 89)	157,206,927	51,324,100	51,324,100
Equity after required reserves/risk weighted assets	17.0%	8.2%	8.2%
<b>STAFF INFORMATION</b>			
Net earnings per staff (N'000)	50,621	39,110	41,303
Staff cost per employee (N'000)	10,540	9,811	10,835
Staff costs/Operating expenses	27.2%	36.9%	34.2%
Average number of employees	2,461	2,896	1,257
Average staff per branch	8	9	10
<b>OTHER KEY INFORMATION</b>			
Legal lending limit(N'000)	47,066,829	47,524,842	37,407,416
Other unamortised losses(N'000)	NONE	NONE	NONE
Unreconciled inter-branch items (N'000) DR/(CR)	NONE	NONE	NONE
Number of branches	310	310	131
Age (in years)	25	24	23
Government stake in equity	-	-	-
<b>MARKET SHARE OF INDUSTRY TOTAL</b>			
	Actual 2013	Actual 2012	Actual 2011
Lcy deposits (excluding interbank takings)	6.7%	7.7%	4.1%
Total assets & contingents	7.0%	7.1%	5.1%
Total loans & leases - net	8.0%	7.4%	7.5%
Profit before tax	6.7%	21.5%	21.5%
Cash dividend	22.0%	4.7%	4.7%
Non Interest Income	8.8%	6.1%	5.0%
Net Interest Income	5.3%	7.9%	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.**