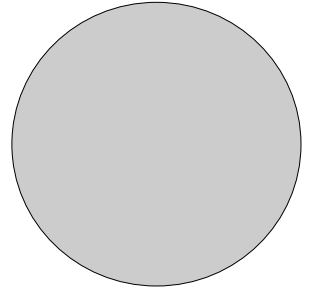
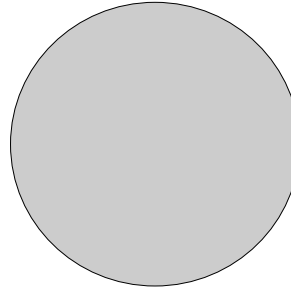
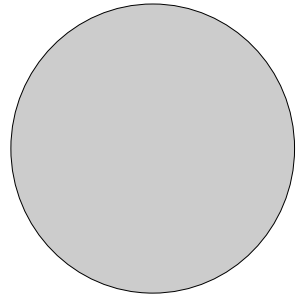
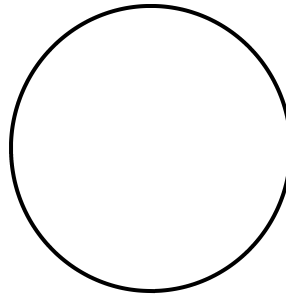
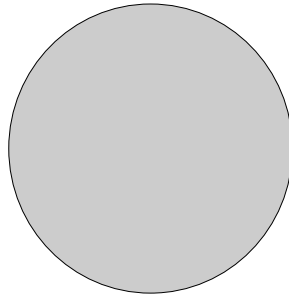


# Agusto & Co

*2007 Bank Rating Report*



## **ZENITH BANK PLC**

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## RATINGS

### Zenith Bank Plc

Rating assigned: **Aaa**

Rating Outlook: Stable

Issue date: 20 September 2007

Expiry date: 30 November 2008

Previous Rating: Aaa

#### ANALYST

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ritaemoefe@agusto.com

## RATING RATIONALE

The rating of Zenith Bank Plc reflects the Bank's dominant industry position, strong asset quality, strong liquidity profile, good capitalization and good earnings. Also factored into the rating is the Bank's stable and experienced management team.

Zenith is one of the leading banks in Nigeria with a reported balance sheet footing of N1.1 trillion (US\$8.7 billion) as at 30 June 2007. The Bank controlled an estimated 14% market share of total local currency deposits as at the same date, and 12% of both the industry's pre-tax profits and net earnings. Zenith's asset quality is strong and is underpinned by a strong risk management culture and low risk appetite. The Bank's level of non-performing loans to total loans at 1.8% is the lowest amongst its peers and is one of the lowest in the industry.

Zenith's profitability is upheld by a low cost funding base, but remains hampered by its high cost profile. The Bank's profitability is relatively stable, with pre-tax return on equity of 22.5%. We believe that expansion and reducing margins could place further pressures on profitability going forward. Zenith has a good funding base upheld by its strong brand, wide branch network and enhanced by an aggressive marketing drive. The Bank also has access to external funding from its correspondent banks and other multilateral finance institutions. We consider the Bank's liquidity profile to be strong and in our opinion, its ability to refinance is good.

The Bank is adequately capitalized with a Basel ratio of 29%. Zenith's strong performance over the years has been largely due to the experience and stability of its management team. We consider Zenith Bank to have strong capacity to meet its obligations when due, we thus uphold the Bank's **Aaa** rating. The stable outlook reflects our expectations that Zenith will maintain its good financial performance in the short to medium term.

## STRENGTHS

- Dominant industry position
- Good capital base
- Good asset quality
- Strong liquidity profile
- Good profitability
- Strong brand
- Experienced and stable management team
- Good profitability

## CHALLENGE

The Bank's ability to sustain its wholesale strategy, while competing favorably with its peers in the top league.

FINANCIAL DATA	JUNE 2007	JUNE 2006
Total assets & contingents	N1,118.4 billion	N714.5 billion
Total local currency deposits	N568 billion	N392.8 billion
Net earnings	N68.7 billion	N46.5 billion
Pre-tax return on average assets	2.5%	2.8%
Pre-tax return on average equity	22.5%	23%

*Bank Ratings*

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AGUSTO & CO. LIMITED

**CURRENT DIRECTORS**

	<b>SHAREHOLDING %</b>
Mr. Macaulay Pepple (Chairman)	0.03
Mr. Jim Ovia (Managing/CEO)	4.40
Mr. Godwin Emefiele (Deputy Managing)	0.15
Chief Eddy M. Egwuenu	3.13
Sir. S.P.O. Fortune Ebie	0.02
Professor (Prince) L.F.O. Obika	0.02
Sir. Steven Omojafor	0.01
Mr. Babatunde Adejuwon	0.01
Alhaji Baba Tela	Nil
Mr. Peter Amangbo (Executive)	0.03
Mr. Elias Igbin-Akenzua (Executive)	0.06
Mr. Apollos Ikpobe (Executive)	0.06
Mr. Andrew Ojei (Executive)	0.04
Mr. Emmanuel Udom (Executive)	<u>0.04</u>
	<b><u>8.00</u></b>

**OTHER SIGNIFICANT SHAREHOLDERS**

Estate of Chief Nzemeke	7.11%
Lurot Burca Ltd	8.00%
Institutional Investors Ltd.	<u>11.15%</u>
	<b><u>26.26%</u></b>

**MANAGEMENT TEAM**

**Mr. Jim Ovia**, Managing Director & Chief Executive Officer, co-founded the Bank in 1990. His banking career spans over 27 years with financial institutions such as Barclays Bank, Nigeria and International Merchant Bank, Nigeria. Mr. Ovia holds a Bachelors Degree in Business Administration from the Southern University, Louisiana and a Masters Degree in Business Administration from University of Louisiana, Monroe Louisiana. He is also an alumnus of Harvard Business School. Mr. Ovia is a recipient of the 1999 Nnamdi Azikiwe Award for Professional Leadership and was conferred with the national award of *Member of the Order of the Federal Republic (MFR)* in 2000. He is currently on the board of various organizations including the Nigerian Investment and Promotion Council.

**Mr. Godwin Emefiele** is the Deputy Managing Director of Zenith Bank Plc. He joined Zenith Bank at its inception after working at the former Nigerian American Merchant Bank (NAMBL) and an academic career lecturing finance and insurance at both the Universities of Nigeria, Nsukka and University of Port Harcourt. Mr. Emefiele has experience in core banking areas such as corporate banking, treasury and financial services as well as strategic planning. He was appointed Deputy Managing Director of the Bank from an Executive Director position in 2001. Mr. Emefiele holds both a Bachelors Degree and a Masters Degree in Finance from the University of Nigeria Nsukka. His executive education includes training at the Stanford University, Wharton Business School and the Harvard Business School, U.S.A.

The Bank's senior management team also includes:

Mr. Peter Amangbo	Executive Director
Mr. Elias Igbin-Akenzua	Executive Director
Mr. Apollos Ikpobe	Executive Director
Mr. Emmanuel Udom	Executive Director
Mr. Andrew Ojei	Executive Director
Ms Adaora Umeoji	Group/Regional Director
Ms Pamela Yough	General Manager
Mrs. Nonye Ayeni	General Manager
Mr. Charles Okoye	General Manager
Mr. Ohimai Ehimiaghe	General Manager
Mr. Osadebe Osakwe	General Manager
Mr. Ebenezer Onyeagwu	General Manager
Mrs. Adobi Nwapa	General Manager
Mr. Kingsley Aigbokhaevbo	General Manager
Mrs. Adaeze Udensi	General Manager
Mr. Joseph Esenwa	General Manager



## **BANK PROFILE**

Zenith Bank Plc ('Zenith' or 'the Bank') is a publicly quoted Nigerian company that was incorporated as Zenith International Bank Limited in May 1990. The Bank commenced local operations in June 1990 and became known as Zenith Bank Plc in 2004 to reflect its status as a public company. Zenith operates under a Universal Banking License, which allows it to carry out commercial and investment banking services.

Zenith has an authorized capital of N5 billion, of which N4.6 billion was issued and fully paid as at year ended 30 June 2007. As at the same date, the significant shareholders were the Estate of Chief Nzemekwe (7.11%), Lurot Burca Ltd (8%) and Institutional Investors Ltd. (11%). The Bank has a fourteen member board of directors that jointly account for 8% of its equity (via direct ownership). Three of the directors were appointed in the period under review - Mr. Emmanuel Udom (*Executive Director*), Mr. Andrew Ojei (*Executive Director*) and Alhaji Baba Tela (*Non-Executive Director*).

The Bank's head office is located at Zenith Heights, Ajose Adeogun Street, Victoria Island, Lagos. The Bank operates through a branch network of 200 branches and 85 cash offices. Fifty six branches and 29 cash offices were established in the period under review. The Bank has a representative office in Johannesburg, South Africa and in April 2007, it opened a subsidiary in London, United Kingdom.

The Bank operates a relatively decentralized structure, with its branches grouped under eight zones and headed by two Executive Directors. Other key groups including the Credit Risk Management Group, Corporate Banking Group, Strategy & Business Development Group, Energy Group and the Operations Group are overseen by Executive Directors and other members of senior management. Loan approval is centralized, and the Bank's Credit Risk Management Group reports directly to the CEO. The Bank also has an audit committee made up of 3 Non-Executive Directors and 3 shareholders representatives (elected at the annual general meetings).

Zenith Bank mobilizes deposits from companies, individuals, and the public sector. The Bank's target for risk asset creation include multinational companies, top tier local corporates, medium sized companies and high net-worth individuals. The Bank has an aggressive liability generation strategy that harnesses its branch network and a range of liability generation products to mobilize deposits. These include an array of e-banking products, card and payment solutions. As at year ended 30 June 2007, the Bank had deployed 242 ATMs. The Bank's customers have access to over 1,200 ATM's by virtue of being part of the *Interswitch* ATM network.

## **Information Technology**

Zenith uses an online real time banking application called Phoenix to process its transactions. Phoenix runs on an IBM AIX operating system (Version 5L) and is deployed on IBM P690 servers. The Bank's branches are linked to head office and to each other via Vsat and wireless radio link and NITEL dial-up connections as back-up. The Bank is in the process of migrating to a more robust software called TEMENOS T24.

## **Subsidiaries & Affiliates**

Zenith Bank has transformed into a financial conglomerate offering various financial services through its subsidiaries. These subsidiaries include:

- Zenith Securities Ltd (99.92%) - *Stock broking*
- Zenith General Insurance Co. Ltd (80.12%) - *Insurance*
- Zenith Bank (Ghana) Ltd (100%) - *Commercial Banking*
- Zenith Pension Custodian Ltd (99%) - *Pension Admin*
- Zenith Capital Ltd (99.99%) - *Investment Banking*
- Zenith Registrars Ltd (99.98%) - *Securities Registrars*
- Zenith Medicare Ltd (79.71%) - *Health Insurance Mgt*
- Zenith Trust Co. Ltd (99.95%) - *Trusteeship*
- Zenith Life Assurance Ltd (81.23%) - *Insurance*
- Zenith Bank U.K. (100%) - *Wholesale Banking*

## **Track Record of Financial Performance**

With a balance sheet footing of N1.1 trillion as at year ended 30 June 2007, Zenith Bank is a dominant player in the Nigerian banking industry. Over the years, the Bank has recorded considerable growth, while upholding robust performance. The Bank's non-performing loans to total loans ratio has ranked amongst the lowest in the last five years and stood at 1.8% as at year ended 30 June 2007. The Bank has a strong liquidity profile and controls an estimated 14% of total local currency deposits. In the year under review, profitability remained stable, with pre-tax return on average equity of 22.5% and pre-tax return on average assets of 2.7%. Pre-tax ROE has averaged 27% in the last three years.

Zenith is one of the 10 settlement banks in Nigeria. The Bank is also a primary dealer and market maker for Federal Government bonds as well as a money market dealer for treasury bills issued by the CBN.

## **Correspondent Banks**

The Bank's foreign correspondent banks include Citibank N. A., (New York and London), HSBC Bank, South Africa, Deutsche Bank, (New York and London), Fortis Bank London, ANZ Group Limited (London), Commerzbank AG, Frankfurt, BNP Paribas, Paris, JP Morgan Chase Bank (New York & London) and Zenith Bank (UK) Ltd.



**ANALYST’S COMMENTS**

**ASSET QUALITY**

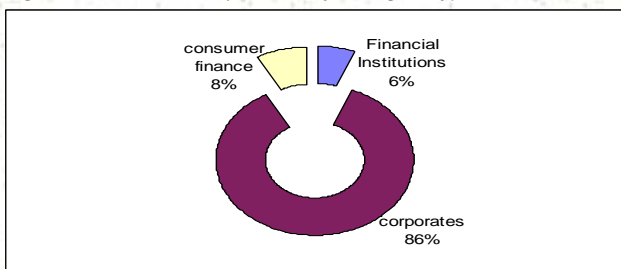
As at year ended 30 June 2007, Zenith had a total asset base (including off-balance sheet assets) of N1.1 trillion, reflecting a 57% increase over the previous year. The growth in on-balance sheet assets, which was underpinned by increases in deposits and capital, was most significant in liquid assets, which accounted for 35% of total assets & contingents. As at same date, contingent assets, wholly comprising bonds & guarantees had more than doubled to account for 21% of the Bank’s total asset base. The significant increase in bonds and guarantees was largely on account of a guarantee issued by the Bank for a recently established pension fund custodian subsidiary.

Zenith has a predominantly wholesale focus for risk asset creation. As at year end, the Bank’s loans portfolio (gross) increased by 12% to account for a reduced 21% of total assets (2006: 29%). The growth recorded in Zenith’s loan portfolio is moderate when compared to its peers. It is also the lowest growth recorded in the Bank’s loan book in the last five years. This is due to a deliberate strategy to curtail loan growth in the financial year under review.

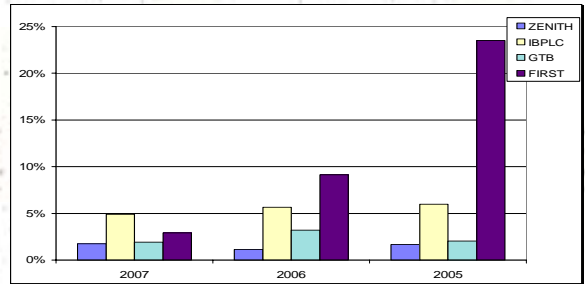
Zenith’s loan portfolio showed some diversity as at year end, with the top twenty exposures representing 21% of total credits. However, lending was concentrated by sector. Zenith’s largest industry exposure was to the manufacturing industry, which accounted for 44% of total loans. However, within this sector, loans were well split amongst various sub categories.

The Bank’s volume of non-performing loans grew by 74% to N4 billion and accounted for 1.8% of total loans, (2006:1.1%). Our deterioration ratio (which relates the increase in classified credits to credit growth) indicates that 7% of loans were newly classified. This unlike its selected peers - First Bank of Nigeria Plc (First), Guaranty Trust Bank Plc (GTBank) and Intercontinental Bank Plc (IBPLC) - that did not record a deterioration in their loan books. The volume increase in non-performing loans is largely on account of a single exposure. Management has divulged that the records show that this loan is performing, however, it was classified under the Bank’s internal non-performing loan recognition policy. Under this policy, loans that fail to meet the Bank’s expectations in terms of repayment amounts are classified even when there is some activity on the account.

*Figure 1: Breakdown of Loans by Obligor Type*



*Figure 2: Non-performing loans to Total Loans*



Zenith has historically focused on lending to credit worthy companies with good fundamentals. Coupled with a strict credit initiation policy and strong risk management framework. The historical performance of the Bank’s credits has been better than its peers. Classified loans as a proportion of total loans has ranged between a low of 1% to a high of 1.8% in the last five years.

The top twenty non-performing loans accounted for 80% of total classified loans and in spite of concentration of loans to the manufacturing sector, the general commerce sector accounts for the largest proportion of non-performing loans (37%). The manufacturing sector accounted for 9% of non-performing loans. The Bank has an aggressive provisioning policy for classified loans, with cumulative provision for non-performing loans at 151%. This is the highest amongst its selected peers which all provided fully, for non-performing loans - First (106%), GTBank: (132%) and IBPLC (106%). Zenith’s loan loss expense to interest income ratio of 2.9% is also good for its peerage

The Bank carries out an annual credit review aimed at improving its credit processes without compromising controls. This review has led to further breakdown of credit groups e.g. loan review and monitoring for overdrafts, term loans etc. Given the significant increase in investment in subsidiaries, the Bank is recruiting a Group Risk Manager to oversee risk management for the entire group.

Zenith Bank Management intends to continue to focus on large corporates for risk asset creation. Retail lending would remain minimal given that neither a successful national identification scheme nor credit bureau exist. In our opinion, the Bank’s asset quality is strong. Given increased competition and the trend towards middle market customers, Agusto & Co. believes any deterioration in non-performing loans will remain manageable in the short term.



**ANALYST'S COMMENTS**

**EARNINGS**

Zenith's net earnings grew by 48% to N68.7 billion in the year under review. In spite of the continued decline in net interest margins, the growth was largely from fund based activities, with a significant increase in income from trading activities. Net revenue from funds increased by 63% to N41.5 billion, and as a result, accounted for an increased 60% of net earnings (2006: 54%). Fees & other income and commissions both recorded some growth but accounted for a lower 12% and 24% of net earnings respectively. Foreign exchange income recorded a slight decline and accounted for 3% of net earnings. At 70%, the Bank's net interest margin compares well to its selected peers - First: 74%, GTBank: 54%, IBPLC: 67%.

Operating expenses increased by 45% to N45.4 billion in line with staff growth and branch expansion. Zenith's cost to income ratio of 66% is at par with most of its peers and the industry (First: 65%, GTBank: 56% and IBPLC: 65%). Staff costs as a percentage of operating expenses has hovered about 20% in the last three years.

Zenith's pre-tax return on average assets stood at 2.5% for the period under review, while pre-tax return on equity was 22.5%. Though the Bank's profitability is good by industry standards, it is low compared to most of its selected peers. The Bank's ROA is the lowest amongst its selected peers, while ROE is better than only one of its selected peers. Zenith's ROE is also lower than its peer average of 26%.

In order to grow earnings, the Bank intends to deepen its business in the telecommunications, energy and oil & gas sectors. We believe that Zenith is well positioned to take advantage of opportunities arising in these sectors, as well as from positive developments in the overall economy. In our opinion, the Bank's profitability is good, but will remain challenged by competition and expansion costs.

**CAPITAL ADEQUACY**

Zenith's capital base grew by 20% to N112.8 billion as at year end reflecting an increase in paid-up capital and retained earnings. During the period under review, the Bank obtained approval for additional subscription of shares under the Bank's public offering. The Bank's capital base is composed entirely of tier 1 capital and funded 10% of total assets. On the basis of its capital, the Bank ranks second in the industry, as at 30 June 2007.

The Bank's adjusted capital to risk weighted assets ratio declined to 29% from 33%. In spite of the decline, we consider the Bank to be well capitalized, given that its Basle ratio is more than twice the regulatory minimum of 10%. The Bank's loan to adjusted capital ratio of 2.9 times was also well below the regulatory maximum of 10 times. Zenith has met all regulations concerning capital adequacy, and in our opinion, the Bank's capital is adequate to support its business risks.

Figure 5: Tier 1 Capital

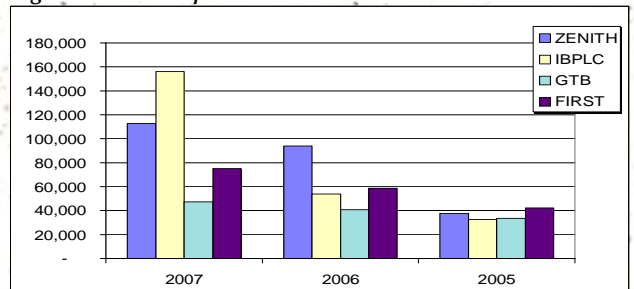


Figure 3: Pre-tax Return on Average Equity

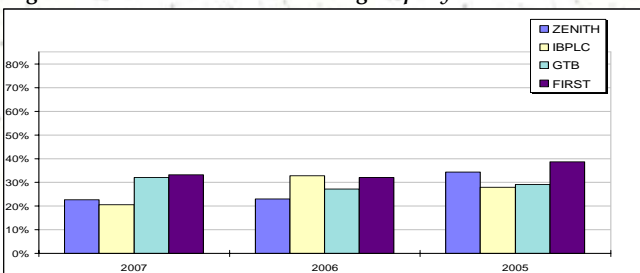
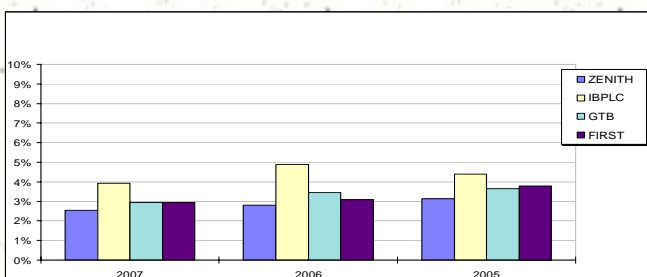


Figure 4: Pre-tax Return on Average Assets





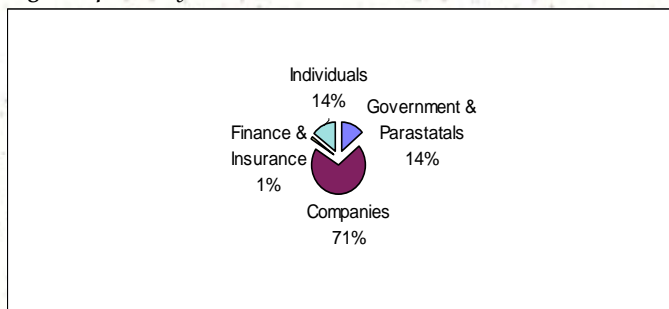
**ANALYST'S COMMENTS**

**LIQUIDITY & LIABILITY GENERATION**

Zenith Bank continues to leverage on a liability generation strategy hinged on branch expansion, aggressive marketing, service delivery and a good relationship management culture. As at year ended 30 June 2007, the Bank had total local currency deposits (excluding inter-bank takings) amounting to N568 billion, reflecting a 45% increase over the previous year figures. These customer deposits funded 51% of the Bank's total assets. Our review of the Bank's monthly filings to the Central Bank of Nigeria (CBN) show relative stability in Zenith's deposit base in the two months subsequent to year end.

As at year ended 30 June 2007, the Bank's local currency deposit base reflected a slight shift away from tenored deposits to demand deposits. Demand deposits accounted for 72% of total local currency deposits, while savings and time deposits accounted for 5% and 23% respectively. This deposit mix also translated to a slightly better weighted average cost of funds of 4.1%, which compares well to its peers and to the industry at large. Corporates and commercial names account for the bulk of the Bank's deposits (see chart below). However, the Bank's deposit mix is relatively well diversified as the top twenty depositors accounted for only 9% of total deposits as at year end.

*Fig 6: Deposits by Source*



As at year end, the Bank met all regulatory requirements for liquidity with a liquidity ratio of 69% and a loan to deposit ratio (after backing out loans funded by free capital) of 25%.

Asset-liability mismatches are minimal, as the bulk of the Bank's loans fall within the same one month maturity bracket as its deposits. Most of Zenith's long term loans (i.e. greater than 12 months) are funded by long term borrowings from multilateral institutions which translated to N21.9 billion as at year end. The Bank also has clean lines with some of its foreign correspondent banks totaling over \$600 million. The Bank mitigates exchange rate risk on these facilities by lending to customers that earn in foreign currency and in other cases by incorporating a loss clause that triggers the conversion of the facility to local currency when exchange rate risk is envisaged to be high.

Zenith Bank has a good reputation in the money market and we believe that its ability to refinance is good. In our opinion the Bank's liquidity profile is strong.

**OWNERSHIP, MANAGEMENT & STAFF**

Zenith Bank Plc has a relatively wide ownership base comprising Nigerian citizens, associations etc. the shareholding base has become more diluted in the past two years, with only 3 shareholders controlling over 5% of its equity. The Bank has a 14 member board of directors that jointly account for 8% of its outstanding shares.

Mr. Jim Ovia is the pioneer Managing Director of the Bank, while Mr. Godwin Emefiele is the Deputy Managing Director of the Bank. They are part of a Senior Management Team also comprising 5 other Executive Directors, 15 General Managers, 31 Deputy General Managers and 42 Assistant General Manager. Turnover is low in Zenith's senior management team, and most have been with the Bank for a considerable number of years. As at year end, the Bank's staff strength increased to 4,966 from 3,911 in line with branch expansion and a deliberate attempt to enhance staff capacity. The bulk of staff (94%) are in the lower cadre (from entry level to managers), 6% are in the middle cadre, while the six members of Executive Management represent less than 1% of staff numbers.

During the period under review, staff productivity as indicated by net earnings per staff stood at N13.8 million up from N11.9 million in the previous year. Staff costs per employee also increased slightly to stand at N2.7 million, but is lower than its peer average of N4 million. In addition, our other productivity ratios reveal that the Bank's productivity is better than that of only one of its peers. In our opinion, the Bank's management is stable and experienced, however, staff productivity requires improvement.

*Fig 7: Productivity Ratios*

	Zenith N'000	First N'000	GTBank N'000	IBPLC N'000
Net earnings/Staff	13,829	8,588	19,685	15,323
Assets/Staff	225,220	120,638	365,774	175,866
Loans/Staff	46,133	30,570	74,935	66,917
Deposits/Staff	114,380	78,882	187,994	118,369

**ANALYST’S COMMENTS**

**MARKET POSITION**

Over the years, Zenith Bank’s aggressiveness and reputation has enabled the Bank grow its market share and maintain a strong industry position. In particular, the Bank has been able to build a strong brand that is well known locally and in Ghana where it has been operating for a couple of years.

The Bank controls an estimated 14% of the industry’s local currency deposits, 13% of net earnings and 12% of loans & advances. The Bank also accounts for 12% of the industry’s profit before tax. Zenith ranks amongst the top three on all our major market share indices. In our opinion, the Bank’s market position is strong. We also believe that it is sustainable in the short to medium term.

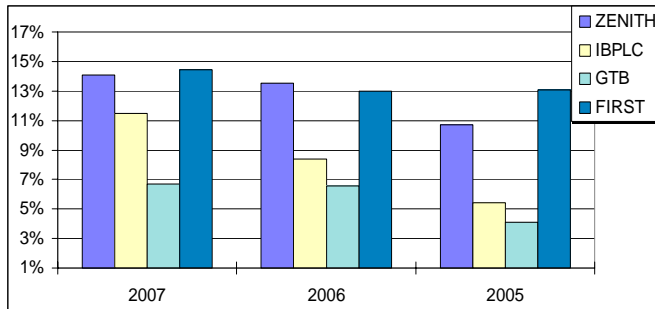
Zenith intends to focus on corporate banking to grow business volumes so as not to compromise on asset quality. The Bank’s strategy on the retail front is to use its branch network to mobilise deposits while providing efficient banking services to its customers. We do not consider the Bank’s decision to focus on corporates for asset creation as a weakness, especially as it has leveraged on this strategy to grow on a recurring basis. However, as the industry develops, the banking public become more sophisticated, and competition intensifies, it would become necessary to have a well thought out retail strategy.

**OUTLOOK**

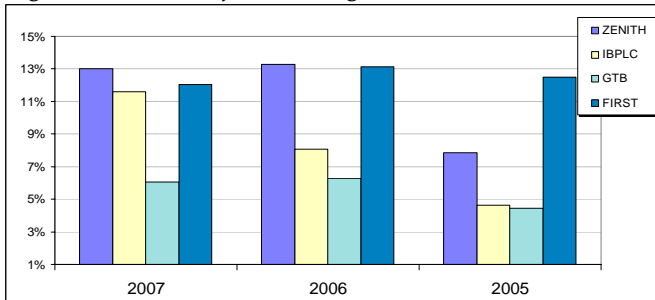
Zenith Bank like other banks in Nigeria has raised additional capital to further provide a more robust platform for operations. The Bank has opened a subsidiary in the United Kingdom and intends to open additional banking subsidiaries in the West African sub-region. Should these subsidiaries be successfully established, Zenith could become a key player in the West African sub-region in the medium term. The Bank also intends to continue to develop competencies in other areas related to corporate banking.

The Bank has budgeted an 11% increase in gross earnings and 24% increase in profit before taxation for the 2008 financial year. As with other peers, Zenith will need to broaden its income streams and reduce its cost profile. The main challenge facing the Bank would be developing clear competitive advantage with which to compete with its peers, particularly those in the top league who have broadened their income streams by including the retail segment for both liability generation and asset creation.

*Fig 8: Market Share of LCY Deposits (est.)*



*Fig 9: Market Share of Net Earnings (est.)*





<u>BALANCE SHEET AS AT</u>	<u>30-Jun-2007</u>		<u>30-Jun-2006</u>		<u>30-Jun-2005</u>	
	N'000		N'000		N'000	
<b><u>ASSETS</u></b>						
1 Cash & equivalents	26,414,781	2.4%	7,856,302	1.1%	21,190,347	5.7%
2 Government securities	364,273,052	32.6%	208,910,969	29.2%	92,229,832	24.9%
3 Special Treasury Bills						
4 Quoted investments						
5 Placements with discount houses						
6 LIQUID ASSETS	<u>390,687,833</u>	<u>34.9%</u>	<u>216,767,271</u>	<u>30.3%</u>	<u>113,420,179</u>	<u>30.6%</u>
7 BALANCES WITH NIGERIAN BANKS						
8 BALANCES WITH BANKS OUTSIDE NIGERIA	122,801,523	11.0%	68,780,880	9.6%	45,974,611	12.4%
9 Direct loans and advances - Gross	229,096,303	20.5%	204,057,179	28.6%	125,531,307	33.9%
10 Less: Cumulative loan loss provision	<u>(6,088,993)</u>	<u>-0.5%</u>	<u>(4,349,319)</u>	<u>-0.6%</u>	<u>(3,036,911)</u>	<u>-0.8%</u>
11 Direct loans & advances - net	223,007,310	19.9%	199,707,860	28.0%	122,494,396	33.0%
12 Advances under finance leases - net	2,444,566	0.2%	1,716,364	0.2%	841,165	0.2%
13 TOTAL LOANS & LEASES - NET	<u>225,451,876</u>	<u>20.2%</u>	<u>201,424,224</u>	<u>28.2%</u>	<u>123,335,561</u>	<u>33.3%</u>
14 INTEREST RECEIVABLE	2,554,441	0.2%	525,031	0.1%	201,812	0.1%
15 OTHER ASSETS	12,285,147	1.1%	8,580,686	1.2%	4,554,075	1.2%
16 DEFERRED LOSSES						
17 RESTRICTED FUNDS	79,087,884	7.1%	74,743,011	10.5%	21,012,459	5.7%
18 UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES	13,604,818	1.2%	4,537,069	0.6%	925,469	0.2%
19 OTHER LONG-TERM INVESTMENTS	2,923,474	0.3%	10,044,666	1.4%	5,213,594	1.4%
20 FIXED ASSETS & INTANGIBLES	<u>34,543,930</u>	<u>3.1%</u>	<u>23,102,337</u>	<u>3.2%</u>	<u>15,078,751</u>	<u>4.1%</u>
21 TOTAL ASSETS	<u>883,940,926</u>	<u>79.0%</u>	<u>608,505,175</u>	<u>85.2%</u>	<u>329,716,511</u>	<u>88.9%</u>
22 TOTAL CONTINGENT ASSETS	234,502,026	21.0%	106,008,170	14.8%	41,004,756	11.1%
23 TOTAL ASSETS & CONTINGENTS	<u>1,118,442,952</u>	<u>100%</u>	<u>714,513,345</u>	<u>100%</u>	<u>370,721,267</u>	<u>100%</u>
<b><u>CAPITAL &amp; LIABILITIES</u></b>						
24 TIER 1 CAPITAL (CORE CAPITAL)	112,833,323	10.1%	93,800,665	13.1%	37,789,662	10.2%
25 TIER 2 CAPITAL						
26 Long term foreign borrowings	26,697,100	2.4%	12,750,000	1.8%		
27 Demand deposits	405,938,686	36.3%	269,451,888	37.7%	170,386,725	46.0%
28 Savings deposits	30,230,365	2.7%	17,539,555	2.5%	6,795,608	1.8%
29 Time deposits	131,843,040	11.8%	105,872,256	14.8%	56,231,095	15.2%
30 Inter-bank takings						
31 TOTAL DEPOSIT LIABILITIES - LCY	568,012,091	50.8%	392,863,699	55.0%	233,413,428	63.0%
32 Customers' foreign currency balances	119,967,325	10.7%	59,412,559	8.3%	25,756,476	6.9%
33 TOTAL DEPOSIT LIABILITIES	687,979,416	61.5%	452,276,258	63.3%	259,169,904	69.9%
34 INTEREST PAYABLE	1,159,508	0.1%	1,464,047	0.2%	494,915	0.1%
35 OTHER LIABILITIES	55,271,579	4.9%	48,214,205	6.7%	32,262,030	8.7%
36 TOTAL CAPITAL & LIABILITIES	<u>883,940,926</u>	<u>79.0%</u>	<u>608,505,175</u>	<u>85.2%</u>	<u>329,716,511</u>	<u>88.9%</u>
37 TOTAL CONTINGENT LIABILITIES	234,502,026	21.0%	106,008,170	14.8%	41,004,756	11.1%
38 TOTAL CAPITAL, LIABILITIES & CONTINGENTS	<u>1,118,442,952</u>	<u>100%</u>	<u>714,513,345</u>	<u>100%</u>	<u>370,721,267</u>	<u>100%</u>
Proof						
<b><u>BREAKDOWN OF CONTINGENTS</u></b>						
39 Acceptances & direct credit substitutes			2,263,125	0.3%		
40 Guarantees, bonds etc..	234,502,026	21.0%	103,745,045	14.5%	41,004,756	11.1%
41 Short-term self liquidating contingencies						

<u>INCOME STATEMENT FOR THE YEAR ENDED</u>	<u>30-Jun-2007</u>		<u>30-Jun-2006</u>		<u>30-Jun-2005</u>	
	N'000		N'000		N'000	
Interest income	62,017,026	69.5%	37,294,653	64.1%	22,885,377	65.5%
Interest expense	(18,733,167)	-21.0%	(10,462,632)	-18.0%	(5,620,169)	-16.1%
Loan loss expense	(1,783,325)	-2.0%	(1,306,925)	-2.2%	(1,974,966)	-5.7%
NET REVENUE FROM FUNDS	41,500,534	46.5%	25,525,096	43.8%	15,290,242	43.8%
ALL OTHER INCOME	27,176,754	30.5%	20,927,170	35.9%	12,028,085	34.5%
<b>NET EARNINGS</b>	<b>68,677,288</b>	<b>77.0%</b>	<b>46,452,266</b>	<b>79.8%</b>	<b>27,318,327</b>	<b>78.2%</b>
Staff costs	(13,733,641)	-15.4%	(9,224,517)	-15.8%	(5,860,620)	-16.8%
Depreciation expense	(4,481,864)	-5.0%	(3,160,531)	-5.4%	(2,277,797)	-6.5%
Other operating expenses	(27,172,955)	-30.5%	(18,913,127)	-32.5%	(10,015,123)	-28.7%
TOTAL OPERATING EXPENSES	(45,388,460)	-50.9%	(31,298,175)	-53.8%	(18,153,540)	-52.0%
PROFIT (LOSS) BEFORE TAXATION	23,288,828	26.1%	15,154,091	26.0%	9,164,787	26.3%
TAX (EXPENSE) BENEFIT	(5,779,683)	-6.5%	(3,665,291)	-6.3%	(2,008,861)	-5.8%
<b>PROFIT (LOSS) AFTER TAXATION</b>	<b>17,509,145</b>	<b>19.6%</b>	<b>11,488,800</b>	<b>19.7%</b>	<b>7,155,926</b>	<b>20.5%</b>
NON-OPERATING INCOME (EXPENSE) - NET						
PROPOSED DIVIDEND	(9,265,524)	-10.4%	(6,600,000)	-11.3%	(4,200,000)	-12.0%
<b>GROSS EARNINGS</b>	<b>89,193,780</b>	<b>100%</b>	<b>58,221,823</b>	<b>100%</b>	<b>34,913,462</b>	<b>100%</b>
AUDITORS	PWC		PWC		PWC	
OPINION	CLEAN		CLEAN		CLEAN	

<u>KEY RATIOS</u>	<u>30-Jun-2007</u>		<u>30-Jun-2006</u>		<u>30-Jun-2005</u>
<b>EARNINGS</b>					
Net interest margin	69.8%		71.9%		75.4%
Loan loss expense/Interest income	2.9%		3.5%		8.6%
Return on average assets (Pre - tax)	2.5%		2.8%		3.1%
Return on average equity (Pre - tax)	22.5%		23.0%		34.3%
Operating Expenses/Net earnings	66.1%		67.4%		66.5%
Gross earnings/Total assets & contingents	9.7%		10.7%		11.9%
<b>EARNINGS MIX</b>					
Net revenue from funds	60.4%		54.9%		56.0%
All other income	39.6%		45.1%		44.0%
<b>LIQUIDITY</b>					
Total loans & leases - net/Total lcy deposits	28.8%		35.8%		45.7%
Liquid assets/Total lcy deposits	68.8%		55.2%		48.6%
Demand deposits/Total lcy deposits	71.5%		66.4%		73.0%
Savings deposits/Total lcy deposits	5.3%		4.3%		2.9%
Time deposits/Total lcy deposits	23.2%		26.1%		24.1%
Inter-bank borrowings/Total lcy deposits					
Interest expense - banks/Interest expense	0.3%		0.4%		1.0%
<b>NET FOREIGN CURRENCY ASSETS (LIABILITIES)</b>	<b>2,834,198</b>		<b>9,368,321</b>		<b>20,218,135</b>



<u>KEY RATIOS CONT'D</u>	<u>30-Jun-2007</u>	<u>30-Jun-2006</u>	<u>30-Jun-2005</u>
<b>ASSET QUALITY</b>			
76 Performing loans (N'000)	225,073,926	201,747,774	123,446,384
77 Non-performing loans (N'000)	4,022,377	2,309,405	2,084,923
78 Non-performing loans/Total loans - Gross	1.8%	1.1%	1.7%
79 Loan loss provision/Total loans - Gross	2.7%	2.1%	2.4%
80 Loan loss provision/Non-performing loans	151.4%	188.3%	145.7%
81 Risk-weighted assets/Total assets & contingents	31.0%	37.8%	43.3%
<b>CAPITAL ADEQUACY</b>			
82 Adjusted capital/risk weighted assets	28.7%	33.0%	23.0%
83 Tier 1 capital/Adjusted capital	114%	105%	103%
84 Adjusted capital/Total loans - net	227%	226%	335%
85 Capital unimpaired by losses (N'000)	112,833,323	93,800,665	37,789,662
<b>CAPITAL ADEQUACY STRESS TEST</b>			
86 Equity after required reserves/risk weighted assets	24.8%	29.2%	19.0%
<b>STAFF INFORMATION</b>			
87 Net earnings per staff (N'000)	13,829	11,877	10,399
88 Staff cost per employee (N'000)	2,766	2,359	2,231
89 Staff costs/Operating expenses	30.3%	29.5%	32.3%
90 Average number of employees	4,966	3,911	2,627
91 Average staff per branch	19	27	25
<b>OTHER KEY INFORMATION</b>			
92 Legal lending limit(N'000)	39,491,663	32,830,233	13,226,382
93 Number of branches	263	144	104
94 Age (in years)	17	16	15
95 Government stake in equity (Indirect)			
	Estimates	Estimates	Actual
<b>MARKET SHARE OF INDUSTRY TOTAL</b>			
	2006	2006	2005
96 Lcy deposits (excluding interbank takings)	14.1%	13.5%	10.7%
97 Total assets & contingents	14.3%	13.5%	8.9%
98 Total loans & leases - net	12.0%	11.7%	10.5%
99 Net earnings	13.0%	13.3%	7.9%
100 Profit before tax	12.3%	10.8%	8.8%

# *Agusto & Co Limited*

**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) may be added to a rating. A plus added to a rating indicates that the rating may be raised. A minus means that the rating may be lowered. When no plus/minus is added to the rating, this means that the rating is unlikely to change. *A positive or negative added to a rating is therefore a reflection of the rating outlook.*