

CardinalStone Partners Limited

Nigeria Financial Institution Analysis

June 2020

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	BBB _(NG)	Stable	May 2021
Short-term	National	A3 _(NG)		

Financial data:

(USDm comparative) *

	31/12/18	31/12/19
NGN/USD (avg.)	305.6	306.4
NGN/USD (close)	306.5	306.5
Total assets	68.0	86.8
Total capital	5.4	14.1
Net advances	1.4	7.7
Liquid assets	42.4	43.4
Operating income	6.4	9.7
Profit after tax	0.9	3.5
Market cap.	n.a.	
Market share	n.a.	

*Central Bank of Nigeria ("CBN") exchange rate

Rating history:

Initial/last rating (June 2020)

Long term: BBB_(NG)

Short term: A3_(NG)

Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
Glossary of Terms/Ratios, February 2016

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Summary rating rationale

- CardinalStone Partners Limited ("CardinalStone" or "the company") is a diverse player in the financial services space, with a track record of over a decade. CardinalStone has significant interest in four other companies (jointly referred to as "the Group"), through which it offers an array of services including consumer finance, financial advisory, asset management, share registration and securities trading. Cognisance is taken of the wealth of experience of the management team in the financial market space.
- The Group's capitalisation is considered strong relative to its current risk level, displaying a capital to total asset ratio of 16.2% at FY19. Shareholders' funds peaked at N4.3bn (FY18: N1.7bn), underpinned by capital injection and retained earnings in FY19. This grew further by 10.4% at end-May 2020. Going forward, management has indicated plan to raise additional capital in the near term.
- Asset quality deteriorated in FY19, with gross impaired loans escalating year-on-year 4.6 times to N475.5m. Nevertheless, the recorded aggressive loan growth led to a slight decline in gross non-performing loan ("NPL") ratio, which ended lower at 18.5% (FY18: 19.8%). The ratio remained above the CBN's limit of 10%. Furthermore, provisioning level is considered low, as general coverage of impaired loans lowered to 42.2% at FY19 (FY18: 74.8%).
- Liquidity position is considered satisfactory; liquid to short term funding ratio has remained strong over the last three years, standing at 81.4% at FY19. Furthermore, the balance sheet is generally liquid, with liquid assets constituting up to half of the group's balance sheet at FY19.
- The Group reported a pre-tax profit of N1.3bn for FY19, with performance supported by improvement in both net interest income and non-interest income, with rapid advances growth and securities trading as the key performance drivers. Accordingly, total operating income ("TOI") peaked at N3bn during the year (FY18: N2bn). While operating expenses registered a rise of 15.1%, driven by staff related expenses and rent and maintenance costs. Nevertheless, some level of efficiency was achieved, with the cost ratio moderating to 51.8% from 68% the previous year. Consequently, return on average equity and assets ("ROaE and ROaA") closed at 41.5% and 4.5% in FY19 (FY18: 18.2% and 1.4%) respectively. A pre-tax profit of N335.7m was recorded for the five-month period to May 2020.

Factors that could trigger a rating action may include

Positive change: The rating may be reviewed upward following a significant and sustained improvement in performance metrics (including profitability, asset quality and liquidity).

Negative change: The rating may be revised downward as a result of weakening in asset quality metrics and/or decline in profitability which impacts the group's capital.

Organisational profile

Corporate summary

CardinalStone is a private limited liability company, incorporated in April 2008 and commenced operations shortly afterwards. Principal activities include the provision of investment banking and financial advisory services. The company operates from its headquarter in Lagos, and an office in Abuja.

Ownership structure

Table 1 highlights the ownership structure of CardinalStone at 31 December 2019.

Table 1: Major shareholders	% Holding	
	FY18	FY19
CardinalStone Limited	50.4	40.7
Bridgehampton Integrated Service LTD	20.3	16.8
Ifenwona Investments Limited	10.1	8.3
Adeola Afolabi	10.1	8.2
Chizzy Nigeria Limited	-	5.3
Others (<5%)	9.1	20.7
Total	100.0	100.0

Source: CardinalStone.

The group structure

CardinalStone is an operational holding company of the Group and constituted 84% of the Group's asset base as at end FY19. On a standalone basis, principal activities of the company include investment banking related services and proprietary trading. The Group has four subsidiaries and an associate company, each are named below with brief description of their activity;

- i) CardinalStone Securities Limited ("CSS") – commenced operations in 2009, and is registered with the Securities and Exchange Commission ("SEC") and The Nigerian Stock Exchange ("NSE") as a Broker/ Dealer and a dealing member respectively. CSS is 99.9% owned by the group and is engaged in stock brokerage.
- ii) CardinalStone Registrars Limited ("CSRL") – incorporated as a limited liability company on 30 April 2002, and commenced operations in March 2006. CSRL is registered with SEC as a Registrar, and its principal activity is share registration services. The group owns 77.7% shares in CSRL.
- iii) CS Advance Finance Company Limited ("CSAdvance") – was issued an approval as a finance house on July 1, 2016 by CBN to provide all range of permissible financial services (including consumer lending). The main objective of CSAdvance is to increase financial inclusion for low to middle income earners in Nigeria. The group owns 95% shares in CSAdvance as at end-December FY19.
- iv) CardinalStone Asset Management Limited ("CAM") – incorporated in April 2016 was approved by SEC in December 2019 to operate and carryout services of an asset management

company. Prior to 2019, asset management operations were carried out by CardinalStone. CAM is wholly owned by the group, with 99.9% shareholdings.

- v) CardinalStone Capital Advisers Limited ("CCA") – is a private equity firm incorporated in March 2016, and has its primary activities include that of a financier, fund investor and consultant to businesses. The group owns 20% shares in CCA, hence is an associate company.

Other non-financial interest of the Group include;

- Stoneworks Industries Limited - produces aggregates for construction purposes.
- DataGuard Document Management Limited – offers highly secure document security and storage solutions.
- Acro Marine & Oilfield Services Limited – specializes in the provision of marine logistics services.
- Crest Agro Products Limited – agro based company specializes in growing and processing cassava.

Shared services

Although each subsidiary is responsible for its core operations, the Group however is solely responsible for shared services across the subsidiaries, such as human resources, legal, information technology, brand and corporate communication and administrative services. Other support services which have heads at the group level to oversee performance at each subsidiary include: risk management, finance control.

Strategy and operations

The Group is currently operating within its latest five-year strategic plan, launched in January 2020. The strategic plan focuses on growth and expansion, and aimed at better competitive positioning CardinalStone across its business lines. Specifically, the Group is planning to expand its digital business, intended to support the growing client base, especially in the securities trading and asset management businesses. Furthermore, as part of its growth and expansion plan, the Group recently set up a Trustees subsidiary with the intention to acquire a license soon. According to management, operations are expected to commence in the first quarter of 2021.

Currently, the Group operates mainly in Lagos, with a staff compliment of 152 as at December 31, 2019.

Governance structure

Overall, the composition of the board of directors is considered satisfactory in terms of experience and expertise of members.

Table 2 below summarises the key governance structure at CardinalStone.

Table 2: Corporate governance

Description	Findings
Board composition	2 Executives, 5 NEDs* (including the Chairman)
Separation of power	Yes, Chairman different from CEO†
Independent directors	Yes
Number/ names of Board committees	2, (comprising: Finance, Credit & Risk and Corporate governance management)
Board rotation policy	4 years, max. of 3 terms
Internal auditor & compliance	Yes, report independently
External auditor	PKF Professional Services

*Non-executive director ("NED")

†Chief executive officer ("CEO")

Financial reporting

The Group prepares its financial statements in line with International Financial Reporting Standards, the Companies and Allied Matters Act and Financial Reporting Council of Nigeria requirements. The external auditor, PKF Professional Services issued an unqualified opinion on the 2019 financial statements.

Operating environment

Economic overview

The Nigerian economy sustained growth momentum in 2019, with the gross domestic product ("GDP") expanding by 2.27% y/y, up from 1.91% registered in 2018. The recorded growth was largely underpinned by the curtailed pipeline vandalism, calmness in the oil-producing regions, and the relative stability in global crude oil prices and foreign exchange ("FX") market. While the oil sector registered a robust growth of 4.59% (2018: 0.97%), the non-oil sector improved slightly by 2.06% in 2019 relative to 2% recorded in 2018. However, the Nigerian economy is currently witnessing a sharp slowdown due to the coronavirus disease ("COVID-19"), which is being compounded by the contraction in crude oil demands and dwindling prices at the international market. In a bid to stimulate prices, the Organisation of Petroleum Exporting Countries (OPEC) and its allies in mid-April 2020 agreed to a global production cut of about 10 million barrels per day. This production cut, coupled with the gradual easing of lockdown across most countries resulted in an uptick in global crude oil prices, which hovers between USD30/barrel and USD40/barrel in June 2020.

The headline inflation rate increased to 12.4% in May 2020, for the ninth consecutive months owing to supply constraints, higher input costs and increased system liquidity. To curtail inflationary pressures, CBN increased the cash reserve requirement ("CRR") by 500 basis points to 27.5% in January 2020, and has also recently released some policies to cushion the adverse impact of the COVID-19 pandemic on the economy. These measures include, among others, a reduction in interest rates on all CBN intervention facilities to 5% from 9% (for one year with effect from 01 March 2020), and the creation of N50bn

targeted credit facility to households and SMEs negatively affected by the pandemic. However, the pressures of the current macroeconomic challenges have resulted in the depreciation of FX rate to N360/USD and N380/USD from N306.5/USD and N360/USD at the official window and Investors' & Exporters' window, respectively. Similarly, the external reserves declined to USD36.6bn at end-May 2020 from USD38.6bn as at 31 December 2019, with further contractions expected over the short term on account of the relatively low FX earnings. Given that the Nigerian economy is heavily dependent on the oil sector, which has overtime accounted for over 90% of foreign exchange earnings and over 60% of government budgetary revenues, the current dwindling global crude oil price remains a major concern.

In a bid to consolidate growth over the medium term, the Federal Government of Nigeria ("FGN") had maintained an expansionary policy, with a budget of N10.59tn for 2020 fiscal year (2019: N8.92tn). The estimate was based on an oil benchmark of USD57/barrel, a daily production output of 2.18mbpd, new value added tax rate of 7.5% (from 5% previously), *inter alia*. In light of the current macroeconomic challenges, the FGN reviewed the oil benchmark downwards to USD28/barrel, daily production output to 1.8mbpd, while also indicating external borrowing plans to cushion the economic impact of the pandemic. GCR however, expects the continuing slowdown in economic activities to have significant implications for budget implementation and its already elevated credit risk profile.

The Nigerian Stock Exchange ("NSE") All-Share Index ("ASI") sustained a negative trend in 2020, contracting by 5.9% as at end-May 2020. The bearish stock market performance was largely driven by the challenges in the macroeconomic landscape, underwhelming trends in foreign portfolio investments as well as profit takings.

Operating environment

In October 2019, the Central Bank of Nigeria issued a circular through which it barred individuals and local corporates (inclusive of non-bank financial institutions) from investing in open market operation (OMO) auctions, leaving the Nigerian Treasury Bills as the only alternative to local investors. Accordingly, this resulted in a significant decline in yield of T-Bills as demand ramped up in this market.

The following paragraphs summaries operating environment of the some of the Group's regulated subsidiaries.

CAM

Asset and portfolio management sector is regulated by the Securities and Exchange Commission, and

comprised about 100 licenced operators. The industry is at a fast-growing pace with each of the players crafting its niche within the permissible activities of the licence.

CSAdvance

The finance companies subsector is highly fragmented, given the significant variation in mode of operation of most players within the subsector. The revised guidelines for the subsector listed an array of permissible activities for players, which include: consumer finance, fund management, asset finance, project finance, local and international trade finance, debt factoring, debt administration, loan syndication and financial consultancy (amongst others).

Competitive position

Based on the unique and diverse business model of the Group, and also given the fact that competitors with similar operating model are not publicly quoted (hence non-availability of information), a meaningful analysis of its competitive position cannot be currently established.

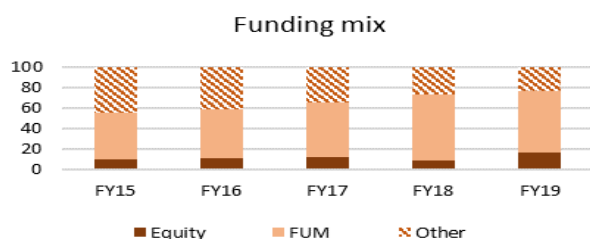
Financial profile

Likelihood of support

Financial support for the Group is limited to its shareholders, majority of whom are promoters of the business and have demonstrated support (as and when required) in the past.

Funding composition

The Group's balance sheet is financed through equity, fund under management ("FUM") and other liabilities. The following paragraphs provide more details on each of the funding sources.



Source: CardinalStone AFS

Capital

The Group's shareholders' funds has reported a level of variability over the review period, largely a function of dividend payouts and reserving over the period. At FY19, shareholders' funds peaked at N4.3bn (FY18: N1.7bn) underpinned by capital injection and retained earnings during the period. This grew further by 10.4% at end-May 2020. Furthermore, capital to total asset ratio rose to 16.2% from 8% previously. Going forward, management has indicated plan to raise additional debt capital in the near term.

Capitalisation of CSAdvance: As at December FY19, CSAdvance's shareholders' fund stood at N104.8m, from a negative position in the prior year. This was achieved as the company was able to write down its accumulated loss from profit made during the year. Accordingly, a risk weighted capital adequacy ratio ("CAR") of 5.4% was recorded at FY19 (FY18: -1.5%), well below the regulatory minimum of 12.5%. However, the Group made a deposit for shares in CSAdvance which was yet to be allotted at the balance sheet date. The inclusion of this in CAR computation could have seen the ratio registered at 15.9%.

Capitalisation for CSRL: Total capital for CSRL stood at N1.7bn at FY19, ahead of the N150m required minimum for its license category.

Capitalisation for CSS: Total capital for CSS improved to N657.4m at FY19 (FY18: N582.4m), and remained above the N300m required minimum for its license category.

Fund under management

This represents fixed income investment notes issued to various clients of CAM and are mostly long tenored, having about 60% mature over 12 months. FUM grew 19.4% to N16.1bn at FY19, and has been projected to rise to N40bn by end of 2020 on the back of the anticipated launch of its first mutual funds.

Other liabilities

Other liabilities comprise short term loans and commercial papers (includes borrowings from the public both individuals and corporate bodies (N547.4m)), payables (mostly balance on client stock account (N4.7bn)) and others (N856.4m).

Liquidity positioning

Consolidated liquidity position is considered satisfactory, liquid to short term funding ratio has remained strong over the last three years, standing at 81.4% at FY19. Furthermore, the balance sheet is generally liquid, with liquid assets constituting up to half of the group's balance sheet at FY19.

Risk management

CardinalStone has in place an enterprise-wide risk management framework that identifies and manages inherent risk in its operations including; market, credit and liquidity risks. The board performs its risk management oversight through the board risk management committee. While the board reviews and approves risk policies across the Group, the committee provides assurance to the board that activities are governed by the approved policies. In view of the group's growing lending activities, credit risk remains the most significant risk and as such, layers of approval processes are in place to help minimise such risk. While the head of risk

management is domiciled at the Group level, CSAdvance and CSRL each have their risk management unit.

Asset composition

Total assets grew notably 27.8% to N26.6bn at FY19, supported by the expansion in loans and advances, as well as rise in financial assets.

Table 3: Asset Mix	FY18		FY19	
	N'm	%	N'm	%
Cash and liquid assets	13,000.1	62.4	13,322.7	50.1
Cash	1.6	0.0	3.3	0.0
Trading assets	7,777.4	37.3	7,038.8	26.4
Bal. with other banks *	5,221.1	25.1	6,280.6	2.6
Loans and advances	442.7	2.1	2,362.9	8.9
Financial assets	3,513.8	14.0	7,248.5	27.2
Fixed debt placement	2,847.2	13.7	4,701.6	17.7
Listed equities	607.3	2.9	2498.1	9.4
Unlisted equities	59.3	0.3	48.8	0.2
Investment in subsidiaries	-	-	550.0	2.1
Property, Plant & Equip.	85.1	1.8	515.6	1.9
Other assets	3,488.7	16.7	2,618.7	9.8
Total	20,830.4	100.0	26,618.4	100.0

*Net of bank overdraft

Source: AFS.

Financial assets comprise fixed debt placements, listed and unlisted equities (Table 3). Fixed debt placements are the group's investment in Eurobonds, government bonds and commercial papers. Total exposure to equity securities increased by almost three folds to N2.5bn, albeit constituted a moderate 9.6% of total asset pool. On the other hand, while there was a slight increase of 2.5% in liquid assets, it constituted a reduced 50.1% of the enlarged asset base at FY19 (FY18: 62.4%).

Included in other assets are intangibles assets (mostly related to software purchase), receivables (from clients and related parties) and prepayments.

Loan portfolio

Table 4: Loans book characteristics (%)	FY18	FY19
By type:		
Personal loans	38.4	82.2
Fast cash	0.1	0.0
Margin loans	61.5	17.8
By maturity		
< 1 month	22.6	22.6
1-3 months	40.4	40.4
3-6 months	8.6	8.6
6-12months	27.1	27.1
> 12months	1.3	1.3

Source: CardinalStone

Gross loans rose five folds to N2.6bn at FY19, as personal lending significantly increased during the period. The group's loan portfolio is mainly short dated, having the bulk (63%) maturing within three months. The loan pool is well diversified by obligor, as the exposures are mainly to individuals. Gross loans include loans issued by CardinalStone and two other subsidiaries. While management has forecast a

100% growth for FY20, the loan book reflects a 30% decline to N2bn at end-May 2020.

Personal loans are issued by CSAdvance, and constituted the bulk of the loan book at FY19. These loans are mostly non-collateralised short dated facilities, and are well spread amongst retail obligors. The tenor ranges between 15-180 days. Per management, the loan amount is usually calculated based on the obligor's income, and in most cases capped at one third of the income.

Margin loans are facilities from CSS, which allows new and existing clients loans of up to a specified amount, usually limited to the value of collateral they have. To protect client's investment and prevent erosion of the subsidiary's capital, a margin policy has been put in place to guide decision making process. While the value of margin loans at FY19 stood at N455.8m, note is taken of the fact that the market value of securities used as collateral is about three times the loan value.

Fast Cash constituted a negligible portion of the loan book at FY19. These are short term loans, issued by CSAdvance to staff of the Group.

Asset quality

As earlier noted, a significant portion of the exposures are non-collateralised, thus, exposes the group to significant credit risk. Impaired loans rose year-on-year 3.6 times to N475.5m in FY19. Notwithstanding, the gross NPL ratio declined slightly to 18.5% (FY18: 19.8%) mainly due to increase in gross loan. The NPL ratio is well the above CBN's regulatory limit of 10%. Provisioning level is considered low, as general coverage of impaired loans lowered to 42.2% at FY19 (FY18: 74.8%).

Table 5: Asset Quality	FY18 N'bn	FY19 N'bn
Gross Advances	519.6	2,563.8
Performing	416.9	2,088.3
Impaired	102.7	475.5
Provision for impairment	76.8	200.8
Individually impaired	(7.9)	(139.8)
Collectively impaired	(68.9)	(61.0)
Net NPLs	25.9	274.7
Gross NPLs ratio (%)	19.8	18.5
Net NPLs ratio (%)	21.4	14.2
Net NPLs/Capital (%)	1.5	6.4

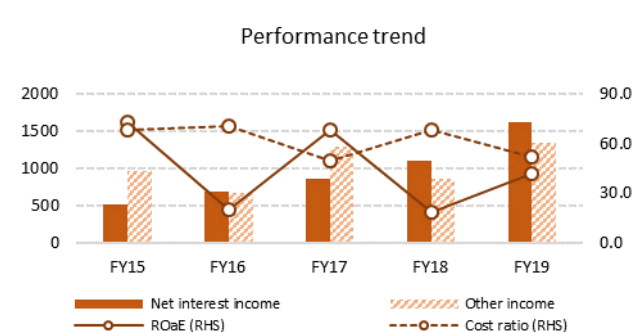
Source: CardinalStone AFS.

Financial performance and prospects

A five-year financial synopsis is reflected on page 8 of this report, supplemented by the brief commentary set out below.

The Group reported profitability for the five year review period, although not without some level of

variability. Performance has been supported by both interest and non-interest income. While net interest income has maintained an upward trajectory throughout the years under review, non-interest income has been volatile, and consequently been the major determinant of profitability trend. The Group reported a pre-tax profit of N1.3bn for FY19, with rapid advances in securities trading as the key performance drivers. Accordingly, TOI peaked at N3bn during the year FY18: N2bn. Impairment charge escalated 9.2 folds to N136.3m, while operating expenses registered a rise of 15.1% (driven by staff related expenses and rent and maintenance costs). Nevertheless, some level of efficiency was achieved, with the cost ratio moderating to 51.8% from 68% the previous year. Consequently, ROaE and ROaA closed at 41.5% and 4.5% in FY19 (FY18: 18.2% and 1.4%) respectively.



A breakdown of the FY19 performance by subsidiary shows that a significant portion (54.4%) of earnings was generated by CardinalStone. Contribution from CSRL was also notable at 36.5%, while CSAdvance and CSS contributed 9.4% and 6% respectively to the group's performance. Overall performance in FY19 was slightly below the Group's forecast for the year.

Table 6: Performance by subsidiaries (N'm)				
	CardinalStone	CSRL	CSS	CSAdvance
TOI	1,477.6	831.5	316.9	478.5
Impairment charge	(14.4)	5.4	(2.4)	(125.0)
Operating expenses	(758.7)	(364.6)	(237.4)	(231.9)
Pre-tax profit	704.5	472.3	77.1	121.6
Total assets	22,4469.2	5,519.0	1,964.4	2,136.4
Capital	4,097.1	1,661.0	657.4	102.9
FUM	17,848.1	-	-	-
Borrowings	-	3,586.7	1,161.7	1,697.4

Source: Audited financial statements

For 2020, while management expects improvement in TOI, cost ratio was forecast to rise to 67.2%, as higher operating expenses (particularly staff costs) has been budgeted based on the Group's business growth and expansion plan. As such, management has forecast a lower N929.8m pre-tax profit for FY20. Results as at end-May 2020 reflects a pre-tax profit of N335.7m, supported by a rise in interest income. Management

remain optimistic of ending the year with a profit given the various plans and initiatives put in place.

Table 7: Performance vs. budget (N'm)					
	Actual FY19	Budget FY19	Budget FY20	Actual 5M FY20	% of # budget
TOI	2,966.4	3,410.6	3,434.3	1,155.7	80.8
Impairment charge	(136.3)	(18.6)	(34.2)	(90.0)	263.2
Operating expenses	(1,536.1)	(1856.6)	(2,275.0)	(730.0)	77.0
Pre-tax profit	1,294.0	1,535.4	1,125.1	335.7	71.6

Annualised.

Source: CardinalStone.

CARDINALSTONE PARTNERS LIMITED

(Naira in millions except as noted)

Year end: 31 December

	2015	2016	2017	2018	2019
Interest income	1,438	1,220.0	1,570.4	2,193.7	2,955.7
Interest expense	(918)	(534.6)	(709.3)	(1,094.0)	(1,330.9)
Net interest income	519	685.4	861.1	1,099.7	1,624.8
Other income	954	660.7	1,294.6	863.8	1,341.6
Total operating income	1,474	1,346.1	2,155.8	1,963.5	2,966.4
Impairment charge	(34)	(13.6)	(56.4)	(14.8)	(136.3)
Operating expenditure	(1,010)	(952.0)	(1,076.3)	(1,334.9)	(1,536.1)
Net profit before tax	430	380.5	1,023.1	613.7	1,294.0
Tax	(56)	(176.5)	(144.2)	(351.7)	(226.8)
Profit from continuing operations	374	204.0	878.9	262.0	1,067.2
Other comprehensive income for the year	(10)	0.4	0.5	0.1	0.4
Total Comprehensive Income	364	204.4	879.5	262.0	1,067.6

Statement of Financial Position Analysis

Subscribed capital	493	492.5	492.5	492.5	2,501.3
Reserves (incl. net income for the year)	538	483.1	1,102.8	789.1	1,362.6
Minority interest	365	390.3	441.6	388.0	458.7
Total capital and reserves	1,395	1,365.9	2,036.8	1,669.6	4,322.6
Borrowings (includes liabilities under management)	6,421	6,291.7	9,465.9	13,634.6	16,362.5
Short-term funding (< 1 year)	6,421	6,291.7	9,465.9	13,634.6	16,362.5
Other borrowings	-	-	118	164.9	328.4
Long-term funding (> 1 year)	-	-	118	164.9	328.4
Payables/Deferred liabilities	6,207.5	5,395.6	5,721.3	5,361.3	5,604.8
Other liabilities	6,207.5	5,395.6	5,721.3	5,361.3	5,604.8
Total capital and liabilities	14,024	13,053.3	17,342.1	20,830.3	26,618.3
Property, Plant and Equipments	194	138.5	142.8	385.1	515.6
Receivables/Deferred assets (incl. zero rate loans)	1,579	2,841.5	2,380.5	3,488.7	2,618.7
Non-earnings assets	1,773	2,980.0	2,523.2	3,873.8	3,134.3
Short-term deposits & cash	2	4,057.6	4,763.5	1.6	3.3
Loans & advances (net of provisions)	-	2.9	460.9	442.7	2,362.9
Bank placements	6,966	-	-	5,221.1	6,280.6
Marketable/Trading securities	1,166	3,206.1	6,473.8	7,777.4	7,038.8
Other investment securities	4,117	2,806.6	3,120.7	3,513.8	7,248.5
Investments in subsidiaries/associates	-	-	-	-	550.0
Total earning assets	12,251	10,073.3	14,818.9	16,956.5	23,484.1
Total assets†	14,024	13,053.3	17,342.1	20,830.3	26,618.3

Ratio Analysis (%)

Capitalisation

Internal capital generation	35.3	21.0	55.1	20.4	27.6
Total capital / Net advances + net equity invest. + guarantees	115.3	236.4	154.8	150.5	88.0
Total capital / Total assets	9.9	10.5	11.7	8.0	16.2

Liquidity

Net advances / Short-term funding	n.a	n.a	4.9	3.2	14.4
Net advances / Total funding (excl. equity portion)	n.a	n.a	4.8	3.2	14.2
Liquid & trading assets / Total assets	58.0	55.6	64.8	62.4	50.1
Liquid & trading assets / Total short-term funding	n.a	n.a	118.7	95.3	81.4
Liquid & trading assets / Total funding (excl. equity portion)	n.a	n.a	117.3	94.2	79.8

Asset quality

Impaired loans / Gross advances	0.0	0.0	5.8	19.8	18.5
Bad debt charge (income statement) / Gross advances (avg.)	n.a.	n.a.	24.0	3.0	9.1
Bad debt charge (income statement) / Total operating income	2.3	1.0	2.6	0.8	4.6

Profitability

Net income / Total capital (avg.)	52.2	14.8	51.7	14.1	35.6
Net income / Total assets (avg.)	5.2	1.5	5.8	1.4	4.5
Net interest margin	n.a.	n.a.	9.1	8.7	11.1
Interest income + com. fees / Earning assets + guarantees (a/avg.)	12.8	8.9	9.1	8.7	11.1
Non-interest income / Total operating income	64.8	49.1	60.1	44.0	45.2
Non-interest income / Total operating expenses (or burden ratio)	94.5	69.4	120.3	64.7	87.3
Cost ratio	68.5	70.7	49.9	68.0	51.8
OEaA (or overhead ratio)	14.4	7.0	7.1	7.0	6.5
ROaE	72.5	20.3	68.4	18.2	41.5
ROaA	5.3	1.5	5.8	1.4	4.5

Nominal growth indicators

Total assets	n.a.	n.a.	32.9	20.1	27.8
Net advances	n.a.	n.a.	15,565.6	(3.9)	433.7
Total capital and reserves	n.a.	(2.1)	49.1	(18.0)	158.9
Total funding (excl. equity portion)	n.a.	(2.0)	52.3	44.0	21.0
Net income	n.a.	(43.9)	330.3	(70.2)	307.4

† Excludes Bank overdraft.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The ratings were solicited by, or on behalf of, CardinalStone Partners Limited, and therefore, GCR has been compensated for the provision of the ratings.

CardinalStone Partners Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of info received was considered adequate and has been independently verified where possible.

The credit ratings above were disclosed to CardinalStone Partners Limited, with no contestation of/changes to the ratings.

The information received from CardinalStone Partners Limited and other reliable third parties to accord the credit rating included the audited accounts as at 31 December 2019 (plus three years of comparative audited financial statements), latest internal and external audit report to management, and full year to date budgets. In addition, information specific to the rated entity and/or industry was also received.

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