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Coronation Merchant Bank Limited

Nigeria Bank Analysis **August 2020**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	A-(NG)	Stable	July 2021
Short-term	National	A2(NG)		

Financial data:

(USDm comparative)ǂ

	31/12/18	31/12/19
NGN/USD (avg.)	305.6	306.4
NGN/USD(close)ǂ	306.5	306.5
Total assets	721.3	809.4
Total capital	101.6	112.8
Net advances	177.2	237.1
Liquid assets	168.7	262.7
Operating income	34.9	34.2
Profit after tax	14.7	15.6
Market cap.	n.a.	
Market share*	33.8%	

ǂ Central Bank of Nigeria ("CBN") exchange rate
*Based on GCR's estimate of total assets for merchant banks, as at 31 December 2019.

Rating history:

Initial rating (May 2016)
Long-term rating: A-(NG)
Short-term rating: A2(NG)
Rating outlook: Stable

Last rating (September 2019)
Long-term rating: A-(NG)
Short-term rating: A2(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

Coronation MB rating report (2016-19)

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Summary rating rationale

- The ratings accorded to Coronation Merchant Bank Limited ("Coronation MB" or "the bank") reflect its strong competitive position, adequate funding and liquidity as well as sound asset quality metrics. The ratings also take into cognisance the elevated risk in the macroeconomic environment, exacerbated by the challenges and uncertainties arising from the COVID-19 pandemic.
- Coronation MB's capitalisation is considered strong relative to its current risk level. Shareholders' funds grew by 11% to N34.6bn at FY19, underpinned by strong internal capital generation. However, a more aggressive growth in risk weighted assets saw the capital adequacy ratio ("CAR") moderate to 19.2% at FY19 (FY18: 19.6%) and further down to 17.2% at 1H FY20, albeit exceeding the 10% statutory minimum requirement by a comfortable margin.
- Asset quality remains strong, with nil non-performing loans ("NPL") recorded from inception of the merchant banking operation to date, reflecting the bank's stringent risk acceptance criteria. Nevertheless, loan loss provision amounting to N58.3m at FY19 (FY18: N28.4m) was made in line with IFRS 9 accounting standard and CBN's prudential guideline.
- The bank's liquidity position appears strong, with the statutory liquidity ratio standing at 61.2% at FY19, significantly surpassing the 20% regulatory minimum. Also, the ratio of liquid and trading assets to total short-term funding is considered strong at 68.3% at FY19 (FY18: 78.4%), comparing favourably with peers' average. However, an analysis of the contractual matching of assets and liabilities at FY19 reflected a liquidity gap of N76.6bn (equating to 2.2x of capital) in the 'less than one-month' maturity band.
- Performance at the post-tax level registered a 6.3% year-on-year ("y/y") growth in FY19, mainly supported by a notable 63.8% reduction in tax expense during the year. Although non-interest income grew by 64.4% on account of increased trading income (fixed-income earnings and foreign exchange gains), a significant 36.7% contraction in net-interest income saw total operating income ("TOI") decline marginally (1.9%) to N10.5bn in FY19. While operating expenses was relatively stable at N5.3bn, cost ratio increased slightly to 51.1% in FY19 (FY18: 50.5%) due to the lower income level. Overall, return on average equity and assets ("ROaE" and "ROaA") moderated to 14.5% and 2.0% in FY19 (FY18: 14.9% and 2.5%), respectively, due to enlarged capital and asset base.

Factors that could trigger a rating action may include

Positive change: An upward movement in the ratings may follow a significant improvement in profitability and earnings, while maintaining sound asset quality metrics.

Negative change: A downward review of the ratings may result from a significant decline in asset quality metrics, capitalisation or liquidity profile of the bank. Furthermore, a significant decline in earnings or profitability, such that the bank is unable to compete with peers, may lead to a negative rating action.

Organisational profile

Corporate summary[1]

Coronation MB, formerly Associated Discount House Limited, is a wholesale financial institution, with operations covering corporate banking, investment banking, private banking and wealth management, and global markets and treasury. The bank was incorporated in 1992 and operated for over two decades as a discount house before converting to a merchant bank on 1 July 2015. Currently, Coronation MB operates from its head office in Lagos and two other branches in Abuja and Port Harcourt. As at 30 June 2020, the bank had a staff complement of 123 (FY19: 118).

Ownership structure

Coronation MB's ownership structure remained unchanged at 31 December 2019. Table 1 shows the major shareholders with stakes exceeding 5% at the balance sheet date.

Table 1: Shareholders	% holding
Wapic Insurance Plc	22.8
Marina Securities Limited	22.7
Coronation Capital (Mauritius) Ltd	13.3
United Securities Limited	8.1
Regali Estates Limited	7.5
Mikeade Investment Company Limited	5.6
Others (≤ 5%)	20.0
Total	**100.0**

Source: Coronation MB.

Strategy and operations

Coronation MB's current strategic plan (covering 2019-2023) is geared towards becoming a trade-led investment bank as well as one of Nigeria's foremost international trade finance solution providers by 2023. The strategy is anchored on the expansion of its footprints in terms of correspondent banking, trade exposures, and treasury operations. So far, the bank has increased its correspondent networks from just one in 2016 to fifteen in 2020, targeted at high volume corridors to facilitate trade finance transactions. The bank has also reviewed its coverage structure to provide series of bespoke solutions aimed at meeting the various corporate client's treasury and investment banking needs, while building sectoral expertise at the same time. Improved low-cost current account deposits mobilisation is also envisaged going forward, as the bank increased the wallet size of customers' transactions through its digital collection platforms. Consequently, improved customer onboarding is expected via increasing value propositions, especially across its existing clients' value chain.

The bank's divestment from its two capital market subsidiaries (Coronation Asset Management Limited and Coronation Securities Limited) in 2019, is a strategic move aimed at consolidating competitive position, and driving optimal performance within its core operations.

Information technology

The bank's core operating software remained 'Finacle', albeit series of significant investments have been undertaken in recent times to support its expanding operations. In addition, the bank has indicated plans to deploy a trade management platform within the trade services function to facilitate an end-to-end automation of trade processing in the near term.

Governance structure

Coronation MB's governance structure is in line with CBN's code of corporate governance for banks in Nigeria and the Securities and Exchange Commission's codes of best practice. As at 30 June 2020, the board of directors ("the board") comprised nine members, made up of one executive director (the Managing Director ("MD")) and eight non-executive directors (which includes the Chairman and three independent directors). A major change on the board in 2020 was the appointment of Mr Banjo Adegbohungbe as the new MD, following the retirement of the erstwhile MD, Mr Abubakar Jimoh, with effect from 30 April 2020. Overall, the board is considered to have satisfactory mix of knowledge and experience across banking and other business fields.

The board performs its statutory oversights through four standing committees, *viz.* Board Risk Management Committee, Board Audit Committee, Board Governance and Nominations Committee, and Board Credit and Investment Committee. While these committees have authority to examine particular issues and report to the board with their decisions and/or recommendations, the ultimate responsibilities on all matters rest with the board. The bank also has in place an independent internal control and audit system which reports directly to the Board Audit Committee and with a dotted line reporting to the MD on administrative matters.

Financial reporting

Coronation MB prepares its financial statements in accordance with International Financial Reporting Standards, the Companies and Allied Matters Act, Financial Reporting Council of Nigeria requirements and the Banks and Other Financial Institutions Act. The external auditor, PricewaterhouseCoopers, 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

[1] Refer to previous reports on Coronation MB for detailed history and background.

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 (with GDP contracting y/y by 6.1% in Q2 2020) due to the coronavirus disease ("COVID-19") pandemic, which is being compounded by the weak global crude oil demands and the relatively low prices at the international market. In a bid to stimulate prices, 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 hovered between USD40/barrel and USD45/barrel in July 2020, compared to USD19.8/barrel in mid-April 2020.

The headline inflation rate increased to 12.82% in July 2020, for the eleventh consecutive month 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 from 9% to 5% (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 sustained FX liquidity pressures, coupled with CBN's efforts to unify the exchange rate at both the official and NAFEX window, necessitated a further depreciation in FX rate to N380/USD in July 2020 from N360/USD at the official window. Similarly, the external reserves declined to USD35.9bn at end-July 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 soft global crude oil price remains a major concern.

The National budget 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 7.9% as at end-July 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.

Industry overview

The Nigerian merchant banking subsector is still at an evolving phase, with each player trying to carve a niche for itself through introduction of various customer-centric products and services to enhance their competitive positions and market share. The number of industry players stood at five as at 31 December 2019, *viz.* Nova Merchant Bank Limited, FSDH Merchant Bank Limited, Coronation Merchant Bank Limited, Rand Merchant Bank Nigeria Limited, and FBNQuest Merchant Bank Limited.

In a bid to boost credit extension and stimulate lending to the real sector of the economy, CBN in July 2019 issued a circular mandating Deposits Money Banks ("DMBs[2]") to maintain an initial minimum LDR of 60% by 30 September 2019 and subsequently reviewed to 65% with effect from 31 December 2019. According to CBN, failure to comply with this specification would attract an additional CRR of 50% to the lending shortfall of the target LDR. Furthermore, CBN in February 2020 harmonised the CRR for merchant banks and commercial banks. In this regard, the CRR for merchant banks was increased to 27.5% from 2% previously. While this policy was aimed at mopping up excess liquidity from the banking system, merchant banks' liquidity position may be adversely impacted, given the quantum leap in the ratio. In addition, the current macroeconomic challenges could constrain the debt serviceability of obligors given the increasing number of businesses unfavourably affected, and its consequential impact on asset quality metrics and profitability over the short to medium term. Note is also taken of the regulatory reduction in MPR by 100bps to 12.5% in May 2020.

Competitive positioning

Table 2 provides an analysis of Coronation MB's banking operations relative to its peers, focusing on key performance indicators as at 31 December 2019. The bank competes favourably with peers in terms of quality service delivery, customer-centric solutions, and innovation. Furthermore, the bank's recent strategic repositioning towards enhancing its capacity

[2] Including merchant banks

in the international trade financing space, could further strengthen its market position over the short to medium term. Cognisance is also taken of Coronation MB's sustained sound asset quality metrics, in terms of clean books. However, capitalisation metrics (particularly the ratio of capital to assets) measured below peers on the back of the rapid scale expansion over the review period.

Financial profile

Likelihood of support

Government support (in terms of bailout) is unlikely for merchant banks in Nigeria, given their non-systemic important status, as well as nature of ownership. Thus, financial support for Coronation MB is limited to its shareholders via modest dividend pay-outs and injection of additional capital when required.

Funding composition

Coronation MB's funding profile improved in FY19, with growth recorded across most sources. While the bank redeemed the commercial paper ("CP") issued under its N100bn CP programme upon maturity in FY19, another series of CP amounting to N24.3bn was successfully issued in March 2020. Table 3 shows Coronation MB's funding structure at FY19.

Table 3: Funding mix	FY18 (N'm)	%	FY19 (N'm)	%
Shareholders, funds	31,148.3	16.5	34,568.8	16.4
Customer deposits	126,896.9	67.4	138,087.9	65.4
Interbank takings	12,159.5	6.5	25,978.9	12.3
CPs	18,053.3	9.6	12,610.4	6.0
Total	**188,258.0**	**100.0**	**211,246.1**	**100.0**

Source: Coronation AFS

Details of the funding components are contained in the paragraphs below.

Customer deposits, Repos and interbank funding

Total deposits (including interbank takings) stood at N164.1bn at FY19, representing 18% y/y growth. Customer deposits registered an 8.8% growth (on a stand-alone) to N138.1bn at FY19, underpinned by improved collection on digital platforms and established relationships with customers to boost the relatively stable deposits. As a result, current and call deposits increased by 21.3% and 106% respectively at the balance sheet date. Interbank takings also increased significantly by 113.7% to N26bn at FY19 and almost doubled to N50bn at 1H FY20, as the bank leveraged the excess financial system liquidity to augment its funding base. Overall, the cost of funds moderated by 320 basis points to 10.8% at FY19 and ended down at 5.8% at 1H FY20, reflective of the relatively low interest rate environment.

Table 4: Deposit book characteristics (%)	FY18	FY19
By type		
Demand	9.4	9.7
Call	8.8	15.4
Investment fund/savings	73.0	59.1
Interbank funding	8.8	15.8
By maturity		
< 3 months	89.0	75.6
3-12 months	10.8	23.2
>12 months	0.2	1.2
Concentration		
Single largest	10.3	7.8
Five largest	38.7	27.7
Ten largest	66.7	39.6
Twenty largest	78.6	50.4

Source: Coronation MB.

Maturity profile of the deposits remained largely short, with 75.6% (FY18: 89%) of the liability pool maturing within three months, though these are typically rolled-over at maturity. The deposit base was fairly diversified, with the single and twenty largest depositors accounted for 7.8% and 50.4% respectively at FY19. Management forecasts a sizeable 43.7% growth in customer deposits for FY20, to be driven by sustained deposits mobilisation through digital collection platforms. As at 1H FY20, customer deposits grew by 6.1%, representing 73.8% of the set budget.

Capital structure

Shareholders' funds grew by 11% to N34.6bn at FY19, supported by internal capital generation. However, a firmer growth in risk weighted assets, saw CAR moderate to 19.2% at FY19 (FY18: 19.6%), ending further down at 17.2% at 1H FY20 (albeit remains well above the regulatory threshold of

Table 2: Competitive position* Coronation versus peers	Coronation	FSDH	FBNQ	RMBN	Nova
Year end 31 December 2019					
Shareholders' funds (N'bn)	34.6	26.8	28.0	54.0	19.6
Total assets (N'bn)†	248.1	151.4	136.7	134.1	62.8
Net loans (N'bn)	72.7	45.5	46.4	50.0	29.3
Net profit after tax (N'bn)	4.8	3.6	2.6	16.0	1.7
Selected ratios					
Capital/Assets (%)	13.9	17.7	20.5	40.3	31.1
Liquidity & trading assets/ total short-term funding	68.3	34.6	17.1	150.4	57.2
Gross NPL ratio	Nil	4.8	3.0	Nil	Nil
Advances/liability funding	41.1	38.9	44.1	71.3	72.3
Net interest margin	2.4	6.1	4.4	5.2	6.2
Cost ratio (%)	51.1	51.3	71.1	30.9	54.1
ROaE (%)	14.5	12.9	10.3	34.8	8.9
ROaA (%)	2.0	2.7	2.0	10.1	3.8

*Ranked by total assets †Excludes clients' balances in respect of letters of credit   Source: Annual financial statements

10%). GCR expects the bank's CAR to remain above the regulatory threshold over the rating horizon, however subject to the desired risk level.

Table 5: Capitalisation (N'm)	FY18	FY19
Total qualifying Tier 1 capital	20,054.0	24,754.1
Total qualifying Tier 2 capital	-	870.1
Total regulatory capital	**20,054.1**	**25,624.2**
Total risk weighted assets ("RWA")	**102,064.1**	**133,477.4**
Regulatory capital: RWA (%)	19.6	19.2

Source: Coronation AFS.

Liquidity positioning

The bank's liquidity position appears strong, with the statutory liquidity ratio standing at 61.2% at FY19, significantly surpassing the 20% regulatory minimum. Also, the ratio of liquid and trading assets to total short-term funding is considered strong at 68.3% at FY19 (FY18: 78.4%), comparing favourably with peers' average. However, an analysis of the contractual matching of assets and liabilities at FY19 displayed a liquidity gap of N76.6bn (equating to 2.2x of capital) in the 'less than one-month' maturity band. Nonetheless, the roll-over nature of deposits at maturity, coupled with the fact that a sizeable portion of the asset base were held in highly liquid securities, provides adequate liquidity risk mitigant.

Table 6: Net liquidity gap profile (N'bn)	<1 month	1-3 months	3-12 months	>12 Months
Assets	44.4	69.2	112.7	25.3
Liabilities	(121.0)	(79.8)	(38.2)	(1.9)
Net liquidity gap	(76.6)	(10.6)	74.5	23.4
Cumulative liquidity gap	**(76.6)**	**(87.2)**	**(12.7)**	**10.7**

Source: Coronation MB AFS

Operational profile

Risk management

The deployed risk management framework is considered suitable for the bank's operations, particularly in terms of its coverage of key risk areas (market, credit, liquidity and operational risks). The credit selection process remains stringent, with a strong emphasis on high quality obligors and conformity with the risk acceptance criteria. The bank's overall risk management responsibility is vested on the board and this is performed through a standing committee (the board risk committee), supported by the management risk committee.

Asset composition

Coronation MB's asset base expanded by 12.2% to N248.1bn at FY19 and rose to N344.7bn at 1H FY20, on the back of strong cash inflows (particularly deposits). Asset mix skewed towards loans and advances, as the bank increased its risk appetite to comply with CBN's prescribed LDR. As a result, net advances grew by 33.8% to N72.7bn at FY19 and constituted a higher 29.3% (FY18: 24.6%) of total assets. Similarly, cash and liquid assets grew by 55.7% to N80.5bn, dominating the asset base at 32.5% at the balance sheet date.

Table 7: Asset mix	FY18		FY19	
	(N'm)	%	(N'm)	%
Cash & liquid assets	**51,711.7**	**23.4**	**80,518.7**	**32.5**
*Cash and bank**	*1,507.3*	*0.7*	*2,878.7*	*1.2*
Liquidity reserve deposits	*5,188.1*	*2.3*	*8,758.0*	*3.5*
Bal. with other fin. Inst.	*36,914.6*	*16.7*	*57,473.9*	*23.2*
Fin. assets held for trading	*8,101.7*	*3.7*	*11,408.1*	*4.6*
Investment securities	87,626.1	*39.6*	60,307.9	*24.3*
Pledged assets	10,168.3	*4.6*	16,326.8	*6.6*
Advances to customers	54,312.5	*24.6*	72,683.9	*29.3*
Property, plant and equipment	2,974.3	*1.3*	6,472.2	*2.6*
Investment in subsidiaries	4,614.7	*2.1*	-	-
Other assets	9,670.5	*4.4*	11,783.9	*4.7*
Total	**221,077.8**	**100.0**	**248,093.4**	**100.0**

* Exclude clients balances held in respect of letters of credit.
Source: Coronation AFS.

Investment securities stood at N60.3bn at FY19, representing a 31.2% y/y decline. Credit risk associated with the portfolio is significantly mitigated by the fact that risk-free FGN securities constituted a sizeable 65.8% of the pool. Other components of investment securities are as follows: corporate bonds (9.8%), state bonds (2.0%), Eurobonds (3.6%) and equity securities (18.8%). Investment in subsidiaries ended at nil at FY19, following the aforementioned divestments during the year.

Contingencies

Off-balance sheet commitments grew by over three folds to N99bn at FY19, equating to a significant 286.4% of capital at the balance sheet date. The recorded increase was mainly driven by letters of credit issued to third parties on behalf of customers for international trade transactions. As such, letters of credit constituted the bulk of the portfolio at 90%, while the remainder was in respect of guaranteed credit facilities.

Loan portfolio

Coronation MB's gross loans and advances book expanded by 33.9% to N72.7bn at FY19. The exposures comprised mainly trade finance and overdraft facilities, which are largely short-dated. Contractually, 84.8% of the exposures have maturity dates of less than three months, while less than 1% have maturity dates of above one year. Sectorial distribution of the portfolio remains heavily weighted towards the manufacturing and agriculture sectors, which jointly accounted for a significant 85% of the portfolio at FY19. Although the manufacturing sector dominated the loan book at 48.5%, cognisance is however taken of the fact that obligors within this sector vary and comprised major players in the conglomeration of industries, hence, evidencing some level of diversification. Concentration risk by obligor is considered high, with the single largest obligor accounting for 17.4% and 36.7% of the loan portfolio and shareholders' funds respectively, albeit still falling within the regulatory limit.

Table 8: Loans book characteristics (%)	FY18	FY19
By sector		
Agriculture	44.4	36.5
Real estate and construction	1.2	0.3
Manufacturing	25.9	48.5
General commerce	15.2	11.4
Oil and gas	6.3	0.1
Transport	2.0	2.6
Others	5.0	0.6
By maturity		
< 3 months	21.7	84.8
3-12months	77.4	14.5
> 12 months	0.9	0.7
Concentration		
Single largest	18.8	17.4
Five largest	61.7	62.7
Twenty largest	95.6	96.2

Source: Coronation MB

While management has forecast 43.4% increase in loan book for FY20, performance at 1H FY20 reflects a 21.4% growth to N92.5bn, partly driven by the impact of Naira devaluation on foreign currency ("FCY") denominated loans.

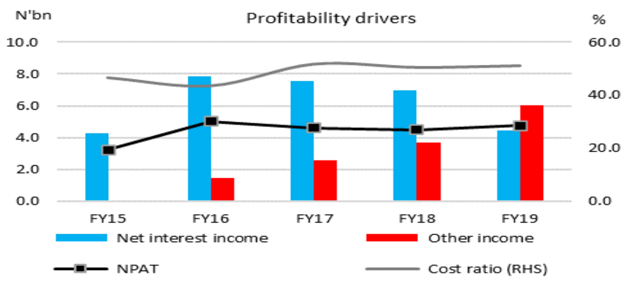
Asset quality

Coronation MB's asset quality remains strong, with nil NPL recorded from inception of the merchant banking operation to date, reflecting the bank's stringent risk acceptance criteria. Nevertheless, loan loss provision amounting to N58.3m at FY19 (FY18: N28.4m) was made in line with IFRS 9 accounting standard and CBN's prudential guideline.

Financial performance and prospects

A five-year financial synopsis, together with six months unaudited management accounts to 30 June 2020, is reflected on page 7 of this report, supplemented by the commentary below.

Despite recording a significant expansion in loan book during the year, net interest income declined by 36.7% to N4.4bn in FY19, largely attributable to the relatively low interest rate environment and elevated funding cost (particularly sustained reliance on purchased funds). Conversely, non-interest income grew by 64.4%, driven by trading income growth (particularly fixed-income earnings and foreign exchange gains). Overall, TOI declined y/y by 1.9% to N10.5bn in FY19.



While impairment charge increased by 5.7% in FY19, various cost curtailment measures adopted by management saw operating expenses end relatively flat at N5.3bn, albeit translating to a slightly higher cost ratio of 51.1% (FY18: 50.5%) due to revenue decline. Consequently, pre-tax profit dipped by 3.3% to N5bn and lagged the N7.2bn projections for the year. Conversely, a notable 63.8% reduction in tax expenses saw post-tax profit grow by 6.3% y/y, although translated to a relatively lower ROaE and ROaA of 14.5% and 2.0% (FY18: 14.9% and 2.5%) respectively due to enlarged capital and asset base.

Table 9: Actual performance Vs budget	Actual FY19	Budget FY20	Actual 1H FY20	% of # Budget
Statement of comprehensive income				
Net interest income	4,428.3	5,709.2	2,976.4	104.3
Other income	6,035.8	5,946.2	2,427.1	81.6
Total operating income	**10,464.1**	**11,655.4**	**5,403.4**	**92.7**
Impairment charge	(90.5)	(185.8)	(142.3)	76.6
Operating expenses	(5,349.7)	(6,401.9)	(2,914.2)	91.0
NPBT	**5,023.9**	**5,067.7**	**2,347.0**	**92.6**
Statement of financial position				
Net advances	72,683.9	104,244.2	92,510.9	88.7
Customer deposits	138,087.9	198,488.7	146,501.0	73.8
Shareholders' funds	34,568.8	37,954.6	37,015.5	97.5
Total assets	248,093.4	356,537.7	344,736.2	96.7

Source: Coronation MB #Annualised

Given the current macroeconomic dynamics, management has reviewed downward the 2020 budget, with pre-tax profit reduced to the FY19 level. While the revised budget indicates a less aggressive 11.4% growth in total revenue, operating expenses is anticipated to rise by 20%, as information technology cost and administrative expenses are expected to rise due to the challenges posed by the COVID-19 pandemic. Unaudited results as at 1H FY20 compared favourably with the corresponding period in FY19, albeit lags budget on annualised basis. Nonetheless, management remains optimistic about achieving the new full-year budget.

Coronation Merchant Bank Limited

(Naira in millions except as noted)

Year end: 31 December

Statement of Comprehensive Income Analysis	2015	2016	2017	2018	2019	^1H 2020
Interest income	11,169.3	13,321.6	22,195.7	24,286.8	25,093.0	11,119.5
Interest expense	(6,882.4)	(5,484.1)	(14,633.5)	(17,291.5)	(20,664.7)	(8,143.1)
Net interest income	**4,286.9**	**7,837.5**	**7,562.2**	**6,995.4**	**4,428.3**	**2,976.4**
Other income	81.1	1,470.3	2,553.1	3,670.6	6,035.8	2,427.1
Total operating income	**4,368.0**	**9,307.9**	**10,115.3**	**10,665.9**	**10,464.1**	**5,403.4**
Impairment charge	(6.7)	(70.1)	51.6	(85.6)	(90.5)	(142.3)
Operating expenditure	(2,031.1)	(4,040.2)	(5,234.1)	(5,384.6)	(5,349.7)	(2,914.2)
Net profit before tax	**2,330.2**	**5,197.5**	**4,932.8**	**5,195.7**	**5,023.9**	**2,347.0**
Tax	892.2	(164.6)	(314.4)	(711.4)	(257.2)	(93.3)
Profit after tax	**3,222.4**	**5,032.9**	**4,618.4**	**4,484.4**	**4,766.7**	**2,253.6**
Profit/(loss) from discontinued operations	-	-	-	-	331.1	-
Other comprehensive (loss)/gain	444.1	479.9	(456.8)	(1,013.1)	1,415.4	1,880.1
Net income	**3,666.5**	**5,512.8**	**4,161.6**	**3,471.3**	**6,513.2**	**4,133.8**

Statement of Financial Position Analysis						
Subscribed capital	8,185.4	8,705.9	8,705.9	8,705.9	8,705.9	8,705.9
Reserves (incl. net income for the year)	12,571.6	17,083.3	20,487.3	22,442.4	25,862.9	28,309.6
Total capital and reserves	**20,757.0**	**25,789.2**	**29,193.2**	**31,148.3**	**34,568.8**	**37,015.5**
Bank borrowings (incl. deposits, placements & REPOs)	22,852.3	18,638.0	11,206.1	12,159.5	25,978.9	49,965.4
Deposits (incl. REPOs)	34,877.3	54,146.8	77,766.6	126,896.9	138,087.9	146,501.0
Other borrowings	-	-	-	18,053.3	12,610.4	36,939.3
Short-term funding (< 1 year)	**57,729.6**	**72,784.7**	**88,972.7**	**157,109.8**	**176,677.3**	**233,405.7**
Payables/Deferred liabilities	314.6	3,652.8	17,367.6	32,819.8	36,847.3	74,315.0
Other liabilities	**314.6**	**3,652.8**	**17,367.6**	**32,819.8**	**36,847.3**	**74,315.0**
Total capital and liabilities	**78,801.1**	**102,226.7**	**135,533.4**	**221,077.8**	**248,093.4**	**344,736.2**
Balances with central bank	-	-	2,300.4	5,188.1	8,758.0	95,880.7
Property, plant and equipments	1,732.5	3,000.7	3,077.1	2,974.3	6,472.2	6,598.2
Receivables/Deferred assets (incl. zero rate loans)	8,689.6	6,821.7	14,912.2	9,670.5	11,783.9	14,241.1
Non-earnings assets	**10,422.1**	**9,822.4**	**20,289.7**	**17,832.8**	**27,014.1**	**116,720.0**
Short-term deposits & cash	162.9	342.4	1,116.5	1,507.3	2,878.7	5,292.9
Loans & advances (net of provisions)	2,475.5	22,706.6	32,239.6	54,312.5	72,683.9	92,510.9
Bank placements	20,775.8	16,246.9	29,509.0	36,914.6	57,473.9	57,777.2
Marketable/trading securities	24,210.2	35,466.4	28,828.3	84,764.7	60,379.2	60,419.4
Pledged assets	20,086.6	14,232.4	18,840.6	10,168.3	16,326.8	-
Equity investments	147.8	94.8	95.0	10,963.1	11,336.7	12,015.7
Investment in subsidiaries	520.3	3,314.7	4,614.7	4,614.7	-	-
Total earning assets	**68,379.0**	**92,404.3**	**115,243.7**	**203,245.1**	**221,079.3**	**228,016.2**
Total assets*	**78,801.1**	**102,226.7**	**135,533.4**	**221,077.8**	**248,093.4**	**344,736.2**
Contingencies	**18.1**	**44.4**	**25,039.7**	**32,648.5**	**98,996.4**	**112,238.9**

Ratio Analysis (%)	65072.6	65945.8	77177.9	131847.6	134179.9	118196.6
Capitalisation						
Internal capital generation	17.7	21.4	14.3	11.1	18.8	11.2
Total capital / Net advances + net equity invest. + guarantees	785.8	112.9	50.9	31.8	18.9	17.1
Total capital / Total assets	26.3	25.2	21.5	14.1	13.9	10.7
Liquidity						
Net advances / Deposits + other short-term funding	4.3	31.2	36.2	34.6	41.1	39.6
Net advances / Total funding (excl. equity portion)	4.3	31.2	36.2	34.6	41.1	39.6
Liquid & trading assets‡/ Total assets	57.3	50.9	43.9	55.7	48.7	35.8
Liquid & trading assets‡/ Total short-term funding	78.2	71.5	66.8	78.4	68.3	52.9
Liquid & trading assets‡/ Total funding (excl. equity portion)	78.2	71.5	66.8	78.4	68.3	52.9
Asset quality						
Impaired loans / Gross advances	0.0	0.0	0.0	0.0	0.0	0.0
Total loan loss reserves / Gross advances	0.4	0.0	0.0	0.0	0.0	0.0
Bad debt charge (income statement) / Gross advances (avg.)	0.5	0.6	(0.2)	0.2	0.1	0.2
Profitability						
Net income / Total capital (avg.)	19.4	23.7	15.1	11.5	19.8	23.1
Net income / Total assets (avg.)	4.8	6.1	3.5	1.9	2.8	2.8
Net interest margin‡	10.1	12.9	9.2	5.2	2.4	3.0
Interest income + com. fees / Earning assets + guarantees (a/avg.)‡	10.1	12.8	7.9	4.3	1.8	1.0
Non-interest income / Total operating income	1.9	15.8	25.2	34.4	57.7	44.9
Non-interest income / Total operating expenses (or burden ratio)	4.0	36.4	48.8	68.2	112.8	83.3
Cost ratio	46.5	43.4	51.7	50.5	51.1	53.9
OEaA (or overhead ratio)	2.6	4.5	4.4	3.0	2.3	1.0
ROaE	17.0	21.6	16.8	14.9	14.5	12.6
ROaA	4.2	5.6	3.9	2.5	2.0	1.5
Nominal growth indicators						
Total assets	5.6	29.7	32.6	63.1	12.2	39.0
Net advances	499.3	817.3	42.0	68.5	33.8	27.3
Shareholders funds	21.8	24.2	13.2	6.7	11.0	7.1
Deposits (wholesale)	69.1	55.2	43.6	63.2	8.8	6.1
Total funding (excl. equity portion)	0.8	26.1	22.2	76.6	12.5	32.1
Net income	118.0	50.4	(24.5)	(16.6)	87.6	26.9

* Total assets excludes client balances held in respect of letters of credit.

^Unaudited six-month accounts to 30 June 2020

‡Excluding pledged assets, equity securities and investment in subsidiaries

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, Coronation Merchant Bank Limited, and therefore, GCR has been compensated for the provision of the ratings.

Coronation Merchant Bank 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 Coronation Merchant Bank Limited with no contestation of the ratings.

The information received from Coronation Merchant Bank Limited and other reliable third parties to accord the credit ratings included the latest audited financial statements at 31 December 2019 (plus one year of audited comparative numbers), latest internal and/or external report to management, full year budget for 2020 and most recent management accounts to 30 June 2020. In addition, information specific to the rated entity and/or industry was also received.