FBNQuest Merchant Bank Limited

2020 Final Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

FBNQuest Merchant Bank Limited

Rating Assigned:

A

This is a financial institution with a good financial condition and strong capacity to meet its obligations as and when they fall due.

Outlook: Stable
Issue Date: 15 July 2020
Expiry Date: 30 June 2021
Previous Rating: A

Industry: Banking

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RATING RATIONALE

The rating assigned to FBNQuest Merchant Bank Limited ('FBNQ MB' or 'the Bank') reflects its membership of FBN Holdings Plc, one of Nigeria's largest financial institutions with interests in commercial banking, pension custody, trusteeship, asset management and stockbroking. The assigned rating is supported by a satisfactory asset quality, improving profitability and better capitalisation ratios. Offsetting these positive rating factors are persistent sector and obligor concentration risks in the loan book, a subpar funding and operating cost profile relative to its peers and the COVID-19 pandemic which has negative implications on the macro economy and business environment.

FBNQ MB's asset base (including contingents) of ₦155.5 billion as at 31 December 2019 ranked it third out of the five merchant banks operating in Nigeria. The Bank's market position is underpinned by the FBN brand which has supported deposits mobilisation since 2015 when it commenced merchant banking operations, and more recently the bond and commercial paper issuances by the Bank in the domestic market. As at 31 December 2019, FBNQ MB's customer deposit liabilities (excluding interbank takings) stood at ₦76 billion and funded 48.9% of total assets. The Bank's weighted average cost of funds (WACF) of 10.5% was lower than 12% recorded in the prior year but the highest among the merchant banks in 2019. However, subsequent to the 2019 financial year, FBNQ MB's WACF moderated to 5.5% as at May 2020, on account of the prevailing low interest rate regime.

FBNQ MB's assets are largely in investment securities (reflecting its discount house antecedence) and loans which accounted for 36% and 31.5% of total assets and contingents respectively as at 31 December 2019. During the year, FBNQ MB grew its loan portfolio by 30.6% to ₦48 billion, with sector and obligor concentration risks evident in the oil and gas sector which accounted for 33% of the loan book. The Bank's single largest exposure was to an obligor in the oil and gas sector which accounted for 14.8% of the loan

book and 25.2% of core capital as at FYE2019, highlighting vulnerabilities to adverse changes in the obligor's performance and a rating concern. Our concern is exacerbated by the foreign currency nature of the exposure, its speculative grade rating and strained performance which led to a restructuring in line with CBN's forbearance. Furthermore, FBNQ MB's stage 2 loans accounted for a high 10% of gross loans and largely comprised credits to the oil and gas sector, which we consider a rating negative given vulnerabilities in the sector. Nonetheless, the Bank's impaired loan ratio of 3% as at FYE2019 was below the regulatory guidance of 5%. FBNQ MB's provisions for impaired (stage 3) loans stood at an acceptable 90% according to IFRS 9 accounting standards. We believe that close monitoring of the Bank's exposures are germane, to prevent a deterioration in asset quality particularly in this period of uncertainty.

During the year under review, FBNQ MB's profitability was supported by a stronger non-interest income and a moderated cost profile. However, compressed margins in its lending activities resulted in a net interest spread (NIS) of 23.7% (FY 2018: 24.7%). At this level, FBNQ MB's NIS was an all-time low since 2015 when the Bank commenced merchant banking operations and compared less favourably with the merchant banking average of 34.2% in 2019. Nonetheless, pre-tax return on average assets (ROA) and a pre-tax return on average equity (ROE) strengthened to 1.9% (FY2018: 1.6%) and 10.3% (FY2018: 8.7%) respectively, though one of the lowest among the merchant banks. FBNQ MB introduced cost management strategies during FY 2019 that are beginning to yield results, as evidenced by a lower cost-to-income ratio (CIR) of 71.9% compared to 76.3% in the preceding year. We expect these initiatives to keep a lid on the Bank's operating expenses, although the high inflation rate and naira devaluation will moderate impact of the initiatives in the short term . Subsequent to the 2019 financial year, FBNQ MB's profitability ratios further improved as NIS jumped to 55.3%, CIR declined to 49.7% and annualised ROA and ROE strengthened to 3.8% and 21.6% respectively in the period ended 31 May 2020. These ratios were achieved on the back of a lower funding cost and operational cost savings arising from COVID 19 pandemic efficiencies in the areas of business travelling and training costs.

FBNQ MB is well capitalised for its risk profile. Basel II computed capital adequacy ratio (CAR) of 17.7% was well above the minimum threshold of 10% for merchant banks operating in Nigeria, providing sufficient buffer to cushion the impact of accentuated risks elicited by the COVID-19 pandemic. The improved CAR year-on-year was upheld by a profit retention during the period as dividends were not paid to the parent company. We expect the

Bank's acceptable capitalisation ratios to be sustained in 2020, barring any unforeseen events. Given FBNQ MB's improved earnings, satisfactory asset quality and acceptable capital base, we maintain the Bank's **"A"**, rating and attach a '**stable'** outlook to the rating in the short term as we continue to monitor the impact of the COVID-19 pandemic on the performance of FBNQuest Merchant Bank Limited.

Strengths

- Affiliation with FBN Holdings Plc
- Strength in investment banking
- An experienced management team
- Acceptable capitalisation ratios

Weaknesses

- Sector and obligor concentration in loan book
- High operating cost profile
- Relatively higher funding costs compared to peers

Challenges

- Adverse regulatory policies, especially the Cash Reserve Requirements (CRR)
- The COVID-19 pandemic and the impact on the repayment capacity of obligors

Table 1: Financial Data

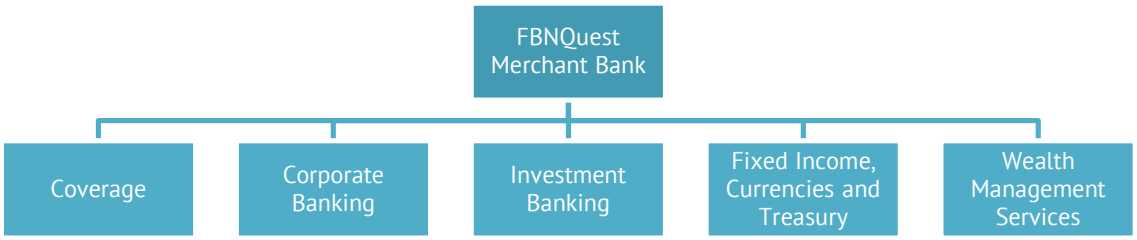
Financial Data	31 December 2017	31 December 2018	31 December 2019
Total assets and contingents	₦138.7 billion	₦142.6 billion	₦155.5 billion
Net earnings	₦11.6 billion	₦9.6 billion	₦9.9 billion
Pre-tax return on average assets and contingents (ROA)	3.6%	1.6%	1.9%
Pre-tax return on average equity (ROE)	17.9%	8.7%	10.3%

PROFILE

FBNQuest Merchant Bank Limited ("FBNQ MB" or "the Bank") is a wholly-owned subsidiary of FBN Holdings Plc ("the HoldCo"), one of the largest financial institutions in Nigeria. FBNQ MB, formerly called Kakawa Discount House Limited was initially incorporated in Nigeria as a private limited liability company on 14 February 1995. It was granted a license to carry on discount house activities on 31 October 1995 and commenced operations on 16 November 1995. In May 2015, a merchant banking licence was granted by the Central Bank of Nigeria and related activities commenced on 02 November 2015 as FBN Merchant Bank Limited. In August 2017, the Bank received approval to adopt the "FBNQuest" prefix for entities under the merchant banking and asset management group within the HoldCo Group, and thus became FBNQuest Merchant Bank Limited. Subsequently, FBNQ MB acquired 100% interest in two entities (FBNQuest Securities Limited and FBNQuest Asset Management Limited) to form the FBNQuest Merchant Bank Group.

FBNQuest Merchant Bank Limited is one of the five merchant banks operating in Nigeria. The principal activity of the Bank is the provision of finance and credit facilities to non-retail customers, treasury management services, financial and advisory services, issuing house activities and the coordination of the securities issuance. FBNQ MB's services also include debt and equity capital markets as well as wealth management. The Bank's liability generation strategy focuses on high net worth individuals, corporates and financial institutions while asset creation targets industrial and mid-tier corporates, public sector entities, banks and non-bank financial institutions.

Figure 1: Services Offered by FBNQuest Merchant Bank Limited



FBNQ MB's business model is structured along four main business divisions: Coverage and Corporate Banking Division, Investment Banking, Sales Division and Markets Division. The Bank's value proposition leverages on the strength of the FBN brand, heritage and expertise to provide bespoke financial solutions. Both subsidiaries, FBNQuest Asset Management Limited and FBNQuest Securities Limited provide partnerships that enhance the delivery of the Bank's overall strategy. As at 31 October 2019, FBNQuest Asset Management Limited had assets under management (AUM) of ₦303.5 billion and was the second largest asset management company in Nigeria as at the same date. FBNQ MB has affiliations with other subsidiaries in the Holding Company such as, FBNQuest Trustees and FBNQuest Funds.

FBNQ MB presently operates from three locations in Nigeria: Lagos, Abuja and Port Harcourt and the head office is situated at 10 Keffi Street, Off Awolowo Road, South-West Ikoyi, Lagos.

Correspondent Banks

During the year under review, FBNQuest Merchant Bank Limited maintained local correspondent banking relationships with the Central Bank of Nigeria, Guaranty Trust Bank Plc, First Bank of Nigeria Limited and Sterling Bank Plc. The Bank also had foreign correspondent banking relationships with FBN Bank UK, Access Bank UK, FCMB UK, AFREXIM and Bank of Beirut, to mention a few.

Information, Communication & Technology (ICT)

FBNQuest Merchant Bank Limited has an ICT framework that supports its daily operations. In the wake of the COVID-19 pandemic and the attendant restriction in movements, FBNQ MB's Business Continuity Plan (BCP) ensured minimal or no disruptions in the Bank's operations. Customer relationship management was supported by a robust cloud-based system called the *SalesForce*.

FBNQ MB's Core Banking Application (CBA) is the *Finacle Core and Treasury*, which runs its banking and treasury functions. The internet banking framework is also linked to the core banking application, facilitating web-based transactions for customers.

Track Record of Financial Performance

FBNQuest Merchant Bank Limited had an asset base (including contingents) of ₦155.5 billion as at 31 December 2019 and reflected a 9% growth over the prior year. As at the same date, tier 1 (core) capital stood at ₦28.3 billion and funded 18.2% of total assets and contingents, while customer deposits of ₦76 billion (excluding interbank takings) funded 48.9% of the Bank's activities. FBNQ MB's capital adequacy ratio (CAR) computed using the Basel II standards stood at 17.7% (FYE2018: 12.1%), above the regulatory minimum of 10% for merchant banks operating in Nigeria. During the year under review, FBNQ MB grew its loan portfolio by 30.6% to ₦48 billion and recorded an impaired loan ratio of 3% (FYE2018: 3.6%) which stood lower than CBN's guidance of 5%.

The Bank's net earnings in the period under review inched up by 3.1% to ₦9.9 billion and a net interest spread of 23.7% was recorded from its core lending activities, slightly lower than 24.7% in 2018. However, FBNQ MB's cost-to-income ratio (CIR) improved to 71.9% from 76.3% in the prior year while pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) strengthened to 1.9% (FY 2018: 1.6%) and 10.3% (FY 2018: 8.7%) respectively.

CURRENT DIRECTORS	DESIGNATIONS
Mr. Bello Maccido	*Chairman*
Mr. Kayode Akinkugbe	*Managing Director/CEO*
Mr. Taiwo Okeowo	*Deputy Managing Director*
Dr. (Mrs.) Omobola Johnson	*Non-Executive Director*
Mr. U. K. Eke, MFR	*Non-Executive Director*
Mr. Babatunde Odunayo	*Non-Executive Director*
Mr. Akin Osinbajo	*Non-Executive Director*
Mrs. Oyinkan Adewale*	*Non-Executive Director – Independent*
Mr. Oluyele Delano	*Non-Executive Director – Independent*

**Appointed effective 14 March 2019*

MANAGEMENT TEAM

Mr. Kayode Akinkugbe is the Managing Director/Chief Executive Officer of FBNQuest Merchant Bank Limited. Prior to this appointment, Mr. Akinkugbe served as Deputy Managing Director and then Managing Director/CEO of FBN Capital Limited. His investment banking career spans over 25 years in both global and local financial institutions. This includes being Head of sub-Saharan Africa (ex-SA) Coverage at Deutsche Bank and Credit Suisse. Mr. Akinkugbe holds a bachelor of science degree in Economics from the University of Ibadan, an MSc in International Accounting & Finance from the London School of Economics, UK and an MBA from Cranfield University, UK.

Other members of FBNQuest Merchant Bank Limited's management team include:

Mr Taiwo Okeowo	*Deputy Managing Director*
Mrs Bimbola Wright	*Head, Coverage and Corporate Banking Group*
Mr. Patrick Mgbenwelu	*Head, Investment Banking*
Mrs. Funke Ladimeji	*Head, Operations & Technology*
Mrs. Adetoun Dosunmu	*Head, Fixed Income, Currencies & Treasury Group*
Mr. Adekunle Tanimowo	*Acting Chief Financial Officer*
Mrs. Awele Ajibola	*Chief Risk Officer*
Mr. Alawusa Adewuyi	*Company Secretary*

ANALYSTS' COMMENTS

ASSET QUALITY

On the basis of total assets and contingents, FBNQuest Merchant Bank Limited was the third out of five banks in the Nigerian merchant banking segment as at 31 December 2019. FBNQ MB's total assets and contingents stood at ₦155.5 billion, reflecting a 9% growth over the preceding year and a structure that is dominated by liquid assets (35.3%) and loans (30.9%). The Bank's large liquid asset portfolio stems from its former operations as a discount house and favourable yields in the fixed income market. Subsequent to the commencement of merchant banking operations in 2015, FBNQ MB has grown its loan portfolio by a CAGR of 6.4% to ₦48 billion as at FYE2019. Restricted assets with CBN (cash reserve requirements -CRR) spiked by 106.2% year-on-year to account for 5.1% (FYE2018: 2.7%) of total assets and contingents. We expect this asset class to increase considerably on account of the upward review in CRR for merchant banks from 2% to 27.5% in January 2020 and discretionary debits by the CBN aimed at managing excess liquidity in the financial system.

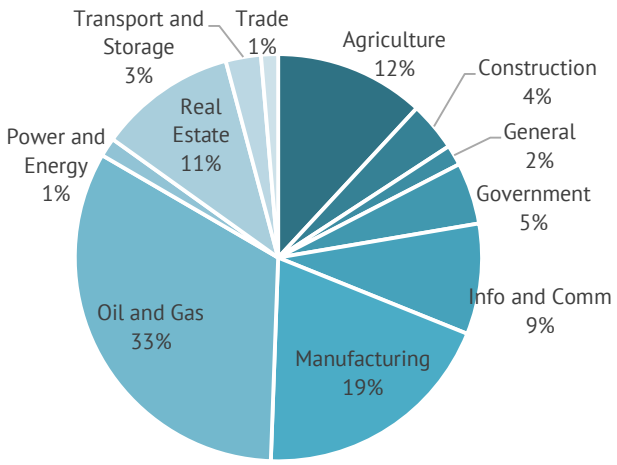
In creating risk assets, FBNQ MB targets top mid-tier corporates in key economic sectors within its defined risk assets acceptance criteria, granting term loans, trade finance loans and project finance loans. In the short to medium term, the Bank intends to expand its obligor coverage to include other names in the mid-tier corporate segment and commercial obligors, with the view to diversify the loan book and take advantage of higher yields in the segment. We believe this segment has a higher risk profile than the top mid-tier corporates where it traditionally plays; therefore, proactive risk management measures need to be deployed to forestall deterioration in asset quality. As at 31 December 2019, FBNQ MB's loan book was concentrated by obligors as top 20 obligors accounted for 97.7% of gross loans and advances, reflecting the relatively small size of the loan book and susceptibilities to adverse changes in the performance of these obligors.

Sectoral allocations of FBNQ MB's gross loans and advances showed concentration in the oil and gas sector, which accounted for 33% of the loan portfolio as at FYE2019, though we note that this was lower than 40% exposure to this sector in 2018. These loans were largely to a few obligors in the upstream and downstream subsectors. The Bank's single largest exposure to this sector accounted for 14.8% of the loan book and 25.2% of shareholders' funds unimpaired by losses as at 31 December 2019, further buttressing obligor concentration risk. Obligor concentration risk in FBNQ MB's loan book is exacerbated by the speculative grade rating of this obligor, in addition to performance and governance issues that have led to a restructuring.

Agusto & Co. is concerned about FBNQ MB's significant exposure to the oil and gas sector given accentuated risks occasioned by the COVID-19 pandemic. The price of crude oil has taken a plunge since the last quarter of 2019, adversely impacting the repayment capacity of operators in the upstream segment. Downstream operators also face the risk of a further devaluation of the domestic currency and FX illiquidity which arises from lower crude oil proceeds, a major contributor to the country's FX revenue. Our concerns are exacerbated by the currency risks inherent in these exposures as a further devaluation of the domestic currency would bloat the naira value of the credits, which have tenures up to four years. In the last one year, two of the Bank's large exposures to the oil and gas sector have been restructured because of strains in operations. Although the Bank has leveraged on the CBN's forbearance to restructure affected loans in this sector thus moderating deterioration in the short term, we consider its exposure to the sector a rating concern given the quality of the

obligors. In our opinion, a close monitoring of loans to troubled sectors, including the oil and gas sector is required to forestall a deterioration in asset quality.

Figure 2: Loan Book by Sector as at FYE 2019



Other major sectoral exposures as at 31 December 2019 were manufacturing, agriculture and real estate which accounted for 19%, 12% and 11% of the loan portfolio respectively. The Bank's manufacturing loans were largely trade finance transactions and predominantly in the food manufacturing industry. We recognise that disruptions in global supply chains and a weaker domestic currency have strained the performance of obligors in the manufacturing sector, waning the repayment capacities. Thus, a couple of loans to obligors in this sector have been restructured in line with CBN's forbearance. During the 2019 financial year, additional loans were extended to an obligor in the manufacturing sector which resulted in an 807% year-on-year growth. Real estate exposures also rose 14.5 times on account of additional loans to a single obligor which is backed by the guarantee of one of the largest commercial banks in Nigeria.While we consider positively, the bank guarantee, we note that the real estate sector is susceptible to weaknesses in the macroeceonomic environment which negatively impact purchasing power.

In terms of currency allocation, FBNQ MB's foreign currency (FCY) loans accounted for 28.2% of the loan portfolio as at FYE2019, notably higher than 12.4% in the preceding year, but below the Industry's average of 45%. Approximately 64% of these loans was to the oil and gas sector while 31% was to manufacturing obligors. The balance was in transportation and trade. Although the Bank's FCY loans to total loans is lower than the Industry's average, the oil and gas component of the FCY loan book is a concern given that the sector's cashflows have come under pressure. We expect growth in the Bank's FCY loans as a percentage of total loans in the short term on the back of the naira devaluation.

According to the IFRS 9 accounting standard, approximately 87% (FYE2018: 96%) of FBNQ MB's gross loans and advances was in the stage 1 category while stage 2 and stage 3 loans accounted for 10% (FYE2018: 0.4%) and 3% (FYE2018: 3.6%) of the loan book respectively. Collectively, the Bank's stage 2 and stage 3 loans

increased to 13% in 2019 from 4% in 2018, revealing some degree of deterioration in asset quality. FBNQ MB obtained CBN's approval to restructure approximately 19% of the entire loan book as at May 2020. Thus, we expect some migrations in the near term, with additional impairment charges recognised in line with the IFRS 9 accounting standard. Nonetheless, we expect the level of non-performing loans to total loans to be upheld in the short term by the CBN forebearance.

Figure 3: Loan Book by Stages (FYE2019)

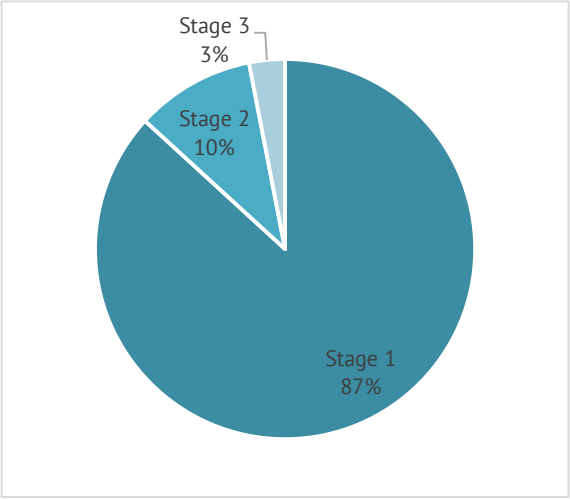
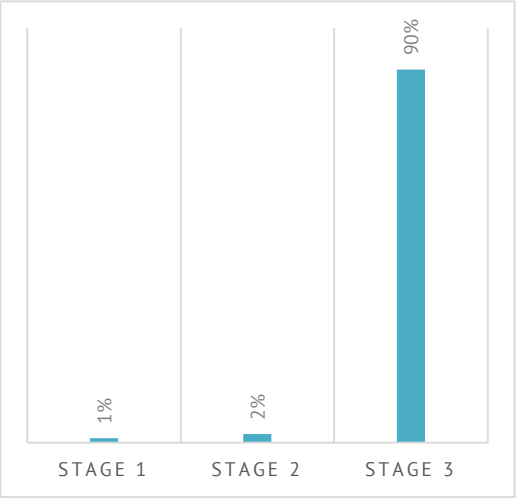


Figure 4: Coverage by Stages (FYE2019)



During the year under review, FBNQ MB's stage 3 loans inched up by 9.8% to ₦1.5 billion due to an additional classification from the transport sector. Recovery on this delinquent facility is ongoing, albeit stalled by the pandemic. Exposure to an obligor in the construction which was guaranteed by the Federal Government dominated the Bank's impaired credit portfolio at 87% of total non-performing credits. This impaired credit has been fully provided for, given a prolonged recovery process. The Bank is also aggressively recovering ex-staff loans that were non-performing, although these represented a minimal portion of impaired loans as at 31 December 2019.

FBNQ MB's impaired loan ratio of 3% was below the regulatory guidance of 5% and compared favourably with that of FSDH Merchant Bank Limited (FSDH MB) at 4.8%, but was higher than Coronation Merchant Bank's (Coronation MB) nil impaired loan ratio as at 31 December 2019. The coverage ratio of FBNQ MB's impaired loans stood good at 90%, according to IFRS 9 provisions. However, we believe that the Bank's low coverage on stage 2 loans at 2% may have an adverse impact on future earnings should these loans deteriorate further in the medium term.

Overall, we consider FBNQ MB's asset quality to be satisfactory, although we have concerns about its notable exposures to troubled economic sectors and obligor concentration risks in its loan portfolio. While the CBN's forbearance is expected to taper expected tides in asset quality in the short term, we believe that FBNQ MB's exposures require close monitoring to avoid elevated non-performing loans ratios in the medium term given its relatively small loan book size.

RISK MANAGEMENT

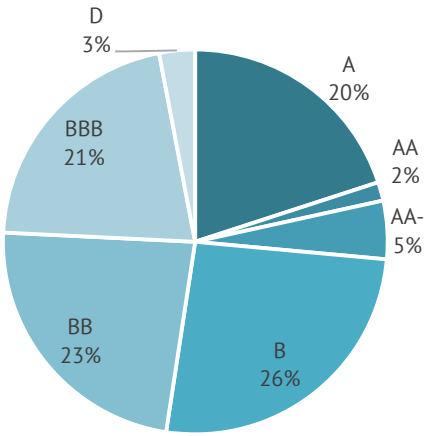
FBNQuest Merchant Bank Limited has an Enterprise-wide Risk Management (ERM) framework that articulates its overall approach to managing different risks. The framework also states the Bank's risk appetite and defines the roles and responsibilities of the different parties involved in risk management. FBNQ MB's Board of Directors, supported by the Board Committees, has the responsibility for determining the risk appetite of the Bank and approving recommended risk management strategies and policies. The Risk Management Committee coordinates the activities of other divisions to implement the risk management policies and procedures as approved by the Board of Directors. FBNQ MB reviews these policies, processes and procedures for all risk categories as often as required, especially when significant gaps are identified as a fall out from its monitoring activities.

FBNQ MB has an Independent Risk Management Group headed by a Chief Risk Officer (CRO) which ensures appropriate risk oversight and methodologies. The CRO reports directly to the Managing Director with a dotted reporting line to the Board of Directors. In September 2019, FBNQ MB appointed a new CRO, following the exit of the previous CRO in Q1 2019.

Credit Risk: FBNQ MB has a Credit Risk Management (CRM) department that is primarily responsible for managing credit risk exposures including remediation and recovery. The decisions of the department are guided by the Bank's Credit Policy Manual and credit policies are reviewed periodically to ensure relevant trends and development are captured. In addition, FBNQ MB establishes exposure limits to credit risk, based on regulatory prescriptions set by the CBN and its prudential guidelines and internal considerations.

In measuring risks in its loan portfolio, FBNQ MB uses an internal rating model for obligors, which considers financial and non-financial parameters. According to the Bank's rating model, approximately 48% of gross loans and advances was granted to investment grade names, 49% to non-investment obligors while 3% was in the default category as at 31 December 2019. In view of current macroeconomic realities, we believe that a review of the Bank's internal ratings is apt.

Figure 5: Loan Book by Credit Rating (FYE2019)



Market Risk: FBNQ MB trades in foreign currency and fixed income securities and is therefore exposed to variations in foreign exchange and interest rates. The Bank minimises exposures to losses caused by adverse movements in key rates by setting defined limits for all trading instruments. We note positively, the Bank's net asset position as at FYE2019 which is appropriate in a soft currency zone given the vulnerability to a depreciation of the domestic currency. Thus, a 10% devaluation of the naira translates to a potential profit of ₦92.6 million, based on FBNQ MB's 2019 financial statements. In addition, the Bank's trading books (bills and bonds) was positioned to benefit from an increase in the prices of the financial assets (or decline in interest rates) with a ₦3.5 million gain if prices of bonds and bills rose by 100 basis points.

Operational Risk: During the period ended 31 December 2019, FBNQ MB contravened two regulatory provisions and paid penalties of ₦18 million (FYE2018: ₦4 million). The Bank breached the Net Open Position Limit, contravening Section 60 (i) of the Banks and Other Financial Institutions Act (BOFIA) and the CBN AML/CFT regulations which attracted administrative sanctions. We consider this to be a rating negative.

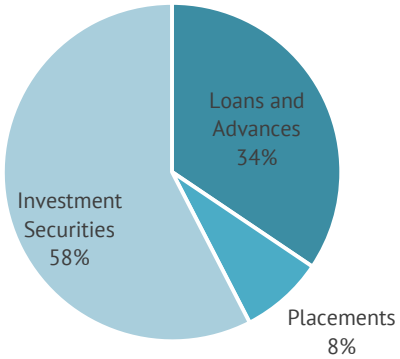
Overall, we consider FBNQ MB's risk management framework to be satisfactory, while compliance needs improvement. In addition, given heightened risks in the macroeconomic environment and credit landscape, we believe that it is imperative for the Bank to strengthen its risk management function, particularly in the area of loan monitoring. FBNQ MB's large exposure to vulnerable sectors in addition to obligor concentration risks threatens the Bank's asset quality. In addition, we believe that FBNQ MB's compliance department requires fortification to prevent regulatory breaches, going forward.

EARNINGS

FBNQuest Merchant Bank Limited's merchant banking license allows it earn income from a broad range of permissible financial services. In addition to the traditional lending and core banking activities, the Bank generates revenue from investment banking functions and its subsidiaries, which are engaged in asset management and stockbroking.

During the financial year ended 31 December 2019, intensified competition in the lending environment triggered by the introduction of the minimum loans-to-deposits ratio (LDR) policy in July 2019 and the attendant drop in interest rates resulted in a 13.2% year-on-year decline in FBNQ MB's interest income to ₦14.2 billion despite an enlarged asset base. Furthermore, most of the loan growth was recorded in the last two quarters of the year, following the introduction of the LDR policy by the Central Bank of Nigeria. Year-on-year, interest income on investment securities dipped by 5.5% due to CBN's policies aimed at lowering yields in the fixed income market, while interest income on loans and advances contracted by 21.7% and reflected an average yield of 11.6%, 483 basis points lower than the prior year. Notwithstanding, investment securities remained the largest source of interest income for the Bank during the year under review with a 57.6% contribution to total interest income.

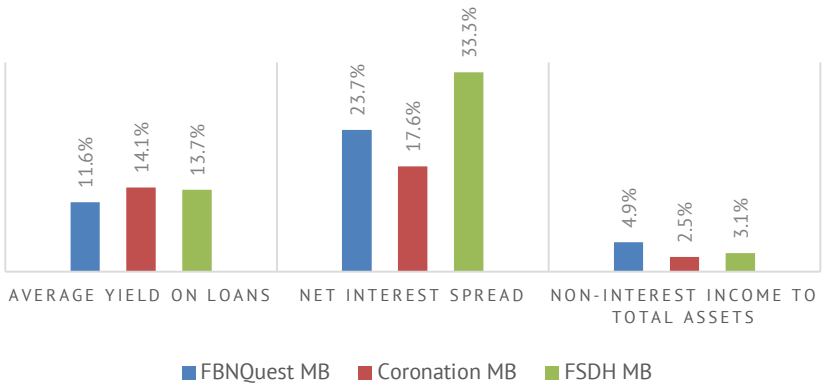
Figure 6: Breakdown of Interest Income (FY 2019)



The prevailing low interest rate environment also led to an 11.9% decline in interest expense to ₦10.9 billion in 2019. The decline was supported by a lower customer deposits base, thus a 19.3% contraction in interest expense on customer deposits. Conversely, interest expense on bank borrowings rose by 51.8%, reflecting increased activities in the interbank market during the period due to the aggressive implementation of the CRR policy, which moderated liquidity in the financial system.

During the year under review, FBNQ MB's net interest spread (NIS) dipped to 23.7% (FY2018: 24.7%) and was the lowest since its transition to a merchant bank. While the Bank's NIS compared favourably with Coronation MB's NIS of 17.6%, it was lower than FSDH MB's NIS of 44.7% and the merchant banking average of 34.2% in the same period. Although we expect yields in the loan book to remain suppressed in the short term on the back of the increase in cash reserve requirements to 27.5% from 2% and the COVID-19 palliatives (lower interest rates and moratoriums) offered to businesses to moderate the impact, we expect FBNQ MB's NIS to be upheld by lower interest expense on deposits. In addition, the Bank's foray into the mid tier segment will generate a wider margin. In the first five months of the 2020 financial year, FBNQ MB's NIS jumped to 55.3% on account of lower funding costs. We note however that the Series 1 ₦5 billion bond issued in January 2020 and a planned Series 2 bond issue will put some pressure on funding costs in the short term.

Figure 7: Efficiency Ratios (FY 2019)

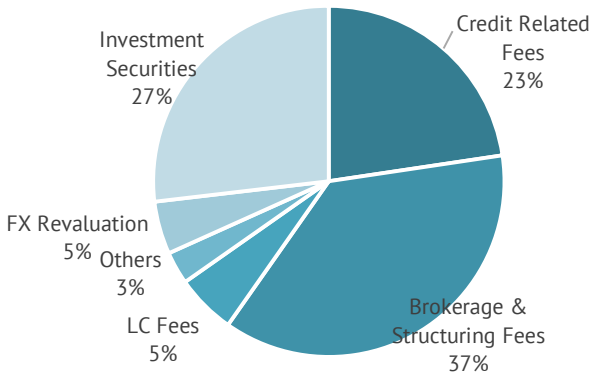


FBNQ MB recorded an impairment charge of ₦119.8 million (FY 2018: ₦471.5 million) on financial assets during the FY 2019. The 74.6% contraction was driven by write backs on previous provisions taken for expected credit losses on some financial assets. Consequently, the Bank's cost-of-risk dipped to 0.3% from 1.2% in the prior year. At this level, FBNQ MB's cost-of-risk was higher than Coronation MB's 0.1% but at par with FSDH MB. We expect a higher impairment charge in 2020 on the back of an anticipated deterioration in asset quality occasioned by the COVID-19 pandemic and the proactive expected credit loss (ECL) provisioning required by the IFRS 9 accounting standard. Nonetheless, this will be moderated to an extent by the CBN's forebearance.

In 2019, FBNQ MB's non-interest income amounted to ₦6.6 billion and represented 4.5% of average assets and contingents, higher than 4.4% recorded in the prior year and its peers (Coronation MB: 2.5% and FSDH MB: 3.1%). The Bank's stronger non-interest income to average assets ratio compared to its peers reflects its affiliation with FBN Holdings and synergies with members of the FBNQuest Group. During the year under review, non-interest income grew by 10.5% year-on-year, buoyed by 171.1% spike in credit-related fees from an enlarged loan portfolio. Thus, the contribution of credit-related fees significantly increased to 22.6% from 9.2% in FY 2018. Marked growths were also recorded in commissions on LCs (letters of credit) and fees from trade-related activities, which rose by 103.4% and trading income, which grew by 54% year-on-year. The largest contributor to the Bank's non-interest income during the year was brokerage and structuring fees from investment banking activities (a major strength of the Bank) which made up 37% of total non-interest income. In the near term, we anticipate higher brokerage and structuring fees as more businesses leverage the low interest rate environment to issue debt securities and as other corporate actions are taken. Macroeconomic headwinds should also induce financial advisory needs, in our opinion. FBNQ MB typically receives dividend income from its subsidiaries, which accounted for 11% non-interest income in 2018. However, in 2019, dividends were not received as profits were ploughed back into the respective subsidiaries. FBNQ MB also did not pay dividends to the parent company.

Overall, we consider the Bank's non-interest income sources to be sustainable in the near term. However, we expect the downward review of bank charges by the CBN and the COVID-19 pandemic, which has resulted inlower FX supply and global supply chain distortions, to moderate non-interest income in 2020.

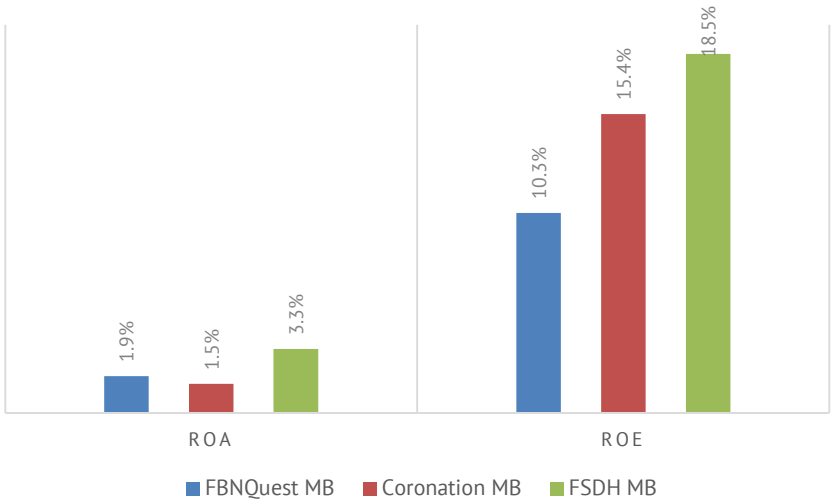
Figure 8: Breakdown of Non-Interest Income (FY 2019)



In 2019, FBNQ MB implemented a cost containment exercise which resulted in a 2.8% decline in operating expenses (OPEX) to ₦7.1 billion, despite business growth and the 11.98% closing inflation rate for the year. Notable contractions were observed across most expense lines, which we view positively. However, the Bank's OPEX as a percentage of total assets stood high at 5% and compared less favourably to Coronation MB's 2.1%, FSDH MB's 3.2%. FBNQ MB's cost-to-income ratio declined by 443bps to 71.9% but remained well above its peers (Coronation MB: 51.6%, FSDH MB: 49.3%) and the banking industry average of 64.3%. We believe that cost cutting and operational savings from the COVID-19 pandemic will reduce OPEX; however, the Bank's cost profile will remain above its peers due to higher staff numbers and operational inefficiencies.

Overall, FBNQ MB recorded a 22.5% increase in profit before taxation (PBT) to ₦2.8 billion, which translated to a pre-tax return on average assets (ROA) of 1.9% (FY 2018: 1.6%) and a pre-tax return on average equity (ROE) of 10.3% (FY 2018: 8.7%). However, the profitability ratios were lower than those of Coronation MB (ROA: 1.7%, ROE: 15.4%) and FSDH MB (ROA: 3.3%, ROE: 18.5%). Indeed, the Bank's ROA and ROE were one of the lowest amongst the merchant banks during the year under review. In our opinion, the profitability of FBNQuest Merchant Bank Limited requires improvement and continues to lag its peers in the merchant banking segment.

Figure 9: Profitability Ratios (FY 2019)



In the first five months of the 2020 financial year, FBNQ MB's pre-tax profits of ₦2.7 billion was almost at par with the Bank's full year results in 2019 on account of lower funding costs and costs savings as a result of the COVID-19 pandemic (lower travelling and training costs from restricted movements and physical distancing). However, we believe that the Bank's profits will be constrained by the spike in the cash reserve requirements for merchant banks amidst discretionary debits by the CBN and the weak macroeconomic fundamentals elicited by the pandemic. In addition, the Bank's cost profile requires further moderation to improve profitability ratios. According to the Bank's 2020 budget, pre-tax profits are expected to grow by 50.2% driven by a lower funding costs (26.8% contraction in interest expense) and higher non-interest income (50.7% growth in net fees and commissions). We consider this to be achievable given its performance in the period ended 31 May 2020.

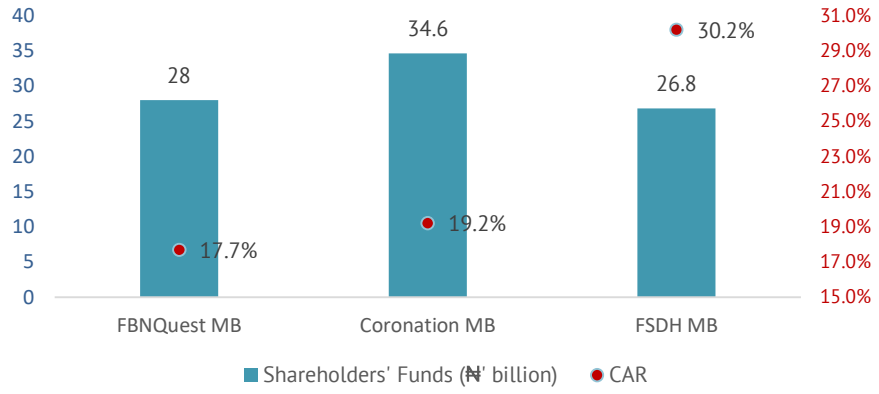
Capital Adequacy

In 2019, FBNQ MB's core (tier 1) capital grew by 18.7% to ₦28 billion, almost twice the regulatory minimum and was supported by improved earnings and the emanating reserve accretion. The decision to withhold dividend payments to the parent company and fully retain profits generated during the year further bolstered the capital base.

On the back of an enlarged capital base, FBNQ MB's Basel II computed capital adequacy ratio (CAR) strengthened to 17.7% from 12.1% in the prior year and was well above the 10% CBN minimum threshold for merchant banks operating in Nigeria.

We consider FBNQ MB's capital to be sufficient for its risk profile. To provide additional capital buffer, the Bank has scheduled the issuance of a medium term bond that will qualify as tier 2 capital. We believe the bond, if issued, will further strengthen the Bank's capitalisation ratios particularly for this period of uncertainty.

Figure 10: Shareholders' Funds and Capital Adequacy Ratio

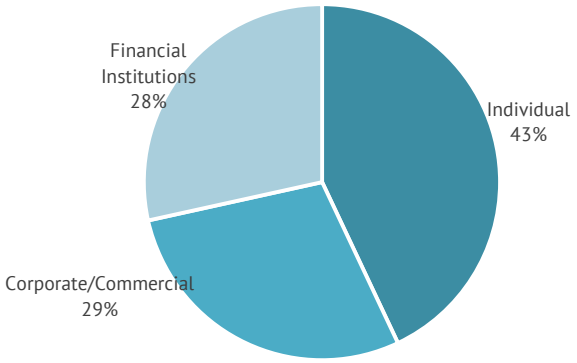


Liquidity and Liability Generation

Liability generation in the merchant banking segment of the Nigerian banking industry is limited to a minimum deposit of ₦50 million per tranche, according to regulation. Thus, deposit liabilities are predominantly wholesale in nature and obtained from rate sensitive and costly sources compared to cheap retail deposits enjoyed by commercial banking counterparts.

FBNQ MB's antecedence as a discount house and its strength in wealth management which has sustained relationship with clients reflects in the 43% contribution of individual deposits to its total customer deposits base, which is higher than its peers. Other funding sources such as corporates and financial institutions accounted for 29% and 28% of customer deposits respectively as at FYE2019. Also funding the Bank's activities during the year were commercial papers and confirmed stand by lines of credit from foreign banks which funded trade transactions. In addition to these correspondent lines, foreign currency deposits held in domiciliary accounts which made up 11.2% of total customer deposits funded the Bank's assets.

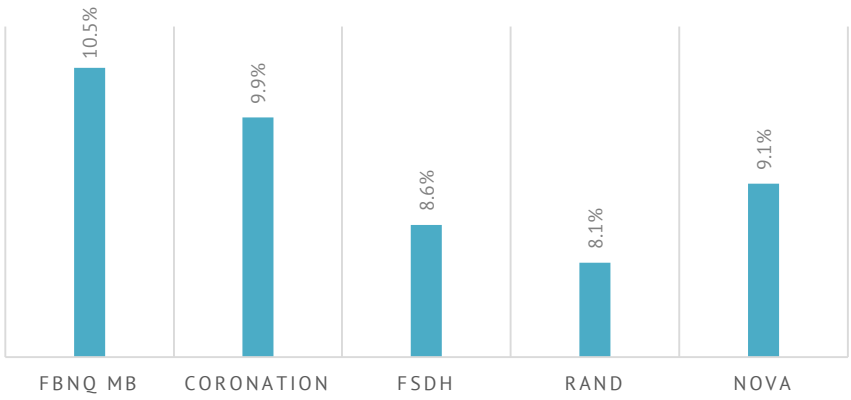
Figure 11: Customer Deposits by Source (FYE2019)



In the 2019FY, customer deposits (excluding interbank takings) declined by 16.4% to ₦76 billion due to the settlement of relatively expensive deposits. However, the Bank's deposits remained largely in time and call deposits (68.2%) and in demand deposits to a lesser extent (31.8%). Local currency deposits contracted by 9.6% to account for 88.8% of total customer deposits while foreign currency deposits declined by 47.8% to account for 11.2%, funding 63.1% of the Bank's FCY loan book. As at FYE2019, FBNQ MB's top 20 depositors accounted for significant 38.1% of total deposits, revealing some degree of concentration akin to the merchant banking structure.

FBNQ MB's weighted average cost of funds (WACF) stood at 10.5% for the 2019 financial year, lower than 12% in the preceding year. While we recognise that funding costs for merchant banks are typically higher than commercial banks, FBNQ MB's weighted average cost of funds (WACF) was one of the highest in the merchant banking segment, which we view negatively. Subsequent to the 2019FY, in the first five months of 2020, the Bank's WACF moderated to 5.2% due to the persistent lower interest rate environment. Notwithstanding, the existing and planned bond issuances will inch up the Bank's funding cost for full year 2020.

Figure 12: Weighted Average Cost of Funds- Peer Comparison (FY2019)



There were mismatches in FBNQ MB's loans and deposit liabilities maturity profiles as at FYE2019 particularly in the '180-360' days and 'over 360 days' buckets. Customer deposits were insufficient to fund the Bank's loans in the '180-30' days bucket while there were no deposits to fund loans above the 360 days maturity bucket. These mismatches are managed by the Asset & Liability Management team within the Bank's treasury department using intermittent funding from commercial papers issuances and the interbank market. In addition, whilst contractually, the Bank's deposit liabilities are not longer than 12 months in tenor, behaviourally, up to half of customer deposits is core and are thus long tenured. In addition to the ₦5 billion 3 year bond issued in January 2020, the Bank intends to raise long tenured funding in the near term to moderate these mismatches, which we view positively.

FBNQ MB's liquid asset portfolio stood at ₦54.9 billion as at 31 December 2019 and was lower than ₦62.3 billion in the prior year due to the aggressive CRR debits adopted by the CBN to manage excess liquidity in the financial system. However, these liquid assets are available to be used as collateral to access funding from the interbank market when the need arises. The Bank's liquid assets as a percentage of total local currency deposits of 42.6% (FYE2018: 78%) was higher than the regulatory minimum of 20% for merchant banks operating in Nigeria.

Overall, we consider FBNQ MB's liquidity profile to be good and its ability to refinance remains adequate supported by the FBN brand. The Bank's asset management subsidiary (the second largest in Nigeria by AUM) is expected to drive its retail strategy, particularly in the area of liability generation.

Ownership, Management & Staff

FBNQuest Merchant Bank Limited is a wholly owned subsidiary of FBN Holdings Plc, one of the largest Nigerian financial holding companies with interests in commercial banking, pension custody, trusteeship and asset management, among others. FBN Holdings Plc is listed on the premium board of the Nigerian Stock Exchange and had 1,202,618 shareholders as at 31 December 2019. In addition to the brand franchise, membership of the FBN Group avails FBNQ MB access to the expertise and infrastructure available within the Group. The Parent also provides corporate governance support to the Bank.

FBNQuest is governed by a nine-member Board of Directors comprising two Executive Directors and seven Non-Executive Directors (two of whom are Independent Non-Executive Directors). Mr. Bello Maccido chairs the Bank's Board of Directors while Mr. Kayode Akinkugbe is the Managing Director and Chief Executive Officer of FBNQuest Merchant Bank Limited. In the task of overseeing the Bank, he is supported by the Deputy Managing Director and a senior management team. In September 2019, Mrs Oyinkansola Adewale joined the Board as an Independent Non-Executive Director in line with the CBN corporate governance directive which requires a minimum of two Independent Non-Executive Directors.

Mrs Adewale holds a Bachelor of Arts degree from the University of Ibadan and is an alumnus of INSEAD, Fontainebleau, IMD, Lausanne and Oxford Said Business School. She is also a Fellow of the Institute of Chartered Accountants of Nigeria. Mrs Adewale has over 30 years' experience as the Chief Financial Officer (CFO) of various financial institutions and she co-founded SIAO, a leading indigenous accounting firm. She

currently serves on the boards of Lafarge Africa Plc and Baobab Microfinance Bank Limited and is a member of the investment committee of Uhuru Investment Partners.

In 2019, FBNQ MB had a staff strength of 174 persons, almost at par with 173 persons employed in the prior year. However, due to resignations during the year, with replacements occurring towards the end of the financial year, employee related cost dipped by 4.3% to ₦2.5 billion. Thus, average staff cost declined to ₦14.2 million from ₦14.8 million in the prior year. Net earnings per staff, a measure of productivity, increased by 2.5% to ₦56.9 million and covered average staff costs 4 times (FY 2018: 3.7 times). However, the coverage ratio was lower than 7.4 times and 4.5 times recorded by Coronation MB and FSDH MB respectively in the same year. It was also lower than the banking industry's average of 4.8 times.

In our opinion, the Bank is led by an experienced management team. However, staff productivity lags the industry standard.

Table 2: Staff Productivity Indicators (Peer Comparison)

	FBNQ MB FY 2018	FBNQ MB FY 2019	FSDH FY 2019	Coronation FY 2019
Average Number of Employees	173	174	126	121
Average Cost per Employee	₦14.8 million	₦14.2 million	₦18.2 million	₦11.6 million
Net Earnings per Staff	₦55.2 million	₦56.9 million	₦81.1 million	₦85.7 million
Net Earnings per Staff to Average Cost per Employee	3.7 times	4.0 times	4.5 times	7.3 times
Staff Cost/Operating Expenses	35.1%	34.6%	45.7%	26.3%

Market Share

The merchant bank licence was reintroduced into the Nigerian banking industry in 2010 following the repeal of the universal banking model. Over the last decade, five merchant banks have been licensed, comprising three erstwhile discount houses (including FBNQuest Merchant Bank Limited) and two new financial institutions. Since the last merchant banking licence issuance in 2017, the asset base and the loan portfolio of the merchant banking segment each have grown at a cumulative average growth rate of 19% to ₦921.9 billion and ₦243.9 billion respectively as at 31 December 2019. Nonetheless, the merchant banks' contribution to the banking industry's resources remain negligible due to regulatory restrictions associated with the operations of merchant banks. Thus, operators are leveraging other competitive advantages outside of the core lending function to grow market share. For FBNQ MB, its affiliation with FBN Holdings continues to support its business enterprise.

Table 3: Market Share Indicators of Merchant Banking Segment

	FBNQ FY 2019	Coronation FY 2019	FSDH FY 2019	RMBN FY 2019	Nova FY 2019
Total Assets and Contingents	17%	38%	19%	16%	11%
LCY Deposits	22%	35%	19%	10%	13%
Loans & Advances (Net)	19%	30%	19%	21%	12%
Net Earnings	17%	7%	18%	16%	6%
Profit before Tax	9%	16%	17%	53%	5%

As at 31 December 2019, FBNQuest Merchant Bank Limited was the third largest merchant bank in Nigeria based on total assets and contingents, holding 16.6% of the segment's asset base, though lower than 18.6% recorded in the prior year. FBNQ MB had the second largest customer deposit base in the segment at 22.5%. Although the Bank's contribution to net earnings was good compared to other merchant banks, its relatively high operating costs during the period moderated its share of profit before tax to a low 9%. We consider FBNQ MB's market position in the merchant banking space to be satisfactory.

OUTLOOK

In the short term, the banking industry's performance will be moulded by the impact of the COVID 19 pandemic as the country continues to battle health issues while managing the effect on the macroeconomic environment, businesses and households. While income from the banking industry's core lending business is expected to be strained by the weak macroeconomic environment and tough regulatory policies, merchant banks will leverage the diversity of the license to support profits.

According to the Bank's projections for 2020, pre-tax profits are expected to grow by 50.2% driven by a lower funding costs (26.8% contraction) and higher non-interest income (50.7% growth in net fees and commissions). However, the Bank expects a minimal loan book growth of 7% in the 2020FY. In view of the Bank's performance in the first five months of the year, we consider this projection to be achievable. However, we expect the Bank's asset quality to be pressured by the pandemic and the attendant effect on the macroeconomic environment. Although the Bank has received CBN's approval to restructure approximately 19% of the loan book as at May 2020 in line with the palliatives granted to the banking industry, we foresee additional restructurings in the near term if macroeconomic conditions remain fragile. Sectoral and obligor concentration in the Bank's loan portfolio elevate credit risks in the period of weak macroeconomic fundamentals; hence, we believe the Bank's risk management requires strengthening to forestall a significant deterioration in asset quality.

Notwithstanding, Agusto & Co. attaches a '**stable**' outlook to the rating of FBNQuest Merchant Bank Limited based on our expectations that capital will remain adequate while liquidity and ability to refinance will be supported by the FBN holdings and its strong affinity to the Nigerian Banking Populace. The Bank will also leverage the CBN's forbearance to somewhat preserve asset quality in the short term.

FINANCIAL SUMMARY

FBNQUEST MERCHANT BANK LIMITED

	BALANCE SHEET AS AT	31-Dec-2019		31-Dec-2018		31-Dec-2017	
		₦'000		₦'000		₦'000	
	ASSETS						
1	Cash & equivalents	3,515	0.0%	2,249	0.0%	1,908	0.0%
2	Government securities	52,869,784	34.0%	52,587,640	36.9%	53,961,271	38.9%
3	AMCON Securities	2,000,466	1.3%	9,900,496	6.9%	6,000,479	4.3%
4	Quoted investments						
5	Placements with discount houses						
6	LIQUID ASSETS	54,873,765	35.3%	62,490,385	43.8%	59,963,658	43.2%
7	BALANCES WITH NIGERIAN BANKS	1,488,911	1.0%	3,678,982	2.6%	1,925,509	1.4%
8	BALANCES WITH BANKS OUTSIDE NIGERIA	1,047,043	0.7%	1,412,550	1.0%	6,993,120	5.0%
9	Direct loans and advances - Gross	48,005,509	30.9%	36,770,767	25.8%	39,585,410	28.5%
10	Less: Cumulative loan loss provision	(1,615,056)	-1.0%	(1,427,942)	-1.0%	(432,177)	-0.3%
11	Direct loans & advances - net	46,390,453	29.8%	35,342,825	24.8%	39,153,233	28.2%
12	Advances under finance leases - net						
13	TOTAL LOANS & LEASES - NET	46,390,453	29.8%	35,342,825	24.8%	39,153,233	28.2%
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	8,517,527	5.5%	6,151,414	4.3%	3,993,045	2.9%
16	DEFERRED LOSSES	9,113,548	5.9%	9,113,548	6.4%	9,113,547	6.6%
17	RESTRICTED FUNDS	8,000,335	5.1%	3,879,865	2.7%	2,172,798	1.6%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES	1,313,329	0.8%	1,381,773	1.0%	1,737,106	1.3%
19	OTHER LONG-TERM INVESTMENTS	8,445,447	5.4%	4,902,151	3.4%	9,005,703	6.5%
20	FIXED ASSETS & INTANGIBLES	2,310,991	1.5%	3,441,472	2.4%	4,631,534	3.3%
21	**TOTAL ASSETS**	**141,501,349**	**91.0%**	**131,794,965**	**92.5%**	**138,689,253**	**100.0%**
22	TOTAL CONTINGENT ASSETS	13,952,856	9.0%	10,761,510	7.5%		
23	**TOTAL ASSETS & CONTINGENTS**	**155,454,205**	**100%**	**142,556,475**	**100%**	**138,689,253**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	28,266,254	18.2%	25,626,030	18.0%	26,339,624	19.0%
25	TIER 2 CAPITAL	(315,728)	-0.2%	(2,086,380)	-1.5%		
26	LONG-TERM FOREIGN BORROWINGS						
27	Demand deposits	24,143,910	15.5%	20,512,253	14.4%		
28	Savings deposits						
29	Time deposits	43,330,080	27.9%	54,096,141	37.9%	82,321,467	59.4%
30	Inter-bank takings	27,648,648	17.8%	8,003,945	5.6%	11,639,548	8.4%
31	TOTAL DEPOSIT LIABILITIES - LCY	95,122,638	61.2%	82,612,339	58.0%	93,961,015	67.7%
32	Customers' foreign currency balances	8,547,458	5.5%	16,368,975	11.5%	5,169,517	3.7%
33	TOTAL DEPOSIT LIABILITIES	103,670,096	66.7%	98,981,314	69.4%	99,130,532	71.5%
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	9,880,727	6.4%	9,274,001	6.5%	13,219,097	9.5%
36	**TOTAL CAPITAL & LIABILITIES**	**141,501,349**	**91.0%**	**131,794,965**	**92.5%**	**138,689,253**	**100.0%**
37	TOTAL CONTINGENT LIABILITIES	13,952,856	9.0%	10,761,510	7.5%		
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**155,454,205**	**100%**	**142,556,475**	**100%**	**138,689,253**	**100%**
	Proof						
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes	10,310,436	6.6%	8,172,760	5.7%		
40	Guarantees, bonds etc..	3,642,420	2.3%	2,588,750	1.8%		
41	Short-term self liquidating contingencies						

FBNQUEST MERCHANT BANK LIMITED

	INCOME STATEMENT FOR THE YEAR ENDED	31-Dec-2019 ₦'000		31-Dec-2018 ₦'000		31-Dec-2017 ₦'000	
42	Interest income	14,232,552	68.2%	16,389,387	73.2%	18,994,331	78.5%
43	Interest expense	(10,859,589)	-52.0%	(12,333,063)	-55.1%	(12,119,198)	-50.1%
44	Loan loss expense	(119,832)	-0.6%	(471,531)	-2.1%	(471,429)	-1.9%
45	NET REVENUE FROM FUNDS	3,253,131	15.6%	3,584,793	16.0%	6,403,704	26.5%
46	ALL OTHER INCOME	6,646,222	31.8%	6,013,392	26.8%	5,187,938	21.5%
47	**NET EARNINGS**	**9,899,353**	**47.4%**	**9,598,185**	**42.8%**	**11,591,642**	**47.9%**
48	Staff costs	(2,462,181)	-11.8%	(2,573,040)	-11.5%	(2,763,435)	-11.4%
49	Depreciation expense	(1,699,899)	-8.1%	(1,507,967)	-6.7%	(728,022)	-3.0%
50	Other operating expenses	(2,957,398)	-14.2%	(3,247,066)	-14.5%	(3,152,120)	-13.0%
51	TOTAL OPERATING EXPENSES	(7,119,478)	-34.1%	(7,328,073)	-32.7%	(6,643,577)	-27.5%
52	PROFIT (LOSS) BEFORE TAXATION	2,779,875	13.3%	2,270,112	10.1%	4,948,065	20.5%
53	TAX (EXPENSE) BENEFIT	(139,651)	-0.7%	(212,100)	-0.9%	(863,601)	-3.6%
54	**PROFIT (LOSS) AFTER TAXATION**	**2,640,224**	**12.6%**	**2,058,012**	**9.2%**	**4,084,464**	**16.9%**
55	NON-OPERATING INCOME (EXPENSE) - NET						
56	DIVIDEND			(707,000)	-3.2%	(8,700,000)	-36.0%
57	**GROSS EARNINGS**	**20,878,774**	**100%**	**22,402,779**	**100%**	**24,182,269**	**100%**
58	AUDITORS	PWC		PWC		PWC	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	31-Dec-2019	31-Dec-2018	31-Dec-2017
	EARNINGS			
60	Net interest spread	23.7%	24.7%	36.2%
61	Loan loss expense/Interest income	0.8%	2.9%	2.5%
62	Return on average assets (Pre - tax)	1.9%	1.6%	3.6%
63	Return on average equity (Pre - tax)	10.3%	8.7%	17.9%
64	Operating Expenses/Net earnings	71.9%	76.3%	57.3%
65	Gross earnings/Total assets & contingents	14.2%	15.9%	17.5%
	EARNINGS MIX			
66	Net revenue from funds	32.9%	37.3%	55.2%
67	All other income	67.1%	62.7%	44.8%
	LIQUIDITY			
68	Total loans & leases - net/Total lcy deposits	32.1%	26.1%	30.0%
69	Liquid assets/Total lcy deposits	42.6%	78.0%	61.0%
70	Demand deposits/Total lcy deposits	25.4%	24.8%	
71	Savings deposits/Total lcy deposits			
72	Time deposits/Total lcy deposits	45.6%	65.5%	87.6%
73	Inter-bank borrowings/Total lcy deposits	29.1%	9.7%	12.4%
74	Interest expense - banks/Interest expense	17.8%	10.3%	22.0%
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	(7,500,415)	(14,956,425)	1,823,603

FBNQUEST MERCHANT BANK LIMITED

	KEY RATIOS CONT'D	31-Dec-2019	31-Dec-2018	31-Dec-2017
	ASSET QUALITY			
76	Performing loans (₦'000)	46,545,590	35,440,779	38,322,445
77	Non-performing loans (₦'000)	1,459,919	1,329,988	1,262,965
78	Non-performing loans/Total loans - Gross	3.04%	3.62%	3.19%
79	Loan loss provision/Total loans - Gross	3.4%	3.9%	1.1%
80	Loan loss provision/Non-performing loans	110.6%	107.4%	
81	Risk-weighted assets/Total assets & contingents	43.9%	39.2%	34.8%
	CAPITAL ADEQUACY			
82	Adjusted capital/risk weighted assets	25.0%	20.2%	26.2%
83	Tier 1 capital/Adjusted capital	110%	131%	114%
84	Total loans - net/Adjusted capital	2.72	3.05	3.05
85	Capital unimpaired by losses (₦'000)	19,152,706	16,512,482	17,226,077
	CAPITAL ADEQUACY STRESS TEST			
86	Adjusted capital (₦'000)	16,713,618	11,286,094	12,648,055
87	Cumulative loan loss provision (actual reserves)	1,615,056	1,427,942	432,177
88	Equity before all provision (line 86 + line 87)	18,328,674	12,714,036	13,080,232
89	Required reserves*	7,300,014	6,117,053	5,529,210
90	Equity after required reserves (line 88 - line 89)	11,028,660	6,596,983	7,551,022
91	Equity after required reserves/risk weighted assets	16.5%	11.8%	15.6%
	STAFF INFORMATION			
92	Net earnings per staff (₦'000)	56,893	55,481	67,004
93	Staff cost per employee (₦'000)	14,150	14,873	15,974
94	Staff costs/Operating expenses	34.6%	35.1%	41.6%
95	Average number of employees	174	173	173
96	Average staff per office	58	58	58
	OTHER KEY INFORMATION			
97	Legal lending limit(₦'000)	9,576,353	8,256,241	8,613,039
98	Other unamortised losses(₦'000)	NONE	NONE	NONE
99	Unreconciled inter-branch items (₦'000) DR/(CR)	NONE	NONE	NONE
100	Number of offices	3	3	3
101	Age** (in years)	24	23	22
102	Government stake in equity (Indirect)	Nil	Nil	Nil
	MARKET SHARE OF INDUSTRY TOTAL	**Actual**	**Actual**	**Actual**
103	Lcy deposits (excluding interbank takings)	0.3%	0.5%	0.6%
104	Total assets & contingents	0.3%	0.4%	0.4%
105	Total loans & leases - net	0.3%	0.3%	0.3%
106	Non interest income	0.6%	0.7%	0.5%
107	Net interest income	0.2%	0.3%	0.4%

RATING DEFINITIONS

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.
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.
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.
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.
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.
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.
C	Financial condition is very weak. Net worth is likely to be negative and obligations may already be in default.
D	In default.

Rating Category Modifiers

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

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