

FSDH Merchant Bank Limited

Nigeria Bank Analysis

September 2017

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	A _(NG)	Stable	September 2018
Short-term	National	A2 _(NG)		

Financial data:

(USDm comparative)*

	31/12/15	31/12/16
NGN/USD (avg.)	196.9	256.0
NGN/USD (close)	197.0	305.0
Total assets	528.9	428.7
Total capital	128.1	74.8
Net advances	199.5	115.9
Liquid assets	186.4	196.9
Operating income	35.8	26.4
Profit after tax	17.1	11.1
Market cap.	n.a.	
Market share †	30.6%	

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

† Based on GCR's estimate of total assets for the subsector at 31 December 2016.

Rating history:

Initial/last rating (October 2000)*

Long term rating: A_(NG)

Short term rating: A1_(NG)

Rating outlook: Stable

Last rating (September 2016)

Long term rating: A_(NG)

Short term rating: A2_(NG)

Rating outlook: Stable

*Refers to FSDH Discount House Limited.

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017

FSDH rating reports (2000-16)

Glossary of Terms/Ratios, February 2016

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Summary rating rationale

- The rating of FSDH Merchant Bank Limited ("FSDH", "the bank") reflects its sizeable market share (in terms of total assets) and first mover positioning in the evolving merchant banking subsector in Nigeria. At FY16, the bank had successfully completed four full years of operation as a merchant bank. The acceptability of the FSDH brand has been supported by its past track record (of over two decades) as one of the key players in the discount house subsector. Going forward, management's effort is focused on strengthening market position.
- Shareholders' funds declined 10.5% to N22.8bn at FY16, due to impairment losses which impacted reserves. As such, the risk weighted capital adequacy ratio ("RWCAR") moderated to 24.8% (FY15: 26.1%), albeit remaining well above the 10% required minimum for merchant banks.
- The gross non-performing loan ("NPL") ratio declined to 2.1% at FY16 (FY15: 3.3%), underpinned by recovery on some of the impaired loans. Per management, impaired loans relate largely to two obligors, one of which is now performing, with the other fully provided for. Hence, specific provision coverage of impaired loans stood at 85.7% at FY16 (FY15: 39.4%).
- FSDH maintained a highly liquid balance sheet profile, with cash and tradable assets constituting 45.9% of total assets at FY16. Regulatory liquidity ratio closed the year at 93.0% at FY16, against the prudential minimum of 20%. To support the funding base in FY16, the bank issued commercial papers ("CPs") on the FMDQ OTC exchange, amounting to N13.1bn in FY16, with further issues planned for FY17.
- On the back of a tough operating and economic environment, the bank closed the year with a profit after tax of N2.8bn, which represents a 15.9% decline from FY15. Total operating income declined by 4.5% in FY16, due to reduced business volumes and management's cautious approach towards risk asset creation. Also, operating expenses was up by 8.2% underpinned by increase in administrative and staff costs, with the cost ratio rising to 50.2% in FY16 (FY15: 44.3%) Overall, the return on average equity and assets ("ROaE" and "ROaA") declined to 11.8% and 2.4% respectively, from 14.6% and 3.2% in FY15.

Factors that could trigger a rating action may include

Positive change: An upward movement in the rating may follow significantly improved profitability and efficiency metrics and the maintenance of a strong capital, liquidity and competitive position.

Negative change: A downward movement in the rating may follow a significant decline in asset quality and profitability which could impact on capital, as well as, diminution in competitive strength.

Organisational profile

Corporate summary

FSDH was incorporated in 1992, as the first discount house in Nigeria, under the name First Securities Discount House Limited. Following the cancellation of universal banking in 2012, FSDH applied and was granted a merchant banking license by CBN in October 2012. The bank commenced operation in this regard in January 2013.

Ownership structure

The bank's ownership structure changed in FY16, in compliance with CBN's directive which requires monoline commercial banks to divest from other financial institutions. As such, the remaining commercial banks with interest in FSDH divested, while new shareholders came on board. Table 1 reflects the bank's new ownership structure at 31 December 2016.

Table 1: Major shareholders (Holdco)	% Holding
KMC Investments Limited	31.5
Atlantic Coast Regional Fund	23.3
United Capital Asset Management Limited	10.8
FSDH Staff Co-operative Society	10.8
Williams Street Trustees Ltd.	4.7
Stanbic IBTC Bank PLC ¹	3.7
International Finance Corporation	6.3
Intermarket (IOM) Limited	3.1
Diamond Pension Fund Custodian / Trustfund PLC.	2.4
UNICO CPFA Limited	1.9
AIICO Insurance Plc	1.6
Total	100.0

Source: FSDH.

Per management, further change is likely to occur in the ownership structure in the short to medium term as IFC intends to divest in line with its stated tenor for investment.

Strategy and operations

FSDH commenced implementation of its three year strategic plan in FY16, with focus on deepening penetration and enhancing competitive position in the evolving merchant banking subsector. To achieve this, during FY16, FSDH took advantage of the re-introduction of Commercial Paper ("CP") Issuance to expand its funding base. The bank is also tried to increase its correspondent banking lines (with flexible terms and long tenors), as well as, promote the brand using a combination of media channels.

Going forward, the bank will continue to explore various funding options to ensure stability in its funding base (including issuing another CP in FY17, as well as, deploy IT to drive transactional banking and deepen value chain penetration.

At 31 December 2016, FSDH held 99.7% equity stake in FSDH Asset Management Limited, 51% in Pensions Alliance Limited and 99.9% in FSDH Securities Limited.

The bank currently operates from its head office in Lagos and two branch offices, located in Abuja and Port Harcourt. Total staff complement at FY16 was 125. The bank's core banking platform is Flexcube Banking Universal Software. The bank has in place two off-site backup centers in Lagos.

Governance structure

At FY16, the board of directors ("board") was made up of eleven members, comprising three executive directors (including the Managing Director "MD") and eight non-executive directors (including the Chairman and one independent director). All non-executive directors except the independent director are representatives of companies with shares in the bank. Following the retirement of the MD on 31 January 2017, one of the executive directors, Mrs. Hamda Ambah was appointed as the new MD, putting the bank's succession plan to test. As such, board size reduced to 10. Also, two NEDs were appointed from one of the new shareholders in FY17, but are currently awaiting regulatory approvals. Overall, the bank's governance structure is considered satisfactory and in line with CBN's code of corporate governance for Banks in Nigeria. The board performs its oversight function through three standing committees, namely: (i) Audit Committee, (ii) Board Risk Committee and (iii) Governance and Nomination Committee.

Financial reporting

The bank prepares its financial statements in line 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 2016 financial statements.

Operating environment

Economic overview

Nigeria's macroeconomic fundamentals remained unstable throughout 2016 and the start of 2017, owing to the weak global price of crude oil, which has severely affected the country's foreign reserve levels and fiscal planning capacity. This, in turn led to the significant fall in the value of the Naira against the US dollar, which further heightened economic uncertainty. According to the National Bureau of Statistics ("NBS"), the nation's real Gross Domestic Product ("GDP") contracted by 1.5% in 2016 (compared to 2.8% and 6.2% growth recorded in 2015 and 2014 respectively), placing the country in a recession. The negative trend was exacerbated by the resurgence of hostilities in the Niger Delta region (which affected crude oil production outputs in the

¹ Stanbic IBTC Bank PLC stated in its annual financial statements that the investment has been transferred to Stanbic IBTC Capital Limited.

early part of 2016) and the impact of reduced forex earnings on the economy. As such, inflation rose markedly from 9.5% at end-December 2015 to 18.7% at end-January 2017, before easing to 16.05% at end-July 2017. However, recent statistics from NBS show that the GDP grew by 0.55% (year-on-year) in real terms in the 2Q 2017, indicating an emergence from the recession.

In addition to retaining its restrictive policy that denied access to forex (from the official CBN window) for 41 items, in June 2016, CBN jettisoned the exchange rate peg to the USD in favour of a flexible exchange rate policy, in order to mitigate the forex shortages and stimulate broader economic activity. Despite these interventions, the Naira remained under pressure, with the restrictive forex regime affecting many manufacturers, as they were unable to effectively fund raw material purchases, given the inadequate forex supply, which drove higher exchange rates in the parallel market (above N500/USD in February 2017). Pressure on the Naira appears to have eased recently (below N400/USD) as CBN has maintained liquidity in the forex market, but increased demand for forex for the items on the restricted list could limit the gains recorded. CBN has left the monetary policy rate unchanged at 14% (since July 2016), while the cash reserve ratio at 22.5% and the liquidity ratio at 30% have also been maintained, in line with efforts to combat inflation and maintain price stability.

Given the current macroeconomic challenges, prospects for growth remain mixed over the short to medium term. Both the International Monetary Fund and World Bank expect the economy to record a modest rebound in 2017 (of 0.8% and 1.2% respectively). Similarly, FGN projects that accelerated infrastructural spend and the diversification of earnings would drive an increase in economic activities, thereby, resulting in an overall GDP growth in 2017. This is detailed in the Economic Recovery and Growth Plan (“ERGP”) 2017-2020, as released by the Ministry of Budget and National Planning. The ERGP centres on achieving macroeconomic stability and economic diversification, in order to boost non-oil revenues, with focus on key sectors ie, agriculture and

food security, energy, transportation and manufacturing. The ERGP will aim to reduce the level of dependence on imports, while increasing revenue from a diversified stream of export activities. Overall, it seeks to achieve a robust 7% economic growth by end 2020.

Industry overview

The merchant banking subsector continues to evolve, and comprised four players at 31 December 2016, namely: Rand Merchant Bank Nigeria Limited (“RMBNL”), FBN Merchant Bank Limited (“FBNMB”), Coronation Merchant Bank Limited (“Coronation MB”) and FSDH. The operational guideline for the subsector is contained in CBN’s “Scope, Conditions and Minimum Standards for Merchant Banks Regulations of 2010” and the related operational guideline issued in August 2015.

Competitive position

Table 2 compares FSDH’s performance indicators to those of other licensed merchant banks at 31 December 2016. Competition among the four operating merchant banks has increased, as each player tries to differentiate itself in the marketplace. Relative to peers which also converted from discount house operations (ie, FBNMB and Coronation MB), FSDH displayed one of the largest balance sheet size and compares favourably in terms of liquidity. However, asset quality ratio ranked amongst the lowest at FY16, albeit considered moderate, given that FSDH was the first to be licensed and has been in operation for four years.

Financial profile

Likelihood of support

Nigerian merchant banks are unlikely to receive government support given their relatively small size and non-systemic nature. As such, financial support for the merchant bank is currently limited to its shareholders, some of which have been on board since its operation as a discount house.

Funding composition

While funding structure has been relatively consistent over the review period, total funding base was enhanced in FY16, due to new inflows. Table 3

Year end 31 December 2016	FBNMB	FSDH	Coronation	RMBNL
Shareholders' funds (N'bn)	29.0	22.8	25.8	21.2
Total assets (N'bn)	136.8	130.7	102.2	57.8
Net loans (N'bn)	41.7	35.4	22.7	19.9
Net profit after tax (N'bn)	4.9	2.8	5.0	(0.1)
Selected ratios				
Capital/Assets (%)	21.1	17.5	25.2	36.6
Liquidity & trading assets/ total short-term funding (%)	42.6	70.9	72.2	170.3
Impairment/gross advances	3.4	2.1	0.0	0.0
Advances/liability funding	40.2	38.7	31.2	59.7
Net interest margin	5.1	4.2	13.0	5.9
Cost ratio (%)	39.8	50.2	43.4	101.2
ROaE (%)	17.3	11.8	21.6	(0.6)
ROaA (%)	4.0	2.4	5.6	(0.2)

*Ranked by total asset.

Source: Annual financial statements.

provides a summary of the funding structure at FY16, compared with the previous year.

	FY15		FY16	
	N'm	%	N'bn	%
Customers deposits	52,661.6	50.6	55,006.0	42.4
Interbank funding	16,250.3	15.6	22,158.6	17.1
Debt securities	5,630.7	5.4	16,729.3	12.9
Other borrowings	3,948.7	3.8	13,074.8	10.1
Equity	25,482.5	24.5	22,811.4	17.6
Total	103,973.8	100.0	129,780.1	100.0

Source: FSDH AFS.

Customer deposits and interbank funding

Despite the crowding-out effect of the high yield on government securities, customer deposit increased 4.5% to N55.0bn at FY16, reflecting management's continuous effort to reduce cost of funds. Bearing in mind that merchant banks are not allowed to take retail deposits, the bank remained reliant on term deposits and interbank funding, with term deposits constituting 57.8% of total deposits. The weighted average cost of funds declined to 9.2% at FY16 (FY15: 11.8%), but has increased to 11.1% at August FY17.

Analysis of the deposit book reflects a degree of concentration, with the single and twenty largest depositors accounting for 13.0% and 41.1% of the book respectively. The maturity profile of deposits is short-dated in line with the industry norm.

	FY15	FY16
By type		
Term	68.3	57.8
Demand	8.1	13.5
Repos	6.5	16.4
Other interbank funding	17.1	12.3
By maturity		
< 1 months	46.6	59.6
1-3 months	40.6	37.1
3-6 months	1.6	1.7
6-12 months	<0.1	1.7
>12 months	11.2	-
By obligor		
Single largest		13.0
Five largest		32.6
Twenty largest		41.1

Source: FSDH AFS.

Borrowings

Total borrowings grew significantly by over 200% to N29.8bn at FY16, and comprised debt securities and other long-term borrowings from development financial institutions.

Debt securities: While FSDH's three year unsecured bonds matured in FY16, the bank Issued CPs totaling N13.1bn on the FMDQ OTC securities exchange during the year. The maturity date of the CP is May 2017, with a face value of N14.2bn at maturity.

Other long-term borrowings: These represent outstanding balances on long term loans from African Export-Import Bank ("Afreximbank") and Company for Habitat and Housing in Africa ("Shelter Afrique"). The borrowings from Afreximbank mature end of FY17, while those from Shelter-Afrique mature in 6 years (effective December 2015). A major inflow to the book is USD35m (totaled N10.6bn) from African Development Bank (AfDB) at an interest rate of Libor + 4.5% p.a. for 3.5 years, with effect from December 2016 with interest payable semi-annually.

Capital

Shareholders' funds declined by 10.5% to N22.8bn at FY16, driven by impairment losses on some of the available for sales securities (particularly, corporate bonds), which impacted reserves. Consequently, RWCAR reduced to 24.8% from 26.1% at FY15, albeit remaining well above the 10% prudential minimum for merchant banks.

	FY15	FY16
Total qualifying Tier 1 capital	20,176.5	20,888.2
Total qualifying Tier 2 capital	(239.4)	(3,309.2)
Total regulatory capital	19,937.1	17,579.0
Total risk weighted assets ("RWA")	76,492.9	70,848.3
Core capital: RWA (%)	26.4	29.5
Regulatory capital: RWA (%)	26.1	24.8

Source: FSDH AFS.

Liquidity positioning

FSDH's liquidity profile improved in FY16, owing to strong funding inflows during the period. As such liquid and tradable investment securities accounted for 45.9% of total assets (FY15: 35.3%). Similarly, cash and liquid asset to short term funding ratio increased to 70.9% from 62.9% in FY15. Regulatory liquidity ratio stood at 93.0% at balance sheet date (FY15: 37.8%), against the required minimum of 20% for merchant banks. However, cognisance is taken of the mismatch in contractual matching of assets and liabilities, as the 'less than one month' maturity bucket reflects a liquidity gap of N20.8bn at FY16 (equivalent to 91% of capital).

Risk management

Strategic overview

FSDH's enterprise risk management framework remained operational throughout FY16 to date, with changes made as/and when needed to align with environment realities. All credit approving authorities and limits remained unchanged during the period.

Asset composition

Total asset pool expanded by 24.3% to N130.7bn at FY16, underpinned by strong inflows from funding. As such, growth was reflected in investment securities (particularly, T-bills and pledged assets, both accounting for 27% and 16.7% of total assets

respectively). Net advances to customers declined 10.9% to N35.4bn at FY16 and accounted for 27% of total assets.

	Dec. FY15		Dec. FY16	
	(N'm)	%	(N'm)	%
Cash & liquid assets	37,080.3	35.3	60,041.5	45.9
Mandatory res. with CBN	1,179.6	1.1	1,452.3	1.1
Balances with other banks	23,608.0	22.5	23,285.4	17.8
Treasury bills/bonds	12,292.7	11.7	35,303.8	27.0
Other investments securities	12,265.0	11.7	7,518.6	5.8
Customer advances	39,677.0	37.8	35,351.4	27.0
Pledged assets	10,764.1	10.2	21,807.1	16.7
Property and equipment	335.3	0.3	402.5	0.3
investment in subsidiaries	787.0	0.7	961.4	0.7
Other assets	4,184.4	4.0	4,662.1	3.6
Total	105,093.2	100.0	130,744.6	100.0

Source: FSDH AFS.

While total investment securities amounted to N32.2bn, investment in T-bills and FGN bonds accounted for a significant 76.6% of the pool. Other investment securities comprised investment in corporate bonds and an insignificant (less than 0.1%) unquoted equity exposure.

Loan portfolio

By sector	FY15	FY16
Finance & insurance	11.7	9.8
General logistics	11.5	4.4
Manufacturing	0.7	0.4
Oil & gas	32.3	54.0
Real estate & construction	16.8	10.5
Telecommunication	24.6	15.2
Others	2.2	5.8
By maturity		
< 1 month	10.0	22.7
1-6 months	69.2	72.4
6-12months	3.1	4.4
> 12 months	17.7	0.5
Concentration		
Single largest		31.3
Five largest		78.8
Ten largest		94.2
Twenty largest		99.7

Source: FSDH AFS.

Gross loans and advances stood at N36.5bn at FY16, representing 9.7% decline, as management adopted a cautious approach towards risk asset creation, given the inherent risk in the operating and economic environment. As such, sector analysis of the loan book reflects decline across most of the sectors except for oil and gas (both upstream and downstream), due mainly to the impact of the Naira devaluation on foreign currency denominated oil and gas exposures. The loan portfolio is short dated (less than one year), however, a degree of concentration was displayed among obligors, with the single and twenty largest borrowers constituting 31.3% and 99.7% of total loans at FY16. Going forward, the bank intends to increase

its focus on less susceptible sectors such as agro-allied and logistics.

Asset quality

	FY15	FY16
Gross Advances	40,404.7	36,498.6
Loan Classification:		
Performing	39,071.1	35,739.6
Impaired	1,333.6	759.0
Provision for impairment:	(727.7)	(1,147.2)
Collective impairment	(202.2)	(497.0)
Specific impairment	(525.5)	(650.2)
Net NPLs	605.9	(388.2)
Gross NPLs ratio (%)	3.3	2.1
Net NPLs ratio (%)	1.5	(1.1)
Net NPLs/Capital (%)	2.4	(1.7)

Source: FSDH AFS.

Gross NPL ratio declined to 2.1% at FY16 from 3.3% at FY15, as most of the previously classified loans as impaired became performing. Per management, impaired loans as at balance sheet date relates to two major obligors, one in wholesale and retail trade and the other in manufacturing. According to management, one of the non-performing exposures has started performing, while the other has been fully provided for. Consequently, specific provision coverage of impaired loans rose to 85.7% at FY16 (FY15: 39.4%).

Financial performance and prospects

A four year financial synopsis is reflected at the back of this report, supplemented by the brief commentary set out below.

Despite a tough operating and economic environment, the bank closed FY16 with a net profit after tax of N2.8bn (FY15: N3.4bn). Interest income declined by 9.7%, as a result of the shrunk loan book and lower yields on bond investments. Positively, interest expense was down 9.5%, as FSDH was able to benefit from an improved funding mix. However, net interest income declined by 10.3% to N3.4bn. Non-interest income recorded a slower growth of 2.0%, underpinned by reduced trading activities on investment securities and FX trading loss of N98.9m (FY15: N469.8m gain). As such, total operating income closed the year at N6.8bn, representing a 4.5% decline from FY15.

Impairment charges declined by 26.4% in FY16, while operating expenses rose by 8.2% to N3.4bn. The increase in operating expenses was driven by administrative and staff costs, leading to a rise in the cost ratio to 50.2% (FY15: 44.3%). Profit before tax stood at N2.9bn, which represents 12.7% decline from that of FY15, against the budgeted N4.4bn for the year. As such, ROaE and ROaA declined to 11.8%

and 2.4% respectively, from 14.6% and 3.2% respectively in FY15.

The bank's forecast for FY17 reflects a pre-tax profit of N3.7bn, to be driven by increase in business volumes and growth in securities trading. Operating expenses is expected to increase but the cost-ratio is projected to be below that of FY16.

Table 9: Performance analysis	Actual FY16	Budget FY17	Actual 1H FY17	% of # budget
Net interest income	3,384.7	5,467.0	3,250.0	118.9
Other income	3,383.1	3,582.0	1,721.6	96.1
Total operating	6,767.8	9,049.0	4,971.6	109.9
Impairment charge	(419.5)	(509.0)	(107.3)	
Operating expenses	(3,399.8)	(4,129.0)	(1,906.8)	92.4
NPBT	2,948.4	4,411.0	2,957.5	134.1
Balance sheet				
Total assets	130,744.6	193,150.0	139,303.2	72.1
Loans & advances	35,351.4	52,100.0	38,649.1	74.2
Customer deposits	55,006.0	106,863.0	49,797.4	46.6
Total capital	22,811.4	25,211.0	26,452.3	104.9

Annualised.

Source: FSDH.

At 1H FY17, the bank reflects a profit before tax of N3.0bn (at par with that of the full year for FY16), driven by growth in business volume and a sizeable non-interest income (reflected in line with budget on an annualised basis). Further contributing to the performance is the moderation in operating expenses, reflected slightly below expectation.

Given the current performance trend, the bank is expected to perform better than FY16 and possibly, achieve the set budget.

FSDH Merchant Bank Limited

(Naira in millions except as noted)

Year end: 31 December

STATEMENT OF COMPREHENSIVE INCOME ANALYSIS	2013	2014	2015	2016
Interest income	9,134	9,264	13,900	12,547
Interest expense	(7,227)	(7,265)	(10,126)	(9,163)
Net interest income	1,907	1,999	3,774	3,385
Other income	1,632	3,485	3,316	3,383
Total operating income	3,540	5,484	7,090	6,768
Impairment charge	(36)	(122)	(570)	(420)
Operating expenditure	(2,536)	(2,772)	(3,142)	(3,400)
Net profit before tax	968	2,591	3,378	2,948
Tax	960	(99)	2	(106)
Profit after tax	1,927	2,492	3,379	2,843
Other comprehensive (loss)/gain	(1,391)	122	1,981	(2,909)
Net income	537	2,614	5,360	(66)

STATEMENT OF FINANCIAL POSITION ANALYSIS

Subscribed capital	4,334	4,334	4,334	4,334
Reserves (incl. net income for the year)	14,900	16,535	21,148	18,477
Total capital and reserves	19,234	20,870	25,483	22,811
Bank borrowings (incl. deposits, placements & REPOs)	5,286	40,125	16,250	22,159
Deposits (incl. REPOs)	47,705	41,810	52,662	55,006
Other borrowings	-	-	7,612	16,097
Short-term funding (< 1 year)	52,991	81,935	76,524	93,261
Other borrowings	5,543	5,583	1,968	13,707
Long-term funding (> 1 year)	5,543	5,583	1,968	13,707
Payables/Deferred liabilities	835	919	1,230	965
Other liabilities	835	919	1,230	965
Total capital and liabilities	78,603	109,308	105,204	130,745
Cash on hand	0	0	-	-
Balances with central bank	630	995	1,180	1,452
Property, plant and equipments	317	332	335	402
Derivative financial assets	66	78	16	-
Other assets (incl. zero rate loans)	14,841	11,606	15,043	26,469
Non-earnings assets	15,854	13,011	16,574	28,324
Loans & advances (net of provisions)	19,120	39,438	39,677	35,351
Bank placements	6,849	12,339	23,608	23,285
Marketable/Trading securities	35,992	43,732	24,557	42,807
Equity investments	1	1	1	16
Investments in subsidiaries/others	787	787	787	961
Total earning assets	62,749	96,297	88,630	102,421
Total assets	78,604	109,308	105,204	130,745
Contingencies	27,826	31,821	19,529	17,098

Ratio Analysis (%)

Capitalisation

Internal capital generation	2.8	12.5	21.0	n.a.
Total capital / Net advances + net equity invest. + guarantees	77.9	43.9	58.2	64.5
Total capital / Total assets	24.5	19.1	24.2	17.4

Liquidity

Net advances / Deposits + other short-term funding	36.1	48.1	51.8	37.9
Net advances / Total funding (excl. equity portion)	32.7	45.1	50.5	33.0
Liquid & trading assets / Total assets	54.5	51.3	45.8	50.6
Liquid & trading assets / Total short-term funding	80.8	68.4	62.9	70.9
Liquid & trading assets / Total funding (excl. equity portion)	73.2	64.1	61.4	61.8

Asset quality

Impaired loans / Gross advances	0.0	0.0	0.0	2.1
Total loan loss reserves / Gross advances	2.3	0.0	0.0	0.0
Bad debt charge (income statement) / Gross advances (avg.)	0.2	0.4	1.4	1.1

Profitability

Net income / Total capital (avg.)	2.8	13.0	23.1	n.a.
Net income / Total assets (avg.)	0.6	2.8	5.0	n.a.
Net interest margin	3.0	2.5	4.1	3.5
Interest income + com. fees / Earning assets + guarantees (a/avg.)	2.9	2.3	3.8	3.4
Non-interest income / Total operating income	46.1	63.6	46.8	50.0
Non-interest income / Total operating expenses (or burden ratio)	64.4	125.7	105.5	99.5
Cost ratio	71.7	50.5	44.3	50.2
OEaA (or overhead ratio)	3.0	3.0	2.9	2.9
ROaE	10.0	12.4	14.6	11.8
ROaA	2.3	2.7	3.2	2.4

Nominal growth indicators

Total assets	(13.8)	39.1	(3.8)	24.3
Net advances	(20.8)	106.3	0.6	(10.9)
Shareholders funds	(0.8)	8.5	22.1	(10.5)
Total capital and reserves	(0.8)	8.5	22.1	(10.5)
Deposits (wholesale)	56.2	(12.4)	26.0	4.5
Total funding (excl. equity portion)	(17.6)	49.5	(10.3)	36.3
Net income	(89.0)	387.0	105.1	(101.2)

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

FSDH 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 and contested by FSDH Merchant Bank Limited and were reconsidered, and accorded following the provision of a comfort letter from the parent company.

The information received from FSDH Merchant Bank Limited and other reliable third parties to accord the credit rating included the audited accounts as at 31 December 2016 (plus three years of comparative audited financial statements), latest internal and external audit report to management, and full year to date budgets and management account to 30 June 2017. In addition, information specific to the rated entity and/or industry was also received.

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