

FSDH Merchant Bank Limited

Nigeria Bank Analysis

September 2020

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

Financial data:

(USDm comparative)*

	31/12/18	31/12/19
NGN/USD (avg.)	305.6	306.4
NGN/USD (close)	306.5	306.5
Total assets	379.6	494.1
Total capital	95.7	87.3
Net advances	132.3	148.4
Liquid assets	179.2	155.4
Operating income	26.8	32.0
Profit after tax	14.4	11.8
Market cap.	n.a.	
Market share †	33.8%	

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

† Based on GCR's estimate of total assets for the subsector at 31 December 2019.

Rating history:

Initial rating (October 2000)*

Long term rating: A_(NG)
 Short term rating: A1_(NG)
 Rating outlook: Stable

Last rating (September 2019)

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 (2000-19)
 Glossary of Terms/Ratios, February 2016

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Summary rating rationale

- The accorded ratings reflect FSDH Merchant Bank Limited's ("FSDH" or "the bank") strong brand acceptance, underpinned by its long track record of close to three decades in Nigeria (including its operations as a discount house), strong capitalisation and liquidity position. Also, the ratings take into consideration, the current macroeconomic challenges and uncertainties arising from the COVID-19 pandemic, which may lead to further deterioration in asset quality.
- FSDH's capitalisation is considered satisfactory relative to the regulatory capital requirement and its current risk level. Although, total shareholders' funds dipped by 8.7% to N26.8bn at FY19, a fallout of dividend pay-out and capital adjustments relating to business restructuring during the year, this translated to a risk weighted capital adequacy ratio ("CAR") of 30.2% at FY19, leaving significant headroom for further asset growth based on the 10% regulatory minimum requirement.
- Liquidity risk is considered low based on the bank's highly liquid balance sheet at FY19, with the bank's statutory liquidity ratio standing at 109.9% at that date, compared to the 20% minimum regulatory limit.
- Overall, FSDH's asset quality in terms of loan portfolio is considered satisfactory. Although the bank reported a major impaired exposure of N2.2bn at FY19 in line with the bank's conservative approach. Latest information obtained from management indicated that the obligor is currently meeting the conditions precedent to the payment of a significant portion of the exposure and in line with the bank's IFRS 9 policy, the facility will be moved from Stage 3 to Stage 2 upon receipt of the fund.
- An after-tax profit of N3.6bn was reported for FY19, representing a year-on-year ("y/y") 18.1% decline. However, with adjustment for the impact of the reported N1.4bn write-back in FY18, pre-tax profit is considered to have improved by 18.5% y/y. While the bank achieved a 19.6% growth in total operating income, on account of improved interest and non-interest income, escalation in operating expenses saw performance at the pre-tax level end down 0.1% to N5.2bn, while higher tax charges further depleted performance at the after-tax profit level to 81.8% of the FY18 level. Consequently, ROaE and ROaA dipped to 12.9% and 2.7% in FY19 from 15.1% and 3.5% in FY18 respectively. A pre-tax profit of N1.9bn was recorded for the six-month period to end-June 2020 (lagging the corresponding period in FY19 by 44.1% and the FY20 full year result by annualised 30.8%).

Factors that could trigger a rating action may include

Positive change: An upward movement in the rating may follow a significant improvement in profitability and efficiency metrics, while capitalisation and liquidity remained at strong levels.

Negative change: A rating downgrade may follow a significant deterioration in asset quality, as well as decline in profitability.

Organisational profile

Corporate summary

FSDH, formerly First Securities Discount House Limited, was incorporated in 1992 as a private limited liability company. After operating for about two decades as a discount house, FSDH converted to a merchant bank in November 2012 and officially changed its name to FSDH Merchant Bank Limited on 31 December 2012. FSDH commenced full merchant banking operation in January 2013.

Presently, FSDH operates from three locations in Nigeria (the head office in Lagos and two branch offices located in Abuja and Port Harcourt).

Ownership structure

The adoption of a holding company structure by FSDH Group was accompanied by a change in the ownership of FSDH in FY19, with the bank now 99.9% owned by FSDH Holding Company Limited (“FSDH Holdco”), the parent. Table 1 shows the ownership structure of the Holdco at 31 December, 2019.

	% Holding
KMC Investments Limited	31.8
Atlantic Coast Regional Fund	23.3
United Capital Asset Management Limited	10.8
FSDH Staff Co-operative Society	10.4
International Finance Corporation	6.3
Others	17.4
Total	100.0

Strategy and operations

FSDH adopted the holding company structure effective 1 July 2019, to enable the bank focus on its merchant banking operation, while a separate team at the Holdco level help each entity harness relevant opportunities available under its operational licenses, and to create a situation where a synergy is established across the group.

Given the refreshed focus of the bank, a new five-year strategic plan (2020-2024) was put in place with the medium-term goal of developing the bank into one of the top three banks in Nigeria by 2024. This is to be achieved by scaling up operations, leveraging technology to develop new innovative financial products, cost optimization and operational efficiency among other things. As such, major focus in the current year 2020 (and which is to run into 2021) has been towards IT infrastructure upgrade, to enhance operational efficiency. And at the same time build capacity internally.

Based on the foregoing, the bank made slight amendment to its organizational structure, whereby one of its two executive directors now oversees IT and Operations, while the second executive director oversees the Treasury and Investment Banking Group. The Managing Director is generally responsible for the

management of the bank. In addition, the Corporate Banking Division, Human Resources, Brand Marketing and Communication, and Financial Control Division report directly to the MD.

The bank has a total staff complement of 123 full-time employees as at 31 July 2020. FSDH uses a robust and highly scalable information technology software, “Flexcube 14.1” as its core banking platform.

Governance structure

FSDH’s governance structure is in line with CBN’s code of corporate governance for banks, and the Securities and Exchange Commission’s code of best practice. The board of directors (“board”) as at 31 December 2019 comprised nine members, made up of three executive directors (including the Managing Director “MD”) and six non-executive directors (including the Chairman and two independent directors). It should be noted that all non-executive directors except the independent directors are representatives of companies with stake in the bank. The board performs its oversight function through three standing committees, namely: (i) Audit Committee, (ii) Board Risk Committee and (iii) Governance and Nominations Committee. Overall, composition of the board, in terms of professional background and experience, is considered satisfactory.

Financial reporting

FSDH 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. A clean audit opinion was issued on the 2019 financial statements by PricewaterhouseCoopers, the bank’s external auditor.

Operating environment

Economic overview

The Nigerian economy sustained growth momentum in 2019, with the gross domestic product (“GDP”) expanding by 2.27% y/y, up from 1.91% registered in 2018. The recorded growth was largely underpinned by the curtailed pipeline vandalism, calmness in the oil-producing regions, and the relative stability in global crude oil prices and foreign exchange (“FX”) market. While the oil sector registered a robust growth of 4.59% (2018: 0.97%), the non-oil sector improved slightly by 2.06% in 2019 relative to 2% recorded in 2018. However, the Nigerian economy is currently witnessing a sharp slowdown (with GDP declining y/y to 1.87% in Q1 2020) due to the coronavirus disease (“COVID-19”) pandemic, which is being compounded by the contraction in crude oil demands and dwindling 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 USD67/barrel at end-2019.

The headline inflation rate increased to 13.2% in August 2020, for the twelfth consecutive months owing to supply constraints, higher input costs and increased system liquidity. To curtail inflationary pressures, CBN increased the cash reserve requirement (“CRR”) to 27.5% for all banks (including the merchant banks) 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 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.* Coronation Merchant Bank Limited, FBNQuest Merchant Bank Limited, FSDH Merchant Bank Limited, Nova Merchant Bank Limited, and Rand Merchant Bank Nigeria Limited. Although, a new entrant was recently licensed by CBN, this is not expected to alter competitive position of the existing players in the short term.

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 (“DMBs¹”) 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 to 11.5% in y 2020.

Competitive positioning

FSDH enjoys strong brand acceptance in Nigeria, underpinned by its long track record of close to three decades in Nigeria (including its operations as a discount house), although this has yet to improve its competitive position as an average player based on profitability. Table 2 shows FSDH’s competitive position relative to its peers, focusing on key performance indicators as at 31 December 2019. While FSDH’s efficiency and profitability indicators compare favourably to peers’ average, asset quality lagged peers at the balance sheet date. According to management, the impaired credit was mainly driven by FSDH’s conservative approach and it is expected to be re-classified by year-end based recent developments.

¹ Including merchant banks

Financial profile

Likelihood of support

Financial support from government (bailout) is unlikely for merchant banks in Nigeria, given their non-systemically important and ownership status. As such, available financial support for FSDH, as with other peers, is limited to its parent/owner through moderate dividend pay-outs and injection of additional capital as at when required.

Funding composition

As with most peers, FSDH relies on customer deposits, interbank takings (Repos), borrowings and equity capital for funding. The funding structure was generally stable in FY19, comprising customer deposits (39.2%) interbank takings (19.3%), borrowings (22.9%) and equity capital (18.6%) at the balance date.

Customer deposits and interbank funding

FSDH's deposit book (including interbank funding) expanded by 63.3% to N84bn at FY20. A closer look at the book revealed that the expansion was largely fuelled by interbank funding, which grew 5.8 times, compared with a 20.6% y/y growth in customer deposits. Merchant banks' access to customer deposit is somewhat constrained by the huge minimum deposit limit of N50m per depositor prescribed for the subsector by CBN.

Table 3: Deposit book characteristics at FY19 (%)

By type:			
Demand	11.5	Client investments	11.1
Term	44.5	Interbank funding	32.9
By maturity:			
< 1 months	50.1	3-6 months	6.2
1-3 months	41.4	6-12 months	2.3
Concentration (customer deposits):			
Single largest	9.1	Five largest	25.9
Twenty largest	52.1		

Source: FSDH AFS.

FSDH displayed a generally short-dated deposit book at FY19, with all deposits maturing within one year

contractually. As a merchant bank, the deposit book is considered fairly diversified, with the single and twenty largest depositors accounting for 9.1% and 52.1% of the deposit book respectively at FY19. The deposit liabilities increased slightly 2.5% to N86.1bn at end-June 2020.

Borrowings

FSDH's borrowing book, comprising short-term debt securities and long-term borrowed funds from international financial institutions, remained flat at N32.8bn at FY19. Details of each component are discussed below.

Short-term debt securities:

Total short-term debt securities stood at N14.1bn. The liability pool represented the outstanding balance of CPs issued by FSDH during the year. Outstanding CPs as at end-June 2020 amounted to N23.1bn.

Long-term borrowings: The outstanding long-term borrowing (amounting to N18.7bn at FY19) represents the face value of USD50m credit line granted to FSDH by African Development Bank (AfDB). The facility was disbursed in two tranches, with the initial tranche of USD35m disbursed in 2016 and the subsequent tranche of USD15m disbursed in 2017. The two tranches have the same maturity date of 22 June 2020. The facility has been paid in line with the contractual terms, with new borrowings, sourced from four foreign financial institutions, amounting to N11.9bn at end-June 2020.

Capital

FSDH's shareholders' funds dipped by 8.7% to N26.8bn at FY19 as a fallout from dividend pay-out and capital adjustments relating to business restructuring during the year. Nevertheless, FSDH remains well capitalised relative to the regulatory capital requirement and its current risk level; the bank reported a risk weighted capital adequacy ratio of 30.2% at FY19, leaving significant headroom for further asset growth based on the 10% regulatory minimum requirement.

Table 2: Competitive position*

FSDH versus peers	CoronationMB	FSDH	FBNQMB	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	68.8	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	2.5	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

Liquidity positioning

Liquidity risk is considered low based on the bank's highly liquid balance sheet at FY19. The bank's statutory liquidity ratio stood at 109.9% at the balance sheet date, well above the mandatory 20% minimum requirement. While the matching of assets and liabilities maturities at FY19 reflected liquidity gaps across the up to six months maturity bands, with a liquidity gap of N32bn (1.2x the capital) recorded in the less than one month maturity band, the potential for a rollover of a notable portion of customer deposits at maturity, as a behavioural pattern in the country, provides reasonable comfort.

Risk management

FSDH's risk management architecture is deemed seemly for its operations. Particularly, the enterprise risk management framework covers all key areas of the bank's operations, including operational, market, credit and foreign exchange risks. Also, the various risk management policies are well documented and updated from time to time in line with economic realities.

Asset composition

FSDH's balance sheet expanded notably by 30.2% to N151.4bn at FY19, accompanied by a shift in asset mix in favour of higher risk asset portfolios. Consequently, cash and liquid assets (excluding balances held on behalf of customers in respect of letter of credit) constituted a lower 31.5% of the asset base, paving the way for a strong growth in higher yield investment securities pool (corporate bonds and commercial bills). Although net advances increased y/y 12.2%, it constituted a lower 30% of the balance sheet.

Table 4: Asset mix	FY18		FY19	
	(N'm)	%	(N'm)	%
Cash & liquid assets	54,910.8	47.2	47,633.3	31.5
<i>Cash</i>	-	-	0.1	0.0
<i>Mandatory reserve with CBN</i>	4,196.3	3.6	7,210.9	4.8
<i>Balances with other banks</i>	20,769.5	17.8	14,220.6	9.4
<i>Treasury bills/bonds</i>	29,945.0	25.7	26,201.7	17.3
Investments securities	6,174.0	5.3	19,386.6	12.8
Customer advances	40,536.9	34.8	45,496.3	30.0
Property and equipment	604.0	0.5	634.5	0.4
Derivatives	607.1	0.5	414.9	0.3
Other assets	13,526.3	11.6	37,881.3	25.0
Total	116,359.1	100.0	151,447.0	100.0

* Exclude clients balances held in respect of letters of credit.

Source: FSDH AFS.

Pledged assets (treasury bills and FGN bonds) formed the bulk (87.4%) of other assets at the balance sheet date. The adjusted balance sheet expanded slightly 3.2% to N156.3bn at end-June 2020, heavily weighted towards cash & liquid assets.

Contingencies

Contingent assets, made up of bonds and guarantees, letters of credit and loan commitments, amounted to N52.4bn at FY19. These assets constituted 195.8% of the total capital and 8.8% were cash covered.

Investment portfolio

Total investment securities stood at N46.2bn at FY19. Credit risk pertaining to the portfolio is partly offset by the fact that risk-free FGN securities comprised a sizable 56.8% of the investment book at the balance sheet date.

Table 5: Investments	FY19	
	N'bn	%
T-bills	19,946.7	43.2
FGN bonds	6,255.0	13.6
Corporate bonds	16,710.4	36.2
Promissory Notes/ Commercial bills	2,676.1	5.8
Equity securities	563.0	1.2
Total	46,151.2	100.0

Source: FSDH AFS

Foreign currency exposure

Foreign exchange exposures of merchant banks in Nigeria is regulated by CBN, with net open position limited to 10% of shareholders' funds unimpaired by losses. According to management, FSDH's aggregate net open position at FY19 equated to 9.5% of shareholders' funds.

Loan portfolio

FSDH's loan book expanded by 11.8% to N46.8bn at FY19. While lending spread across key economic sectors, the oil & gas sector enjoyed greater funding and accounted for at 38% of the loan book at the balance sheet date. The profile of the book was generally long, with 45% of the exposures maturing after one year (particularly, 13.7% of the exposures contractually matures after five years). However, concerning is the concentrated nature of the exposures, as the single largest exposure equated to 28% of the loan book and 46% of capital at FY19. Furthermore, the fact that more than half of the loan book is FCY denominated portends aggravated currency risk position. Cautious lending approach necessitated by the tough macro-economic environment saw the loan portfolio contract by 16.5% to N41.6bn at end-June 2020.

Table 6: Loans book characteristics (%)

By sector:			
Oil & gas	38.0	Finance & insurance	20.0
Real estate & construction	7.0	General logistics	10.0
Telecommunication	17.0	Manufacturing	8.0
By maturity:			
< 1 month	10.4	> 12 months	14.2
1-6 months	26.0	>1 year	45.2
6-12months	4.2		
Concentration:			
Single largest	28.0	Five largest	65.0

Source: FSDH AFS

Asset quality

Overall, FSDH's asset quality (in terms of loan portfolio) is considered satisfactory. The bank reported a single impaired exposure of N2.2bn at FY19. While the concerned credit (which relates to a player in the information & communication subsector) was classified as stage 3 loan based on management's conservative approach to provisioning. The potential for recovery is considered high, hence a moderate provisioning level (56.1% arrears coverage) was maintained. Latest information obtained from management indicated that the obligor is currently meeting the conditions precedent to the payment of a significant portion of the exposure and in line with the bank's IFRS 9 policy, the facility will be moved from Stage 3 to Stage 2 upon the receipt of the fund.

	FY18	FY19
Gross Advances	41,835.6	46,753.6
Loan Classification:		
Performing	39,606.2	44,512.8
Impaired	2,229.4	2,240.8
Provision for impairment:	(1,298.8)	(1,257.3)
Collective impairment	-	-
Specific impairment	(1,298.8)	(1,257.3)
Net NPLs	930.6	983.6
Gross NPLs ratio (%)	5.3	4.8
Net NPLs ratio (%)	2.3	2.2
Net NPLs/Capital (%)	3.2	3.7

Source: FSDH AFS.

Financial performance and prospects

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

An after-tax profit of N3.6bn was reported for FY19, representing a y/y 18.2% decline. However, with adjustment for the impact of the reported N1.4bn write-back in FY18, pre-tax profit is considered to have improved by 18.5% y/y. Performance in FY19 was driven by revenue, as increased earning assets delivered a 15.1% in net interest income, while non-interest income also grew by 25.8%, soaring TOI by 19.6% to N9.8bn. However, escalation in operating expenses saw performance at the pre-tax level end down 0.1% to N5.2bn, while higher tax charges further depleted performance at the after-tax profit level to 81.2% of the FY18 level. Consequently, ROaE and ROaA dipped to 12.9% and 2.7% in FY19 from 15.1% and 3.5% in FY18 respectively.

	Actual FY19	Budget FY20	1H FY20	% of budget*
Net interest income	5,486	9,043	2,926	64.7
Other income	4,327	4,614	2,483	107.6
TOI	9,813	13,657	5,409	79.2
Impairment charge	401	(1,947)	(1,147)	58.9
Operating expenses	(5,031)	(6,227)	(2,365)	75.0
NPBT	5,183	5,483	1,896	69.2

*Annualised.

Source: FSDH.

Per management, the bank has retained its full-year budget for 2020, without any consideration for current economic realities. The challenging macro-economic condition in the country, exacerbated by the COVID-19 pandemic, and the consequent tough regulatory measures introduced by CBN, negatively impacted on the performance of most banks in Nigeria (including FSDH) in 1H FY20, with FSDH recording a pre-tax profit of N1.9bn for the six-month period (lagging the corresponding period in FY19 by 44.1% and the FY20 full year result by annualised 30.8%). Based on the 1H FY20 results, the achievement of the full year budget appears very unlikely.

FSDH Merchant Bank Limited

(Naira in millions except as noted)

Year end: 31 December

STATEMENT OF COMPREHENSIVE INCOME ANALYSIS	2016	2017	2018	2019	1H 2020 ^A
Interest income	12,547	19,896	15,087	16,496	6,901
Interest expense	(9,163)	(12,947)	(10,320)	(11,009)	(3,975)
Net interest income	3,385	6,949	4,767	5,486	2,926
Other income	3,383	3,652	3,439	4,327	2,483
Total operating income	6,768	10,601	8,205	9,813	5,409
Impairment charge	(420)	(2,261)	1,397	401	(1,147)
Operating expenditure	(3,400)	(4,480)	(4,416)	(5,031)	(2,365)
Net profit before tax	2,948	3,860	5,186	5,183	1,896
Tax	(106)	(174)	(775)	(1,572)	(267)
Profit after tax	2,843	3,686	4,411	3,610	1,629
Other comprehensive (loss)/gain	(2,909)	2,457	(177)	400	-
Net income	(66)	6,143	4,234	4,010	1,629

STATEMENT OF FINANCIAL POSITION ANALYSIS

Subscribed capital	4,334	4,334	4,334	2,373	2,373
Reserves (incl. net income for the year)	18,477	24,620	25,001	24,397	25,526
Total capital and reserves	22,811	28,955	29,336	26,770	27,899
Bank borrowings (incl. deposits, placements & REPOs)	22,159	19,878	4,745	27,685	12,731
Deposits (incl. REPOs)	55,006	55,186	46,719	56,340	73,410
Debt securities	13,075	12,078	14,525	14,086	23,060
Other borrowings	3,022	466	841	18,737	11,920
Short-term funding (< 1 year)	93,261	87,608	66,830	116,849	121,121
Other borrowings	13,707	19,736	17,885	-	-
Long-term funding (> 1 year)	13,707	19,736	17,885	-	-
Payables/Deferred liabilities	965	926	2,309	7,828	7,329
Other liabilities	965	926	2,309	7,828	7,329
Total capital and liabilities	130,745	137,225	116,359	151,447	156,350
Cash on hand	-	-	-	0	0
Balances with central bank	1,452	2,121	4,196	7,211	37,977
Property, plant and equipments	402	528	604	634	602
Derivative financial assets	-	70	607	415	-
Other assets (incl. zero rate loans)	26,469	14,641	13,184	37,318	7,399
Non-earnings assets	28,324	17,360	18,591	45,579	45,978
Loans & advances (net of provisions)	35,351	37,377	40,537	45,496	39,336
Bank placements	23,285	22,085	20,770	14,221	15,624
Marketable/Trading securities	42,807	54,801	29,945	26,202	36,417
Equity investments	16	158	342	563	744
Investments in subsidiaries/others	961	5,444	6,174	19,387	18,250
Total earning assets	102,421	119,865	97,768	105,868	110,372
Total assets	130,745	137,225	116,359	151,447	156,350
Contingencies	17,098	-	41,524	52,422	45,114

Ratio Analysis (%)

Capitalisation

Internal capital generation	n.a.	21.2	14.4	15.0	5.8
Total capital / Net advances + net equity invest. + guarantees	64.5	77.1	71.8	58.1	69.6
Total capital / Total assets	17.4	21.1	25.2	17.7	17.8

Liquidity

Net advances / Deposits + other short-term funding	37.9	42.7	60.7	38.9	32.5
Net advances / Total funding (excl. equity portion)	33.0	34.8	47.9	38.9	32.5
Liquid & trading assets / Total assets	50.6	56.0	43.6	26.7	33.3
Liquid & trading assets / Total short-term funding	70.9	87.8	75.9	34.6	43.0
Liquid & trading assets / Total funding (excl. equity portion)	61.8	71.6	59.9	34.6	43.0

Asset quality

Impaired loans / Gross advances	2.1	13.4	5.3	4.8	0.0
Total loan loss reserves / Gross advances	0.0	0.0	0.0	0.0	0.0
Bad debt charge (income statement) / Gross advances (avg.)	1.1	5.9	(3.5)	(0.9)	2.6

Profitability

Net income / Total capital (avg.)	n.a.	23.7	14.5	14.3	6.0
Net income / Total assets (avg.)	n.a.	4.6	3.3	3.0	1.1
Net interest margin	3.5	6.3	4.5	6.1	6.5
Interest income + com. fees / Earning assets + guarantees (a/avg.)	3.4	n.a.	n.a.	n.a.	n.a.
Non-interest income / Total operating income	50.0	34.5	41.9	44.1	45.9
Non-interest income / Total operating expenses (or burden ratio)	99.5	81.5	77.9	86.0	105.0
Cost ratio	50.2	42.3	53.8	51.3	43.7
OEaA (or overhead ratio)	2.9	3.3	3.5	3.8	1.5
ROaE	11.8	14.2	15.1	12.9	11.9
ROaA	2.4	2.8	3.5	2.7	2.1

Nominal growth indicators

Total assets	24.3	5.0	(15.2)	30.2	3.2
Net advances	(10.9)	5.7	8.5	12.2	(13.5)
Shareholders funds	(10.5)	26.9	1.3	(8.7)	4.2
Total capital and reserves	(10.5)	26.9	1.3	(8.7)	4.2
Deposits (wholesale)	4.5	0.3	(15.3)	20.6	30.3
Total funding (excl. equity portion)	36.3	0.4	(21.1)	37.9	3.7
Net income	(101.2)	n.a.	(31.1)	(5.3)	(18.7)

^AUnaudited six-month accounts to 30 June 2020

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 2019 (plus four 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 2020. In addition, information specific to the rated entity and/or industry was also received.

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