

# FSDH Merchant Bank Limited

---

## Final Rating Report

---

 **Agusto&Co.**

*Research, Credit Ratings, Credit Risk Management*

# FSDH MERCHANT BANK LIMITED

## Rating Assigned:

# A

*A financial institution of good financial condition and ability to meet its obligations as and when they fall due.*

**Outlook:** Stable

**Issue Date:** 29 June 2020

**Expiry Date:** 30 June 2021

**Previous Ratings:** A

**Industry:** Banking

### Analysts:

**Tolulope Obideyi**

tolulopeobideyi@agusto.com

**Ayokunle Olubunmi, CFA**

ayokunleolubunmi@agusto.com

### Agusto & Co. Limited

UBA House (5th Floor)

57, Marina

Lagos

Nigeria

**www.agusto.com**

## RATING RATIONALE

The rating assigned to FSDH Merchant Bank Limited ('FSDH' or 'the Bank') reflects the Bank's good capitalisation which provides buffer during these times of heightened economic risk, acceptable profitability levels and an experienced and conservative management team. However, the rating is constrained by the accentuated economic risks elicited by the COVID-19 pandemic, and a high degree of concentration risk in the loan book.

FSDH Merchant Bank Limited is the second largest merchant bank in Nigeria based on total assets and contingents which stood at ₦172.8 billion as at 31 December 2019. During the year, the Bank took up a Holding Company (HoldCo) structure and FSDH Holding Company Limited, a non-operating legal entity, was formed which owned 99.9% of the Bank's equity as at FYE2019. The objective of the restructuring is to optimise synergies with other affiliates within the HoldCo and strengthen overall performance going forward. One of such synergies is with the asset management subsidiary which acts as the retail hub of the Group, generating relatively lower cost funds for the Bank, largely from high net worth individuals.

In 2019, FSDH's deposit liabilities (excluding interbank takings) grew by 20.6% to ₦56.3 billion and translated to a weighted average cost of funds of 8.6% (FY2018: 9.3%). FSDH Merchant Bank is a collection bank for a few of its corporate entities which supports deposits liability generation and lowers funding costs. During the review year, FSDH was appointed as the collection bank for the Nigerian Customs Service. Subsequent to the review period, the Bank was also appointed as a collection Bank for the Lagos State Government. We believe these collections could moderate the Bank's funding cost in the near term.

Supporting the Bank's activities during the year was its core capital which stood at ₦26.8 billion as at FYE2019, lower than the prior-year by 8.7% due to the restructuring exercise. Nonetheless, core capital was above the regulatory minimum for merchant banks operating in Nigeria. As at the same

date, the Bank's Basel II computed capital adequacy (CAR) ratio stood good at 30.7% and was well above the 10% regulatory threshold. We consider FSDH's CAR to be strong and we expect it to remain within acceptable level in the short term despite planned loan growth.

As at 31 December 2019, approximately 95.2% of the Bank's gross loans were classified as stage 1 exposures (loans with relatively low default risk) while the remaining 4.8% were classified as stage 3 loans and below the regulatory guidance of 5%. Nevertheless, the obligor concentration in the loan book remains, with the Bank's top 20 obligors accounting for 97% of gross loans and advances. This could lead to a significant rise in the impaired loan ratio should one or two of these loans become impaired. In addition, the loan book was concentrated by sectors with the Oil & Gas sector accounting for 38.8% of total loans. We consider this exposure to be high given the vulnerability of this sector to the crude oil price. FSDH intends to grow its loan portfolio by 100% in 2020, we believe this growth is high considering the elevated risk in the operating terrain.

In the 2019 financial year, FSDH recorded a profit before tax of ₦5.2 billion, at par with the prior year. The Bank's pre-tax return on average assets (ROA) and pre-tax return on equity (ROE) stood at 3.3% (FY 2018: 3.5%) and 18.5% (FY 2018: 17.8%) respectively. The growth in the FSDH's ROE was largely driven by the restructuring exercise consummated during the review year which resulted in a decline in the Bank's equity. At this level, FSDH's ROE was lower than Rand Merchant Bank's 35.8% but higher than Coronation MB's 15.4% and the average yield on a 364-day treasury certificate of 13.9% in the same period. On account of the adverse impact of the COVID-19 pandemic, we believe that the Bank's performance will moderate in the near term.

Nonetheless, we attach a **stable** outlook to the rating of FSDH Merchant Bank Limited based on our expectation that the Bank's good capitalisation will continue to support the business, buoyed by profits and an acceptable asset quality. Agosto & Co. will continue to monitor the assigned rating and outlook of the Bank, reassessing the impact of COVID-19 on its performance going forward.

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Good capitalisation</li> <li>• Good liquidity profile</li> <li>• Synergies within the FSDH Holding Company which supports asset and liability generation</li> <li>• Experienced management team</li> </ul>
<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Sector and obligor concentration of the loan book</li> <li>• Concentration in the funding base</li> </ul>
<p><b>Challenges</b></p> <ul style="list-style-type: none"> <li>• The impact of the COVID-19 pandemic on the Nigerian economy</li> <li>• Regulatory constraints</li> <li>• Sustaining asset quality amid the volatility in the crude oil market, given that the Bank's loan portfolio is largely concentrated in the oil and gas sector</li> </ul>

**Table 1: Background Information**

	31 December 2018	31 December 2019
Total Assets & Contingents	₦140.8 billion	₦172.8 billion
Net Earnings	₦9.6 billion	₦10.2 billion
Pre-tax Return on Average Assets & Contingents (ROA)	3.5%	3.3%
Pre-tax Return on Average Equity (ROE)	17.8%	18.5%

## PROFILE

FSDH Merchant Bank Limited ('FSDH' or the 'Bank') was incorporated in June 1992 as First Securities Discount House Limited and commenced operations in July 1992. The Bank was granted approval by the Central Bank of Nigeria (CBN) to convert to a merchant bank in November 2012, following a review of the structure of the banking industry in 2010 which permitted the operations of merchant banks within the country. FSDH became the first merchant bank to be licensed under the new banking industry structure. Consequently, the entity's name was changed to FSDH Merchant Bank Limited and the Bank commenced operations as a merchant bank in January 2013.

In 2019, there was a business restructuring within the FSDH Group which resulted in the adoption of a holding company model. The objective of the exercise is to enable the Bank to maximise synergies from sister financial institutions under the new operating structure. Thus, FSDH Holding Company Limited was set up as a non-operating legal entity domiciled in Nigeria and regulated by the Central Bank of Nigeria (CBN). FSDH Merchant Bank Limited transferred its ownership stake in its subsidiaries to the Holding Company and became a wholly-owned subsidiary of FSDH Holding Company Limited. Other subsidiaries under FSDH Holding Company Limited are FSDH Asset Management Limited, Pensions Alliance Limited and FSDH Capital Limited.

FSDH Merchant Bank Limited is one of the five merchant banks operating in Nigeria. The Bank's services involve transactional and structured finance services, money market activities including trading and holding of marketable securities such as treasury bills, government bonds, commercial bills and other eligible instruments. FSDH's activities are organised into three business segments namely;

- Treasury, Institutional Banking and Financial Institution Division
- Corporate Banking Division

FSDH has three offices in Lagos, Abuja and Port Harcourt with the Head office situated at UAC House (5<sup>th</sup> -8<sup>th</sup> Floors), 1/5 Odunlami Street, Marina, Lagos. The Bank employed an average of 126 persons during the period under review.

### Technology

FSDH leverages information technology to improve customer experience, facilitate business transactions and strengthen risk management via various hardware and software applications. The Bank maintains over 50 applications for business processes however, Flexcube software is the core banking application. Ethernet Local Area Network (ELANs) and Virtual Local Area Networks (VLAN) are maintained by the Bank to ensure seamless communication and access to business data at the Head Office. A Wide Area Network (WAN) Link is deployed by the FSDH to facilitate uninterrupted communication between the offices in Lagos, Abuja and Port Harcourt, while a telecommunication system with audio and video conferencing capabilities is maintained by the Bank.

In view of FSDH's investment in technology and the development of digital platforms which enables customers to execute end-to-end transactions, the impact of the COVID-19 induced lockdown on the operations of the Bank was minimal.

### Correspondent Banks

FSDH maintained corresponding banks relationship with the following banks in 2019.

- |                                      |                                            |
|--------------------------------------|--------------------------------------------|
| 1. Commerzbank Frankfurt             | 9. Standard Chartered Bank New York        |
| 2. Deutsche Bank Frankfurt           | 10. Access Bank, UK                        |
| 3. Bank of Beirut London             | 11. Zenith Bank, London                    |
| 4. Standard Bank of South Africa     | 12. Standard Chartered Bank, Cote d'Ivoire |
| 5. United Bank for Africa, London    | 13. FCMB, London                           |
| 6. Union Bank, London                | 14. First Bank of Nigeria Limited          |
| 7. African Development Bank, Abidjan | 15. Stanbic IBTC Plc                       |
| 8. Byblos Bank London                |                                            |

### Track Record of Financial Performance

FSDH's total assets and contingents grew by 22.7% year-on-year to ₦172.8 billion as at 31 December 2019. As at the same date, the Bank's gross loans and advances stood at ₦46.8 billion (FY 2018: ₦41.8 billion) with 4.8% of the loan book categorised as stage 3 exposures according to the IFRS 9 accounting standards. Deposit liabilities grew by 18.6% to ₦56.6 billion and funded 32.8% of the Bank's total assets and contingents as at 31 December 2019. Tier 1 (core) capital totalled ₦26.8 billion, higher than the ₦15 billion regulatory minimum for merchant banks operating in Nigeria. In addition, the Bank's CAR of 30.7% was well above the regulatory minimum of 10%.

Profitability indicators, pre-tax return on average assets (ROA) and average equity (ROE) stood at 3.3% (FY 2018: 3.5%) and 18.5% (FY 2018: 17.8%) respectively, for the 2019 financial year.

CURRENT DIRECTORS	Designation	Representative
Mr. Olufemi Agbaje	Chairman	KMC Investments Limited
Mrs. Hamda Ambah	Managing Director	Nil
Ms. Olufunsho Olusanya	Executive Director	Nil
Mr. Taiwo Otiti	Executive Director	Nil
Mrs. Muhibat Abbas**	Non-Executive Director	UNICO CPFA Limited
Mr. Daniel Agbor*	Non-Executive Director	KMC Investments Limited
Alhaji Bello Garba	Non-Executive Director	KMC Investments Limited
Mr. Sobandele Sobanjo**	Non-Executive Director	AIICO Insurance Plc
Mr. Vincent Omoike***	Independent Director	Nil
Mr. Godwin Ize-Iyamu	Independent Director	Nil
Mr. Tosayee Ogbomo	Non-Executive Director	KMC Investments Limited
Mr. Patrice Backer	Non-Executive Director	Atlantic Coast Regional Fund
Mr. Papa Ndiaye*	Non-Executive Director	Atlantic Coast Regional Fund
Mr. Kelechi Okoro****	Non-Executive Director	Atlantic Coast Regional Fund

\*Resigned June 2019 \*\*Resigned July 2019 \*\*\*Resigned March 2020 \*\*\*\*Appointed March 2020

### MAJOR SHAREHOLDER

FSDH Holding Company Limited

99.99%

## MANAGEMENT TEAM

**Mrs. Ambah** is the Managing Director of FSDH Merchant Bank Limited. Mrs. Ambah began her banking career at the International Merchant Bank (IMB) and later moved to Reuters Limited until she joined FSDH in 1993. Her responsibilities included Corporates (comprising multinational, mid-tier corporations, telecoms and energy sector), in addition to the Port-Harcourt and Abuja Regional Offices. She rose to become Executive Director and was appointed to the boards of three subsidiaries (now affiliate companies) of FSDH. Mrs. Ambah holds an MSc in Management Science from the Imperial College of Science and Technology and a Bachelor's degree in Computer Science from the University of Lagos, Nigeria. She is a member of the Nigerian Chartered Institute of Stockbrokers and was awarded the 1999 IBTC award for the best examination candidate in Corporate Finance. Mrs. Ambah is an alumnus of the Advanced Management Program at INSEAD, France and has attended a Senior Management Programme at the Wits Business School in South Africa.

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

Ms. Funsho Olusanya	Executive Director, Treasury and International Banking
Mr. Taiwo Otit	Executive Director, Operations, Information Technology and Compliance
Mr. Richard Osuagwu	Chief Risk Officer
Ms. Stella-Marie Omogbai	Group Head, Corporate Banking and Branches
Mr. Babatunde Obidare	Group Head, Operations
Mr. Kunle Osunkunle	Head, Corporates
Ms. Tolulope Obadagbonyi	Treasurer
Ms. Bolanle Meshida	Head, Legal and Company Secretary
Mr. Adediran Oni	Head, Energy

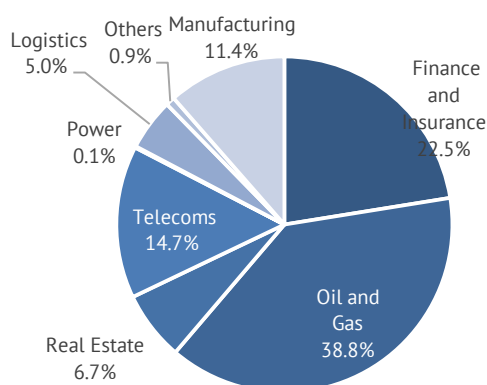
## ANALYSTS' COMMENTS

### ASSET QUALITY

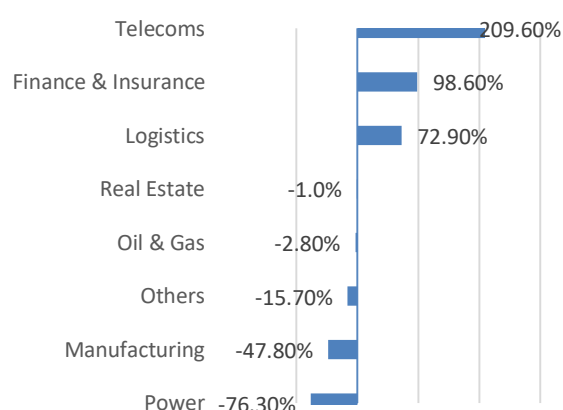
FSDH Merchant Bank Limited had an asset base (including contingents) of ₦172.8 billion (FYE 2018: 140.8 billion), making it the second largest merchant bank in Nigeria as at 31 December 2019. The 22.7% growth in total assets and contingents over the prior year was largely driven by an expanded customer deposit base. Approximately 44% of the Bank's assets was in its liquid asset portfolio, while gross loans and advances accounted for 27.1%. During the year under review, FSDH took advantage of favourable yields and volatilities in the fixed income market to grow liquid assets (which were predominantly in government securities) by 32.4%. Gross loans and advances stood at ₦46.8 billion as at 31 December 2019, 11.8% up from the preceding year.

FSDH lends to large corporates in key economic sectors and medium sized entities, including those along the value chain of the ecosystem. The Bank also lends to financial institutions. As at 31 December 2019, FSDH's loan portfolio was dominated by obligors in the oil and gas sector which accounted for 38.8% (upstream: 32.3%, downstream: 6.5%) (FYE 2018: 44.6%) of the loan book. We view positively the Bank's efforts to moderate concentration risk in the oil and gas loan book over the years given the sector's vulnerability to adverse movements in crude oil prices and a weakening domestic currency. We expect CBN's forbearance which allows banks restructure credits extended to oil and gas operators on account of adverse impact of the COVID-19 pandemic to mute any deterioration in the oil and gas loan book in the short term.

**Figure 1: Loan Book by Sector (FYE 2019)**



**Figure 2: Year-on-Year Loan Growth by Sector**

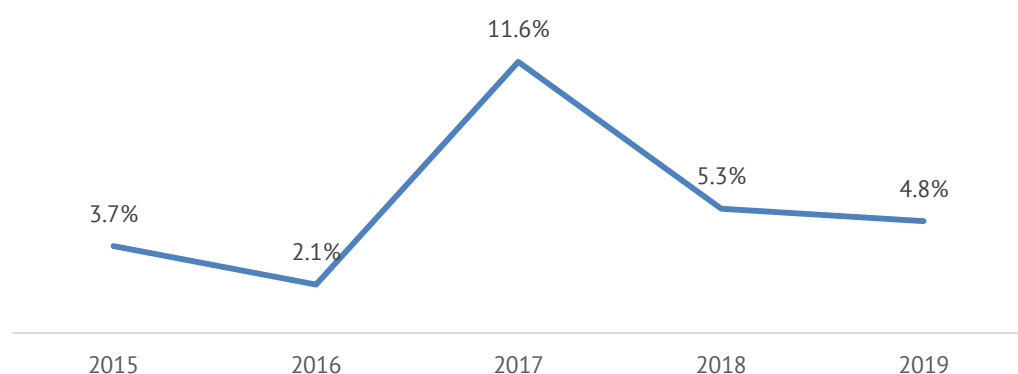


The Bank's second largest exposure was to the finance and insurance sector which grew markedly by 98.6% year-on-year to account for 22.5% of the loan portfolio as at FYE2019. A significant portion of these loans are backed by treasury bills. During the year, credits to the telecommunications sector spiked by 209.6% to account for 14.7% of the loan book due to additional loan granted to the largest telecommunications company in Nigeria under a syndicate structured facility.

As at FYE 2019, FSDH’s loan portfolio was also concentrated by obligors as its top 20 obligors accounted for 97% (FYE 2018: 99%) of the loan book. Although, we note that the sectorial and obligor concentration in the loan book is typical of merchant banks operating in Nigeria, we are concerned about the Bank’s susceptibility to adverse changes in the performance of these obligors. On account of the likelihood of a further devaluation of the naira, our concerns are exacerbated by the Bank’s large foreign currency exposures which accounted for 53.7% of the loan portfolio as at 31 December 2019. With the 5.3% naira devaluation in March 2020 and the likelihood of a further devaluation, the proportion of FCY loans will expand further, increasing the loan book’s susceptibility to foreign currency risk.

Based on the Bank’s internal rating model, about 66% of the loan book was granted to investment grade obligors, rated Aaa to Bbb as at 31 December 2019, while 34% of the loan portfolio was in favour of non-investment grade obligors with Bb to B rating. Furthermore, approximately 69% of the Bank’s loans were secured as at year-end 2019, which we consider to be adequate. As at FYE 2019, FSDH’s stage 1 loans (credit exposures with the lowest default risk) accounted for 95.2% of the gross loans. As at the same date, stage 3 loans (impaired loans/non-performing loans) amounted to ₦2.2 billion, at par with the prior year and represented 4.8% (FYE2018: 5.3%) of the gross loans. This was higher than its merchant banking peers, Rand Merchant Bank Nigeria Limited (RMBN) and Coronation Merchant Bank (Coronation) with nil stage 3 loan as at FYE 2019. About 99.1% of the stage 3 loans represented the Bank’s exposure in a syndicated loan to a telecommunication company. We recognise that the FSDH has been proactive in classifying this loan as most banks in the syndication have not done so.

**Figure 3: Non-performing loan Ratio (FYE 2015- FYE 2019)**



We consider FSDH’s asset quality to be acceptable. In 2020, the Bank plans to grow the loan portfolio by 100% to ₦90 billion on account of some pending transactions in the health care and education sector which are expected to be concluded in the short term. We consider this projection to be achievable as we recognise that the expected growth rate is from a relatively low base. Nonetheless, given the heightened risk in the operating terrain elicited by the COVID-19 pandemic, we consider the projection to be high.

## RISK MANAGEMENT

FSDH has an Enterprise Risk Management Framework that is approved by the Board of Directors through the Board Risk Committee (BRC) for the management of operational, market, and credit risks. The Chief Risk Officer (CRO), supported by the Deputy Chief Risk Officer, is responsible for the implementation of risk policies and monitoring the effectiveness of the risk management framework and reports to the Managing Director. During the year, following the establishment of a Holding Company structure, the Bank's CRO was moved to the HoldCo, while the erstwhile Head of Internal Audit was appointed the CRO of the Bank.

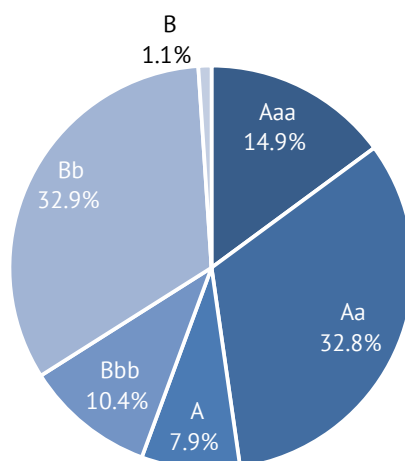
The operations of the Risk Management Unit is carried out through four departments;

- Credit Administration Department
- Operational Risk and Business Continuity Department
- Market Risk & Risk Analytics Department
- Credit Analysis/ Environmental & Social Risk Department

### Credit Risk

FSDH is exposed to credit risk through its trading and non-trading portfolio. In assessing this risk, the Bank uses an internal risk rating model with Aaa to C rating scales that are grouped into three broad categories: investment-grade rating scale (Aaa to Bbb-), speculative rating scale (Bb+ to Cc-) and default rating scales (C+ to C-). The rating model uses both financial and non-financial indicators of each obligor and the transaction structure to determine the risk profile of each exposure. As at 31 December 2019, about 66% of the Bank's loan portfolio was extended to investment grade obligors, while 34% were to non-investment grade obligors. Compared to the prior year when investment-grade obligors accounted for 64.4% of the loan book, we note an improvement in the risk profile of the Bank's obligors year on year.

**Figure 4: Loan Book by Credit Rating Grade (FYE 2019)**



In view of the novel coronavirus outbreak, FSDH conducted an assessment of the probable impact of the pandemic on its loan book. Based on the assessment, as at 31 March 2020, in a severe scenario, the ability of 38.7% of the obligors to meet their loan obligations promptly will be affected while the impact in a medium scenario would mean 19.3% of obligors will be affected. The Bank believes that the COVID-19 pandemic will have low impact on the loan repayment ability of 42% of its obligors. We note positively the Bank's proactive assessment of the loan portfolio.

### Market Risk

FSDH's exposure to market risk emanates from the impact of changes in key price metrics such as foreign exchange and interest rates on the fair value of future cash flows from the Bank's trading and non-trading portfolios. Given that 53.7% of the FSDH's loan book was FCY denominated as at 31 December 2019, the Bank is vulnerable to foreign currency risk. Accordingly, daily mark-to-market valuation of all currency positions, open positions limit and maximum limit on allowable investment in foreign currency are conducted to ensure that the valuations are reflective of market realities. An evaluation of the Bank's sensitivity to a 100-basis point increase in interest rate revealed a maximum loss position of ₦1 billion. Based on the Bank's capital base of ₦26.8 billion, we consider the loss to be low at 3.7% of core capital.

### Operational Risk

The Bank's operational risk exposure represents potential losses from people (through fraud and errors), internal processes and systems (technology) and external events (including litigation). FSDH adopts the Basic Indicator Approach (BIA) in measuring and managing operational risks. The management of the Bank's operational risks is guided by a policy manual which is updated at least once in three years to align with any emerging threat arising from both internal and external processes. FSDH recorded no loss relating to fraud and the Bank did not incur any penalty for contravening CBN circulars and directives during the review year. We consider these positively.

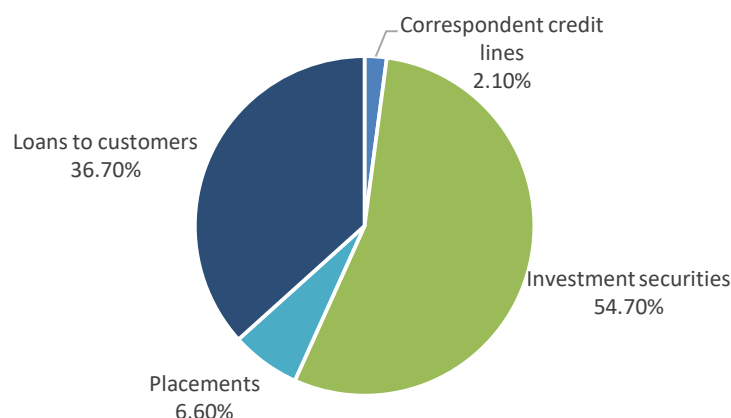
We consider FSDH's risk management framework to be satisfactory for its current business risks.

---

## EARNINGS

In view of FSDH's expanded loan portfolio which grew by 11.8% to ₦46.8 billion as at 31 December 2019, multiple cycles of trade-related transactions consummated within the year and favourable asset yields, interest income rose by 9.3% to ₦16.5 billion in 2019. Growth in interest income was largely driven by income from investment securities which grew by 15.3% year-on-year to account for 54.7% of the interest income. Interest income on loans and advances amounted to ₦7.1 billion, higher than the prior year by 5% and represented 36.7% of total interest income. In view of the planned growth in lending activities, we expect an upward trend in interest income on loans and advances in 2020. However, this will be moderated by a lower interest rate environment particularly given the 100 basis points decline in the monetary policy rate (MPR) to 12.5% in May 2020 and intense competition in the top-end lending space.

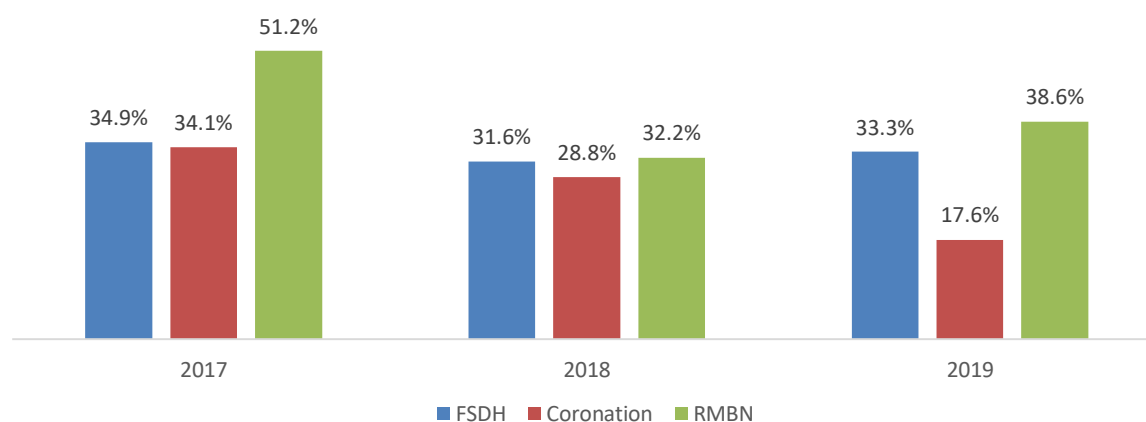
**Figure 5: Breakdown of Interest Income by Sources (FY 2019)**



FSDH's interest expense inched up by 6.7% to ₦11 billion, largely driven by a 7.8% growth in interest expense on customer deposit which accounted for 46.6% of interest expense. Interest expense on commercial papers dipped by 16.2% on account of the redemptions, while new issues during the year were consummated at relatively lower rates.

Notwithstanding, FSDH's net interest spread (NIS) improved to 33.3% from 31.6%, higher than Coronation's 17.6% but lower than RMBN's 38.6%. Although we note that the improvement in NIS in 2019 was largely driven by lower funding costs, in the near term, we expect the Bank's income from lending activities to be pressured by the increase in cash reserve requirement (CRR) to 27.5% from 2% in February 2020 which has reduced funds available for lending. However, we expect the Bank to benefit from the 100-basis points reduction in the monetary policy rate given that deposit liabilities will be more quickly repriced than loans in the short term.

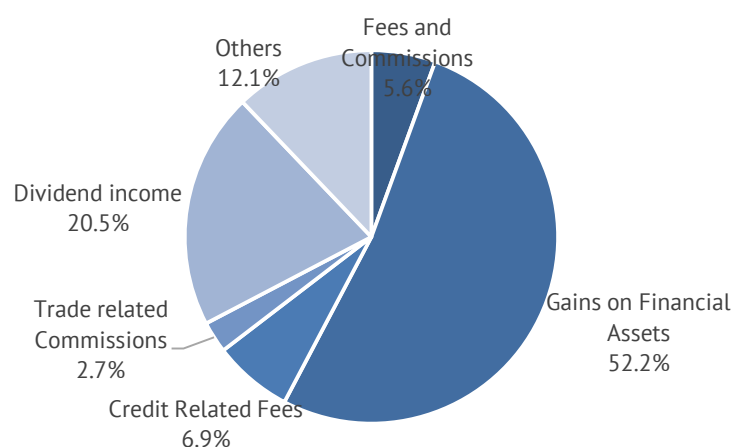
**Figure 6: Net Interest Spread (FY 2017 – FY 2019)**



FSDH's earnings during the year under review was supported by ancillary income which grew by 25.8% to ₦4.3 billion. The growth was largely driven by gains on financial assets which grew by 66.2% to ₦2.4 billion during

the review year. Furthermore, other income comprising foreign exchange gains, dividend income and sundry income grew by 3.4%. However, fees and commissions dipped by 13% year-on-year to ₦694 million. In view of the downward review of bank charges by the CBN, we expect a moderation in FSDH's non-interest income in 2020.

**Figure 7: Breakdown of Non-Interest Income (FY 2019)**



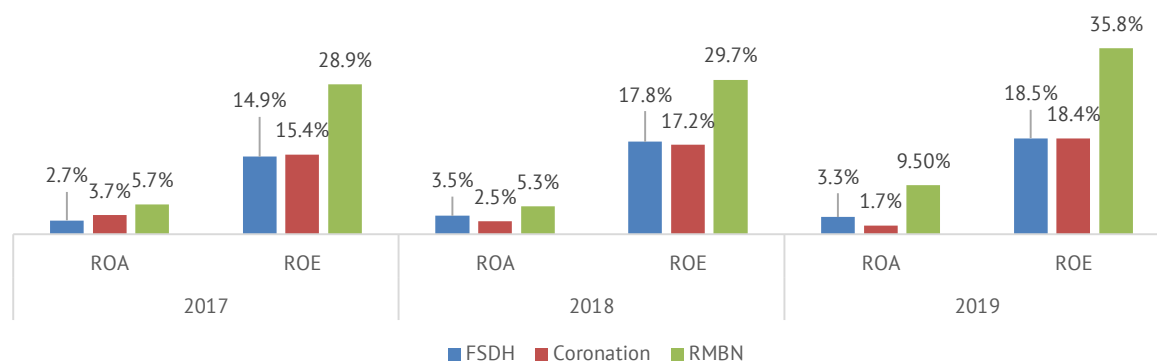
FSDH's operating expenses (OPEX) rose by 13.9% to ₦5 billion in 2019. The growth was largely driven by staff cost which trended upward by 4.7% to account for 45.7% of operating expenses, following senior management hiring during the year. The Bank's on-going investment in digitalisation elicited an 11.2% rise in technology-related expenses to ₦498 million, while depreciation and amortisation expenses also grew by 30.6% on account of the FSDH's continued investment in fixed and intangible assets and the Bank's adoption of IFRS 16 resulted in higher depreciation during the review year. Consequently, the Bank's cost-to-income (CIR) ratio inched up to 49.3% (FY2018: 46%), lower than the peer Coronation (51.6%) but higher than RMBN (31%). Despite inflationary pressures and the currency devaluation, we believe the Bank's CIR should remain within acceptable levels. Our outlook is hinged on anticipated cost-savings benefits from key expenses such as business travels and training, which should be upheld by COVID-19 induced movement and business restrictions.

FSDH's pre-tax profits amounted to ₦5.2 billion in FY 2019, at par with the prior year. Pre-tax return on average assets (ROA) dipped to 3.3% (FY 2018: 3.5%) based on the enlarged asset base. However, the Bank's pre-tax ROE improved to 18.5% (FY 2018: 17.8%) due to a lower equity base elicited by the business restructuring consummated during the review year. At this level, FSDH's pre-tax ROE was lower than RMBN's 35.8% but higher than Coronation's 15.4% and the average yield on a 364-day treasury certificate of 13.9% in the same period.

Subsequent to the 2019 financial year, FSDH's annualised pre-tax ROA dipped further to 3.1% in Q1 2020. However, pre-tax ROE improved to 20.1%, while its cost to income improved to 46.1%. In our opinion, FSDH's profitability is satisfactory.



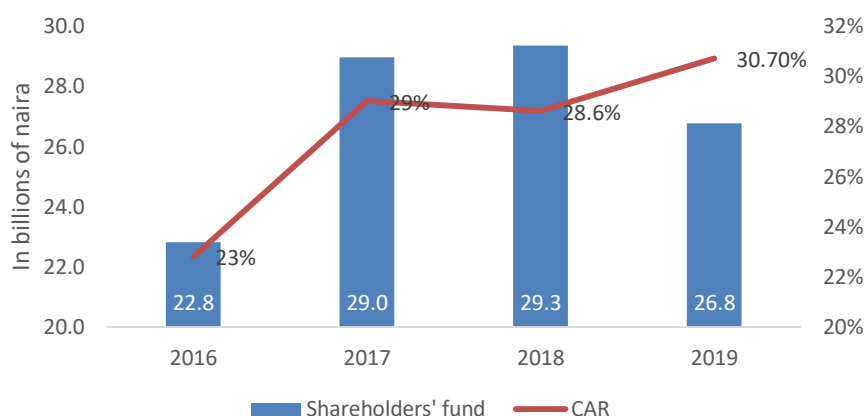
**Figure 8 : Profitability Ratios (FY 2017 – FY 2019)**



## CAPITAL ADEQUACY

As at 31 December 2019, FSDH's core (tier 1) capital stood at ₦26.8 billion, lower than the prior year's position by 8.7%. The decline was largely driven by the 65% dip in share premium elicited by business restructuring which occurred during the review period. Nonetheless, the Bank's capital which funded 15.5% of the total assets and contingents stood well above the ₦15 billion regulatory minimum for merchant banks operating in Nigeria. The composition of the FSDH's core capital was good as revenue reserves accounted for 65.6%, while paid-up capital and other non-distributable reserves made up 8.9% and 25.5% respectively of core capital as at 31 December 2019.

**Figure 9: Shareholders' Funds and Capital Adequacy Ratio (CAR)**



Despite a lower qualifying capital base, FSDH's Basel II computed capital adequacy ratio (CAR) strengthened to 30.7% (FYE 2018:28.6%) due to lower risk weighted assets. At this level, FSDH's CAR was comfortably above the regulatory minimum of 10% prescribed by the CBN for merchant banks. We consider the Bank's capital to be good for its current business risk, providing sufficient buffer to cushion macroeconomic shocks and ample room to cautiously grow the loan book in the short term.

## LIQUIDITY AND LIABILITY GENERATION

Given regulatory constraints in generating deposit liabilities as a merchant bank, FSDH deploys other avenues to grow relatively cheaper funding for its operations. Apart from the asset management subsidiary which is expected to be retail hub of the HoldCo, generating low cost funds from high net worth individuals, the Bank is also a collection bank for a few of its large corporate clients. In 2020, FSDH was appointed a collection bank for the Lagos State Government after securing the mandate for custom duties collection in October 2019, these we view positively. Supporting these initiatives is the adoption of digital platforms as the Bank launched its internet banking platform in 2019.

In the year under review, FSDH's deposit liabilities (excluding interbank takings) grew by a considerable 20.6% to ₦56.3 billion as at 31 December 2019 and remained the Bank's dominant funding source, financing 32.6% of total assets and contingents. An assessment of the FSDH's deposit liabilities revealed that local currency (LCY) deposits which grew by 28% to ₦45 billion accounted for 80% of the deposits, while foreign currency (FCY) deposits declined by 2.1% to ₦11.2 billion to account for 20%. We note that the FCY deposits were not sufficient to the FCY loans as at FYE2019 (0.5 times coverage). However, when we factor in FCY borrowings as at the same date, the coverage increases to 1.2 times which we consider satisfactory. As at 31 December 2019, FSDH's loan deposit ratio (LDR) stood at 74.2% higher the regulatory minimum of 65%.

Further assessing FSDH's deposit liabilities, we note that term deposits which accounted for 66.4% of customer deposits grew by 19.7% to ₦37.4 billion, while demand deposit and client investment fund stood at ₦9.7 billion and ₦9.3 billion to account for 17.2% and 16.5% respectively of the deposit base. The client investment fund is a treasury security linked liability product targeted at investors who are unable to either meet the ₦50 million minimum threshold for bids at the treasury bills primary market or have shorter investment horizon compared to standard tenors of the securities. We believe that the deposit liabilities will remain dominated by term deposits given the regulatory minimum deposit of ₦50 million per tranche for merchant banks. An analysis of deposits by source showed that the top 20 depositors accounted for 52.1% of the Bank's total deposits, revealing some degree of concentration.

FSDH's assets were also funded by borrowings comprising interbank takings, funding from multilateral financial institution (MFI) and commercial papers issuance. Interbank borrowings which stood at ₦27.7 billion as at FYE 2019, primarily which comprised secured borrowings from other operators in the banking industry, grew markedly by 483% year-on-year. Commercial papers amounting to ₦14 billion (FYE 2018: ₦14.5 billion) with an average yield of 14.53% also funded 8.1% of FSDH's total assets and contingents during the review period.

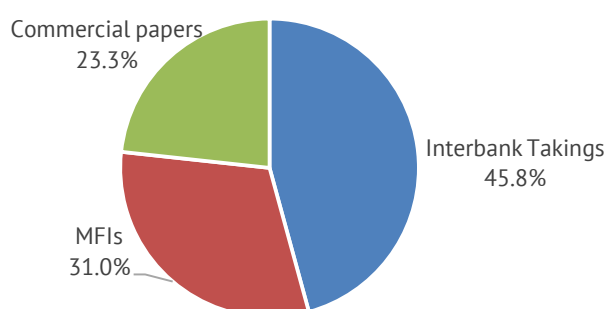
As at FYE 2019, FSDH's FCY deposits funded only 46% of the Bank's foreign currency loans. Accordingly, the Bank's FCY loans were largely funded by MFI borrowings comprising a \$50 million line of credit from African Development Bank (AfDB) which stood at ₦18.7 billion as at FYE 2019. The credit line matured in June 2020 and was repaid. Accordingly, FSDH secured a \$20 million line of credit from a correspondent bank in June 2020 and there are on-going negotiations with some MFIs for additional FCY borrowings. FSDH is managing its FCY

balance sheet cautiously to avoid a net liability position that would translate to a revaluation loss in the event of a devaluation of the domestic currency.

Supporting the growth in lending activities, largely trade finance facilities, were foreign currency (FCY) deposits, which jumped 517 times to ₦32.8 billion and funded 9.3% of total assets and contingents as at FYE 2019.

FCY deposits adequately funded 105.2% of foreign currency loans. The growth in FCY deposits was largely due to additional liability products targeted at customers seeking to hedge against currency risk. Consequently, we expect a further growth in FCY deposits as customers anticipate a further naira devaluation in the near term.

**Figure 10 : Breakdown of Borrowings (FY 2019)**



On account of the relatively lower interest rate environment, FSDH’s weighted average cost of funds (WACF) trended downwards to 8.6% (FY2018: 9.3%) in 2019. The Bank’s WACF, nonetheless stood higher than peer, RMBN (8.14%), but better than Coronation (9.9%). We expect the downward trend in FSDH’s WACF to continue in 2020 because of its cheap deposit liabilities generation initiatives and a lower interest rate environment in the first half of the year.

The maturity profile of FSDH’s loans and deposit liabilities as at 31 December 2019 revealed mismatches, largely in the “one month to three months” and “above one year” buckets. The Bank relied on borrowed funds (commercial papers and interbank takings) during the review period to fund the mismatches in the “above one year” maturity bucket.

FSDH’s liquid assets which largely comprised government securities amounted to ₦75.7 billion, higher than the prior period by 32.4% and accounted for 43.4% of total assets and contingents. Accordingly, the Bank’s liquidity ratio measured as liquid assets to LCY customer deposits improved to 134.8% (FY 2018: 123.8%), and was well above the regulatory minimum of 20% for merchant banks.

We consider FSDH’s liquidity profile to be good and its refinancing capacity satisfactory.

## OWNERSHIP, MANAGEMENT & STAFF

FSDH Merchant Bank is a wholly-owned subsidiary of FSDH Holding Company Limited. The parent, FSDH Holding Company Limited, a non-operating company providing progressive financial services in Nigeria, controls 99.99% equity stake in the Bank. As at December 2019, the following shareholders held up to 5% equity stake in FSDH Holding Company, KMC Investments Limited (32.04%), Atlantic Coast Regional Fund (23.25%), United Capital Asset Management Limited (10.8%), FSDH Staff Co-operative (10.4%), International Finance Corporation (6.26%).

FSDH is governed by a nine member Board of Directors comprising three Executive Directors, five Non-Executive Directors and one Independent Non-Executive Director. Mr. Olufemi Agbaje is the chairman of the Bank's Board of Directors. Following the establishment of a Holding Company structure during the review year, some of the Bank's Directors were moved to the HoldCo, thus, four Non-Executive Directors resigned from the Board of the Bank. They include: Mr Daniel Agbor (effective June 2019), Mr. Papa Ndiaye (effective June 2019), Mrs, Muhibat Abbas (effective July 2019) and Mr. Sobandele Sobanjo (effective July 2019). Subsequent to the year end, in March 2020, Mr. Kelechi Okoro joined the Board as a Non-Executive Director.

Mrs. Hamda Ambah is the Managing Director and Chief Executive Officer of FSDH following her appointment in 2017. Mrs. Ambah is directly tasked with the day-to-day management of FSDH Merchant Bank and she is supported by a management team that includes two Executive Directors – Ms. Olufunsho Olusanya and Mr. Taiwo Otiti.

Subsequent to the 2019 financial year, Mr. Vincent Omoike resigned from the Board of Directors effective 27 March, 2020. Consequently, Mr. Kelechi Okoro was appointed as a non-executive director effective 18 March, 2020. Mr. Okoro is a partner at AFIG funds where he leads transaction execution and value-creation teams. Prior to joining AFG Funds in 2013, Mr. Okoro worked at Argentil Capital Partners. He also worked with the Infrastructure and Natural Resources Group of the International Finance Corporation (IFC) and at ARM Investment managers. He holds a B.Sc. in human psychology from the University of Ibadan. He also hold an MBA from Lagos Business School.

As at 31 December 2019, the Bank's staff strength stood at 126 persons (FY 2018: 134 persons) and comprised three executive management staff, 10 management staff and 113 non-management staff. The dip in the Bank's staff strength was largely due to the restructuring exercise which resulted in the redeployment of some of the Bank's staff to the HoldCo. Despite the relatively lower staff numbers compared to the prior year, staff-related expenses trended upwards by 13.9% to ₦5 billion due to hiring at the top management level. Consequently, average staff cost stood at ₦18.2 million, higher than the prior-year by 11.4%. However, staff productivity measured by net earnings per staff improved by 13.1% over the corresponding FY 2018 period to ₦81 million. Net earnings per staff was sufficient to cover staff costs per employee 4.5 times (FY 2018: 4.4 times) which we consider good. However, this was lower than coverage recorded by peers Coronation MB (7.4 times) and RMBN (5.4 times) and Industry average (4.8 times).

**Table 2: Staff Productivity Indicators**

	FSDH 2018	FSDH 2019	Coronation 2019	RMBN 2019
Average number of employees	134	126	121	73
Staff cost per employee	16,370	18,229	11,611	60,886
Net earnings per staff	71,657	81,062	85,732	327,018
Staff cost/Net earnings	22.8%	22.5%	13.5%	18.6%
Net Earnings/Staff Cost (times)	4.4	4.5	7.4	5.4

We consider FSDH's management team to be experienced and staff productivity to be satisfactory.

## MARKET SHARE

Despite the growth recorded by the merchant banking segment of the Nigerian banking industry, the size of the segment has remained negligible, accounting for less than 2% of total assets and contingents as at 31 December 2019. The segment's net loans and advances (₦232.2 billion) and net earnings (₦49.8 billion) contributed 1.5% and 1.9% respectively to the Nigerian banking industry's totals. We note that the low size of the segment is largely impacted by their permitted scope of operations notably regulation which restricts the minimum deposit at ₦50 million per tranche, thus preventing access to retail funds.

The typical lean structure adopted by merchant banks has supported a more agile response to the COVID-19 pandemic, in comparison to their commercial banking counterparts. This reflects a core strength and should sustain a less volatile performance during the pandemic.

The merchant banking segment accounts for a marginal 2% of the Industry's total assets, gross loans and deposit liabilities. This is attributable to relatively low accessibility to retail funding, in comparison to commercial banks. The merchant banks focus on corporate lending, treasury, investment banking and financial advisory.

**Figure 11: Market Share Indicator (Merchant Banking Segment)**

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

FSDH was the second largest merchant bank in Nigeria by total assets and contingents as at 31 December 2019. As at the same date, FSDH's market share of the banking industry's pre-tax profits in 2019 stood at 0.56% (FY 2018: 0.67%), while the Bank's total assets and contingents which stood at ₦172.7 billion accounted for a negligible 0.37% of the Nigerian Banking Industry. However, FSDH controlled a significant market share of the

merchant banking resources, accounting for an estimated 17% and 19% of the profit before tax and total assets and contingents respectively as at 31 December 2019.

We consider FSDH's market position in the merchant banking segment to be good. We expect an improvement in the near term as the Bank leverages its affiliates in the holding company to grow its business.

---

## OUTLOOK

Despite the impact of the COVID-19 pandemic on the economy, FSDH disclosed that its performance has remained steady and has surpassed its year to date projections as at May 2020. However, in the near term, we expect a heightened pressure on the Bank's earnings on account of the impact of the pandemic. Given the skewness of the Bank's loan book to the oil and gas sector with predominantly foreign currency exposures, we believe that the volatility in crude oil prices and a potential devaluation of the naira will adversely affect the Bank's earnings and asset quality. Nonetheless, we note positively the oil price hedge included in the loan restructuring offer extended to the major oil and gas obligor. This is expected to protect the Bank from adverse crude oil price movement. In addition, we draw some comfort from palliatives granted by the CBN to restructure affected loans in this sector and other COVID-19 affected sectors. FSDH projects a 100% expansion of its loan portfolio in 2020 focusing on obligors in key sectors of the economy, to reduce the concentration risk in the loan book. While we consider this growth aggressive; coming from a low base, we believe that the projection could be achieved, dependent on macroeconomic conditions.

In terms of profitability, we expect FSDH to continue to leverage synergies from the HoldCo structure to generate low cost funding to support margins. In view of the maturity of MFI borrowings from AfDB and the downgrade of Nigeria's sovereign rating, the Bank's ability to effectively price its borrowings will be adversely impacted in the near term. However, we note that the Bank has standing relationships with MFIs and recently obtained a \$20 million facility from a correspondent bank. Accordingly, we believe that the increase in CRR to 27.5% from 2% and a lower interest rate environment may pressure interest income. Nonetheless, we expect the anticipated growth in the loan book to cushion this impact to some extent.

Based on the above, we hereby attach a **stable** outlook to the rating of FSDH Merchant Bank Limited. The outlook is hinged on our expectation that capital will remain good to absorb any unforeseen risks, while an efficient risk management and acceptable asset quality will be maintained.

## FINANCIAL SUMMARY

### FSDH MERCHANT BANK LIMITED

STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-2019		31-Dec-2018		31-Dec-2017	
	₦'000		₦'000		₦'000	
<b>ASSETS</b>						
1 Cash & equivalents	3,907,089	2.3%	1,324,953	0.9%	633,742	0.4%
2 Government securities	61,983,584	35.9%	38,782,026	27.5%	65,002,951	42.7%
3 Money market placements	9,817,413	5.7%	17,057,637	12.1%	16,793,701	11.0%
4 Quoted investments						
5 Placements with discount houses						
6 LIQUID ASSETS	<u>75,708,086</u>	<u>43.8%</u>	<u>57,164,616</u>	<u>40.6%</u>	<u>82,430,394</u>	<u>54.2%</u>
7 BALANCES WITH NIGERIAN BANKS	263,277	0.2%	657,634	0.5%	404,578	0.3%
8 BALANCES WITH BANKS OUTSIDE NIGERIA	4,779,983	2.8%	5,008,095	3.6%	12,377,991	8.1%
9 Direct loans and advances - Gross	46,753,615	27.1%	41,835,627	29.7%	40,778,314	26.8%
10 Less: Cumulative loan loss provision	<u>(1,257,275)</u>	<u>-0.7%</u>	<u>(1,298,769)</u>	<u>-0.9%</u>	<u>(3,401,323)</u>	<u>-2.2%</u>
11 Direct loans & advances - net	45,496,340	26.3%	40,536,858	28.8%	37,376,991	24.6%
12 Advances under finance leases - net						
13 TOTAL LOANS & LEASES - NET	<u>45,496,340</u>	<u>26.3%</u>	<u>40,536,858</u>	<u>28.8%</u>	<u>37,376,991</u>	<u>24.6%</u>
14 INTEREST RECEIVABLE						
15 OTHER ASSETS	776,778	0.4%	852,999	0.6%	622,233	0.4%
16 DEFERRED LOSSES	2,888,150	1.7%	3,223,982	2.3%	3,551,132	2.3%
17 RESTRICTED FUNDS	7,210,940	4.2%	4,196,302	3.0%	2,120,526	1.4%
18 UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES			961,377	0.7%	961,377	0.6%
19 OTHER LONG-TERM INVESTMENTS	17,688,428	10.2%	6,219,410	4.4%	4,758,690	3.1%
20 FIXED ASSETS & INTANGIBLES	<u>1,182,087</u>	<u>0.7%</u>	<u>816,632</u>	<u>0.6%</u>	<u>745,502</u>	<u>0.5%</u>
21 TOTAL ASSETS	<u>155,994,069</u>	<u>90.3%</u>	<u>119,637,905</u>	<u>85.0%</u>	<u>145,349,414</u>	<u>95.5%</u>
22 TOTAL CONTINGENT ASSETS	16,800,880	9.7%	21,177,188	15.0%	6,831,213	4.5%
23 TOTAL ASSETS & CONTINGENTS	<u>172,794,949</u>	<u>100%</u>	<u>140,815,093</u>	<u>100%</u>	<u>152,180,627</u>	<u>100%</u>
<b>CAPITAL &amp; LIABILITIES</b>						
24 TIER 1 CAPITAL (CORE CAPITAL)	26,769,962	15.5%	29,335,557	20.8%	28,954,699	19.0%
25 TIER 2 CAPITAL						
26 Medium to long-term borrowings	32,823,321	19.0%	33,250,660	23.6%	32,279,606	21.2%
27 Demand deposits	9,670,569	5.6%	9,269,590	6.6%	6,778,585	4.5%
28 Savings deposits						
29 Time deposits	46,669,867	27.0%	37,449,771	26.6%	38,247,454	25.1%
30 Inter-bank takings	27,684,828	16.0%	4,744,992	3.4%	19,877,963	13.1%
31 TOTAL DEPOSIT LIABILITIES - LCY	<u>84,025,264</u>	<u>48.6%</u>	<u>51,464,353</u>	<u>36.5%</u>	<u>64,904,002</u>	<u>42.6%</u>
32 Customers' foreign currency balances					10,160,406	6.7%
33 TOTAL DEPOSIT LIABILITIES	<u>84,025,264</u>	<u>48.6%</u>	<u>51,464,353</u>	<u>36.5%</u>	<u>75,064,408</u>	<u>49.3%</u>
34 INTEREST PAYABLE	32,560,911					
35 OTHER LIABILITIES	<u>12,375,523</u>	<u>7.2%</u>	<u>5,587,335</u>	<u>4.0%</u>	<u>9,050,701</u>	<u>5.9%</u>
36 TOTAL CAPITAL & LIABILITIES	<u>155,994,069</u>	<u>90.3%</u>	<u>119,637,905</u>	<u>85.0%</u>	<u>145,349,414</u>	<u>95.5%</u>
37 TOTAL CONTINGENT LIABILITIES	16,800,880	9.7%	21,177,188	15.0%	6,831,213	4.5%
38 TOTAL CAPITAL, LIABILITIES & CONTINGENTS	<u>172,794,949</u>	<u>100%</u>	<u>140,815,093</u>	<u>100%</u>	<u>152,180,627</u>	<u>100%</u>
<b>BREAKDOWN OF CONTINGENTS</b>						
39 Acceptances & direct credit substitutes	11,060,498	6.4%	21,044,590	14.9%	6,831,213	4.5%
40 Guarantees, bonds etc.	5,740,382	3.3%	132,598	0.1%		
41 Short-term self liquidating contingencies						

**FSDH MERCHANT BANK LIMITED**

<u>STATEMENT OF COMPREHENSIVE INCOME</u>	<u>31-Dec-2019</u>		<u>31-Dec-2018</u>		<u>31-Dec-2017</u>	
	<u>N'000</u>		<u>N'000</u>		<u>N'000</u>	
42 Interest income	16,495,503	79.2%	15,086,916	81.4%	19,895,750	84.5%
43 Interest expense	(11,009,079)	-52.9%	(10,320,248)	-55.7%	(12,946,751)	-55.0%
44 Loan loss expense	400,568	1.9%	1,396,641	7.5%	(2,261,359)	-9.6%
45 NET REVENUE FROM FUNDS	5,886,992	28.3%	6,163,309	33.3%	4,687,640	19.9%
46 ALL OTHER INCOME	4,326,839	20.8%	3,438,674	18.6%	3,652,442	15.5%
<b>47 NET EARNINGS</b>	<b>10,213,831</b>	<b>49.1%</b>	<b>9,601,983</b>	<b>51.8%</b>	<b>8,340,082</b>	<b>35.4%</b>
48 Staff costs	(2,296,859)	-11.0%	(2,193,606)	-11.8%	(2,242,317)	-9.5%
49 Depreciation expense	(457,990)	-2.2%	(350,696)	-1.9%	(226,273)	-1.0%
50 Other operating expenses	(2,276,153)	-10.9%	(1,871,236)	-10.1%	(2,011,165)	-8.5%
51 TOTAL OPERATING EXPENSES	(5,031,002)	-24.2%	(4,415,538)	-23.8%	(4,479,755)	-19.0%
52 PROFIT (LOSS) BEFORE TAXATION	5,182,829	24.9%	5,186,445	28.0%	3,860,327	16.4%
53 TAX (EXPENSE) BENEFIT	(1,572,426)	-7.6%	(775,053)	-4.2%	(174,085)	-0.7%
<b>54 PROFIT (LOSS) AFTER TAXATION</b>	<b>3,610,403</b>	<b>17.3%</b>	<b>4,411,392</b>	<b>23.8%</b>	<b>3,686,242</b>	<b>15.7%</b>
55 NON-RECURRING INCOME (EXPENSE) - NET						
56 PROPOSED DIVIDEND	(4,614,343)	-22.2%	(2,207,887)	-11.9%		
<b>57 GROSS EARNINGS</b>	<b>20,822,342</b>	<b>100%</b>	<b>18,525,590</b>	<b>100%</b>	<b>23,548,192</b>	<b>100%</b>
58 AUDITORS	PWC		PWC		PWC	
59 OPINION	CLEAN		CLEAN		CLEAN	

<u>KEY RATIOS</u>	<u>31-Dec-2019</u>	<u>31-Dec-2018</u>	<u>31-Dec-2017</u>
<b>EARNINGS</b>			
60 Net interest margin	33.3%	31.6%	34.9%
61 Loan loss expense/Interest income			11.4%
62 Return on average assets (Pre - tax)	3.3%	3.5%	2.7%
63 Return on average equity (Pre - tax)	18.5%	17.8%	14.9%
64 Operating Expenses/Net earnings	49.3%	46.0%	53.7%
65 Gross earnings/Total assets & contingents	13.3%	12.6%	16.3%
<b>EARNINGS MIX</b>			
66 Net revenue from funds	57.6%	64.2%	56.2%
67 All other income	42.4%	35.8%	43.8%
<b>LIQUIDITY</b>			
68 Total loans & leases - net/Total lcy deposits	44.7%	37.3%	22.9%
69 Liquid assets/Total lcy deposits	134.8%	123.8%	139.8%
70 Demand deposits/Total lcy deposits	11.5%	18.0%	10.4%
71 Savings deposits/Total lcy deposits			
72 Time deposits/Total lcy deposits	55.5%	72.8%	58.9%
73 Inter-bank borrowings/Total lcy deposits	32.9%	9.2%	30.6%
74 Interest expense - banks/Interest expense	11.1%	12.1%	12.1%
75 NET FOREIGN CURRENCY ASSETS (LIABILITIES)	4,779,983	5,008,095	2,217,585

**FSDH MERCHANT BANK LIMITED**

<b>KEY RATIOS CONT'D</b>	<b>31-Dec-2019</b>	<b>31-Dec-2018</b>	<b>31-Dec-2017</b>
<b>ASSET QUALITY</b>			
76 Performing loans (N'000)	44,512,784	39,601,393	36,038,396
77 Non-performing loans (N'000)	2,240,831	2,234,234	4,739,918
78 Non-performing loans/Total loans - Gross	4.8%	5.3%	11.6%
79 Loan loss provision/Total loans - Gross	2.7%	3.1%	8.3%
80 Loan loss provision/Non-performing loans	56.1%		
81 Risk-weighted assets/Total assets & contingents	35.0%	46.0%	31.7%
<b>CAPITAL ADEQUACY</b>			
82 Adjusted capital/risk weighted assets	38.8%	38.5%	50.2%
83 Tier 1 capital/Adjusted capital	100%	104%	104%
84 Total loans - net/Adjusted capital	1.94	1.63	1.54
85 Capital unimpaired by losses (N'000)	23,881,812	26,111,575	25,403,567
<b>CAPITAL ADEQUACY STRESS TEST</b>			
86 Total shareholders' funds (N'000)	23,456,183	24,937,610	24,224,927
87 Cumulative loan loss provision (actual reserves)	1,257,275	1,298,769	3,401,323
88 Equity before all provision (line 86 + line 87)	24,713,458	26,236,379	27,626,250
89 Required reserves*	8,229,524	8,648,136	9,429,031
90 Equity after required reserves (line 88 - line 89)	17,559,651	18,663,960	18,197,219
86 Equity after required reserves/risk weighted assets	29.0%	28.8%	37.7%
<b>STAFF INFORMATION</b>			
87 Net earnings per staff (N'000)	81,062	71,657	63,182
88 Staff cost per employee (N'000)	18,229	16,370	16,987
89 Staff costs/Operating expenses	45.7%	49.7%	50.1%
90 Average number of employees	126	134	132
91 Average staff per branch	42	45	44
<b>OTHER KEY INFORMATION</b>			
92 Legal lending limit(N'000)	11,940,906	13,055,788	12,701,784
93 Number of branches	3	3	3
94 Age (in years)	27	26	25
95 Government stake in equity (Indirect)	Nil	Nil	Nil
	<b>Estimate</b>	<b>Estimate</b>	<b>Actual</b>
<b>MARKET SHARE OF INDUSTRY TOTAL</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
96 Lcy deposits (excluding interbank takings)	0.29%	0.29%	0.31%
97 Total assets & contingents	0.39%	0.37%	0.43%
98 Total loans & leases - net	0.29%	0.32%	0.28%
99 Net earnings	0.38%	0.42%	0.40%
100 Profit before tax	0.56%	0.67%	0.54%
101 Cash dividend	2.42%	0.79%	

## 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.

**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.**



[www.agusto.com](http://www.agusto.com)

© Agosto&Co.  
UBA House (5th Floor)  
57 Marina Lagos  
Nigeria.  
P.O Box 56136 Ikoyi  
+234 (1) 2707222-4  
+234 (1) 2713808  
Fax: 234 (1) 2643576  
Email: [info@agusto.com](mailto:info@agusto.com)