

CREDIT RATING ANNOUNCEMENT

GCR assigns Afrinvest West Africa Limited initial national scale long and short-term issuer ratings of BBB_(NG)/A3_(NG); with a Stable Outlook.

Rating action

Lagos, 16 November 2023 – GCR Ratings (GCR) has assigned Afrinvest West Africa Limited initial national scale long and short-term ratings of BBB_(NG) and A3_(NG) respectively, with a Stable Outlook.

| Rated Entity | Rating class | Rating scale | Rating | Outlook |
|-------------------------------|-------------------|--------------|---------------------|----------------|
| Afrinvest West Africa Limited | Long Term Issuer | National | BBB _(NG) | Stable Outlook |
| | Short Term Issuer | National | A3 _(NG) | |

Rating rationale

Afrinvest West Africa Limited (Afrinvest or the company) is a non-operating capital market holding company with a focus on West Africa and is entrenched in principal areas of the financial market through six operating subsidiaries: Afrinvest Asset Management Limited (AAML; asset management), Afrinvest Capital Limited (ACL; investment banking), Afrinvest Consulting Limited (ACOL; investment research and consulting), Afrinvest Securities Limited (ASL; securities trading), Afrinvest Trustees Limited (ATL; trust services) and Andromeda Technology Solutions Limited (ATSL; financial technology) collectively referred to as the Group. Afrinvest's rating is equalised to the consolidated group, due to limited structural subordination. This reflects unrestricted movement of cash flows and dividends from the subsidiaries to the non-operating holding company by regulatory intervention at a time of stress.

The ratings assigned to Afrinvest balance a stable funding structure, good liquidity metrics and adequate capitalisation against a modest business profile and risk position.

Afrinvest's competitive position stems from a track record of 28 years of operations with over 800 executed deals and a growing franchise in investment banking, investment research, securities and brokerage as well as asset management. ACL recorded a significant growth in revenues in the period under review, registering as one of the major issuing houses in Nigeria besides those linked to large banking groups. In 2021, Afrinvest through an associate company, Triple A Infrastructure Nigeria Limited was appointed by the Federal Government of Nigeria as one of four asset managers for the proposed NGN15 trillion infrastructure fund to be issued by Infrastructure Corporation of Nigeria Limited (Infracorp). ATL provides Private, Corporate and Public trust services in Nigeria and had assets under trust of c. NGN60 billion as at 30 June 2023. In the period under review, "Optimus by Afrinvest", a mobile application was launched through ATSL, Afrinvest's technology arm focused on digitalising the delivery of financial services to customers and businesses. Supporting the company's investment expertise is a strong underlying research function, which was spun off into a standalone subsidiary, ACOL in 2022, to take advantage of opportunities for investment

recommendations and thematic insights to internal and external customers. ASL recently signed a one-year exclusivity agreement with a counterparty that would allow Nigerian clients trade in the Ghana and Kenya stock markets and vice versa. This could drive earnings for the subsidiary in the near term. Nonetheless, Afrinvest's competitive position is constrained by its relatively modest market position within the broader investment banking space which is dominated by large banking groups.

Capitalisation is a positive ratings factor, evidenced by a financial leverage ratio (measured as GCR core capital to total on balance sheet assets less cash) of c.15%, as at 30 June 2023, registering at an intermediate range of our assessment. Compared to 2021, the company's financial leverage ratio weakened by 800bps for two major reasons: 1) a higher level of risk exposure given that c.70% (2021: c.31%) of on-balance-sheet FUM was assessed as the company's risk as at 30 June 2023, 2) a 85.3% growth in total assets in the first six months of 2023, largely driven by the naira devaluation. Going forward, Afrinvest's financial leverage ratio could further weaken on account of a projected growth in "own risk" assets through its discretionary portfolios, except internally generated earnings improve to balance the effect. However, should Afrinvest's financial leverage ratio weaken further, the rating could be lowered.

Afrinvest's risk profile is slightly negative to the ratings. While we recognise that most of the company's subsidiaries are fee-earning, with minimal credit risks, the asset management subsidiary has on balance sheet risk exposures. The Group's impairment charge as a percentage of earning assets registered at 2.5% in December 2022 (June 2023: 0.5%) largely reflecting credit risks on a specific investment that crystallised in 2021, resulting in impairment charges taken in 2022 and 2023. Although recovery efforts on the impaired transaction are ongoing, supported by a stronger risk management framework, we would view a sustained improvement in the Group's risk metrics positively going forward.

Our assessment of funding and liquidity is positive. Afrinvest's funding structure largely comprises FUM which registered at NGN30.5 billion as at 30 June 2023, up from NGN21.5 billion as at 31 December 2022, reflecting increased customer onboarding and changes in exchange rates used to convert the balance sheet. Liquidity is sound as a sizeable portion of assets is held in cash and tradable securities. As at 30 June 2023, the ratio of GCR liquid assets to customers deposits registered at a high 154.4% (2022: 117.4%) and is expected to remain at similar levels over the rating horizon.

Outlook statement

The stable outlook reflects our expectation of continued growth in the Group's FUM, balancing out potential pressure on capitalisation from an increase in "own risk" assets on the balance sheet.

Rating triggers

A ratings upgrade could stem from an improvement in the financial leverage ratio to 20% and above on a sustained basis. A stronger risk profile and a material growth in more stable revenues (largely fees and commissions) with well contained cost could also be viewed positively. Conversely, a further weakness in the financial leverage ratio below 15%, higher credit losses and unfavourable fair value changes in the investment portfolio could result in a downgrade.

Analytical contacts

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| Primary analyst Lagos, NG | Ada Ufomadu adau@GCRratings.com | Sector Head, Financial Institutions +234 1 904 9462 |
| Secondary analyst Lagos, NG | Olawunmi Oduniyi OlawunmiO@GCRratings.com | Analyst, Financial Institutions +234 1 904 9462 |
| Committee chair Johannesburg, ZA | Sheri Morgan morgan@GCRratings.com | Deputy Sector Head: Corporate and Public Sector Ratings +27 11 784 1771 |

Related criteria and research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Financial Institutions, May 2019
GCR Rating Scale, Symbols & Definitions, May 2022
GCR Country Risk Scores, August 2023
GCR Financial Institutions Sector Risk Score, October 2023

Ratings history

| Afrinvest West Africa Limited | | | | | |
|-------------------------------|--------------|--------------|---------------------|---------|---------------|
| Rating class | Review | Rating scale | Rating | Outlook | Date |
| Long Term issuer | Initial/Last | National | BBB _(NG) | Stable | November 2023 |
| Short Term issuer | Initial/Last | National | A3 _(NG) | | November 2023 |

Risk score summary

| Rating Components & Factors | | Score |
|------------------------------|--|---------------|
| Operating environment | | 5.50 |
| Country risk score | | 3.50 |
| Sector risk score | | 2.00 |
| Business profile | | (1.75) |
| Competitive position | | (1.75) |
| Management and governance | | 0.00 |
| Financial profile | | 2.75 |
| Risk | | (0.25) |
| Capital and Leverage | | 2.00 |
| Funding and Liquidity | | 1.00 |
| Comparative profile | | 0.00 |
| Group support | | 0.00 |
| Peer comparison | | 0.00 |
| Total Risk Score | | 6.50 |

Glossary

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| Assets | A resource with economic value that a company owns or controls with the expectation that it will provide future benefit. |
| Balance Sheet | Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed. |
| Bond | A long term debt instrument issued by either a company, institution or the government to raise funds. |
| Capitalisation | The provision of capital for a company, or the conversion of income or assets into capital. |
| Cash | Funds that can be readily spent or used to meet current obligations. |
| Credit Risk | The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due. |
| Credit | A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company |
| Downgrade | The rating has been lowered on its specific scale. |
| Equity | Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit. |
| Exchange Rate | The value of one country's currency expressed in terms of another. |
| Exposure | Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks |
| Financial Leverage | The degree to which a company uses debt and equity in its capital structure. |
| Impairment | Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments. |
| Leverage | With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt. |
| Liquid Assets | Assets, generally of a short term, that can be converted into cash. |
| Liquidity | The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price. |
| Market | An assessment of the property value, with the value being compared to similar properties in the area. |
| Offset | A right (Right of Offset) to set liabilities against assets in any dispute over claims. |
| Principal | The total amount borrowed or lent, e.g. the face value of a bond, excluding interest. |
| Rating Horizon | The rating outlook period |
| Recovery | The action or process of regaining possession or control of something lost. To recoup losses. |
| Risk | The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives. |

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|---------------|---|
| Securities | Various instruments used in the capital market to raise funds. |
| Short Term | Current; ordinarily less than one year. |
| Subordination | The prioritising of the payment of interest and principal payments to tranches (senior, junior etc. Senior tranches are paid before junior tranches. |
| Transaction | A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions. |
| Trust | A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders. |
| Trustee | An individual or firm that holds or administers property or assets for the benefit of a third party. |
| Upgrade | The rating has been raised on its specific scale. |

Salient points of accorded rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security, or financial instrument.

Subsequent to an appeal by the rated entity, the rating was revised as reflected in the announcement.

The credit ratings have been disclosed to Afrinvest West Africa Limited. The ratings above were solicited by, or on behalf of Afrinvest West Africa Limited, and therefore, GCR has been compensated for the provision of the ratings.

Afrinvest West Africa Limited participated in the rating process via teleconference, as well as other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Afrinvest West Africa Limited and other reliable third parties to accord the credit ratings included:

- Audited financial results of the subsidiaries as at 31 December 2022;
- Management accounts of the Group as at 31 July 2023 and
- Other relevant information.

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