

Nigeria Mortgage Refinance Company Plc

Final Rating Report



Nigeria Mortgage Refinance Company Plc

Rating: A+

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Industry:
Mortgage Refinancing

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RATING RATIONALE

Agusto & Co affirms the 'A+' rating assigned to Nigeria Mortgage Refinance Company Plc ("NMRC" or "the Company"). The rating of the Company is supported by good profitability, strong capitalisation, good asset quality and a strong liquidity and funding profile. The rating affirmation is also underpinned by the notable support that NMRC receives from the Federal Government of Nigeria (FGN). FGN's support is demonstrated by the government's commitment to providing guarantees for NMRC's bond issuances. However, the rating is constrained by the low contribution of the Company's core activities to earnings and concentration in the mortgage refinancing and placement portfolios. We have also considered Nigeria's weak economy following the Covid-19 outbreak and the prevailing low yields on FGN treasury bills and money market placements and the attendant negative impact on growth and income.

The Company's principal activity is the provision of long-term funds to eligible mortgage lenders through the refinancing of mortgage loans originated by primary mortgage banks and commercial banks. The refinancing is funded with proceeds from the issuance of bonds in the Nigerian capital market. The Company enjoys an irrevocable and unconditional guarantee from the Federal Government of Nigeria (FGN) on a ₦440 billion debt issuance programme with an initial guarantee amount of ₦100 billion. NMRC leverages this guarantee in the issuance of debt securities to fund its refinancing activities.

In the review period, NMRC's refinancing activities were restricted to member institutions, which resulted in a portfolio of mortgage refinance loans that had significant concentration with only two institutions jointly accounting for 51% of total loans. In particular, refinanced loans to one member institution accounted for 35% of shareholders' funds, a breach of the Company's single obligor limit of 25%. Notwithstanding, we note that NMRC received approval from the Central Bank of Nigeria prior to the breach.

In addition, the obligor is considered to have a very good financial condition and strong capacity to meet its obligations as and when due with an “Aa-” rating from Agusto & Co.

NMRC has not recorded any non-performing loans since inception, given that the Company’s mortgage refinance loans have recourse to the participating institutions. The mortgage refinance loans are also secured by the underlying mortgage loans which must be in line with NMRC’s uniform underwriting standards and be seasoned for at least six months to qualify for refinancing. The participating mortgage lenders are required to replace non-performing mortgages loans with eligible performing loans to maintain the integrity of the security pool at all times. We do not expect any changes in the Company’s risk mitigation strategies and controls in the short term.

NMRC’s management of liquidity is sound, supported by the high level of liquid assets that the Company holds on its balance sheet. As at the 2019FYE, NMRC recorded a liquidity ratio (liquid assets to total assets) of 72% and a loan-to-funding ratio of 1.82 times, above our benchmark. The Company’s debt service coverage ratio as at the 2019FYE was 8.9 times, reflective of a strong ability to meet debt obligations maturing within the next 12 months. We recognise that NMRC’s strong liquidity profile is supported by a 40-year International Development Agency (IDA) facility granted to Nigeria and received by the Company through the CBN in 2014 (tranche I), 2015 (tranche II) and 2018 (tranche III). The facility represents a portion of the World Bank’s \$300 million loan to fund the Federal Government’s housing finance programme and is not available for mortgage refinancing or loan repayment. The loan has a forex hedge of 3.5% per annum from the CBN. As of 31 December 2019, ₦37.6 billion of the IDA debt remained outstanding, bolstering liquidity. Excluding the IDA facility, NMRC’s debt service coverage ratio falls to 2.5 times, which we consider sufficient.

In the review period, NMRC’s pre-tax profits grew to ₦3 billion with the Company recording improved pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) of 4.4% and 20.7% respectively in 2019 (2018: ROA: 3.5%, ROE: 15.5%). NMRC’s ROE compared favourably with the average return on 364-day FGN treasury certificates of 14% in 2019. We consider the Company’s profitability to be good. However, NMRC’s asset growth and profitability are expected to be tempered in the short term with the Covid-19 pandemic adversely impacting the global and domestic economies and the performance of many institutions. The prevailing low

yields on FGN treasury bills and money market placements will also affect investment income negatively in 2020.

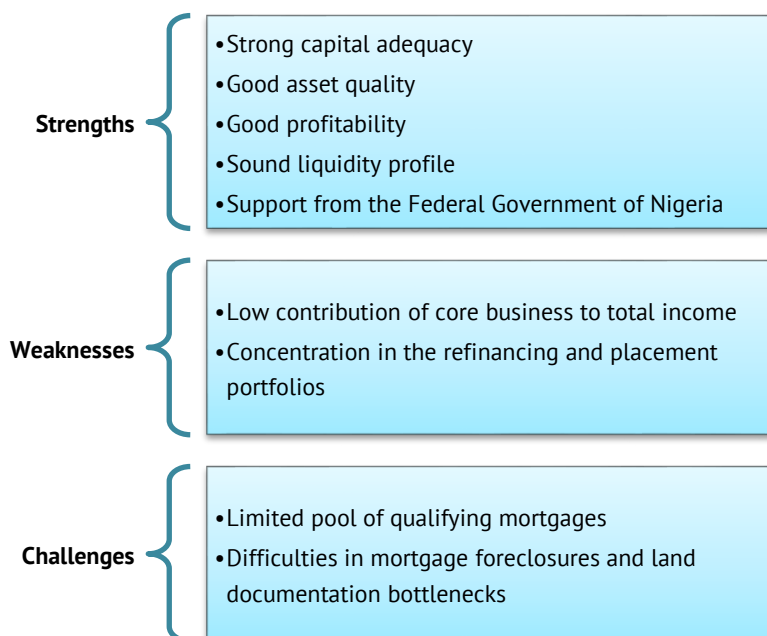
Agusto & Co. considers NMRC's capitalisation to be strong for current business risks, with shareholders' funds of ₦16.7 billion and a capital adequacy ratio (CAR) of 70% as at 31 December 2019. We expect the Company's CAR to dip as more risk assets are created but to remain well above the regulatory threshold of 10% for a mortgage refinance company.

Table 1: Financial Information

Year Ended 31 December	2019	2018
Total Assets	₦72.9 billion	₦69.3 billion
Gross Earnings	₦9.6 billion	₦7.1 billion
Pre-tax return on average assets	4.4%	3.5%
Pre-tax return on average equity	20.7%	15.5%

Source: Nigeria Mortgage Refinance Company

Figure 1: Strengths, Weaknesses and Challenges



COMPANY PROFILE

The Nigeria Mortgage Refinance Company ('NMRC' or 'the Company') is a public limited liability company licensed as a mortgage refinance company by the Central Bank of Nigeria (CBN). NMRC operates as a private sector-driven mortgage refinance company with a public objective of promoting homeownership by providing long term funding to operators in the Nigerian mortgage banking industry. The Company was incorporated in June 2013 but commenced operations in 2015, upon receipt of a final operating licence from the CBN.

As at the 2019 FYE, NMRC shares were jointly held by 26 public and private institutions, down from 27 in 2018 following the merger of Trust Bond Mortgage Bank and FBN Mortgages to form First Trust Mortgage Bank Plc. The FGN, through the Federal Ministry of Finance and the Nigeria Sovereign Investment Authority, are the largest shareholders of the Company collectively holding a 36.6% shareholding as at December 2019. The balance of 63.4% is held by 19 primary mortgage banks - PMBs (52.3%), four commercial banks (9.8%) and one non-bank financial institution (1.3%). The Company's shares are traded on the NASD OTC Securities Exchange Market.

Table 2: Shareholding Structure as at the 2019FYE

S/N	Institution	% Shareholding
1	Nigeria Sovereign Investment Authority	20.91%
2	Ministry of Finance Incorporated	15.68%
3	Homebase Mortgage Bank Limited	13.07%
4	First Trust Mortgage Bank Plc	9.01%
5	FHA Homes Limited	6.53%
6	Sterling Bank Plc	3.92%
7	Imperial Homes Bank Limited	3.45%
8	Infinity Trust Mortgage Bank Limited	2.98%
9	Abbey Mortgage Bank Plc	2.61%
10	Access Bank Plc	2.61%
11	Heritage Bank Limited	1.96%
12	Resort Savings & Loans Limited	1.31%
13	Haggai Mortgage Bank Limited	1.31%
14	Jubilee Mortgage Bank Limited	1.31%
15	May Fresh Mortgage Bank Limited	1.31%
16	New Prudential Mortgage Bank Limited	1.31%
17	Nigeria Police Mortgage Bank Limited	1.31%
18	Platinum Mortgage Bank Limited	1.31%
19	Refuge Home Savings & Loans Limited	1.31%
20	Stanbic IBTC Investment Limited	1.31%
21	SunTrust Bank Nigeria Limited	1.31%
22	Brent Mortgage Bank Limited	0.84%
23	Gateway Savings & Loans Limited	0.84%
24	Omoluabi Mortgage Bank Plc	0.84%
25	Lagos Building & Investment Co. Limited	0.84%
26	Delta Mortgage Bank Limited	0.84%

Source: Nigeria Mortgage Refinance Company

NMRC aims to achieve its primary objective of promoting home ownership by providing mortgage lenders with long-term fixed rate funds through the refinancing of qualifying mortgage loans originated by the institutions. The Company funds the refinancing of eligible mortgage loans by issuing debt securities in the Nigerian capital market from time to time. As at 31 December 2019, NMRC had refinanced mortgages in excess of ₦18 billion using the proceeds from two bond issuances.

NMRC has no subsidiaries or affiliates. The Company is headquartered at 18, Mississippi Street, Maitama, Abuja, Federal Capital Territory (FCT) and has one other operating office situated in Victoria Island, Lagos State. NMRC is registered with the Securities & Exchange Commission (SEC) and regulated by CBN as a non-bank financial institution. The Company's loan portfolio comprised 1,121 mortgage refinanced facilities originated by 11 lending institutions as at 31 December 2019.

Governance

NMRC is governed by a nine-member Board of Directors ("the Board") comprising eight non-executive directors and one executive director. The Board is chaired by Mr Charles Adeyemi Candide-Johnson (SAN, FciArb), who is an independent non-executive director while Mr Kehinde Ogundimu serves as the Chief Executive Officer. A non-executive director – Dr Bakari Wadinga – retired from the Board in May 2019 and was replaced by Mr Alexander Musa Adeyemi, who was appointed in July 2019. One Director represents the Federal Ministry of Finance, while the Managing Director of the Nigeria Sovereign Investment Authority (NSIA) represents its shareholdings.

Table 3: NMRC's Board of Directors as at the 2019FYE

Directors	Status
Mr Charles Adeyemi Candide-Johnson (SAN, FCIARB)	Chairman, Independent Member
Mr Kehinde Ogundimu	Chief Executive Officer
Mr Herbert Wigwe	Non-Executive Director, Representing Access Bank
Mrs Fatima Wali-Abdurrahman	Non-Executive Director, Independent Member
Mr Adeniyi A. Akinlusi	Non-Executive Director, Representing First Trust Mortgage Bank Plc
Dr. Femi Johnson	Non-Executive Director, Representing Home Base Mortgage Bank Limited
Mr Uche Orji	Non-Executive Director, Representing Nigeria Sovereign Investment Authority
Mr Razak Adeyemi Adeola	Non-Executive Director, Representing Sterling Bank Plc
Dr Bakari Wadinga	Non-Executive Director, Representing Federal Ministry of Finance*
Mr Alexander Musa Adeyemi	Non-Executive Director, Representing Federal Ministry of Finance**

Source: Nigeria Mortgage Refinance Company

*Retired, effective 24 May 2019

** Appointed effective 10 July 2019

Business Strategy

NMRC refinances residential mortgages that have been originated by member commercial and mortgage banks using the Company's uniform underwriting standards. NMRC has also obtained approval to include qualifying mortgages originated by non-member institutions in order to widen the refinancing pool. However, the Company's restriction of the mortgage loan refinancing universe to member institutions has limited the NMRC's

scope for growth. The Company has introduced 'Mortgage Driven Placements' – a product aimed at pre-financing eligible mortgages through placements with the mortgage lender – to drive growth in refinancing activities. NMRC also plans to grow through the introduction of products such as the refinancing of micro-housing loans of microfinance banks, securitisation of rental income of “rent-to-own” developers and purchasing of mortgages loans without recourse to the originators.

NMRC continues to partner with key bodies across the mortgage banking industry value-chain with the aim of creating an enabling environment for mortgage creation and housing investment. The Company has partnered with the Federal Government of Nigeria's Family Home Fund (FHF) and numerous state governments to provide loans on concessionary terms to eligible buyers. NMRC has also executed various MOUs (memorandums of understanding) with the governments of states such as Kogi, Cross Rivers, Kaduna and Delta to facilitate the passage of draft Mortgage and Foreclosure Laws by the respective House of Assemblies. The Company is one of the promoters of the Nigeria Mortgage Guarantee Company (NMGC), which was established by the CBN to enhance mortgage lending by providing partial guarantees of up to 40% to mortgage lenders against losses arising from defaults.

Business Structure and Staffing

The Company is structured along seven core functions: Legal Services, Finance & Strategy, ICT, Business Development, HR & Admin, Risk Management and Audit & Compliance. The head of each unit reports directly to the CEO with the exception of the heads of Legal Services and Internal Audit & Compliance, who report directly to the Board with a dotted line to the CEO. NMRC maintains a lean but adequate operating structure, with the Company's average staff strength increasing to 25 persons in 2019 from 24 persons in 2018 following the recruitment of a legal officer.

Management Team

NMRC's management team is headed by Mr. Kehinde Ogundimu, who assumed the position of Chief Executive Officer in December 2018. Mr. Ogundimu has over 20 years of domestic and international experience in the financial services industry and the energy sector. He has worked in various capacities at Pricewaterhouse-Coopers and Texaco (now Chevron) in Nigeria. Mr. Ogundimu has also worked with Pepco Energy Services, Freddie Mac and Fannie Mae in Washington D.C., United States of America. Prior to joining NMRC in 2015, as the Chief Financial Officer (CFO), he worked at Capital One Bank, USA as the Head of Debt, Derivatives and Securitization.

Mr. Ogundimu holds a Bachelor of Engineering degree in Electrical Engineering from the University of Ibadan and a Master of Business Administration (MBA) degree from the University of Lagos, Nigeria. He is a Fellow of the Institute of Chartered Accountants of Nigeria (FCA), a member of the American Institute of Certified Public Accountants (CPA) and a Chartered Financial Analyst (CFA) Charter holder.

Other members of the Company's senior management team include:

- Mr Kanayo Mba – Ag. Chief Financial Officer
- Mrs Phyllis Uzoma – Head, Risk Management
- Mr. Taofeeq Olatinwo – Head, ICT and Business Process Operations
- Mr. Samuel Ekanem – Head, Internal Audit and Compliance

Correspondent Banks

NMRC maintains correspondent banking relationships with the following banks:

- Access Bank Plc. – *2.6% equity holding*
- Ecobank Nigeria Limited
- Fidelity Bank Plc.
- Guaranty Trust Bank Plc.
- Heritage Bank Plc. – *1.96% equity holding*
- Stanbic IBTC – *Stanbic IBTC Investments holds a 1.31% equity stake*
- Standard Chartered Bank Limited
- Sterling Bank Plc. – *3.42% equity holding*
- Imperial Homes Mortgage Bank Limited – *3.45% equity holding*
- First Trust Mortgage Bank Plc – *9.01% equity holding*
- Homebase Mortgage Bank Limited – *13.07% equity holding*
- Infinity Trust Mortgage Bank Limited – *2.98% equity holding*

Information Technology

The Company employs the 'Fintrak' software for treasury operations, which include transaction recording and monitoring. The software provides an end to end solution for NMRC's treasury function, from asset acquisition to disposal. NMRC also utilises the Mortgage Market System (MMS), which is a bespoke internet-based software for core mortgage refinancing activities. The MMS enables seamless integration of all stakeholders with the housing finance system. MMS has been deployed for all participating mortgage lending institutions to enhance the processes for the refinancing of mortgage loans and the monitoring of refinanced loans.

Track Record of Financial Performance

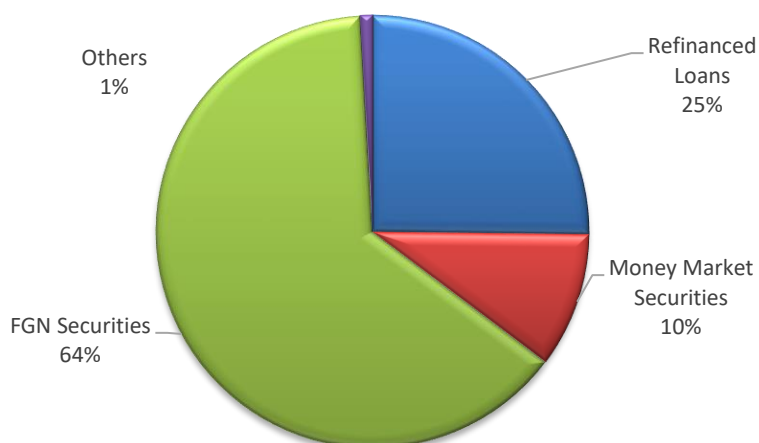
The Company's total assets have grown at a compound annual growth rate (CAGR) of 21% over the last three years and stood at ₦72.9 billion as at 31 December 2019. NMRC's net earnings have also grown significantly at a CAGR of 21% over the same period. The Company's asset quality remains strong with nil non-performing loans recorded in the last three years. NMRC recorded average pre-tax ROA and pre-tax ROE of 4.2% and 18.5% respectively over the last three years.

ANALYSTS' COMMENTS

ASSET QUALITY

NMRC's total assets grew by 5% during the review period to ₦72.9 billion as at 31 December 2019, largely reflected in the stock of mortgage refinance loans and FGN securities. The Company continues to focus on investing in FGN securities in accordance with established investment guidelines and refinancing qualifying mortgage loans. Consequently, as at the 2019 FYE, the Company's asset structure remained largely unchanged, with investments in FGN securities accounting for the largest share of total assets at 64%. Mortgage refinance loans accounted for 25% of total assets as at same date while bank placements accounted for 10% and other assets accounted for the balance of 1%. We expect a modest shift in the Company's asset structure in medium term from FGN securities to refinanced mortgages, as NMRC begins to refinance qualifying loans of non-member institutions.

Figure 2: Breakdown of Assets as at FYE 2019



Source: Nigeria Mortgage Refinance Company

As at 31 December 2019, NMRC's stock of FGN securities stood at ₦46.5 billion. FGN Bonds accounted for 75% of FGN securities while treasury bills accounted for the balance of 25%. NMRC is mandated by the CBN to hold at least 50% of investments in low risk FGN securities, which the Company adhered to during the review period. NMRC's investment in FGN bonds have been upheld by the superior risk-return profile offered in comparison to other fixed income securities within the permissible investment universe. Despite the prevailing low yields on FGN securities, we do not expect to see significant changes to the asset allocation structure in the near term as NMRC plans to reinvest maturing FGN T-bills and coupons received in longer-dated but better yielding FGN bonds.

NMRC's mortgage refinance loans grew by 8% during the review period to ₦18.3 billion as at the 2019 FYE. The Company refinanced a total of 1,121 mortgage loans across 11 lending institutions as at 31 December 2019. We note a degree of concentration in NMRC's mortgage refinance loans, with two institutions jointly

accounting for 51% of total loans. In particular, loans to Access Bank Plc of ₦6 billion exceeded 25% of NMRC's shareholders' funds of ₦16.7 billion, a contravention of the Company's single obligor limit. Notwithstanding, we note that NMRC received approval from CBN prior to the breach. In addition, the bank is considered to have a very good financial condition and strong capacity to meet its obligations as and when due with an 'Aa-' rating from Agusto & Co. We also note the limited number of member institutions, whilst anticipating a more diverse obligor base as NMRC begins to refinance qualifying mortgages of non-member institutions.

A breakdown of the underlying mortgage loans by geography reveals that Lagos and Abuja accounted for over 90% of the total mortgage refinance loan pool as at the 2019 FYE. This skew is similarly observed in the loan books of primary mortgage banks across Nigeria as Lagos and Abuja account for a significant portion of the more economically prosperous locations of the country. In addition, weak land documentation and foreclosure laws across many states deter the creation of mortgages loans. We therefore do not expect a material change in the geographical concentration in the medium term. As at 31 December 2019, all underlying mortgage loans were secured against real estate in line with NMRC's uniform underwriting standards which sets a minimum loan to value ratio of 80%.

NMRC's placements portfolio grew by 13% during the review period to ₦7.4 billion as at the 2019 FYE. The portfolio comprised money market placements which accounted for 80% of total placements and fixed deposits with banks. Internal credit assessments are used to determine the list of eligible counterparties for placements. However, we note that the Company deals primarily with member institutions as all placements with financial institutions were held with shareholders as at the 2019 FYE. We also note the concentration in the placements portfolio as at the 2019 FYE to two commercial banks and three mortgage banks, who are largely considered to be of investment grade credit quality. In particular, one commercial bank accounted for 56.4% of the placements portfolio and the two commercial banks jointly accounted for 84.7% of placements. The concentration is contrary to NMRC's goal of always maintaining a well-diversified placement portfolio as specified on page 7 of the Company's Risk Appetite Framework document.

In our view, NMRC has good asset quality underpinned by a low loan default rate and clearly defined guidelines around risk asset creation and monitoring. We expect these factors to continue to uphold the Company's asset quality amidst growth in risk assets in the medium term.

RISK MANAGEMENT

The Board of Directors (“the Board”) is responsible for providing governance and directing the strategy of the Company. The Board retains ultimate powers on risk management decisions which is exercised through the Board Risk Management Committee (BRMC). The BRMC delegates the day to day risk management activities to the Managing Director and the senior management team. NMRC has three management committees that support the implementation of risk management policies: the Management Credit Committee, Management Risk and Compliance Committee and Asset and Liability Management Committee, which are all chaired by the Chief Executive Officer (CEO).

Credit Risk

NMRC’s uniform underwriting standards support reduced exposure to credit risk. The standards stipulate the minimum eligibility criteria for a mortgage loan to qualify for refinancing based on parameters such as tenor, loan value, repayment source, minimum down payment, property type, document perfection, insurance and co-borrowing relationships. The Company also conducts comprehensive credit assessments of all institutions including a review of capital adequacy, asset quality, liquidity and profitability and only provides mortgage refinance loans to the ones that meet the required benchmark. The financial conditions of these institutions are reviewed on a monthly and quarterly basis. The Company conducts intelligence checks with regulators and the staff and competitors of participating lenders prior to refinancing. In addition, participating institutions are required to have a credit rating from a SEC registered rating agency.

NMRC enters into a master purchase, refinance and servicing agreement (MPRSA)¹ with each institution that includes a direct debit arrangement where the minimum monthly remittance² due to the Company’s is paid directly into a collection account through the NIBSS³ platform. The document also permits a direct debit of an institution’s CBN account where there’s a shortfall in the minimum monthly repayment to NMRC’s collection account. The Company also reserves the right to swap non-performing mortgages loans with performing ones, to maintain the integrity of the asset pool used as security for the mortgage refinance loans. The Company expects NPLs to refinanced loans ratio to be under 3.5% in any given year.

Table 4: NMRC’s Internal Credit Risk Indicators

Indicator	Limit
NPL to Refinanced Loans	At most 3.5%
Refinance loan to NMRC Bond	At least 100%
Single Obligor Limit	At most 25% of shareholders’ funds
Minimum Loan to Value Ratio	80%

¹ Master purchase, refinance and servicing agreement

² The minimum amount as indicated in the Minimum Monthly Remittance Schedule to be paid by the participating lending institution into the Collection Account on or before a Remittance Date, including any Principal Prepayment

³ Nigeria Interbank Settlement System

Liquidity and Market Risk

NMRC's practice is to match the maturities of refinanced mortgage loans closely to the maturities of the bond issuances that fund the loans. The Company also maintains a portfolio of placements with counterparties and investments in FGN securities. As at 31 December 2019, no counterparty accounted for up to 10% of NMRC's investments, with the exception of the Federal Government of Nigeria. The Company manages interest rate risk by providing mortgage refinance loans at a fixed rate with a premium of 200-300bps above the fixed rate on the bonds issued to fund refinancing operations. NMRC has also managed foreign exchange risk by obtaining a hedge from the CBN at a cost of 3.5% per annum.

Operational Risk

The Company employs the Mortgage Market System (MMS) and Housing Market Information Portal to promote stakeholder integration and all member mortgage and commercial banks are active on the platform. The MMS is a fully customized, internet-based system that integrates the financing operations of the key components of the housing value chain, from construction finance to primary mortgage origination and administration, to secondary market mortgage refinancing. The adoption of this system by the participating institutions enhances collaboration and improves efficiency and transaction turnaround time. The MMS platform has become a credible mortgage asset registry for the Nigerian market that mitigates fraud in the mortgage origination and administration process.

NMRC has cloud storage and off-site backup drive storage facilities. The Company has an operational site in Abuja and a disaster recovery site in Lagos that are connected through a dedicated Virtual Private Network (VPN) with real-time data replication and synchronization. NMRC's annual target is to keep financial loss due to operational activities below 5% of pre-tax operating margin.

In our opinion, the Company's risk management is adequate.

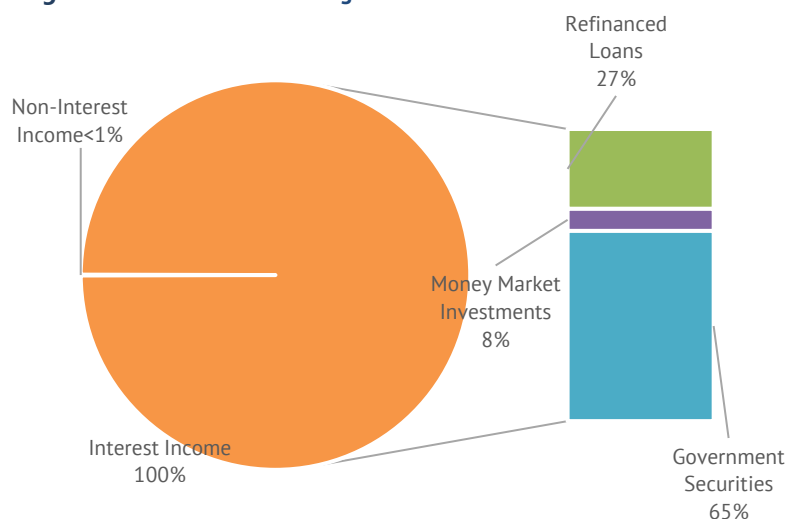
EARNINGS AND PERFORMANCE

NMRC's interest income accounted for over 99% of the Company's net earnings, while non-interest income, which mainly comprises fees, remained a marginal contributor to net earnings at less than 1% (2018: <1%).

Investment income earned on FGN securities accounted for the bulk of interest income at 65% in 2019. The balance of 35% comprise income from NMRC's core business of mortgage refinancing (27% of earnings) and interest income from money market instruments which constituted 8% of revenue in 2019.

With the introduction of non-member refinancing, we expect improvement in the contribution of income from mortgage refinance loans to the Company's revenue base in the medium term.

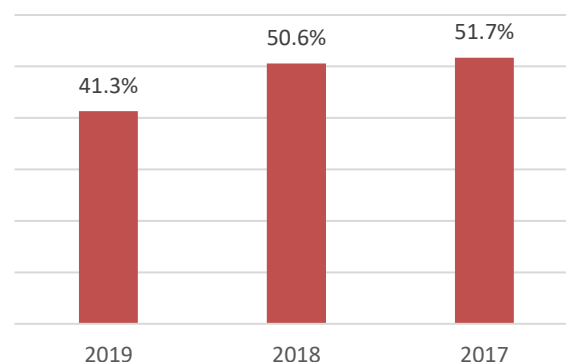
Figure 3: Breakdown of Earnings as at the 2019FYE



During the period ended 31 December 2019, NMRC's operating expenses grew by 10% to ₦2.2 billion, driven largely by higher contribution to Nigeria's housing development fund⁴ and personnel expenses. During the year, the Company updated its performance incentive plan to include profit-sharing to employees.

Notwithstanding, the Company's operating expenses to net earnings ratio stood at an improved 41.3% in 2019 (2018: 50.6%) on account of the substantial improvement in net earnings, which offset the elevated operating cost. Unaudited figures for the first two months of 2020, revealed a further drop in the cost to income ratio to 37.8%. We expect a tighter rein on costs given the weaker economic climate and expected inflationary pressures in the country.

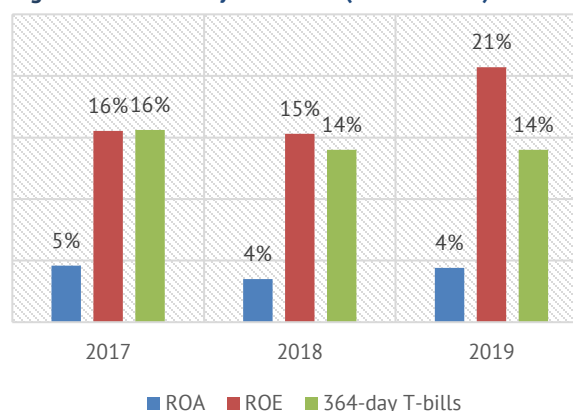
Figure 4: Cost to Income Ratio (2017-2019)



⁴ NMRC's debt securities are backed by the unconditional guarantee of the FGN. An annual fee of 10% of NMRC's profit after tax is payable to the FGN in relation to this guarantee to support the development of the Nigerian Housing Market through the Housing Market Development Fund. During the review period, a provision of ₦858million relating to the fund was made (2018: ₦533million).

NMRC's profit before tax improved significantly to ₦3.1 billion in 2019 (2018: ₦1.9 billion). The profit before tax recorded surpassed NMRC's 2019 budget PBT of ₦2.81 billion. Accordingly, the Company's profitability as measured by the pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) improved in 2019 to 4.4% and 20.7% respectively (2018: ROA: 3.5%, ROE: 15.5%). NMRC's ROE compared favourably with the average return on 364-day Federal Government of Nigeria treasury certificates of 14% in 2019.

Figure 5: Profitability Indicators (2017 - 2019)



Subsequent to year-end, the Company recorded a pre-tax profit of ₦536 million in the two months to 29 February 2020. This translated to annualised ROA and ROE of 4.4% and 18.8% respectively, almost at par with the 2019 FY. At this run rate, we expect NMRC to achieve the pre-tax profits of ₦2.5 billion budgeted for 2020. However, our optimism is tempered by the anticipated negative impact of the Covid-19 pandemic on the performance of member institutions and growth in mortgage loans in 2020. In addition, the prevailing low yields on FGN securities and bank placements will negatively impact investment income as maturing FGN securities and coupons received are re-invested.

CAPITAL ADEQUACY

The Central Bank of Nigeria mandates NMRC to have minimum capital of ₦5 billion and maintain a ratio of 10% for total capital to total risk weighted assets. As at the 2019 FYE, the Company's shareholders' funds stood at ₦16.7 billion. This represented a rise of 27% from the prior period largely due to higher earnings retention and accretion to statutory reserves. NMRC's capitalisation was therefore well above the ₦5 billion minimum prescribed by the CBN for mortgage refinance companies.

The Company's Basel II capital adequacy ratio (CAR) stood at 70% as at the 2019 FYE, significantly above the 10% regulatory minimum. NMRC enjoys a lower risk weighting of 50% for the mortgage refinance loans on its books compared to 75% for loans of commercial banks secured by mortgages on residential properties. This has significantly enhanced the Company's CAR relative to other financial services operators and is reflective of the higher credit quality of its assets which have recourse to the refinanced commercial and mortgage banks.

As at the 2019 FYE, NMRC's leverage ratio measured as core capital to total assets improved to 23% (2018: 19%) and remained above the 5% minimum prescribed by the CBN. The CAR and leverage ratios are also in line with the stricter internal minimum benchmarks of 13% and 7% respectively set by the Company.

In our view, NMRC's capital is strong for the current level of business risk. We expect CAR to dip slightly as the volume of refinanced mortgages increases but to remain adequate to support further growth in the short to medium term.

LIQUIDITY AND FUNDING

NMRC is primarily funded by equity and borrowings. As at the 2019 FYE, equity funded 23% of the Company's total assets while borrowings funded 75%. NMRC's borrowings of ₦55 billion as at the 2019 FYE comprised 32% debt sourced from bond issuances and 68% borrowings sourced from the World Bank through the Central Bank of Nigeria. NMRC has two outstanding bonds issued in 2015 and 2018, with a total amortised cost of ₦17.3 billion as at 31 December 2019. These bonds were issued under the Company's ₦440 billion note programme and are guaranteed by the Federal Government of Nigeria. We consider the ability of the Company to raise capital from the domestic debt market to be strong, with two successful issuances in three years, enhanced by with an initial guarantee amount of ₦100 billion⁵ from the Federal Government of Nigeria. Of the ₦100 billion FGN guarantee, only ₦19 billion has been utilised, with an outstanding balance of ₦81 billion.

NMRC's other long-term borrowing is a 40-year International Development Agency (IDA)⁶ facility granted to Nigeria and received by the Company through the CBN in 2014 (tranche I), 2015 (tranche II) and 2018 (tranche III). The facility represents a portion of the World Bank's \$300 million loan to fund the Federal Government's housing finance programme and is not available for mortgage refinancing or loan repayment. The loan has a forex hedge of 3.5% per annum from the CBN and a moratorium period of 10 years on principal repayment. As of 31 December 2019, ₦37.6 billion of the World Bank debt remained outstanding. We note that the housing finance programme officially ended in December 2018, which implies the Company will no longer be able to draw additional funds from the facility.

The Company's liquidity ratio (liquid assets to total assets) of 72% as at the 2019 FYE (2018: 73%) remains well above our benchmark bolstered by a sizeable portfolio of FGN securities. NMRC's debt service coverage ratio, computed as liquid assets to the sum of short-term debt and long-term debt maturing or amortizing over the next 12 months, fell to 8.9 times (2018: 12.4 times) but remained above our benchmark. Excluding the IDA facility, the Company's total debt service coverage ratio falls to 2.5 times, which we consider sufficient. A gap analysis for the Company as at the 2019 FYE shows that NMRC's assets adequately matched the liabilities in all maturity buckets. Overall, we consider NMRC's liquidity profile to be very good and its ability to refinance to be strong.

⁵ A review of the Programme's effectiveness and impact on the Nigerian mortgage market shall be conducted before any additional guarantee amount is extended by the FGN.

⁶ A World Bank Agency

OWNERSHIP, GOVERNANCE, MANAGEMENT & STAFF

NMRC is a private sector-led, non-deposit taking institution that provides mortgage refinancing services to mortgage lenders. The Company is owned by a blend of public and private financial institutions. The Federal Government through the Ministry of Finance Incorporated and Nigeria Sovereign Investment Authority collectively controls 36.6% of NMRC's equity stake. Outstanding shares are held by 24 financial institutions.

NMRC's Board of Directors comprises eight non-executive directors including two independent members and the Managing Director, who serves as the only executive on the Board. The board of directors is chaired by Mr. Charles Adeyemi Candide-Johnson (SAN, FCI.ARB), who is an independent non-executive director. The non-independent non-executive directors are representatives of the owners of the Company and have no personal interest(s) or pecuniary relationship with NMRC. The Board has a good mix of executive and non-executive directors and a good representation of independent members. The Board members are qualified and have substantial experience in the financial services industry. In our view, NMRC's Board composition is in line with the best corporate governance practices.

The Board provides oversight of the Company's activities through standing committees. In addition to the statutory audit committee, the Board has the following committees:

- Board Credit & Investment Committee
- Board Finance and General-Purpose Committee
- Board Governance and Nominations Committee
- Board Risk Management Committee
- Board Remuneration Committee

NMRC's day to day operations are overseen by the Chief Executive Officer – Mr. Kehinde Ogundimu. Prior to his appointment as MD, Mr. Ogundimu was an Executive Director of the Company and served as interim CEO between March and November 2018. Mr. Ogundimu has over 20 years of cognate domestic and international experience in the financial services industry. He is supported by four senior management staff who in our opinion are well qualified and have adequate experience in the financial services industry.

In 2019, NMRC had a total staff strength of 25 employees (2018: 24 employees) comprising five senior management staff, eight middle management staff and 12 non-management staff. The Company's staff productivity measured by net earnings per staff improved to ₦211million in 2019 from ₦163 million in 2018 largely on account of improved earnings. Net earnings per staff could cover the average cost per employee 5.6 times. In our view, the Company's staff productivity is good.

Table 5: Productivity Ratios as at the 2019FYE

Staff Information	31-Dec-19	31-Dec-18
Average number of employees	25	24
Staff cost per employee (N'000)	37,448	34,139
Net earnings per staff (N'000)	211,161	163,266
Staff cost/Net earnings	17.7%	20.9%
Staff costs/Operating expenses	42.9%	41.3%

OUTLOOK

In 2020, NMRC is faced with the challenge of refinancing a greater volume of prime mortgages notwithstanding the outbreak of Covid-19 and its attendant insecurity of income, job losses and anticipated lower volumes of mortgage loans. The prevailing low yields on bank placements and FGN treasury bills are also expected to constrain investment income. Thus, going forward, the Company's strategy includes the diversification of the loan portfolio to include securitisation of rental income from rent-to-own housing schemes, provision of mortgages refinance loans to non-members, the purchase of mortgage loans without recourse to the originator and refinancing of micro-housing loans of microfinance banks.

In addition, as part of efforts to drive homeownership, NMRC continues to advocate for changes in land documentation and foreclosure laws across the country. The Company also continues to strengthen and deepen partnerships with key stakeholders across the Industry including Primary Mortgage Banks, State Governments, the Real Estate Developers Association of Nigeria (REDAN), the Central Bank of Nigeria (CBN) and the Federal Mortgage Bank.

Agusto & Co. expects NMRC's asset quality to remain good, supported by strict adherence to the investment guidelines and uniform underwriting standards as well as the robust risk assessment of participating lending institutions. However, the Company's underwriting standards and risk management controls must be robust to mitigate the higher risk of default of purchasing mortgage loans with no recourse to the originator. NMRC capitalization and liquidity are expected to remain sufficient to support business risks as the Company grows. However, profitability is expected to be stagnant in the short term due to the low yields on FGN treasury bills, a restricted refinancing pool of only members and lower fees to be earned from lower volumes of prime mortgage loans. We hereby attach a **"stable"** outlook to the rating.

FINANCIAL SUMMARY

NIGERIA MORTGAGE REFINANCE COMPANY PLC						
STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-19		31-Dec-18		31-Dec-17	
	=N='000		=N='000		=N='000	
ASSETS						
Government securities	46,499,890	63.8%	45,023,440	65.0%	31,751,737	74.6%
Short-term placements	5,859,280	8.0%	5,586,311	8.1%	-	-
Liquid Assets	52,359,170	71.9%	50,609,751	73.0%	31,751,737	74.6%
Balances with Nigerian banks	1,494,950	2.1%	919,133	1.3%	1,920,781	4.5%
Total Placements	1,494,950	2.1%	919,133	1.3%	1,920,781	4.5%
Mortgage Refinance Loans	18,640,234	25.6%	17,197,846	24.8%	8,265,770	19.4%
Less: Cumulative loan loss provision	-300,746	-0.4%	-173,628	-0.3%	-40,741	-0.1%
Mortgage Refinance Loans - net	18,339,488	25.2%	17,024,218	24.6%	8,225,029	19.3%
Other prepayments	55,815	0.1%	78,377	0.1%	221,944	0.5%
Other accounts receivable	65,405	0.1%	64,056	0.1%	47,963	0.1%
Total Other Assets	121,220	0.2%	142,433	0.2%	269,907	0.6%
Other long-term investments	10,000	0.0%	10,000	0.0%	10,000	0.0%
Property, plant & equipment - for own use	519,944	0.7%	545,727	0.8%	335,784	0.8%
Goodwill & other intangible assets	22,535	0.0%	40,620	0.1%	27,379	0.1%
Total Fixed Assets & Intangibles	542,479	0.7%	586,347	0.8%	363,163	0.9%
Total Assets	72,867,307	100.0%	69,291,882	100.0%	42,540,617	100.0%
CAPITAL & LIABILITIES						
Share capital	2,125,444	2.9%	2,125,444	3.1%	1,912,900	4.5%
Share premium	5,925,232	8.1%	5,925,232	8.6%	5,925,232	13.9%
Statutory reserve	2,509,635	3.4%	1,604,098	2.3%	1,147,383	2.7%
Other non-distributable reserves	556,530	0.8%	41,785	0.1%	96,779	0.2%
Revenue reserve	5,610,014	7.7%	3,497,095	5.0%	2,650,750	6.2%
Total Shareholders' Equity	16,726,855	23.0%	13,193,654	19.0%	11,733,044	27.6%
Current portion of long-term borrowings	5,871,249	8.1%	4,067,605	5.9%	1,468,291	3.5%
Long term borrowings	48,991,692	67.2%	51,274,063	74.0%	28,750,903	67.6%
Total Borrowings	54,862,941	75.3%	55,341,668	79.9%	30,219,194	71.0%
Taxation payable - current	78,603	0.1%	93,858	0.1%	18,931	0.0%
Other accounts payable	1,198,908	1.6%	662,702	1.0%	569,449	1.3%
Total Other Liabilities	1,277,511	1.8%	756,560	1.1%	588,380	1.4%
Total Capital & Liabilities	72,867,307	100.0%	69,291,882	100.0%	42,540,618	100.0%

2020 Nigeria Mortgage Refinance Company Plc - Entity Rating

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Dec-19		31-Dec-18		31-Dec-17	
	=N='000		=N='000		=N='000	
Interest Income	9,610,997	99.9%	7,079,510	99.9%	6,149,675	99.8%
Interest Expense	-4,198,011	-43.6%	-3,177,341	-44.8%	-2,173,194	-35.3%
Loan Loss Expense	-141,065	-1.5%	9,481	0.1%	40,172	0.7%
Net Interest Income	5,271,921	54.8%	3,911,650	55.2%	4,016,653	65.2%
Fee Income	-	-	-	-	-	-
Commissions	-	-	-	-	-	-
Other Income	7,093	0.1%	6,741	0.1%	11,105	0.2%
Non-Interest Income	7,093	0.1%	6,741	0.1%	11,105	0.2%
Net Earnings	5,279,014	54.9%	3,918,391	55.3%	4,027,758	65.4%
Staff Costs	-936,201	-9.7%	-819,333	-11.6%	-898,610	-14.6%
Depreciation Expense	-172,413	-1.8%	-177,083	-2.5%	-132,297	-2.1%
Other Operating Expenses	-1,073,027	-11.2%	-986,479	-13.9%	-1,050,891	-17.1%
Operating Expenses	-2,181,641	-22.7%	-1,982,895	-28.0%	-2,081,798	-33.8%
Profit (Loss) Before Taxation	3,097,373	32.2%	1,935,496	27.3%	1,945,960	31.6%
Tax (Expense) Benefit	-78,917	-0.8%	-94,387	-1.3%	-19,058	-0.3%
Profit (Loss) After Taxation	3,018,456	31.4%	1,841,109	26.0%	1,926,902	31.3%

2020 Nigeria Mortgage Refinance Company Plc - Entity Rating

KEY RATIOS			
	31-Dec-19	31-Dec-18	31-Dec-17
PROFITABILITY & EARNINGS			
Net interest margin	54.9%	55.3%	65.3%
Loan loss expense/Interest income	-3.4%		
Operating expenses/Net earnings	41.3%	50.6%	51.7%
Return on average assets (pre-tax)	4.4%	3.5%	4.7%
Return on average equity (pre-tax)	20.7%	15.5%	19.1%
LIQUIDITY & FUNDING			
Total loans - net/Total borrowings	3.9%	8.0%	-10.4%
Refinanced loans/Total Assets	25.2%	24.6%	19.3%
Refinanced loans/Total borrowings	33.4%	30.8%	27.2%
Liquid assets/Total borrowings (time)	1.0	0.9	1.1
Liquid Assets/Total Assets	71.9%	73.0%	74.6%
Debt Service Coverage Ratio - (Short term borrowings + Current portion of long-term borrowings)/Liquid assets	8.9	12.4	21.6
Adjusted Debt Service Coverage Ratio - (Short term borrowings + Current portion of long-term borrowings)/Liquid assets	2.5	3.2	6.1
ASSET QUALITY RATIOS			
Total Loans & Mortgages ('000)	18,640,234	17,197,846	8,265,770
Non-performing loans & mortgages/Total mortgage refinance loans- Gross	-	-	-
Loan loss provision/Total mortgage refinance loans - Gross	1.6%	1.0%	0.5%
CAPITAL ADEQUACY & LEVERAGE RATIOS			
Total shareholders' funds ('000)	16,704,320	13,153,034	11,705,665
Adjusted capital/risk weighted assets	70%	67%	124.8%
Debt/Equity (Gearing Ratio)	0.35	0.31	0.13
Interest Cover	1.7	1.6	1.9

RATING DEFINITIONS

Aaa	An 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	An 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 in the risk attributable to an exposure to this bank. However, financial condition and ability to meet obligations as and when they fall due should remain strong.
A	An 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 bank. However, financial condition and ability to meet obligations as and when they fall due should remain largely unchanged.
Bbb	An 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 mortgage bank.
Bb	Financial condition is satisfactory and ability to meet obligations as and when they fall due exists. The mortgage bank 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.



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