Coronation Merchant Bank Limited

2021 Final Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Coronation Merchant Bank Limited

Rating Assigned:
A+

Outlook: Stable
Issue Date: 9 June 2021
Expiry Date: 30 June 2022
Previous Rating: A+

Industry: Merchant Banking

Analysts:

Chiamaka Ozorjiri
chiamakaozorjiri@agusto.com

Ayokunle Olubunmi, CFA
kunleolubunmi@agusto.com

Agusto & Co. Limited
UBA House (5th Floor)
57, Marina
Lagos
Nigeria

www.agusto.com

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

RATING RATIONALE

Agusto & Co. affirms the '**A+**' rating assigned to Coronation Merchant Bank Limited ('Coronation MB' or 'the Bank'). The rating reflects its good asset quality, good capitalisation, satisfactory profitability and experienced management team. Nonetheless, the rating is constrained by obligor concentration in the Bank's loan book and a funding mix tilted largely to more expensive funding sources (typical of merchant banks in Nigeria). The fragile macroeconomic climate and prevailing industry risks also impact negatively on the Bank's rating.

As at 31 December 2020, Coronation MB's gross loans and advances stood at ₦122.9 billion, a marked year-on-year increase of 69%. Growth was sustained by an expansion in trade financing, a key lending focus. As at the FYE 2020, Coronation MB did not record any impaired loan and had the entire loan book classified under stage 1. Nevertheless, the concentration in the loan book remains as the top 20 obligors accounted for 85% of gross loans as at the FYE 2020. Thus, Coronation MB remains vulnerable to deterioration in the financial condition of any of these top obligors, particularly in a period of economic downturn. Nevertheless, our concerns are somewhat moderated by the quality of obligors (largely blue-chip corporates) and the short-term nature of the facilities.

As at 31 December 2020, Coronation MB's tier 1 (core capital) stood at ₦37.1 billion, higher than the prior year's ₦33.7 billion and above the ₦15 billion minimum limit for merchant banks. With the successful floating of the Bank's maiden bond issuance, tier 2 capital improved 32 times to ₦27.9 billion as at the FYE 2020. Coronation MB's capital adequacy ratio (CAR) increased slightly to 19.9% (FYE 2019: 19.2%) and remained higher than the 10% regulatory minimum prescribed for merchant banks. In our opinion, the Bank's capitalisation is good for the level of business risks undertaken.

Similar to other merchant banks, sourcing stable low-cost deposits remains a challenge for Coronation MB and as a result, higher volumes of high-cost deposits remains a drag on performance. Nevertheless, as at the FYE 2020, the Bank's low-cost local currency (LCY) deposits to total LCY deposits ratio improved to 31% (FYE 2019: 15%) and translated to a weighted average cost of funds (WACF) of 4.76% from 9.9% in FY 2019. However, unaudited results as at Q1 2021 reveals that Coronation MB's low-cost LCY deposits to total LCY deposits ratio had declined to 22% as yields on investment securities increase and customers moved to better yielding assets. While the Bank's deposit mix may improve in the near term with additional collection mandates from several government agencies to boost demand deposits, we believe that the WACF will increase with improving treasury yields and the commencement of coupon payments to bondholders in May 2021.

Despite the COVID-19 pandemic and its negative effects on the banking industry as well as the low yield environment, Coronation MB's net earnings improved moderately by 14.3% year-on-year to ₦11.9 billion strongly upheld by treasury income, given the Bank's strong treasury capabilities. The improved net earnings moderated the impact of operating expenses and translated to a marginally lower 51.2% cost-to-income ratio (CIR), relative to 51.6% posted in the prior year. Consequently, pre-tax return on average equity (ROE) increased marginally to 16.3% (FY 2019: 15.4%), albeit, pre-tax return on average assets and contingents (ROA) declined to 1.4% (FY 2019: 1.7%). The Bank's ROE compared favourably with the average inflation rate of 13.2% in 2020. In 2021, Coronation MB projects a 17% growth in loans and advances to ₦143.3 billion and a profit before tax of ₦8 billion, 38% higher than the FY 2020. We believe that proficiency in securities trading, traction in investment banking activities and expansion across select sectors for corporate lending should sustain profitability in the near term.

Based on the aforementioned, we hereby attach a **stable** outlook to the rating of Coronation Merchant Bank Limited.

Strengths

- Good capitalisation
- Good asset quality
- Good liquidity position
- Experienced Management team

Weaknesses

- Concentration by obligor in the loan book
- High dependence on interest rate sensitive funds

Challenges

- Growing quality risk assets and sustaining profitability as the Bank contends with a slowly recovering economy
- Regulatory Impediments

Table 1: Financial Information

	31 December 2019	31 December 2020
Total Assets & Contingents	₦352.3 billion	₦475.8 billion
Gross Loans	₦72.7 billion	₦122.9 billion
Deposit Liabilities (excluding interbank takings)	₦138.1 billion	₦195.2 billion
Net Earnings	₦10.4 billion	₦11.9 billion
Pre-tax Return on Average Assets & Contingents (ROA)	1.7%	1.4%
Pre-tax Return on Average Equity (ROE)	15.4%	16.3%

PROFILE

Coronation Merchant Bank Limited ('Coronation MB' or 'the Bank') was incorporated in 1992 as Associated Discount House Limited (ADHL), a limited liability company. ADHL obtained a discount house licence from the Central Bank of Nigeria (CBN) in July 1993 and commenced operations in August of the same year. Following structural changes in the financial services sector and declining customer confidence in discount houses, ADHL obtained a merchant bank licence from the Central Bank of Nigeria in April 2015 and was renamed Coronation Merchant Bank Limited in July 2015. The transition to merchant banking prompted changes in the shareholding structure as Access Bank Plc , Wema Bank Plc (formerly significant shareholders) and Sterling Bank Plc divested from Coronation MB, due to regulations prohibiting banks from having ownership interests in other deposit money banks.

Coronation Merchant Bank Limited's core business strategy focuses on trade finance, private wealth management, treasury and investment banking activities. These activities are carried out through the Bank's four business units: Corporate Banking, Investment Banking, Private Wealth and Global Markets & Treasury.

The Bank operates from three locations; the head office situated at 10 Amodu Ojikutu Street, Victoria Island, Lagos and two branches in Port Harcourt, Rivers State and the Federal Capital Territory (FCT).

Correspondent Banks

As at 31 December 2020, Coronation MB had correspondent banking relationships with the following banks:

Access Bank Plc	FBN UK Limited
Access Bank UK	FCMB UK Limited
Africa Finance Corporation	First Rand Bank
Africa Export-Import Bank (AFREXIM)	Guaranty Trust Bank Plc
Bank of Beirut	ODDO BHF
British Arab Commercial Bank UK	Standard Bank South Africa
Commerzbank	United Bank for Africa (UBA) New York
Crown Agent Bank	Union Bank UK Limited
International Finance Corporation	

Information Technology

Coronation MB employs both hardware and software tools to support business operations. The Bank has 28 applications including Finacle, the core banking application. The operating system is supported by Microsoft SQL server and Oracle 11g RDBMS. A Wide Area Network (WAN) Link is also deployed for uninterrupted communication between the business offices in Lagos, Abuja and Port Harcourt. Coronation MB's business transactions are routed through the Nigeria Inter-Bank Settlement System (NIBBS) switch facility. The Bank hosts an online transactional banking platform for its customers. To support business continuity, Coronation MB has two disaster recovery sites in Lagos, one serves as an alternative work site while the other two are used for data management.

Track Record of Financial Performance

Coronation MB's total assets and contingents grew by 35.1% year-on-year to stand at ₦475.8 billion as at 31 December 2020. The Bank's asset base has grown by a compounded annual growth rate of 44.9% since it commenced merchant banking operations in 2015. The loan book has also grown, with a CAGR of 117.9% over the same period, supported by a focus on short-dated trade finance transactions. The Bank continues to maintain a conservative lending appetite, with a focus on top-tier corporates. Coronation MB has also continued to maintain a nil non-performing loan ratio over the last three years. As at 31 December 2020, the Bank's shareholders' funds stood at ₦40.1 billion while the capital adequacy ratio was 19.9%. However, during the year under review, pre-tax return on average assets and contingents declined to 1.4% (FY 2019: 1.7%) but, pre-tax return on average equity was 16.3% (FY 2019: 15.4%) in the FY 2020.

Management Team

Mr Banjo Adegbohungbe, appointed on May 1, 2020 is the Managing Director and Chief Executive Officer of Coronation Merchant Bank Limited. He has over two decades of commercial banking experience spanning various roles including global trade, corporate and investment banking, operations, treasury management, strategic planning and corporate services. He commenced his banking career at Citibank Nigeria Limited and thereafter, Access Bank Plc. Mr Adegbohungbe joined Coronation MB in June 2018 as an Executive Director and Chief Operating Officer, and thereafter appointed Deputy Managing Director. He is a Mechanical Engineering graduate from Obafemi Awolowo University (OAU), Ile-Ife and holds a Master's in Business Administration from the International Institute for Management Development (IMD), Switzerland. Mr Adegbohungbe is also a member of the Governing Council of the Chartered Institute of Bankers of Nigeria (CIBN).

Other members of Coronation MB's senior management team include:

Funke Feyisitan Ladimeji	*Executive Director*
Magnus Nnoka	*Chief Risk Officer*
Cornelia Utuk	*Head, Legal Services/Company Secretary*
Ademola Adekoya	*Group Head, Corporate Banking*
Abiola Quadri	*Group Head, Private Banking*
Dele Dopemu	*Chief Audit Executive*
Ibrahim Bello	*Chief Compliance Officer*
Chukwukadibia Okoye	*Chief Financial Officer*
Iyobosa Sorae	*Head, Treasury and Global Markets*
Eshiovaze Momoh	*Chief Technology Officer*
Akinyemi Oluwadare	*Head, Group Operations*
Ayodele Odufuye	*Head, Human Resources*

ANALYSTS' COMMENTS

ASSET QUALITY

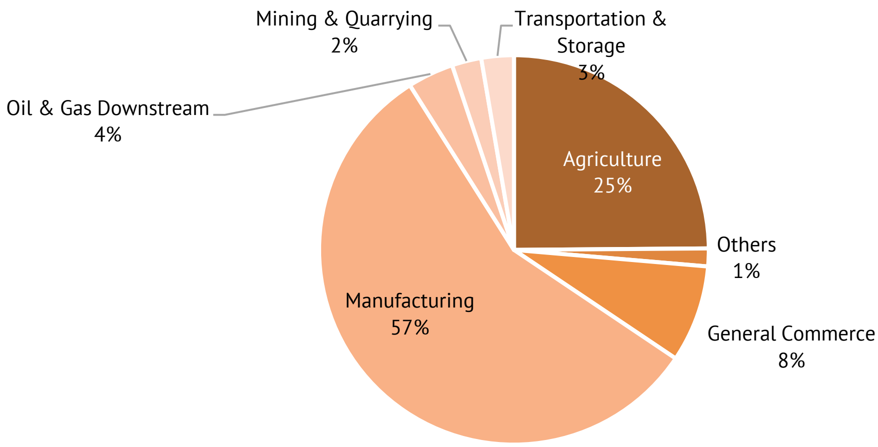
As at 31 December 2020, Coronation Merchant Bank Limited's total assets and contingents amounted to ₦475.8 billion, representing a 35.1% year-on-year growth. The increase was upheld by an expanded pool of customer deposit liabilities and the issuance of the Bank's maiden surbodinated unsecured bond during the year under review.

Liquid assets comprising cash, government securities and quoted investments grew by 61% to ₦123 billion as at the FYE 2020, spurred by treasury bills and government bonds which grew by 28% and 73% respectively year-on-year. Coronation MB's placements which accounted for 9% of total assets were held in investment-grade counterparties, which we view positively. We also note the increased pool of restricted deposits with the CBN which spiked 8.3 times to ₦72.3 billion due to a revision of the cash reserve requirements (CRR) for merchant banks to 27.5% from 2% in January 2020 and the introduction of the discretionary cash reserve policy by the CBN. The restricted deposits, which represented 195% of shareholders' funds as at the FYE 2020, moderated the Bank's performance during the year under review. In 2021, the Bank will target sources of funds that are not eligible for CRR and seek CRR refunds while growing risk assets to the real sector.

Similar to other merchant banks in Nigeria, Coronation MB provides an array of financial services including international trade finance and working capital solutions mainly to blue-chip corporates. Coronation MB's gross loans grew by 69% to ₦122.9 billion as at 31 December 2020, due mainly to the Bank's keen focus on short term trade financing and the effort to meet CBN's minimum loan-to-deposit ratio (LDR) policy. We also note that the naira devaluation recorded during the year under review accounted for 24% of the 69% growth in the Bank's loan book. The bulk of the facilities provided by the Bank are short-tenured, as evidenced by 93.4% of the loan book maturing within six months.

The loan book remains skewed to local currency loans in the review period accounting for a significant 74.6% (FYE 2019: 57.1%) while foreign currency (FCY) loans, largely facilities to support international trade transactions, accounted for the balance of 25.4%. FCY loans are typically short-dated loans collateralised by corporate guarantees, all asset debentures, real estate and other permissible means.

Figure 1: Sectorial Breakdown of the Loan Book (FYE 2020)



As at 31 December 2020, exposure to the agriculture and manufacturing sectors jointly accounted for the largest proportion of the loan portfolio at 82% - indicating severe concentration. Credit exposures to obligors in the agriculture sector spiked by 15.2% to ₦30.6 billion as at FYE 2020, as the Bank supported more export activities and backward integration initiatives of blue-chip corporates. While we view positively the quality of these obligors, we are concerned that the size of the exposure makes Coronation MB vulnerable to the fluctuations in the margins of agro exporters who are faced with unassured produce supply for exports given that smallholder farmers are the main suppliers. This is in addition to unpredictable weather conditions, susceptibility of agro produce to pests and diseases, and erratic changes in government policies. The manufacturing sector loans also grew by 97.4% to ₦69.6 billion as at 31 December 2020. Although the sector typically comprises different industries, we are concerned that the persisting illiquidity in the foreign exchange market constrains the scaling up of obligors in that space given their dependence on imported inputs. Coronation MB utilizes its trade lines to meet these FX obligations pending when the apex bank releases funds to meet the operators' LC demands.

Loans to traders (classified under general commerce) grew by 20.7% to ₦9.9 billion as at the FYE 2020, buoyed by the reopening of the economy after the COVID-19 prolonged lockdown. We are concerned that the dwindling customer purchasing power, on the back of the prevailing macroeconomic headwinds which has elongated the trade cycles, could adversely impact the performance of these obligors. The oil and gas downstream sector accounted for a meagre 4% of gross loans as at FYE 2020, however, loans to these operators grew 100 times year-on-year to ₦4.7 billion bolstered by the financing support granted to operators procuring petroleum product from the Nigerian National Petroleum Corporation (NNPC), which largely handles the import segment of the value chain. Coronation MB projects a loan growth of 16.8% in 2021, supported by a greater incursion into its flagship sectors - manufacturing, oil and gas (downstream), general commerce, agriculture, and the information and communication sectors.

Coronation MB's top 20 borrowing customers, accounted for 85% (FYE 2019: 97%) of gross loans while the largest credit exposure accounted for 13% of the loan portfolio and represented 43% (FYE 2019: 38%) of the Bank's shareholders' funds as at FYE 2020. Thus, increasing the Bank's susceptibility to a deterioration in the financial condition of any of these obligors. The bulk of these credit facilities are short-dated and typically have multiple lending cycles in a year, backed by adequate collateral. Therefore, our concerns are moderated to an extent.

As at FYE 2020, Coronation MB had no impaired loans with all credit exposures deemed to have very low default risk and categorised under stage 1. This is commendable compared to its selected peers, FBNQuest Merchant Bank Limited's ('FBNQuest MB') impaired loan to gross loan ratio of 2.6% and FSDH Merchant Bank Limited's ('FSDH MB') 5.6%. Despite maintaining a nil impaired credit position, the Bank makes annual provisions for potential credit losses in line with CBN prudential guidelines. As at 31 December 2020, Coronation MB had cumulative loan loss provisions of ₦233 million. We believe the Bank's focus on low-risk top corporates coupled with its risk management framework continues to uphold asset quality.

In our view, Coronation MB's asset quality is good. The zero impaired credit position of Coronation MB emphasises the efficacy of the Bank's credit risk management systems and processes. Nevertheless, we believe that the prevailing macroeconomic headwinds will further test the strength of the Bank's loan underwriting standards and the resilience of the credit risk management framework.

RISK MANAGEMENT

Coronation Merchant Bank Limited maintains a centralised risk management infrastructure, with the risk appetite and governance defined by the Board of Directors (BoD). The Bank's risk appetite is defined as moderate, reflected in limits and thresholds outlined in the operating policies and procedures, which cuts across all Coronation MB's business lines. The BoD provides this oversight function through the Board Risk Management and the Board Credit and Investment Committees, chaired by Non-Executive Directors. Supporting the BoD's functions are three management committees – the Asset and Liability Management Committee (ALCO), the Enterprise Risk Management Committee (ERMC), and the Management Credit and Investment Committee (MCIC).

The Bank has an independent risk management function, overseen by the Chief Risk Officer (CRO), who is responsible for maintaining and implementing the appropriate risk culture. Coronation MB's risk management function is split into two departments: the Credit Risk Department and the Enterprise Risk Management Department (which oversees market and operational risks).

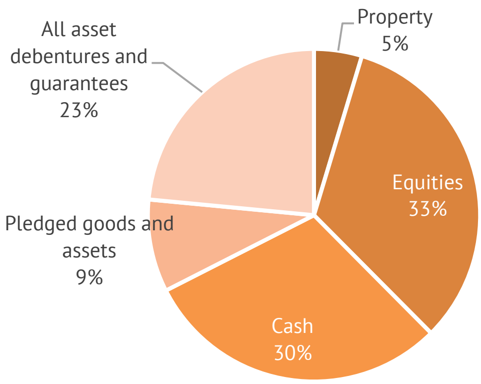
Credit Risk

Coronation MB is exposed to credit risk largely from its loan book and investments in debt securities. The Bank adopts a minimum acceptable risk rating of '**Bbb+**' for its counterparties, estimated via an internal risk rating model. This approaches credit risk ratings through two perspectives: Obligor Risk Rating (ORR) and Facility

Risk Rating (FRR). Coronation MB adopts a rating scale with 22 risk categories ranging from Aaa (lowest level of credit risk) to D (lost). The risk rating scale has three core categories – investment grade, standard grade and non-investment grade. As at the FYE 2020, 72% of Coronation MB's obligors were investment grade obligors while the balance of 28% were standard grade obligors. This reveals an improving obligor credit quality profile when compared to the prior year when 54% of the Bank's obligors were in the investment-grade category while 46% were in standard grade scales. The Bank's obligor profile in our opinion is reflective of a low-risk appetite despite the rapid growth in risk assets. The obligor profile also emphasises the efficacy of the Bank's risk management framework despite a more difficult year.

All loans are collateralised by real estate property, equities, cash, pledged assets, all asset debentures and guarantees. In line with its credit policy guide, the Bank periodically updates the valuation of collaterals held against all loans to customers. As at FYE 2020, the loan book was over-collateralised 1.4 times with an estimate of the fair value of the collateral and other security enhancements held against loans and advances to customers and banks at ₦167.6 billion. We note positively that cash and liquid equity securities accounted for 66% of the collaterals as at FYE 2020.

Figure 2: Breakdown of Collaterals Held as at FYE 2020



Market Risk

The Board of Directors sets Coronation MB's market risk tolerance and limits for interest rate risk. The primary limits include gap limits, deposit concentration limits and stop-loss limits on the Bank's acceptable risk appetite. Coronation MB minimises exposures to losses caused by adverse movements of market factors (such as interest rates) by setting defined limits of relevant treasury instruments. As at the FYE 2020, a 100 basis points increase in interest rate would have resulted in a loss of ₦2.4 billion (6% of the shareholders' fund) and vice versa.

Coronation MB also considers the effect of currency risk on the banking book and matches all foreign currency denominated assets against liabilities of similar currency. Given the currency structure of the Bank's statement of financial position as at FYE 2020, a further 10% naira depreciation would have resulted in an additional profit of ₦1.8 billion, higher than ₦1.3 billion profit projected from a similar naira devaluation pattern as at FYE 2019.

Operational Risk

Coronation MB retains the use of the Basic Indicator Approach for measuring operational risk. This is supported by a five-tier risk matrix, which assesses the likelihood of a risk occurrence vis-à-vis the financial impact to the Bank. We note the 176% jump in the number of customer complaints in the year under review to 116 which translated to a refund of ₦293.1million, a 650% spike from the prior year. These complaints were largely from erroneous debits from accounts and excess bank charges. Such records bring to fore the need for accelerated digitalisation to enable seamless end-to-end transactions.

Infractions, which includes FMDQ's penalty on commercial paper registration & quotation rules, FMDQ trading infractions and transaction at the I&E FX Window (excess over the maximum allowable spread) amounted to ₦4.86 million in FY 2020 from a nil position in the prior year.

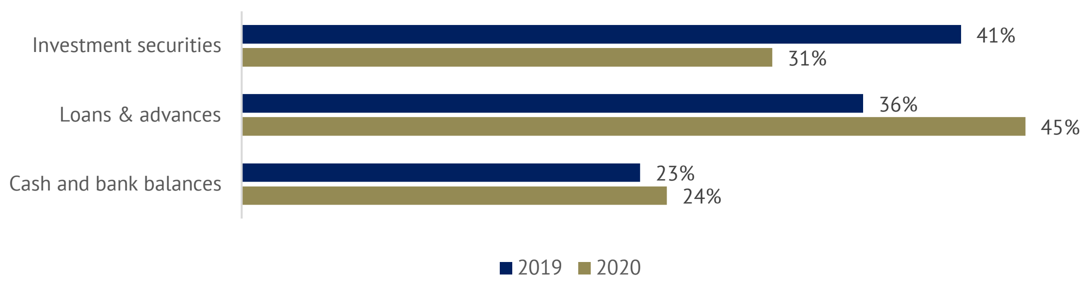
In our opinion, Coronation Merchant Bank's risk management framework is adequate for the current level of business risk. However, we believe that additional improvements are required in the Bank's internal processes to forestall a further increase in customer complaints.

EARNINGS

As a merchant bank, Coronation Merchant Bank Limited generates income from its core lending business, investments in government securities, securities trading and investment banking activities. During the financial year ended 31 December 2020, Coronation MB generated ₦27.4 billion as gross earnings, a 12% decline from the prior year due to the negative effects of COVID-19. The strong treasury management capabilities established from the discount house antecedence has supported ancillary income, which accounted for 23% of the gross earnings in FY 2020. In the medium term, the Bank hopes to diversify earnings by strategic business units (SBUs) with upticks foreseeable in the investment banking unit given increased traction in capital market activities with several bond issuances and associated advisory roles to be garnered.

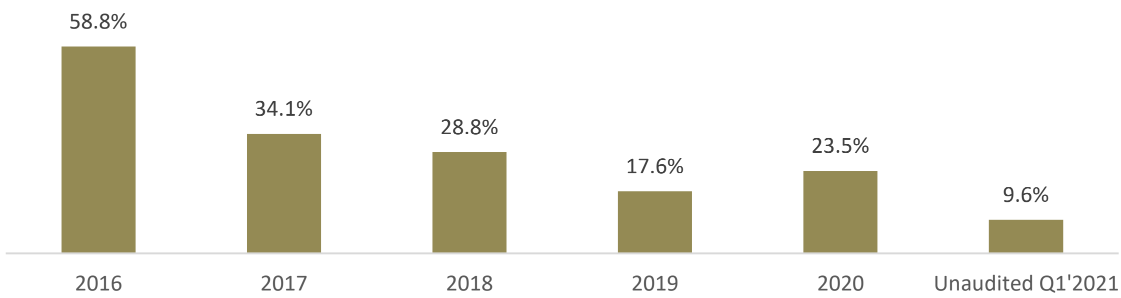
In the financial year ended 31 December 2020, due to the low interest rate environment, Coronation MB's interest income declined by 20.5% to ₦19.96 billion, despite the 69% loan growth and an enlarged portfolio of fixed income securities recorded.

Figure 3: Interest Income Composition



Interest expense during the FY 2020 decreased by 26.1% to ₦15.3 billion due to the low-interest rate environment despite the increase in the deposit base and the issuance of a ₦25 billion bond. During the FY 2020, interest expense as a percentage of total assets dipped to 3.2% from 5.9% the previous year, due to lower interest rates in the review period. Overall, the Bank's net interest spread (NIS) improved to 23.5% from 17.6% in FY 2019. However, we consider the NIS to be low relative to the merchant banking average of 38.4%. Coronation MB's NIS was also lower than peers – FBNQuest MB's 41.3% and FSDH MB's 36.1%. The Bank's NIS has maintained a downward trajectory since 2016 and only grew in the FY 2020 to 23.5% due to the low interest rate environment. In the near term, we do not anticipate a material improvement in NIS, in view of the high competition in the corporate lending space where the Bank primarily plays. We also expect an uptick in interest expense particularly in the second half of 2021 as the government increases local debt offerings to fund its budget. Subsequent to the year end, in the period ended 31 March 2021, Coronation MB recorded a lower NIS of 9.6%, significantly lower than the 27.2% recorded in the corresponding period of FY 2020.

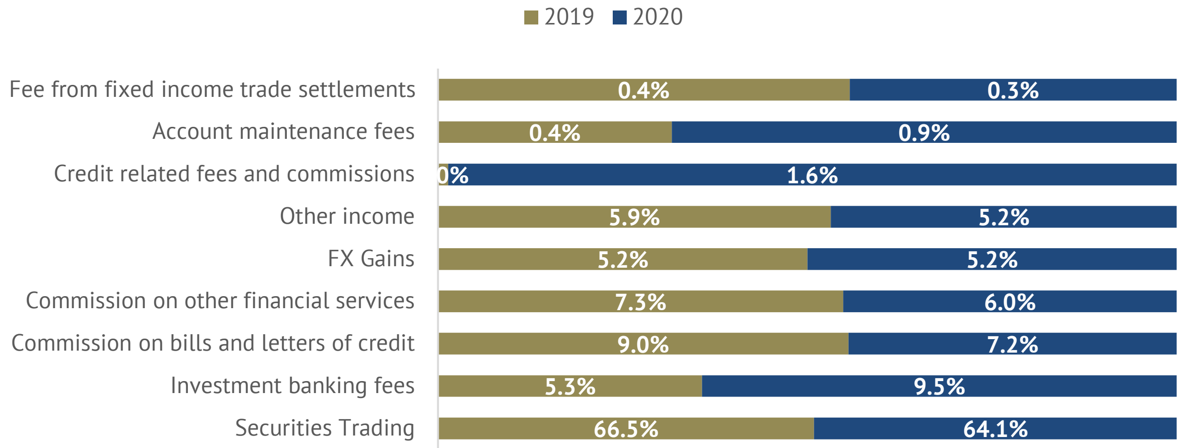
Figure 4: Coronation MB's Net Interest Spread (FY 2016 – Q1 2021)



The Bank makes annual provisions for potential credit losses in line with prudential guidelines, despite maintaining a nil impaired credit position. During the year under review, the impact of the weak macroeconomic environment was reflected in the loan loss expense which rose by 152.1% to ₦228.2 million and represented 1.1% (FY 2019: 0.4%) of interest income. Nonetheless, net revenue from funds (NRFF) grew by 2.7% to ₦4.5 billion in FY 2020.

During the financial year ended 31 December 2020, non-interest income grew by 22.7% to ₦7.4 billion and represented 1.8% (FY 2019: 2.4%) of total assets, buoyed by fair value gains on investment securities and the uptick in investment banking activities. Net gains from investment securities increased by 18.4% to ₦4.7 billion and accounted for a significant 64.2% of non-interest income. This reflects the Bank's strong treasury function which has been supported by its discount house antecedence. Coronation MB's investment banking fees also spiked by 121% to ₦703 million during the year under review, in line with the increase in bond issuances and demand for financial advisory services in the year under review. We anticipate greater investment banking fees as the prevailing downturn in the economy provides opportunities for such transactions. Overall, we expect securities trading to continue to sustain the ancillary income in the near term, given the volatility in the fixed income yields and the Bank's strong treasury capabilities.

Figure 5: Breakdown of Non-Interest Income for FY 2019 and FY 2020



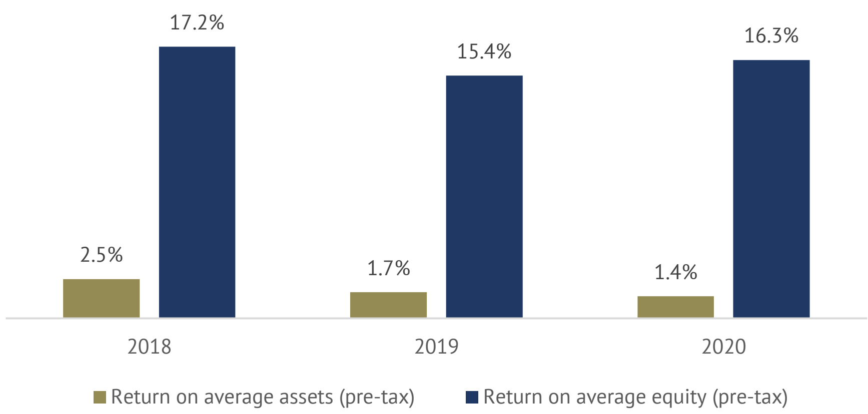
During the year under review, Coronation Merchant Bank Limited's operating expenses grew by 13.6% to ₦6.1 billion fueled mainly by higher staff costs and marketing expenses. Staff costs grew by 30.5% to ₦1.8 billion in 2020, as additional employees were recruited to support the Bank's growing business activities. Other expenses (largely administrative and marketing costs) rose by 5.5% to ₦3.5 billion in the review period, owing mainly to increased marketing and publication costs to support the Bank's rebranding activities during the year. In addition, the issuance costs associated with the ₦25 billion medium-term bond and the rising inflationary pressures contributed to the elevated cost profile during the year under review.

Notwithstanding the increase in operating costs during FY 2020, Coronation MB's cost-to-income ratio (CIR) reduced, albeit marginally to 51.2%, from 52.6% in the prior year, due to higher earnings. The Bank's CIR was lower than peers – FBNQuest MB: 60.1% and FSDH MB: 57%. We anticipate an elevated cost base in the near term due to the raging inflationary pressures in Nigeria, although the expected improvement in the net earnings (buoyed by improving yields on investment securities) should moderate CIR. For the period ended 31 March 2021, Coronation MB's CIR was 50.5%, at par with FY 2020.

In FY 2020, Coronation MB's profit before tax grew by 15.1% to ₦5.8 billion, largely due to the decrease in interest expense, which improved net earnings. Consequently, pre-tax return on average equity (ROE) increased to 16.3% (FY 2019: 15.4%). However, pre-tax return on average assets and contingents (ROA) declined to 1.4% (FY 2019: 1.7%) as the growth in the asset base was higher than the increase in profit before taxation. Coronation MB's ROE was higher than FSDH MB's 13.3% and the 13.2% average inflation rate recorded in the year under review. However, FBNQuest MB posted a higher ROE of 17% during the year under review. We consider the Bank's profitability to be good particularly in a COVID-19 ravaged year.

Subsequent to year-end, in Q1 2021, the Bank's profitability indicators dipped slightly with annualised pre-tax ROA and ROE of 1% and 14.3% respectively. In 2021, we expect profitability metrics to remain at par with the FY 2020, constrained by the prevailing intense competition in the corporate lending space which has been exacerbated by the CBN's minimum loan-to-deposit ratio policy.

Figure 6: Profitability Indicators (FY 2018 – FY 2020)



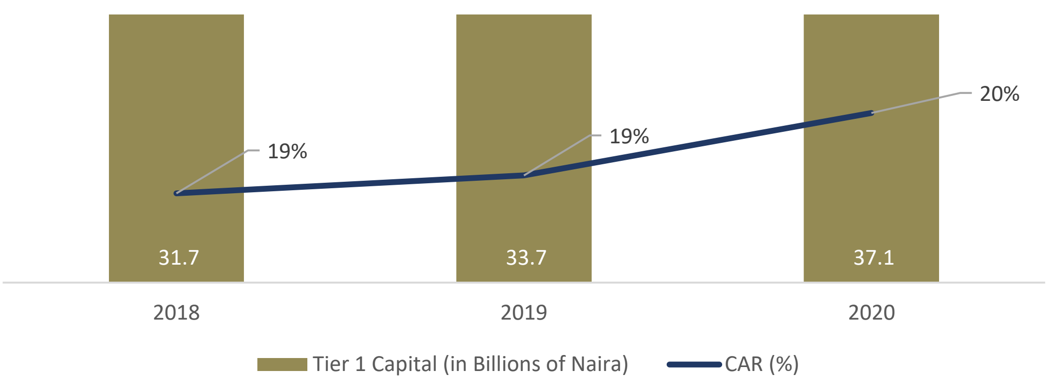
CAPITAL ADEQUACY

As at 31 December 2020, Coronation MB's core (tier 1) capital amounted to ₦37.1 billion, 10% higher than the prior year and funded 7.8% of total assets and contingents. The Bank's core capital stood well above the regulatory minimum of ₦15 billion for merchant banks operating in Nigeria. The increase in tier I capital was upheld by a rise in the appropriation to non-distributable reserves (statutory and regulatory risk reserves) and accretion of undistributed profits to revenue reserve. As at 31 December 2020, retained earnings grew by 10% to ₦16.4 billion and accounted for 44.3% of core capital.

In 2020, Coronation MB issued a 6.25% five-year fixed-rate ₦25 billion subordinated bond to support capitalisation and provide additional funding. As a result, the Bank's tier 2 capital which comprised the bond and fair value reserves spiked 31 times to ₦27.9 billion as at the FYE 2020.

The capital adequacy ratio (CAR) estimated in line with Basel II Accords, increased to 19.9% (FYE 2019: 19.2%) despite the 36.5% growth in the Bank's risk-weighted assets. As at the FYE 2020, Coronation MB's CAR was higher than the regulatory minimum of 10% for merchant banks. However, compared to peers as at the FYE 2020, Coronation MB's CAR was lower than FBNQuest MB's 25.4% and FSDH MB's 42.7%. Based on the unaudited results as at the end of Q1 2021, the Bank's capital adequacy ratio stood at a lower 17.2%, though higher than the regulatory minimum for CAR. In our opinion, the Bank's capitalisation is good for the current level of risks undertaken.

Figure 7: Tier 1 Capital (₦'billion) and Capital Adequacy Ratio



LIQUIDITY AND LIABILITY GENERATION

Liability generation from customer deposits in the merchant banking segment of the Nigerian banking industry is limited by regulation to a minimum deposit of ₦50 million per tranche. Thus, deposit liabilities are predominantly obtained from rate sensitive and expensive sources compared to cheap retail deposits enjoyed by commercial banks. Nevertheless, to grow low-cost deposits, Coronation MB has improved its payments and collections infrastructure and has recently received accreditations from the International Air Transport Association (IATA), Nigeria Customs Service (NCS) and Nigeria National Petroleum Corporation (NNPC) as a designated collections bank. Coronation MB is also now on the Nigeria Interbank Settlement System Electronic Fund Transfer platform to enhance collections.

As at 31 December 2020, Coronation MB's deposit liabilities (excluding interbank takings) stood at ₦195.2 billion, reflecting a 41.3% year-on-year increase. This was backed by a 73.7% marked increase in local currency (LCY) deposits. The Bank's deposit base is dominated by financial institutions (largely pension fund administrators and asset managers) which accounted for the largest (69%) of total deposits as at the FYE 2020. We do not anticipate a change in this structure in the near term given the wholesale focus of the Bank.

Figure 8: Deposits by Source (FYE 2020)

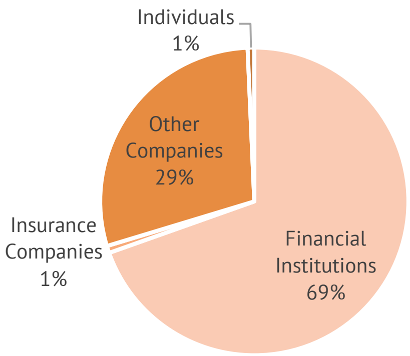
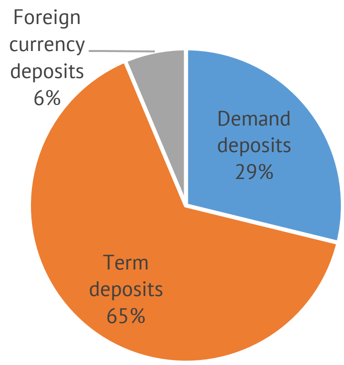


Figure 9: Breakdown of Deposits (FYE 2020)



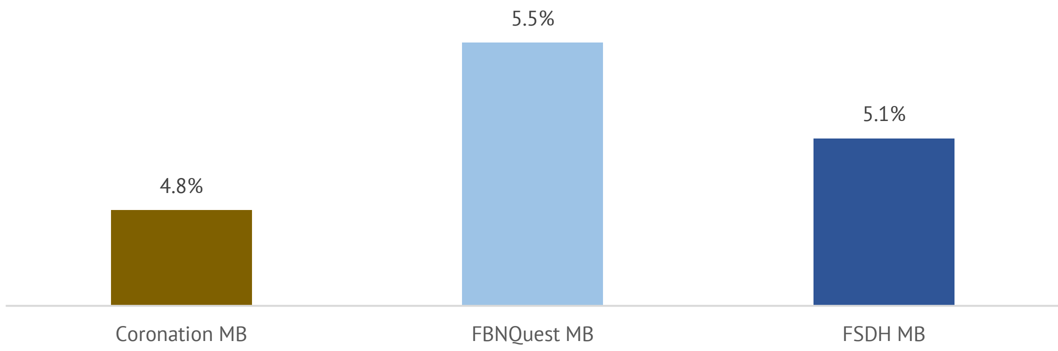
As at the FYE 2020, FCY customer deposits declined by 62.3% to ₦12.4 billion, as efforts to grow the portfolio in view of the weakening naira were adversely impacted by the outbreak of the COVID-19 pandemic which also elicited significant customer withdrawals. As at FYE 2020, FCY deposits covered 40% of FCY denominated loans (FYE 2019: 105.2%) which we consider low. When we include FCY borrowings, the buffer for foreign currency contingencies stands at 224%, adequate in our opinion.

As at 31 December 2020, Coronation MB's local currency deposits (excluding inter-bank takings) grew by 73.7% to ₦182.8 billion and funded 38.4% of total assets and contingents. The growth in customer deposits was fuelled by a 257.5% growth in current accounts to ₦56.2 billion and 41% growth in call deposits and customers' investment funds to ₦126.5 billion. Customers' investment funds (which are term deposits with returns benchmarked against money market securities with similar maturities) contributed to the uptick in deposits as investors sought products with better returns relative to the low yield treasury bills. Nevertheless, as at the FYE 2020, the Bank's low-cost LCY deposits to total LCY deposits ratio improved to 31% (FYE 2019: 15%). This ratio of 31% was slightly lower than FSDH MB's 33% but significanly better than FBNQuest MB's deposit mix which comprised only term deposits.

However, Coronation MB's deposit base is concentrated by source as the top 20 depositors contributed a significant 40% (FYE 2019: 79%) of total deposits. Due to the limitations in growing substantial low-cost deposits, we expect the deposit base to remain concentrated and skewed to high-cost funds. Unaudited results as at the end of Q1 2021 affirms our position as the Bank's low-cost LCY deposits to total LCY deposits ratio deteriorated to 22%. Nonetheless, we believe the Bank's deposit mix may improve in the near term with the aforementioned additional collection mandates.

Due to the low interest rate environment prevailing during the year under review, Coronation MB's weighted average cost of funds (WACF) reduced to 4.76% from 9.9% in FY 2019 and was lower than FBNQuest MB's 5.5% and FSDH MB's 5.1%. Subsequent to year-end, in the three months ended 31 March 2021, the Bank's WACF dipped further to 3.5%. However, we believe that funding costs will increase in FY 2021 owing to rising treasury yields and the commencement of coupon payments to bondholders in May 2021. In our view, funding costs should however remain below 10% in the near term.

Figure 10: Weighted Average Cost of Funds (FY 2020)



Coronation MB's inter-bank takings grew by 101% to ₦52.3 billion and funded 11% (FYE 2019: 7.4%) of total assets and contingents as at FYE 2020. This reflects a substantial reliance on the inter-bank even though the associated interest expense accounted for a lower 51.8% of the Bank's total interest expense (FY 2019: 74.9%) due to the low interest rate environment in 2020. The increased activities at the interbank market was largely due to the aggressive implementation of the CRR policy and the growth in the asset base.

As at 31 December 2020, Coronation MB's outstanding balance on issued commercial papers amounted to ₦8.9 billion, reflecting a year-on-year decline of 29.5%. The commercial papers were issued in two tranches at an average interest rate of 7.24%. The Bank currently has trade lines in excess of US$300 million including the International Finance Corporation (IFC) trade finance guarantee facility obtained in March 2020. During the year under review, Coronation MB issued its maiden medium-term unsecured bond to maintain stability in its funding base and support the capital base. The ₦25 billion subordinated bond was issued at 6.25% coupon rate and is due in 2025. We view the ability to raise funds from the debt market favourably as this will expand the Bank's sources of funds and lengthen the maturity of available funds. In 2021, the Bank plans to grow its exposures to correspondent banks from the current confirmed LCs of $26.8million and unconfirmed LCs of $139.6million and utilise them to support the projected growth in risk assets.

As at the FYE 2020, Coronation MB's liquid assets accounted for 51.1% of total LCY deposits, higher than the regulatory minimum of 20% for merchant banks. In our opinion, the Bank's liquidity position is good while its ability to refinance is also good.

OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2020, 14 institutional investors held Coronation Merchant Bank's 5.1 billion paid-up shares. As at the same date, the Bank had six significant shareholders each with an equity stake greater than 5% and, these investors jointly constituted 80% of equity, at par with prior year.

Table 2: Shareholding Structure as at 31 December 2020

	Shareholders	% Holding
1.	Coronation Insurance Plc	22.80
2.	Marina Mars Proprietary Investments Limited*	22.71
3.	Coronation Capital (Mauritius) Limited	13.32
4.	Coronation Registrars Limited	8.08
5.	Regali Estates Limited**	7.47
6.	Mikeade Investment Company Limited	5.60
7.	DTD Holdings Limited	4.48
8.	Afdin Construction Limited	3.74
9.	UNICO (CPFA) Limited***	3.70
10.	Cream Cowry Links Limited	3.36
11.	Trustbanc Holdings Limited****	2.05
12.	Tropics Finance & Investment Limited	1.36
13.	UNICO (CPFA) Gratuity Fund	0.96
14.	Tonibso Limited	0.37

The shareholder informed the Bank of a change of name from Marina Securities Limited to Marina Mars Proprietary Investments Limited during the year under review.

*** Regali Estates Limited has notified Coronation MB of its intention to transfer its holding in the Bank to a sister Company (Coastal Properties Limited). CBN approved the transfer of shares from Regali Estates Limited to Coastal Properties Limited on 11 March 2021.*

***The CBN approved the transfer of shares held by Unico (CPFA) Gratuity Fund and Unico (CPFA) Limited to Barracuda Capital Partners Limited*

***** The Board of Directors and the CBN approved the transfer of shares from Mr Abubakar Jimoh (the ex-Managing Director/CEO who retired from the Bank on May 2, 2020) to Trustbanc Holdings Limited.*

As at 31 December 2020, Coronation MB was governed by a 10-member Board of Directors comprising eight Non-Executive Directors (including three Independent Non-Executive Directors) and two Executive Directors. During the year under review, on 30 April 2020, Mr Abubakar Jimoh retired as the Managing Director and Mr Banjo Adegbohungbe, (the erstwhile Deputy Managing Director) became the Managing Director and Chief Executive Officer. Mrs Funke Feyisitan - Ladimeji was also appointed during the review period as an Executive Director effective 18 November 2020.

Mr Banjo Adegbohungbe has over two decades of commercial banking experience spanning various roles including global trade, corporate and investment banking, operations, treasury management, strategic planning and corporate services. He is a Mechanical Engineering graduate from Obafemi Awolowo University (OAU), Ile-Ife and holds a Master's in Business Administration from the International Institute for Management Development (IMD), Switzerland. Mr Adegbohungbe is also a member of the Governing Council of the Chartered Institute of Bankers of Nigeria (CIBN).

Mrs Feyisitan – Ladimeji has over 30 years' experience in banking and finance garnered across multiple jurisdictions in EMEA (Europe, Middle East and Africa), North America and Asia. Her professional experience transverse multiple functional areas, including financial control, complex product accounting, technology, business operations and human capital. She spent 14 years in JP Morgan Chase where she was the Executive Director and COO and later served as the Executive Director and Chief Operating Officer at FBNQuest Merchant Bank Group. She is a Fellow of the Institute of Chartered Accountants of England & Wales and holds a Masters' degree in Globalisation and a Bachelor's degree in Economics from Queen Mary and Brunel Universities respectively. As Executive Director and Executive Compliance Officer at Coronation Merchant Bank Limited, she is responsible for the management of compliance, information technology, centralised operations, customer service, administration and global trade.

The Board of Directors exercises oversight functions through four standing committees: Board Risk Management Committee, Board Audit Committee, Board Governance and Nominations Committee, and the Board Credit and Investment Committee. The management committees including the Asset and Liability Management Committee (ALCO), Executive Management Committee, the Management Credit & Investment Committee and the Enterprise Risk Management Committee (ERMC), support the Board's oversight functions.

In 2020, Coronation MB employed an average of 142 persons, up from 121 persons in the prior year. Due to the increase in staff number, the Bank recorded a 30.5% growth in personnel expenses to ₦1.8 billion which accounted for 30.2% (FY 2019: 26.3%) of operating expenses. Net earnings per staff of ₦83.5 million in FY 2020 sufficiently covered staff costs per employee 6.5 times (FY 2019: 7.4 times), higher than peers – FBNQuest MB's 4.1 times and FSDH MB's 4 times as at the same date. In our opinion, Coronation Merchant Bank Limited's staff productivity is very good and we believe that the executive management has what is required to lead the Bank through the unstable macroeconomic cycle.

MARKET SHARE

Coronation Merchant Bank Limited controlled a negligible, albeit improving 0.93% of the banking industry's total assets and contingents (FYE 2019: 0.8%) and 0.74% of pre-tax profits (FY 2019: 0.54%) as at the FYE 2020. However, the Bank is the highest-ranked merchant bank by asset size with total assets and contingents of ₦475.8 billion as at the FYE 2020. With a niche in treasury and trade finance solutions, we expect Coronation MB to retain its good ranking amongst peers in the short term.

Table 3: Market Share Indicators

	Coronation MB 2019	Coronation MB 2020	FBNQuest MB 2020	FSDH MB 2020
LCY Deposits	0.54%	0.84%	0.39%	0.28%
Total Assets and Contingents	0.80%	0.93%	0.41%	0.34%
Total Loans and Advances (Net)	0.46%	0.71%	0.32%	0.22%
Net Earnings	0.38%	0.44%	0.48%	0.32%
Pre-tax Profit	0.54%	0.74%	0.65%	0.47%

OUTLOOK

Owing to its good profitability profile in 2020, Coronation Merchant Bank Limited intends to continue to implement its current strategy of providing a host of financial services including international trade finance and working capital solutions to blue-chip corporates. However, in addition, in 2021, the Bank plans to improve income from its investment banking unit which is poised to take advantage of the growth in transactions at the capital market by providing more financial advisory to corporate and public sector issuers. The Global Markets and Treasury business line is also expected to sustain earnings, leveraging the capabilities developed from Coronation MB's discount house antecedence. Furthermore, the Bank plans to continue to diversify sources of foreign exchange by increasing trade finance transactions with exporters to mitigate FX illiquidity.

However, as the yield environment improves, Coronation MB's cost of funding is expected to grow, restricting considerable growth in profitability. The Bank's operations will also continue to be impacted by adverse regulations, especially the aggressive implementation of the cash reserve policy and the seemingly 'untradeable' CBN's special bills, which may pose funding challenges. Albeit, intermittent issuances of commercial papers and interbank takings should provide some funding stability.

In our view, Coronation Merchant Bank Limited's comparatively low-risk appetite as evidenced by lending to top-tier companies in critical sectors should uphold a healthy loan book. The Bank's capitalisation should also remain adequate. However, we anticipate a higher cost of funding and the upward trend in inflation may dampen profitability. Nonetheless, profitability metrics should remain acceptable by industry standards. Based on the aforementioned, we have attached a ***stable*** outlook to the rating of Coronation Merchant Bank Limited.

Financial Summary

CORONATION MERCHANT BANK LIMITED

	STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-2020		31-Dec-2019		31-Dec-2018	
		₦'000		₦'000		₦'000	
	ASSETS						
1	Cash & equivalents	12,773,734	2.7%	8,956,378	2.5%	3,211,035	1.3%
2	Government securities	49,111,115	10.3%	64,647,172	18.3%	64,415,994	25.2%
3	Special treasury bills	58,214,571	12.2%				
4	Quoted investments	23,226	0.0%	47,529	0.0%	63,637	0.0%
5	Placements with discount houses						
6	LIQUID ASSETS	120,122,646	25.2%	73,651,079	20.9%	67,690,666	26.5%
7	BALANCES WITH NIGERIAN BANKS			17,560,844	5.0%	36,905,586	14.5%
8	BALANCES WITH BANKS OUTSIDE NIGERIA	35,806,050	7.5%	39,913,047	11.3%	8,970	0.0%
9	Direct loans and advances - Gross	122,915,486	25.8%	72,742,231	20.6%	54,340,867	21.3%
10	Less: Cumulative loan loss provision	(232,989)	0.0%	(58,282)	0.0%	(28,408)	0.0%
11	Direct loans & advances - net	122,682,497	25.8%	72,683,949	20.6%	54,312,459	21.3%
12	Advances under finance leases - net						
13	TOTAL LOANS & LEASES - NET	122,682,497	25.8%	72,683,949	20.6%	54,312,459	21.3%
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	21,126,249	4.4%	4,397,231	1.2%	2,657,644	1.0%
16	DEFERRED LOSSES	5,216,566	1.1%	5,777,715	1.6%	4,998,887	2.0%
17	RESTRICTED FUNDS	72,327,019	15.2%	8,757,976	2.5%	5,188,052	2.0%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES					4,614,711	1.8%
19	OTHER LONG-TERM INVESTMENTS	27,318,631	5.7%	23,429,903	6.6%	42,805,119	16.8%
20	FIXED ASSETS & INTANGIBLES	7,757,172	1.6%	7,178,645	2.0%	3,596,755	1.4%
21	**TOTAL ASSETS**	**412,356,830**	**86.7%**	**253,350,389**	**71.9%**	**222,778,849**	**87.3%**
22	TOTAL CONTINGENT ASSETS	63,490,663	13.3%	98,996,446	28.1%	32,382,378	12.7%
23	**TOTAL ASSETS & CONTINGENTS**	**475,847,493**	**100%**	**352,346,835**	**100%**	**255,161,227**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	37,060,403	7.8%	33,698,683	9.6%	31,693,532	12.4%
25	TIER 2 CAPITAL	27,857,913	5.9%	870,146	0.2%	(545,267)	-0.2%
26	Medium to long-term borrowings	8,887,242	1.9%	12,610,440	3.6%	18,053,345	7.1%
27	Demand deposits	56,237,756	11.8%	15,730,463	4.5%	13,034,480	5.1%
28	Savings deposits						
29	Time deposits	126,539,624	26.6%	89,509,438	25.4%	113,804,855	44.6%
30	Inter-bank takings	52,319,291	11.0%	25,978,923	7.4%	12,159,545	4.8%
31	TOTAL DEPOSIT LIABILITIES - LCY	235,096,671	49.4%	131,218,824	37.2%	138,998,880	54.5%
32	Customers' foreign currency balances	12,384,085	2.6%	32,847,991	9.3%	57,532	0.0%
33	TOTAL DEPOSIT LIABILITIES	247,480,756	52.0%	164,066,815	46.6%	139,056,412	54.5%
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	91,070,516	19.1%	42,104,305	11.9%	34,520,827	13.5%
36	**TOTAL CAPITAL & LIABILITIES**	**412,356,830**	**86.7%**	**253,350,389**	**71.9%**	**222,778,849**	**87.3%**
37	TOTAL CONTINGENT LIABILITIES	63,490,663	13.3%	98,996,446	28.1%	32,382,378	12.7%
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**475,847,493**	**100%**	**352,346,835**	**100%**	**255,161,227**	**100%**
						(0)	
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes	63,490,663	13.3%	89,014,318	25.3%	31,759,378	12.4%
40	Guarantees, bonds etc..			9,982,128	0	623,000	0.2%
41	Short-term self liquidating contingencies						

CORONATION MERCHANT BANK LIMITED

	STATEMENT OF COMPREHENSIVE INCOME	31-Dec-2020 N'000		31-Dec-2019 N'000		31-Dec-2018 N'000	
42	Interest income	19,950,522	72.9%	25,093,015	80.6%	24,286,820	86.9%
43	Interest expense	(15,269,476)	-55.8%	(20,664,692)	-66.4%	(17,291,460)	-61.8%
44	Loan loss expense	(228,240)	-0.8%	(90,521)	-0.3%	(85,559)	-0.3%
45	NET REVENUE FROM FUNDS	4,452,806	16.3%	4,337,802	13.9%	6,909,801	24.7%
46	ALL OTHER INCOME	7,407,004	27.1%	6,035,800	19.4%	3,670,580	13.1%
47	**NET EARNINGS**	**11,859,810**	**43.4%**	**10,373,602**	**33.3%**	**10,580,381**	**37.8%**
48	Staff costs	(1,833,629)	-6.7%	(1,404,905)	-4.5%	(1,433,036)	-5.1%
49	Depreciation expense	(728,543)	-2.7%	(615,692)	-2.0%	(592,516)	-2.1%
50	Other operating expenses	(3,513,216)	-12.8%	(3,329,121)	-10.7%	(3,359,082)	-12.0%
51	TOTAL OPERATING EXPENSES	(6,075,388)	-22.2%	(5,349,718)	-17.2%	(5,384,634)	-19.3%
52	PROFIT (LOSS) BEFORE TAXATION	5,784,422	21.1%	5,023,884	16.1%	5,195,747	18.6%
53	TAX (EXPENSE) BENEFIT	(743,758)	-2.7%	(257,172)	-0.8%	(711,375)	-2.5%
54	**PROFIT (LOSS) AFTER TAXATION**	**5,040,664**	**18.4%**	**4,766,712**	**15.3%**	**4,484,372**	**16.0%**
55	NON-RECURRING INCOME (EXPENSE) - NET						
56	PROPOSED DIVIDEND	(1,680,000)	-6.1%	(3,092,680)	-9.9%	(1,515,164)	-5.4%
57	**GROSS EARNINGS**	**27,357,526**	**100%**	**31,128,815**	**100%**	**27,957,400**	**100%**
58	AUDITORS	PWC		PWC		PWC	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	31-Dec-2020	31-Dec-2019	31-Dec-2018
	EARNINGS			
60	Net interest margin	23.5%	17.6%	28.8%
61	Loan loss expense/Interest income	1.1%	0.4%	0.4%
62	Return on average assets (Pre - tax)	1.4%	1.7%	2.5%
63	Return on average equity (Pre - tax)	16.3%	15.4%	17.2%
64	Operating Expenses/Net earnings	51.2%	51.6%	50.9%
65	Gross earnings/Total assets&contingents-avg.	6.6%	10.2%	13.4%
	EARNINGS MIX			
66	Net revenue from funds	37.5%	41.8%	65.3%
67	All other income	62.5%	58.2%	34.7%
	LIQUIDITY			
68	Total loans & leases - net/Total lcy deposits	52.2%	55.4%	39.1%
69	Liquid assets/Total lcy deposits	51.1%	56.1%	48.7%
70	Demand deposits/Total lcy deposits	23.9%	12.0%	9.4%
71	Savings deposits/Total lcy deposits			
72	Time deposits/Total lcy deposits	53.8%	68.2%	81.9%
73	Inter-bank borrowings/Total lcy deposits	22.3%	19.8%	8.7%
74	Interest expense - banks/Interest expense	51.8%	74.9%	57.2%
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	23,421,965	7,065,056	(48,562)

CORONATION MERCHANT BANK LIMITED

	KEY RATIOS CONT'D	31-Dec-2020	31-Dec-2019	31-Dec-2018
	ASSET QUALITY			
76	Performing loans (N'000)	122,915,486	72,742,231	54,340,867
77	Non-performing loans (N'000)			
78	Non-performing loans/Total loans - Gross			
79	Loan loss provision/Total loans - Gross	0.2%	0.1%	0.1%
80	Loan loss provision/Non-performing loans			
81	Risk-weighted assets/Total assets & contingents	46.5%	56.8%	50.5%
	CAPITAL ADEQUACY			
82	Adjusted capital/risk weighted assets (Basel II)	26.5%	14.0%	12.7%
83	Tier 1 capital/Adjusted capital	52%	97%	132%
84	Total loans - net/Adjusted capital	0.48	0.39	0.30
85	Capital unimpaired by losses (N'000)	31,843,837	27,920,968	26,694,645
	STAFF INFORMATION			
86	Net earnings per staff (N'000)	83,520	85,732	84,643
87	Staff cost per employee (N'000)	12,913	11,611	11,464
88	Staff costs/Operating expenses	30.2%	26.3%	26.6%
89	Average number of employees	142	121	125
90	Average staff per branch	47	40	42
	OTHER KEY INFORMATION			
91	Legal lending limit(N'000)	15,921,919	13,960,484	13,347,323
92	Number of branches	3	3	3
93	Age (in years)	5	4	3
94	Government stake in equity (Indirect)	Nil	Nil	Nil
		Estimates	**Actual**	**Actual**
	MARKET SHARE OF INDUSTRY TOTAL	2020	2019	2018
95	Lcy deposits (excluding interbank takings)	0.84%	0.54%	0.79%
96	Total assets & contingents	0.93%	0.76%	0.67%
97	Total loans & leases - net	0.71%	0.47%	0.43%
98	Net earnings	0.44%	0.39%	0.46%
99	Profit before tax	0.74%	0.54%	0.67%
100	Cash dividend	0.77%	1.11%	0.55%

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

© Agusto&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