Coronation Merchant Bank Limited

Rating Report (2019)

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Coronation Merchant Bank Limited

Rating Assigned:

A+

Outlook: Stable
Issue Date: 24 June 2019
Expiry Date: 30 June 2020
Previous Ratings: A+

Industry: Banking

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

RATING RATIONALE

The rating assigned to Coronation Merchant Bank Limited ('Coronation MB' or 'the Bank') is underpinned by good capitalisation, healthy asset quality, acceptable profitability and an experienced management team with a clear succession plan. The rating is however constrained by concentration in the loan book, volatile customer deposits and high funding costs.

Since the transition to a merchant bank in 2015, Coronation MB has focused on trade transactions and working capital financing for risk asset creation. Notwithstanding, the short tenured and self-liquidating nature of the transactions, the loan book has continued on an upward trajectory, expanding by 68.5% to ₦54.3 billion in 2018. This was in contrast to the stagnant banking industry's loan book and the 1.9% GDP growth in 2018. A further 26.5% loan growth is projected in 2019, as part of the strategy to become Nigeria's foremost international trade finance solution provider. While we acknowledge the low base of the loan book, we believe the loan growth is high compared to the projected GDP growth of 2.5% for the year and the banking industry expecting loan book expansion of less than 10%. In addition, we consider the macroeconomy to still be at a vulnerable state.

Coronation MB's loan book is concentrated, as the top 20 obligors accounted for 96% of gross loans as at FYE 2018. This makes the Bank vulnerable to deterioration in the financial condition of any of these obligors. However, we note positively that most of these loans are short tenured and self-liquidating with collateral coverage of 423%. In spite of the aggressive loan growth, Coronation MB has maintained a nil impaired loan position. This reflects the strength of the asset creation strategy which targets blue chip corporates in key sectors of the economy tagged "*Coronation 200*". In our view, the nil impaired loan position also shows the resilience of the risk management framework of the Bank.

Coronation MB maintains good capitalisation which has grown predominantly from profit retention to ₦31.2 billion as at FYE 2018. This stood well above the ₦10 billion regulatory minimum for merchant banks. In line with the expansion of the loan book and investment securities portfolio, capital adequacy ratio (CAR) has maintained a downward trajectory and decline to 19.7% as at FYE 2018. Nonetheless, CAR remains higher than the 10% regulatory minimum and 19% internal benchmark of the Bank.

Similar to most merchant banks, maintaining a pool of stable low-cost deposits has been a challenge for Coronation MB. As at FYE 2018, low cost deposits only accounted for 10.3% of total deposit liabilities. High cost deposits, which are typically sourced from interest rate sensitive institutional investors accounted for the remaining 89.7% of total deposit liabilities. However, the low interest rate environment resulted in a 100bps moderation in weighted average cost of funds to 14% in 2018, albeit remaining above the general banking industry average of 4.3%

During the year under review, Coronation MB recorded 13% growth in gross earnings to ₦28 billion on the back of higher investment banking fees. Improved income from investment securities trading and higher credit related fees also supported earnings. However, in spite of the spike in the loan book, lower yields on government securities coupled with higher interest expense moderated net interest income. As a result, net interest spread (NIS) dipped to 28.8% (FY 2017: 34.1%), the lowest since the transition to a merchant bank in 2015. The Bank's cost management initiatives resulted in muted growth in operating expense despite inflationary pressures and increasing employee numbers (including the appointment of an Executive Director). As a result, cost to income ratio declined by 60bps to 50.9%. Consequently, profit before taxation of ₦5.2 billion was better than ₦4.9 billion recorded in 2017. However, the spike in total assets as well as the growth in shareholders' funds resulted in lower pre-tax return on average assets of 2.5% (FY 2017: 3.7%) and pre-tax return on average equity of 17.2% (FY 2017: 18.4%). These profitability ratios were lower than the merchant banking segment with ROA and ROE of 3.3% and 17.4% respectively.

Based on the aforementioned, we hereby maintain the **"A+"** rating assigned to Coronation Merchant Bank Limited.

Strengths

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

Weaknesses

- Concentration in the loan book typical of merchant banks in Nigeria
- High dependence on interest rate sensitive funds

Challenges

- Agressively growing the loan book while maintaining a nil impaired loan position
- Fragile macroeconomic climate with adverse impact on businesses
- Ensuring smooth transition of the Group to the new operating structure

	2017	2018
Total Assets & Contingents	₦162.6 billion	₦255.2 billion
Gross Loans	₦32.2 billion	₦54.3 billion
Deposit Liabilities (excluding interbank takings)	₦77.8 billion	₦126.9 billion
Net Earnings	₦10.2 billion	₦10.6 billion
Pre-tax Return on Average Assets & Contingents (ROA)	3.7%	2.5%
Pre-tax Return on Average Equity (ROE)	18.4%	17.2%

PROFILE

Coronation Merchant Bank Limited ("Coronation MB" or "the Bank") was incorporated in October 1992 as Associated Discount House Limited (ADHL), a limited liability company. ADHL was granted a discount house operating licence in July 1993 and subsequently commenced operations in August 1993. However, given changes in the Nigerian financial sector coupled with declining customer confidence in the discount house segment, in April 2015, ADHL obtained approval of the CBN to convert to a merchant bank. As a result, ADHL converted to Coronation Merchant Bank Limited and commenced operations in July 2015.

Whilst operating as a discount house, Access Bank Plc and Wema Bank Plc were the significant shareholders while Sterling Bank Plc and some other investors held minority equity stake. In line with the CBN regulation which prohibits banks from having an ownership stake in other banks in Nigeria, there were changes in the shareholding structure. Access Bank Plc, Wema Bank Plc and Sterling Bank Plc all divested and were replaced with new investors. As at 31 December 2018, 13 institutional investors and one individual own Coronation MB. As at the same date, Wapic Insurance Plc, Marina Securities Limited, Coronation Capital (Mauritius) Limited, United Securities Limited, Regali Estate Limited and Mikeade Investment Company Limited were the significant shareholders, together controlling 79.98% shareholding.

Coronation MB is engaged in corporate banking, investment banking, private banking & wealth management, global markets & treasury, assets & investment management and securities trading activities. In line with CBN guidelines, assets & investment management and securities trading activities were conducted through dedicated subsidiaries which together with the Bank made up "the Coronation Group". Subsequent to the year end, the Bank commenced divestment from the subsidiaries as part of measures to reposition the Coronation Group as other businesses owned by the significant shareholders for optimal performance. The subsidiaries will be merged with some other businesses owned by these shareholders while synergy between the Bank and the companies will be strengthened. Subsequently, Coronation MB will focus on international trade finance, investment banking and treasury activities. International trade finance will be the cornerstone of the Bank. In the medium term, Coronation MB intends to be Nigeria's foremost international trade finance solution provider. Treasury operations will also be prioritised to consolidate the profile of the Bank as a major player in the FMDQ OTC Market (Nigeria's primary fixed income trading platform). More derivative products will also be introduced to address the growing demand for these instruments. Similarly, investment banking which has been a major source of earnings will be further enhanced under the new operating structure.

Coronation MB maintains five business units, namely; Trade & Corporate Banking, Treasury & Global Markets, Asset & Liability Management, Corporate Finance and Advisory. The Heads of these business units as well as the subsidiaries report to the Executive Director and ultimately the Group Managing Director. The Executive Director also oversees Information Technology, Group Operations, Compliance as well as Administration & Facilities. The Finance and Enterprise Management (Human Resource, Strategy and Corporate Communications) Departments all report to the Group Managing Director. Risk Management, Internal Audit and Legal/Company Secretariat are under the purview of the Board of Directors as well as the Managing Director (solely for administrative matters).

Correspondent Banks

As at 31 December 2018, Coronation MB had correspondent banking relationships with the following 15 banks.

1.	Access Bank Plc
2.	Access Bank UK Limited
3.	Africa Finance Corporation
4.	Africa Export-Import Bank
5.	Bank of Beirut
6.	British Arab Commercial Bank
7.	Crown Agent Bank
8.	FBN UK Limited
9.	FCMB UK Limited
10.	First Rand Bank
11.	Guaranty Trust Bank Plc
12.	ODDO BHF
13.	Standard Bank
14.	United Bank for Africa New York
15.	Union Bank UK Limited

Subsidiaries

As at 31 December 2018, Coronation MB had two subsidiaries, namely; Coronation Securities Limited and Coronation Asset Management Limited. Coronation Securities limited offers stock brokering as well as investment advisory services. Coronation Asset Management Limited provides wealth management services through various investment products.

Table 2: Subsidiaries of Coronation Merchant Bank Limited as at FYE 2018

Name	Nature of Business	Shareholding
Coronation Securities Limited	Capital market	100%
Coronation Asset Management Limited	Investment management	100%

Coronation Asset Management Limited has three collective investment schemes (mutual funds), namely; Coronation Money Market Fund, Coronation Fixed Income Fund and Coronation Balanced Fund with assets under management (AUM) of ₦6.6 billion as well as portfolio under management (discretionary managed account) of ₦12.9 billion as at 10 May 2019. Coronation Asset Management Limited wholly owns Coronation Trustees Limited (CTL), which holds assets on behalf of corporates and individuals as well as protects, preserves and manages these assets in accordance with clients' request as set out in a trust deed.

Subsequent to the year end, Coronation MB commenced the divestment process from the subsidiaries as part of measures to streamline the Bank as well as other businesses owned by the significant shareholders for optimal performance. The divestment is motivated by the need to expand scope of the subsidiaries without the constraint of the Nigerian banking guidelines. Coronation MB will solely focus on international trade finance, treasury operations and investment banking transactions while optimising synergies with the sister companies. As a result, the risk profile of the Bank (which will stand alone) will be reduced while the subsidiaries expand their services. We expect the divestment to be concluded before FYE 2019.

Track Record of Financial Performance

Since the transformation to a merchant bank in 2015, Coronation MB has maintained a growth trajectory, particularly its asset base which stood at ₦255.2 billion (FYE 2017: ₦162.6 billion) as at 31 December 2018. Government securities remain the largest asset class (32.4% of total assets and contingents as at FYE 2018), reflecting competencies developed whilst operating as a discount house. In 2018, the Bank grew the loan book by 68.5% to ₦54.3 billion, mostly from short-tenured, self-liquidating, international trade transactions. As at FYE 2018, Coronation MB maintained its nil impaired credit position while all loans were in stage 1 (very low risk) category.

During the financial year ended 31 December 2018, Coronation MB's earnings increased by 13% to ₦28 billion. Given the significant increase in total assets as well as capital, pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) dipped to 2.5% (FY 2017: 3.7%) and 17.2% (FY 2017: 18.4%) respectively.

CURRENT DIRECTORS		DIRECT & INDIRECT SHAREHOLDING
Mr Babatunde Folawiyo	*Chairman*	4.5%
Mr Abubakar Jimoh	*Managing Director/CEO*	2.1%
Mr Banjo Adegbohungbe*	*Executive Director*	Nil
Mr Idaere Ogan	*Non-Executive Director*	30.8%
Mr Adamu Mahmoud Atta	*Non-Executive Director*	22.8%
Mr Larry Ettah	*Non-Executive Director*	4.7%
Mrs Suzzanne Olufunke Iroche	*Non-Executive Director*	Nil
Mrs Evelyn Oputu	*Non-Executive Director - Independent*	26.4%
Mr Babatunde Dabiri	*Non-Executive Director - Independent*	Nil
Mrs Olubunmi Fayokun	*Non-Executive Director - Independent*	Nil

**Appointed July 2018*

MANAGEMENT TEAM

Mr Abubakar Jimoh, CFA is the pioneer Managing Director of Coronation Merchant Bank Limited. He served as the Managing Director of Associated Discount House Limited from December 2010 until the transition to a merchant bank in 2015. He has over 25 years professional experience, garnered from Express Discount House Limited, RBC Financial Group (Royal Bank of Canada), United Bank for Africa (UBA) Plc, African Development Bank (AfDB), Associated Discount House Limited and Coronation Merchant Bank Limited. Mr Jimoh's professional experience transverse various roles in treasury, credit risk management, project management, among others.

Mr Jimoh holds a Bachelor's degree and Master of Science degree in Finance, both from the University of Lagos. He is a Chartered Accountant, CFA Charter holder and holds the Financial Risk Manager designation of the Global Association of Risk Professionals.

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

Banjo Adegbohungbe	*Executive Director and Chief Operating Officer*
Aigbovbioise Aig-Imoukhuede	*Head, Coronation Capital Market*
Abiodun Sanusi	*Group Head, Investment Banking*
Magnus Nnoka	*Chief Risk Officer*
Cornelia George Utuk	*Group Head, Legal Services*
Ademola Adekoya	*Group Head, Corporate Banking*
Dele Dopemu	*Chief Audit Executive*
Ibrahim Bello	*Chief Compliance Officer*
Onayimi Aiwerioghene	*Head, Enterprise Management*
Chukwukadibia Okoye	*Chief Financial Officer*
Iyobosa Sorae	*Group Head, Securities Dealing*
Uzoma Dania	*Head, Private Banking*
Eshiovaze Momoh	*Chief Technology Officer*

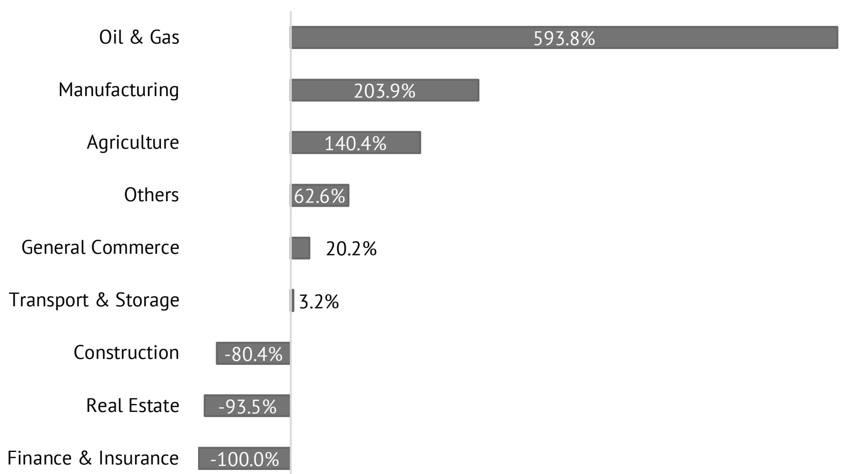
ANALYSTS' COMMENTS

ASSET QUALITY

Coronation Merchant Bank Limited recorded a 56.9% growth in total assets and contingents to stand at ₦255.2 billion as at 31 December 2018. Growth was most prominent in the loan book (68.5%), liquid assets (58.5%) and contingents (29.7%) on the back of relatively attractive (albeit declining) yields on government securities as the Bank ramped up international trade-related and other short-term facilities. As a result, liquid assets (48.1%), gross loans (21.3%) and contingents (12.7%) constituted the bulk of the asset base as at FYE 2018.

Coronation MB's lending strategy focuses on blue chip corporates in key sectors of the economy tagged "*Coronation 200*". The Bank prioritises these corporates based on their relatively low credit risk profile which has supported asset quality since the transition to a merchant bank in 2015. International trade finance and working capital support facilities which are typically short-tenured are the primary loan offerings of the Bank. Consequently, about 94% of outstanding loans as at FYE 2018 are maturing within six months. Coronation MB intends to create a niche in international trade finance which will be the core focus in the short to medium term. In 2019, the Bank projects a 26.5% loan growth mainly from international trade transactions. Although this is lower than the 68.5% recorded in the year under review, we are concerned by the aggressive loan growth based on the projected 2.5% GDP growth and 10% expected expansion in the banking industry's loan portfolio in 2019.

Figure 1: Loan Growth by Sector (FYE 2018)

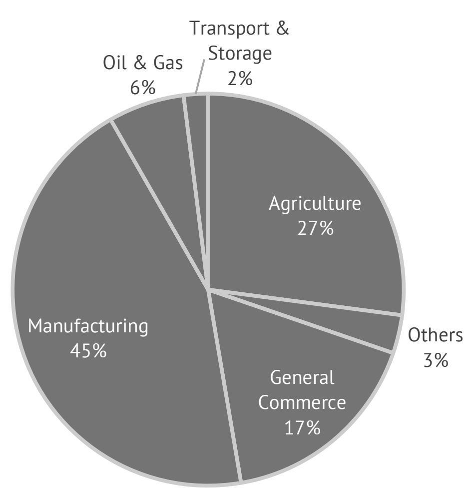


Coronation MB priorities financial strength and debts servicing capacity of obligors in its credit decision. However, the Bank's lending policy mandates the collaterisation of all credit exposures as a credit risk mitigation strategy. Cash deposits, equity securities, pledged goods, legal mortgage, negative pledge, bankers' acceptance, shipping documents, among others are some of the acceptable collateral. As at FYE 2018, about 99.6% of the loan book is collateralised.

Coronation MB's loan book is concentrated by obligor. As at FYE 2018, exposure to the top 20 obligors represented 96% of gross loans (FYE 2017: 90%). This makes the Bank susceptible to deterioration in the financial condition of any one of these obligors. The largest obligor with ₦10.2 billion credit exposure stood below the regulatory guidance on maximum single obligor limit. However, it breached the Bank's internal threshold, albeit marginally. While we recognise that this is typical of banks in its infancy as well as the merchant banking model which elicits large ticket transactions with corporates, we believe this degree of concentration is high. As at FYE 2018, collaterals provided by the top twenty obligors adequately cover 423% of the exposures, thus moderating expected credit loss in the event of default. The short-tenured nature of these exposures also assuages our concerns.

As at FYE 2018, Manufacturing, Agriculture and General Commerce sectors remain the most dominant and together accounted for 89% of gross loans. The Bank's focus on international trade transactions accounts for the dominance of these sectors which represent the bulk of Nigeria's importation. Although the Manufacturing sector accounted for 45% of the loan book, we note that the sector is a conglomeration of industries with different fundamentals - thus moderating concentration risk. We also take comfort in the fact that the bulk of the Bank's loans are short-tenured with some structured as self-liquidating facilities. Improved liquidity in the foreign exchange market provides additional comfort for international trade-related loans. In 2019, we do not anticipate a significant change in the structure of the loan book. Nonetheless, we believe the contribution of General Commerce sector will increase in line with improved economic activities in the second half of the year. Coronation MB also plans to increase exposure to other sectors with significant contribution to the economy such as Telecommunications. However, we do not anticipate substantial exposure to obligors in these sectors in the short term.

Figure 2: Loan Book by Sector (FYE 2018)



As at 31 December 2018, Coronation MB maintained its nil non-performing loan position with all exposures in stage 1 category, based on IFRS 9 principles. This compares better than select peers; FBNQuest Merchant Bank Limited (FBNQuest Merchant) and FSDH Merchant Bank Limited (FSDH Merchant) with impaired loans to gross loans ratio of 3.6% and 5.3% respectively as at FYE 2018.

We consider Coronation MB's asset quality to be healthy. In 2019, we expect asset quality to be further tested by the expansion of the loan book and the fragile state of the Nigerian economy, necessitating adequate loan monitoring and adherence to risk management practices.

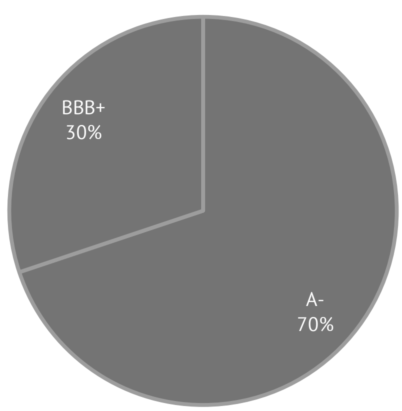
RISK MANAGEMENT

Coronation MB operates a centralised risk management structure which is ultimately headed by the Board of Directors that determines the risk appetite, strategy and policies of the Bank. The Board Risk Management and Credit & Investment Committees, chaired by Non-Executive Directors, provide direct oversight over various segments of the Bank's risk management activities. The Asset and Liability Management Committee (ALCO), Enterprise Risk Management Committee (ERMC) and Management Credit & Investment Committee (MC&IC), comprising senior management staff, also feature prominently in Coronation MB's risk management architecture. The Risk Management Group headed by the Chief Risk Officer (CRO) is responsible for implementing the risk policies and strategies as well as creating the appropriate risk culture in the Bank. The Risk Management Group is structured along two departments: Credit Risk Department and Enterprise Risk Department (overseeing market risk management and operational risk management).

Credit Risk

Coronation MB is exposed to credit risk primarily through lending activities. Credit risk which is the largest risk exposure of the Bank is primarily managed by the credit policy which profiles potential obligors and guides the lending process from origination to monitoring. The Bank adopts a multi-layered approval structure with the final authority residing with the Board of Directors to mitigate credit risk. In line with the provisions of IFRS 9, which was adopted during the year under review, the loan book is categorised into 3 stages based on the credit risk of each exposure. As at FYE 2018, all the credit exposures were in the stage 1 category comprising exposures with very low credit risk. We believe the short term, self-liquidating nature of the loans as well as the cash collateral of some credit exposure contributed to the low risk classification.

Figure 3: Loan Book by Credit Rating (FYE 2018)



A risk rating model which combines the risk profile of the obligor (obligor risk rating), as well as the structure of the transaction (facility risk rating), is used to assess the credit risk of borrowers. The rating model has 22 risk scales ranging from AAA (lowest level of credit risk) to D (lost). Credit exposures with cash collateral are upgraded to the next rating scale to reflect the liquid nature of the collateral and its positive impact on expected credit loss. As at FYE 2018, 69.9% of the loans were rated A- while 30.1% had BBB+ rating. In our opinion, we believe the ratings assigned to some obligors may be lower when credit quality is unreservedly reflected.

Market Risk

Coronation MB is exposed to market risk through the trading portfolio which is actively managed to generate income as well as the non-trading portfolio (passive investments to take advantage of the movement in interest rates and foreign exchange rates). The Board Risk Committee approve the risk appetite for both trading and non-trading activities. The Board Risk Committee is also provided with a quarterly report as well as recommendation on the appropriate market risk appetite of the Bank. Some other market risk management tools include daily valuation of position, gap analysis, sensitivity analysis, daily value at risk (DVaR), tail risk metrics, back-testing, stress testing, management action trigger (MAT), among others. The market risk team is responsible for monitoring compliance with market risk controls and mitigants.

Operational Risk

Coronation MB's operational risk exposure represents potential losses from people (through fraud and errors), internal processes and systems (technology) as well as external events (including litigation). The Bank maintains an Operational, Reputational & Strategic Risk Management Unit which monitors and records breaches of guidelines on operations. The unit also evaluates the strength of the operational risk management policy as well as recommend improvement (when necessary). During the year under review, the Bank upgraded its online platform for corporates to reduce susceptibility to cyber fraud. Coronation MB received complaint from seven customers in 2018, almost at par with six reported in the prior year. However, ₦15.9 million was refunded to customers, lower than ₦678.4 million in 2017. Similarly, Coronation MB paid fines amounting to ₦200,000 for contraventions of regulatory guidelines, marked lower than ₦4 million penalties in the prior year.

We consider Coronation Merchant Bank's risk management to be adequate for current business risk. In the short term, as the Bank further ramps up the loan book as well as grow the volume of trade transactions, we believe the resilience of the risk management framework will be further tested.

EARNINGS

Coronation MB generates income from the traditional lending, investment securities, treasury and investment banking activities. During the financial year ended 31 December 2018, the Bank generated ₦24.3 billion as interest income, which represents a 9.4% increase from the prior year on the back of the 68.5% loan growth. Consequently, interest income from customer lending grew by 52.1% to account for 37.7% of total interest income. In spite of the 215.4% spike in investments securities, the associated interest income increased by only 19.7%, reflecting the relatively low yields on government securities during the period under review. Nonetheless, investment securities remained the largest contributor to interest income, similar to most merchant banks as well as banks in its infancy. In the near term, we anticipate higher interest income on the back of the 26.5% projected loan growth. We believe that the loan book will provide the largest contribution to interest income in 2019 as increased lending activities coupled with declining yields on governments securities moderate income from the investment securities portfolio.

Figure 4: Interest Income (FY 2016 - FY 2018)

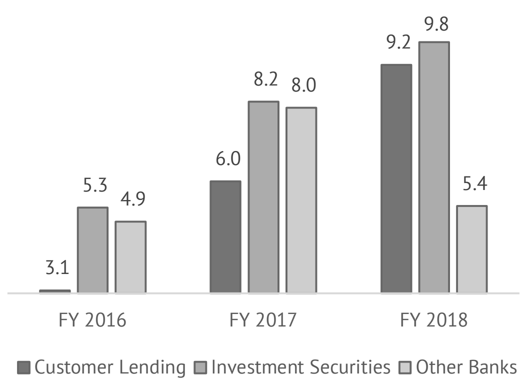
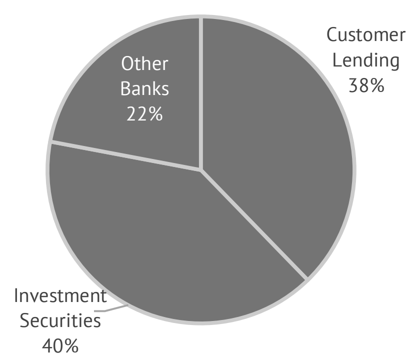


Figure 5: Breakdown of Interest Income (FY 2018)

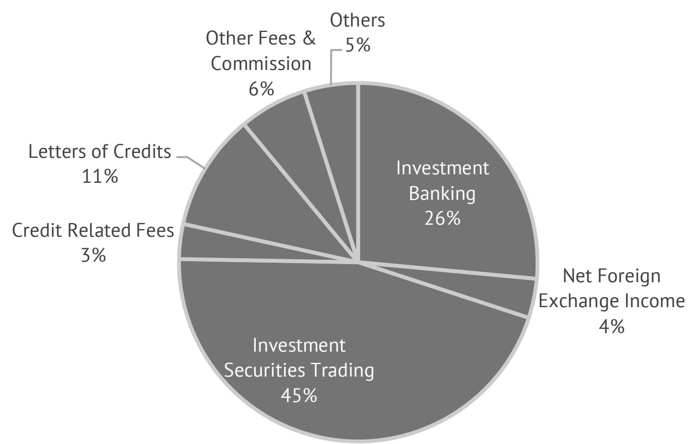


During the period under review, Coronation MB recorded interest expense of ₦17.3 billion, 18.2% higher than the prior year, on account of the growth in high-cost time deposits and commercial papers issuance. Increased funding from the interbank market also contributed to the higher interest expense. As a result, net interest spread (NIS) dipped to 28.8%, the lowest since the transition to a merchant bank in 2015. Although the Bank maintains its nil impaired credit position, ₦85.6 million was charged as expected credit loss in line with IFRS guidelines. Consequently, net revenue from funding related activities declined by 9.2% to ₦6.9 billion.

During FY 2018, net non-interest income maintained its growth trajectory with a 43.8% increase to ₦3.7 billion on the back of higher investment banking income. Credit-related fees and commission also improved by 122% on account of increased lending activities. Increased securities trading activities during the year also resulted in higher associated commission to account for 45% of total non-interest income. However, non-interest income as a percentage of total assets remained stagnant at 1.8% due to the 56.9% growth in the asset base. This was lower than 4.3% and 2.3% recorded by FBNQuest Merchant and FSDH Merchant respectively. Overall, net earnings increased by 14.5% to ₦10.6 billion during the year under review. In 2019, Coronation MB projects a 76.5% increase in non-interest income to ₦6.5 billion which is overly ambitious in our view. In Q1 2019, the

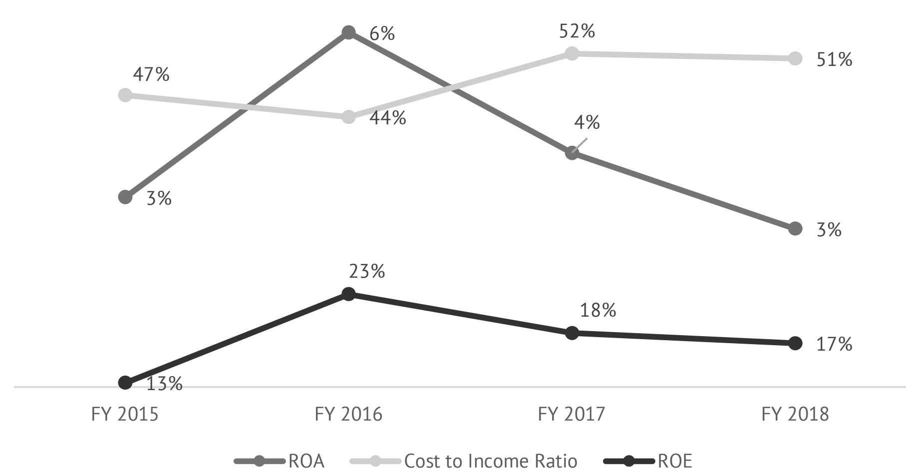
Bank posted non-interest income of ₦1.2 billion, representing 18.9% of the budget for the year.

Figure 6: Breakdown of Non-Interest Income (FY 2018)



In 2018, Coronation MB adopted various cost optimisation measures to rein in operating costs while growing the business. As a result, operating expenses increased by a marginal 2.9% to ₦5.4 billion during FY 2018, in spite of inflationary pressures. Therefore, the cost to income ratio (CIR) improved marginally to 50.9% from 51.5% in FY 2017. The Bank's CIR was better than 76.3% recorded by FBNQuest Merchant but higher than 46% posted by FSDH Merchant. In 2019, we expect a higher cost profile on the back of expansion in the business premises, full impact of the increase in employees and cost implication of the on-going business restructuring exercise. In our view, CIR will remain above 50%, higher than 48.4% projected by the Bank for 2019.

Figure 7: Profitability Ratios (FY 2016 - FY 2018)

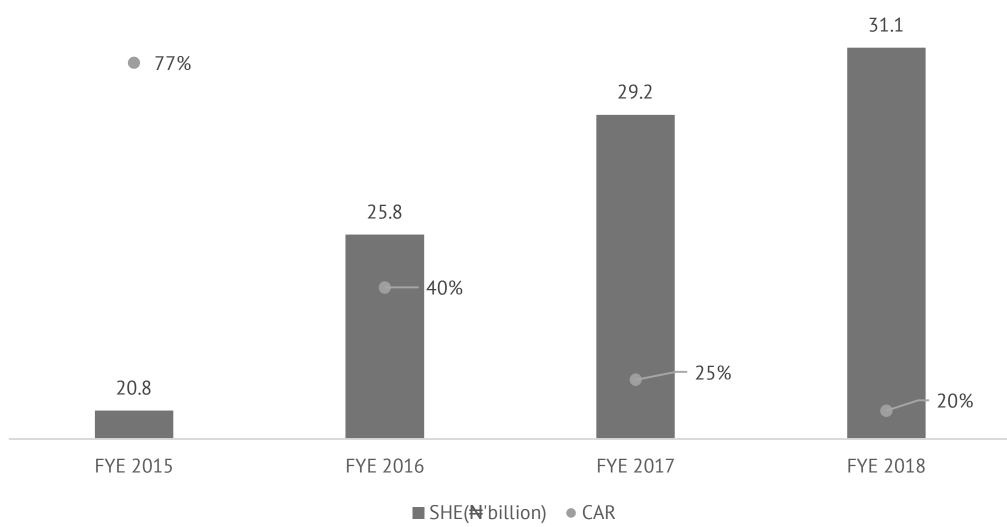


During FY 2018, profit before taxation improved by 5.3% to ₦5.2 billion, largely driven by non-interest income and cost management initiatives. However, pre-impaired operating profit to average assets declined to 2.5% (FY 2017: 3.6%) reflecting lower margins. Similarly, the spike in total assets as well as capital resulted in lower profitability ratios with pre-tax return on average assets (ROA) of 2.5% (FY 2017: 3.7%) and pre-tax return on average equity (ROE) of 17.2% (FY 2017: 18.4%). These were lower than Industry average (ROA: 3.3%, ROE: 17.4%) as well as FSDH Merchant with ROA of 3.5% and ROE of 17.8%. However, the Bank's performance was better than that of FBNQuest Merchant which recorded ROA and ROE of 1.6% and 8.7% respectively. We consider Coronation MB's profitability to be acceptable by industry standards.

CAPITAL ADEQUACY

In 2018, Coronation MB's capital base was bolstered by improved profitability and the resulting reserve accretion. As at 31 December 2018, tier I (core) capital amounted to ₦31.7 billion, an increase of 10.3% from the prior year and stood well above the ₦15 billion regulatory minimum for merchant banks operating in Nigeria. Although coronation MB implemented IFRS 9 in 2018, the impact on capital was minimal as most of the outstanding loans are relatively new and the Bank has no impaired credit. Tier I capital to total capital at 100% stood significantly above the 75% recommended by the CBN. Since the Bank commenced operations as a merchant bank in 2015, it has retained an average of 82.3% of the profit generated to support capital.

Figure 8: Shareholders' Funds (SHE) and Capital Adequacy Ratio (CAR) from FYE 2015- FYE 2018

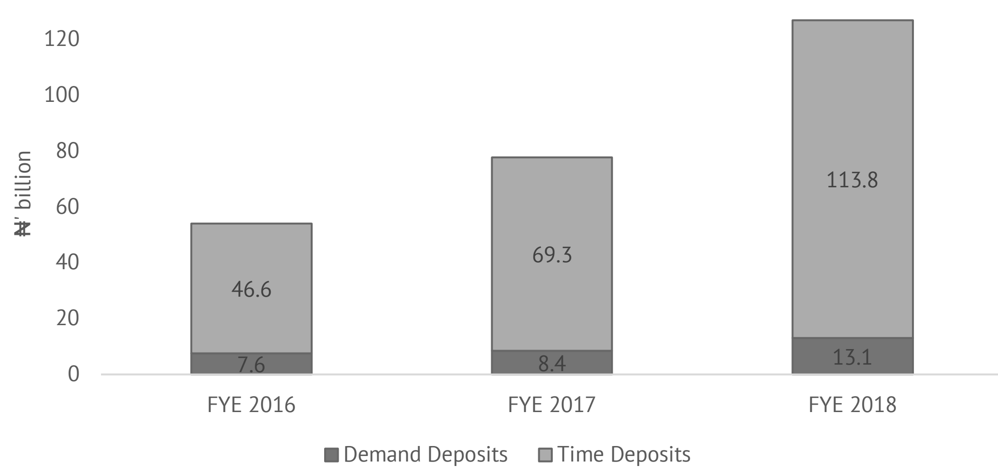


Coronation computes capital adequacy ratio (CAR) using the Basle II accord. As at FYE 2018, the Bank's CAR stood at 19.7%, lower than 24.8% in the prior year. This decline was due to the 39.2% growth in risk-weighted assets emanating from a bigger loan book and larger investment securities portfolio during the year. Nonetheless, CAR was higher than the 10% regulatory minimum for merchant banks as well as 12.2% recorded by FBNQuest Merchant. FSDH Merchant posted higher CAR (27.6%) as at FYE 2018. We consider Coronation's capitalisation to be good for current business risks. In 2019, the 26.5% projected growth in the loan book coupled with further expansion of the investment securities portfolio should moderate CAR. Nonetheless, the Bank expects CAR to improve above 20% on the back of the on-going divestment from subsidiaries by FYE 2019.

LIQUIDITY AND LIABILITY GENERATION

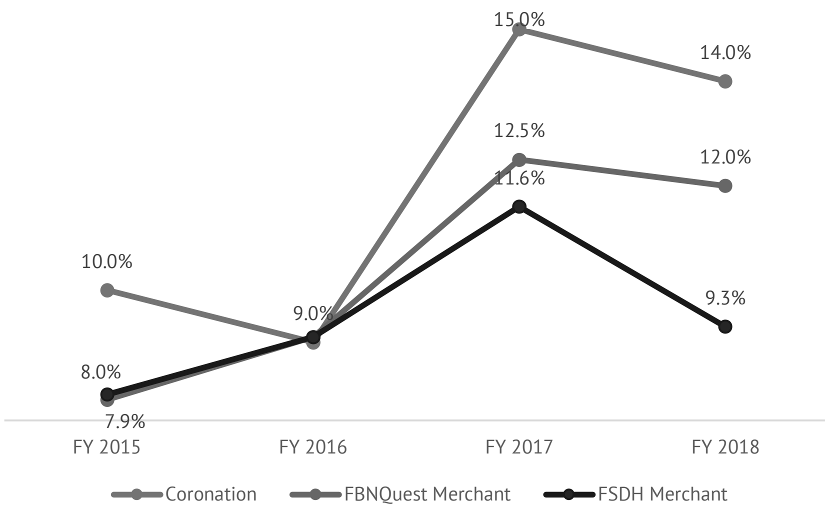
Coronation Merchant Bank Limited's liability generation activities are constrained by the regulation which restricts merchant banks operating in Nigeria to wholesale deposits with a minimum of ₦50 million per tranche. Therefore, the Bank rely on subsidiaries (particularly the asset management subsidiary) to minimise the impact of the deposits restricting regulation. Government securities backed products were also introduced as part of deposit generation strategy.

Figure 9: Deposit Liabilities (FYE 2016 - FYE 2018)



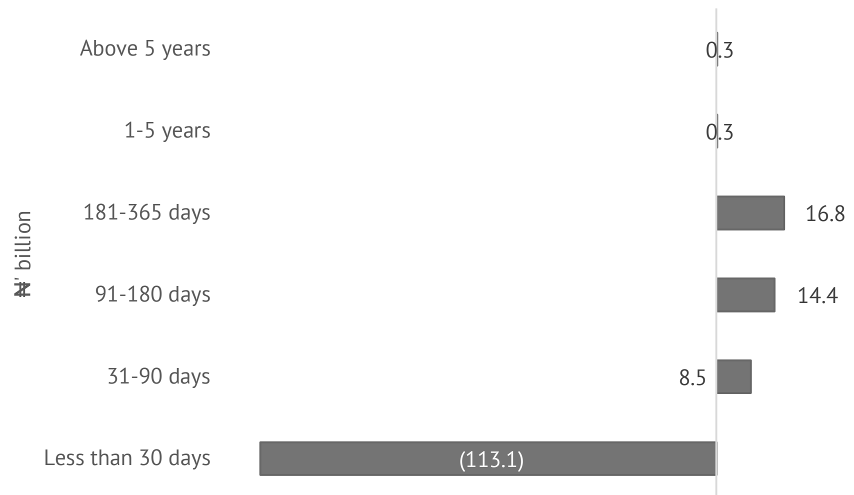
As at FYE 2018, Coronation MB generated ₦126.9 billion as customer deposits (excluding interbank takings) which funded 49.7% of total assets and contingents. During the year under review, the Bank's deposit liabilities increased by 63.1% although lower than the 68.5% loan growth. Demand deposits grew by 55.2% to ₦13 billion, although we note their volatile nature since they are mainly customer deposits awaiting foreign exchange bids, as well as funds set aside to meet working capital obligations by customers. Time deposits which are more stable, albeit expensive, comprise call deposits, as well as government securities backed products improved by 73% to ₦113.8 billion during the year under review. The growing acceptance of the government securities backed products largely contributed to the spike in term deposits. Although the deposit mix improved, low cost (demand) deposits only accounted for 10.3% (FYE 2017: 9.7%) while high-cost time deposits represented 89.7% of customer deposits. The Bank's peers recorded better deposit mix with low-cost demand deposits accounting for a higher proportion of deposit liabilities (FBNQuest Merchant: 23% and FSDH Merchant: 20%). Notwithstanding the regulatory constraint on deposit generation, we believe the Bank needs to improve the deposit mix.

Figure 10: Weighted Average Cost of Funds (FY 2015 - FY 2018)



During the year under review, Coronation MB explored the commercial papers market for additional funding and raised a total of ₦20 billion in various tranches, although the outstanding balance of commercial papers as at FYE 2018 stood at ₦18.1 billion. Given that commercial papers are relatively expensive, the Bank focused on repricing time deposits to moderate the impact on funding costs. As a result, the estimated weighted average cost of funds (WACF) reduced by 100bps to 14% but remains higher than 12% and 9% recorded by FBNQuest Merchant and FSDH Merchant respectively. The Bank's WACF was also higher than the 4.3% industry average. Subsequent to year end, the commercial papers were repaid at maturity in March 2019. However, interbank takings and high cost deposits which grew by 117% and 20.4% respectively kept WACF at 14% in Q1 2019.

Figure 11: Loan & Deposits Maturity Mismatch (FYE 2018)



A review of the Bank's loans and deposits maturity profile shows some mismatch. As at FYE 2018, only loans maturing in less than a month were adequately funded by customer deposits. The mismatch is most prominent in the 181-365 days and 91-180 days maturity buckets. The maturity gaps reflect the high dependence on short term customer deposits, exposing the Bank to repricing risk. Coronation conducts a sensitivity analysis to determine the potential impact of the re-pricing risk on profitability. When the potential impact is estimated to be above the acceptable threshold, the Bank leverage its franchise to raise funds in the interbank and commercial papers markets. Similarly, lines of credit with international banks also support funding of these loans which are predominantly trade transactions. In FY 2018, the Bank estimates that a 100bps change in interest rate would impact the income statement by ₦43.9 million, which is a low 0.14% of shareholders' funds. Liquidity run off ratio computed as liquid assets as a percentage of short-term funding and customer deposits at 88% stood below our 100% benchmark. This ratio looks at the percentage of short-term liabilities that can be met by liquid assets in a period of stress. In our opinion, Coronation Merchant Bank's liquidity position is good while we consider the ability to refinance adequate.

OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2018, 14 shareholders (13 institutional investors and one individual) control the 5,050,546,285 shares issued by Coronation MB. As at the same date, Wapic Insurance Plc and Marina Securities Limited held the largest number of shares. Four other investors have significant shareholding (equity stake of 5% and above) as at FYE 2018.

Table 3: Significant Shareholders as at FYE 2018

Shareholder	Percentage Ownership
Wapic Insurance Plc	22.80%
Marina Securities Limited	22.71%
Coronation Capital (Mauritius) Limited	13.32%
United Securities Limited	8.08%
Regali Estates Limited	7.47%
Mikeade Investment Co. Limited	5.60%

As at FYE 2018, an 11-member Board of Directors headed by Mr Babatunde Folawiyo govern Coronation MB. The Board which comprised three Executive Directors and eight Non-Executive Directors (three of whom are Independent Non-Executive Directors) has four standing committees for effective oversight; the Board Risk Management Committee, the Board Audit Committee, the Board Governance & Nominations Committee and the Board Credit & Investment Committee. The Bank also has the Statutory Audit Committee. During the year under review, Mr Banjo Adegbohungbe joined the Board as an Executive Director and the Chief Operating Officer. Subsequent to the year end, Mrs Onome Komolafe resigned from the Board as an Executive Director.

Mr Adegbohungbe has 25 years of professional experience garnered at Citibank Nigeria and Access Bank Plc. His professional experience transverse technology, business process improvement, trade operations, global payments, among others. Mr Adegbohungbe was the Group Head, Corporate Operations at Access Bank before joining Coronation. He is the Chief Operating Officer of Coronation MB with purview over technology, electronic channels as well as international trade finance offering of the Bank.

Mr Abubakar Jimoh is the pioneer Managing Director and Chief Executive Officer of Coronation Merchant Bank Limited. He oversees the Bank together with a 13-member senior management team and is supported by various management committees such as the Asset and Liability Management Committee (ALCO), Enterprise Risk management Committee (ERMC) and Management Credit & Investment Risk Committee (MC&IC).

Table 4: Staff Productivity Indicators

	Coronation MB (2017)	Coronation MB (2018)	FBNQuest Merchant (2018)	FSDH Merchant (2018)
Average Number of Employee	85	125	174	134
Personnel Expenses (₦ 'million)	1,032	1,433	2,573	2,194
Staff Cost per Employee (₦ 'million)	12.14	11.46	14.8	16.4
Net Earnings per Staff (₦ 'million)	119.61	84.64	55.2	71.7
Net Earnings/Staff Cost (times)	9.9	7.4	3.7	4.4
Staff Cost/Operating Expenses	26.6%	19.7%	35.1%	49.7%

During the year ended 31 December 2018, Coronation MB employed an average of 125 persons, higher than 85 persons in the prior year to support business expansion. While 106 persons were non-management staff, 19 were management staff. During FY 2018, Coronation MB expended ₦1.4 billion on various employee-related activities, 38.9% higher than the prior year on account of the increase in staff numbers. However, the average cost per staff dipped to ₦11.5 million from ₦12.1 million in FY 2017, as most of the new hires were in the lower cadre. Net earnings per staff also declined to ₦84.6 million (FY 2017: ₦119.6 million) as a result of higher staff numbers and the recruitment period. Consequently, net earnings per staff coverage of average staff cost at 7.4 times was lower than 9.9 times recorded in the prior year but remained above the 4.7 times industry average estimated for FY 2018. The Bank's staff productivity was also better than peers; FBNQuest Merchant (3.7 times) and FSDH Merchant (4.4 times). We consider Coronation MB's staff productivity to be good and its management team has the requisite skills to strategically steer the Bank.

MARKET SHARE

Three merchant banks, including Coronation MB, commenced operations in 2015 following the repeal of the universal banking model in 2010 which paved way for the reintroduction of the merchant banking segment. However, the merchant banking segment remains small and accounted for about 2% of the banking industry's total asset base in 2018. The nature of the operating guidelines which restrict access to the retail customers (the primary source of low-cost deposits) while allowing capital market operations resulted in merchant banks focusing on 'asset light' transactions.

Coronation Merchant Bank Limited is the 19th largest bank based on total assets and contingents, accounting for 0.6% of the industry total. However, the Bank is the largest in the merchant banking space with total assets and contingents of ₦255.2 billion as at FYE 2018. In the same vein, Coronation MB ranks first on the basis of its core capital. Whilst the Bank's loan book grew to be the largest amongst the merchant banks, contribution to the Banking Industry remains below 0.4%.

Table 5: Market Share Indicators

	Coronation MB (2017)	Coronation MB (2018)	FBNQuest Merchant (2018)	FSDH Merchant (2018)
Total Assets & Contingents	0.46%	0.63%	0.35%	0.35%
Net Loan & Advances	0.24%	0.37%	0.24%	0.28%
LCY Deposits	0.50%	0.79%	0.46%	0.29%
Net Interest Income	0.45%	0.35%	0.20%	0.24%
Non-Interest Income	0.26%	0.34%	0.55%	0.32%
Profit Before Tax	0.69%	0.48%	0.21%	0.48%

The merchant banking space continues to evolve and contends with the lull in the Nigerian economy which has dampened somewhat the capital market. Nonetheless, we believe opportunities exist. Coronation MB has been increasing investments in technology to provide service to the corporate clients. In addition, the Bank intends to focus on trade finance to boost earnings.

OUTLOOK

Over the next five years, Coronation Merchant Bank Limited intends to be Nigeria's foremost trade finance solution provider, as a significant proportion of raw materials as well as finished goods consumed in the country are imported. The Bank's trade lines, which stood at $100 million as at FYE 2018 would be expanded to over $500 million. Similarly, correspondent banking relationships would be further established with international banks in the major international trade hubs.

In 2019, Coronation MB plans to further expand the loan book by 26.5% to ₦68.7 billion. Short-tenured international trade finance transactions which have been a niche for the Bank should support the loan growth. Blue chip corporates in the Manufacturing, Agriculture, General Commerce and Telecommunications (to a lower extent) will largely account for the loan growth. Although the projected loan growth is lower than the 68.5% recorded in the prior year, it is significantly higher than the 10% forecast for the industry and 2.5% expected GDP growth. Notwithstanding the relatively small size of the loan book, we believe aggressive loan growth in a period of benign macroeconomic climate, increases the threat to the Bank's asset quality.

Treasury operations will also be prioritised by Coronation MB in the short to medium term. The Bank will consolidate its position as one of the top 10 securities trading banks on the FMDQ OTC Exchange, Nigeria's primary fixed income trading platform. In addition, Coronation MB plans to increase expertise in treasury activities particularly in derivative transactions, a growing trend in the Nigeria financial market. While liability sales team in treasury will be the primary source of liability generation, the sister asset management firm which will emerge from the on-going restructuring of the Coronation Group will support funding activities from the retail end. Nonetheless, the Bank anticipates a marginal increase of 7.3% in customer deposits in 2019, while the interbank market will continue support funding, particularly during a period of low interest rate. Commercial papers will be issued when the interest rate environment is favourable as part of plans to diversify the funding base.

In 2019, Coronation MB projects a 53.6% growth in profit before taxation to ₦8 billion. Anticipated 76.5% growth in non-interest income is expected to propel the growth in profitability on the back of higher investment banking fee. The Bank also plans to expand the pool of its non-lending customer base to corporates outside "*Coronation 200*" to support income from bills and letters of credit. However, we anticipate an increase in operating expenses as part of the restructuring activities of the Bank which we believe will moderate profitability.

Nonetheless, in the short term, we expect profitability indicators to improve from 2018 (but lower than the projections) and thus remain good. We also expect the Bank to continue with good asset quality barring any deterioration in the macroeconomy, as well as further diversification of its funding base. Agusto & Co. hereby attach 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-2018 ₦'000		31-Dec-2017 ₦'000		31-Dec-2016 ₦'000	
	ASSETS						
1	Cash & equivalents	3,211,035	1.3%	3,256,498	2.0%	5,163,814	4.8%
2	Government securities	82,550,611	32.4%	44,589,344	27.4%	42,504,076	39.7%
3	Special treasury bills	36,914,556	14.5%	29,509,041	18.1%	16,246,877	15.2%
4	Quoted investments	63,637	0.0%	95,021	0.1%		
5	Placements with discount houses						
6	LIQUID ASSETS	122,739,839	48.1%	77,449,904	47.6%	63,914,767	59.7%
7	BALANCES WITH NIGERIAN BANKS			4,931,504	3.0%	474,601	0.4%
8	BALANCES WITH BANKS OUTSIDE NIGERIA						
9	Direct loans and advances - Gross	54,340,867	21.3%	32,247,778	19.8%	22,766,416	21.3%
10	Less: Cumulative loan loss provision	(28,408)	0.0%	(8,193)	0.0%	(59,855)	-0.1%
11	Direct loans & advances - net	54,312,459	21.3%	32,239,585	19.8%	22,706,561	21.2%
12	Advances under finance leases - net						
13	TOTAL LOANS & LEASES - NET	54,312,459	21.3%	32,239,585	19.8%	22,706,561	21.2%
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	2,657,644	1.0%	4,115,519	2.5%	588,671	0.5%
16	DEFERRED LOSSES	4,998,887	2.0%	5,203,887	3.2%	5,265,490	4.9%
17	RESTRICTED FUNDS	5,188,052	2.0%	2,300,438	1.4%		
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES	4,614,711	1.8%	4,614,711	2.8%	3,314,711	3.1%
19	OTHER LONG-TERM INVESTMENTS	24,670,502	9.7%	3,196,055	2.0%	7,319,205	6.8%
20	FIXED ASSETS & INTANGIBLES	3,596,755	1.4%	3,621,833	2.2%	3,464,074	3.2%
21	**TOTAL ASSETS**	**222,778,849**	**87.3%**	**137,673,436**	**84.6%**	**107,048,080**	**100.0%**
22	TOTAL CONTINGENT ASSETS	32,382,378	12.7%	24,975,667	15.4%		
23	**TOTAL ASSETS & CONTINGENTS**	**255,161,227**	**100%**	**162,649,103**	**100%**	**107,048,080**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	31,693,532	12.4%	28,726,932	17.7%	24,866,118	23.2%
25	TIER 2 CAPITAL	(545,267)	-0.2%	466,220	0.3%	923,039	0.9%
26	Medium to long-term borrowings	18,053,345	7.1%				
27	Demand deposits	13,034,480	5.1%	7,061,464	4.3%	9,528,935	8.9%
28	Savings deposits						
29	Time deposits	113,804,855	44.6%	65,752,852	40.4%	44,600,103	41.7%
30	Inter-bank takings	12,159,545	4.8%	11,206,114	6.9%	18,637,966	17.4%
31	TOTAL DEPOSIT LIABILITIES - LCY	138,998,880	54.5%	84,020,430	51.7%	72,767,004	68.0%
32	Customers' foreign currency balances	57,532	0.0%	4,952,292	3.0%	17,728	0.0%
33	TOTAL DEPOSIT LIABILITIES	139,056,412	54.5%	88,972,722	54.7%	72,784,732	68.0%
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	34,520,827	13.5%	19,507,562	12.0%	8,474,191	7.9%
36	**TOTAL CAPITAL & LIABILITIES**	**222,778,849**	**87.3%**	**137,673,436**	**84.6%**	**107,048,080**	**100.0%**
37	TOTAL CONTINGENT LIABILITIES	32,382,378	12.7%	24,975,667	15.4%		
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**255,161,227**	**100%**	**162,649,103**	**100%**	**107,048,080**	**100%**
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes	31,759,378	12.4%	20,913,167	12.9%		
40	Guarantees, bonds etc..	623,000	0.2%	4,062,500	0		
41	Short-term self liquidating contingencies						

CORONATION MERCHANT BANK LIMITED

	STATEMENT OF COMPREHENSIVE INCOME	31-Dec-2018 N'000		31-Dec-2017 N'000		31-Dec-2016 N'000	
42	Interest income	24,286,820	86.9%	22,195,656	89.7%	13,321,639	90.1%
43	Interest expense	(17,291,460)	-61.8%	(14,633,478)	-59.1%	(5,484,124)	-37.1%
44	Loan loss expense	(85,559)	-0.3%	51,596	0.2%	(70,119)	-0.5%
45	NET REVENUE FROM FUNDS	6,909,801	24.7%	7,613,774	30.8%	7,767,396	52.5%
46	ALL OTHER INCOME	3,670,580	13.1%	2,553,116	10.3%	1,470,336	9.9%
47	**NET EARNINGS**	**10,580,381**	**37.8%**	**10,166,890**	**41.1%**	**9,237,732**	**62.5%**
48	Staff costs	(1,433,036)	-5.1%	(1,031,759)	-4.2%	(1,077,511)	-7.3%
49	Depreciation expense	(592,516)	-2.1%	(347,985)	-1.4%	(168,392)	-1.1%
50	Other operating expenses	(3,359,082)	-12.0%	(3,854,317)	-15.6%	(2,794,329)	-18.9%
51	TOTAL OPERATING EXPENSES	(5,384,634)	-19.3%	(5,234,061)	-21.1%	(4,040,232)	-27.3%
52	PROFIT (LOSS) BEFORE TAXATION	5,195,747	18.6%	4,932,829	19.9%	5,197,500	35.1%
53	TAX (EXPENSE) BENEFIT	(711,375)	-2.5%	(314,433)	-1.3%	(164,605)	-1.1%
54	**PROFIT (LOSS) AFTER TAXATION**	**4,484,372**	**16.0%**	**4,618,396**	**18.7%**	**5,032,895**	**34.0%**
55	NON-RECURRING INCOME (EXPENSE) - NET						
56	PROPOSED DIVIDEND	(1,515,164)	-5.4%	(757,582)	-3.1%	(1,035,362)	-7.0%
57	**GROSS EARNINGS**	**27,957,400**	**100%**	**24,748,772**	**100%**	**14,791,975**	**100%**
58	AUDITORS	PWC		PWC		PWC	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	31-Dec-2018	31-Dec-2017	31-Dec-2016
	EARNINGS			
60	Net interest margin	28.8%	34.1%	58.8%
61	Loan loss expense/Interest income	0.4%		0.5%
62	Return on average assets (Pre - tax)	2.5%	3.7%	5.6%
63	Return on average equity (Pre - tax)	17.2%	18.4%	23.0%
64	Operating Expenses/Net earnings	50.9%	51.5%	43.7%
65	Gross earnings/Total assets&contingents-avg.	13.4%	18.4%	15.9%
	EARNINGS MIX			
66	Net revenue from funds	65.3%	74.9%	84.1%
67	All other income	34.7%	25.1%	15.9%
	LIQUIDITY			
68	Total loans & leases - net/Total lcy deposits	27.3%	17.2%	15.1%
69	Liquid assets/Total lcy deposits	87.2%	97.7%	84.5%
70	Demand deposits/Total lcy deposits	9.4%	8.4%	13.1%
71	Savings deposits/Total lcy deposits			
72	Time deposits/Total lcy deposits	81.9%	78.3%	61.3%
73	Inter-bank borrowings/Total lcy deposits	8.7%	13.3%	25.6%
74	Interest expense - banks/Interest expense	57.2%	38.8%	39.5%
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	(57,532)	(4,952,292)	(17,728)

CORONATION MERCHANT BANK LIMITED

	KEY RATIOS CONT'D	**31-Dec-2018**	**31-Dec-2017**	**31-Dec-2016**
	ASSET QUALITY			
76	Performing loans (N'000)	54,340,867	32,247,778	22,766,416
77	Non-performing loans (N'000)			
78	Non-performing loans/Total loans - Gross			
79	Loan loss provision/Total loans - Gross	0.1%	0.0%	0.3%
80	Loan loss provision/Non-performing loans			
81	Risk-weighted assets/Total assets & contingents	36.0%	40.7%	25.0%
	CAPITAL ADEQUACY			
82	Adjusted capital/risk weighted assets (Basel II)	40.0%	79.7%	50.2%
83	Tier 1 capital/Adjusted capital	132%	129%	118%
84	Total loans - net/Adjusted capital	3.33	2.27	1.69
85	Capital unimpaired by losses (N'000)	26,694,645	23,523,045	19,600,628
	STAFF INFORMATION			
86	Net earnings per staff (N'000)	84,643	119,610	151,438
87	Staff cost per employee (N'000)	11,464	12,138	17,664
88	Staff costs/Operating expenses	26.6%	19.7%	26.7%
89	Average number of employees	125	85	61
90	Average staff per branch	42	28	20
	OTHER KEY INFORMATION			
91	Legal lending limit(N'000)	13,347,323	11,761,523	9,800,314
92	Number of branches	3	3	3
93	Age (in years)	3	2	1
94	Government stake in equity (Indirect)	Nil	Nil	Nil
		Estimates	**Actual**	**Actual**
	MARKET SHARE OF INDUSTRY TOTAL	2018	2017	2016
95	Lcy deposits (excluding interbank takings)	0.79%	0.50%	0.37%
96	Total assets & contingents	0.63%	0.46%	0.33%
97	Total loans & leases - net	0.37%	0.24%	0.17%
98	Net earnings	0.39%	0.48%	0.49%
99	Profit before tax	0.48%	0.69%	0.82%
100	Cash dividend	0.66%	0.36%	0.57%

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.

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