AB MFB SPV PLC

Series I ₦1.178 billion 5-Year Fixed Rate Senior Unsecured Bond

Final Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

AB MFB SPV Plc's Series I ₦1.178 billion 5-Year Fixed Rate Senior Unsecured Bond (under the ₦15 billion Debt Issuance Programme)

Issue Rating:

Bbb+

Satisfactory quality with moderate credit risk; adequate capacity to pay returns and principal on debt in a timely manner

Outlook: Stable
Issue Date: 26 Oct 2026
Expiry Date: 26 Aug 2027

The rating is subject to annual review throughout the life of the bond

Bond Tenor: 5 years

Industry: Microfinance

Analysts:

Chiamaka Ozorjiri
chiamakaozorjiri@agusto.com

Adebiyi Olukoya
biyiolukoya@agusto.com

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

www.agusto.com

TRANSACTION PARTIES

Issuer:
AB MFB SPV Plc

Sponsor:
AB Microfinance Bank Limited

RATING RATIONALE

Agusto & Co. hereby assigns a "**Bbb+**" rating to AB MFB SPV Plc's ("AB MFB SPV" or "the Issuer") Series I ₦1.178 billion 5-Year Fixed Rate Senior Unsecured Bond ("the Bond" or "the Issue"). The Issuer will pay semi-annual coupons, while the principal will be amortised and repaid semi-annually after a one-year moratorium. AB MFB SPV was established to finance AB Microfinance Bank Nigeria Limited ("AB MFB", "the MFB" or "the Sponsor") by issuing debt securities to the general public. The Issue is backed by the Sponsor's undertaking to fulfil the Issuer's payment obligations to the bondholders. Thus, the Bond rating mirrors the "**Bbb+**" credit rating of AB MFB. The rating reflects the Sponsor's good asset quality, parental support, good liquidity profile and experienced management team. However, the MFB's rating is constrained by sustained pressure on profitability and capitalisation due to high FCY-denominated technology expenses, reliance on costly tenured deposits and concentration in borrowed funds. The weak macro environment and its impact on the Sponsor's target market and costs were also considered.

AB MFB SPV has issued a ₦1.178 billion five-year fixed-rate unsecured bond, marking Series 1 of a ₦15 billion programme. Priced at ₦1,000 per unit, the Issuer will pay semi-annual coupons that will be met from the Sponsor's cashflows, while principal will be amortised and repaid on a semi-annual basis after a one-year moratorium. A Sinking Fund Account, managed by United Capital Trustees Limited and DLM Trust Company Limited, will be funded periodically by the MFB. The Bond is sponsored by AB MFB and will rank pari passu with the existing and future senior unsecured obligations of the Issuer and Sponsor. The net proceeds of the Issue will be utilized by the Issuer to purchase debt notes issued by the Sponsor, and the Sponsor shall in turn use the proceeds from the notes issuance to finance loan disbursements to existing and new clients in accordance with the terms of the Master Note Purchase Agreement (MNPA).

AB MFB, one of nine national microfinance banks licensed by the CBN, held an estimated 1.3% market share of the Industry's risk assets as at the 2024 FYE. The Sponsor is 87.55% owned by Atlantic Financial Group (AFG) Holding SA of Côte d'Ivoire, while the African Development Bank has a 12.45% stake. As at 31 December 2024, the MFB's total assets stood at ₦47.9 billion, with gross loans and advances of ₦37.1 billion accounting for a significant 77.5%. The Sponsor's asset quality is good with a non-performing loans to gross loans ratio of 4.3% (2023: 5.7%), which was better than our benchmark of 5% and peer LAPO Microfinance Bank Limited's ("LAPO MFB") 11.7% in the review year. As at the 2024 FYE, loan loss provision covered 104.1% of the NPLs, which is good in our view and reduces the impact of credit losses on future earnings. Based on unaudited accounts as at 31 May 2025, the NPLs to gross loans ratio was relatively stable at 4.2% supported by the new centralised scoring system and a performance incentive structure. Hence, we expect

The copyright of this document is reserved by Agusto & Co. Limited. No matter contained herein may be reproduced, duplicated or copied by any means whatsoever without the prior written consent of Agusto & Co. Limited. Action will be taken against companies or individuals who ignore this warning. The information contained in this document has been obtained from published financial statements and other sources which we consider to be reliable but do not guarantee as such. The opinions expressed in this document do not represent investment or other advice and should therefore not be construed as such. The circulation of this document is restricted to whom it has been addressed. Any unauthorized disclosure or use of the information contained herein is prohibited.

Issuing House:
United Capital Plc

Trustee:
United Capital Trustees Limited
DLM Trust Company Limited

Solicitor to the Issue:
Jackson, Etti & Edu

Solicitor to the Issuer:
Oake Legal

Reporting Accountant:
SIAO Partners

Auditor:
Deloitte & Touche

Registrar:
Africa Prudential Plc

TRANSACTION STRUCTURE

Repayment Structure:
The Issue's coupon will be payable semi-annually but the principal will be amortised and repaid semi-annually after a one-year moratorium.

Bond Ranking:
The Bond will rank pari passu with other existing senior unsecured obligations of the Issuer and Sponsor.

Use of Proceeds:
To purchase debt notes issued by the Sponsor, and the Sponsor shall in turn use the proceeds from the notes issuance to finance loan disbursements to existing and new clients in accordance with the terms of the MNPA.

AB MFB's enhanced credit assessment, monitoring and recovery structures to continue to support low delinquency rates in the near term.

In 2024, the Sponsor recorded profit before tax (PBT) of ₦2.2 billion, better than the ₦1.2 billion loss in the prior year, albeit partly due to a ₦2 billion waiver on software support expenses ("SLA waiver") granted by the parent in the review year. Thus, pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) improved to 5.3% and 31.8% respectively, with ROE slightly below the average inflation rate of 33.2% in the review year and the 32.3% ROE reported by peer, LAPO MFB in 2024. Based on unaudited accounts for the first five months to 31 May 2025, AB MFB posted PBT of ₦1.3 billion, which translated to improved annualised ROA and ROE of 6.5% and 39.6% respectively. We expect the MFB's satisfactory profitability ratios to be sustained in the near term buoyed by the ramp up of lending activities in H2'2025 as well as exchange rate stability.

As at 31 December 2024, the Sponsor reported shareholders' funds of ₦7.5 billion, up 17.5% from the prior year, driven by reserve accretion and an SLA waiver. The MFB's Basel I capital adequacy ratio stood at 20% (2023: 21%), above the 10% regulatory minimum but below select peer – LAPO MFB's 28%, and is considered acceptable. Leverage was satisfactory, with a debt-to-equity (DTE) ratio of 5.4x (2023: 4.6x), slightly above our 5x threshold and higher than peer's 2.6x as at the 2024 FYE. As at 31 May 2025 (unaudited), the DTE ratio improved to 4.9x following commercial paper maturities. However, AB MFB's DTE ratio is expected to rise moderately above 5x with the issuance of the Bond to support loan portfolio expansion.

The Sponsor's liabilities of ₦40.4 billion as at the 2024 FYE mainly comprised customer deposits (largely tenured deposits) at 55.1% while borrowings (29.2%) and other liabilities (15.7%) made up the balance. Given the reliance on time deposits, AB MFB's funding mix translated to a weighted average cost of funds (WACF) of 22%, which was notably higher than peer – LAPO MFB's 5.9%. We believe that time deposits will remain the MFB's mainstay despite plans to leverage technology to drive cheaper deposits given the significant competition from fintechs and other financial institutions in the retail segment. Thus, we expect the WACF to remain elevated in the near term.

As at the 2024 FYE, the MFB's loan to deposit ratio was 166.5% (2023: 167.2%), above our 90% maximum benchmark and denoting high liquidity risk. Nonetheless, AB MFB had liquid assets totalling ₦9.5 billion and liquidity ratio of 42.6% (2023: 32%), better than the regulatory minimum of 20% for microfinance banks. Based on the unaudited accounts as at 31 May 2025, the liquidity ratio remained in line with our expectation at 26%. While liquidity was deemed good during the review year, the high loan-to-deposit ratio indicates aggressive lending, which raises profit potential but also heightens liquidity risks.

Based on three-year average annual net earnings of ₦10 billion, total operating income over the Bond's 5-year tenor is projected at approximately ₦50 billion. At a coupon rate of 22%, this income is expected to adequately cover the total debt service obligations - including interest and principal repayments of about ₦2.1 billion on the issuance.

Thus, based on the aforementioned, we hereby assign a stable outlook to AB MFB SPV's Series I ₦1.178 billion Bond. However, our rating and outlook for the Bond will be revised accordingly to reflect any changes in the financial condition of the Sponsor.

Figure 1: Strengths, Weaknesses and Challenges

Strengths

- Good asset quality relative to other microfinance banks
- Experienced management team
- Support from large international microfinance group
- Good liquidity profile

Weaknesses

- Significant exposure to FCY denominated technology expenses
- Concentration in borrowed funds
- High cost of funds driven by its focus on costly tenored deposits

Challenges

- Weak macro environment and the adverse impact on its target market
- Sustaining profitability given Nigeria's soft currency
- Lowering the weighted average cost of funds

Table 1: Financial Data for AB MFB

	31-Dec-2022	31-Dec-2023	31-Dec-2024
Total Assets	₦32.4 billion	₦35.8 billion	₦47.9 billion
Net Earnings	₦12.9 billion	₦13.2 billion	₦17.8 billion
Pre-tax return on average assets	9.4%	-3.4%	5.3%
Pre-tax return on average equity	40.9%	-16.8%	31.8%

Source: AB Microfinance Bank Limited

Sponsor's Short-term Negative Rating Triggers

- Significant increase in foreign currency-denominated technology support expenses payable to the Access Microfinance Holding AG and an inability to reach future waiver agreements.
- Erosion of capital and deterioration in profitability due to FCY-denominated support expenses.

This report should be read in conjunction with Agusto & Co.'s 2025 credit rating report for AB MFB

PROFILE - ISSUER

AB MFB SPV Plc ('AB MFB SPV' or 'the Issuer') is a special purpose vehicle that was established to finance AB Microfinance Bank Nigeria Limited ('AB MFB', 'the MFB' or 'the Sponsor') by issuing debt securities to the general public. AB MFB SPV is a separate and distinct entity with no employees or operations.

The Issuer was incorporated in June 2025, with authorised share capital of ₦2 million (2 million ordinary shares of ₦1 each). AB MFB holds a 50% equity stake in the Issuer while United Capital Trustees Limited and DLM Trust Company Limited ("the Trustees") each own 25%.

PROFILE – SPONSOR

AB Microfinance Bank Nigeria Limited was incorporated in 2008 as a private limited liability company. The MFB was licensed by the Central Bank of Nigeria (CBN) to operate as a microfinance bank in May 2008 and commenced operations in October 2008. As at 30 May 2025, AB MFB's outstanding shares were held by Access Microfinance Holding AG (87.55%) and African Development Bank Group (12.45%). The Sponsor is part of the Access Microfinance Holding AG Group ("the Group"), which is headquartered in Germany and focused on fostering financial inclusion in sub-Saharan Africa, with operations in Liberia, Madagascar, Nigeria, Rwanda and Zambia. The Group had total assets in excess of EUR230 million as of December 2024. However, we note that in 2024, Access Microfinance Holding AG was acquired by Atlantic Financial Group (AFG) Holding SA, a financial group headquartered in Côte d'Ivoire with interests in commercial banking, insurance and microfinance across sub-Saharan Africa.

The MFB is one of nine national microfinance banks in Nigeria. AB MFB provides micro banking services in the form of credit and savings products to traders, entrepreneurs and micro, small and medium-sized enterprises (MSMEs). As at 31 December 2024, the Sponsor had 36 branches spread across Lagos, Oyo, Ondo, Ogun, Abia, Ekiti, Delta, Enugu, Imo, Rivers and Anambra states, with the head office situated at 28, Akintoye Shogunle Street, Ikeja, Lagos State. AB MFB is governed by a seven-member Board of Directors ("the Board"), which is chaired by Mr. Johannes Mainhardt while Mr. Pawel Wodz is the Managing Director/Chief Executive Officer.

Table 2: Board of Directors

Directors	Position
Mr. Johannes Mainhardt	Chairman
Mr. Pawel Wodz	Managing Director/Chief Executive Officer
Mr. Mikhail Velichko	Non-Executive Director
Mr. Abayomi Ayodabo	Non-Executive Director
Ms. Modupe Ladipo	Independent Non-Executive Director
Dr. Marc Lucassen	Independent Non-Executive Director

THE ISSUE

Structure of the Issue and Repayment Pattern

The Issuer has issued a ₦1.178 billion debt issuance ("the Bond" or "the Issue"), which constitutes Series 1 of a ₦15 billion programme. The Issue is executed as a five-year fixed rate unsecured debt instrument at a par value of ₦1,000. Coupon repayments will be made from the Sponsor's cashflows semi-annually, throughout the tenor of the Bond. However, the principal will be amortised and repaid semi-annually albeit, after one-year moratorium.

Purpose of the Issue

The Bond's proceeds will be used by the Sponsor to finance loan disbursements to existing and new clients. AB MFB's business strategy focuses on the provision of loan products and other financial services designed to meet the needs of MSMEs. The MFB plans to leverage technology including the automated centralised scoring and disbursement system launched in 2024 to improve service delivery and turnaround time and thus enhance operational efficiency and boost productivity. The Sponsor receives support from the Germany-based Access Microfinance Holding AG Group in areas including core technology deployment and capacity development.

Table 3: Bond Repayment Schedule

Year	Period	Semi-annual Coupon Payment (₦)	Principal Repayment (₦)	Total Repayment (₦)	Principal Obligation Outstanding (₦)
Year 1	Payment 1	129,580,000.00	-	129,580,000.00	1,178,000,000.00
Year 1	Payment 2	129,580,000.00	-	129,580,000.00	1,178,000,000.00
Year 2	Payment 3	129,580,000.00	99,330,201.86	228,910,201.86	1,078,669,798.14
Year 2	Payment 4	118,653,677.80	110,256,524.06	228,910,201.86	968,413,274.08
Year 3	Payment 5	106,525,460.15	122,384,741.71	228,910,201.86	846,028,532.36
Year 3	Payment 6	93,063,138.56	135,847,063.30	228,910,201.86	710,181,469.06
Year 4	Payment 7	78,119,961.60	150,790,240.26	228,910,201.86	559,391,228.80
Year 4	Payment 8	61,533,035.17	167,377,166.69	228,910,201.86	392,014,062.11
Year 5	Payment 9	43,121,546.83	185,788,655.03	228,910,201.86	206,225,407.08
Year 5	Payment 10	22,684,794.78	206,225,407.08	228,910,201.86	-
Total		**912,441,614.89**	**1,177,999,999.99**	**2,090,441,614.88**	

Security and Covenants

A Sinking Fund Account (SFA) will be created in accordance with the provision of the trust deed and managed by the Trustees. The Sponsor will fund the SFA on a periodic basis.

The Series 1 Bonds shall constitute direct, unconditional, senior, and unsecured obligations of the Issuer and Sponsor and shall at all times rank pari passu and without any preference among themselves, and at least pari passu with all other senior unsecured obligations of the Issuer, present and future.

ANALYSTS' COMMENTS

SPONSOR'S FINANCIAL CONDITION

Impact of macro headwinds on target market to remain a threat to asset quality in the near term

AB MFB's asset base predominantly comprises short-term credit facilities granted to individuals and MSMEs. Over the last two years, the depreciation of the Naira has resulted in higher working capital demands for MSMEs, thereby driving increased demand for credit. Thus, as at 31 December 2024, total assets stood at ₦47.9 billion, with gross loans and advances of ₦37.1 billion representing the bulk at 77.5%. The Sponsor's loan book was relatively balanced with micro loans constituting 53.7% (2023: 57.5%) and SME loans accounting for 46.1% (2023: 42.2%) while staff loans made up a fraction (0.2%). We also note the 27.5% year-on-year growth in the loan book bolstered by increased customer deposits and bank borrowings. Agusto & Co. views the loan book growth as acceptable relative to the 33.2% average rate of inflation in the review year. Based on unaudited accounts as at 31 May 2025, gross loans stood at ₦41.2 billion, representing an 11% increase from the end of the review year as the four new branches opened in commercial areas and digitalisation initiatives launched in 2024 continued to drive penetration and coverage. Given the improved stability in Nigeria's FX market, we expect a moderate increase in the demand for credit from MSMEs and thus a modest growth in the loan book which will be funded in the near term by proceeds of the Issue and lines from development finance institutions (DFIs). The seasonal peak in H2'2025 with MSMEs seeking funds to bridge shortfalls in daily and operational expenses as the yuletide approaches is also expected to boost demand for consumer credit.

As at 31 December 2024, AB MFB had non-performing loans (NPLs) of ₦1.6 billion, largely unchanged from the ₦1.67 billion recorded in 2023 due mainly to write-offs totalling ₦258 million and the implementation of a centralised scoring system and revised incentive structure based on portfolio-at-risk (PAR) for loan officers. Thus, this translated to an improved NPLs to gross loans ratio of 4.3% (2023: 5.7%) which is better than our 5% benchmark for microfinance banks and peer – LAPO Microfinance Bank Limited's ("LAPO MFB") 11.7% in the review year. Nonetheless, without the 27.5% growth in risk assets portfolio, the MFB's NPLs to gross loans ratio would have been slightly above our 5% benchmark at 5.5%. As at the 2024 FYE, the cumulative loan loss provision covered 104.1% of NPLs, which is good in our view. Based on unaudited accounts as at 31 May 2025, the NPLs to gross loans ratio was stable at 4.2% as the new centralised scoring system and incentive structure continued to support the origination of quality assets. Hence, we expect AB MFB to sustain the low delinquency rates in the near term. In our view, the MFB's asset quality is good. Nonetheless, the Sponsor will grapple with the negative impact of macro headwinds on its target market and this will remain a threat to asset quality in the near term.

Without a firm resolution, the FCY obligations under the software SLA will continue to dampen the Sponsor's profitability in the near term

AB MFB generates earnings primarily from the interest income on loans and advances to MSMEs, while fees and commissions represent ancillary income. During the 2024 financial year, the MFB generated net earnings of ₦11.8 billion, a 39% increase from the prior year driven mainly by loan book growth and repriced risk assets. Net earnings wholly comprised net interest income, with the Sponsor recording negative ancillary income due

to FX losses arising from FCY obligations under the software service level agreement (SLA) with the parent company. In addition, the MFB's net interest spread (NIS) in 2024 deteriorated to 68.9% (2023: 71.8%) given the significant reliance on expensive term deposits in an elevated yield environment. Thus, AB MFB's NIS compared unfavourably to peer – LAPO MFB's 90.4% in the same year. Based on unaudited accounts for the first five months to 31 May 2025, the Sponsor recorded net earnings of ₦6.3 billion, an annualised increase of 29.1% as lending activities remained high despite the generally slower season in the early part of the year while the NIS was relatively stable at 68.2%. We anticipate a moderate increase in the net earnings in the near term as loan disbursements peak in the second half of the year supported by the proceeds from the issuance of the Bond and additional funding from DFIs.

In the 2024 FY, the Sponsor incurred operating expenses of ₦9.6 billion, largely unchanged from the prior year despite the inflationary pressures as the parent – Access Microfinance Holding AG, gave a waiver of ₦2 billion on FCY obligations under the SLA. Hence, the cost-to-income ratio (CIR) improved to 81.3% from the 113.6% recorded in the prior year. Nonetheless, AB MFB's CIR compared unfavourably to our maximum threshold of 75% for microfinance banks and LAPO MFB's 77% in the review year. Based on unaudited accounts for the five months ended 31 May 2025, the CIR was slightly lower at 79.8% due to enhanced earnings and a ₦126 million software SLA waiver from Access Microfinance Holding AG recognised subsequent to the year end. We expect a moderate improvement in the CIR in the near term as disbursements ramp up and the parent continues to support the MFB with waivers on the SLA where necessary. We also note that preliminary discussions have begun at the Group level under the new ownership to implement a structure that provides a lasting solution to the considerable costs incurred due to the SLA.

In the 2024 FY, AB MFB reported a profit before tax (PBT) of ₦2.2 billion, a significant turnaround from the ₦1.2 billion loss recorded in the prior year, supported by the waiver on software SLA in the review year. The PBT thus translated to improved pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) of 5.3% (2023: -3.4%) and 31.8% (2023: -16.8%) respectively. AB MFB's ROE was slightly below the 12-month average inflation rate of 33.2% and the 32.3% ROE reported by peer – LAPO MFB in 2024. However, the MFB's ROA was notably lower than LAPO MFB's 9.3% recorded in the review year. Based on unaudited accounts for the five months to 31 May 2025, AB MFB posted a pre-tax profit of ₦1.3 billion, which represented a significant 89.1% of the full year budget and translated to improved annualised ROA and ROE of 6.5% and 39.6% respectively. We expect the Sponsor's profitability ratios to remain in line with our expectations in the near term buoyed by the ramp up of lending activities in the second half of the year and reduced FCY-related losses following a temporary resolution of the FCY SLA costs. We note that the software support expenses waivers for 2024 and 2025 have been set at EUR970,900 and EUR120,000, respectively. Thus, the sustainability of AB MFB's satisfactory profitability profile remains threatened by exchange rate volatility, which could lead to a spike in support expenses and possible losses without new waivers from Access Microfinance Holding AG.

Leverage is expected to rise in the near term but capital should remain acceptable

As at 31 December 2024, AB MFB had shareholders' funds of ₦7.5 billion, representing a 17.5% increase from the prior year due to accretion to regulatory risk reserve and supported by the SLA waiver in the review year. Thus, the MFB's shareholders' funds remained significantly above the minimum capital requirement of ₦5

billion for national microfinance banks. The Sponsor's core capital was sufficient to fund 15.6% (2023: 17.8%) of total assets, which is satisfactory in our view. Based on unaudited accounts as at 31 May 2025, shareholders' funds stood at ₦8 billion, a 7.4% increase from the prior year due to accretion to retained earnings and funding a higher 17.1% of total assets, in line with our expectation. As at the 2024 FYE, the MFB had a Basel I capital adequacy ratio (CAR) of 20% (2023: 21%), which was better than the minimum regulatory requirement of 10% for microfinance banks. However, AB MFB's CAR compared unfavourably to the 28% recorded by peer LAPO MFB in the same year. Nevertheless, we view capitalisation as acceptable.

As at 31 December 2024, the Sponsor had a debt-to-equity (DTE) ratio of 5.4x (2023: 4.6x), which was slightly weaker than our threshold of 5x for microfinance banks and higher than peer LAPO MFB's 2.6x. Based on unaudited accounts as at 31 May 2025, the DTE ratio was largely in line with our threshold at 4.9x, as AB MFB's commercial papers matured in the first half of the year. In our opinion, the Sponsor's leverage is satisfactory. However, we expect the DTE ratio to increase moderately above our 5x threshold in the near term as the MFB issues the Bond to finance the expansion of its risk asset portfolio.

Liquidity should remain good in the near term but funding can be improved

The Sponsor primarily relies on expensive time deposits and borrowings from DFIs and the money market for debt funding. As at 31 December 2024, AB MFB had total liabilities of ₦40.4 billion, which funded a sizeable 84.4% of total assets. The MFB's liabilities largely comprised customer deposits (55.1%) and borrowings (29.2%) while other liabilities (15.7%) made up a smaller balance. The Sponsor's deposit mix was skewed to expensive time deposits, which constituted 80.7% of deposit liabilities while the cheaper savings and demand deposit made up a relatively small balance of 19.3%. Due to the reliance on expensive term deposits in 2024, AB MFB's funding mix translated to a weighted average cost of funds (WACF) of 22%, which was notably higher than peer LAPO MFB's 5.9%. We expect the WACF to remain elevated in the near term as the MFB continues to rely on deposits from rate-sensitive high net worth individuals and institutional investors despite plans to leverage technology to drive cheaper deposits. Nonetheless, with the successful issuance of the Bond and as the Sponsor continues to establish partnerships with foreign and domestic DFIs including the Bank of Industry to obtain cheaper funding, the WACF may be somewhat moderated.

As at the 2024 FYE, total borrowings stood at ₦11.8 billion, with commercial papers amounting to ₦8.4 billion representing the bulk at 65.9%. Funding from a foreign DFI also made up a significant (22%) portion of the total borrowings while facilities from Development Bank of Nigeria (DBN) made up a smaller (12.2%) balance. The MFB aims to ensure that the risk assets portfolio is largely funded by naira denominated liabilities and any foreign exchange risks are hedged. Thus, the FCY denominated borrowings representing 23.9% of total borrowings were hedged using swaps with a mid-tier asset management firm. Based on unaudited accounts as at 31 May 2025, AB MFB's borrowings stood at ₦9.5 billion, representing a 19.5% decline from the end of the review year following the pay down of ₦4.2 billion in commercial papers that matured in January and April 2025. As at 30 June 2025, the MFB's ₦2.9 billion credit line from the DBN was almost fully drawn down. We expect a moderate increase in borrowings in the near term as the Sponsor accesses funding from the debt capital market via the bond issuance programme as well as facilities from DFIs. Overall, in our opinion, AB MFB's funding profile can be improved.

AB MFB continues to record high loan-to-deposit ratios (above our 90% benchmark) indicating an aggressive lending practice, which can result in higher profits but also an increased risk of illiquidity. As at the 2024 FYE, the Sponsor had a loan-to-deposit ratio of 166.5% (2023: 167.2%), a negative rating driver in our opinion. When we exclude the amount funded by free capital, the loan to deposit ratio remains elevated at 146.2%. Notwithstanding, as at the 2024 FYE, the MFB had liquid assets totalling ₦9.5 billion and a liquidity ratio of 42.6% (2023: 32%), which was better than the regulatory minimum of 20% for microfinance banks. Based on unaudited accounts as at 31 May 2025, the liquidity ratio remained in line with our expectation at 26%. Thus, we expect AB MFB's liquidity ratio to remain above the CBN minimum in the near term supported by the plans to access funding from the debt capital market and DFIs. We view the Sponsor's liquidity as good.

OUTLOOK

Macroeconomic headwinds, especially inflation, significantly constrained the growth of Nigeria's economy in 2024. In response to the heightened inflationary pressure, the CBN raised its monetary policy rate (MPR) to 27.5% in November 2024 and has held the MPR steady at that level in Q3 2025. Thus, borrowing costs for businesses and consumers have remained high. Notwithstanding the high-interest rate environment, demand for credit is expected to rise in the near term, as businesses and households seek financing to meet short-term needs.

The Sponsor aims to grow its risk asset portfolio using the proceeds from debt issuances in the debt capital market and borrowings from local and foreign DFIs. Thus, we expect AB MFB's profitability to be maintained in the near term as the improved stability in the foreign exchange market allows the SLA costs to be kept in check. We expect capitalisation to remain acceptable for the level of business risk undertaken while leverage should increase slightly beyond our acceptable threshold as the MFB raises debt to finance business expansion. Agusto & Co. anticipates that the funding profile will improve supported by the planned bond issuances and DFI partnerships while liquidity should remain within the acceptable threshold. We believe that the Sponsor's asset quality will remain good in the near term supported by the enhanced credit scoring and loan monitoring systems.

Based on three-year average annual net earnings of ₦10 billion, the total operating income over the Bond's five-year tenor is projected at approximately ₦50 billion. With a coupon rate of 22%, the projected income is expected to sufficiently cover the total debt service obligations—comprising both interest and principal repayments—amounting to circa ₦2.1 billion for the issuance.

Based on the aforementioned, we hereby assign a stable outlook to AB MFB SPV Plc's Series I ₦1.178 billion 5-Year Fixed Rate Senior Unsecured Bond.

This report should be read in conjunction with Agusto & Co.'s 2025 credit rating report for AB MFB

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-22		31-Dec-23		31-Dec-24	
	₦'Mn		₦'Mn		₦'Mn	
ASSETS						
Cash & equivalents	358	1.1%	799	2.3%	431	0.9%
Government securities	941	2.9%	1,176	3.3%	1,405	2.9%
Liquid Assets	**1,300**	**4.0%**	**1,975**	**5.5%**	**1,836**	**3.8%**
Total Placements	**3,381**	**10.4%**	**3,602**	**10.2%**	**7,669**	**16.0%**
Direct loans and advances - Gross	27,149	83.8%	29,121	81.34%	37,138	77.5%
Less: Cumulative loan loss provision	(1,045)	-3.2%	(1,581)	-4.4%	(1,671)	-3.5%
Direct loans & advances - net	**26,103**	**80.6%**	**27,541**	**76.9%**	**35,467**	**74.0%**
Other Assets	**957**	**3.0%**	**1,869**	**5.2%**	**2,257**	**4.7%**
Property, plant & equipment - for own use	567	1.8%	723	2.0%	704	1.5%
Goodwill & other intangible assets	90	0.3%	93	0.3%	-	-
Total Fixed Assets & Intangibles	658	2.0%	816	2.3%	704	1.5%
TOTAL ASSETS	**32,400**	**100.0%**	**35,804**	**100%**	**47,935**	**100.0%**
CAPITAL & LIABILITIES						
TIER 1 CAPITAL (CORE CAPITAL)	**7,316**	**22.6%**	**6,368**	**17.8%**	**7,485**	**15.6%**
Other long-term borrowings	8,554	26.4%	6,671	18.6%	11,809	24.6%
Demand deposits	887	2.7%	2,431	6.8%	2,577	5.4%
Savings deposits	956	3.0%	1,539	4.3%	1,737	3.6%
Time deposits	11,093	34.2%	13,442	37.5%	17,989	37.5%
TOTAL DEPOSIT LIABILITIES	**12,936**	**39.9%**	**17,413**	**48.6%**	**22,302**	**46.5%**
Taxation payable - current	961	3.0%	105	0.3%	2,014	4.2%
Other accounts payable	1,609	5.0%	3,763	10.5%	2,954	6.2%
TOTAL CAPITAL & LIABILITIES	**32,400**	**100.0%**	**35,804**	**100%**	**47,934**	**100.0%**

INCOME STATEMENT FOR THE PERIOD ENDED	31-Dec-22		31-Dec-23		31-Dec-24	
	₦'Mn		**₦'Mn**		**₦'Mn**	
Interest income	12,593	97.9%	13,635	103.2%	18,462	103.5%
Interest expense	(2,477)	-19.3%	(3,844)	-29.1%	(5,747)	-32.2%
Loan loss expense	(749)	-5.8%	(884)	-6.7%	(285)	-1.6%
Net Revenue from Funds	**9,366**	**72.8%**	**8,907**	**67.4%**	**12,430**	**69.7%**
Commissions	301	2.3%	339	2.6%	451	2.5%
Fees & Other Income	(27)	-0.2%	(762)	-5.8%	(1,084)	-6.1%
Net Earnings	**9,640**	**75.1%**	**8,485**	**70.0%**	**11,798**	**66.2%**
Staff costs	(4,206)	-32.7%	(4,755)	36.0%	(5,454)	-30.6%
Depreciation expense	(332)	-2.6%	(468)	-3.5%	(376)	-2.1%
Other operating expenses	(2,412)	-18.7%	(4,413)	-33.4%	(3,765)	-21.1%
Total Operating Expenses	**(6,951)**	**-54.0%**	**(9,637)**	**-72.9%**	**(9,595)**	**-53.8%**
Profit (Loss) Before Taxation	**2,689**	**20.9%**	**(1,152)**	**-8.7%**	**2,202**	**12.4%**
Tax (Expense) Benefit	(753)	-5.9%	203	1.5%	(1,085)	-6.1%
Profit (Loss) After Taxation	**1,936**	**15.0%**	**(948)**	**-7.2%**	**1,117**	**6.3%**
Gross Earnings	**12,867**	**100.0%**	**13,214**	**100.0%**	**17,829**	**100.0%**
AUDITORS	BDO Professional Services		Deloitte		Deloitte	
OPINION	CLEAN		CLEAN		CLEAN	

KEY RATIOS	31-Dec-22	31-Dec-23	31-Dec-24
Net interest margin	80.3%	71.8%	68.9%
Loan loss expense/Interest income	6.0%	6.5%	1.5%
Operating expenses/Net earnings	72.1%	113.6%	81.3%
Return on average assets	9.4%	-3.4%	5.3%
Return on average equity	40.9%	-16.8%	31.8%
Gross earnings/Total assets & contingents (average)	44.9%	38.7%	42.6%
LIQUIDITY & FUNDING			
Total loans - net/Total lcy deposits	150.3%	126.3%	128.6%
Liquid assets/Total lcy deposits	36.2%	32.0%	42.6%
Demand deposits/Total lcy deposits	6.9%	14.0%	11.6%
Savings deposits/Total lcy deposits	7.4%	8.8%	7.8%
Time deposits/Total lcy deposits	85.7%	77.2%	80.7%
ASSET QUALITY RATIOS			
Performing Loans (₦'mn)	25,981	27,451	35,533
Portfolio at Risk (₦'mn)	1,167	1,670	1,604
Portfolio at Risk /Total loans - Gross	4.3%	5.7%	4.3%
Loan loss provision/Total loans - Gross	3.9%	5.4%	4.5%
Loan loss provision/Portfolio at Risk	89.6%	94.6%	104.1%
Risk-weighted assets/Total assets & contingents	95.4%	93.1%	95.4%
CAPITAL ADEQUACY & LEVERAGE RATIOS			
Adjusted capital/risk weighted assets	26%	21%	15.6%
Tier 1 capital/Adjusted capital	100%	100%	100%
Adjusted Capital / Net Loans	3.67	4.68	4.98
Core capital unimpaired by losses (₦'mn)	7,111	5,881	7,116
STAFF INFORMATION			
Average number of employees	1,417	1,412	1,145
Staff cost per employee (₦'mn)	2.9	3.3	4,764
Net earnings per staff (₦'mn)	6.8	6.0	10,304
Staff cost/Net earnings	44%	56%	56.8%
Staff costs/Operating expenses	61%	49%	56.8%
Average staff per branch	49	44	32

RATING DEFINITIONS

Aaa	**Highest quality debt issue with minimal credit risk; strongest capacity to pay returns and principal on debt in a timely manner.**
Aa	High-quality debt issue with very low credit risk; very strong capacity to pay returns and principal on debt in a timely manner.
A	Good quality debt issue with low to moderate credit risk; strong capacity to pay returns and principal on debt in a timely manner.
Bbb	Satisfactory quality with moderate credit risk; adequate capacity to pay returns and principal on debt in a timely manner.
Bb	Below average quality with moderate to high credit risk; speculative capacity to pay returns and principal on debt in a timely manner.
B	Weak quality with high credit risk; speculative capacity to pay returns and principal on debt in a timely manner.
C	Very weak capacity to pay returns and principal. Debt instrument with very high credit risk.
D	In default.

Rating Category Modifiers

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.

The copyright of this document is reserved by Agusto & Co. Limited. No matter contained herein may be reproduced, duplicated or copied by any means whatsoever without the prior written consent of Agusto & Co. Limited. Action will be taken against companies or individuals who ignore this warning. The information contained in this document has been obtained from published financial statements and other sources which we consider to be reliable but do not guarantee as such. The opinions expressed in this document do not represent investment or other advice and should therefore not be construed as such. The circulation of this document is restricted to whom it has been addressed. Any unauthorized disclosure or use of the information contained herein is prohibited.



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