



United Capital Plc

2022 Final Rating Report

 **Agusto&Co.**

Research, Credit Ratings, Credit Risk Management

United Capital Plc

Rating:

A-

Outlook: Stable

Issue Date: 29 July 2022

Expiry Date: 30 Jun 2023

Previous Rating: A-

Industry:

Financial Services

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RATING RATIONALE

Agusto & Co. hereby affirms the 'A-' rating assigned to United Capital Plc ("United Capital", "UCP" or "the Group"). The rating reflects the Group's strong relationship with a large banking group, good profitability, good funding and liquidity profile, large market share and experienced management team. The rating is, however, constrained by significant exposures to entities related to the Group's former parent company, weak capitalisation of United Capital's asset management subsidiary and significant influence of a related party on governance and risk. We have also considered the significant uncertainty in Nigeria's macro environment, which has adversely affected businesses and households.

United Capital is a financial services group and a former subsidiary of United Bank of Africa Plc (UBA) – one of the largest commercial banks in Nigeria. The Group offers asset management, securities trading, investment banking, trust and consumer lending services. As at 31 December 2021, UCP had total assets of ₦453.6 billion, with liquid assets accounting for 75.5% of the total. Liquid assets mainly comprised collective investment scheme (CIS) holdings and placements with financial institutions (FIs). The bulk (96%) of the Group's CIS portfolio were exposures to United Capital's Fixed Income Fund (69%), Eurobond Fund (24.7%) and Money Market Fund (2.3%). The majority (66.7%) of placements with FIs consisted 48.3% of investment grade credit quality entities, 47.5% of unrated FIs and 4.2% of speculative grade counterparties. We believe that the Group's high exposure to unrated and speculative grade FIs, which equated to 118% of shareholders' funds, reflects an aggressive appetite for credit risk. We were unable to ascertain the credit quality of the balance (c. 33.3%) of the placements with FIs due to the limited information provided by the Group.

As at 31 December 2021, loans and advances, which accounted for 12% of UCP's total assets, were mainly (98.4%) exposures to related parties of the erstwhile parent. The loans to two related parties in the Nigerian oil & gas

industry stood at ₦55.4 billion, equating to 181% of shareholders' funds. The exposure was significantly higher than the threshold generally recommended for single obligors by regulators. While there has been no default, the loans were restructured twice in a 12-month period in 2021/2022. In our view, this reflects the weakened repayment capacity of the obligors (despite the rising OPEC basket price) given the high rate of oil theft and pipeline vandalism in the Niger Delta. However, we note that the revolving borrowing from UBA to fund the related-party loans was also extended in line with the restructuring.

During the 2021 financial year, United Capital recorded a pre-tax profit of ₦11.9 billion, which translated to pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) of 3.5% and 43.3% respectively. The Group's ROE was significantly better than the 17% average rate of inflation in the review period. United Capital's profitability ratios, however, compared less favourably to the ROA and ROE of 9.2% and 50.8% respectively recorded by peer CardinalStone Partners Group (CSPG) in the period.

As at 31 December 2021, liabilities funded 93.3% of total assets and mainly comprised clients' funds under management (FuM) at 77.4% of the total, with borrowings and other liabilities making up the remaining 18.8% and 3.8% respectively. There was significant concentration in the Group's FuM as the top 20 clients contributed 40%. United Capital was, therefore, susceptible to significant funding gap in the event of a withdrawal by any of the largest clients. As at the 2021 FYE, the Group's borrowings stood at ₦79.7 billion and were largely (67%) provided by UBA to fund the related party transactions of the investment banking business. Commercial paper and bond obligations accounted for the remaining 23% and 10% respectively of borrowings. We expect UCP's funding sources to be diversified moderately in the near term as United Capital completes the ₦20 billion series II of the ₦30 billion bond issuance programme in the second half of 2022.

United Capital's shareholders' funds stood at ₦30.5 billion as at 31 December 2021, funding 6.7% of total assets, which was lower than our expectation for a capital market operator. The Group's SEC-regulated businesses all complied with the minimum capital requirements for the respective capital market-operator licences. The estimated Basel I capital adequacy ratio (CAR) of 13.9% was better than our benchmark. United Capital Asset Management Limited, however, had an adjusted capital to risk weighted assets ratio of 2.6%, which was significantly lower than our benchmark. UCP had a debt-to-equity ratio (excluding funds under management) of 3.1 times as at the 2021 FYE, which was higher than peer CSPG's 2.1x but lower than our maximum

acceptable threshold of 5x. Based on unaudited accounts as at 31 March 2022, the debt-to-equity ratio was notably higher at 5x.

As at 31 December 2021, the Group had a liquidity ratio of 75.5% and liquid assets were sufficient to cover 104% of FuM, which were both better than our expectations. However, UCP had no committed bank lines to meet short-term liquidity needs.

Table 1: Financial Data

	31 Dec 2021	31 Dec 2020
Total Assets	₦453.6 billion	₦222.7 billion
Net Earnings	₦18.1 billion	₦12.9 billion
Pre-tax return on average assets	3.5%	4.3%
Pre-tax return on average equity	43.4%	36.1%

Source: United Capital

Figure 1: Strengths, Weaknesses and Challenges



GROUP PROFILE

United Capital Group ('United Capital', 'UCP' or 'the Group') is a leading financial services group domiciled in Nigeria and Ghana. United Capital was a wholly owned subsidiary of United Bank for Africa Plc ('UBA' or 'the Bank'), one of the largest commercial banks in Nigeria. The Bank divested of the Group in 2012, in compliance with CBN's regulation that prohibited commercial banks from non-traditional banking activities. United Capital was thus created from a spin-off of the asset management, trust services, securities trading and investment banking businesses of UBA. The Group maintains a holding company structure, with the investment banking business – United Capital PLC (UCPLC) – serving as the anchor company of UCP. In addition to UCPLC, the Group comprises four other entities: United Capital Trustees Limited (UCTL), United Capital Asset Management Limited (UCAML), United Capital Securities Limited (UCSL) and UC Plus Advance Limited (UC Plus).

UCPLC, UCTL, UCAML and UCSL are licensed by the Nigerian Securities & Exchange Commission (SEC). UCPLC is licensed as an issuing house to provide financial advisory and capital raising services to corporates and sub-nationals. UCTL is licensed to provide public, private and corporate trusteeship services. UCAML is licensed as a fund/portfolio manager and offers discretionary and non-discretionary portfolio management services to high-net-worth individual (HNI), retail and institutional clients. UCSL is licensed to provide fixed income and equity trading services to investors. UC Plus provides payday loans to employed individuals and asset-backed loans to clients of the Group and other related companies.

United Capital is owned by over 261,011 shareholders comprising individuals and institutional investors. As at 31 December 2021, West Coast Equity Limited was the Group's largest shareholder with a 26% equity stake. UCP is governed by a nine-member Board of Directors ('the Board'), which is chaired by Mr. Chika Mordi. The Group's head office is located on the 3rd and 4th Floors of Afriland Towers, 97 Broad Street, Lagos Island. In 2021, United Capital had an average staff strength of 103 persons.

Table 2: Board of Directors

Directors	Position
Mr Chika Mordi	Chairman
Mr Peter Ashade	Group Managing Director
Mr Sunny Anene	Group Executive Director
Mr Emmanuel N. Nnorom	Non-Executive Director
Mr Sonny Iroche	Non- Executive Director (Independent)
Sir Stephen Nwadiuko	Non- Executive Director (Independent)
Mr Dipo Fatokun	Non- Executive Director (Independent)
Hajiya Sutura Aisha Bello	Non- Executive Director (Independent)
Mr Leke Ogunlewe	Non-Executive Director

Source: United Capital

Table 2: Significant Shareholder

Directors	Shareholding
West Coast Equity Limited	26%

Business Structure

United Capital operates a shared service structure with support functions, comprising Operations, Finance & Investments, Investment Research, Enterprise Risk Management, Secretarial, Legal & Compliance, Audit & Business Assurance, Marketing & Corporate Communications, Resources, Customer Experience, Information Technology and Digital Transformation, provided centrally. The Group Chief Financial Officer (GCFO), the Head of Operations and the managing directors of UCSL and UCAML report to the Group Executive Director. The managing directors of UCTL and UCPLC and the Head of the consumer finance business (UC Plus) report directly to the Group Chief Executive Officer (GCEO). The Digital Transformation, Enterprise Risk Management, Investment Research, Resources and Marketing & Corporate Communications heads also report to the GCEO. The Heads of the Secretarial, Legal & Compliance and Internal Audit functions report to the Board of Directors, with a dotted reporting line to the GCEO.

Business Strategy

UCP's strategy is to provide a broad range of financial services including investment banking, trusteeship, asset management, securities trading and consumer lending to meet the needs of corporate and municipal issuers and HNI, retail and institutional investors. The Group leverages technology, digital marketing and regional expansion across Nigeria and sub-Saharan Africa to acquire clients while offering competitive rates to grow investors' funds under management. United Capital also partners with associations, cooperatives and FinTech companies to drive subscription of retail products while actively promoting cross-selling within the Group. UCP also leverages UBA's extensive distribution network across Nigeria and other countries in sub-Saharan Africa to drive penetration. United Capital plans to obtain a microfinance banking licence in the near term, with a view to convert UC Plus to a digital bank.

Information Technology

United Capital operates a shared group information technology system with central servers that house the core business applications: Symplus, Folio and INVESTNOW. The Group also uses the Bloomberg terminal and X-Gen application and has a dedicated point-to-point connection (P2P) to the Nigerian Exchange (NGX) for trading. United Capital's information technology infrastructure and business continuity plans serve the Group's different businesses, with modules dedicated to each group entity. In 2021, the Group deployed the Freshdesk customer relationship management software, which is expected to improve the user experience and facilitate customer engagement across a broader set of channels. The Group's data is stored locally on servers and in the cloud using solutions provided by Microsoft Azure. UCP's disaster recovery sites, which are situated in two offsite locations in Lagos State, are equipped with replicas of the core application servers, databases, and networking equipment. The Group is revamping the INVESTNOW application to improve user experience, facilitate client onboarding and promote compliance with regulatory know your customer (KYC) requirements through integration with third party platforms. The revamp is expected to be completed by Q3 2022.

MANAGEMENT TEAM

Mr Peter Ashade is the Group Chief Executive Officer and Managing Director (GCEO) of United Capital Plc. He was appointed to the position in July 2018. Mr Ashade has over 30 years of financial services experience, 15 of which were gained in chief executive roles. Prior to his appointment, he served as the Chief Executive Officer of Africa Prudential, a leading share registration company in Nigeria and a company with common shareholders with United Capital and UBA.

Mr Ashade holds a Bachelor's degree in Banking and Finance from the Olabisi Onabanjo University (formerly Ogun State University), Ago-Iwoye and an MBA in Marketing from the Obafemi Awolowo University, Ile-Ife. He also holds a Master's degree in Finance from the University of Lagos, Akoka. Mr Ashade is a Fellow of the Chartered Institute of Bankers and the Institute of Capital Market Registrars. He also holds professional qualifications from the Chartered Institute of Taxation of Nigeria and the Institute of Directors.

Mr Sunny Anene is the Group Executive Director of United Capital Plc. He was appointed a director in January 2019. Prior to this appointment, Mr Anene was the Managing Director of UCAML. His experience spans over twenty-six (26) years and cuts across investment, capital markets, pensions, finance and banking operations.

Mr Anene holds a Master's degree in Finance from the University of Lagos, Akoka. He is also an alumnus of the Lagos Business School (LBS) and IESE Business School, Barcelona, Spain. Mr. Anene is a Fellow of the Chartered Institute of Stockbrokers, Institute of Chartered Accountants of Nigeria and Chartered Institute of Taxation of Nigeria. He is also an Associate of the Certified Pension Institute of Nigeria and a Member of the Institute of Directors.

Other members of the Group's senior management include:

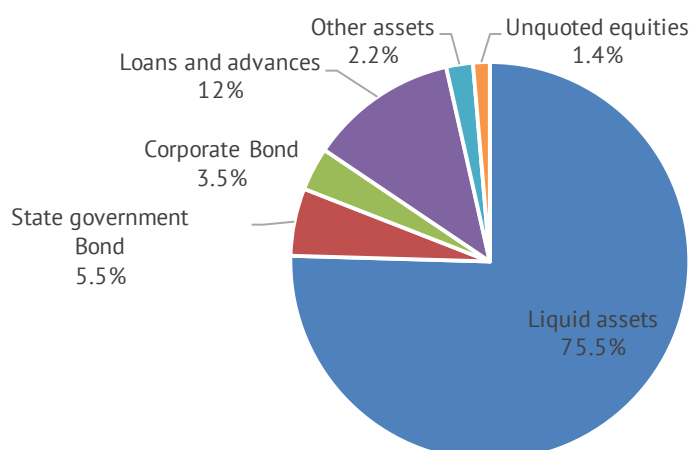
- | | |
|---------------------|--|
| ▪ Buky Ikeotuonye | Managing Director, United Capital Trustees Limited |
| ▪ Bawo Oritsejafor | Managing Director, United Capital Securities Limited |
| ▪ Odiri Oginni | Managing Director, United Capital Asset Management Limited |
| ▪ Gbadebo Adenrele | Managing Director, United Capital Plc |
| ▪ Richard Akindele | Head, UC Plus Advance Limited |
| ▪ Shedrack Onakpoma | Group Chief Financial Officer |
| ▪ Leo Okafor | Company Secretary/General Counsel |

ANALYSTS' COMMENTS

ASSET QUALITY

As at 31 December 2021, UCP had total assets of ₦453.6 billion, which represented a 103.6% increase from the ₦222.7 billion recorded at the end of 2020. The considerable growth in the Group's total assets was driven by increased funds under management (FuM) as United Capital expanded the range of product offerings and intensified marketing efforts to onboard major institutional clients. UCAML contributed the largest share of the Group's total assets with 62.2% as at 31 December 2021. UCPLC and UCTL accounted for 22.7% and 14.2% respectively, while UCSL and UC Plus jointly made up the remainder 0.9% of total assets. Based on unaudited accounts as at 31 March 2022, UCP's total assets stood at ₦463.9 billion, representing a relatively small increase of 2.3% from the end of 2021. Notwithstanding, we expect the Group's total assets to record appreciable growth in the near term as the economy improves and the digitalisation, digital bank and African expansion strategies are executed. We expect UCAML to remain the largest contributor and the major driver of United Capital's asset growth in the near term as the Group's primary conduit for FuM.

Figure 2: Breakdown of UCP's Total Assets



As at 31 December 2021, UCP had liquid assets of ₦341.7 billion, which represented a sizeable 75.5% of total assets. The largest share of liquid assets comprised collective investment schemes (CISs) at 42.5% of the total. The bulk (96%) of the Group's CIS holdings were exposures to United Capital's Fixed Income Fund (69%), Eurobond Fund (24.7%) and Money Market Fund (2.3%). In our view, the fixed income fund investments had significant exposure to interest rate risk while the Eurobond fund investments had notable exposure to credit and interest rate risks, which is somewhat mitigated by the possible foreign exchange (FX) gains. The money market fund investments, however, were of "A-(f)" quality on our fund risk rating scale. Placements with financial institutions (FIs) accounted for the second largest share of liquid assets with 39.5%. The majority (c. 66.7%) of placements with FIs were held 48.3% with institutions of investment grade credit quality, 47.5% with unrated FIs and 4.2% with speculative grade counterparties. In our view, the Group's high exposure to

unrated and speculative grade FIs, which equated to 118% of shareholders' funds, reflects an aggressive appetite for credit risk. We were unable to ascertain the credit quality of the balance (c. 33.3%) of the placements with FIs due to the limited information provided by the Group. Nonetheless, we note that UCP has disclosed that a policy to demand at least an equal amount of FGN Treasury securities as collateral is enforced for placements with FIs that are either unrated or of speculative grade credit quality. United Capital's placements with FI were highly concentrated, with the largest exposure, which was to a related party of the former parent, equating to 54.9% of shareholders' funds. We believe that this exposure, which significantly exceeded our threshold for single counterparties, leaves the Group overly susceptible to an event of distress in this FI.

Investments in high-yield international money market and fixed income funds denominated in foreign currency made up 10.5% of United Capital's liquid assets. In our view, these investments bear notable exposure to credit and interest rate risks, which may, however, be offset by the possible FX gains. Investments in FGN securities, which are of 'Aaa' credit quality on our national rating scale, accounted for 4.9% of liquid assets. Listed equities of players primarily in the banking, hospitality, telecommunications and manufacturing industries constituted 1.9% of liquid assets. There was, however, sector concentration, with the hospitality (65%) and banking (10.8%) industries' stocks collectively accounting for 75.8% of the portfolio, while the holding of a related party of the former parent represented a sizeable 10.1% of shareholders' funds.

Loans and advances, which accounted for 12% of UCP's total assets, were predominantly (98.4%) exposures to related parties of the erstwhile parent while consumer loans made up the balance (1.6%). As at 31 December 2021, the related party loans, which were funded by a revolving dollar-denominated borrowing obtained from UBA, stood at ₦55.4 billion. The exposures – to two obligors in the Nigerian oil & gas industry – equated to 181% of shareholders' funds, which was considerably higher than the threshold generally recommended for single obligors by regulators. While there has been no default, the loans were restructured twice in a 12-month period in 2021/2022. In our view, this indicates that the repayment capacity of the obligors has been weakened (despite the rising OPEC basket price) given the high rate of crude oil theft and pipeline vandalism in the Niger Delta. Notwithstanding, we note that the exposures are secured by very large oilfields. We, however, believe that the value of the oil fields may be impaired by the ongoing security challenges and the global acceleration towards more sustainable energy sources. This creates further uncertainty around the ability of the related parties to meet obligations, with a bullet repayment expected at maturity in 10 years. However, we note that the revolving dollar-denominated funding from UBA was also extended in line with the restructuring. As at 31 December 2021, consumer loans, which comprised salary and asset backed loans to government employees and the Group's investment clients, stood at ₦ 912 million. Non-performing loans accounted for less than 1% of gross consumer loans, which was better than our benchmark. Investments in state government and corporate bonds, which were primarily (90.7%) exposures to counterparties Agusto & Co. considers to be of investment grade quality, constituted 8.9% of total assets.

In our opinion, the Group's asset quality requires improvement given the considerable exposure to unrated counterparties and related parties of the former parent.

RISK MANAGEMENT

The Board of Directors ("the Board") is responsible for risk management at UCP. The Board discharges this duty via the Finance, Investment and Risk Management Committee (FIRM), which is responsible for establishing the scope of risk management, defining the Group's risk appetite and providing strategic leadership and guidance. The FIRM committee regularly reviews and monitors United Capital's risk exposure through quarterly board reports. The FIRM committee is supported by a Group Investment Committee (GIC), comprising the GCEO, Group Executive Director, the Managing Directors of UCP's businesses, the Head of Research and a member of the Legal & Compliance team. The GIC maintains oversight of investment decisions at UCP with consideration for the economic environment and liquidity constraints.

United Capital maintains a centralised risk management function across the Group's operations using a shared service model. UCP uses an Enterprise Risk Management framework for the collective management of financial and operational-risk events. United Capital adopts a three-line defence mechanism in the management of risk. The first line comprises the business units, which assess, measure and control inherent risks. The Managing Directors of the businesses are responsible for ensuring the risk governance standards set by the Board are adhered to, while each business has executive and investment committees that evaluate inherent risks before seeking approval from the GIC or FIRM committee. The second line of defence is provided by the Finance, Risk Management and Legal units, which are responsible for establishing and implementing the risk management framework and policies. The third line of defence is made up of the Internal Audit function, which provides an independent assessment of the adequacy and effectiveness of the overall risk management framework.

The Group has exposure to credit risk emanating from the investment of proprietary funds and clients' funds under management. UCP does not have a documented internal rating model for assessing the credit worthiness of counterparties, which falls short of our expectation given the scale of United Capital's operations. The Group relies on external credit ratings in the allocation of limits and funds to money market instruments and fixed income securities. This process is supported by market information and input from United Capital's Research unit while the Risk Management unit retains a list of eligible counterparties approved by the Board. Placements with financial institutions with a minimum credit rating of Bbb are typically unsecured. Exposures to lower rated financial institutions are typically backed by liquid assets, with collateral value ranging from 105% to 140% depending on the type of security. UCP investment in corporate issuances also requires a minimum external rating of Bbb. United Capital has sub-investment committees that govern the management of CISs and investment portfolios, including the proprietary trading business. These committees typically include the heads of the Research and Risk Management teams, the relevant subsidiary CEO, portfolio manager, the Chief Financial Officer and occasionally an independent member (usually a representative of the trustees of the CIS). All investment recommendations must be approved by the business' Managing Director prior to execution.

The proprietary trading portfolio is monitored daily by Risk Management, with support from the Research team to determine stop-loss levels. United Capital adopts a risk-based control framework that involves the collection of data on process failures. The internal audit unit executes an annual risk-based audit programme that reviews the processes and controls of each business at least once in the set period. The internal control unit conducts trade checks prior to the approval of client trades. The risk management framework has expanded to include

cybersecurity risk, in line with United Capital's increased reliance on IT to drive retail business. The Group is also in the process of automating investment compliance and digitising manuals to support control functions. A monthly IT Steering Committee meeting is held to assess, identify and stem threats to UCP's IT infrastructure. United Capital also conducts periodic tests of the IT infrastructure to ensure operations are optimal and capable of withstanding cyber threats. In 2021, the Group engaged consultants to test the integrity of the business continuity plans and assess the efficiency of recovery in the event of an attack.

We believe that the Group's risk management capacity requires strengthening, particularly given the significant exposures to unrated counterparties and concentration of assets in entities with common ownership with the erstwhile parent company.

EARNINGS

UCP generates income from investments in money market instruments, fixed income securities and equities and loans to individuals and related businesses. The Group also generates fees and commission income from providing financial advisory, asset management and trusteeship services. In the 2021 financial year, UCP generated net earnings of ₦18.1 billion, which represented a 40.3% increase from the ₦12.9 billion recorded in the prior year. The growth in net earnings was driven by the considerable increase in FuM as the Group offered competitive rates on products and leveraged technology and relationships to drive market penetration across the country. Net interest income accounted for the largest share of net earnings with 39.4%. Fees and commission and dividend income contributed 34.1% and 9.4% of net earnings respectively, while other income comprising foreign exchange and trading gains collectively made up the balance of 17.1%.

UCPLC accounted for the largest share of net earnings in 2021 with 45.6%. UCAML was the second largest contributor with 30.4% while UCTL, UCSL and UC Plus constituted 11.3%, 9.9% and 2.8% of net earnings respectively. Based on unaudited accounts for the first three months of 2022, the Group recorded net earnings of ₦4.2 billion, which represented an annualised decline of 6.7% from 2021 as FuM growth and net interest income slowed due to rising yields. Notwithstanding, we expect to see a significant increase in United Capital's net earnings in the near to medium term as the Group expands product offerings and coverage across Nigeria through digitalisation.

In the review period, UCP incurred operating expenses (OPEX) of ₦1.6 billion, up 34% from the prior year due to higher personnel cost following an upward salary review and increase in staff strength in the review period. The increased level of business activities also led to higher business development, entertainment and advertisement & branding expenses. Notwithstanding, cost to income ratio (CIR) improved to 34% (2020: 38.3%) due to the significant increase in net earnings. The Group's CIR compared favourably to the 43.8% recorded by peer CardinalStone Partners Group ("CSPG") in the same period. Based on unaudited accounts for the three months to 31 March 2022, CIR was higher at 36.2% given the subdued net earnings. We, however, expect the CIR to improve moderately in the near term as the Group leverages technology to achieve business growth and drive greater operational efficiencies.

In the 2021 financial year, UCP recorded a profit before tax of ₦11.9 billion (2020: ₦7.9 billion). This, however, translated to a lower pre-tax return on average assets (ROA) of 3.5% (2020: 4.3%) due to the rapid growth in total assets. Pre-tax return on average equity (ROE) was, however, higher at 43.3% (2020: 36.1%), which was significantly better than the 17% average rate of inflation in the review period. The Group's profitability ratios, however, compared less favourably to the ROA and ROE of 9.2% and 50.8% respectively recorded by CSPG in the period. Based on unaudited accounts for the first three months of 2022, pre-tax profit was ₦2.7 billion, which represented 69.7% of the Group's budget for the first quarter, while annualised ROA and ROE were lower at 2.3% and 39.5% respectively. We, however, anticipate an improvement in United Capital's profitability ratios in the short term as growth plans are executed.

In our opinion, UCP's profitability is good.

CAPITAL ADEQUACY & LEVERAGE

As at 31 December 2021, the Group had shareholders' funds of ₦30.5 billion, which represented a 25.1% increase from ₦24.4 billion at the end of the prior year largely due to accretion to retained earnings. As at the same date, core capital funded 6.7% of total assets, which was significantly lower than our expectation for a capital market operator. As at the 2021 FYE, UCP's SEC regulated businesses all complied with the minimum capital requirements for the respective capital market-operator licences. As at 31 December 2021, the Group had qualifying tier 2 capital of ₦25.9 billion¹, that solely comprised foreign currency long-term borrowings from the erstwhile parent. Based on unaudited accounts as at 31 March 2022, the Group's shareholders' funds stood at ₦23.8 billion, down 21.9% from the end of 2021 following payment of ₦9 billion in dividends to shareholders. The share of United Capital's total assets funded by core capital thus remained below our expectation at 5.1% as at the same date.

As at the 2021 FYE, our estimate of UCP's Basel I capital adequacy ratio (CAR) of 13.9% (2020: 24.5%) was better than our benchmark. UCAML's adjusted capital to risk weighted assets ratio of 2.6% (FYE 2020: 6.8%) was, however, significantly below our benchmark. Based on unaudited accounts as at 31 March 2022, our estimate of the Group's Basel I CAR was lower at 12.5%, but remained in line with our expectation. As at 31 December 2021, UCP had a debt (excluding FuM) to equity ratio of 3.1x (2020: 3.4x), which was higher than peer CSPG's 2.1x but lower than our maximum acceptable threshold of 5x. Based on unaudited accounts as at 31 March 2022, the debt-to-equity ratio was notably higher at 5x.

In our view, the Group's capitalisation is acceptable for current business risks, while leverage is satisfactory. We, however, consider UCAML's capitalisation to be weak.

¹ Tier 2 Capital is subjected to 100% of adjusted capital - (International Convergence of Capital Measurement and Capital Standards - A Revised Framework, June 2004 (bis.org))

FUNDING AND LIQUIDITY

As at the 2021 FYE, UCP was funded 93.3% by liabilities, which primarily comprised FuM at 77.4% of the total. Borrowings and other liabilities made up the remaining 18.8% and 3.8% of the Group total liabilities respectively. UCP primarily generates FuM through UCAML and UCTL. As at 31 December 2021, FuM stood at ₦327.2 billion, which represented a 182% increase from the end of the prior year. The considerable growth was achieved by leveraging the relationship with the erstwhile parent to onboard institutional clients. The Group also leveraged technology to expand product offerings and coverage across Nigeria. Based on unaudited accounts as at 31 March 2022, the Group's FuM was lower at ₦320.6 billion. We, however, expect UCP's FuM to record significant growth in the near term as United Capital drives market penetration. There was considerable concentration in the Group's FuM, with the 20 largest investors contributing 40%, which leaves United Capital susceptible to a significant gap should the funds be pulled. The Group had a weighted average cost of funds of 7.2% in 2021, which we consider good.

The bulk (99%) of UCP's FuM mature within one year. However, the FuM was matched sufficiently with short-term assets. As at 31 December 2021, 35% of United Capital's FuM was denominated in foreign currency, with the FX exposure adequately matched with foreign currency assets. As at 31 December 2021, UCP's borrowings stood at ₦79.7 billion and were largely (67%) provided by UBA to fund the related-party transactions of the investment banking business. Commercial paper and bond obligations accounted for the remaining 23% and 10% respectively of borrowings. We expect the Group's funding sources to be diversified moderately in the near term as United Capital completes the ₦20 billion series II of the ₦30 billion bond issuance programme in the second half of 2022.

As at 31 December 2021, the Group had a total of ₦341.7 billion in liquid assets. The Group's liquid assets to total assets ratio of 75.5% was better than our benchmark of 60% for capital market operators. As at the same date, liquid assets were sufficient to cover 104% of FuM, which was better than our expectation. The Group, however, had no committed bank lines to meet short-term liquidity needs.

In our view, the Group's liquidity and funding profile is good. We, however, note UCP's heavy reliance on UBA for borrowings, which was deployed to finance the Group's loans to the related parties of the former parent.

OWNERSHIP, MANAGEMENT & STAFF

United Capital is a large financial services group with shares listed on the NGX. As at 31 December 2021, the Group's authorised and paid-up share capital stood at ₦3 billion. As at the same date, UCP's shares were held by 261,011 individual and institutional investors. Agusto & Co. considers United Capital's shareholding to be reasonably diversified. However, we believe that the ultimate beneficiary of West Coast Equity Limited, which we were not able to ascertain from the limited information provided by UCP, has significant influence through the control of 26% of the Group's equity. In our view, this sort of opaque significant control tends to engender

unilateral decision making and limit external or independent contributions, which ultimately diminishes the quality of governance.

As at 30 June 2022, United Capital had a nine-member Board of Directors comprising seven non-executive directors (including four independent members) and two executive directors. Mr Chika Mordi serves as Chairman of the Board, while Mr Peter Ashade is the Group Chief Executive Officer (GCEO). During the review year, there were changes to the Board composition with the appointment of Ms. Tokunbo Ajayi and Mr. Leke Ogunlewe as non-executive directors, while Mr. Adim Jibunoh resigned from the Board. However, subsequent to the review year, Ms. Tokunbo Ajayi resigned her appointment from the Board. In our view, the Board members have vast experience in the financial services industry, while we consider the mix of non-executive and independent directors to be in line with corporate governance best practice. We, however, believe that the Board composition reflects strong familiarity with the former parent as three of the non-executive directors are ex-staff (and erstwhile Directors) of UBA. The Board's oversight functions are executed through two standing committees: the Board Finance, Investment and Risk Management (FIRM) Committee and Board Audit and Governance (AG) Committee. The Group also has a Board Audit Committee, which comprised three shareholder representatives and two directors. We consider the members of the FIRM and AG committees and the Statutory Audit Committee to have broad competencies and diverse backgrounds.

UCP's management team comprised the GCEO, Group Executive Director and seven other senior management personnel. Except for UC Plus that is led by a General Manager, each business is led by a Managing Director. In 2021, there were changes to the Group's senior management team following the resignation of the erstwhile Managing Directors of UCPLC and UCTL. However, either a successor or a replacement has been installed to fill the roles vacated. The Group has a talent management framework and a culture management programme to support the attraction and retention of talent, while successors have been identified for most positions based on documented plans. United Capital had an average of 103 employees in the review period. The staff productivity (measured by the number of times net earnings covered staff costs) of 11.4 times was notably better than peer CSPG's 4.6 times.

In our view, UCP's management team is skilled and experienced, while staff productivity is good.

OUTLOOK

In the first quarter of 2022, the Nigerian economy recorded a 3.11% GDP growth. This represented the sixth consecutive quarter of growth following the exit from recession in the fourth quarter of 2020. Despite the Russian-Ukraine crisis and the attendant uptick in the price of crude oil, the oil sector contracted by 26.04% in Q1 2022. The performance of the Nigerian economy has also been marred by heightened inflationary pressures, which rose to 18.6% in June 2022, largely due to the adverse impact of the Russian-Ukraine conflict on the global supply chain. Nigeria continues to grapple with the adverse impact of the currency devaluation

in the parallel market and the rising insecurity across various geo-political zones. Based on the aforementioned, we expect the Nigerian economy to record a moderate 3.5% growth in 2022.

We expect UCP plans to leverage technology, product and branch network expansion and affiliation with UBA to mobilise FuM to lead to increased earnings and improved profitability in the near term. We believe that the funding and liquidity profile will remain good in the near term driven by the FuM growth and diversification of the Group's funding base via issuances in the Nigerian money and debt capital markets. We, however, do not expect UCP's asset quality to improve in the near term due to the high exposures to related parties. We believe that the Group's capitalisation, particularly the asset management business', would require continuous strengthening to support the rapid business growth.

Based on the aforementioned, we hereby attach a “**stable**” outlook to the rating.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-21		31-Dec-20		31-Dec-19	
	₦'000		₦'000		₦'000	
ASSETS						
Cash & bank balances	1,940,710	0.4%	7,719,204	3.5%	2,778,065	2%
Treasury bills	8,842,628	1.9%	11,763,585	5.3%	7,429,334	5%
Money Market Placement & Instruments	135,115,215	29.8%	63,325,928	28.4%	27,354,034	18%
Short Term Investments	145,898,553	32.1%	82,808,717	37.2%	37,561,433	25%
FGN Bonds	8,057,445	1.8%	7,649,038	3.4%	12,969,434	9%
State Government & Corporate Bonds	40,684,382	9%	38,673,528	17.4%	33,548,368	22%
Direct loans & advances - net	54,509,531	12.0%	47,399,069	21%	50,220,976	33.0%
Collective Investment Schemes	145,312,574	32%	18,590,133	8.3%	3,018,927	2%
Equity - Quoted	6,565,673	1.4%	5,476,050	2.5%	3,501,042	2%
Equity - Unquoted	43,794,125	9.3%	12,544,921	5.6%	4,922,790	3%
Less: Cumulative Provision	(1797356)	-0.4	(858,932)	-0.4%	(888,394)	-1%
Non-Fixed Income Investments	193,875,016	42.7%	35,752,172	16%	10,554,365	7%
Total Other Assets	9,809,761	2.2%	9,574,238	4%	5,208,598	3%
Total Fixed Assets & Intangibles	763,266	0.2%	891,533	0.4%	401,201	0.3%
Total Assets	453,597,954	100%	222,748,295	100%	150,464,375	100%
LIABILITIES & EQUITY						
Total interest-bearing liabilities	79,737,577	17.6%	72,665,449	32.6%	50,977,277	33.9%
Total other liabilities	16,064,560	3.5%	9,637,290	4.3%	7,521,962	5%
Clients' fund under management	327,249,024	72.1%	116,019,077	52.1%	72,379,297	48.1%
Total liabilities	423,051,161	93.3%	198,321,816	89%	130,878,536	87%
Share Capital	3,000,000	0.7%	3,000,000	1.3%	3,000,000	2%
Share Premium	683,611	0.2%	683,611	0.3%	683,611	0.5%
Other Non-distributable Reserves	(1,797,356)	-0.4%	(858,932)	-0.4%	(888,394)	-0.6%
Revenue Reserve	28,660,538	6.3%	21,601,800	9.7%	16,790,622	11.2%
Shareholders' equity	30,546,793	6.7%	24,426,479	11%	19,585,839	13%
TOTAL LIABILITIES & EQUITY	453,597,954	100%	222,748,295	100%	150,464,375	100%

INCOME STATEMENT FOR THE YEAR ENDED	31-Dec-21		31-Dec-20		31-Dec-19	
	₦'000		₦'000		₦'000	
Securities Trading & Dealing	1,181,877	4.1%	4,352,920	20.6%	3,183,914	22.1%
Financial Advisory	1,362,743	4.7%	901,788	4.3%	782,440	5.4%
Fees & Commissions	4,796,829	16.5%	2,569,609	12.2%	1,180,636	8.2%
Other income	3,609,804	12.4%	387,605	1.8%	690,721	4.8%
Investment income	10,951,253	37.7%	8,211,922	38.9%	5,837,711	40.5%
Interest income	30,937,807	106.6%	18,408,301	87.3%	9,794,474	67.9%
Interest expense	(23,823,877)	-82.1%	(13,746,327)	-65.2%	(7,040,256)	-48.8%
Net interest income	7,113,930		4,661,974		2,754,218	
Net earnings	18,065,183	62.3%	12,873,896	61.1%	8,591,929	59.5%
Staff costs	(1,588,410)	-5.5%	(1,351,050)	-6.4%	(1,631,612)	-11.3%
Depreciation expense	(296,279)	-1.0%	(286,525)	-1.4%	(135,115)	-0.9%
Other operating expenses	(4,262,893)	-14.7%	(3,288,652)	-15.6%	(1,875,482)	-13.0%
Total operating expenses	(6,147,582)	-21.2%	(4,926,227)	-23.4%	(3,642,209)	-25.2%
Profit (loss) before taxation	11,917,601	41.1%	7,947,669	37.7%	4,949,720	34.3%
Tax (expense)/benefit	(658,863)	-2.3%	(136,491)	-0.6%	23,699	0.2%
Profit (loss) after taxation	11,258,738	38.8%	7,811,178	37.0%	4,973,419	34.5%
Dividend Paid	(4,200,000)	-14.5%	(3,000,000)	-14.2%	(2,000,000)	-13.9%
Other adjustments	-	-	-	-	-	-
Retained profit	7,058,738		4,811,178		2,973,419	
Gross Earnings	29,016,436	100.0%	21,085,818	100.0%	14,429,640	100.0%

KEY RATIOS	31-Dec-21	31-Dec-20	31-Dec-19
PROFITABILITY			
Revenue Growth	40.32%	49.84%	-7.21%
Operating profit margin	41.07%	37.69%	34.30%
Operating expenses/ net earnings	34.0%	38.3%	42.4%
Return on average equity (pre-tax)	43.4%	36.1%	27.9%
Return on average assets (pre-tax)	3.5%	4.3%	3.3%
Gross earnings/Total assets & contingents (average)	9%	11%	10%
LIQUIDITY & FUNDING			
Liquid assets/total assets	75.3%	73.8%	73%
Liquid assets/Total liabilities	80.8%	82.9%	83.5%
Liquid assets/ Managed funds	104.4%	141.7%	150.9%
CAPITAL & LEVERAGE			
Adjusted capital/risk weighted assets	13.9%	12.2%	15.1%
Gross debt/equity (times)	3.14	3.37	2.99
Interest cover	0.6	1.1	1.5
STAFF INFORMATION			
Average number of employees	103	94	94
Staff cost per employee (N'000)	15,421	14,373	17,358
Net earnings per staff (N'000)	175,390	136,956	91,404
Staff cost/Net earnings	9%	10%	19%
Staff costs/Operating expenses	26%	27%	45%

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.

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.



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