Rand Merchant Bank Nigeria Limited

2021 Final Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Rand Merchant Bank Nigeria Limited

Rating Assigned:

Aa-

Outlook: Stable
Issue Date: 29 June 2021
Expiry Date: 30 June 2022
Previous Rating: Aa-

Industry: Banking

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

RATING RATIONALE

Agusto & Co. hereby affirms the '**Aa-**' rating assigned to Rand Merchant Bank Nigeria Limited ('RMBN' or 'the Bank'), which reflects the Bank's stable and experienced management team, good liquidity profile, good capitalisation and good profitability. The assigned rating also reflects RMBN's membership of the FirstRand Group, a Pan-African integrated financial services provider with an asset base of ZAR1.9 billion (US$140 billion) as at 31 December 2020. The Bank benefits from demonstrated support from the FirstRand Group in the areas of governance, risk management and funding. The rating is however constrained by lingering obligor concentration in the loan book. We have also considered the impact of the fragile economic recovery and adverse regulatory changes on the operating terrain.

Reflecting RMBN's traditional cautious lending approach which was further accentuated by the COVID-19 pandemic, gross loans and advances grew moderately by 8.2% to stand at ₦55.4 billion as at FYE 2020. The obligor concentration in RMBN's loan book lingers, with the top three customers representing 48% of the portfolio as at the same date, higher than 32% in the prior year. We believe this level of concentration exposes the Bank to adverse changes in the performance of any of these obligors. Nevertheless, RMBN's conservative risk acceptance criteria limits lending to top-tier corporates. Maintaining the trend since inception, the Bank did not report any impaired loans as at FYE 2020. In the near term, RMBN expects to grow its loan book by 30.2% to existing core sectors, which we believe is feasible given the continued easing of COVID-19 restrictions globally. In addition to sustained funding support from its parent, the Bank intends to fund loan growth through long-term borrowings from Development Finance Institutions (DFIs), which we believe will provide a more diversified funding base.

During the financial year ended 31 December 2020, RMBN's pre-tax profits declined by 34.2% to ₦10.8 billion. The decline was attributable to the prevailing low interest rate environment, which led to a marked 32.1% decline in interest income. The Bank also recorded lower trading income due to the impact of the pandemic. Nevertheless, RMBN's lower pre-tax return on average assets and contingents (ROA) of 6% (FY 2019: 9.5%) and pre-tax return on average equity (ROE) of 19.6% (FY 2019: 35.8%), outperformed the merchant banking segment's averages. We expect profitability to improve in the near term on the back of the anticipated growth in lending and ancillary activities such as investment banking and securities trading.

RMBN's core capital stood at ₦56.7 billion as at 31 December 2020, well above the ₦15 billion regulatory minimum for merchant banks. The capital adequacy ratio of 47.5% (FYE 2019: 50.1%) was also higher than the CBN's prescribed minimum of 10%. The Bank's liquidity ratio was maintained at a good level of 222.1%, far above the required minimum of 20% for merchant banks.

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

Strengths

- Member of the FirstRand Group
- Good asset quality
- Good profitability
- Good liquidity profile
- Good capitalisation level
- Experienced and stable management team

Weaknesses

- Obligor concentration in the loan book
- Concentration in the funding base

Challenges

- The heightened regulatory environment
- Growing quality risk assets as the economic recovery remains fragile

Table 1: Financial Information

	31 December 2018	31 December 2019	31 December 2020
Total assets & contingents	₦201.4 billion	₦144.3 billion	₦215.2 billion
Gross loans & advances to Customers	₦50.1 billion	₦51.2 billion	₦55.4 billion
Net earnings	₦16.5 billion	₦23.9 billion	₦17.8 billion
Pre-tax return on average assets & contingents (ROA)	5.3%	9.5%	6.0%
Pre-tax return on average equity (ROE)	29.7%	35.8%	19.6%

PROFILE

Rand Merchant Bank Nigeria Limited ('RMBN' or 'the Bank') is a member of the FirstRand Group ('the Group'), a leading financial services institution with an asset base of approximately US$140 billion (South African Rand ZAR 1.9 trillion) as at 31 December 2020. FirstRand Group is listed on the Johannesburg Stock Exchange (JSE) and the Namibian Stock Exchange (NSX), and is one of the largest financial institutions in Africa by market capitalisation. In addition to South Africa, the Group operates in nine key African markets, the UK and India.

Incorporated in May 2012, RMBN is a limited liability company domiciled in Nigeria with a registered office at 3rd Floor, Wings, East Towers, 17a Ozumba Mbadiwe Street, Victoria Island, Lagos. The Bank was granted a merchant banking licence by the Central Bank of Nigeria (CBN) in November 2012 while operations commenced in April of the following year. RMBN's principal activity is the provision of financial services to corporate customers. Such services include granting of loans and advances (trade finance, working capital and term loans), corporate finance, custodial and money market activities. As a member of the FirstRand Group, RMBN leverages the robust balance sheet of the Group and partners with corporate institutions, government and parastatal clients, offering a wide range of corporate and investment banking products and services.

RMBN's activities are structured along three business divisions (Investment Banking, Corporate Banking and Global Markets Divisions) and seven supporting units (Risk, Legal, Audit, Treasury, Finance, Compliance, Credit, Human Capital, Operations and Business Technology).

Subsidiary

RMBN has one subsidiary company, RMB Nigeria Nominees Limited (RMBN Nominees) that was incorporated in Nigeria on 14 January 2019 as a non-trading company. RMBN Nominees holds property titles, money or marketable securities for and on behalf of clients, financial services providers or other persons. These assets are held in trust and safe custody as nominee or representative of such clients and as may be prescribed by the Security and Exchange Commission of Nigeria and the Nigerian Stock Exchange.

Correspondent Banks

In the 2020 financial year, Rand Merchant Bank Nigeria Limited maintained banking relationships with the following domestic and foreign banks.

Table 2: Correspondent Banking Relationships (FY 2020)

Local Correspondent Banks	Foreign Correspondent Banks
Stanbic IBTC Bank Plc	Bank of America New York
Guaranty Trust Bank Plc	FirstRand Bank South Africa
United Bank for Africa Plc	Deutsche Bank AG Frankfurt
	Standard Chartered Bank London

Information Technology

Rand Merchant Bank Nigeria Limited deploys a variety of technology solutions for specific functions in its operations. The Bank utilises *Bancs* as its core banking application and for foreign exchange trading, fixed income trading and money market transactions. *Bancs* also facilitates electronic payments. Risk management functions are carried out using *ELMS* and *RiskWatch*. RMBN uses *Oracle* software for its general ledger processes, Cloudera's *CDH* for client onboarding and Hyperion Financial Management *HFM* for reporting.

Summary of Financial Performance

RMBN's asset base (including contingents) grew by a five-year compound annual growth rate (CAGR) of 20% to ₦204.8 billion as at 31 December 2020. Loans and advances grew by a marked CAGR of 51.7% during the same period, amounting to ₦55.4 billion as at FYE 2020. The Bank has maintained a nil impaired credit position since it commenced operations.

With support from accretion to retained earnings over the years, core capital stood at ₦56.7 billion as at FYE 2020, accounting for 26.3% of the asset base. As at the same date, the Bank's Basel II computed capital adequacy ratio stood at 47.5%. Also supporting the Bank's activities were borrowings with an outstanding value of ₦38.4 billion as at FYE 2020 (17.8% of the asset base) while customer deposits of ₦38 billion, funded 17.6% of total assets and contingents.

During the period ended 31 December 2020, RMBN's profit before tax declined by 34.2% to ₦10.8 billion. Pre-tax return on average assets and contingents declined to 6% (FY 2019: 9.5%) and the Bank's pre-tax return on average equity of 19.6% (FY 2019: 35.8%) was the lowest recorded since the 2017 financial year.

Current Directors	Designation
James Formby	*Chairman*
Michael Larbie	*Managing Director/Chief Executive Officer*
Chukwudalu Ajene	*Deputy Chief Executive Officer*
Adebayo Ajayi	*Executive Director/CFO*
Ebrahim Motala	*Non-Executive Director*
Philip Spangenberg	*Non-Executive Director*
Theodor Thomas	*Non-Executive Director*
Annerie Cornelissen	*Non-Executive Director*
Remi Odunlami	*Non-Executive Director*
Babatunde Savage	*Independent Non-Executive Director*
Felicia Kemi Segun	*Independent Non-Executive Director*
Samuel Donald Ogbu	*Independent Non-Executive Director*

MANAGEMENT TEAM

Mr Michael Larbie is the pioneer Managing Director and Chief Executive Officer (CEO) of Rand Merchant Bank Nigeria Limited. He is also the RMB Regional Head for West Africa and Chairman of First National Bank Ghana. Mr Larbie is a member of the RMB Global Management and Africa Boards as well as the FirstRand International Executive Committee. He served as the Head of Investment Banking for Sub-Saharan Africa (excluding South Africa) and the Head of Financial Institutions in Africa at Bank of America Merrill Lynch ("BAML") New York/London before joining the FirstRand Group. In these roles, he acted as a strategic advisor to several financial institutions such as First City Monument Bank (FCMB) on its acquisition of FinBank, Investec for its capital raising exercise, AIG, Nymex and NASDAQ amongst others. Mr Larbie holds a Bachelor of Arts degree in Accounting and Sociology from the University of Ghana Business School and an MBA in Finance and Entrepreneurial Management from Wharton School of Business, University of Pennsylvania.

Other members of the senior management team as at 31 December 2020 include:

▪ Chukwudalu Ajene	Deputy Managing Director
▪ Bayo Ajayi	Executive Director & Chief Financial Officer (CFO)
▪ Taiwo Gabriel	Chief Risk Officer
▪ Nadia Zakari	Head, Global Markets
▪ Taiwo Shote	Head, Corporate Banking
▪ Jide Onifade	Head, Credit
▪ Ngover Ihyembe-Nwankwo	Head, Client Coverage
▪ Funsho Odukoya	Chief Operating Officer
▪ Grema Ogboru	Head, Business Technology
▪ Ayotunde Jegede	Head, Human Capital
▪ Chidi Iwuchukwu	Head, Investment Banking
▪ Yetunde Ogunremi	Treasurer

Analysts' Comments

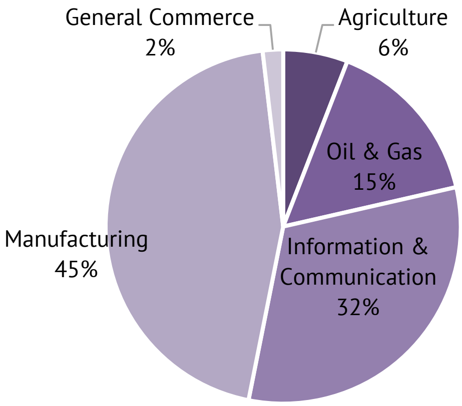
Asset Quality

As at 31 December 2020, RMBN's total assets and contingents stood at ₦215.2 billion, a marked 49.1% year-on-year increase. Due to the increase in the cash reserve ratio for merchant banks from 2% to 27.5% in January 2020 amidst discretionary deductions by the CBN, RMBN's restricted cash reserves spiked by 5.4 times, year-on-year, to account for a higher 10.6% of total assets and contingents (FYE 2019: 3%). Overall, liquid assets and gross loans and advances remained the dominant asset classes, accounting for 44.5% and 25.7% respectively as at 31 December 2020.

Gross loans and advances stood at ₦55.4 billion as at FYE 2020, 8.2% higher than the prior year but much lower than the merchant banking segment's growth of 37.5%. The comparably low growth is in line with the Bank's traditional cautious lending approach which was further accentuated by the COVID-19 pandemic. The manufacturing sector accounted for 45% (FYE 2019: 44%) of the loan book, the highest sectorial contributor. It is noteworthy that the Bank's manufacturing sector obligors are spread across several sub-segments including cement, personal care, pharmaceuticals and food processing. Underpinned by data and mobile network upgrades, the Bank's loans to the information and communication sector increased by 43.5% to account for 32% (FYE 2019: 24%) of the loan book.

RMBN's exposure to the oil and gas sector includes facilities granted to a downstream company and an oil field service provider. Driven by increased facility utilisation by the oil and gas servicing company and the naira devaluation, the Bank's oil and gas sector exposure increased by 79% to account for 15% of gross loans as at FYE 2020. We believe the exposure to the volatile crude oil market increases the susceptibility of the loan book. However, concerns around volatilities are moderated by the positive impact of the global economic recovery on crude oil prices. As at the end of Q1 2021, the proportion of oil and gas loans reduced to 11% following the full liquidation of the Bank's downstream exposure.

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



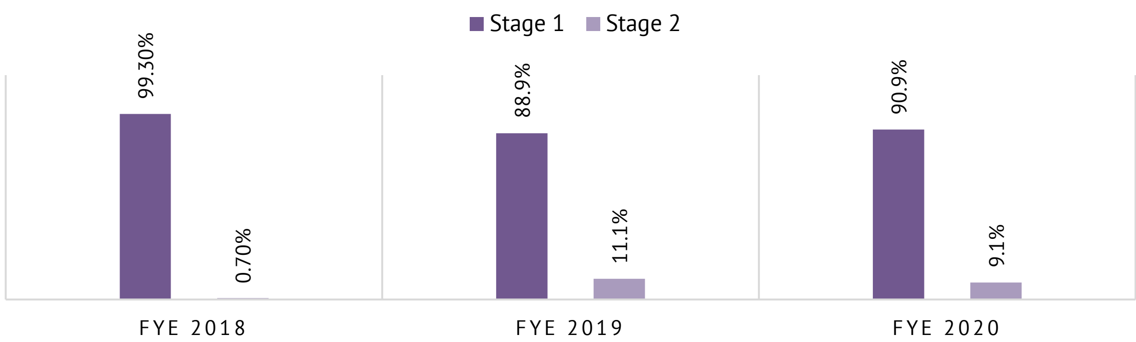
RMBN projects a loan growth of 30.2% to existing core sectors in FY 2021. We consider the projected growth to be feasible considering the relatively small size of the loan book. While lending is expected to remain skewed to short-term trade and working capital finance, the Bank intends to leverage long-term loans through concessionary borrowings from Development Finance Institutions (DFIs) and the CBN's intervention funds.

As at 31 December 2020, foreign currency loans accounted for a higher 32.5% of gross loans (FYE 2019: 24.4%) while naira denominated loans made up the remaining 67.5% (FYE 2019: 75.6%). The foreign currency loans are mainly short-term trade facilities relating to letters of credit settled on behalf of customers.

The obligor concentration in RMBN's loan book lingers, with the top three customers representing 48% of the portfolio as at FYE 2020, higher than 32% in the prior year. While this reflects the comparably small size of the loan book, we believe the level of concentration exposes the Bank to adverse changes in the performance of any of these obligors. However, RMBN's conservative risk acceptance criteria emphasises lending to top-tier corporates. In addition, a considerable 59% of the Bank's exposures is adequately collateralised. As at FYE 2020, the largest obligor singly accounted for 18.7% of the loan portfolio and 18.3% of shareholders' funds, lower than the CBN's prescribed limit of 50% and the Bank's 25% threshold.

As at 31 December 2020, stage 1 loans (exposures with relatively low credit risk) accounted for 90.9% (FYE 2019: 88.9%) of gross loans. In line with the CBN forbearance, which encouraged the restructuring of loans extended to businesses adversely impacted by the pandemic, RMBN restructured two facilities. One of the facilities was fully paid down during the year while the other facility (6% of gross loans) remained in the stage 1 category as at FYE 2020. Loans classified as stage 2 accounted for a lower 9.1% (FYE 2019: 11.1%) of gross loans. The Bank did not report any stage 3 (non-performing) loan as at FYE 2020, a trend it has maintained since inception. One of its selected peers Coronation Merchant Bank Limited (Coronation MB) also did not report any impaired loans while the second selected peer: FBNQuest Merchant Bank Limited (FBNQuest MB) had a non-performing loan ratio of 2.6% as at FYE 2020. In terms of specific provisioning by stages, the coverage for stage 2 loans stood at 9%.

Figure 2: Breakdown of the Loan Book by Stages (FYE 2018 – FYE 2020)



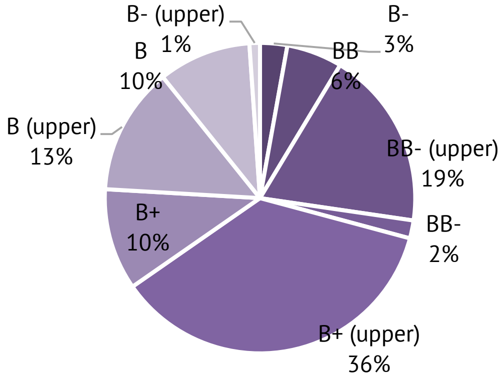
We consider RMBN's asset quality to be good, upheld by its conservative risk management framework.

Risk Management

In line with the risk management culture prevalent within the FirstRand Group, RMBN's risk appetite is defined as balanced, with considerations for growth and return objectives as well as commitments to key stakeholders including regulators. The Board of Directors provides the written principles for overall risk management. The Chief Risk Officer, who is supported by dedicated risk managers including analysts and Heads of risk sub-segments, oversees the Bank's independent risk management function.

Credit Risk: Credit risk exposure largely emanates from lending activities and the investment portfolio. The Bank uses the standardised approach under the Basel II accord to measure credit risk. RMBN makes use of an internally-developed Wholesale Credit Rating Model (WCRM), which considers qualitative and quantitative factors when assigning obligor risk ratings. Reflecting macroeconomic headwinds during the period under review, loans classified under the 'Bb' rating bucket declined to 27% (FYE 2019: 55%) as at FYE 2020 while obligors in the 'B' category accounted for the remaining 73% (FYE 2019: 45%). As at the same date, approximately 54% of RMBN's loan book was secured, with a collateral cover of 10 times. To improve loan monitoring and in anticipation of increased loan workout requests, RMBN constituted a COVID restructuring committee during the year under review.

Figure 3: Loan Book by Rating (FYE 2020)



Market Risk: RMBN is exposed to market risk through its trading and non-trading portfolios and thus applies several measures to manage possible risk crystallisation. The stress loss approach is used to monitor limits, supported by an estimated tail loss model, an extreme value theory extension to Value-at-Risk (VAR) to provide triggers. The Market Risk Analyst, Head of Global Markets, the Chief Risk Officer and the Assets Liabilities and Capital Committee monitor market Risks at RMBN.

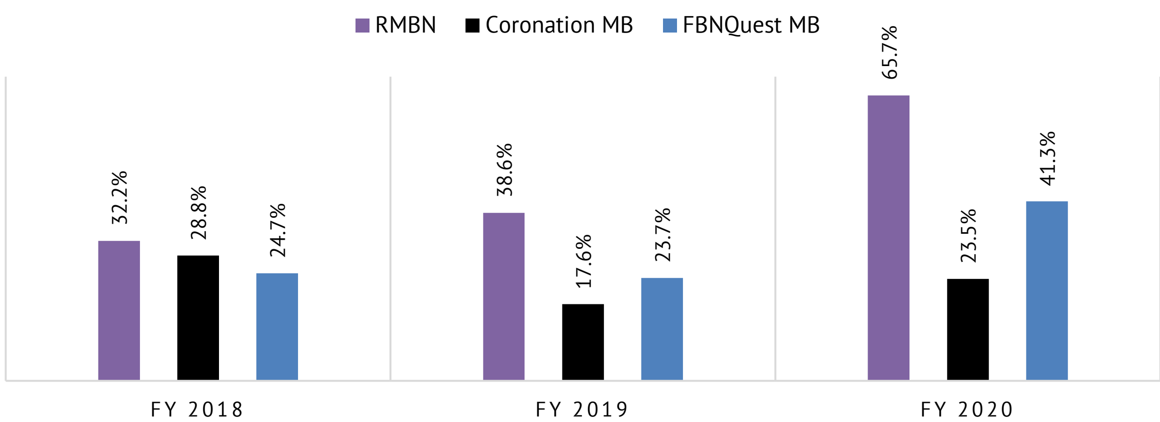
Operational Risk: Operational risk at RMBN is measured using the Basic Indicator Approach. Unlike in the prior year when no penalty was paid, penalties in an aggregate amount of ₦6.1 million was imposed on the Bank for various contraventions of CBN guidelines including failure to seek approval before executing the lease agreement for the proposed Abuja branch. However, of the ₦6.1million only ₦2.1 million was paid while the balance of ₦4 million though accrued has been appealed. Management disclosed plans to consolidate on stakeholder management to ensure penalties do not reoccur.

We consider RMBN's risk management framework to be good for the current level of business risk undertaken. With the increasing use of digital payments and collections infrastructure, we believe the Bank's operational risk management framework must continually evolve to curtail potential losses.

EARNINGS

The Bank's performance during the financial year ended 31 December 2020 was adversely impacted by the COVID-19 pandemic and key regulatory changes. Driven by heterodox regulatory policies targeted at reducing interest rates, interest income declined by 32.1% to ₦12 billion. Similarly, interest expense reduced by 62.1% to ₦4.1 billion, translating to a higher net interest spread (NIS) of 65.7% (FY 2019: 38.6%). RMBN's NIS was higher than Coronation MB's 23.5%, FBNQuest MB's 41.3% and the merchant banking average of 38.3%. Underpinned by explicit financing support from the FirstRand Group, the Bank's net interest spread has consistently remained better than its merchant banking peers. Due to RMBN's plans to seek additional comparably low-priced DFI funding, we expect this narrative to remain in the near term.

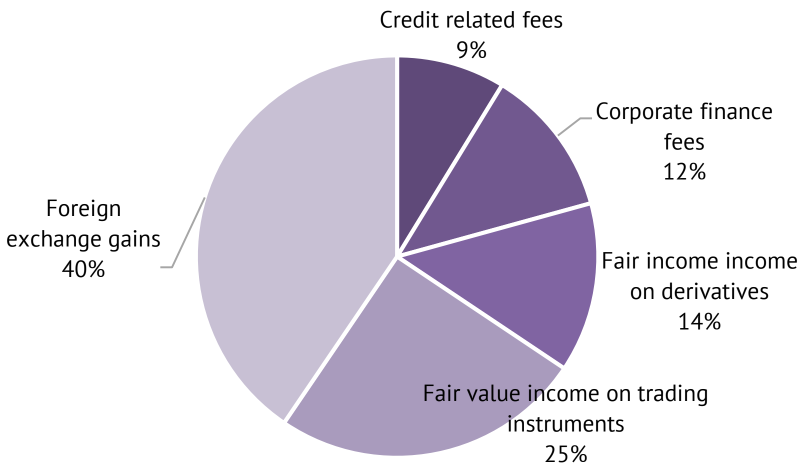
Figure 4: Net Interest Spread (FY 2018 – FY 2020)



Reflecting prevailing macroeconomic headwinds, RMBN's impairment allowance increased five times to ₦337.1 million, accounting for a higher 4.3% (FY 2019: 0.9%) of net interest income but lower than the merchant banking average of 9.3%. Overall, net revenue from funds increased by 11.6% to ₦7.6 billion.

During the financial year ended 31 December 2020, the Bank's non-interest income declined by a marked 40% to ₦10.3 billion, driving the 25.3% dip in net earnings. Thus, non-interest income contributed a lower 57.6% (FY 2019: 71.6%) to net earnings. By virtue of its membership of the FirstRand Group, RMBN has access to a wide base of foreign investors. However, the pandemic resulted in a general aversion to emerging markets and impacted flow trade businesses during the year. Thus, the Bank's fair value income from trading instruments and derivatives declined by 59.7% and 75.6% respectively. The aforementioned masked the 21.3% increase in foreign exchange (FX) revaluation gains. While investment banking fees declined moderately by 7.7% during the year under review, RMBN anticipates higher issuing house activities, particularly due to the uptick in corporate bond issues in FY 2021. Considering efforts by the CBN to better manage FX liquidity, we expect the volume of the Bank's trading activities to improve in the near term.

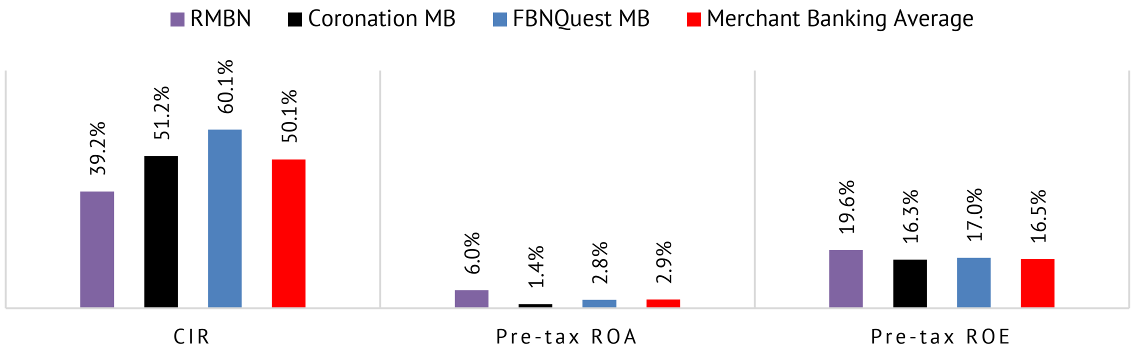
Figure 5: Breakdown of Non-Interest Income (FY 2020)



RMBN's operating expenses declined by 5.5% to ₦7 billion, despite inflationary pressures during the year. The Bank incurred lower business travel costs and other administrative expenses due to remote work arrangements elicited by the pandemic. In addition, staff costs declined by 2.4% to ₦4.3 billion due to the exit of some management personnel. Following the marked decline in net earnings, RMBN's cost-to-income ratio increased to 39.2% (FY 2019: 31%) but was better than Coronation MB (51.2%) and FBNQuest MB (60.1%). We believe CIR will decline slightly in the near term as the Bank ramps up lending and trading activities.

Attributable to the marked decline in non-interest income, profit before tax (PBT) dropped by 34.2% to ₦10.8 billion. Pre-tax return on average assets and contingents (ROA) declined to 6% (FY 2019: 9.5%) and pre-tax return on average equity (ROE) was lower at 19.6% (FY 2019: 35.8%). Nonetheless, RMBN's ROE was higher than the average inflation rate of 13.2%, Coronation MB's 16.3%, FBNQuest MB's 17% and the merchant banking average of 16.5%. Rand Merchant Bank Nigeria Limited has maintained good profitability levels and consistently outperformed its peers. We expect the impact of the economic recovery on lending and ancillary activities to support higher profits in the near term. The Bank projects a 14% growth in PBT in FY 2021, which we believe is feasible.

Figure 6: Efficiency and Profitability Indicators (FY 2020)

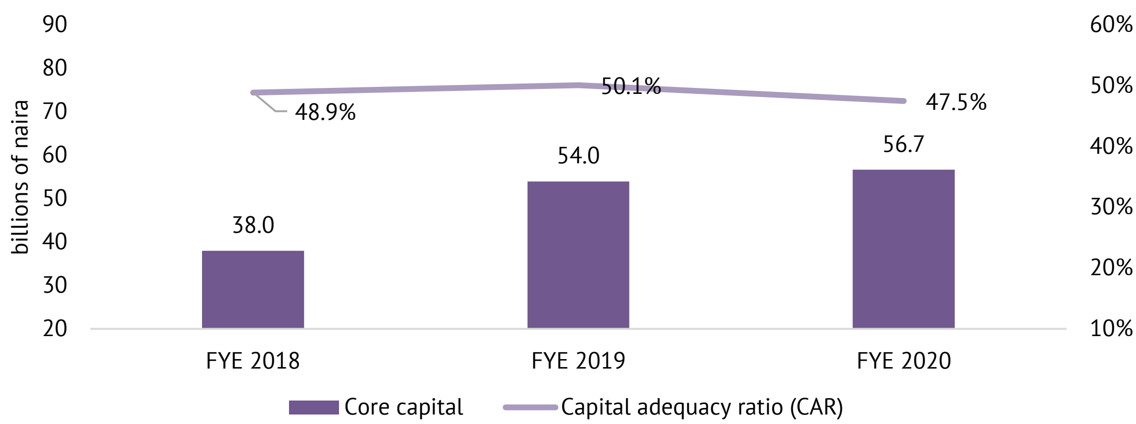


CAPITAL ADEQUACY

As at 31 December 2020, RMBN's core (tier 1) capital stood at ₦56.7 billion, 5% higher than the prior year and well above the ₦15 billion regulatory minimum for merchant banks. The decline in the growth trajectory of the bank's capital in FYE 2020 was due to the maiden dividend payments made during the year under review.

On the back of a smaller increase in eligible capital, vis-à-vis risk-weighted assets, the Bank's capital adequacy ratio (CAR) computed using the IFRS 9 transitional arrangement reduced to 47.5% (FYE 2019: 50.1%). However, RMBN's CAR was well above than the 10% prescribed minimum for merchant banks, Coronation MB's 19.9% and FBNQuest MB's 25.4%. We consider RMBN's capitalisation to be good for the current level of business risk undertaken.

Figure 7: Core Capital and Capital Adequacy Ratio (FYE 2018 – FYE 2020)



LIQUIDITY AND LIABILITY GENERATION

Rand Merchant Bank Nigeria Limited's liability generation strategy is upheld by its membership of the FirstRand Group, which affords it access to standby lines of credit and other financing support. Other key sources of liabilities include CBN intervention facilities, borrowings from Development Financial Institutions (DFIs) and customer deposits. Given that the merchant banking license restricts access to low-cost retail deposits, the bank has continued to progress on its transaction banking strategy to improve liability generation from domestic Corporates. The bank has leveraged technology by deploying its online banking platform (RMBN Digital) in addition to collaborating with select financial technology providers (FinTechs) to improve its payment and collection capabilities.

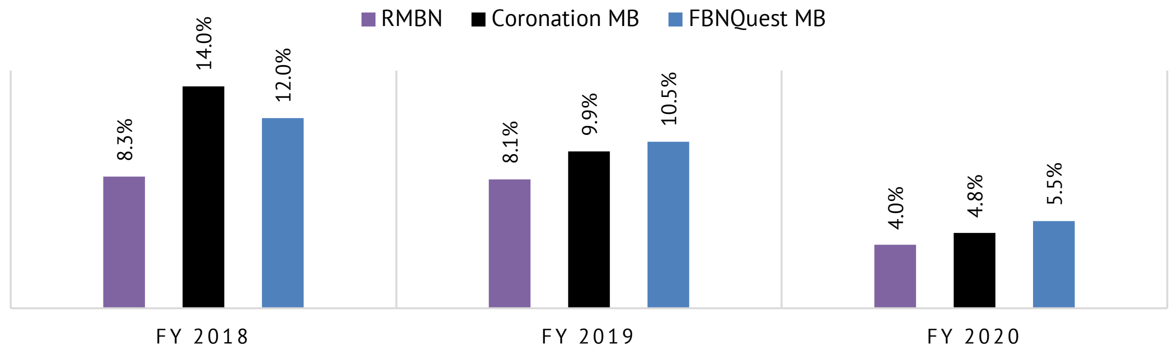
As at 31 December 2020, RMBN's local currency (LCY) deposits stood at ₦38 billion representing a 21.3% year-on-year growth and funded 17.6% of total assets and contingents. Owing to the low interest rate environment amidst the Bank's collaborations with FinTechs, low-cost local currency deposits grew by approximately 6 times to ₦19 billion. On the other hand, tenured deposits declined by 33.6% year on year. As a result, the proportion of low-cost deposits to total LCY deposits improved to 50% (FYE 2019: 9%), higher than Coronation MB's 31%. We expect a further improvement in the deposit mix on the back of sustained efforts but believe limitations of the merchant banking model will moderate gains to some extent. Customer foreign currency (FCY) deposits declined by a marked 43.5% to ₦2.1 billion, funding only 12% of FCY loans as at FYE 2020 (FYE 2019: 29.8%). However, the coverage improves to 200% when FCY borrowings (including intra-group takings) are considered. Although the top five depositors accounted for a lower 41.6% (FYE 2019: 66.4%), of total deposits we believe this still reflects some level of concentration.

As at FYE 2020, RMBN's outstanding borrowings increased by 15.3% to ₦38.4 billion, funding 22.1% of the Bank's activities. During the year under review, RMBN obtained ₦2.5 billion intervention funding from the CBN[1] in addition to US$60 million from its funding line with the FirstRand Group. Largely due to swap transactions, the Bank's inter-bank takings (including intragroup takings) increased by 5 times to ₦11.7 billion as at 31 December 2020. To support plans to elongate the maturity profile of the loan book, the Bank is seeking additional intervention and DFI funding in the near term.

Underpinned by the low interest rate environment and the improvement in the deposit mix, RMBN's weighted average cost of funds declined to 4% (FY 2019: 8.1%), lower than the selected peers and the merchant banking average of 5.1%. On the back of the gradual rise in treasury yields, we expect higher funding costs in the near term. However, we expect it to remain comparably low given the positive impact of the support RMBN receives from the parent company, in addition to seeking DFI funding which are typically low-priced.

[1] Healthcare Sector Intervention Funds (HSIF) window of the Real Sector Support Facility - Differentiated Cash Reserve Requirement (RSSF-DCRR)

Figure 8: Weighted Average Cost of Funds (FY 2018 – FY 2020)



A breakdown of the maturity profile of RMBN's loans vis-à-vis deposits and borrowings showed gaps in the 2 and 5-year maturity buckets, exposing the Bank to repricing risks. The Bank manages this through substantial floating-rate loans which are repriced quarterly to reflect prevailing interest rates. In addition, support from the FirstRand Group provides some respite if the need arises.

Owing to an expanded pool of government securities and the CBN's special bills issued in December 2020, RMBN's liquidity ratio increased to 222.1% (FYE 2019: 173.8%) and remained comfortably above the regulatory minimum of 20% for merchant banks operating in Nigeria.

In our opinion, RMBN's liquidity profile is strong while the ability to refinance remains upheld by the demonstrated support of the FirstRand Group.

OWNERSHIP, MANAGEMENT & STAFF

Rand Merchant Bank Limited is a wholly owned subsidiary of FirstRand Limited, the holding company for businesses operating under the FirstRand Group. FirstRand EMA Holdings (Pty) Limited (the parent company for FirstRand's businesses in Africa and other emerging markets) has a controlling equity stake of 99.99%.

Shareholders	Shareholding (FYE 2020)
FirstRand EMA Holdings (Pty) Limited	99.99%
FirstRand Investment Holdings (Pty) Limited	0.01%

A 12-member Board of Directors comprising nine Non-Executive Directors (including three Independent Non-Executive Directors) and three Executive Directors governs RMBN. Mr James Formby chairs the Board. During the year under review, Professor Enase Okonedo (an Independent Non-Executive Director) and Mr Louis Jordaan (a Non-Executive Director) retired from the Board.

The Board provides oversight functions through five committees: Audit Committee; Risk and Compliance Committee; Credit Committee; Governance, Nomination and Ethics Committee and the Remuneration

Committee. In addition, the Board oversees the Bank's four management committees: the Executive Committee; Credit Risk Management Committee; Asset Liability and Capital Committee and the Financial Resources Management Committee.

During the year under review, RMBN's average staff strength increased to 89 employees (FY 2019: 73 employees) due to additional recruitment in the non-management cadre. Due to the exit of some management personnel, staff costs per employee reduced by 20% to ₦48.8 million. However, due to lower earnings, RMBN's net earnings per staff declined by 38.7% to ₦200.4 million but was sufficient to cover staff costs per employee 4.1 times (FY 2019: 5.4 times), lower than Coronation MB's 6.5 times but at par with FBNQuest MB. In our opinion, RMBN's staff productivity is satisfactory and the Bank is led by an experienced and stable management team.

Table 3: Staff Productivity Indicators

	RMBN 2019	RMBN 2020	Coronation MB 2020	FBNQuest MB 2020
Average number of employees	73	89	142	151
Staff cost per employee	₦60.9 million	₦48.8 million	₦12.9 million	₦20.8 million
Net earnings per staff	₦327 million	₦200.5 million	₦83.5 million	₦84.4 million
Net earnings per staff/staff cost per employee	5.4 times	4.1 times	6.5 times	4.1 times

MARKET SHARE

Rand Merchant Bank Nigeria Limited is Nigeria's third-largest merchant bank, with a 16% share of the merchant banking segment's asset base. Reflecting a cautious lending approach, RMBN's contribution to net loans and advances declined to 21% from 17% in the prior year. The Bank's share of the merchant banking segment's pre-tax profits declined to 38% from 53% in the prior year. However, considering it has consistently outperformed its peers in terms of profitability, the Bank had the highest market share of PBT in the merchant banking segment. We expect the Bank to retain its position as the most profitable merchant bank by virtue of its membership of the FirstRand Group, which affords it comparably lower funding costs. However, given the Bank's niche strategy and lower emphasis on size, we do not expect a significant improvement in other market share indicators in the near term.

Figure 9: Market Share (FY 2020) – Merchant Banking Segment

	RMBN 2019	RMBN 2020	FSDH 2020	Coronation MB 2020	FBNQuest MB 2020	Nova MB 2020
Total Assets & Contingents	16%	16%	13%	36%	16%	19%
LCY deposits	10%	7%	14%	41%	19%	19%
Loans & Advances (Net)	21%	17%	12%	38%	17%	16%
Net Earnings	16%	31%	15%	21%	22%	11%
Profit Before Tax	53%	38%	13%	20%	18%	12%

OUTLOOK

While the lingering impact of the COVID-19 pandemic persists, especially given weak economic indicators, the Bank intends to sustain business growth in the near term. Underpinned by the demonstrated support of the FirstRand Group through trade-related lines, RMBN plans to maintain significant lending activities from its trade finance portfolio. The Bank is also making efforts to grow transaction income through collaborations with financial technology providers. Interest rates have gradually increased in H1 2021 but have remained comparably low and have sustained the appetite for bond and commercial paper issues. As a result, RMBN anticipates higher revenue from issuing house and advisory services. There are also expectations of higher business volumes in the custody business line and a rise in flow trading activities. Due to the sustained pressure on loan pricing, the Bank projects a modest 14% growth in PBT in FY 2021 and therefore expects ancillary income to provide substantial support.

In the near term, Agusto & Co. expects that capitalisation will remain good for business risks while liquidity parameters will remain strong. We also believe profitability will continue to trend above industry standards. Based on the aforementioned, we hereby attach a ***stable*** outlook to the rating of Rand Merchant Bank Nigeria Limited.

FINANCIAL SUMMARY

RAND MERCHANT BANK NIG LIMITED

	STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-2020		31-Dec-2019		31-Dec-2018	
		₦'000		₦'000		₦'000	
	ASSETS						
1	Cash & equivalents	2,731,067	1.3%	1,140,061	0.8%	921,300	0.5%
2	Government securities	93,065,060	43.2%	54,683,639	37.9%	104,085,610	51.7%
3	Money Market Placements						
4	Quoted investments						
5	Placements with discount houses						
6	LIQUID ASSETS	95,796,127	44.5%	55,823,700	38.7%	105,006,910	52.1%
7	BALANCES WITH NIGERIAN BANKS	193,132	0.1%	368,585	0.3%	646,115	0.3%
8	BALANCES WITH BANKS OUTSIDE NIGERIA	1,860,249	0.9%	5,427,648	3.8%	6,573,793	3.3%
9	Direct loans and advances - Gross	55,412,846	25.7%	51,224,576	35.5%	50,065,083	24.9%
10	Less: Cumulative loan loss provision	(1,413,372)	-0.7%	(1,212,549)	-0.8%	(1,104,043)	-0.5%
11	Direct loans & advances - net	53,999,474	25.1%	50,012,027	34.7%	48,961,040	24.3%
12	Advances under finance leases - net						
13	TOTAL LOANS & LEASES - NET	53,999,474	25.1%	50,012,027	34.7%	48,961,040	24.3%
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	4,770,196	2.2%	2,805,687	1.9%	1,602,982	0.8%
16	DEFERRED LOSSES						
17	RESTRICTED FUNDS	22,899,811	10.6%	4,230,508	2.9%	3,085,780	1.5%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES	1,000	0.0%	1,000	0.0%		
19	OTHER LONG-TERM INVESTMENTS	24,831,058	11.5%	14,282,650	9.9%	17,320,705	8.6%
20	FIXED ASSETS & INTANGIBLES	484,568	0.2%	1,138,666	0.8%	613,866	0.3%
21	**TOTAL ASSETS**	**204,835,615**	**95.2%**	**134,090,471**	**92.9%**	**183,811,191**	**91.3%**
22	TOTAL CONTINGENT ASSETS	10,378,506	4.8%	10,243,141	7.1%	17,589,615	8.7%
23	**TOTAL ASSETS & CONTINGENTS**	**215,214,121**	**100%**	**144,333,612**	**100%**	**201,400,806**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	56,699,089	26.3%	53,980,260	37.4%	37,967,901	18.9%
25	TIER 2 CAPITAL						
26	BORROWINGS	38,392,871	17.8%	33,288,076	23.1%	80,246,577	39.8%
27	Demand deposits	19,034,641	8.8%	2,811,489	1.9%	2,003,541	1.0%
28	Savings deposits						
29	Time deposits	18,919,863	8.8%	28,477,299	19.7%	28,814,376	14.3%
30	Inter-bank takings*	11,706,945	5.4%	1,816,506	1.3%	21,677,388	10.8%
31	TOTAL DEPOSIT LIABILITIES - LCY	49,661,449	23.1%	33,105,294	22.9%	52,495,305	26.1%
32	Customers' foreign currency balances	2,124,686	1.0%	3,759,951	2.6%	4,850,077	2.4%
33	TOTAL DEPOSIT LIABILITIES	51,786,135	24.1%	36,865,245	25.5%	57,345,382	28.5%
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	57,957,520	26.9%	9,956,890	6.9%	8,251,331	4.1%
36	**TOTAL CAPITAL & LIABILITIES**	**204,835,615**	**95.2%**	**134,090,471**	**92.9%**	**183,811,191**	**91.3%**
37	TOTAL CONTINGENT LIABILITIES	10,378,506	4.8%	10,243,141	7.1%	17,589,615	8.7%
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**215,214,121**	**100%**	**144,333,612**	**100%**	**201,400,806**	**100%**
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes	9,002,256	4.2%	9,738,056	6.7%	14,109,578	7.0%
40	Guarantees, bonds etc..	1,376,250	0.6%	505,085	0.3%	605,051	0.3%
41	Short-term self liquidating contingencies					2,874,986	1.4%

**Inter-bank takings incudes FirstRand Group's FCY takings*

RAND MERCHANT BANK NIG LIMITED

	STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Dec-2020		31-Dec-2019		31-Dec-2018	
		₦'000		₦'000		₦'000	
42	Interest income	12,019,438	53.9%	17,700,076	50.9%	14,874,126	55.5%
43	Interest expense	(4,122,061)	-18.5%	(10,862,108)	-31.2%	(10,081,737)	-37.6%
44	Loan loss expense	(337,123)	-1.5%	(61,445)	-0.2%	(175,412)	-0.7%
45	NET REVENUE FROM FUNDS	7,560,254	33.9%	6,776,523	19.5%	4,616,977	17.2%
46	ALL OTHER INCOME	10,280,513	46.1%	17,095,790	49.1%	11,923,714	44.5%
47	**NET EARNINGS**	**17,840,767**	**80.0%**	**23,872,313**	**68.6%**	**16,540,691**	**61.7%**
48	Staff costs	(4,339,713)	-19.5%	(4,444,673)	-12.8%	(3,804,845)	-14.2%
49	Depreciation expense	(891,718)	-4.0%	(795,486)	-2.3%	(200,289)	-0.7%
50	Other operating expenses	(1,769,455)	-7.9%	(2,164,567)	-6.2%	(2,558,987)	-9.5%
51	TOTAL OPERATING EXPENSES	(7,000,886)	-31.4%	(7,404,726)	-21.3%	(6,564,121)	-24.5%
52	PROFIT (LOSS) BEFORE TAXATION	10,839,881	48.6%	16,467,587	47.3%	9,976,570	37.2%
53	TAX (EXPENSE) BENEFIT	(114,828)	-0.5%	(455,231)	-1.3%	(101,697)	-0.4%
54	**PROFIT (LOSS) AFTER TAXATION**	**10,725,053**	**48.1%**	**16,012,356**	**46.0%**	**9,874,873**	**36.8%**
55	NON-OPERATING INCOME (EXPENSE) - NET						
56	DIVIDEND	(8,006,179)	-35.9%				
57	**GROSS EARNINGS***	**22,299,951**	**100%**	**34,795,866**	**100%**	**26,797,840**	**100%**
58	AUDITORS	PWC		PWC		PWC	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	31-Dec-2020	31-Dec-2019	31-Dec-2018
	EARNINGS			
60	Net interest spread	65.7%	38.6%	32.2%
61	Loan loss expense/Interest income	2.8%	0.3%	1.2%
62	Return on average assets & contingents (Pre - tax)	6.0%	9.5%	5.3%
63	Return on average equity (Pre - tax)	19.6%	35.8%	29.7%
64	Operating Expenses/Net earnings	39.2%	31.0%	39.7%
65	Gross earnings/Total assets & contingents (average)	12.4%	20.1%	14.3%
	EARNINGS MIX			
66	Net revenue from funds	42.4%	28.4%	27.9%
67	All other income	57.6%	71.6%	72.1%
	LIQUIDITY			
68	Liquid assets/Total lcy deposits	222.1%	173.8%	272.5%
69	Demand deposits/Total lcy deposits	38.3%	8.5%	3.8%
70	Savings deposits/Total lcy deposits	Nil	Nil	Nil
71	Time deposits/Total lcy deposits	38.1%	86.0%	54.9%
72	Inter-bank borrowings/Total lcy deposits	23.6%	5.5%	41.3%
73	Interest expense - banks/Interest expense	14.6%	12.7%	3.6%
74	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	(264,437)	1,667,697	1,723,716

***Gross earnings: computed less fees and commission expense*

RAND MERCHANT BANK NIG LIMITED

	KEY RATIOS CONT'D	**31-Dec-2020**	**31-Dec-2019**	**31-Dec-2018**
	ASSET QUALITY			
75	Performing loans (₦'000)	55,412,846	51,224,576	50,065,083
76	Non-performing loans (₦'000)	Nil	Nil	Nil
77	Non-performing loans/Total loans - Gross	Nil	Nil	Nil
78	Loan loss provision/Total loans - Gross	2.6%	2.4%	2.2%
79	Loan loss provision/Non-performing loans	Nil	Nil	Nil
80	Risk-weighted assets/Total assets & contingents***	32.1%	45.1%	33.6%
	CAPITAL ADEQUACY			
81	Adjusted capital/risk weighted assets (Basel I)	82%	83%	56%
82	Tier 1 capital/Adjusted capital	100%	100%	100%
83	Total loans (net)/Adjusted capital	0.95	0.93	1.30
84	Capital unimpaired by losses (₦'000)	56,699,089	53,980,260	37,967,901
	STAFF INFORMATION			
86	Net earnings per staff (₦'000)	200,458	327,018	262,551
87	Staff cost per employee (₦'000)	48,761	60,886	60,394
88	Staff costs/Operating expenses	62.0%	60.0%	58.0%
89	Average number of employees	89	73	63
90	Average staff per office	89	73	63
	OTHER KEY INFORMATION			
91	Legal lending limit(₦'000)****	28,349,545	26,990,130	18,983,951
92	Other unamortised losses(₦'000)	NONE	NONE	NONE
93	Unreconciled inter-branch items (₦'000) DR/(CR)	NONE	NONE	NONE
94	Number of offices	1	1	1
95	Age (in years)	8	7	6
96	Government stake in equity (Indirect)	-	-	-
		2020	2019	2018
	MARKET SHARE OF INDUSTRY TOTAL	**Estimates**	**Actual**	**Actual**
97	Lcy deposits (excluding interbank takings)	0.2%	0.2%	0.2%
98	Total assets & contingents	0.4%	0.3%	0.5%
99	Total loans & leases - net	0.3%	0.3%	0.4%
100	Non interest income	0.8%	1.5%	1.3%
101	Net interest income	0.5%	0.4%	0.3%

****Basel I risk weightings*

*****limit per obligor*

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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