Nova Merchant Bank Limited

2022 Final Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Nova Merchant Bank Limited

Rating Assigned:
Bbb

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

ESG Score
3

Outlook: Stable
Issue Date: 19 Dec 2022
Expiry Date: 30 June 2023
Previous Rating: Bbb

Industry: Banking

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Rating Rationale

The rating assigned to Nova Merchant Bank Limited ("Nova MB" or "the Bank") reflects its good capitalisation, good liquidity profile, low level of impaired credits and experienced leadership team. However, the rating is constrained by concentration in the loan book of the Bank, subdued profitability, high funding costs, unfavourable regulations and the prevailing macroeconomic headwinds. We have also assigned an ESG Score of **"3"** which reflects our view that environmental, social and governance issues have a material impact on the rating assigned to the Bank.

Nova MB commenced operations in 2017 as the first indigenous merchant bank with neither an antecedence in the Nigerian financial market nor parental support. Over the last five years, the Bank has grown to be the second-largest merchant bank with a focus on providing financial solutions to reputable corporates. The relatively bullish approach to risk asset creation also supported business growth as reflected in the 80.6% year-on-year spike in gross loans to ₦90.4 billion as at 31 December 2021. Notwithstanding, concentration in the loan book persists as four obligors accounted for 43.3% and three sectors contributed 70.8% to gross loans as at FYE 2021. Despite the prevailing headwinds, the impaired credits remained negligible at 0.4% (FYE 2020: 0.1%) of gross loans and were adequately covered by the cumulative provisions 6.5 times. We believe intensified loan monitoring is imperative given the sectorial and obligor concentration as well as the weak economy.

Nova MB is well capitalised for current business risks. As at 31 December 2021, the shareholders' funds stood at ₦23.5 billion, reflecting a 3.3% growth and higher than the ₦15 billion regulatory minimum for merchant banks. The risk asset growth moderated the capital adequacy ratio to 29% (FYE 2020: 39.5%). This was still higher than the regulatory minimum of 10% for merchant banks. The Bank's common equity tier 1 (CET1) ratio was also good at 16.9%, significantly better than the 7% proposed minimum by the Central Bank of Nigeria (CBN).

Nova MB deepened value chain banking and its collection service during the year under review. As a result, deposit liabilities grew by 30.5% to ₦116.9 billion as at FYE 2021. However, deposit growth was most prominent in the relatively expensive term deposits which accounted for a higher 73.9% of deposit liabilities. Consequently, the weighted average cost of funds increased to 7.7% from 6.3% in the prior year. Although the funding pressure resulted in a decline in the liquidity ratio to 33.7% (FYE 2020: 67%), it remained above the 20% regulatory minimum. Subsequent to the year-end, the rising interest rate environment coupled with the accretive cash reserve debits increased the funding costs to 8.6% in the first nine months of 2022 while the liquidity ratio improved to 35.1%. We expect this trend to continue in the last quarter of the year.

The discretionary cash reserve policy of the CBN and the rising interest rate adversely impacted the performance of merchant banks during the year under review. Thus, Nova MB's net interest spread (NIS) plummeted to a historical low of 1.4% (FY 2020: 25.2%) and was the least among the merchant banks, as the aggressive cash reserve policy increased the interest expense and moderated the impact of the higher interest income emanating from the spike in the loan book. The leveraged the malleability of its merchant banking licence and grew the non-interest income by 31.9% but it accounted for a lower 1.8% of total assets relative to 2.1% recorded in the prior year and 2.9% posted by the merchant banking segment. The adverse cash reserve policy and the focus on blue-chip corporates continue to threaten non-interest income. Overall, the net earnings reduced by 16.8% to ₦5 billion in FY 2021.

During the year under review, the cost-to-income ratio rose to 66.7% (FY 2020: 43%) due to regulatory costs and lower earnings. The pre-tax profit plummeted by 51.4% and the pre-tax return on average assets dipped to a historical low of 0.6% (FY 2020: 2%). In FY 2021, the pre-tax return on average equity (ROE) of 7.2% was lower than the 16.3% recorded in the prior year and the 10.8% recorded by the merchant banking segment. Subsequent to the year-end, the headwinds continued and profitability dipped further. In the first nine months of the year, the NIS was negative 7.4% and the annualised ROA stood lower at 0.5% while the annualised ROE remained at 7.2%. The Bank is contending with regulatory headwinds and the adverse macroeconomic climate. In our view, Nova MB's profitability could be better notwithstanding the headwinds.

Strengths

- Good capitalisation
- Low level of impaired credits
- Experienced management team

Weaknesses

- Sector and obligor concentration in the loan book
- Concentration in the deposit base
- Subdued profitability

Challenges

- Unfavorable regulatory policies
- Growing the loan book while maintaining asset quality in a period of macroeconomic downturn
- Improving profitability in an inflationary environment with a contractionary monetary stance
- Securing stable long term funds

Table 1: Background Information

	31 Dec 2019	31 Dec 2020	31 Dec 2021
Total assets & contingents	₦327.2 billion	₦247.2 billion	₦276.8 billion
Net earnings	₦3.4 billion	₦6 billion	₦5 billion
Pre-tax return on average assets & contingents (ROA)	2.4%	2%	0.6%
Pre-tax return on average equity (ROE)	8.2%	16.3%	7.2%

PROFILE

Nova Merchant Bank Limited ("Nova MB" or "the Bank") was incorporated in May 2017 and obtained a merchant banking license from the Central Bank of Nigeria (CBN) in December 2017. The Bank was the first indigenous merchant bank without an antecedence or a parent in the Nigerian financial market. The Bank offers corporate banking and money market services (such as securities trading and holding marketable securities such as treasury bills and government bonds) to corporates and high-net-worth individuals.

Nova MB had an average staff strength of 88 employees in the financial year ended 31 December 2021, higher than 55 employees in the prior year due to business growth. The Bank operates from 23 Kofo Abayomi Street, Victoria Island, Lagos.

Subsidiaries

Nova Merchant Bank Limited has two subsidiaries; NovaMBL Asset Management Limited and NovaMBL Securities Limited. As at 31 December 2021, the Bank's investment in these subsidiaries amounted to ₦431 million (FYE 2020: ₦415 million).

Table 2: Subsidiaries of Nova Merchant Bank Limited

Name	Principal Activities	Ownership Stake
NovaMBL Asset Management Limited	Asset Management	99%
NovaMBL Securities Limited	Broker and Dealer	88.3%

NovaMBL Asset Management Limited provides funds and portfolio management services to individuals, corporates and institutions. As at the FYE 2021, NovaMBL Asset Management Limited had a total asset base of ₦4.1 billion and assets under management (AUM) of ₦280.4 million.

NovaMBL Securities Limited provides securities trading services to individuals and corporates. The subsidiary had an asset base of ₦486.1 million (FYE 2020: ₦438.6 million) as at FYE 2021. However, the lull in the Nigerian equities market adversely affected performance during the year under review. Thus, the subsidiary posted a loss of ₦22.5 million during the year under review, down from a profit of ₦7 million in the prior year.

Information Technology

Nova Merchant Bank Limited deploys a range of software applications and hardware appliances for its day-to-day core banking and investment businesses. Nova MB uses the full Intellect Digital Core banking application provided by the India-based banking technology developer, Intellect Design Arena. The Bank's core banking application contains trade, treasury, lending, anti-money laundering, internet and mobile banking modules. Nova MB Bank has two remote data centres in Lagos (Ikeja and Lekki) to reduce disruptions in service delivery.

Correspondent Bank

Nova Merchant Bank Limited maintains a local banking relationship with United Bank for Africa (UBA) Plc and FCMB Limited. The Bank has foreign banking relationships with United Bank for Africa New York, United Bank for Africa UK, FCMB Bank UK, FBN Bank UK, Bank of Beirut UK and Access Bank UK. There are plans to further expand the correspondent banking relationships in line with projected business growth.

CURRENT DIRECTORS		SHAREHOLDING (DIRECT AND INDIRECT)
Mr Phillips Oduoza	*Chairman*	*50.493%**
Mr Nath Ude	*Chief Executive Officer/Managing Director*	*Nil*
Mrs Funke Okoya	*Executive Director*	*Nil*
Mr Emmanuel Onokpasa	*Executive Director*	*Nil*
Mr Shams Butt	*Non-Executive Director*	*Nil*
Mr Chinedu Uzoho	*Non-Executive Director*	*Nil*
Chief Malachy Nwaiwu	*Independent Non-Executive Director*	*Nil*
Mrs Gbemisola Laditan	*Independent Non-Executive Director*	*Nil*
Mrs Funmi Oyetunji	*Independent Non-Executive Director*	*Nil*

MANAGEMENT TEAM

Mr Nath Ude is the Managing Director and Chief Executive Officer of Nova Merchant Bank Limited. Mr Ude served as the Deputy Managing Director of the Bank from July to September 2020, before he was appointed as the Managing Director. Mr Ude has circa three decades of experience in the banking industry and served in several senior management roles including Executive Director at First City Monument Bank Limited and Executive Director at Union Bank of Nigeria Plc. He was a Non-Executive Director of the Nigeria Inter-Bank Settlement System Plc (NIBSS) and an Honorary Senior Member of the Chartered Institute of Bankers of Nigeria (CIBN). Mr Ude holds a B.Sc. in Finance from the University of Nigeria, Nsukka and two Master in Business Administration degrees from the Bayero University, Kano and the University of Bangor, Wales.

Other members of the senior management team include:

- Mrs Funke Okoya — Executive Director, Investment Banking and Subsidiaries
- Mr Emmanuel Onokpasa — Executive Director, Wholesale Bank and Treasury

Analysts' Comments

Asset Quality

Notwithstanding the prevailing macroeconomic and regulatory headwinds, Nova Merchant Bank Limited maintained its growth trajectory as the total assets and contingents expanded by 12% to ₦276.8 billion as at 31 December 2021. The growth in the asset base was funded by the expanded deposit base and the Bank leveraged the differentiated cash reserve intervention window to reduce its non-earning assets. As a result, the sterile restricted funds with the CBN declined by 10.1% year-on-year to ₦31.6 billion and accounted for 11.4% (FYE 2020: 14.2%) of total assets and contingents as at FYE 2022.

Nova MB's risk asset creation strategy remains the provision of financial solutions to reputable companies and operators in their value chain. The Bank adopted an aggressive approach to risk asset creation during the year under review and gross loans spiked by 80.6% to ₦90.4 billion as at FYE 2021. Growth was most prominent in the manufacturing sector where Nova MB predominantly provide working capital finance and to an extent support fixed asset expansion. The Bank also extended import finance facilities to some oil and gas downstream operators and provided overdraft facilities for the procurement of premium motor spirit (PMS) from the state-owned supplier. As at 30 September, gross loans and advances stood at ₦82.2 billion, a 9.1% contraction from FYE 2021. The Bank intends to expand the loan book to ₦91.4 billion in the last quarter of 2022 with a focus on supporting businesses with a good track record and strong financial strength, irrespective of sector.

Figure 1: Loan Book by Sector as at 31 December 2021

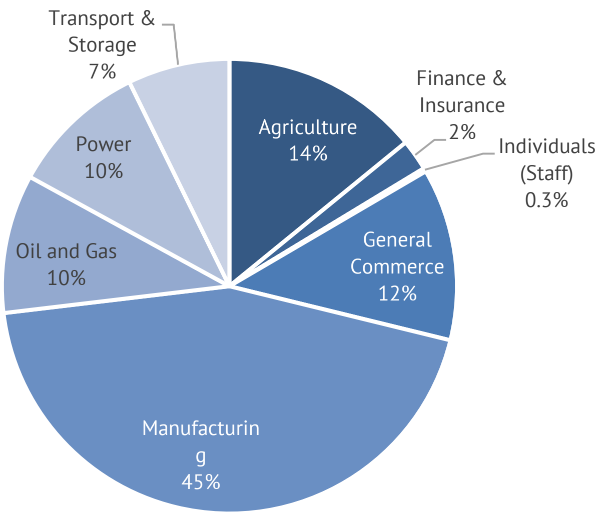
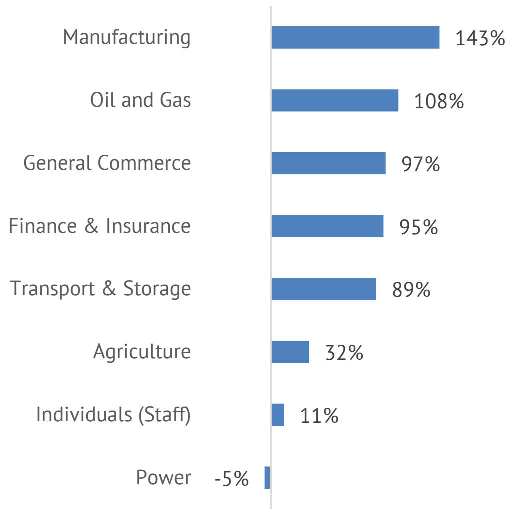


Figure 2: Loan Growth by Sector in FY 2021



Nova MB's loan book is concentrated by sector as the three largest sectors jointly accounted for 70.8% of gross loans as at 31 December 2021, at par with the prior year. As at the same date, manufacturing remained the largest sector. Given the high import dependence of the sector, manufacturing companies have been adversely impacted by the prevailing illiquidity in the foreign exchange market in addition to the declining consumer purchasing power. The agriculture sector is also prominent in the loan book reflecting the fiscal and monetary incentives provided for agribusiness. Notwithstanding, flooding, herders-farmers clashes and primitive farming techniques continue to moderate the performance of the agriculture sector. Although the Bank only finances aggregators and exporters of agriculture commodities, we believe these obligors are not completely immune from the challenges in the sector.

Obligor concentration remained in the loan book of Nova MB as four obligors accounted for 43.3% of the loan portfolio as at FYE 2021. None of these exposures breached the single obligor limit of the CBN (50% of shareholders' funds for a merchant bank) and these counterparties are corporates with a good track record. Nonetheless, the concentration makes the Bank vulnerable to the performance of these obligors.

According to the IFRS 9 accounting standard classification, 99.6% (FYE 2020: 99.9%) of the loan book was adjudged to have a low risk of default and was categorised in the stage 1 bucket as at 31 December 2021. As at the same date, 0.4% (FYE 2020: 0.1%) of gross loans and advances (largely ex-staff loans) were adjudged to either have high default risk or have past due obligation; thus, classified as stage 2 and 3 exposures. The impaired loan ratio was better than the regulatory maximum of 5% and the selected peers; FBNQuest Merchant Limited (FBNQuest MB) and FSDH Merchant Bank Limited (FSDH MB) with 2% and 4.7% respectively. As at FYE 2021, the cumulative provisions for credit losses (including additional provisions in the regulatory credit risk reserve) amounted to ₦2.2 billion and covered the impaired loans 6.5 times.

We consider Nova MB's asset quality to be satisfactory. However, we consider the concentration in the loan book a rating negative. We believe further intensification of loan monitoring is needed based on the raging headwinds and decline in consumer purchasing power.

RISK MANAGEMENT

Nova Merchant Bank Limited operates a centralised risk management framework under the guidance of the Board of Directors which is ultimately responsible for its risk profile. The Board determines the risk appetite and approves all risk policies while the relevant Board Committees provide oversight. The implementation of the risk management framework and the risk policies are under the purview of the risk management division headed by the Chief Risk Officer who is supported by the management risk committees in implementing the Board approved risk management policies.

Credit Risk Management

The Bank prioritises the management of credit risk which largely emanates from the loan portfolio and to a lesser extent its investment securities portfolio. An internal credit rating model which has 12 scales (AAA to D) is used in assessing the credit risk of counterparties. The 12 rating scales can further be grouped into four categories; investment grade (AAA to BBB), standard grade (BB+ to BB-), non-investment grade (B to B-) and default grade (CCC to D). As at FYE 2021, 89.7% (FYE 2020: 91%) of the loan book were categorised as investment grade while the remaining 10.3% (FYE 2020: 9%) was adjudged to be standard grade exposures. In line with the Bank's credit policy, all exposures were secured by assets which covered 97.7% of the loan book.

In our view, the coverage level is low given that a portion of the interest may be outstanding when the realisation of collateral is necessary. Liquid assets represented only 37.5% (FYE 2020: 49.4%) of total collateral value.

Market Risk Management

Nova MB's market risk exposure emanates from fixed-income securities and currency trading. The propriety (non-trading) portfolio also exposes the Bank to some elements of market risk (changes in interest and foreign exchange rates). The Bank adopts sensitivity analysis, hedge investments, position limits, value-at-risk and concentration limits in managing market risk.

Operational Risk Management

Similar to most financial institutions, the Bank is exposed to potential losses from the activities of its staff, system and processes in addition to external activities that could impair operating activities. The standardised approach is used by Nova MB in measuring operational risk and operational loss data have been gathered over the last four years. Operational policies and manuals are reviewed every three years to ensure that they remain relevant.

Overall, we consider Nova MB's risk management framework to be acceptable for current business risks.

EARNINGS

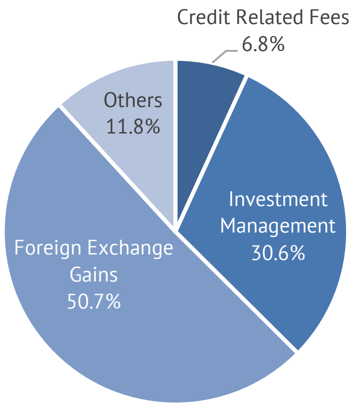
In the financial year ended 31 December 2021, the downturn in the economy in addition to the unfavourable regulatory environment shaped the performance of Nova Merchant Bank Limited. As a result, net earnings contracted by 16.8% to ₦5 billion in FY 2021. Fund-based income plummeted by 92.5% and represented a meagre 3.5% (FY 2020: 39.2%) of net earnings, reflecting the impact of the discretionary cash reserve requirement. However, non-interest income improved by 31.9% and contributed a higher 96.5% (FY 2020: 60.8%) to net earnings during the year under review.

Nova MB's interest income grew by 25.5% to ₦12.1 billion in FY 2021, supported by the 80.6% loan growth and expansion in the investment portfolio. However, the regulated pricing of loans that originated through the D-CRR intervention window of the CBN as well as the CBN special bills, which represented circa 70% of the investment securities, moderated the growth in interest income. During the year under review, the Bank's interest expense spiked by 65.5% to ₦11.9 billion on the back of higher term deposits and the impact of the domestic currency depreciation on foreign currency debt obligations. Overall, the net interest spread (NIS) plummeted to 1.4% (FY 2020: 25.2%), the lowest since the inception of Nova MB, and stood lower than 11.8% and 31.7% recorded by FBNQuest MB and FSDH MB respectively. Subsequent to the year-end, the unaudited financial statements for the nine months ended 30 September 2022 reflect a negative 7.4% NIS as the funding costs responded faster to the rising yield environment compared to loan pricing. While we anticipate some improvement in the last quarter of the year, we do not expect the NIS for FY 2022 to be significantly higher 1.4% reported in FY 2021.

During the year under review, Nova MB's model for computing expected credit loss was recalibrated using the credit loss data gathered over the last five years of operation. Given the relatively good performance of the credit portfolio, with the exception of the staff loans, the cumulative loan loss provision was adjudged to be higher than the expected credit loss based on the revised model. As a result, ₦7.1 million writeback was recorded in FY 2021 compared to a ₦72.7 million impairment charge in the prior year. The Bank does not expect an impairment charge in FY 2022 based on the updated expected credit loss model.

Nova MB leveraged fees and commissions on ancillary services to augment the moderated fund-based income. As a result, the non-interest income grew by 31.9% to ₦4.8 billion in FY 2021. Credit-related fees improved by 138% on the back of the expanded loan book and the naira devaluation spurred a 572% increase in foreign exchange income. In our view, the foreign exchange income is not sustainable. However, the enlarged asset base moderated the non-interest income as a percentage of total assets to 1.8% (FY 2020: 2.1%) which was lower than FBNQuest MB's 3.4%, albeit higher than FSDH MB's 1%.

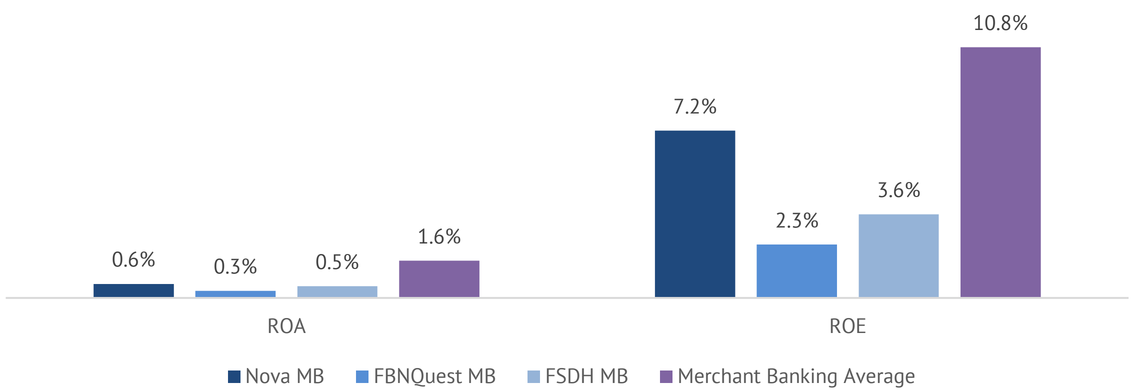
Figure 3: Breakdown of Non-Interest Income (FY 2021)



Nova MB's operating expenses increased by 29.1% to ₦3.3 billion in FY 2021, spurred by the prevailing inflationary pressure and the higher deposit insurance premium induced by the larger deposit base. The higher staff costs on account of the new hires also accounted for the high operating expenses. As a result, the cost-to-income ratio (CIR) increased to 66.7% (FY 2021: 43%) but better than FBNQuest MB's 91.4% and FSDH MB's 83.4%. Subsequent to the year-end, the CIR increased further to 68% in the nine months ended 30 September 2022. We expect the cost-to-income ratio to remain elevated for FY 2022 based on the intense inflationary pressure, further expansion of the workforce and constrained earnings.

Overall, Nova MB's profitability weakened with the return on average assets (ROA) declining to 0.6% (FY 2020: 2%), the lowest since the inception of the Bank. The achieved return on average equity (ROE) at 7.2% was the lowest since 2018. Subsequent to the year-end, in the first nine months ended 30 September 2022, the annualised ROA declined to 0.5% while the annualised ROE remained flat at 7.2%. We do not anticipate a significant improvement in Nova MB's profitability in FY 2022 as the adverse CRR regime continues to weaken the performance of the entire banking industry particularly the merchant banking segment.

Figure 4: Profitability Ratios in FY 2021



CAPITAL ADEQUACY

As at 31 December 2021, Nova Merchant Bank Limited's shareholders' funds stood at ₦23.5 billion, representing a 3.3% growth due to profits accretion and funded 8.5% (FYE 2020: 9.2%) of total assets and contingents. At this level, the shareholders' funds stood above the ₦15 billion regulatory minimum for merchant banks. The Bank's tier II capital which comprised the 7 year 12% ₦10 billion bond issued in July 2020 and fair value reserve remained at ₦10.4 billion.

The expansion of the risk asset portfolio during the year under review resulted in a decline in the capital adequacy ratio (CAR) to 29% (FYE 2020: 39.6%). Nonetheless, the CAR remained significantly higher than the 10% regulatory minimum as well as its peers, FBNQuest MB's 19.5% and FSDH MB's 20.1%. As at FYE 2021, the common equity tier 1 capital ratio under the Basel III accord stood at 16.9%, more than twice the 7% proposed by the CBN.

We consider the Bank's capital to be good for current business risks.

LIQUIDITY AND LIABILITY GENERATION

Nova Merchant Bank Limited leverages its growing brand franchise and synergy with its subsidiaries in liability generation. During the year under review, the Bank deepened relationships with the value chain of its corporate clients. As a result, total deposit liabilities grew by 30% to ₦116.9 billion as at 31 December 2021. While term deposits grew by a higher 32%, demand deposits expanded by 30% during the year under review. As a result, the relatively expensive term deposits remained prominent and accounted for 73.9% of the deposit liabilities, at par with the prior year. As at FYE 2021, FSDH MB recorded a better deposit mix as term deposits represented 62.8%, although FBNQuest MB's 89.8% was higher.

Nova MB leveraged the RT200 policy to expand the foreign currency-denominated deposits five times to ₦13.1 billion as at FYE 2021. As at the same date, FCY deposits covered a higher 60% (FYE 2020: 24%) of FCY loans. We note positively the various initiatives to match customers with demand for foreign currencies with those earning FCY to moderate activities at the CBN auction market.

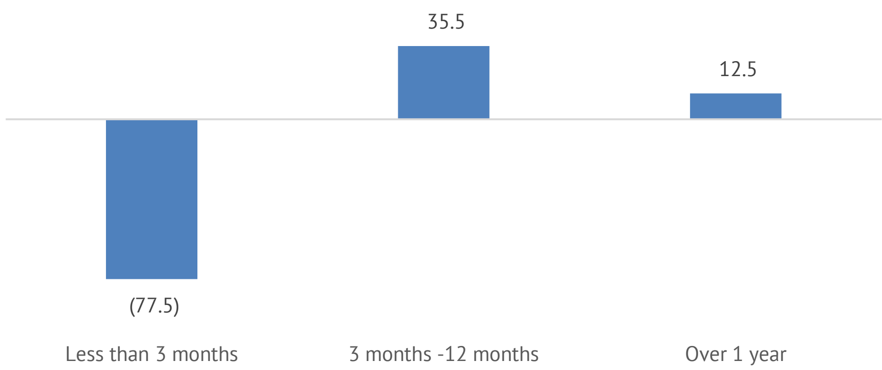
Nova MB's deposit base is concentrated as 10 customers accounted for 48.6% of total deposit liabilities as at FYE 2021. Although this was better than the prior year when 61.4% of the deposit base was contributed by 10 customers, the Bank remains susceptible to repricing risk should any of the top depositors pull their funds.

In addition to the shareholders' funds and customer deposits, Nova MB is funded by borrowings sourced from international banks and the debt capital market. Given the uptick in funding from international banks, total borrowings grew by 16% to ₦37.2 billion and financed 13.4% (FYE 2020: 13%) of the asset base as at FYE 2021. Subsequent to the year-end, a ₦20 billion commercial paper programme was registered to provide additional short-term funding and circa ₦13 billion was raised in two tranches. As at 30 September 2022, the first tranche had been repaid and the second tranche amounting to ₦6.3 billion is expected to be repaid before FYE 2022.

In line with the funding pressure during the year under review, as reflected in the expansion in term deposits, Nova MB's weighted average cost of funds (WACF) increased to 7.7% (FY 2020: 6.3%). While this was better than FBN MB's 8.6%, FSDH MB's funding cost of 5.9% was lower in FY 2021. Subsequent to the year-end, the WACF inched up to 8.6% in the first three quarters of 2022 and we expect this trend to continue in the last quarter of the year based on the four consecutive increases in the monetary policy rate and other contractionary stance of the CBN.

A review of the maturity profile of Nova MB's loans and funding (customer deposits and borrowings) reflects some mismatches. As at 31 December 2021, only loans maturing within 90 days were adequately funded by customer deposits and borrowings in the corresponding maturity buckets. This exposes the Bank to adverse movement in interest rates, particularly as merchant banks in Nigeria primarily rely on wholesale funding. However, the pool of investment securities can be liquidated to support any funding need.

Figure 5: Loan-Funding (Deposits and Borrowings) Mismatches as at 31 December 2021 (₦ 'billion)



Nova MB's liquid asset portfolio expanded by 12.4% to ₦69.5 billion as at 31 December 2021. However, the liquidity ratio plummeted to 33.7% from 67% in the prior year due to the growth in the deposit base. Notwithstanding, the liquidity ratio remained significantly higher than the 20% regulatory minimum for merchant banks operating in Nigeria. Although the prevailing contractionary monetary policies will exert pressure on the liquidity ratio, we believe it will remain above the regulatory minimum in the near term.

In our view, Nova MB's exclusion from the retail market constrained its liability generation strategy and exposes it to relatively expensive funds in the wholesale financial market. Notwithstanding, we note positively the various initiatives to improve collections from the Bank's corporate customers and their value chain. Access to the interbank market (with the liquid assets serving as collaterals) and the commercial paper programme provide additional funding sources. Overall, we believe an improvement in the deposit mix and further diversification of the deposit base are imperative based on the Bank's operating history over the last five years.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Agusto & Co. focuses on social and governance issues predominantly and to a lesser extent environmental issues in assessing the impact of environmental, social and governance issues on assigned credit ratings of banks. Nova Merchant Bank Limited considers environmental impact as part of its risk assessment for potential obligors and counterparties with environmentally friendly operations prioritised. As at 31 December 2021, exposure to the oil and gas sector with the potential for a significant environmental footprint accounted for 9.8% of the loan book.

As at 31 December 2021, 33% of the Board of Directors are female, higher than the 30% regulatory minimum. However, further gender diversity is needed at the senior management level where females represented 19.1%, lower than the 35% minimum stipulated by the CBN.

MARKET SHARE

Over the last five years of operations, Nova Merchant Bank Limited has grown to be one of the significant merchant banks operating in Nigeria. During the year under review, the Bank's share of the merchant banking segment's asset base and the loan book improved. However, the decline in performance was reflected in the market share of profitability indicators. Notwithstanding, Nova MB remained the second-largest merchant bank in the Nigerian banking industry although the ranking based on profitability indicators was lower.

Table 2: Market Share Indicators

	Nova MB 2020	Nova MB 2021	Coronation MB 2021	FBNQuest MB 2021	FSDH MB 2021	Greenwich MB 2021	Rand MB 2021
LCY Deposits	19%	17.4%	35.9%	14.5%	13.4%	6.4%	12.4%
Total Assets and Contingents	19%	20.7%	33.2%	19.3%	10.5%	7.7%	8.4%
Loans and Advances (Net)	16%	19.5%	32.6%	16.5%	16.5%	1.6%	13.3%
Net Earnings	11%	9.2%	18.9%	15.6%	11.1%	8.0%	37.2%
Pre-tax Profit	12%	7.8%	13.1%	3.4%	4.7%	9.7%	61.3%

OWNERSHIP, MANAGEMENT & STAFF

Nova Merchant Bank Limited is a closely held financial institution, owned by seven shareholders who control its 16 billion paid-up shares as at 31 December 2021. Mr Phillips Oduoza, who chairs the Board of Directors, remains the largest shareholder with 50.5% direct and indirect holdings as at FYE 2021.

Table 3: Significant Shareholders of Nova Merchant Bank Limited

Shareholder	Percentage of Shareholding
Mr. Phillips Oduoza (Direct and Indirect Holdings)	50.494%
Carbon Commodities DMCC	24.753%
Five Star Associate Limited	12.377%
Afriglobal Investment Holding	12.377%
Total	**100%**

Nova MB is governed by a nine-member Board of Directors comprising three Executive Directors and six Non-Executive Directors, three of whom are Independent Non-Executive Directors. The Board has four standing committees; the Board Credit and Risk Committee; the Board Nominations and Governance Committee; the Board Audit Committee; and the Board Finance and General Purpose Committee. There were significant changes in the Board composition during the year under review with the retirement of three Independent Non-Executive Directors (Mr Emmanuel Ijewere, Mrs Habiba Wakil and Ms Bolanle Onagoruwa). Subsequently, Mrs Funmi Oyetunji and Mrs Gbemisola Laditan were appointed as Independent Non-Executive Directors while Mr Chinedu Uzoho joined the Board as a Non-Executive Director. Mr Emmanuel Onokpasa was appointed as an Executive Director with the purview of wholesale banking and treasury. Mr Nath Ude is the Managing Director and Chief Executive Officer and he is supported by the two Executive Directors. We do not anticipate a significant change in strategy based on the changes in the Board composition.

During the year under review, various vacancies in the Bank were filled and additional staff were employed to moderate the impact of the ongoing emigration. As a result, the average number of employees increased to 88 persons from 55 persons in the prior year. Notwithstanding, the average staff cost declined by 30% to ₦9.2 million given the graduate trainee programme introduced during the year. Given the 16.8% decline in the net earnings and the increase in staff numbers, the net earning per staff dipped by 48% to ₦56.8 million and covered the average staff cost 6.2 times (FY 2020: 8.4 times). This was better than FBNQuest MB's 2.6 times and FSDH MB's 2.7 times.

Overall, we believe staff productivity is good and Nova MB is led by an experienced management team.

OUTLOOK

Nova Merchant Bank Limited plans to strengthen its internal processes and procedures to ensure sustainability in view of the prevailing regulatory and macroeconomic headwinds ravaging Nigeria. Additional staff will be employed to provide a buffer in the workforce and man some specialised departments. The Bank also intends to strengthen its value chain banking activities as part of optimising opportunities within the ecosystem of its customers. In line with the desire to finance long-tenor transactions, Nova MB will explore the debt capital market for long-term funding should the interest rate environment improve. Cross-selling of financial products will be intensified to take advantage of the synergy between the Bank and its subsidiaries.

Overall, we expect asset quality to remain good while capital will remain acceptable for business risks. However, we believe the regulatory headwinds will continue to adversely impact the profitability of the merchant banking segment of which Nova MB is part. We, therefore, assigned a **stable** outlook to the rating of Nova Merchant Bank Limited.

FINANCIAL SUMMARY

NOVA MERCHANT BANK LIMITED

	STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-21		31-Dec-20		31-Dec-19	
		₦'000		₦'000		₦'000	
	ASSETS						
1	Cash & equivalents	36,924	0.0%	4,836,542	2.0%		
2	Government securities	69,440,628	25.1%	56,953,583	23.0%	16,046,552	16.6%
3	Money Market Placements			19,943,683	8.1%	7,035,382	7.3%
4	Quoted investments						
5	Placements with discount houses						
6	LIQUID ASSETS	69,477,552	25.1%	81,733,808	33.1%	23,081,934	23.8%
7	BALANCES WITH NIGERIAN BANKS	5,861,400	2.1%	13,896	0.0%	1,775,680	1.8%
8	BALANCES WITH BANKS OUTSIDE NIGERIA	18,591,486	6.7%	4,799,703	1.9%	1,799,304	1.9%
9	Direct loans and advances - Gross	90,423,696	32.7%	50,069,916	20.3%	29,316,534	30.2%
10	Less: Cumulative loan loss provision	(41,461)	0.0%	(98,375)	0.0%	(31,030)	0.0%
11	Direct loans & advances - net	90,382,235	32.7%	49,971,541	20.2%	29,285,504	30.2%
12	Advances under finance leases - net						
13	TOTAL LOANS & LEASES - NET	90,382,235	32.7%	49,971,541	20.2%	29,285,504	30.2%
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	20,468,893	7.4%	4,143,416	1.7%	3,832,677	4.0%
16	DEFERRED LOSSES	443,497	0.2%	443,498	0.2%	443,497	0.5%
17	RESTRICTED FUNDS	31,617,735	11.4%	35,170,012	14.2%	1,286,185	1.3%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES	431,167	0.2%	415,000	0.2%	150,000	0.2%
19	OTHER LONG-TERM INVESTMENTS	3,149,319	1.1%	3,700,410	1.5%	280,871	0.3%
20	FIXED ASSETS & INTANGIBLES	2,157,530	0.8%	1,868,587	0.8%	1,869,647	1.9%
21	**TOTAL ASSETS**	**242,580,814**	**87.6%**	**182,259,871**	**73.7%**	**63,805,299**	**65.8%**
22	TOTAL CONTINGENT ASSETS	34,227,136	12.4%	64,974,259	26.3%	33,117,124	34.2%
23	**TOTAL ASSETS & CONTINGENTS**	**276,807,950**	**100%**	**247,234,130**	**100%**	**96,922,423**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	23,487,351	8.5%	22,703,156	9.2%	19,312,278	19.9%
25	TIER 2 CAPITAL	10,386,988	3.8%	10,395,896	4.2%	247,533	0.3%
26	MEDIUM TERM BORROWINGS						
27	Demand deposits	30,547,954	11.0%	21,427,407	8.7%	6,359,343	6.6%
28	Savings deposits						
29	Time deposits	73,203,734	26.4%	65,544,720	26.5%	33,826,012	34.9%
30	Inter-bank takings	26,813,409	9.7%	21,713,953	8.8%		
31	TOTAL DEPOSIT LIABILITIES - LCY	130,565,097	47.2%	108,686,080	44.0%	40,185,355	41.5%
32	Customers' foreign currency balances	13,137,779	4.7%	2,639,702	1.1%	327,585	0.3%
33	TOTAL DEPOSIT LIABILITIES	143,702,876	51.9%	111,325,782	45.0%	40,512,940	41.8%
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	65,003,599	23.5%	37,835,037	15.3%	3,732,548	3.9%
36	**TOTAL CAPITAL & LIABILITIES**	**242,580,814**	**87.6%**	**182,259,871**	**73.7%**	**63,805,299**	**65.8%**
37	TOTAL CONTINGENT LIABILITIES	34,227,136	12.4%	64,974,259	26.3%	33,117,124	34.2%
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**276,807,950**	**100%**	**247,234,130**	**100%**	**96,922,423**	**100%**
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes					27,760,378	28.6%
40	Guarantees, bonds etc..	3,431,217	1.2%	1,073,804	0.4%	2,123,301	2.2%
41	Short-term self liquidating contingencies	30,795,919	11.1%	63,900,455	25.8%	3,233,445	3.3%

NOVA MERCHANT BANK LIMITED

	STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Dec-21		31-Dec-20		31-Dec-19	
		₦'000		₦'000		₦'000	
42	Interest income	12,054,334	71.4%	9,605,681	72.4%	4,529,392	77.8%
43	Interest expense	(11,885,626)	-70.4%	(7,181,076)	-54.2%	(2,343,268)	-40.3%
44	Loan loss expense	7,104	0.0%	(72,696)	-0.5%	(78,766)	-1.4%
45	NET REVENUE FROM FUNDS	175,812	1.0%	2,351,909	17.7%	2,107,358	36.2%
46	ALL OTHER INCOME	4,821,186	28.6%	3,654,774	27.6%	1,289,586	22.2%
47	**NET EARNINGS**	**4,996,998**	**29.6%**	**6,006,683**	**45.3%**	**3,396,944**	**58.4%**
48	Staff costs	(806,122)	-4.8%	(719,527)	-5.4%	(591,602)	-10.2%
49	Depreciation expense	(283,383)	-1.7%	(593,319)	-4.5%	(294,523)	-5.1%
50	Other operating expenses	(2,243,236)	-13.3%	(1,268,536)	-9.6%	(993,933)	-17.1%
51	TOTAL OPERATING EXPENSES	(3,332,741)	-19.7%	(2,581,382)	-19.5%	(1,880,058)	-32.3%
52	PROFIT (LOSS) BEFORE TAXATION	1,664,257	9.9%	3,425,301	25.8%	1,516,886	26.1%
53	TAX (EXPENSE) BENEFIT	(80,062)	-0.5%	(34,424)	-0.3%	133,831	2.3%
54	**PROFIT (LOSS) AFTER TAXATION**	**1,584,195**	**9.4%**	**3,390,877**	**25.6%**	**1,650,717**	**28.4%**
55	NON-OPERATING INCOME (EXPENSE) - NET						
56	DIVIDEND	(800,000)	-4.7%				
57	**GROSS EARNINGS**	**16,875,520**	**100%**	**13,260,455**	**100%**	**5,818,978**	**100%**
58	AUDITORS	PWC		PWC		PWC	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	31-Dec-21	31-Dec-20	31-Dec-19
	EARNINGS			
60	Net interest margin	1.4%	25.2%	48.3%
61	Loan loss expense/Interest income		0.8%	1.7%
62	Return on average assets & contingents (Pre - tax)	0.6%	2.0%	2.4%
63	Return on average equity (Pre - tax)	7.2%	16.3%	8.2%
64	Operating Expenses/Net earnings	66.7%	43.0%	55.3%
65	Gross earnings/Total assets & contingents (average)	6.4%	7.7%	9.3%
	EARNINGS MIX			
66	Net revenue from funds	3.5%	39.2%	62.0%
67	All other income	96.5%	60.8%	38.0%
	LIQUIDITY			
68	Total loans & leases - net/Total lcy deposits	39.7%	11.5%	29.3%
69	Liquid assets/Total lcy deposits	46.8%	69.0%	61.9%
70	Demand deposits/Total lcy deposits	23.4%	19.7%	15.8%
71	Savings deposits/Total lcy deposits	Nil	Nil	Nil
72	Time deposits/Total lcy deposits	56.1%	60.3%	84.2%
73	Inter-bank borrowings/Total lcy deposits	20.5%	Nil	Nil
74	Interest expense - banks/Interest expense	2.1%	Nil	Nil
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	Nil	Nil	Nil

NOVA MERCHANT BANK LIMITED

	KEY RATIOS CONT'D	31-Dec-21	31-Dec-20	31-Dec-19
	ASSET QUALITY			
76	Performing loans (₦'000)	90,377,391	50,023,611	29,316,534
77	Non-performing loans (₦'000)	Nil	Nil	Nil
78	Non-performing loans/Total loans - Gross	Nil	Nil	Nil
79	Loan loss provision/Total loans - Gross	0.0%	0.2%	0.1%
80	Loan loss provision/Non-performing loans	Nil	Nil	Nil
81	Risk-weighted assets/Total assets & contingents	46.6%	28.0%	67.2%
	CAPITAL ADEQUACY			
82	Adjusted capital/risk weighted assets (Basel I)	25%	46%	28%
83	Tier 1 capital/Adjusted capital	69%	68%	99%
84	Total loans (net)/Adjusted capital	2.78	1.58	1.61
85	Capital unimpaired by losses (₦'000)	23,043,854	22,259,658	18,868,781
	STAFF INFORMATION			
86	Net earnings per staff (₦'000)	56,784	109,212	67,939
87	Staff cost per employee (₦'000)	9,160	13,082	11,832
88	Staff costs/Operating expenses	24.2%	27.9%	31.5%
89	Average number of employees	88	55	50
90	Average staff per office	88	55	50
	OTHER KEY INFORMATION			
91	Legal lending limit(₦'000)	11,521,927	11,129,829	9,434,391
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)	4	3	2
96	Government stake in equity (Indirect)	Nil	Nil	Nil
	MARKET SHARE OF INDUSTRY TOTAL	**Estimate**	**Actual**	**Actual**
97	Lcy deposits (excluding interbank takings)	0.3%	0.4%	0.2%
98	Total assets & contingents	0.4%	0.5%	0.2%
99	Total loans & leases - net	0.4%	0.3%	0.2%
100	Non interest income	0.3%	0.3%	0.1%

Rating Definitions

Aaa	A financial institution of impeccable financial condition and overwhelming capacity to meet obligations as and when they fall due.
Aa	A financial institution of very good financial condition and strong capacity to meet its obligations as and when they fall due.
A	A financial institution of good financial condition and strong capacity to meet its obligations.
Bbb	A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due.
Bb	Financial condition is satisfactory and the ability to meet obligations as and when they fall due to exist.
B	Financial condition is weak but obligations are still being met as and when they fall due.
C	Financial condition is very weak. Net worth is likely to be negative and obligations may already be in default.
D	In default.

A "+" (plus) or "-" (minus) sign may be assigned to ratings from Aa to C to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign

ESG CREDIT RATING CONTRIBUTION SCORE GUIDE

1	Environmental, Social and Governance issues do not contribute to credit risk
2	Environmental, Social and Governance issues have minimal contribution to credit risk
3	Environmental, Social and Governance issues have a material contribution to credit risk
4	Environmental, Social and Governance issues contribute significantly to credit risk
5	Environmental, Social and Governance issues are major contributors to credit risk

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