Nova Bank Limited

2024 Final Entity Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Nova Bank Limited

Rating Assigned:
Bbb

ESG Score
3

Outlook: Stable
Issue Date: 18 September 2024
Expiry Date: 30 June 2025
Previous Rating: Bbb

Industry: Banking

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A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.

Rating Rationale

Agusto & Co. hereby affirms the **"Bbb"** rating of Nova Bank Limited ("Nova Bank" or "the Bank"). Our rating reflects the Bank's good liquidity profile, adequate capitalisation and acceptable asset quality upheld by conservative risk profiling. The rating is however constrained by concentration in its loan book which makes it vulnerable to a few obligors, concentrated funding base and the challenges we expect the bank to face following its recent transition from a merchant bank in July 2024 to a commercial bank in an oligopolistic commercial banking segment. We have also assigned a **"3"** ESG score reflecting our view that environmental, social and governance issues have a material impact on the risk profile of the Bank.

After five years of operations as a merchant bank, Nova Bank applied to the Central Bank of Nigeria (CBN) for license conversion to a commercial bank with national authorisation. This was granted and commercial banking operations commenced in July 2024. Nova Bank intends to play across all segments of the commercial banking space, leveraging technology to serve customers, particularly in the retail and SME market segments.

Given the raging headwinds in the financial year ended 31 December 2023, Nova Bank focused on preserving asset quality while cautiously growing the loan book. As a result, the loan book grew by 7.9% to ₦105.1 billion as at FYE 2023 despite the steep naira depreciation. However, obligor concentration remained as 10 customers accounted for 45.5% (FYE 2022: 57.2%) of the loan book as at FYE 2023. Thus, Nova Bank is vulnerable to the financial performance of a few customers. Similarly, the manufacturing, oil and gas and general commerce sectors accounted for 79.9% (FYE 2022: 74.7%) of the loan book as at FYE 2023. During the year under review, stage 3 loans dipped by 24.1%, largely due to recoveries and represented a meagre 0.1% (FYE 2022: 0.2%) of the loan book as at FYE 2023, lower than the 5% regulatory guidance. In our view, the Bank's asset quality is satisfactory. We believe the commercial bank transition should further test the effectiveness of Nova Bank's credit risk framework.

As at 31 December 2023, Nova Bank's shareholders' funds stood at ₦31.1 billion, a year-on-year growth on the back of the ₦1.4 billion rights issue exercise and full retention of the profit. At this level, the shareholders' funds exceeded the ₦15 billion and ₦25 billion respective regulatory minimum for merchant banks and national commercial banks operating in Nigeria as at 31 December 2023. The enlarged capital base elicited an increase in capital adequacy ratio (CAR) to 27.8% (FYE 2022: 23.2%); more than twice the 10% regulatory minimum. In March 2024, the Central Bank of Nigeria directed commercial banks with national authorisation to maintain ₦200 billion as minimum paid-up capital before 31 March 2026. The Bank's ₦26 billion paid-up capital reflects a ₦174 billion capital shortfall. While the shareholders have committed to providing the needed capital, we are cautiously optimistic about the capital raising plan.

As at FYE 2023, total deposit liabilities stood at ₦162.6 billion, a 7% year-on-year growth. However, the intensified funding pressure resulting from the aggressive implementation of the cash reserve regime adversely impacted the merchant banks significantly. As a result, the high-cost deposits, used to offset the arbitrary cash reserve deductions, surged by 10.1% and accounted for 91.3% (FYE 2022: 75.6%) of total deposit liabilities as at FYE 2023. As at the same date, 10 customers provided 70% (FYE 2022: 62.4%) of total deposit liabilities. This makes the Bank susceptible to large withdrawals, without adequate replacements, by these customers. Given the deterioration in the deposit mix and the elevated interest rate, the weighted average cost of funds (WACF) rose to 11.1% (FY 2022: 9.2%) in FY 2023. We expect access to the retail deposit market, based on the commercial banking licence, to improve the funding mix and moderate the funding costs in the near term. During the year under review, the improved yields on treasury securities elicited a 29% growth in liquid assets. Thus, the liquidity ratio increased to 52.1% (FYE 2022: 23.5%), surpassing the 20% regulatory minimum for merchant banks and higher than the 30% threshold for commercial banks. In our opinion, Nova Bank's liquidity profile is good.

In FY 2023, Nova Bank recorded an 11.2% growth in net earnings to ₦8.1 billion driven by an uptick in investment banking activities and foreign exchange revaluation gains. The improved yield on earnings as reflected in the 7.6% (FY 2022: 4.3%) net interest spread also supported earnings during the year under review. Nonetheless, the cost-to-income ratio increased to 55.2% (FY 2022: 52.4%) as operating expenses rose by 17.2% to ₦4.5 billion due to inflationary pressures and costs associated with the transition. Overall, the Bank posted a 4.5% increase in pre-tax profit to ₦3.6 billion. However, the faster growth of the asset base and shareholders' funds resulted in a decline in the pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) to 1% (FY 2022: 1.2%) and 12.5% (FY 2022: 13.8%) respectively. In our view, Nova Bank's profitability needs improvement to absorb potential costs in the course of its transition. Subsequent to the year end, the Bank's profitability improved, with an annualised ROA of 2.4% and an annualised ROE of 25% in seven months ended 31 July 2024. However, we anticipate that the costs associated with the conversion and business expansion may moderate profitability in the near term.

Based on the aforementioned, we attach a **stable** outlook to the rating of Nova Bank Limited.

Strengths

- Good liquidity profile
- Low level of impaired credit
- Experienced management team

Weaknesses

- Sector and obligor concentration in the loan book
- Concentration in the deposit base
- High dependence on expensive tenored funding.

Challenges

- Navigating the challenges involved in the transition to a national commercial bank
- Increasing the paid-up capital to the regulatory minimum for national commercial banks
- Keeping the impaired loans low in a period of macroeconomic downturn
- Retaining good quality staff in the wave of mass emigration

Table 1: Background Information

	31 Dec 2022	31 Dec 2023
Total assets & contingents	₦318.9 billion	₦403 billion
Net earnings	₦7.3 billion	₦8.1 billion
Pre-tax return on average assets & contingents (ROA)	1.2%	1%
Pre-tax return on average equity (ROE)	13.8%	12.5%

PROFILE

Nova Bank Limited ("Nova Bank" or "the Bank") was incorporated in May 2017 as Nova Merchant Bank Limited and licensed by the Central Bank of Nigeria (CBN) in December 2017 to engage in merchant banking activities, particularly corporate banking, investment banking, and money market trading activities. As at 31 December 2023, Nova Bank Limited had three subsidiaries; NovaMBL Asset Management Limited, NovaMBL Securities Limited and NovaMBL Investments SPV Plc (a subsidiary established specifically to facilitate debt issuance in the capital markets). NovaMBL Asset Management Limited provides funds and portfolio management services to individuals, corporates and institutions. As at FYE 2023, NovaMBL Asset Management Limited had a total asset base of ₦1.7 billion and assets under management (AUM) of ₦2.8 billion. The subsidiary recorded a profit of ₦15.1 million (FY 2022: ₦116.6 million loss). NovaMBL Securities Limited provides securities trading services to individuals and corporates. As at FYE 2023, the subsidiary had an asset base of ₦585.1 million (FYE 2022: ₦500 million) and recorded a ₦33.9 million pre-tax profit (FY 2022: ₦6.1 million loss) in FY 2023.

After operating as a merchant bank for six years with moderate profitability, a review of the Nova bank's operating licence and other available opportunities in the banking industry was conducted during the financial year ended 31 December 2023. Thus, conversion to a commercial bank with national authorisation was concluded on 1 July 2024 and the name changed to Nova Bank Limited. It is expected that non-core banking activities such as asset management and investment banking that are not permissible under the commercial banking license should be disposed of within the next two years. As at 31 December 2023, Nova Bank operated from the head office situated at 23 Kofo Abayomi Street, Victoria Island, Lagos. Subsequent to the year end, the inaugural branch located at 18 Kofo Abayomi Street, Victoria Island, Lagos was launched. It is expected that four additional branches should be added before 31 December 2024.

OWNERSHIP AND SUPPORT

Nova Bank Limited is a closely held financial institution with seven shareholders as at 31 December 2023. Mr Phillips Oduoza, who chairs the Board of Directors, remains the largest shareholder with 50.5% direct and indirect holdings as at FYE 2023. The Bank has disclosed plans to expand the capital base as part of the near-term capital-raising exercise to support the medium-term business growth strategy as a national commercial bank.

BOARD OF DIRECTORS

Nova Bank 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. During the year under review, Mr Nath Ude resigned as the Managing Director. Subsequent to the year end, Mr Adebowale Oyedeji was appointed as the Managing Director while Mrs Chinwe Iloghalu joined the Board as an Executive Director. Mr Emmanuel Onakposa who served as an Executive Director also retired. As at 31 December 2023, the Board had 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.

CURRENT DIRECTORS	DESIGNATION
Mr Phillips Oduoza	Chairman
Mr Adebowale Oyedeji	Chief Executive Officer and Managing Director
Mrs Funke Okoya	Executive Director
Mrs Chinwe Iloghalu	Executive Director
Mr Shams Butt	Non-Executive Director
Mr Chinedu Uzoho	Non-Executive Director
Chief Malachy Nwaiwu	Independent Non-Executive Director
Mrs Gbemisola Laditan	Independent Non-Executive Director
Mrs Funmi Oyetunji	Independent Non-Executive Director

MANAGEMENT AND STAFF

Mr Adebowale Oyedeji is the Chief Executive Officer and Managing Director of Nova Bank Limited. He has almost three decades of professional experience traversing corporate banking, treasury and commercial banking. He started his career at Ernst and Young and later joined Guaranty Trust Bank Plc. Mr Oyedeji served as the Managing Director of Guaranty Trust Bank (UK) Limited and the Executive Director with a purview over corporate banking activities at Guaranty Trust Bank Plc. He holds a Bachelor of Science degree in Agricultural Economics from the University of Ibadan and a Master of Science in Financial Economics from the University of London. Mr Oyedeji is a Harvard Business School Advanced Management Programme alumnus, a fellow of the Institute of Chartered Accountants of Nigeria (ICAN) and an associate of the Chartered Institute of Taxation of Nigeria (CITN).

Other members of the senior management team include:

▪ Mrs Funke Okoya	Executive Director
▪ Mrs Chinwe Iloghalu	Executive Director
▪ Mr Daniel Ajoma	Chief Financial Officer
▪ Mrs Mabel Irona-Nduka	Chief Information Officer
▪ Mr Nnamdi Iloh	Head, Commercial Banking
▪ Mr Uche Ugboh	Treasurer
▪ Mrs Awosanya Aramide	Head, Corporate Banking Group
▪ Mr Chijioke Uzoukwu	Head, Operations
▪ Mr Kehinde Olugbemi	Chief Risk Officer

During the year under review, the Bank employed an average of 81 persons (FY 2022: 91 persons). However, an upward review of remuneration increased personnel costs by 30% to ₦1.2 billion and the average personnel cost per staff increased by 46% to ₦15.4 million. Due to performance improvement, net earnings per staff rose by 24.9% to ₦99.6 million and covered average staff cost per staff 6.5 times (FY 2022: 7.6 times), above the merchant bank average of 4.6 times. In our opinion, the Bank's staff productivity is good.

Analysts' Comments

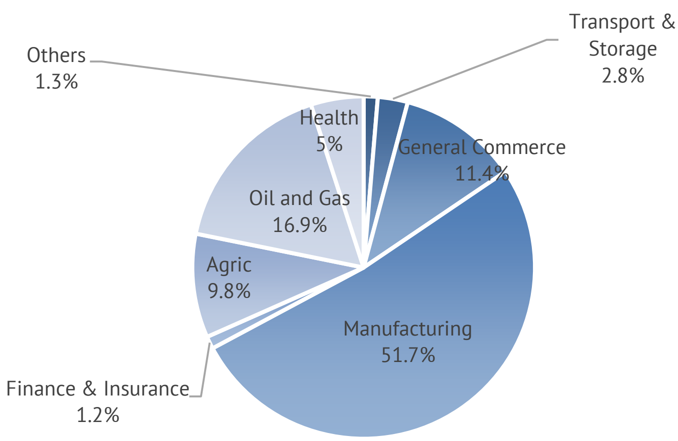
Asset Quality

Nova Bank's risk asset creation strategy centres on providing working capital solutions, particularly import trade finance facilities, to large corporates and their value chains. Given the uncertainties that characterised the financial year ended 31 December 2023, the Bank adopted a cautious approach to risk asset creation. As a result, the loan book grew by 7.9% to ₦105.1 billion as at FYE 2023, largely driven by the naira depreciation which bloated the value of the foreign currency-denominated (FCY) facilities. In the near term, a 48.2% loan growth is anticipated on the back of the additional offerings as a commercial bank. However, given that most of the new offerings are yet to be fully deployed and the prevailing macroeconomic challenges, we believe the projection is ambitious. As at 31 August 2024, the loan book contracted to ₦70.7 billion, in line with our stance.

As at FYE 2023, foreign currency-denominated (FCY) loans accounted for 40% (FYE 2022: 24.1%) of the loan portfolio, primarily comprising international trade finance facilities due to the import-dependent nature of the economy. This makes the Bank susceptible to foreign exchange (FX) illiquidity in the market, although we note the ongoing conversion of some FCY exposures to domestic facilities. As at 31 July 2024, FCY loans accounted for 38.1% of the loan book notwithstanding the 44% naira depreciation in the first seven months of the year, reflecting the success of the loan conversion initiative.

As at 31 December 2023, the oil and gas, manufacturing and general commerce sector dominated the loan book and together accounted for 79.9% (FYE 2022: 74.7%). While the manufacturing sector is critical to the Nigerian economy, the challenges in the foreign exchange market have adversely impacted the performance given the high dependence on imported inputs. As at FYE 2023, the oil and gas sector remained significant in the loan book given the essential nature of petrochemical and gas products and the surge in funding needs based on the naira depreciation during the year under review. However, the unstable regulations in the downstream oil and gas segment remain a challenge.

Figure 1. Loan book by Sector as at FYE 2023



As at FYE 2023, obligor concentration remained notable in Nova Bank's loan book as 10 customers accounted for 45.5% (FYE 2022: 57.2%). Thus, the Bank is vulnerable to the financial performance of these few customers. Although no exposure breached the regulatory single obligor limit (SOL) of 50% of shareholders' funds for merchant banks as at FYE 2023, four obligors exceeded the 20% threshold for commercial banks. It is expected that the ongoing capital raising activities and paydown should keep all exposures within the SOL for commercial banks before 31 December 2024.

During the year under review, the stage 1 loans grew by 11.7% and accounted for 98.9% (FYE 2022: 94.8%) of the loan book due to new facilities and the upgrade of some exposures hitherto in the stage 2 category. Similarly, the stage 2 loan book contracted by 76% and accounted for a lower 1% (FYE 2022: 4.3%) of the loan portfolio. As at FYE 2023, the stage 3 loans, largely comprising facilities extended to former employees, declined by 24.1% and represented 0.1% (FYE 2022: 0.2%) of the loan book, lower than the 5% regulatory guidance and compared favourably to peers of FBNQuest MB's 4.3% and FSDH MB's 2.2%. The cumulative loan loss provisions covered the impaired loans by 335.9% (FYE 2022: 23.7%) as at FYE 2023.

We consider Nova Bank Limited's asset quality satisfactory as the concentrated loan book increases vulnerability to the performance of some customers and sectors. We believe the resilience of the credit risk management framework should be tested by the addition of relatively risky SME customers to the portfolio, in line with the transition to a national commercial bank.

EARNINGS

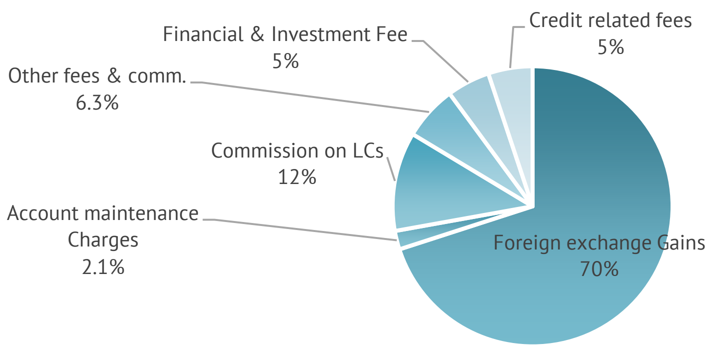
During the financial year ended 31 December 2023, Nova Bank Limited's earning was bolstered by the improved yield on earning assets and the naira depreciation which induced foreign exchange revaluation gain. Consequently, net earnings grew by 11.2% to ₦8.1 billion and non-interest income remained dominant with an 82.7% (FY 2022: 92.2%) contribution while fund-based income accounted for the remaining 17.3% (FY 2022: 7.8%).

During FY 2023, the Bank's interest income grew by 47.1% to ₦23.9 billion driven by the upward repricing of the loan book and improved yield on treasury securities. However, this growth was partially offset by a 42% rise in interest expense to ₦22.1 billion, due to the intensified funding pressure in a high-interest-rate environment. Nevertheless, the net interest spread (NIS) improved to 7.6% (FYE 2022: 4.3%) but was lower than FBNQuest MB's 7.7% and FSDH MB's 27.6%. We do not anticipate a significant improvement in the NIS in the near term. The increase in the applicable cash reserve ratio, in line with the new commercial banking focus, should further increase the funding pressure. However, we believe the expected inflow of low-cost retail deposits should provide some moderation. Subsequent to the year end, NIS declined to 6.2% in the seven months ended 31 July 2024, aligning with our expectations.

Loan loss expenses soared by 199.7% to ₦417.6 million due to increased credit risk stemming from macroeconomic challenges that impacted foreign currency-denominated loans during FY 2023. In addition, impairment charges were assigned to investment securities, reflecting the rising yield environment. The impairment charge represented a higher 1.7% (FYE 2022: 0.9%) of interest income. However, we do not anticipate a similar surge in impairment charges in the near term as these loans are repaid and the yield environment remains stable.

Nova Bank's non-interest income was stagnant at ₦6.7 billion during the year under review as losses in securities trading activities moderated the impact of the improved foreign exchange income and investment banking activities. As a result, non-interest income as a percentage of assets declined by 40 basis points to 1.9%, lower than FBNQuest MB's 3.4% but outperformed FSDH MB's 1.6%. During the year under review, the volatile foreign exchange revaluation gains and investment banking-related income that should cease as the commercial banking operations fully commenced accounted for 18.3% (FY 2022: 12.2%) of the non-interest income. When we exclude the unsustainable income, the non-interest income dipped to ₦5.5 billion (FY 2022: ₦5.9 billion) and represented 1.5% (FY 2022: 2%) of average assets.

Figure 3: Breakdown of Non-Interest Income in FY 2023



Nova Bank Limited's operational cost rose by 17.2% to ₦4.5 billion during FY 2023 due to inflationary pressure, salary review and license conversion costs. Thus, the cost-income ratio (CIR) expanded to 55.2% (FY 2022: 52.4%) but was lower than its peers; FBNQuest MB and FSDH MB with 63.5% and 60.7% respectively. In the near term, we anticipate some increase in the CIR as the workforce expands and additional costs are incurred to support the commercial banking operations. However, the revenue stream from the retail and SME segments would moderate the impact of the higher CIR.

Overall, Nova Bank's pre-tax return on average assets (ROA) declined to 1% (FY 2022: 1.2%) and the pre-tax return on average equity (ROE) was lower at 12.5% (FY 2022: 13.8%). The profitability ratios were less than the merchant banking segment's average (ROA 1.8% and ROE 18%) and FSDH MB (ROA: 1.5% and ROE: 17%). While FBNQuest MB's ROA was higher at 1.2% the ROE (11.9%) was lower. We believe Nova Bank Limited's profitability could be better.

Subsequent to the year-end, in the first seven months of 2024, the Bank's profitability improved as reflected in the 2.4% annualised ROA and 25% annualised ROE. However, we believe the additional transition and business expansion costs could moderate the profitability for FY 2024.

CAPITAL ADEQUACY

As at 31 December, Nova Bank's shareholders' funds stood at ₦31.1 billion, reflecting a 16.4% year-on-year growth bolstered by the ₦1.4 billion rights issue exercise and full retention of the profit generated during the year under review. At this level, the shareholder's fund comfortably exceeded the minimum requirement of ₦15 billion for merchant banks. Similarly, the shareholders' funds stood well above the ₦25 billion regulatory minimum for commercial banks with national authorisation.

The Bank's tier 2 capital which comprised the 7-year 12% ₦10 billion subordinated bond issued in July 2020 and revaluation reserves on investment securities fair valued through equity. As at FYE 2023, the tier 2 capital remained stable at ₦10.6 billion.

Given the capital raising activities and the modest loan growth, the capital adequacy ratio (CAR) appreciated to 27.8% (FYE 2022: 23.3%) as at FYE 2023, higher than the 10% regulatory minimum for both merchant banks and national commercial banks. The CAR was also higher than FBNQuest MB's 15.4% and FSDH MB's 11.2%. Subsequent to the year end, the outstanding ₦10 billion capital raised through the right issue received regulatory approval. Consequently, the CAR surged to 43.5% as at 31 July 2024.

The Central Bank of Nigeria (CBN) in March 2024 mandated national commercial banks to maintain a minimum paid-up capital of ₦200 billion before 31 March 2026. This indicates a capital shortfall of ₦174 billion as the Bank's paid-up capital stood at ₦26 billion as at 31 July 2024. Management has disclosed the plans by the shareholders to inject additional capital to meet the regulatory directive. Notwithstanding, we remain cautiously optimistic about the capital raising plans.

We consider Nova Bank Limited's capital position to be good for current business risks. However, we are cautiously optimistic about the Bank's ability to meet the ₦200 billion paid-up capital regulatory minimum before the 31 March 2026 deadline.

LIQUIDITY AND LIABILITY GENERATION

As at 31 December 2023, Nova Bank's deposit liabilities (excluding interbank takings) stood at ₦162.6 billion, a 7% year-on-year growth and funded 49.5% (FYE 2022: 47.9%) of the total assets. The funding pressure emanating from the contractionary monetary stance during the year under review prompted a 10.1% increase in the high-cost (term) deposits which represented 91.3% of total deposit liabilities. This was higher than the 75.6% recorded in the prior year, FSDH MB's 53.2% and FBNQuest MB's 90%. We anticipate an improvement in the funding mix as the commercial banking licence provides access to the pool of relatively cheap deposits in the retail market, where the merchant banks are excluded. Subsequent to the year end, as at 31 July 2024, the high-cost deposits accounted for a lower 80.8% of the total deposits as the 66.5% increase in the low-cost funds were used to replace the expensive term deposits.

Nova Bank's deposit base is concentrated as 10 customers accounted for 70% (FYE 2022: 63.4%) of total deposit liabilities as at FYE 2023. While this is pervasive among merchant banks, the Bank is vulnerable to huge withdrawals. We anticipate a more diversified deposit base in the near term as the commercial banking licence grants access to a larger pool of depositors.

During the year under review, Nova Bank expanded offerings to exporters and customers with foreign currency receivables. As a result, the foreign currency (FCY) denominated deposits increased by 53.8% to ₦22.1 billion and covered its FCY-denominated loans by 62.2% (FYE 2022: 61.4%) as at FYE 2023. The coverage ratio improved to 105.4% (FYE 2022: 176.6%) when FCY-denominated borrowings were added. This insulates the Bank, to an extent, from some of the vagaries in the foreign exchange market.

Nova Bank's activities are also funded by borrowings sourced from the interbank market and the debt capital market. As at FYE 2023, the outstanding balance of the 7-year subordinated bond due in July 2027 stood at ₦10.5 billion. During the year under review, deterioration in the funding mix and the high-interest rate environment led to a 190 basis points uptick in the weighted average cost of funds (WACF) to 11.1%, the highest among the merchant banks. Subsequent to the year-end, the WACF increased further by 300 basis points to 14.1% in the seven months ended 31 July 2024 owing to the high interest rate regime. We expect the WACF to gradually reduce as the low-cost retail deposits gradually replace the purchased funds that have sustained the Bank since operations.

As at FYE 2023, loans maturing above one year were not adequately funded by customers' deposits within the same category. This raises the potential repricing risks, particularly in a period of high interest rates. However, the pool of liquid assets and access to the money market serve as risk-mitigating factors.

Given the waned appetite for loan growth during the year under review, additional resources were allocated to investment securities. Consequently, liquid assets grew by 29%, raising the liquidity ratio to 52.1% (FYE 2022: 23.5%). This exceeded both the 20% regulatory minimum for merchant banks and the 30% benchmark set by the CBN for commercial banks.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Agusto & Co. places emphasis on governance, social and environmental impacts when assessing the credit risk associated with a bank. As at FYE 2023, non-executive directors chair the standing committees in line with best practices in corporate governance.

Subsequent to the year end, 44.4% of the directors are female, surpassing the regulatory minimum of 30% as at 31 July 2024. However, there is room for further improvement in gender diversity at the senior management level, where female representation stood at 33.3%, falling short of the CBN's stipulated minimum of 40%. The Bank has contributed socially by donating ₦23.5 million (FYE 2022: ₦33.7 million) during the year to enhance financial literacy and to events organised by the banker's professional body. The Bank has also been involved in community development projects involving offering free healthcare services to 50 children during FY 2023.

Nova Bank increased its exposure to the oil and gas sector, a sector known for its hydrocarbon footprint, which is detrimental to the environment. As at FYE 2023, the oil and gas sector accounted for 16.9% (FYE 2022: 10.2%) of the loan book. By exercising prudence in lending to this sector, the Bank can mitigate potential environmental risks associated with its clients' operations.

MARKET SHARE

Nova Bank Limited's total assets and contingents as at 31 December 2023, placed it fourth in the merchant banking industry, down from the third position in the prior year. Nova Bank has sustained its share of local currency deposits, maintaining the same second position among its peers in this regard. Furthermore, the Bank's stagnant profitability in the financial year ended 31 December 2023 has positioned it as the fourth most profitable merchant bank in Nigeria, falling a step behind its previous position in the prior year.

Looking ahead, Nova Bank aims to continue leveraging its corporate customers' value chain, maximising synergies and attracting relatively lower-priced deposits to optimise earnings. In addition, Nova Bank's strategic transition into a commercial bank holds immense potential benefits for the Bank's market share and overall growth trajectory. As a commercial bank, Nova Bank is expanding its services, targeting a broader customer base, and diversifying revenue streams beyond its merchant banking focus. This transition should enhance lending opportunities, broader deposit mobilisation, and a more comprehensive range of financial solutions for customers.

Table 3: Market Share of the Merchant Banking Segment as at FYE 2023

	Nova Bank 2022	Nova Bank 2023	Greenwich MB 2023	Coronation MB 2023	FSDH MB 2023	FBNQuest MB 2023	Rand MB 2023
Total Assets & Contingents	16.0%	16%	5%	21%	16%	15%	27%
Net Loans	15.1%	17%	4%	17%	20%	17%	17%
LCY Deposits	21.9%	20%	8%	19%	18%	23%	11%
Pre-tax Profit	21.6%	9%	3%	9%	13%	10%	56%

OUTLOOK

Nova Bank Limited intends to be the most respectable tier 2 bank with attributes of a tier 1 bank in the next five years. Although technology and automation are expected to drive this vision, an enlargement of the workforce is ongoing while a cautious branch expansion plan is scheduled to be implemented in phases. The existing businesses that are permissible under the merchant banking license but not allowed under the commercial banking license are expected to be disposed of in the next two years to avoid distraction.

Maintaining a healthy loan book remains a priority of Nova Bank with the impaired loan ratio not expected to exceed 2.5%. Leveraging existing business relationships to fund their value chain should intensify while the SME and retail facilities should gradually be onboarded. Digitalisation is expected to support loan assessment, disbursement and monitoring activities. Product papers should also fast-track the loan approval processes.

Notwithstanding the regulatory hurdles, particularly the ₦200 billion minimum paid-up capital, the Bank intends to remain a national commercial bank by 31 December 2028. A rights issue exercise is expected to provide the capital shortfall needed to comply with the minimum paid-up capital directive. However, we are cautiously optimistic about the ability of Nova Bank to meet up with the 31 March 2026 deadline.

Overall, we expect asset quality to remain acceptable, while capital is good for current business risk we are cautiously optimistic about the ability to meet up with the minimum paid-up capital. In our view, access to the retail market should positively impact the funding mix, reduce the funding costs and support profitability.

Based on the aforementioned, we have attached a ***stable*** outlook to the rating of Nova Bank Limited.

FINANCIAL SUMMARY

NOVA MERCHANT BANK LIMITED

	STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-21		31-Dec-22		31-Dec-23	
		₦'millions		₦'millions		₦'millions	
	ASSETS						
1	Cash & equivalents	37	0.0%	1,447	0.5%	262	0.1%
2	Government securities	51,368	18.6%	44,852	14.1%	57,528	14.3%
3	Money Market Placements						
4	Quoted investments	18,073	6.5%	13,781	4.3%		
5	Placements with discount houses						
6	LIQUID ASSETS	69,478	25.1%	60,080	18.8%	57,790	14.3%
7	BALANCES WITH NIGERIAN BANKS	5,861	2.1%	92	0.0%	379	0.1%
8	BALANCES WITH BANKS OUTSIDE NIGERIA	18,591	6.7%	35,421	11.1%	31,440	7.8%
9	Direct loans and advances - Gross	90,424	32.7%	97,399	30.5%	105,075	26.1%
10	Less: Cumulative loan loss provision	(41)	0.0%	(35)	0.0%	(380)	-0.1%
11	Direct loans & advances - net	90,382	32.7%	97,363	30.5%	104,695	26.0%
12	Advances under finance leases - net						
13	TOTAL LOANS & LEASES - NET	90,382	32.7%	97,363	30.5%	104,695	26.0%
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	20,469	7.4%	31,318	9.8%	88,856	22.0%
16	DEFERRED LOSSES	443	0.2%	443	0.1%	116	0.0%
17	RESTRICTED FUNDS	31,618	11.4%	42,918	13.5%	33,204	8.2%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES	431	0.2%	431	0.1%	431	0.1%
19	OTHER LONG-TERM INVESTMENTS	3,149	1.1%	9,215	2.9%	9,169	2.3%
20	FIXED ASSETS & INTANGIBLES	2,158	0.8%	2,591	0.8%	2,134	0.5%
21	**TOTAL ASSETS**	**242,581**	**87.6%**	**279,873**	**87.7%**	**328,215**	**81.4%**
22	TOTAL CONTINGENT ASSETS	34,227	12.4%	39,075	12.3%	74,813	18.6%
23	**TOTAL ASSETS & CONTINGENTS**	**276,808**	**100%**	**318,947**	**100%**	**403,028**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	23,487	8.5%	26,701	8.4%	31,081	7.7%
25	TIER 2 CAPITAL	10,387	3.8%	10,417	3.3%	10,567	2.6%
26	MEDIUM TERM BORROWINGS						
27	Demand deposits	17,367	6.3%	22,732	7.1%	13,995	3.5%
28	Savings deposits						
29	Time deposits	86,342	31.2%	114,866	36.0%	126,459	31.4%
30	Inter-bank takings	26,813	9.7%	26,993	8.5%	15,353	3.8%
31	TOTAL DEPOSIT LIABILITIES - LCY	130,522	47.2%	164,592	51.6%	155,807	38.7%
32	Customers' foreign currency balances	13,181	4.8%	14,374	4.5%	22,114	5.5%
33	TOTAL DEPOSIT LIABILITIES	143,703	51.9%	178,966	56.1%	177,921	44.1%
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	65,004	23.5%	63,788	20.0%	108,647	27.0%
36	**TOTAL CAPITAL & LIABILITIES**	**242,581**	**87.6%**	**279,873**	**87.7%**	**328,215**	**81.4%**
37	TOTAL CONTINGENT LIABILITIES	34,227	12.4%	39,075	12.3%	74,813	18.6%
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**276,808**	**100%**	**318,947**	**100%**	**403,028**	**100%**
						0	
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes						
40	Guarantees, bonds etc..	3,431	1.2%	1,379	0.4%	379	0.1%
41	Short-term self liquidating contingencies	30,796	11.1%	37,696	11.8%	74,434	18.5%

NOVA MERCHANT BANK LIMITED

	STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Dec-21 ₦'millions		31-Dec-22 ₦'millions		31-Dec-23 ₦'millions	
42	Interest income	12,054	71.4%	16,268	70.8%	23,925	78.2%
43	Interest expense	(11,886)	-70.4%	(15,566)	-67.8%	(22,110)	-72.3%
44	Loan loss expense	7	0.0%	(139)	-0.6%	(418)	-1.4%
45	NET REVENUE FROM FUNDS	176	1.0%	563	2.5%	1,397	4.6%
46	ALL OTHER INCOME	4,821	28.6%	6,697	29.2%	6,674	21.8%
47	**NET EARNINGS**	**4,997**	**29.6%**	**7,260**	**31.6%**	**8,071**	**26.4%**
48	Staff costs	(806)	-4.8%	(960)	-4.2%	(1,248)	-4.1%
49	Depreciation expense	(283)	-1.7%	(454)	-2.0%	(464)	-1.5%
50	Other operating expenses	(2,243)	-13.3%	(2,386)	-10.4%	(2,743)	-9.0%
51	TOTAL OPERATING EXPENSES	(3,333)	-19.7%	(3,801)	-16.5%	(4,455)	-14.6%
52	PROFIT (LOSS) BEFORE TAXATION	1,664	9.9%	3,459	15.1%	3,616	11.8%
53	TAX (EXPENSE) BENEFIT	(80)	-0.5%	(245)	-1.1%	(637)	-2.1%
54	**PROFIT (LOSS) AFTER TAXATION**	**1,584**	**9.4%**	**3,214**	**14.0%**	**2,979**	**9.7%**
55	NON-OPERATING INCOME (EXPENSE) - NET						
56	DIVIDEND	(800)	-4.7%	(964)	-4.2%		
57	**GROSS EARNINGS**	**16,876**	**100%**	**22,965**	**100%**	**30,598**	**100%**
58	AUDITORS	PWC		PWC		PWC	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	31-Dec-21	31-Dec-22	31-Dec-23
	EARNINGS			
60	Net interest margin	1.4%	4.3%	7.6%
61	Loan loss expense/Interest income		0.9%	1.7%
62	Return on average assets & contingents (Pre - tax)	0.6%	1.2%	1.0%
63	Return on average equity (Pre - tax)	7.2%	13.8%	12.5%
64	Operating Expenses/Net earnings	66.7%	52.4%	55.2%
65	Gross earnings/Total assets & contingents (average)	6.4%	7.7%	8.5%
	EARNINGS MIX			
66	Net revenue from funds	3.5%	7.8%	17.3%
67	All other income	96.5%	92.2%	82.7%
	LIQUIDITY			
68	Total loans & leases - net/Total lcy deposits	39.7%	37.7%	41.2%
69	Liquid assets/Total lcy deposits	46.8%	24.1%	30.5%
70	Demand deposits/Total lcy deposits	13.3%	13.8%	9.0%
71	Savings deposits/Total lcy deposits	Nil	Nil	Nil
72	Time deposits/Total lcy deposits	66.2%	69.8%	81.2%
73	Inter-bank borrowings/Total lcy deposits	20.5%	16.4%	9.9%
74	Interest expense - banks/Interest expense	16.8%	15.0%	10.8%
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	Nil	Nil	Nil

NOVA MERCHANT BANK LIMITED

	KEY RATIOS CONT'D	31-Dec-21	31-Dec-22	31-Dec-23
	ASSET QUALITY			
76	Performing loans (₦'000)	90,377	97,352	105,029
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%	0.0%	0.4%
80	Loan loss provision/Non-performing loans	Nil	Nil	Nil
81	Risk-weighted assets/Total assets & contingents	49.8%	47.7%	53.8%
	CAPITAL ADEQUACY			
82	Adjusted capital/risk weighted assets (Basel I)	24%	23%	19%
83	Tier 1 capital/Adjusted capital	69%	72%	75%
84	Total loans (net)/Adjusted capital	2.78	2.76	2.58
85	Capital unimpaired by losses (₦'000)	23,044	26,258	30,965
	STAFF INFORMATION			
86	Net earnings per staff (₦'000)	57	80	100
87	Staff cost per employee (₦'000)	9	11	15
88	Staff costs/Operating expenses	24.2%	25.3%	28.0%
89	Average number of employees	88	91	81
90	Average staff per office	88	91	81
	OTHER KEY INFORMATION			
91	Legal lending limit(₦'000)	11,522	13,129	15,482
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	5	6
96	Government stake in equity (Indirect)	Nil	Nil	Nil
	MARKET SHARE OF INDUSTRY TOTAL	**Estimate**	**Estimate**	**Estimate**
97	Lcy deposits (excluding interbank takings)	0.3%	0.4%	0.3%
98	Total assets & contingents	0.4%	0.4%	0.3%
99	Total loans & leases - net	0.4%	0.4%	0.3%
100	Non interest income	0.3%	0.4%	0.2%

RATING DEFINITIONS

Aaa	**A financial institution of the best financial condition and strongest capacity to meet obligations as and when they fall due relative to all other issuers in the same country.**
Aa	A financial institution of very good financial condition and strong capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
A	A financial institution of good financial condition and strong capacity to meet its obligations relative to all other issuers in the same country.
Bbb	A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
Bb	A financial institution with satisfactory financial condition but limited capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
B	A financial institution with weak financial condition and weak capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
C	A financial institution with very weak financial condition and very weak capacity to meet obligations as and when they fall due are relative to all other issuers in the same country.
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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