Nova Merchant Bank Limited

2023 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 adequate capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.

ESG Score
3

Outlook: Stable
Issue Date: 21 August 2023
Expiry Date: 30 June 2024
Previous Rating: Bbb

Industry: Banking

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RATING RATIONALE

Agusto & Co. hereby affirms the **"Bbb"** rating assigned to Nova Merchant Bank Limited ("Nova MB" or "the Bank") on the back of its improved profitability, good capitalisation and low level of impaired credits, notwithstanding the prevailing regulatory and macroeconomic headwinds. However, the rating was suppressed by the loan book concentration, high funding costs and a concentrated deposit base. We have also assigned a **"3"** ESG Score reflecting our view that environmental, social and governance issues have a material impact on the rating assigned to the Bank.

In view of the raging headwinds in the financial year ended 31 December 2022, Nova MB focussed on preserving asset quality while cautiously growing the loan book. As a result, the loan book grew by a marginal 7.7% and stood at ₦97.4 billion. However, obligor concentration remains as 10 obligors constituted 57.2% (FYE 2021: 32.3%) of the loan book as at FYE 2022. During the year under review, stage 3 loans dipped by 44% and represented a meagre 0.2% (FYE 2021: 0.4%) of the loan book as at FYE 2022. Although an exposure was classified in stage 2 as at FYE 2022 due to delayed payments which necessitated a restructuring, declassification was done subsequent to the year-end due to compliance with the new repayment structure. While asset quality remained good, we believe that stability in the leadership of the risk management division is imperative, given that the current chief risk officer is the fourth in the last five years.

Nova MB maintained strong capitalisation during the year under review. The improved profitability elicited a 13.7% growth in the shareholders' funds to ₦26.7 billion as at FYE 2022, significantly above the ₦15 billion regulatory minimum. Although the increase in the risk-weighted assets on the back of the expanded loan book and accentuated market risk moderated the capital adequacy ratio by 573 basis points, it remained good at 23.2%; more than twice the 10% regulatory minimum. Notwithstanding, the Bank intends to increase the capital buffer with an initial public offering and a subordinated bond issuance scheduled for the last quarter of 2023.

Nova MB leveraged its growing brand franchise and other initiatives for deposit mobilisation. As at FYE 2022, total deposit liabilities stood at ₦152 billion, a 30% year-on-year growth. However, the elevated interest rates, particularly in the latter part of the year, increased the dominance of the high-cost deposits, accounting for 75.6% (FYE 2021: 73.9%) of total deposit liabilities as at FYE 2022. As a result, the weighted average cost of funds (WACF) rose to 9.2% (FY 2021: 7.7%) in FY 2022. Notwithstanding the arbitrary CRR deductions, the liquidity ratio at 23.5% (FYE 2021: 33.7%) remained above the 20% regulatory minimum for merchant banks. In our opinion, reducing the applicable cash reserve ratio (CRR) for merchant banks to 10%, hitherto 32.7%, coupled with the reversion to the methodological computation of the ratio will moderate funding pressure going forward and improve profitability for the merchant banking players. The various initiatives by the Bank to grow the low-cost deposit base will also moderate the funding costs in our view.

Notwithstanding the intensified headwinds during the year under review, Nova MB recorded a 45.3% growth in net earnings to ₦7.3 billion, buoyed largely by the foreign exchange revaluation gains and investment banking fees. Consequentially, the Bank's Cost to Income Ratio (CIR) dropped to 52.4% (FY 2021: 66.7%) despite the 14.1% increase in operating expenses. Overall, the Bank posted a 107.9% growth in pre-tax profit to ₦3.5 billion, resulting in a better pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) of 1.2% and 13.8% respectively. We view the Bank's improved profitability positively given the adverse impact of CBN CRR charges on the merchant banks and expect its performance to be relatively maintained in the near term, reflective of its cautious stance.

Nova MB is transitioning to a commercial bank with national authorisation and the restructuring is expected to be completed before December 2023. We anticipate a subsequent transition to the financial holding company structure to accommodate current businesses that are permissible under the merchant banking license but disallowed for commercial banks.

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

Strengths

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

Weaknesses

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

Challenges

- Growing the loan book without deterioration in asset quality admist wide economic reform
- Improving profit margin
- Retaining good quality staff in view of the raging wave of emigration

Table 1: Background Information

	31 Dec 2021	31 Dec 2022
Total assets & contingents	₦276.8 billion	₦318.9 billion
Net earnings	₦5 billion	₦7 billion
Pre-tax return on average assets & contingents (ROA)	0.6%	1.2%
Pre-tax return on average equity (ROE)	7.2%	13.8%

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 since the reopening of the merchant banking space in 2010. Nova MB offers corporate banking, investment 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 Merchant Bank Limited has two subsidiaries; NovaMBL Asset Management Limited and NovaMBL Securities Limited. NovaMBL Asset Management Limited provides funds and portfolio management services to individuals, corporates and institutions. As at the FYE 2022, NovaMBL Asset Management Limited had a total asset base of ₦1.2 billion and assets under management (AUM) of ₦4.9 billion. The subsidiary recorded a loss of ₦116.6 billion (FY 2021: ₦41.8 million profit) and no dividend was paid.

NovaMBL Securities Limited provides securities trading services to individuals and corporates. As at FYE 2022, the subsidiary had an asset base of ₦500 million (FYE 2020: ₦486.1 million) and recorded a ₦6.1 million loss (FY 2021: ₦22.5) in FY 2022. Notwithstanding the ongoing plan to recapitalise the subsidiaries, we do not expect dividend payments in the near term.

OWNERSHIP AND SUPPORT

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 2022. The Bank has disclosed plans to expand the ownership base as part of the near-term capital-raising exercise to support its medium-term business growth strategy.

Table 2: Shareholders as at 31 December 2022

Shareholder	Percentage of Shareholding
Mr Phillips Oduoza (Direct and Indirect Holdings)	50.5%
Carbon Commodities DMCC	24.6%
Five Star Associate Limited	12.4%
Afriglobal Investment Holding	12.4%
Total	**100%**

BOARD OF DIRECTORS

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.

CURRENT DIRECTORS	DESIGNATION
Mr Phillips Oduoza	Chairman
Mr Nath Ude	Chief Executive Officer and Managing Director
Mrs Funke Okoya	Executive Director
Mr Emmanuel Onokpasa	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 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 Masters 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, Wholesale Bank and Investment Banking
- Mr Emmanuel Onokpasa — Executive Director, Treasury and Subsidiaries
- Mr Daniel Ajoma — Chief Financial Officer
- Mr Isiaka Olugbenga — Chief Audit Executive
- Mrs Mabel Irona-Nduka — Chief Information Officer
- Mr Nnamdi Iloh — Group Head, Commercial Banking
- Mr Chinedu Ekeocha — Group Head, Correspondent Banking/FI/Fintech
- Mrs Awosanya Aramide — Head, Corporate Banking Group
- Mr Chijioke John — Head, Operations

During the year under review, the Bank employed an average of 91 persons (FY 2021: 88 persons). Given the expansion of the staff strength and higher remuneration, personnel costs rose by 19.1% to ₦960.4 million and the average cost per staff increased by 15.2% to ₦10.5 million. Due to the performance improvement, net earnings per staff rose by 40.5% to ₦79.8 million and covered average staff cost 7.6 times (FY 2021: 6.2 times), the highest in the merchant banking segment.

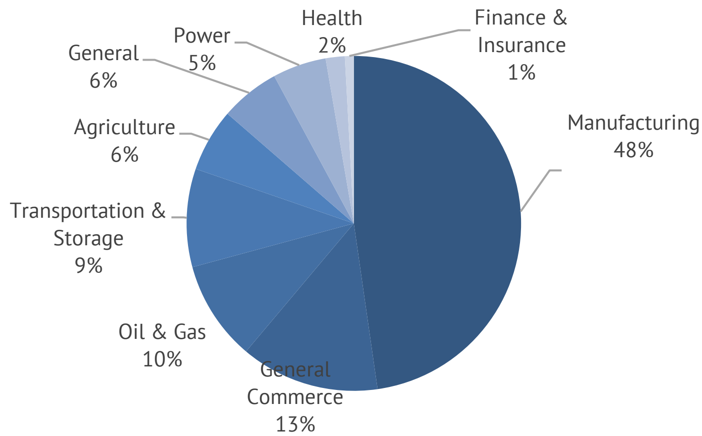
ANALYSTS' COMMENTS

ASSET QUALITY

Nova Merchant Bank's risk asset creation strategy focuses on providing financial solutions to large companies and their value chain. During the year under review, the prevailing macroeconomic and regulatory headwinds, in addition to uncertainties associated with the 2023 general election outcome elicited a waned appetite for loan growth. As a result, the loan book grew by 7.7% to ₦97.4 billion as at 31 December 2022, driven by the Bank's risk asset creation strategy. The Bank also accessed the differentiated cash reserve ratio (DCRR) window during the year as part of efforts to monetise the restricted funds held sterile by the CBN. However, with the inauguration of the new president and some clarity in policy direction, a 60.5% expansion of the loan book to ₦156.3 billion as at December 2023 is projected. We are cautiously optimistic about the projection given that the loan book stood at ₦110.1 billion as at 30 June 2023.

Given the strategic importance of the manufacturing sector to the Nigerian economy and its vastness (traversing businesses with different fundamentals), the sector dominated Nova MB's loan book and accounted for 47.7% (FY 2021: 44.3%) as at FYE 2022. However, manufacturing companies have contended with the persistent illiquidity in the foreign exchange market, elevating operating costs, and declining purchasing power of customers, among others. While we note that most of these obligors have historical antecedence for being resilient, we believe the current economic headwinds will impact their cash flows to an extent.

Figure 1: Breakdown of Loan Book by Sector (FYE 2022)



Similar to most merchant banks operating in Nigeria, Nova MB's loan portfolio remained concentrated as 10 obligors accounted for 57.2% (FYE 2021: 32.3%) of gross loans as at FYE 2022. Although none of these exposures breaches the single obligor limit (50% of shareholders' funds), the Bank is highly vulnerable to a decline in the performance of any of these obligors.

During the year under review, Nova MB's stage 1 loans stood at ₦93.1 billion and represented 95.5% (FYE 2021: 99.6%) of the loan book as at FYE 2022. The reclassification of the second largest obligor during the year under review due to delayed payment resulted in a surge in the stage 2 loans to ₦4.2 billion (FYE 2021: 3.1 million) and represented 4.3% of the gross loans. Subsequent to the year-end, the facility was restructured and declassified in compliance with the new repayment structure. During the reviewed year, stage 3 loans, mainly ex-staff loans, declined by 56% to ₦148.9 million due to recoveries and restructuring and translated into a lower impaired loan ratio of 0.2% (FYE 2021: 0.4%). As a result, the impaired loan ratio remained below the 5% threshold and compared favourably to selected peers; FBNQuest Merchant Bank Limited's (FBNQuest MB) 1.4% and FSDH Merchant Bank Limited's (FSDH MB) 1.7%. As at FYE 2022, Nova MB's cumulative loan loss provision (including regulatory risk reserve) amounted to ₦3.5 billion, covering the stage 3 loans 22.4 times.

We consider Nova MB's asset quality to be good by industry standards. However, we believe the prevailing headwinds will further test the resilience of the credit risk management framework.

Risk Management

Nova MB employs an internal credit rating model with 12 scales (AAA to D) to assess the credit risk of counterparties. These scales are categorised into four groups: 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 2022, 83.9% (FYE 2021: 89.7%) of the loan book was classified as investment grade, while the remaining 16.1% (FYE 2021: 10.3%) was considered standard grade exposures. In line with the Bank's credit policy, all exposures were fully secured by assets as at FYE 2022.

A sensitivity analysis conducted as at 31 December 2022 indicates that a 2% rise in interest rates would have resulted in a ₦684 million loss in the trading book, equivalent to 2.6% of the shareholder's funds. On the other hand, a 2% depreciation in foreign currency would have added ₦80 million to earnings. During the year, the Bank incurred a penalty of ₦10 million from the Central Bank of Nigeria (CBN) for the late submission of the 2021 audited financial statement.

We consider Nova MB's risk management framework to be acceptable for managing its current business risks. However, changes in the risk management framework are required to support the transition to the commercial banking business, in our view. We also believe that stability is required in the leadership of the risk management function as the current chief risk officer is the fourth in the last five years.

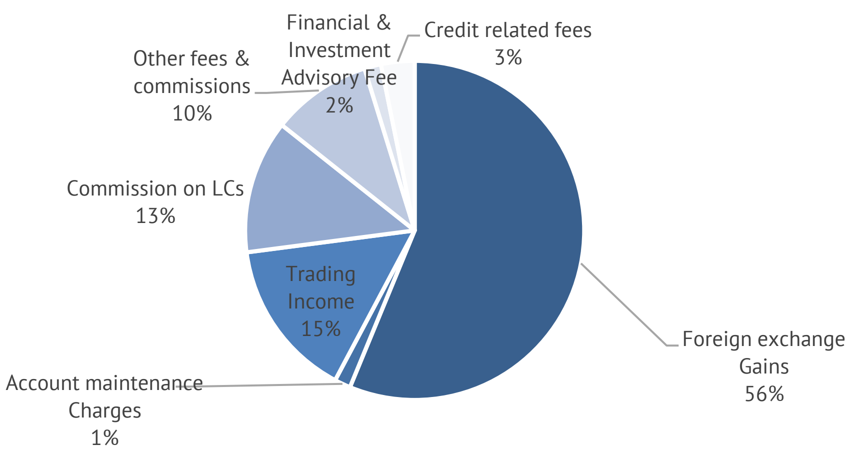
Earnings

In the financial year ended 31 December 2022, despite the macroeconomic downturn and the adverse impact of the aggressive cash reserve policy, Nova MB recorded improved performance on the back of loan repricing, higher yield on the investment securities, better trading income and other ancillary income. Consequently, net earnings surged by 45.3% to ₦7.3 billion as fund-based income contributed 7.8% (FY 2021: 3.52%), while non-interest income remained dominant with a 92.3% (FY 2021: 96.5%) share.

Nova MB reported a 35% increase in interest income to ₦16.3 billion in FY 2022, spurred by loan repricing and to a lesser extent loan growth. However, this growth in interest income was moderated by a 31% rise in interest expense to ₦15.6 billion, driven by the expanded pool of high-cost deposits and commercial paper issuance in a rising interest rate environment. Notwithstanding, the net interest spread (NIS) improved to 4.3% (FY 2021: 1.4%), albeit the second lowest in the Bank's history. The NIS was also the second lowest in the merchant banking segment. Subsequent to the year-end, in the half year ended 30 June 2023, Nova MB's NIS improved to 8.8% due to higher interest income, supported by growth in the loan book and moderation in funding costs. We anticipate a further increase in the NIS on the back of the reduction in the cash reserve ratio applicable to merchant banks and improved liquidity in the financial system.

During the year under review, the Bank's non-interest income grew by 38.9% to ₦6.7 billion based on higher trading income, improved foreign currency income and better investment banking fees. However, the decline in credit-related fees (due to the cautious stance in the loan book expansion), and funds transfer commission, among others moderated growth in non-interest income. Notwithstanding, balance sheet efficiency improved as reflected in the non-interest income to total assets of 2.1% (FY 2021: 1.8%), at par with FSDH MB's 2%, but lower than FBNQuest MB's 2.6%. We expect a further increase in non-interest income supported by the ongoing reforms in the economy particularly the unification of the exchange rates which will result in higher foreign currency revaluation gains.

Figure 3: Breakdown of Non-Interest Income in FY 2022



In FY 2022, Nova MB's operating expenses rose by 14.1% to ₦3.8 billion, given the prevailing inflationary, currency devaluation, business growth and salary reviews. Nevertheless, the improvement in net earnings elicited a decline in the cost-to-income ratio (CIR) to 52.4%, lower than the 66.7% recorded in the prior year, FBNQuest MB's 69.1% and FSDH MB's 60.9%. While the anticipated increase in net earnings will support further decline in the CIR in the near term, we note that the impact of the prevailing headwinds on operating expenses will exert pressure.

Nova MB posted ₦3.5 billion as pre-tax profit in FY 2022, a 107.9% spike and translated to a higher pre-tax return on average assets (ROA) of 1.2% (FY 2021: 0.6%) and pre-tax return on average equity (ROE) of 13.8% (FY 2021: 7.2%). While the profitability ratios were higher than FBNQuest MB (ROA: 1.1% and ROE: 9.3%), FSDH MB (ROA: 1.6% and ROE: 14%) recorded better performance. In our view, the profitability of the Bank is good by industry standards. We expect this performance to be maintained in the near term, supported by business growth and a more favourable regulatory environment.

CAPITAL ADEQUACY

As at 31 December 2022, Nova MB's shareholders' fund amounted to ₦26.7 billion, representing a year-on-year increase of 13.7% due to improved profitability and the associated accretion to reserves. At this level, the shareholder's fund comfortably exceeded the minimum requirement of ₦15 billion for merchant banks. The Bank's tier 2 capital which comprised the 7-year 12% ₦10 billion subordinated bond issued in July 2020 and revaluation reserves stood at ₦10.4 billion as at FYE 2022.

Given the expansion of the risk asset portfolio and higher risk environment, the Bank's capital adequacy ratio (CAR) declined to 23.3% (FYE 2021: 29%) as at FYE 2022. Despite this decline, the CAR remained significantly higher than the regulatory minimum of 10% and selected peers; FBNQuest MB (20.3%) and FSDH MB (18.2%).

We consider Nova Merchant Bank's capital position to be good for current business risks. Given the medium-term growth plans of the Bank and its subsidiaries, a capital raising exercise through an initial public offering, rights issue, and subordinated debt issuance is expected before the end of December 2023.

LIQUIDITY AND LIABILITY GENERATION

Nova MB continues to take full advantage of its corporate customer value chain to ramp up deposits. The growing acceptability of the Bank has also supported the deposit base. As at 31 December 2022, total deposit liabilities stood at ₦152 billion, a 30% year-on-year growth and funded 47.6% (FYE 2021: 42.2%) of the asset base. Aggressive onboarding of customers on the Bank's digital platform is also ongoing to support deposit mobilisation.

Nova MB's deposit base is concentrated as the top 20 customers accounted for 63.4% (FYE 2021: 62.4%) of total deposit liabilities. While this is pervasive among merchant banks, it makes the Bank vulnerable to huge withdrawals.

In view of the contractionary monetary stance during the year under review which elicited higher interest rates and an uptick in the prevailing interest rates, high-cost deposits increased by 33% and represented 75.6% (FY 2021: 73.9%) of total deposit liabilities. This compared less favourably to FSDH MB's 66.8% and FBNQuest MB's 73.1%. We anticipate an increase in the Bank's low-cost deposit base following the implementation of various initiatives and an enhanced capacity to provide trade finance-related transactions in the near term. In addition, as Nova MB transitions into a commercial bank, we expect its low-cost deposit liabilities to improve given the access to the retail segment.

During the year under review, Nova MB's foreign currency (FCY) denominated deposits increased by 9.1% to ₦14.4 billion and covered its FCY-denominated loans by 61.4% (FYE 2021: 59.1%) as at FYE 2022. This coverage ratio improved to 238% (FYE 2021: 238.4%) when FCY-denominated borrowings were added. It is expected that the Bank's FCY-denominated deposits will increase further by leveraging the liberalisation of the foreign exchange market, coupled with the Bank's initiative to assist its clients in converting their naira portfolios to more favourable FCY portfolios.

As at FYE 2022, Nova MB's outstanding borrowings amounted to ₦37.3 billion, at par with the prior year. The Bank launched its maiden commercial paper program during the year and raised ₦12.1 billion under the ₦50 billion CP programme, all of which were fully repaid before FYE 2022. The Bank's activities were also funded by borrowings sourced from the interbank market, given the arbitrary cash reserve debits. As at 31 December 2022, interbank takings secured to meet short-term funding needs stood at ₦27 billion, the same as the previous year.

During the year under review, the high-interest rate environment, combined with increasing high-cost deposits, led to an uptick in Nova MB's weighted average cost of funds (WACF) to 9.2% (FY 2021: 7.7%). This compared less favourably to FSDH MD's 8.7% but better than FBNQuest MB's 11.3%. Subsequent to the year-end, the WACF decreased by 220 basis points to 7% in the half year ended 30 June 2023, following intensified efforts to grow the low-cost deposit base and release some expensive funds. We believe the reduction in the applicable CRR and the expected redemption of the low-yield special bills will moderate the WACF further in the near term.

An analysis of the Bank's loan portfolio maturity profile compared to the deposit liabilities and borrowings indicates some liquidity gaps. As at FYE 2022, only loans maturing within 180 days were adequately funded by customers' deposits within the same category. This poses potential repricing risks, as an increase in interest rates could impact the Bank's profitability, resulting in lower margins. However, the pool of liquid assets and access to the money market serve as risk-mitigating factors.

As at 31 December 2022, Nova MB recorded a liquidity ratio of 23.5% which was higher than the 20% regulatory minimum for merchant banks operating in Nigeria. We believe Nova Merchant Bank Limited's liquidity position is acceptable and its ability to refinance is adequate, supported by the access to the money market and its improving brand profile.

Environmental, Social and Governance

Agusto & Co. places emphasis on governance and social impacts when assessing the credit risk associated with a bank. As at FYE 2022, non-executive directors chair the standing committees in line with best practises in corporate governance. As at FYE 2022, 33% of the directors are female, surpassing the regulatory minimum of 30%. However, there is room for further improvement in gender diversity at the senior management level, where female representation currently stands at 30%, falling short of the CBN's stipulated minimum of 40%.

Nova MB has managed its exposure to the oil and gas sector moderately, which is crucial considering the potential environmental impact associated with this sector. As at FYE 2022, the oil and gas sector accounted for 9.6% 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 MB's improved profitability in the financial year ended 31 December 2022 has positioned it as the third most profitable merchant bank in Nigeria. This achievement reflects the Bank's successful efforts to boost its earnings and overall performance during the year. Furthermore, Nova MB has made significant progress in increasing its share of local currency deposits, securing the second position among its peers in this regard. This growth in local currency deposits indicates the Bank's ability to attract and retain customers' funds, a vital aspect of its liquidity and funding strategy.

Looking ahead, Nova MB aims to sustain its positive performance trajectory by capitalising on various strengths. The Bank plans to continue leveraging its corporate customers' value chain, maximising synergies with its subsidiaries, and attracting relatively lower-priced deposits to optimise earnings. In addition, Nova MB's strategic decision to transition into a commercial bank holds immense potential benefits for the Bank's market share and overall growth trajectory. A commercial bank, Nova MB can expand its services, target a broader customer base, and diversify revenue streams beyond its merchant banking focus. This transition could open doors to enhanced lending opportunities, broader deposit mobilisation, and a more comprehensive range of financial solutions for customers.

Table 4: Market Share of the Merchant Banking Segment as at FYE 2022

	Nova MB 2021	Nova MB 2022	Coronation MB 2022	Greenwich MB 2022	FBNQuest MB 2022	FSDH MB 2022	Rand MB 2022
Total Assets & Contingents	20.7%	16.0%	32.4%	5.2%	15.3%	14.4%	16.7%
Net Loan	19.5%	15.1%	28.8%	5.1%	16.5%	18.2%	16.3%
LCY Deposits	17.4%	21.9%	39.1%	6.7%	17.5%	15.6%	4.9%
Net Earnings	9.2%	13.6%	0.2%	8.1%	18.2%	19.4%	40.5%
Pre-tax Profit	7.8%	21.6%	-51.6%	8.3%	18.8%	25.3%	77.7%

OUTLOOK

Nova MB has set its sights on sustainable growth by transitioning into a commercial bank. The Bank believes that this move will positively impact its operations and strengthen its growth trajectory, given the challenges posed by the strict regulatory regime faced by the merchant bank industry. To support this transition, Nova MB plans to improve its staff strength, setup branching operations in strategic business locations, automate its credit process and prioritise digital banking to drive retail business, in building its capacity to accommodate expansion plans effectively. In our view, with effective strategies in place, these growth ambitions have the potential to improve and solidify Nova MB's performance. An HoldCo structure is being considered after obtaining its national license to properly organise the group’s operations and ensure synergies between its existing subsidiaries which are not allowed under a commercial banking license.

Nova MB plans to continue leveraging its customer’s value chain and strategic relationship with its subsidiaries to improve performance. While the Bank is adequately capitalised for its current business operations, it plans to raise additional capital in the near term through public offerings and activation of its series 2 subordinated bond. These measures will help support the Bank's growth objectives and enhance its financial position. However, the ambitious projection of a 124.7% growth in pre-tax profit compared to the previous year's achievement may be challenging amidst macroeconomic headwinds, rising inflation, and relatively high expensive deposits that could impact operational costs. As at 30 June 2023, the Bank has achieved only 52.3% of its year-to-date budget, further supporting the notion that meeting such an ambitious target could be challenging. Despite this, it is expected that Nova MB will remain profitable.

Based on the aforementioned, we have attached 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-20		31-Dec-21		31-Dec-22	
		₦'millions		₦'millions		₦'millions	
	ASSETS						
1	Cash & equivalents			36,924	0.0%	1,447,062	0.5%
2	Government securities	56,954	23.0%	51,368	18.6%	44,852	14.1%
3	Money Market Placements	19,944	8.1%				
4	Quoted investments			18,073	6.5%	13,781	4.3%
5	Placements with discount houses						
6	LIQUID ASSETS	76,897	31.1%	69,478	25.1%	60,080	18.8%
7	BALANCES WITH NIGERIAN BANKS	4,850	2.0%	5,861	2.1%	92	0.0%
8	BALANCES WITH BANKS OUTSIDE NIGERIA	4,800	1.9%	18,591	6.7%	35,421	11.1%
9	Direct loans and advances - Gross	50,070	20.3%	90,424	32.7%	97,399	30.5%
10	Less: Cumulative loan loss provision	-98	0.0%	-41	0.0%	-35	0.0%
11	Direct loans & advances - net	49,972	20.2%	90,382	32.7%	97,363	30.5%
12	Advances under finance leases - net						
13	TOTAL LOANS & LEASES - NET	49,972	20.2%	90,382	32.7%	97,363	30.5%
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	7,844	3.2%	20,469	7.4%	31,318	9.8%
16	DEFERRED LOSSES	443	0.2%	443	0.2%	443	0.1%
17	RESTRICTED FUNDS	35,170	14.2%	31,618	11.4%	42,918	13.5%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES	415	0.2%	431	0.2%	431	0.1%
19	OTHER LONG-TERM INVESTMENTS			3,149	1.1%	9,215	2.9%
20	FIXED ASSETS & INTANGIBLES	1,869	0.8%	2,158	0.8%	2,591	0.8%
21	**TOTAL ASSETS**	**182,260**	**73.7%**	**242,581**	**87.6%**	**279,873**	**87.7%**
22	TOTAL CONTINGENT ASSETS	64,974	26.3%	34,227	12.4%	39,075	12.3%
23	**TOTAL ASSETS & CONTINGENTS**	**247,234**	**100%**	**276,808**	**100%**	**318,947**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	22,703	9.2%	23,487	8.5%	26,701	8.4%
25	TIER 2 CAPITAL	10,396	4.2%	10,387	3.8%	10,417	3.3%
26	MEDIUM TERM BORROWINGS						
27	Demand deposits	21,427	8.7%	17,367	6.3%	22,732	7.1%
28	Savings deposits						
29	Time deposits	65,545	26.5%	86,342	31.2%	114,866	36.0%
30	Inter-bank takings	21,714	8.8%	26,813	9.7%	26,993	8.5%
31	TOTAL DEPOSIT LIABILITIES - LCY	108,686	44.0%	130,522	47.2%	164,592	51.6%
32	Customers' foreign currency balances	2,640	1.1%	13,181	4.8%	14,374	4.5%
33	TOTAL DEPOSIT LIABILITIES	111,326	45.0%	143,703	51.9%	178,966	56.1%
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	37,835	15.3%	65,004	23.5%	63,788	20.0%
36	**TOTAL CAPITAL & LIABILITIES**	**182,260**	**73.7%**	**242,581**	**87.6%**	**279,873**	**87.7%**
37	TOTAL CONTINGENT LIABILITIES	64,974	26.3%	34,227	12.4%	39,075	12.3%
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**247,234**	**100%**	**276,808**	**100%**	**318,947**	**100%**
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes						
40	Guarantees, bonds etc..	1,074	0.4%	3,431	1.2%	1,379	0.4%
41	Short-term self liquidating contingencies	63,900	25.8%	30,796	11.1%	37,696	11.8%

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	STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Dec-20 ₦'millions		31-Dec-21 ₦'millions		31-Dec-22 ₦'millions	
42	Interest income	9,606	72.4%	12,054	71.4%	16,268	70.8%
43	Interest expense	-7,181	-54.2%	-11,886	-70.4%	-15,566	-67.8%
44	Loan loss expense	-73	-0.5%	7	0.0%	-139	-0.6%
45	NET REVENUE FROM FUNDS	2,352	17.7%	176	1.0%	563	2.5%
46	ALL OTHER INCOME	3,655	27.6%	4,821	28.6%	6,697	29.2%
47	**NET EARNINGS**	**6,007**	**45.3%**	**4,997**	**29.6%**	**7,260**	**31.6%**
48	Staff costs	-720	-5.4%	-806	-4.8%	-960	-4.2%
49	Depreciation expense	-593	-4.5%	-283	-1.7%	-454	-2.0%
50	Other operating expenses	-1,269	-9.6%	-2,243	-13.3%	-2,386	-10.4%
51	TOTAL OPERATING EXPENSES	-2,581	-19.5%	-3,333	-19.7%	-3,801	-16.5%
52	PROFIT (LOSS) BEFORE TAXATION	3,425	25.8%	1,664	9.9%	3,459	15.1%
53	TAX (EXPENSE) BENEFIT	-34	-0.3%	-80	-0.5%	-245	-1.1%
54	**PROFIT (LOSS) AFTER TAXATION**	**3,391**	**25.6%**	**1,584**	**9.4%**	**3,214**	**14.0%**
55	NON-OPERATING INCOME (EXPENSE) - NET						
56	DIVIDEND			-800	-4.7%	-964	-4.2%
57	**GROSS EARNINGS**	**13,260**	**100%**	**16,876**	**100%**	**22,965**	**100%**
58	AUDITORS	PWC		PWC		PWC	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	31-Dec-20	31-Dec-21	31-Dec-22
	EARNINGS			
60	Net interest margin	25.2%	1.4%	4.3%
61	Loan loss expense/Interest income	0.8%		0.9%
62	Return on average assets & contingents (Pre - tax)	2.0%	0.6%	1.2%
63	Return on average equity (Pre - tax)	16.3%	7.2%	13.8%
64	Operating Expenses/Net earnings	43.0%	66.7%	52.4%
65	Gross earnings/Total assets & contingents (average)	7.7%	6.4%	7.7%
	EARNINGS MIX			
66	Net revenue from funds	39.2%	3.5%	7.8%
67	All other income	60.8%	96.5%	92.2%
	LIQUIDITY			
68	Total loans & leases - net/Total lcy deposits	8.1%	39.7%	37.7%
69	Liquid assets/Total lcy deposits	69.0%	46.8%	24.1%
70	Demand deposits/Total lcy deposits	19.7%	13.3%	13.8%
71	Savings deposits/Total lcy deposits	Nil	Nil	Nil
72	Time deposits/Total lcy deposits	60.3%	66.2%	69.8%
73	Inter-bank borrowings/Total lcy deposits	20.0%	20.5%	16.4%
74	Interest expense - banks/Interest expense	15.8%	16.8%	15.0%
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	Nil	Nil	Nil

NOVA MERCHANT BANK LIMITED

	KEY RATIOS CONT'D	31-Dec-20	31-Dec-21	31-Dec-22
	ASSET QUALITY			
76	Performing loans (₦'000)	50,024	90,377	97,352
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	0.2%	0.0%	0.0%
80	Loan loss provision/Non-performing loans	Nil	Nil	Nil
81	Risk-weighted assets/Total assets & contingents	31.5%	49.8%	47.7%
	CAPITAL ADEQUACY			
82	Adjusted capital/risk weighted assets (Basel I)	41%	24%	23%
83	Tier 1 capital/Adjusted capital	68%	69%	72%
84	Total loans (net)/Adjusted capital	1.58	2.78	2.76
85	Capital unimpaired by losses (₦'000)	22,260	23,044	26,258
	STAFF INFORMATION			
86	Net earnings per staff (₦'000)	109	57	80
87	Staff cost per employee (₦'000)	13	9	11
88	Staff costs/Operating expenses	27.9%	24.2%	25.3%
89	Average number of employees	55	88	91
90	Average staff per office	55	88	91
	OTHER KEY INFORMATION			
91	Legal lending limit(₦'000)	11,130	11,522	13,129
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)	3	4	5
96	Government stake in equity (Indirect)	Nil	Nil	Nil
	MARKET SHARE OF INDUSTRY TOTAL	**Estimate**	**Estimate**	**Estimate**
97	Lcy deposits (excluding interbank takings)	0.4%	0.3%	0.4%
98	Total assets & contingents	0.5%	0.4%	0.4%
99	Total loans & leases - net	0.3%	0.4%	0.4%
100	Non interest income	0.3%	0.3%	0.4%

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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