



## GCR Upgrades Nigeria Mortgage Refinance Company Plc's National Scale Rating to A-<sub>(NG)</sub>; Outlook Stab

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Lagos, 13 November 2018–Global Credit Ratings has upgraded Nigeria Mortgage Refinance Company Plc's public national scale ratings of A-<sub>(NG)</sub> and A1-<sub>(NG)</sub>, in the long and short term respectively; with the outlook accorded as Stable. The ratings are valid until September 2019.

### **RATING RATIONALE**

Global Credit Ratings ("GCR") has accorded the above indicative credit rating based on the following key criteria:

The accorded ratings are supported by Nigeria Mortgage Refinance Company Plc's ("NMRC" or "the company")'s status as a private sector entity with a public purpose. Accordingly, government support for NMRC is implied, this corroborated by the demonstrated willingness of Federal Government of Nigeria ("FGN") to provide a full guarantee on the company's debt issues during its initial operational stage. Currently, NMRC's ownership base comprises two public sector related entities (jointly owning 36.6% equity stake), while the remainder are diversely owned by local financial institutions (banks and non-bank financial institutions).

Cognisance was taken of NMRC's strong capitalisation, with total shareholders' funds amounting to N11.7bn at FY17, representing a significant 36% increase over the FY16 level and translating to a resilient risk weighted capital adequacy ratio of 153% (compared to the 10% statutory minimum requirement). Growth recorded in capital was attained through a combination of new capital injection and internal capital generation during the year under review.

The company's asset quality (in terms of the mortgage refinancing loans) has remained strong, with nil non-performing loans reported to date.

Contribution by NMRC's core income stream (interest on mortgage refinance loans) improved to 20.9% in FY17, albeit the company remained significantly reliant on interest income earned on investments in FGN Securities (contributing 75.8% of the reported interest income for the year). Overall, total operating income rose by 31.9% to ca.N4.0bn in FY17. Despite a significant 22.8% uptick in operating expenses, the impact on efficiency indicators was minimal, with the cost ratio ending stronger at 52.2% (FY16: 56.1), underpinned by the outpacing growth in revenue. Consequently, a pre-tax profit of N1.9bn was reported for the year, translating to a significant 51.0% improvement over FY16. Apart from its mortgage refinancing activities, NMRC has made some progress in its efforts to develop an enabling legal framework for mortgage creation (the model mortgage and foreclosure law) in the country through engagement with the relevant authorities at federal and state levels, with commitments received from a few state governments in this regard, although the process has yet to be finalised.



The establishment and sustenance of a strong financial track record, together with clear evidence of implementation of the mandate, would be positively considered. A negative rating action may follow a significant underperformance of the financial projections, evidence of management's inability to fully implement the proposed business plan and operational structure, or a reduction in the likelihood of government support.

### **NATIONAL SCALE RATINGS HISTORY**

Initial rating (May 2015)

Long term: BBB+<sub>(NG)</sub>

Outlook: Stable

Last rating (September 2017)

Long term: BBB+<sub>(NG)</sub>

Short term: A2<sub>(NG)</sub>

Outlook: Stable

### **ANALYTICAL CONTACTS**

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### **APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Criteria for Rating Banks and Other Financial Institutions, updated March 2017

NMRC rating reports, 2015-17

Glossary of Terms/Ratios (February 2016)

### **RATING LIMITATIONS AND DISCLAIMERS**

ALL GCR'S CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GLOBALRATINGS.COM.NG/UNDERSTANDING-RATINGS](http://globalratings.com.ng/understanding-ratings). IN ADDITION, GCR'S RATING SCALES AND DEFINITIONS ARE ALSO AVAILABLE FOR DOWNLOAD AT THE FOLLOWING LINK: [HTTP://GLOBALRATINGS.COM.NG/RATINGS-INFO/RATING-SCALES-DEFINITIONS](http://globalratings.com.ng/ratings-info/rating-scales-definitions). GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, PUBLICATION TERMS AND CONDITIONS AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE AT [HTTP://GLOBALRATINGS.COM.NG](http://globalratings.com.ng).

### **SALIENT FEATURES OF ACCORDED RATINGS**



GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for 12 months, or as indicated by the applicable credit rating document.

The ratings were solicited by, or on behalf of Nigeria Mortgage Refinance Company Plc, and therefore, GCR has been compensated for the provision of the ratings.

Nigeria Mortgage Refinance Company Plc participated in the rating process via face-to-face management meetings and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings above were disclosed to Nigeria Mortgage Refinance Company Plc with no contestation of/changes to the ratings.

The information received from Nigeria Mortgage Refinance Company Plc and other reliable third parties to accord the credit ratings included the audited annual reports for the year ended 31 December 2017 and the company's 5-year strategic plan. In addition, other information specific to the rated entity and/or industry was also received.