

CREDIT RATING



DataPro Limited

6th Floor, Ashakun House

13/15 Lake Street

Off Broad Street

Apongbon , Lagos.

Tel: 234-1-7214430

Cell: 234-803-309-1467

Email: info@datapronigeria.net

dataprong@gmail.com

Website: www.datapronigeria.net

- **Principle**
- **Criteria**
- **Methodology**
- **Procedure**

Effective: 6th January, 2017

Renewal: 5th January, 2018

Version: 15

1.0 BACKGROUND

DataPro rating is an independent assessment of an obligor (financial and non financial) ability to meet its obligations as they fall due. It takes into cognizance both quantitative and qualitative factors in arriving at its rating.

2.0 TYPES OF RATINGS

2.1 Solicited:

This is a rating undertaking by *DataPro* based on the request by the company being rated. This type of rating is subject to monitoring and review on periodic basis as the need arises.

2.2 Public Information Rating (Unsolicited)

This is a rating undertaking by *DataPro* based on the publicly available information for the purpose of the public or a third party.

3.0 BANK RATING METHODOLOGY

Our bank rating methodology can also be adaptable to other non bank financial institutions such as Primary Mortgage Institutions, Discount Houses, Finance Houses etc.

The methodology takes into consideration the following:

3.1 Macroeconomic Analysis:

This is evaluation of various economic condition under which the bank operate within a given time frame and the effect of such condition on its general operation.

3.2 Industry Analysis:

The industry is equally analyzed from the point of view of regulation, competition and general market behaviour and performance to establish a benchmark to which the rated bank can be compared within the given time frame.

3.3 Capital Adequacy:

This provides an overview of the ability of the bank's capital to leverage its risk. It examines the present composition of the banks Tier 1 capital, its compliance with statutory requirement and ability to grow it in the future to meet business requirement.

To determine the capital adequacy of a bank, the following ratio will serve as guide

- Equity to total assets
- Equity to Loan/Advances
- Fixed assets/Equity
- Risk weighted assets/Total qualifying capital

3.4 Asset Quality:

Provides an overview of the bank's assets quality and how it can be used to generate earnings. It examines the composition of the company's assets, its risk diversity and ability of the bank to grow it yearly.

Major consideration is given to maturity profile of company's assets and extent of delinquent loans in comparison to the company capital and industry performances in the given year.

To determine the asset quality of a bank, the following ratio will serve as guide

- Classified loans and advances to gross loans and advances
- Classified loans and advances to equity
- Classified loans and advances provision to classified loans and advances

3.5 Corporate Governance:

Provides information about directors and key members of the management. This helps gauge the quality and depth of the bank's management. Attention is paid to the composition of the board in line with regulatory requirement and participation of members in the daily affair of the bank.

3.6 Management

Management performance is also taking into consideration. This is measured by comparison of performance to industry peers, comparison of budgeted performance to actual, types and extent of information technology deployed to operation and effective contribution of all officers of the bank to the overall performance.

3.7 Earnings:

Provides an overview of the bank's ability to generate adequate cash flow to meet its obligation. It examines the various sources of revenue and profit from primary practice (interest income) and others (non interest income). Ability to grow profit over time is examined and real income and profit retention capacity is critically analyzed.

To determine the earnings capacity of a bank, the following ratio will serve as guide

- Profit margin ratio
- Earning mix
- Return on equity
- Return on assets
- Operating expenses to income

3.8 Solvency and Liquidity:

Provides details about the ability of the banks to meet its short term and long term financial obligations. Liquidity risk is measured by determining the maturity profile of liquid asset against the maturity profile of bank's liabilities.

To determine the solvency and liquidity of a bank, the following ratio will serve as guide

- Loans and advances to total assets
- Cash and short term fund to total assets
- Cash and short term fund to total deposits
- Loans and advances to total deposits
- Total liquid assets to total current liabilities

3.9 Corporate Compliance:

Indicates the level of the bank's compliance to statutory and regulatory frameworks.

4.0 INSURANCE RATING METHODOLOGY

Our insurance rating methodology takes cognizance of the following:

4.1 Macroeconomic Analysis:

This is evaluation of various economic condition under which the insurance company operates within a given time frame and the effect of such condition on its general operation.

4.2 Industry Analysis:

The industry is equally analyzed from the point of view of regulation, competition and general market behaviour and performance to establish a benchmark to which the rated insurance company can be compared within the given time frame.

4.3 Capital Adequacy:

This provides an overview of the ability of the insurance company's capital to leverage its risk. It examines the present composition of the insurance company's Tier 1 capital, its compliance with statutory requirement and ability to grow it in the future to meet business requirement. Consideration is also given to the solvency margin of the insurance company to determine the extent of the positive difference between its assets and liabilities.

To determine the capital adequacy of an insurance company, the following ratio will serve as guide:

- Equity to total liabilities
- Equity to total current liabilities
- Fixed asset to equity

- Net assets to net premium written
- Net assets to minimum share paid up capital

4.4 Reserves:

The reserve level of the insurance company is examined.

However, more attention is paid to the technical reserves and they are measured for both compliance with statutory requirements and adequacy for the size of the company's business risk.

To determine the adequacy of reserves of an insurance company, the following ratio will serve as guide:

- Contingent reserve to net premium written
- Contingent reserve to profit before tax

4.5 Corporate Governance:

Provides information about Directors and Key members of the management. This helps gauge the quality and depth of the insurance company's management. Attention is paid to the composition of the board and participation of members in the daily affair of the insurance company is equally examined.

4.6 Management

Management performance is also taking into consideration. This is measured by comparison of performance to industry peers, comparison of budgeted performance to actual, types and extent of information technology deployed to operation and effective contribution of all officers of the insurance company to the overall performance.

4.7 Earnings:

The ability of the company to generate premium is given consideration. Attention is paid to various sources of income such as: geographical source and product source. Income from investment is also examined. The overall ability of the

insurance company to grow both the income level and its sources is given critical attention.

The profit source on segmented bases is examined to determine how individual business is making contribution to the overall profit level.

To determine the earning of an insurance company, the following ratio will serve as guide:

- Return on equity
- Return on asset
- Profit margin
- Business contribution to total revenue

4.8 Liquidity:

Provides details about the ability of the insurance company to meet its short term and long term financial obligations. Liquidity risk is measured by determining the size of the insurance company most liquid asset and how it can be readily available to offset claims and liabilities arising in ordinary course of business.

To determine the liquidity of an insurance company, the following ratio will serve as guide:

- Liquid asset to current liabilities
- Liquid asset to total liabilities
- Liquid asset to total assets

4.9 Investment

The investment of the insurance company is given consideration. The mix is critically considered to determine composition whether it is short term or long term investment. Attention is also paid to the value of each class of investment by comparing its cost to its market value. The effectiveness of the investment is also given due consideration by determining its return and comparing it to industry performance.

To determine the investment quality of an insurance company, the following ratio will serve as guide:

- Investment mix
- Investment yield

4.10 Corporate Compliance Culture:

Indicates the level of the bank's compliance to statutory and regulatory frameworks.

5.0 CORPORATE RATING METHODOLOGY

Our corporate rating methodology takes cognizance of the following:

5.1 Macroeconomic Analysis:

This is evaluation of various economic condition under which the company operates within a given time frame and the effect of such condition on its general operation.

5.2 Industry Analysis:

The industry is equally analyzed from the point of view of regulation, competition and general market behaviour and performance to establish a benchmark to which the rated company can be compared within the given time frame.

5.3 Capital Strength:

This provides an overview of the ability of the company's capital to leverage its risk. It examines the present composition of the company's capital and ability to grow it in the future to meet business requirement. It pays attention to level of funding of operation and expansion from internal and external source.

To determine the capital strength for a corporate organization, the following ratio will serve as guide:

- Equity to total asset
- Equity to total debt
- Fixed asset to total asset

5.4 Corporate Governance:

Provides information about directors and key members of the management. This helps gauge the quality and depth of the company's management. Attention is paid to the composition of the board and participation of members in the daily affair of the company is equally examined.

5.5 Management

Management performance is taking into consideration. This is measured by the comparison of compare performance to the industry, comparison of budgeted performance to actual, types and extent of information technology deployed to operation and effective contribution of all officers of the company to the overall performance.

5.6 Earnings:

The ability of the company to generate income from operation. Attention is paid to various sources of income such as geographical source and product source. The overall ability of the company to grow both the income level and its sources is given critical attention.

The profit source on segmented bases is examined to determine how individual business is making contribution to the overall profit level.

To determine the earnings for a corporate organization, the following ratio will serve as guide:

- Profit margin
- Return on equity

5.7 Liquidity:

Provides details about the ability of the company to meet its short term and long term financial obligations. Liquidity risk is measured by analyzing the Cashflow position of the company in relation to the size of its short and long term

debt portfolio. More attention is paid to the source of cash inflow into the organization.

To determine the liquidity for a corporate organization, the following ratio will serve as guide:

- Current ratio
- Quick ratio

5.8 Asset Utility:

This provides the analysis of how a company is able to effectively deploy its assets in generating revenue and attracting profits. To determine asset utility the following ratio will serve as guide.

- Turnover to asset employed
- Return on assets employed
- Turnover to working capital

5.9 Corporate Compliance Culture:

Indicates the level of the bank's compliance to statutory and regulatory frameworks.

5.10 Transaction Rating Methodology

Our structured finance rating is conducted to reflect the following issues:

1. Overview of the issuer
2. Overview of parties to the issue
3. The finance structure
4. Legal risk
5. Liquidity Risk

6. Regulatory Framework

6.0 RATING PROCESS

6.1 Pre-Engagement Meeting

Prior to engagement, we normally meet with the subject's principals. The objectives of this meeting are to:

- ✓ Explain our rating methodology
- ✓ Understand the expectations of the subject
- ✓ Explain the benefits of our rating

6.2 Letter Of Engagement

Upon acceptance of our terms of engagement, subject is expected to write officially to *DataPro* specifying the following:

- ✓ A representation on the truth and fairness of information being provided
- ✓ An undertaken to provide information as and when necessary
- ✓ Confidentiality rules binding on the subject
- ✓ *DataPro* right to change a rating at any time.

6.3 Field Work

Upon the receipt of the engagement letter and payment of appropriate fee, our *Credit Analyst* will visit the company's head office to interact with the management staff of the company and collect all necessary data and information. This may take 2 or 3 days depending on the size and operation of the subject.

6.4 Rating Panel

The rating panel considers the report of the analyst and agrees to affirm or review the rating suggested by the credit analyst. After this, the draft report is prepared and sent to the subject's management.

6.5 Presentation of Draft Report

Once a rating is concluded, a draft of the report is prepared. This is sent to the subject for correction on typographical errors. Where there is any possible omission in the report which can influence the rating, our rating panel will refer it to the analyst to carry out another rating. Where there are no errors, a final copy is done and sent to the subject.

6.6 Objection and Observations

Where the subject principals made known their objections or observations concerning the rating report through an official letter, a meeting is then held between the subjects' principals and *DataPro* Rating Panel.

However, *DataPro* is not bound to change the rating of any company if there is no justifiable reason to do so. A rating can only be reversed if there is any latest information provided by the subject management that is weighty enough to influence the rating.

6.7 Final Rating

A rating is conclusive once there is no objection or observations arising from the draft copy of the report.

6.8 Publication of Rating

Once the rating process is completed, the result can be published.

However, this depends on the approval from the management of the rated company.

7.0 COPYRIGHT

DataPro Rating is the exclusive property of the company. They cannot be copied in whole or in part without the express approval of the company. Legal action may be taken against any person who breaches our copyrights. This proviso is stated at the end of each report.

8.0 RATING SPAN

Our rating results carry a maximum shelf-life of *Twelve (12) months* from the date of the rating. The duration of the rating is stated on every rating report.

9.0 CONFIDENTIALITY

DataPro undertakes to keep client information confidential. All information and records obtained from the subject, its agents, employees and all other persons are used solely for the purpose of the rating.

10.0 Disclaimer

A disclaimer is usually contained in our rating report as state *DataPro Corporate Rating* does not represent an offer to trade in securities. It is a reference source and not a substitute for your own judgment. As far as we are aware, this report is based on reliable data and information, but we have not verified this or obtained an independent verification to this effect. We provide no guarantee with respect to accuracy or completeness of the data relied upon, and therefore the conclusions derived from the data. This report has been prepared at the request of, and for the purpose of, our client only and neither we nor any of our employees accept any responsibility on any ground whatsoever, including liability in negligence, to any other person. Finally, *DataPro* and its employees accept no liability whatsoever for any direct or

consequential loss of any kind arising from the use of this document in any way whatsoever.

Users Guide

It is the philosophy of *DataPro Limited* to ensure that its rating process is transparent. Accordingly, the company makes its rating methodology available to companies being rated and the users of its ratings. We also believe that our *Credit Rating Reports* should provide the rationale for ratings assigned.

DataPro's credit risk is an opinion of a company's overall creditworthiness and its capacity to meet its financial commitment.

Our *short-term* ratings have a time horizon of less than 12 months inline with industry standards reflecting risk characteristics. The ratings place greater emphasis on the liquidity to meet financial commitment in a timely manner.

The long-term risk indicator is divided into 8 bands ranging from **AAA** through **DD**. Each band could be modified by + or -. With + representing slightly less risk than -. Such suffixes are not added to the '**AAA**' long term rating category and to categories below '**CCC**'. Or to short-term rating older than A1+.

LONG-TERM RATING

Investment Grade

Indicator	Meaning	Explanation
AAA	Lowest Risk	<i>(Superior)</i> Assigned to Issue which have on balance superior financial strength, operating performances and business profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a very strong ability to meet their ongoing obligations.
AA	Lower Risk	<i>(Excellent)</i> Assigned to Issue which have, on balance excellent financial strength, operating performance and business profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a very strong ability to meet their ongoing obligations.
A	Low Risk	<i>(Very Good)</i> Assigned to Issue which have, on balance very good financial strength, operating performance And business profile when compared to the standards established by <i>DataPro Limited</i> . These companies, in our opinion, have a very strong ability to meet their ongoing obligation.
BBB	Slight Risk	<i>(Fair)</i> Assigned to Issue which have, on balance fair

financial strength, operating performance and business profile when compared to the standards established by **DataPro Limited**. These companies, in our opinion, have an ability to meet their current obligations, but their financial strength is vulnerable to adverse changes in economic conditions.

Non-Investment Grade

Indicator	Meaning	Explanation
BB	Moderate Risk	<i>(Marginal)</i> Assigned to Issue which have, on balance marginal financial strength, operating performance and business profile when compared to the standards established by DataPro Limited . These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
B	High Risk	<i>(Weak)</i> Assigned to Issue which have, on balance weak financial strength, operating performance and business profile when compared to the standard established by DataPro Limited . These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
CCC	Higher Risk	<i>(Poor)</i> Assigned to Issue, which have on balance poor financial strength, operating performance and business profile when compared to the standards established DataPro Limited . These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.
DD	Highest Risk	<i>(Very Poor)</i> Assigned to Issue, which have an balance very poor financial strength, operating performance and business profile when compared to the standards established by DataPro Limited . These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.

SHORT-TERM RATING

Indicator	Meaning	Explanation
A1+	Highest credit quality	Indicates the strongest capacity for timely payment of financial commitments. May have an added "+" to denote any exceptionally strong credit feature.
A1	Good credit quality	A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

DataPro

Credit Rating

A2 Fair credit quality

The capacity for timely payment of financial commitments is adequate. However, near term adverse changes could result in reduction to non investment grade.

B Speculative

Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.

C High default risk

Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment.

D

Indicates an entity that has defaulted on all its financial obligations.