Infinity Trust Mortgage Bank Plc.

Final Entity Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Infinity Trust Mortgage Bank Plc.

Rating:

Bbb+

Outlook: Stable
Issue Date: June 2018
Expiry Date: June 2019
Previous Rating: NR

Industry:
Mortgage Banking

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Rating Rationale

The rating assigned to Infinity Trust Mortgage Bank Plc. ("Infinity Trust" or "ITMB" or "the Mortgage Bank") is supported by the Mortgage Bank's strong capitalisation, good liquidity & funding profile and qualified management team. The rating also takes into cognisance Infinity Trust's satisfactory asset quality and good risk management processes. The rating is however constrained by high obligor concentration in the Mortgage Bank's loan book and exposure to commercial banks Agusto & Co. considers to be moderate risk. We also observed key man risk in the credit admin, internal control and risk management units of the Mortgage Bank.

As at 31 December 2017, Infinity Trust's total assets stood at ₦8.1 billion, which reflects a modest 0.6% growth from the prior year. Loans and advances totalled ₦3.2 billion, accounting for 39.5% of total assets. The Mortgage Bank's loans are moderately diversified across sectors. However, we observed high obligor concentration, with the top 20 obligors accounting for 41.3% of total loans and advances.

Nonetheless, ITMB's non-performing loans (NPLs) ratio stood at 8.2% of the loan book, which is in line with our expectation and compares favourably with industry peers (Jubilee-Life Mortgage Bank Limited: 7.7%, Abbey Mortgage Bank: 14.1%). Infinity Trust's cumulative loan loss provision is adequate, providing a coverage of 41% for NPLs as at 31 December 2017. Based on the aforementioned, we believe Infinity Trust's asset quality is satisfactory.

Infinity Trust has a streamlined model for evaluating counterparties for bank placements. Counterparties are rated on a scale of **A** to **D**, which forms the basis for investment decisions. Notwithstanding the depth of this process, ITMB had exposure to commercial banks Agusto & Co. considers to be moderate risk in the review period.

Infinity Trust's liquidity and funding profile is supported by a mix of funding from shareholders equity, local currency deposits and the National Housing Fund (NHF). The Mortgage Bank's weighted average cost of funds stood at 8.3% in 2017, which compares favourably with industry peers. As at 31 December 2017, Infinity Trust's liquidity ratio stood at 119%, which was over five times higher than the regulatory minimum of 20%. Subsequent to year end, the Mortgage Bank's liquidity ratio strengthened to 141% as at April 2018. In our opinion, Infinity Trust Mortgage Bank has demonstrated the discipline to maintain a conservative liquidity position as evidenced by a liquidity ratio which has consistently outpaced the regulatory minimum and industry peers.

Infinity Trust Mortgage Bank's shareholders' equity stood at ₦5.8 billion as at 31 December 2017, which is well above the regulatory minimum capital requirement of ₦5 billion. ITMB's capital adequacy ratio stood at 82.2% as at 31 December 2017, which is eight times above Agusto & Co.'s benchmark of 10% and better than industry standards. Infinity Trust plans to raise additional equity and debt capital over the medium term, which should further strengthen its capital position.

The Mortgage Bank recorded a 5.1% growth in net interest income in 2017. This was occasioned by an 11.2% growth in interest income. Despite the 11.2% growth in interest income, profit before tax declined by 8.2%. The decline was largely driven by a 35.7% drop in other income comprising rental income and gains from disposal of assets. Profitability indicators – average pre-tax ROE and ROA, dropped to 4.6% and 3.2% respectively in 2017 (2016: ROE 5.5%, ROA 4.0%) Nonetheless, the Mortgage Bank's profitability, though low relative to our benchmark, is satisfactory by industry standards.

ITMB's management team is composed of qualified professionals. The Managing Director – Mr. Olabanjo Obaleye – is a seasoned banker, with over 20 years' experience. The Mortgage Bank's management team is fairly stable, with each senior manager averaging 10 years with Infinity Trust Mortgage Bank. However, we observed key man risk within the risk management, compliance and internal control units, with the three positions manned by just two individuals.

Table 1: Financial Data

	31 December 2017	31 December 2016
Total assets & contingents	₦8.13 billion	₦8.08 billion
Total deposit liabilities	₦1.2 billion	₦1.5 billion
Net earnings	₦0.8 billion	₦0.8 billion
Pre-tax return on average assets	3.2%	4.0%
Pre-tax return on average equity	4.6%	5.5%

Source: Infinity Trust Mortgage Bank Limited

Strengths

- Good capitalisation, liquidity and funding profile
- Established risk management processes
- Stable management team

Weaknesses

- Weak profitability
- Geographic concentration in the mortgage pool

Challenges

- Forestalling further deterioration in the mortgage pool
- Improving profitability

COMPANY PROFILE

Infinity Trust Mortgage Bank Plc. ("the Bank" or "Infinity Trust" or "ITMB") was incorporated in 2002 as Infinity Trust Savings and Loans. The Mortgage Bank commenced operations in 2003, obtaining a national primary mortgage bank licence from the Central Bank of Nigeria (CBN) in 2013. The Mortgage Bank became a public limited liability company in January 2013 and was listed on the Nigerian Stock Exchange (NSE) in December 2013. Despite being listed on the NSE, the Banks ownership is concentrated in eight shareholders that jointly control 89.6% of its equity. The balance of 10.4% was held by 325 investors as at 31 December 2017.

Table 2: Key Shareholders as at FYE2017

Shareholders	% shareholdings
Engr. Adeyinka Bibilari	31.0%
Adkan Services Nig. Ltd	16.6%
Labid Investment Ltd	10.8%
Royal Mills Foods	7.2%
Mr. Olabanjo Obaleye	6.0%
Decimal Links Limited	6.0%
Notec Ventures Limited	6.0%
Veritas Packaging Company Limited	6.0%

Source: Infinity Trust Mortgage Bank

Infinity Trust Mortgage Bank is primarily involved in originating and servicing commercial and residential mortgages as well as providing construction finance to real estate developers. The Bank offers a variety of loan and deposit products to meet the various needs of customers. Key products and services include:

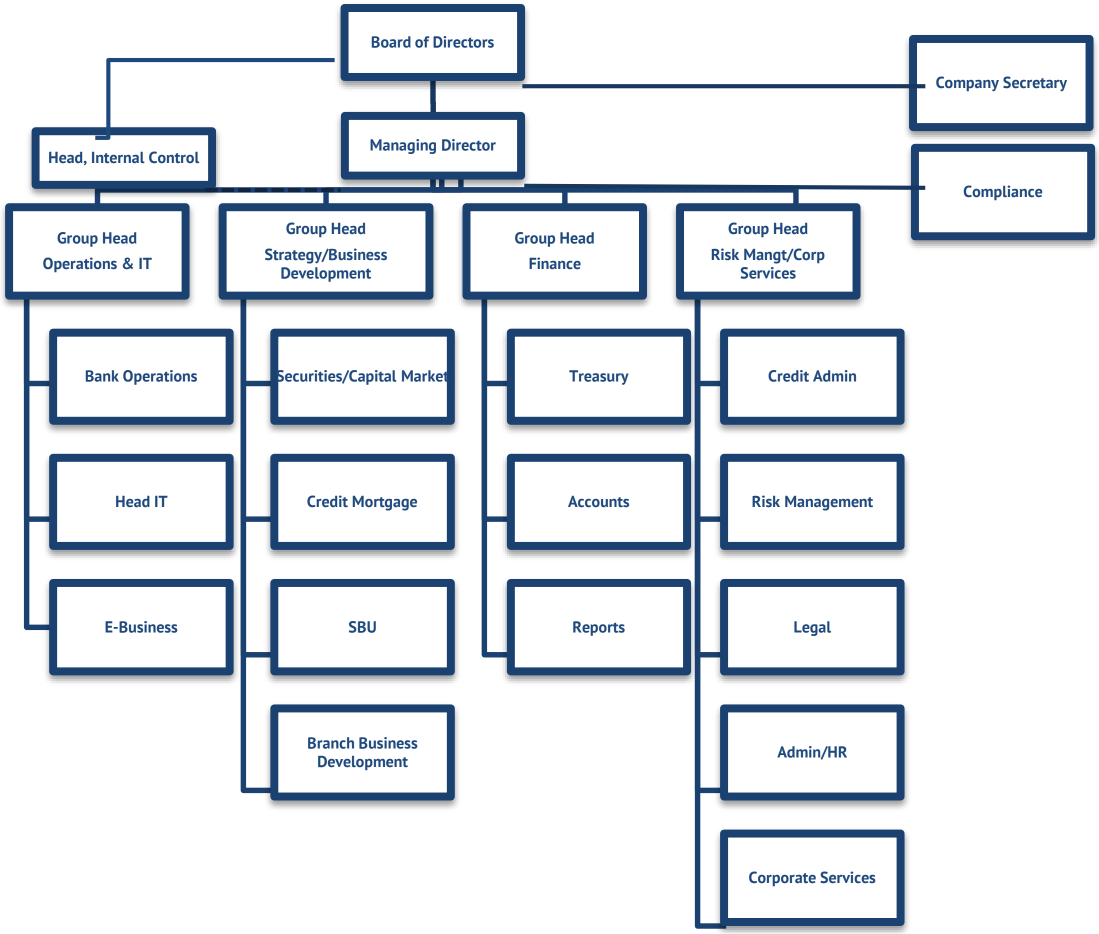
- Infinity Save and Own a Home (I-S OH)
- Infinity Premium Savings Account (IPSA)
- I-School Mortgage
- Infinity Mortgage Finance
- National Housing Fund (NHF)
- Infinity Bridging Mortgage Finance (IBMF)
- Infinity NHF Equity Finance (INEF)
- 1nfinity Premium Home Acquisition Loan (I-HAL)

Infinity Trust Mortgage Bank is headquartered at 11, Kaura Namoda Street, Area 3, Garki, FCT Abuja. The Mortgage Bank has four branches across three states – Abuja, Lagos and Nasarawa States– with an average staff strength of 83 individuals in 2017.

Business Structure

Infinity Trust Mortgage Bank's operations are structured along four divisions: Operations/Information Technology, Business Development/Strategy, Finance and Risk Management/Corporate Services. Each division has a group head, who reports to the Managing Director. The Head of Compliance reports directly to the Managing Director, while the Company Secretary and the Head of Internal Control reports directly to the Board. However, the Head of Internal Control has a dotted reporting line to the Managing Director on operational issues.

Figure 1: Organisational Structure



Source: Infinity Trust Mortgage Bank

Business Strategy

Infinity Trust Mortgage Bank is currently in the fourth year of a five-year strategic plan, which aims to position the Bank as a principal operator in the Nigerian Mortgage Banking Industry. While the Bank is well positioned within the Nigerian mortgage banking industry, it is yet to achieve its medium term goals mainly due to the economic stress Nigeria has experienced in the last two years which has limited the ability to raise capital.

The Bank's core focus is providing mortgage loans to the middle income class. Infinity Trust is one of five accredited primary mortgage banks for the Federal Integrated Staff Housing (FISH) project – a Federal Government sponsored project that aims to provide affordable housing for civil servants in Nigeria. The Mortgage Bank also partners with the Federal Mortgage Bank of Nigeria (FMBN) in administering the National Housing Fund (NHF). They were able to grow the NHF loan book considerably over the period of three years.

Infinity Trust is in the process of updating its five-year strategic plan and intends to double the Bank's balance sheet over the next five years. There are also plans to raise additional equity and debt capital with a view to grow business volumes.

Information Technology

Infinity Trust Mortgage Bank deploys the EasyBankAX application to support core mortgage banking operations. The Bank uses HP Proliant Servers G9, and work stations are connected via LAN.

The Mortgage Bank has nine automated teller machines (ATMs), with customers issued ATM cards to provide an enhanced banking experience. Infinity Trust is connected to the Nigerian Interbank Settlement System (NIBSS) which allows inward transfers to the Mortgage Bank by customers. ITMB is yet to conclude arrangements to allow outward transfers on this platform, their customers can transfer funds using a USSD code.

Infinity Trust Mortgage Bank maintains an offsite disaster recovery centre in Sun City Abuja – a 30 minute drive from the Head Office. The centre is fully furnished with software and hardware replicas of the IT infrastructure at the Head Office. Quarterly tests are carried out to assess the centre's effectiveness in ensuring business continuity - in the event of a disaster.

Correspondent Banks

The Bank maintains correspondent banking relationships with:

- Stanbic IBTC Bank Plc
- Fidelity Bank Plc

None of these banks had a stake in ITMB shareholders' equity as at 31 December 2017.

Track Record of Financial Performance

ITMB's total assets have grown at a compounded annual growth rate of 4.5% in the last three years, to stand at ₦8.1 billion as at 31 December 2017. The growth in total assets has been driven largely by loan growth, with loans and advances recording a 34.1% CAGR over the same period. Despite this growth, net earnings have declined on average, by 2.9% over this same three year period mainly due to higher operating costs and a decline in margins on lending. Infinity Trust Mortgage Bank has recorded average pre-tax return on equity and pre-tax return on assets of 4.9% and 3.6% respectively over the last three years – decent by industry standards.

Table 3: Board of Directors

Name	Position	Shareholding
Engr. Adeyinka Bibilari	Chairman	31.0%
Mr Olabanjo Obaleye	Managing Director	6.0%
Engr. Tunde Olaleke	Non-Executive Director	0.2%
Maj. Gen. Danladi Pennap (Rtd)	Non-Executive Director	0.1%
Mr Dada Ademokoya	Non-Executive Director	0.01%
Mr Akin Arikawe	Non-Executive Director	0.01%
Alhaji. Abubakar Muhammad	Non-Executive Director (Independent)	Nil
Mrs Okwa Ene Iyana	Non-Executive Director (Independent)	Nil

Source: Infinity Trust Mortgage Bank

Management Team

Mr. Olabanjo Obaleye is the Managing Director and Chief Executive Officer of Infinity Trust Mortgage Bank. He joined the Mortgage Bank in 2004 as an Acting General Manager and thereafter became the substantive Managing Director in 2006. Mr Obaleye presided over the Bank during the transformation from a state mortgage bank to a national mortgage bank and the listing on the Nigerian Stock Exchange in 2013. Mr Obaleye has over 20 years' experience which cuts across banking and real estate development. Prior to joining ITMB, he worked at Afribank Nigeria Plc (now Skye Bank Plc), Midas Bank and Societe Bancaire Nigeria Limited.

Mr Obaleye is a Fellow of the Institute of Chartered Accountants of Nigeria, Nigerian Institute of Management and Chartered Institute of Taxation. He holds a B.Sc. in Management and Accounting from Obafemi Awolowo University, Ile-Ife, and a Masters in Business Administration (International Finance) from University of Abuja. He is also an alumnus of Wharton Business School, Pensylvania, USA.

Mr Obaleye, is supported by four senior management personnel:

- Mr Sunday Olumorin – Group Head Operations and IT
- Mr Abiodun Akanbi – Group Head Strategy/Business Development
- Mr Samson Agbaka – Group Head Finance
- Mrs Adebukola Atoyebi – Head Legal Services

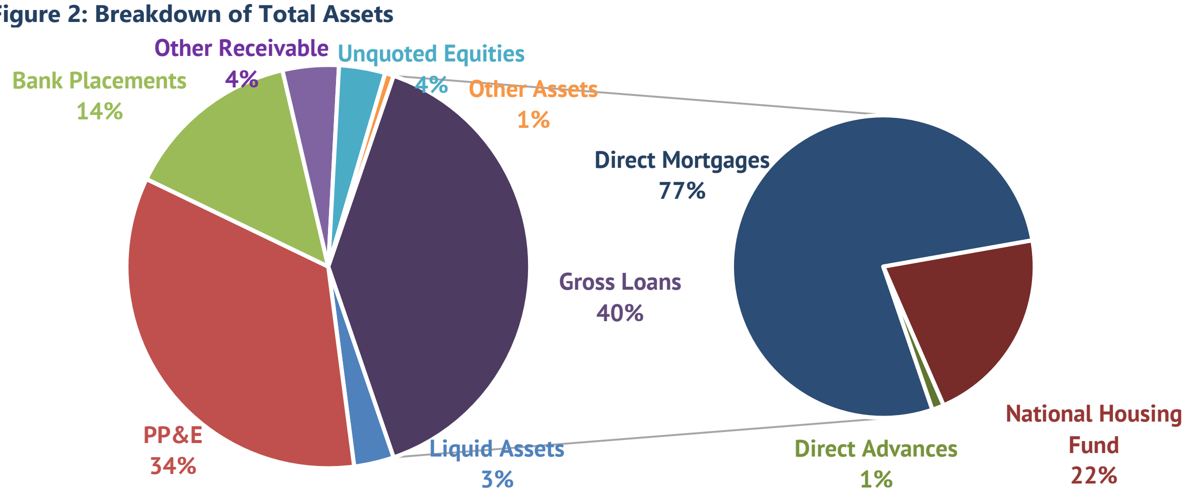
ANALYSTS' COMMENTS

ASSET QUALITY

As at 31 December 2017, Infinity Trust Mortgage Bank's total assets stood at ₦8.1 billion, reflecting a negligible 0.6% growth over the prior year. The most notable asset classes were loans and advances (39.5%) and fixed assets & intangibles (35.2%). Placements with banks accounted for 14.2%, while liquid assets and other assets accounted for 2.8% and 5.5% of total assets respectively. The bulk of liquid assets comprise investments in treasury bills which we consider to be of "**Aaa**" credit quality in local currency. Infinity Trust also has established procedures for selecting counterparties, with 90% of the Bank's placements with deposit money banks (DMBs) that Agusto & Co. considers to be of moderate credit risk, and 10% placed with low risk DMBs.

A review of the Bank's asset structure showed a decline across most of the asset classes, with the exception of loans and advances, which increased by 28%. This level of growth is low when compared to an average of 38% recorded by Infinity Trust in the preceding two years, but noteworthy given the muted environment that prevailed for most of 2017.

Figure 2: Breakdown of Total Assets



Source: Infinity Trust Mortgage Bank

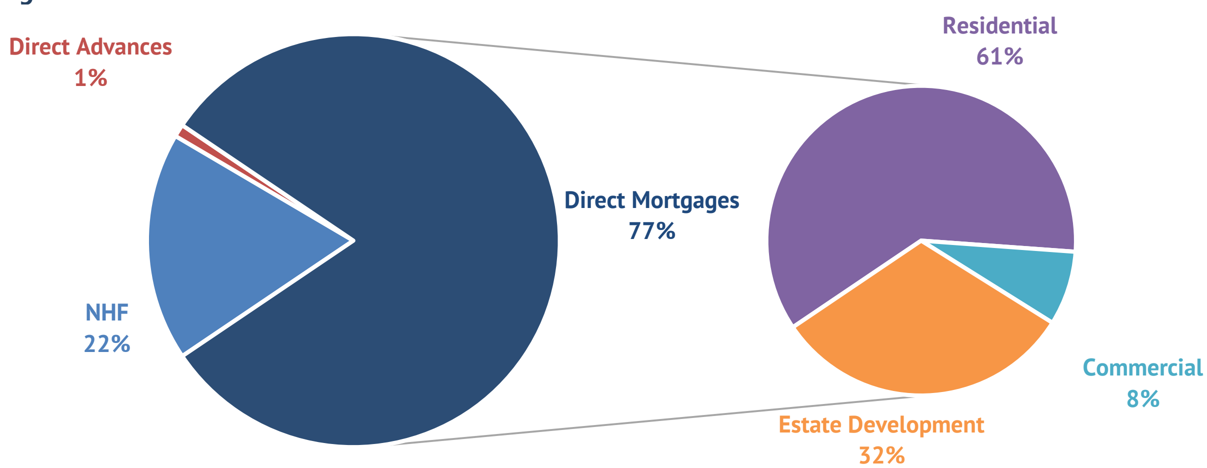
The Bank's strategy for asset creation focuses on providing financing for real estate development projects and residential mortgages, leveraging the National Housing Fund (NHF) to grow the portfolio of residential mortgages. During the period under review, gross loans increased significantly to ₦3.2 billion as at FYE 2017 (FYE 2016: ₦2.5 billion). Loan growth was driven by a 114.1% increase in NHF loans to ₦686 million and a 15.6% increase in direct mortgages to ₦2.5 billion (2016: ₦2.1 billion). Infinity Trust strengthened its strategic partnership with the Federal Mortgage Bank, leading to the significant increase in NHF loans recorded in 2017.

As at 31 December 2017, direct mortgages accounted for 77.4% of gross loans, while mortgages disbursed under the NHF and other advances accounted for 21.4% and 1.2% respectively. Given the Bank's current strategy, the proportion of mortgages disbursed under the NHF is likely to increase significantly in the short to medium term. Mortgages disbursed under the NHF are with recourse to the Bank, as the responsibility for paying the interest (and ultimately principal) to the Federal Mortgage Bank (FMB) remains with the Bank for clients in default. We are thus concerned about the medium term impact of the growth of NHF mortgages on the future rate of delinquencies in the loan book.

The Bank's loan book is skewed towards residential mortgages, but at 68% of mortgage assets, falls below the 75% minimum prescribed by regulation. A breakdown of mortgage loans by geography reveals concentration in Abuja FCT, with 89% of mortgage loans originating from this region, followed by Nassarawa (6%) and Lagos (5%). This concentration of the mortgage portfolio in and around Abuja is likely to persist in the short to medium term, given the pace of real estate development in the region and the fact that Abuja has a sizeable pool of public servants that can access the NHF. In addition there are no immediate plans to expand across other states, though there could be an uptick in the volume of mortgages in Lagos and Nassarawa as the Bank increasingly accesses funds from the NMRC[1] and Mortgage Warehouse[2].

The Bank's top 20 obligors accounted for 41.3% of gross loans as at FYE 2017, indicating a degree of concentration in the loan book. In particular, the top two obligors accounted for 22.4% of gross loans. Though these two loans did not exceed the Bank's single obligor limit and all loans to the top 20 obligors were performing as at 31 December 2017, this level of concentration is of concern. A decline in the financial condition of one or two of these obligors could lead to a deterioration in the Bank's asset quality.

Figure 3: Breakdown of Credit Portfolio



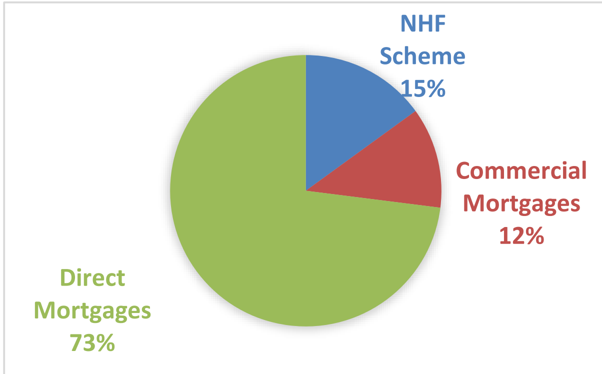
Source: Infinity Trust Mortgage Bank

[1] Nigerian Mortgage Refinance Company (NMRC) is a private sector-driven mortgage refinance company with the public purpose of promoting home ownership for Nigerians by raising long term funds from the capital market.

[2] Mortgage Warehouse Funding Limited is a special purpose company set up with the objective of providing short term funding to member mortgage banks across Nigeria for mortgage origination.

Infinity Trust's non-performing loans (NPL) grew by 25% to ₦262.4million as at FYE 2017 - translating to 8.2% of gross loans (2016: 8.4%). The Bank's NPL/gross loan ratio is below the regulatory maximum of 30% and higher than one of its selected peers - Jubilee-Life Plc. (Jubilee-Life: 7.7%) but lower than Abbey Savings & Loans Plc (Abbey: 14.1%).

Figure 4: Breakdown of NPL



Direct mortgages accounted for highest proportion of NPls at 73%. Commercial mortgages accounted for 12% while mortgages disbursed under the NHF scheme accounted for 15% of NPLs.

Coverage for non-performing loans stood at 41.7% as at 31 December 2017 (2016: 43%), comparing favourably to only one of selected peers – Jubilee-Life: 9% and Abbey: 75%. However, when regulatory risk reserves are included, coverage for NPLs exceeds 100%, which we view favourably. All the Bank's loans were fully secured with either real estate assets (98.8%) or other liquid assets (1.2%). Nonetheless we recognise that weak foreclosure laws in Nigeria dampen the effectiveness of real estate assets as security for loans.

Figure 5: NPL/Gross loans Ratio

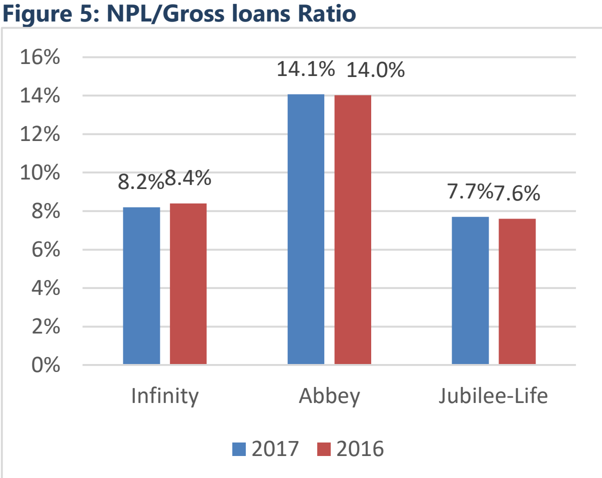
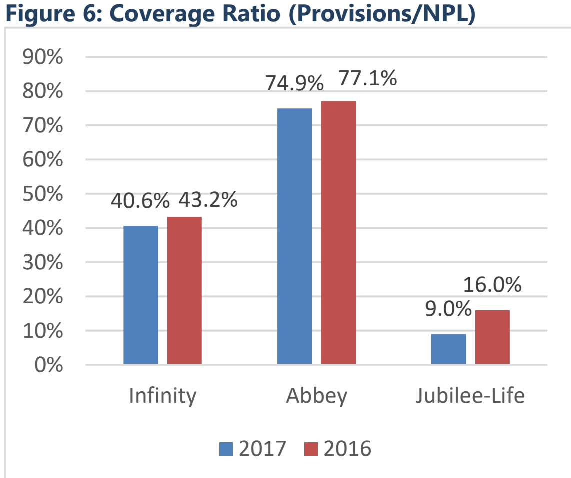


Figure 6: Coverage Ratio (Provisions/NPL)



Source: 2017 Audited Financials

Agusto & Co considers Infinity Trust's overall asset quality to be good. The loan book is expected to experience double digit growth in 2018, as the Bank increasingly leverages the NHF and accesses new funds from the NMRC. Unaudited accounts for the four months ended 30 April 2018 show the non-performing loans to gross loans ratio stable at 8.2%. However, in our view, the volume of NPls could trend upwards moderately in a period of improving but fragile macroeconomic fundamentals. Nevertheless, the volume of NPLs should remain within acceptable thresholds, particularly if the deterioration isn't within the pool of largest obligors.

RISK MANAGEMENT

The Board of Directors at ITMB has the overall responsibility for establishing sound risk management processes and controls at the Bank. This function is performed through the Board Risk Management Committee (BRMC). The BRMC is responsible for developing Infinity Trust's enterprise risk management framework, which institutionalises sound procedures and controls at the Bank. The Board Risk Management Committee comprises five members: Infinity Trust's Managing Director and four Non-Executive Directors including the two Independent Directors. The BRMC meets at least once every quarter.

The BRMC is supported by Risk Management Committee (RMC), which comprises the Managing Director, Head of Strategy and Risk Management, Head of Compliance and Internal Control, Head of FINCON and Group Head of Operations. ITMB's RMC meets monthly and is responsible for implementing the risk policies established by the BRMC. Whilst the BRMC and the RMC have general oversight for risk management at the Bank, the daily task of managing credit, operational, liquidity and counterparty risk are within the purview of the Credit and Risk Management Units.

The Credit Unit at Infinity Mortgage Bank comprises the Credit Mortgage and Credit Admin sub-units. The credit mortgage sub-unit comprises relationship managers (RMs), who are responsible for mobilising deposits and originating loans. ITMB's credit policy manual outlines the procedure for originating and servicing loans at the Bank. Loans are originated at the branch by the RMs, who carry out a first level appraisal on the obligor. The appraisal involves an assessment of the obligor's capacity to pay, which is done by reviewing the prospective obligor's financials (corporate obligors) or monthly payslip (individual obligors). The RM's appraisal is documented in a credit appraisal memo, which is sent to the Credit Mortgage Unit at the head office for further review. The Credit Mortgage Unit notifies the Legal Unit for a thorough search to be carried out on the pledged assets through the Bank's appointed solicitors.

The Credit Admin Unit is responsible for loan administration – disbursement and documentation. Following the resignation of the credit admin staff, credit admin duties have been assigned temporarily to the heads of the risk management unit and the credit mortgage unit.

ITMB's Risk Management Unit has a proprietary Microsoft Excel based model for assessing obligors' credit worthiness, which incorporates both quantitative and qualitative factors. The Bank's scoring model assigns separate scores to the obligor and the pledged collateral. The weighted average of both scores is used to grade obligors' credit quality on a scale ranging from AAA (extremely low risk) to CCC (high risk). This grading system forms the basis for pricing, however, the Bank typically does not lend to high risk obligors. The risk management unit, with the aid of the IT unit, also performs credit checks on the potential obligors to assess performance history and exposure to other financial institutions.

Infinity Trust Mortgage Bank operates a central credit approval system. All loans below ₦20 million are approved by the Management Credit Committee, while loans above ₦20 million are approved by the Board

Credit Committee. The Bank has a single obligor limit of 5% of shareholders' funds for individuals and 20% for corporates consistent with CBN's single obligor limit regulations.

Figure 7: ITMB Internal Rating and placement Limit

Bank Internal Rating	Maximum Deposit limit
A	1 billion
B	500 million
C	100 million
D	0

In addition to evaluating mortgage obligors, ITMB's risk management unit evaluates counterparties for money market investments. Counterparties are rated on a scale of **A** to **D**, based on asset quality, liquidity and qualitative factors. Counterparties rated **A** are considered to be of very good credit quality, which ITMB can place funds with, subject to a maximum limit of ₦1 billion. Counterparties rated **B** and **C** have a maximum deposit limit of ₦500 million and ₦100 million respectively. **D** rated banks are considered troubled counterparties and no placements can be made with such banks.

Overall, the risk management processes at Infinity Trust Mortgage Bank are good, however staffing and succession planning within the department needs to be improved on – to ensure that the system of checks and balances is maintained at all times.

Earnings and Performance

Infinity Trust Mortgage Bank's earnings comprise interest income from its core lending business, credit related fees, commissions lease income from investment properties and other ancillary income. During the year ended 31 December 2017, interest income grew by 7.5% to ₦614.83 million underpinned by the increase in loans & advances to customers. However, growth in interest income was countered by a 48% increase in interest expense and an increase in loan charge-offs which spiked to ₦15.7 million in 2017 (FY 2016 ₦1.2 million). Accordingly, the Bank's net interest margin dipped to 86% from 91% in the prior year but compare favourably to selected peers Jubilee-Life 68 % and Abbey: 56%. The increase in charge-offs was largely due to the 25% growth in NPLs recorded in the review period. Loan loss expense to interest income ratio which shows the impact of loan losses on profitability increased to 2.3% from 0.2% in 2016, against Abbey's: 4.6% while Jubilee-Life recorded a write-back in 2017.

There's been a noticeable change in the Bank's earnings profile in the last three years with a shift towards interest income. During the year under review Non-interest income (fees, commissions and other ancillary income) dipped by 21% to ₦186 million leading to a slight drop in net earnings to ₦784.8 million (FY 2016: ₦804.6 million). Whilst fee income grew by over a 200% in 2017 to ₦37.5 million, other income (comprising gain on property sales and rental income) and commissions dipped by 34% and 78% respectively. The subdued macroeconomic environment adversely impacted the Bank's ability to generate rental income on leased properties and disposal of noncurrent assets at more favourable rates. This trend is likely to continue in the short term, given the still fragile macro economy and the institution by the Central Bank, of a cap on fees and commissions mortgage banks can charge their customers.

Figure 8: Breakdown of Net earnings (2015 – 2017)

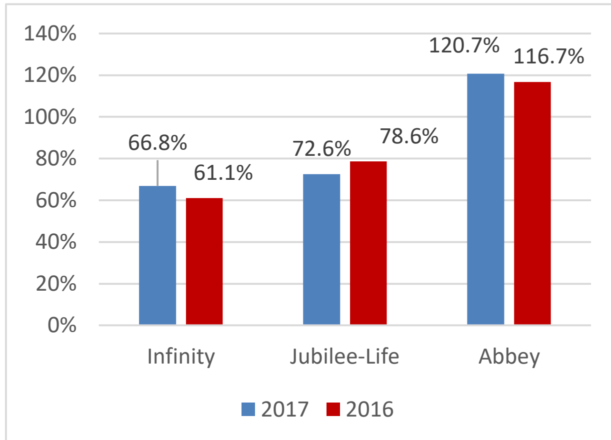
Earnings Breakdown	2017	2016	2015
Net Interest Income	76.3%	70.8%	67.8%
Fee Income	4.8%	2.0%	1.7%
Commissions	3.6%	4.4%	4.2%
Other Income	15.3%	22.7%	26.3%

Source: Infinity Trust Mortgage Bank

During the year ended 31 December 2017, Infinity Trust's operating expenses increased by 6.5% - lower than the average inflation rate of 16.3% during the period. The Bank's cost-to-income ratio measured by opex to net earnings increased to 66.8% (FY2016: 61%) – also partly due to the dip in net earnings. However the cost-to-income ratio compares favourably with selected peers, Abbey 120.7% and Jubilee-Life 72.6%.

Overall, the Bank's profitability declined, with an 8.3% dip in pre-tax profits to ₦223 million. Accordingly average pre-tax ROE declined to 4.6% (2016: 5.5%), while average pre-tax ROA dropped to 3.2% (2016: 4.0%). Infinity Trust's pre-tax ROE is better than selected peers – Abbey: -1.7% and Jubilee-Life: 2.3%, but was significantly lower than the average return on 90 day treasury bills of 14.3% for the same period. Whilst adequate by industry standards, in our opinion the Bank's profitability is weak and requires improvement.

Figure 9: Cost-to-Income Ratio



Source: 2017 Audited Financials

Figure 9: Pre-Tax ROA

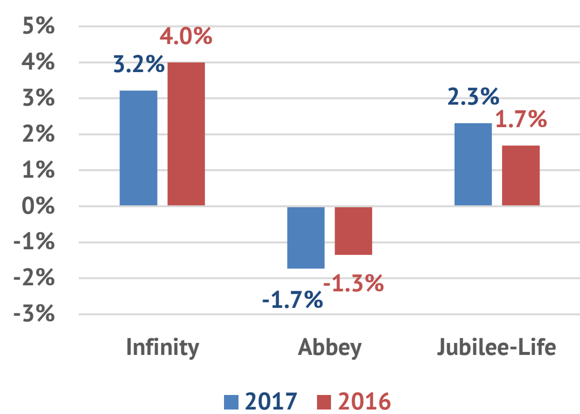
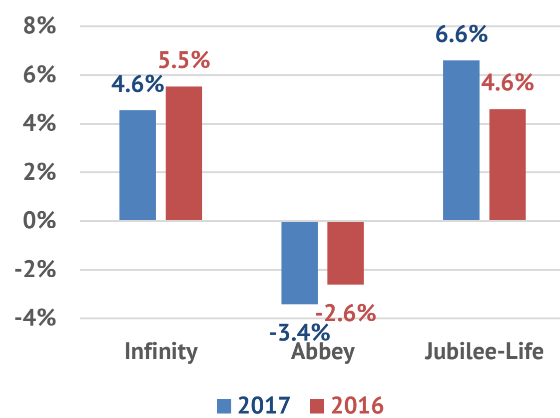


Figure 10: Pre-Tax ROE



Source: 2017 Audited Financials

Unaudited accounts for the four months ended April 2018, show subdued performance (net earnings reflects a 12% decline from the corresponding period in 2017 and annualised pre-tax ROE and pre-tax ROA dropped to 3.15% and 2.91% respectively. However, Infinity Trust's earnings are set to improve moderately – with the expected increase in business volumes in 2018 H2, as the Bank leverages funding from both the FMBN and the NMRC to grow its pool of mortgage loans.

The Bank's profitability should record improvement in the short term, but given the thinner margins expected from the increasing use of funds from the NMRC and FMBN, the magnitude of such an improvement will depend on Infinity Trust's ability to constrain costs and maintain asset quality.

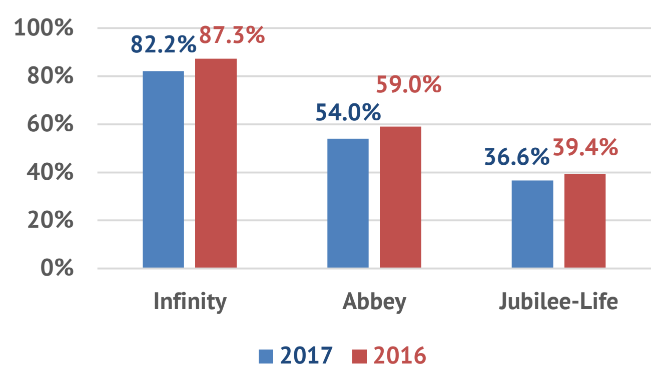
CAPITAL ADEQUACY

Infinity Trust Mortgage Bank has an authorised share capital of ₦5 billion denominated in 10 billion ordinary shares of 50 kobo each. As at 31 December 2017, 4.17 billion units of shares had been issued and fully paid, with the Bank continuing to shore-up capital by retaining about 25% of earnings annually over the past three years. As at 31 December 2017, shareholders' equity stood at ₦5.8 billion, higher than the regulatory minimum of ₦5 billion for national primary mortgage banks. The Mortgage Bank plans to raise more equity capital by issuing additional shares on the Nigerian Stock Exchange over the medium term.

Infinity Trust Mortgage Bank's capitalisation is strong in our view, with a capital adequacy ratio (CAR) of 82.2% as at 31 December 2017. The Bank's CAR is significantly higher than the regulatory minimum of 10% for mortgage banks. The Mortgage banks' CAR also compares favourably to selected peers – (Abbey: 47% and Jubilee-Life: 36.6%).

Infinity Trust Mortgage Bank's CAR is likely to moderate downwards as business volumes grow, but in our view, should remain adequate to support business risks in the near term.

Figure 11: Capital Adequacy ratio



Source: 2017 Audited Financials

LIQUIDITY & FUNDING

Infinity Trust Mortgage Bank's funding profile is supported by a mix of shareholders equity, customers' deposits and financing from the National Housing Fund. The Mortgage Bank's shareholders' equity which stood at ₦5.8

billion as at FYE 2017, funded 70.7% of total assets. ITMB's loanable funds stood at ₦2.2 billion as at 31 December 2017, largely unchanged from the prior year.

A structural change in the funding pool was evident in 2017 as the volume of demand deposits declined by 66% to ₦746.8 million, accounting for a lower 34% of loanable funds (2016: 51%). Funding from the FMBN under the NHF scheme increased by 62% to ₦937.6 million, accounting for 42% in (2016: 26%). There was also a slight dip in savings deposits, and some increase in more costly tenured funds. However, at 13.2% of loanable funds, the contribution of tenured funds to the funding pool is quite low – compared to the industry at large and to selected peers – Jubilee-Life:35.2% and Abbey: 66.8%. Infinity Trust's funding mix translated to a weighted average cost of funds (WACF) of 8.3%.

The Bank's funding profile is expected to shift even more towards NHF in the short term, with plans to access another tranche of funding from the NHF and long term borrowings from the NMRC. There are also plans to raise additional debt and equity capital over the medium term. Deposit growth is also being pursued as strategic initiative to boost liquidity position in the short term.

Figure 12: Breakdown of Loanable Funds

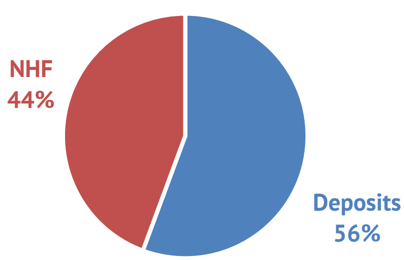
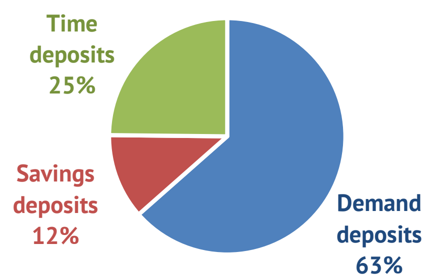


Figure 13: Breakdown of LCY Deposits



Source: Infinity Trust Mortgage Bank

Infinity Trust's liquidity ratio stood at 119% as at 31 December 2017, over five times above the regulatory benchmark of 20%. Subsequent to year-end, as at 30 April 2018, the liquidity ratio remained good at 141%. Infinity Trust's loan to loanable funds ratio (after deducting loans funded by free capital) at 23.5% is also adequate. Infinity Trust Mortgage Bank Plc met all regulatory requirements in terms of liquidity as at reporting date. In our opinion, the Bank's liquidity profile is good.

OWNERSHIP, MANAGEMENT & STAFF

Infinity Trust Mortgage Bank Plc is a publicly quoted company that was listed on the Nigerian Stock Exchange in 2013. However the Mortgage Bank's ownership is concentrated in eight shareholders (institutional and individual investors) that jointly hold 89.6% of the Mortgage Bank's equity. As at 31 December 2017, the Mortgage Bank's total shareholders' funds stood at ₦5.8 billion.

Infinity Trust is governed by an eight member Board of Directors ("the Board"), chaired by Dr Adeyinka Bibilari. The Board comprise seven Non-Executive Directors including two Independent Directors and the Managing Director. The depth of experience of the members of the Board cuts across Banking, Engineering, Real Estate Development and Legal Services. The Board has six standing committees:

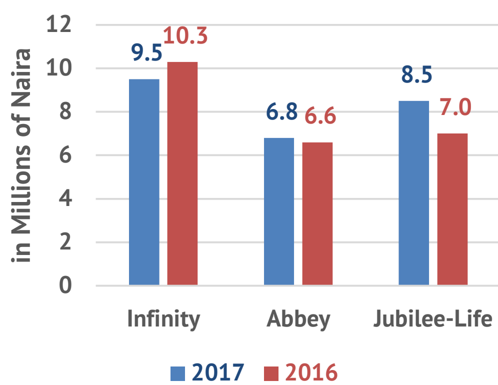
- Statutory Audit Committee
- Board Credit Committee
- Board Risk Management Committee
- Board Information Technology Steering Committee
- Board Establishment Committee
- Board Asset – Liability Committee

Mr Olabanjo Obaleye was appointed Infinity Trust Mortgage Bank's Managing Director in 2006. He is supported by a senior management team of four persons, with an average of 20 years' experience in the financial services sector. Infinity Trust Mortgage Bank had an average staff strength of 83 persons in 2017. Junior staff accounted for 44% while middle management and senior management staff accounted for 49% and 6% respectively.

As a result of the dip in net earnings and increase in the number of staff, staff productivity, measured by net earnings per staff, declined marginally to ₦9.5 million in 2017, from ₦10.3 million in 2016 – but compares favourably with industry peers; (Jubilee-Life: ₦8.5 million and Abbey: ₦6.8 million).

In our opinion, Infinity Trust's management team is experienced while staff productivity is good.

Figure 14: Staff Productivity



Source: 2017 Audited Financials

OUTLOOK

The Nigerian Mortgage Banking Industry is closely linked to developments in the macroeconomic environment. The industry is impacted by improvements in disposable income, job creation, inflation, interest rates and fiscal policies of the government on housing. The Industry is also plagued by other structural challenges including outdated foreclosure laws and the absence of a securitisation market for mortgage loans.

Nigeria's growing population is an indication of sustainable demand for housing and mortgages. However, the structural weaknesses in the mortgage and real estate markets and weak macroeconomic climate that has persisted over the past two years remains a challenge to industry growth. Infinity Trust Mortgage Bank has recorded significant growth in its loan book over the past three years despite the aforementioned industry challenges. Nigeria's economy is on the path to recovery, as evidenced by three consecutive quarters of real growth, supportive of Infinity Trust's short term goal of leveraging NHF and NMRC funding to drive growth. The Bank is headquartered in Abuja, which is one of Africa's fastest growing cities. However, we believe Infinity Trust could further benefit from leveraging its national license to explore opportunities outside Abuja to grow business volumes.

The Bank's management has demonstrated sufficient discipline to adhere to conservative business practices, as evidenced by capital and liquidity ratios significantly higher than regulatory minimums. Nevertheless, growth in business volumes has been accompanied by a rise in delinquent loans. Agusto & Co is therefore of the view that keeping impairment ratios low will be a challenge in the near to medium term.

Infinity Trust Mortgage Bank's asset quality, profitability, capitalisation and liquidity are not expected to change significantly in the short term. We hereby attach a "**stable**" outlook to the rating.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-17		31-Dec-16		31-Dec-15	
	=N='000		=N='000		=N='000	
ASSETS						
Cash & equivalents	33,597	0.4%	36,581	0.5%	49,627	0.7%
Government securities	197,679	2.4%	538,012	6.7%		
Quoted investments						
Placement with discount houses						
LIQUID ASSETS	231,276	2.8%	574,593	7.1%	49,627	0.7%
Balances with Nigerian banks	1,153,440	14.2%	1,406,787	17.4%	2,354,595	31.2%
Balances with banks outside Nigeria						
TOTAL PLACEMENTS	1,153,440	14.2%	1,406,787	17.4%	2,354,595	31.2%
Direct Mortgages	2,486,016	30.6%	2,150,276	26.6%	1,549,457	20.5%
Mortgage disbursements under National Housing Fund	686,190	8.4%	320,425.00	4.0%	172,519	2.3%
Total mortgage assets	3,172,206	39.0%	2,470,701	30.5%	1,721,975	22.8%
Direct advances	39,281	0.5%	37,719	0.5%	40,462	0.5%
Total Loans & advances (gross)	3,211,487	39.5%	2,508,419	31.0%	1,762,437	23.3%
Less: Cumulative loan loss provision	(106,661)	-1.3%	(90,910)	-1.1%	(89,678)	-1.2%
Total loans & advances - net	3,104,826	38.2%	2,417,509	29.9%	1,672,759	22.1%
Interest receivable						
Interest paid in advance						
Other prepayments	9,296	0.1%	4,590	0.1%	20,005	0.3%
Tax recoverable						
Other accounts receivable	366,680	4.5%	302,573	3.7%	29,163	0.4%
Deferred losses	68,814	0.8%	70,580	0.9%	74,113	1.0%
TOTAL OTHER ASSETS	444,790	5.5%	377,743	4.7%	123,281	1.6%
Restricted funds	32,475	0.4%	32,475	0.4%		
Unconsolidated subsidiaries & associates						
Other long-term investments	305,000	3.7%	300,000	3.7%	100,000	1.3%
TOTAL OTHER LONG-TERM ASSETS	337,475	4.1%	336,581	4.2%	100,000	1.3%
Investment Properties	68,247	0.8%	91,224	1.1%	294,840	3.9%
Property, plant & equipment - for own use	2,782,529	34.2%	2,875,700	35.6%	2,951,038	39.1%
Goodwill & other intangible assets	12,336	0.2%	8,026	0.1%	9,959	0.1%
TOTAL FIXED ASSETS & INTANGIBLES	2,863,112	35.2%	2,974,950	36.8%	3,255,837	43.1%
TOTAL ASSETS	8,134,919	100.0%	8,084,057	100.0%	7,556,099	100.0%

STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-17		31-Dec-16		31-Dec-15	
	=N='000		=N='000		=N='000	
CAPITAL & LIABILITIES						
Share capital	2,085,223	25.6%	2,085,223	25.8%	2,085,223	27.6%
Share premium	1,227,369	15.1%	1,227,369	15.2%	1,227,369	16.2%
Statutory reserve	499,026	6.1%	454,482	5.6%	405,911	5.4%
Exchange difference reserve						
Revaluation surplus	204,597	2.5%	204,597	2.5%	204,597	2.7%
Redeemable preference shares	600000.00	7.4%	600,000.00	7.4%	600000.00	7.9%
Bonus issue reserve						
Other non-distributable reserves	38,878	0.5%	83,507	1.0%	14,157	0.2%
Revenue reserve	1,098,455	13.5%	1,042,763	12.9%	1,084,939	14.4%
TOTAL SHAREHOLDERS EQUITY	5,753,548	70.7%	5,697,941	70.4%	5,622,196	74.4%
	101.0%					
Other long term Borrowings						
Demand deposits	746,768	9.2%	1,129,924	14.0%	539,017	7.1%
Savings deposits	137,208	1.7%	205,205	2.5%	811,904	10.7%
Time deposits	292,090	3.6%	203,459	2.5%	64,812	0.9%
Bank borrowings	98,647	1.2%	100,534	1.2%		
National Housing Fund	937,588	11.5%	576,181	7.1%	380,107	5.0%
TOTAL LOANABLE FUNDS	2,212,301	27.2%	2,215,303	27.4%	1,795,840	23.8%
Interest payable						
Unearned interest & discounts			13,978	0.2%		
Taxation payable - deferred						
Taxation payable - current	48,677	0.6%	46,346	0.6%	42,112	0.6%
Dividend payable						
Other accounts payable	120,394	1.5%	110,489	1.4%	95,951	1.3%
TOTAL OTHER LIABILITIES	169,071	2.1%	170,813	2.1%	138,063	1.8%
TOTAL CAPITAL & LIABILITIES	8,134,920	100.0%	8,084,057	99.9%	7,556,099	100.0%
Acceptances & direct credit substitutes						
Guarantees, bonds e.t.c.						
Short-term self-liquidating contingencies						
TOTAL CONTINGENT LIABILITIES						
TOTAL CAPITAL, LIABILITIES & CONTINGENTS	8,134,920	100.0%	8,084,057	99.9%	7,556,099	100.0%

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Dec-17		31-Dec-16		31-Dec-15	
	=N='000		=N='000		=N='000	
Interest income	697,762	79.0%	627,231	72.8%	531,492	70.3%
Interest expense	(82,937)	-9.4%	(55,981)	-6.5%	(44,443)	-5.9%
Loan loss expense	(15,750)	-1.8%	(1,232)	-0.1%	(14,606)	-1.9%
NET INTEREST INCOME	599,075	67.8%	570,018	66.1%	472,443	62.5%
FEE INCOME	37,526	4.2%	16,173	1.9%	11,850	1.6%
COMMISSIONS	28,517	3.2%	35,587	4.1%	29,436	3.9%
OTHER INCOME	119,780	13.6%	182,822	21.2%	183,148	24.2%
NON-INTEREST INCOME	185,823		234,582		224,434	
NET EARNINGS	784,898	88.8%	804,600	93.4%	696,877	92.2%
STAFF COSTS	(141,052)	-16.0%	(134,104)	-15.6%	(123,389)	-16.3%
DEPRECIATION EXPENSE	(108,147)	-12.2%	(109,972)	-12.8%	(99,428)	-13.2%
OTHER OPERATING EXPENSES	(274,776)	-31.1%	(247,817)	-28.8%	(211,629)	-28.0%
OPERATING EXPENSES	(523,975)	-59.3%	(491,893)	-57.1%	(434,446)	-57.5%
PROFIT (LOSS) BEFORE TAXATION	260,923	29.5%	312,707	36.3%	262,431	34.7%
TAX (EXPENSE) BENEFIT	(38,202)	-4.3%	(69,849)	-8.1%	(30,283)	-4.0%
PROFIT (LOSS) AFTER TAXATION	222,721	25.2%	242,858	28.2%	232,148	30.7%
NON-RECURRING INCOME (EXPENSE) - NET						
STATUTORY RESERVE	(44,544)	-5.0%	(48,571)	-5.6%	(46,429)	-6.1%
CAPITAL REDEMPTION						
PROPOSED DIVIDEND	(167,113)	-18.9%	(167,113)	-19.4%	(167,113)	-22.1%
SCRIP ISSUES						
OTHER APPROPRIATIONS	44,629	5.1%	(69,349)	-8.0%	26,840	3.6%
RETAINED PROFIT	55,693	6.3%	(42,175)	-4.9%	45,446	6.0%
RETAINED PROFIT B/FWD	1,042,765		1,084,940		1,039,494	
RETAINED PROFIT C/FWD	1,098,458		1,042,765		1,084,940	
Proof	(3)		(2)		(1)	
GROSS EARNINGS	883,585	100.0%	861,813	100.0%	755,926	100.0%

KEY RATIOS	31-Dec-17	31-Dec-16	31-Dec-15
PROFITABILITY & EARNINGS			
Net interest margin	85.9%	90.9%	88.9%
Loan loss expense/Interest income	2.3%	0.2%	2.7%
Operating expenses/Net earnings	66.8%	61.1%	62.3%
Return on average assets (pre-tax)	3.2%	4.0%	3.5%
Return on average equity (pre-tax)	4.6%	5.5%	4.7%
Earnings per share of N 1.00	0.05	0.06	0.06
Dividend per share of N 1.00	0.04	0.04	0.04
LIQUIDITY & FUNDING			
Total loans - net/Loanable funds	23.5%	-0.2%	-33.1%
Mortgage assets/Total Assets	39.0%	30.5%	22.8%
Mortgage assets/Loanable funds	143.4%	111.5%	95.9%
Bank borrowings/Total loans - net	3.2%	4.2%	
Liquid assets/Bank borrowings (times)	2.3	5.7	
Liquid assets/Loanable funds	60.8%	88.9%	133.9%
Weighted Average Cost of Funds (WACF)	3.7%	3%	2%
NON-PERFORMING ADVANCES/ TOTAL ADVANCES			
ASSET QUALITY RATIOS			
Non-performing loans & mortgages/Total loans & mortgages- Gross	6.3%	5.5%	9.3%
Loan loss provision/Total loans - Gross	3.3%	3.6%	5.1%
Loan loss provision/Non-performing loans & mortgages	52.7%	65.3%	54.9%
Deterioration ratio	**9.0%**	**-3.2%**	
CAPITAL ADEQUACY & LEVERAGE RATIOS			
Total shareholders' funds	5,672,398	5,619,335	5,538,124
Adjusted capital	5,672,398	5,619,335	5,538,124
Risk-weighted assets	7,896,679	7,489,294	7,512,078
Risk-weighted assets/Total assets & contingents	97.1%	92.6%	99.4%
Adjusted capital/risk weighted assets	71.8%	75.0%	73.7%
Capital funds/Net credit (Adjusted capital/Total loans - net)	182.7%	232.4%	331.1%
Interest Cover	4.1	6.6	6.9
STAFF INFORMATION			
Average number of employees	83	78	79
Staff cost per employee (N'000)	1,133	1,146	1,041
Net earnings per staff (N'000)	9,457	10,315	8,821
Staff cost/Net earnings	18.0%	16.7%	17.7%
Staff costs/Operating expenses	26.9%	27.3%	28.4%

RATING DEFINITIONS

Aaa	A primary mortgage bank of impeccable financial condition and overwhelming capacity to meet obligations as and when they fall due. Adverse changes in the environment (macro-economic, political, and regulatory) are unlikely to lead to deterioration in financial condition or an impairment of the ability to meet its obligations as and when they fall due. In our opinion, regulatory and/or shareholder support will be obtained, if required.
Aa	A primary mortgage bank of very good financial condition and strong capacity to meet its obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a slight increase in the risk attributable to an exposure to this bank. However, financial condition and ability to meet obligations as and when they fall due should remain strong.
A	A primary mortgage bank of good financial condition and strong capacity to meet its obligations. Adverse changes in the environment (macro-economic, political, and regulatory) will result in a medium increase in the risk attributable to an exposure to this bank. However, financial condition and ability to meet obligations as and when they fall due should remain largely unchanged.
Bbb	A primary mortgage bank of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due. It may have one major weakness which, if addressed, should not impair its ability to meet obligations as and when due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this mortgage bank.
Bb	Financial condition is satisfactory and ability to meet obligations as and when they fall due exists. The mortgage bank may have one or more major weaknesses. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly.
B	Financial condition is weak but obligations are still being met as and when they fall due. Has more than one major weakness and may require external support, which, in our opinion, is not assured. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly.
C	Financial condition is very weak. Net worth is likely to be negative and obligations may already be in default.
D	In default.

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