

RATINGS RELEASE

AGUSTO & CO. assigns a rating of “B” to DEAP CAPITAL MANAGEMENT & TRUST PLC

The rating reflects the Company's weak capitalization, weak risk management practice and declining profitability. The rating also reflects the continuing turmoil across the Nigerian financial services sector, including the significant decline in capital market activities, protracted credit market illiquidity and loss of investor confidence. These have put pressure on Deap's earnings and profits through weakening business activity and depreciation of asset values.

With total assets of ₦5.3 billion and client assets under management of ₦774 million as at 30 September 2008, Deap Capital Management & Trust Plc is the only publicly listed securities firm in Nigeria. Like other capital market operators, Deap faces considerable market risk, which was heightened in 2008 from the rapid growth in proprietary trading positions and a concentration of assets under management in quoted equities. Equity prices have since plummeted leading to write-downs and losses. In our opinion, Deap lacks the risk management capacity appropriate for its size and business. Losses have been exacerbated by lapses in the Company's risk management practice.

As is characteristic of most Nigerian securities firms, Deap's funding consists largely of short term borrowings from banks and the liquidity squeeze currently prevailing in the banking sector makes it unlikely that bank borrowing will be readily available in significant amounts in the short term. In addition, Deap's mortgage banking subsidiary may be constrained by regulatory requirements in its ability to support the parent company. Deap has responded to these market developments by initiating an aggressive marketing drive to mobilise customer deposits, which has led to significant increase in client assets under management.

Deap's profitability in 2009 has been adversely impacted by losses from asset write-downs and lower business volumes. High revenues and profit levels in 2008 were largely generated from securities trading, which are volatile and have declined dramatically. Deap has initiated a number of cost reducing measures, but we believe that losses are likely to prevail in the short term. Deap's significant investments in its subsidiaries in the year under review have left the Company in a weak position to withstand shocks from its proprietary trading position and principal risk taking on a standalone basis. Equity after adjustments for intangible items and investment in subsidiaries was negative as at 30 September 2008. We consider this a key rating concern and welcome managements' initiatives to raise medium term funding.

NOTE

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