

## **Agusto & Co. Assigns “Bb” Rating to Nigerian Banking Industry**

Agusto & Co, Nigeria’s foremost credit rating and research agency, has assigned a “Bb” rating to the banking sector. This latest rating posits that the banking industry is operating in a moderate to high risk environment. It also reflects that adverse changes in economic conditions will increase the industry’s risk severely.

“The rating assigned to the Nigerian banking industry depicts its weak capitalization and weak asset quality,” Mrs. Yinka Adelekan, Agusto’s Head of Financial Institutions Ratings said at the unveiling of the 2010 Banking Industry Report released in Lagos last week. She noted that the rating takes into cognizance regulatory support and the significant reduction in funding costs in 2010.

The rating “was due to the financial condition of the (banking) industry, which deteriorated drastically due to asset quality issues.” She pointed out that given the impact of credit costs, the industry’s capitalization and earnings have deteriorated considerably. She said: “The profitability of the industry has been weakened by credit costs, though we expect this to reverse in the short term. Basle ratio, which reveals the ability of the industry’s capital to support business risk, is at its lowest level of 6 percent in 20 years. This is lower than the regulatory minimum and international standards.”

Despite the grim state of the banking sector, the rating agency insists that the outlook for the industry is positive. “The positive outlook reflects Agusto & Co’s expectation that profitability will improve, while asset quality should improve on account of cautious approach to loan creation by most industry participants,” Adelekan explained.

Agusto & Co. has assigned ratings to over 12 industries in the Nigerian economy including power generation, oil & gas upstream and downstream, insurance, food & beverages, telecoms, breweries, pharmaceuticals, and so on. These industry ratings reveal the impact of the macroeconomic and political environment in each of these sectors.

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