

MEDIA RELEASE

October xx, 2023

**CariCRIS assigns Corporate Credit ratings to
Cornerstone Financial Holdings Limited (CFHL)**

<i>CariBBB+</i>	(Regional Scale Local Currency)
<i>CariBBB</i>	(Regional Scale Foreign Currency)
<i>jmA</i>	(National Scale Local Currency)
<i>jmA-</i>	(National Scale Foreign Currency)

Caribbean Information and Credit Rating Services Limited (CariCRIS) has assigned initial issuer/corporate credit ratings of *CariBBB* (Foreign Currency Rating) and *CariBBB+* (Local Currency Rating) on the regional rating scale and *jmA-* (Foreign Currency Rating) and *jmA* (Local Currency Rating) on the Jamaica national rating scale to Cornerstone Financial Holdings Limited (CFHL or the Company). The regional scale ratings indicate that the level of creditworthiness of this obligor, adjudged in relation to other obligors in the Caribbean is **adequate**. The national scale ratings indicate that the level of creditworthiness of this obligor, adjudged in relation to other obligors in Jamaica is **good**.

CariCRIS has also assigned a **stable** outlook on the ratings. The stable outlook is based on our expectation that over the next 12 to 15 months, CFHL will continue to record profitable operations driven by income from its subsidiaries, though at a lower level, underpinned by the performance of its main performing subsidiary, Barita Investments Limited (BIL). CariCRIS also expects CFHL to comfortably meet its debt service obligations over this period and maintain good capitalisation and liquidity metrics.

The ratings are supported by CFHL being a relatively new but emerging investment holding company of one of Jamaica's well-known stockbrokers, with adequate governance structure and risk management practices. The ratings are also driven by good profitability, underpinned by BIL's operations, consistent asset growth, despite little diversity in the investment portfolio, as well as generally good capitalisation and liquidity levels. The ratings are tempered by the high dependence on BIL and the concentrated sovereign risk exposure which can present downside risks to CFHL's earnings.

Rating Sensitivity Factors:

Factors that could, individually or collectively, lead to an improvement in the ratings and/ or Outlook include:

- An improvement in the credit risk profile of the Government of Jamaica over the next 12-15 months.
- An improvement in the credit risk profile of BIL over the next 12-15 months.
- Further diversity in revenue streams and asset class through the completion of its restructuring exercise and/or addition of investment grade and above assets sustained over the next 2 years.
- Successful acquisitions over the next 12 to 15 months with a concomitant material improvement in the respective segment's market share.
- Further enhancements to its overall corporate governance structure inclusive of independent directors on the Board.

Factors that could, individually or collectively, lead to a lowering of the ratings and/ or Outlook include:

- A deterioration in the credit risk profile of the Government of Jamaica.
- A deterioration in the credit risk profile of BIL over the next 12-15 months.
- A significant decline in the performance of BIL resulting in a material and sustained fall in CFHL's income that adversely impacts its risk absorbing capacity.
- Increase in the debt/TNW and total debt to total assets ratios over the internal limits of 2 times and 75% respectively.
- Inability of CFHL's portfolio companies to meet capital adequacy regulatory requirements in the Jamaica financial services industry following its re-organization exercise.

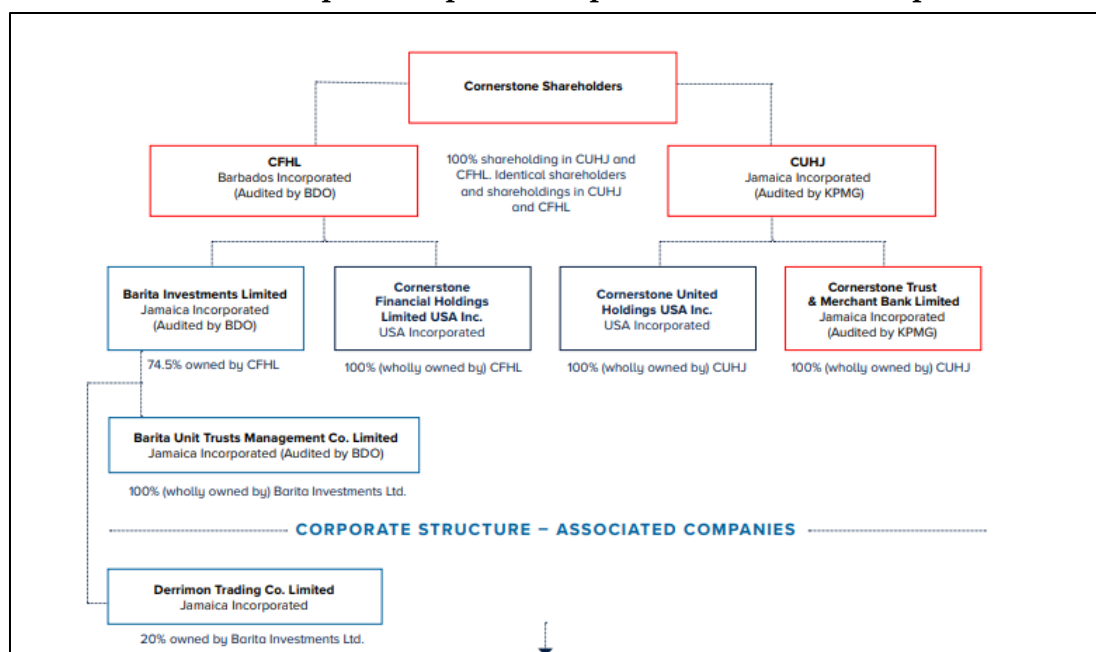
About the company:

Cornerstone Investments Holdings Limited (CIHL) was incorporated in Saint Lucia in November 2017 under the International Business Companies Act 1999. In February 2020, CIHL's registered office was moved to Barbados through a Certificate of Continuance under the Companies Act of Barbados. Subsequently, CIHL was renamed to Cornerstone Financial Holdings Limited (CFHL or the Company). CFHL and its sister company,

Cornerstone United Holdings Jamaica Limited (CUHJ)¹, are directly owned by a combination of individual and corporate shareholders. As at September 2022², the 2 largest shareholders of CFHL were Productive Active Solutions Limited³ (42.2%) and Arnold Aiken (8.9%).

CFHL and CUHJ, alongside its subsidiaries, are collectively referred to as the Cornerstone Group of Companies (the Group). The principal activity of CFHL involves the holding and trading of equity securities derived from its 2 subsidiaries, namely, Barita Investments Limited (BIL) and Cornerstone Financial Holdings Limited USA Incorporated (CFHL USA) (Chart A). In August 2018, the Company became the majority shareholder of BIL, owning 74.5% of its total shareholdings, and is the sole shareholder of CFHL USA as at September 2022.

Chart A
The Cornerstone Group of Companies Corporate Structure as at September 2022.



Source: BIL Annual Report 2022

¹ Cornerstone United Holdings Jamaica Limited (CUHJ) is a privately held investment holding company with a principal focus on creating shareholder value through investing in high growth and undervalued companies, mergers and acquisitions.

² CFHL's Financial Year runs from October 1 to September 30.

³ Productive Active Solutions was incorporated in Saint Lucia as an offshore company on April 25, 2018.

BIL, the parent company of Barita Unit Trusts Management Company Limited (BUTM), was founded in 1977 and currently offers a suite of unit trust services within the fixed income, equities and real estate retail market. CFHL USA, incorporated in April 2021, was primarily established for the holding and trading of proprietary investments within the Caribbean and Latin American region. Though the Group's focus on its real estate activities was to acquire real estate assets at that time, considering the lead time from planning to execution of these assets, CFHL USA's assets solely consisted of cash as at September 2022. Therefore, the majority of CFHL's total assets and revenue are currently derived from BIL, with the strategic intent to diversify revenue streams notably over the coming years. As at September 2022, CFHL reported total assets of US \$778.7 million and income of US \$41.3 million, of which approximately 89% of total assets and 89.8% of income respectively were derived from its equity investment in BIL.

Notably, CFHL meets the criteria of an investment entity and has applied the appropriate International Financial Reporting Standards (IFRS) not to consolidate both subsidiaries into CFHL. Hence, as an investment entity, CFHL's investments in a subsidiary is measured at fair value (FV) through profit or loss. While CFHL has no direct employees, oversight and governance are provided by the Group's executives. Investment activities are primarily the responsibility of the Group's Chief Investment Officer (CIO) who leads and supports the relevant management committees.

CFHL is currently **not a regulated** entity in Barbados⁴. However, the Group is undergoing a re-organization exercise⁵ in line with the requirements of the Banking Services Act 2014⁶ of Jamaica. The aim of this exercise is to meet requirements under the recently implemented financial holding company (FHC) regulatory framework, linked to the parallel ownership of Cornerstone Trust & Merchant Bank Limited (CTMB) and BIL by the Group's shareholders. In March 2023, BIL announced the intention for the FHC to be listed, with BIL to be delisted from the Jamaica Stock Exchange (JSE) and become a wholly owned subsidiary of the FHC. CFHL is expected to then become the ultimate holding

⁴ The Financial Services Commission (FSC) of Barbados is responsible for supervising and regulating non-bank financial institutions of Barbados, particularly those entities licensed or registered under the following Acts of Parliament: (i) Insurance Act, Cap. 310, (ii) Occupational Pension Benefits Act, Cap 350B, (iii) Securities Act, Cap. 318A, (iv) Mutual Funds Act, Cap. 320B, and (v) Co-operatives Societies Act, Cap. 378A (as it relates to the services provided by a credit union).

⁵ The process was initiated in March 2022 and approved in March 2023 by the Bank of Jamaica (BOJ).

⁶ The Banking Services Act 2014 requires the consolidation of all regulated entities of the Group under one financial holding company.



company and majority owner of the FHC under the proposed plan. Over the next 3 years, CFHL intends to continue to further grow and diversify its operations.

For more information on CFHL's ratings, please visit www.caricris.com or contact:

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