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First City Monument Bank Limited

Nigeria Bank Analysis **August 2020**

Rating class	Rating scale	Rating	Outlook	Expiry date
Long-term	National	BBB+(NG)	Negative	August 2021
Short-term	National	A2(NG)		

Financial data:

(USDm comparative)ǂ

	31/12/18	31/12/19
NGN/USD (avg.)	305.6	306.4
NGN/USD (close)	306.5	306.5
Total assets	4,405.9	5,198.8
Primary capital	517.8	571.2
Secondary capital	187.7	244.0
Net advances	2,009.8	2,260.9
Liquid assets	1,109.6	1,483.2
Operating income	331.8	309.8
Net profit after tax	40.4	44.5
Market cap*	n.a	
Market share**	3.8%	

ǂCentral Bank of Nigeria's ("CBN") exchange rate

** Based on industry assets at 31 December 2019.

Rating history:

Initial rating (February 2000)
Long-term rating: A+(NG)
Short-term rating: A1(NG)
Rating outlook: Stable

Last rating (September 2019)
Long-term rating: BBB+(NG)
Short-term rating: A2(NG)
Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017

FCMB rating reports (2000-19)

Glossary of Terms/Ratios, February 2016

GCR contacts:

Primary Analyst

Adeyinka Olowofela
Senior Credit Analyst
yinka@gcrratings.com

Committee Chairperson

Dave King
King@globalratings.net

Analyst location: Lagos, Nigeria
Tel: +234 1 904-9462
Website: http://globalratings.com.ng

Summary rating rationale

- First City Monument Bank Limited ("FCMB" or "the bank") ranks among the mid-sized commercial banks in Nigeria, in terms of balance sheet size, accounting for 3.8% of the industry's total assets at FY19. The ratings took cognisance of the pressure on profitability metrics in FY19, further constrained by elevated risk in the operating environment, exacerbated by the uncertainties arising from COVID-19 pandemic.
- FCMB's Shareholders' funds grew 10.3% to N175.1bn at FY19, and ended 1H FY20 at N189.4bn, supported by strong internal capital generation. This translated to an improved risk weighted capital adequacy ratio ("CAR") of 15.1% at FY19 (FY18: 14%), albeit with a thin buffer above the regulatory minimum requirement. Thus, the bank's plan to raise additional debt capital before the current year-end is considered a step in the right direction.
- On the back of a loan book clean-up exercise undertaken in FY19 (write-off and restructuring), FCMB's gross impaired loans declined to N26.2bn, translating to a moderated gross non-performing loan ("NPL") ratio of 3.6% (FY18: 5.9%). Positively, the ratio was sustained at this satisfactory level at end-June 2020. Provisioning level is satisfactory, with total provisions covering impaired loans 1.4x at FY19.
- Liquidity risk appears to be well managed by the bank; the statutory liquidity ratio ranged between 32.7% and 47.6% throughout 2019, and closed at 32.7%. Nonetheless, of concern is the relatively low GCR calculated liquid assets to short-term funding ratio, which weakened to 16.1% at 1H FY20 (FY19: 20.3%, FY18: 19.2%).
- Improvement in profitability metrics in FY19 was mainly supported by decline in operating expenses, a fallout from the write-back of N6.2bn provision made for litigation in previous years. Notwithstanding the increase in business volumes during the year, net interest income declined by 4.4% to N65.4bn and resulted in net interest margin shrinkage to 7.6% (FY18:8.7%). Also, a decline in FX gains during the year impacted non-interest income. Accordingly, total operating income ("TOI") registered a 6.4% decline to N94.9bn during the year. That said, pre-tax profit of N14.8bn was recorded for FY19, representing a 4% increase from the previous year. Consequently, return on average equity ("ROaE") improved to 9.8% (FY18: 8.7%), while return on average asset ("ROaA") ended flat at 1.1%. Unaudited results as at 30 June 2020 reflects a pre-tax profit of N7.9bn, which outperforms budget on an annualised basis.

Factors that could trigger a rating action may include

Positive change: An upgrade of the rating could emanate from a satisfactory improvement in the bank's profitability, asset quality, capital and liquidity metrics, as well as an enhanced competitive position.

Negative change: The rating may be sensitive to further pressure on asset quality, profitability and capitalisation metrics.

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Corporate profile

Corporate summary[1]

FCMB became a fully-fledged commercial bank in 2001 and was listed on The Nigerian Stock Exchange ("NSE") in 2004. In 2012, the bank acquired FinBank to further strengthen its competitive position and expand its geographical footprint in the Nigerian banking space. Following the adoption of holding company structure, the bank was delisted from The NSE in June 2013, and re-registered as a limited liability company. Consequently, the bank now operates as a wholly owned subsidiary of FCMB Group Plc ("FCMB Group" or "the Holdco").

Group ownership structure

FCMB Group shareholding structure remained unchanged at FY19, constituting both individual and institutional investors. Table 1 outlines the ownership structure as at 31 December, 2019.

Table 1: Shareholding structure	% holding FY19
Stanbic Nominees Nigeria Limited	12.6
Capital IRG Trustees Limited	8.5
Asset Management Corporation of Nigeria ("AMCON")	5.6
Others (less than 5%)	73.3
Total	**100.0**

Source: FCMB Group AFS

Strategy and operations

FCMB's strategy remained largely stable and geared towards sustaining a profitable growth, particularly with respect to the retail banking segment. To this end, the bank has continued to improve service delivery through better use of technology and has added more features to its digital platforms to ensure process improvement and optimisation of the platforms (mobile applications, USSD, internet banking etc.). Management confirmed that there has been a notable increase in transaction volume conducted by customers via these platforms.

The bank's operations are structured along five strategic divisions, namely Corporate, Commercial, SME, Personal and Treasury. Attesting to the bank's retail focus strategy was the reliance of overall performance on personal banking, which contributed 37% (FY18: 38.8%) to total revenue, followed by SME banking with 28.3% (FY18: 29.1%) contribution in FY19.

Governance structure

The composition of the bank's Board of Directors ("board") is in line with the provisions of CBN's Code of Corporate Governance for Banks in Nigeria. The bank's board composition and adherence to selected aspects of appropriate corporate governance are as highlighted in Table 2.

Table 2: Governance Description	Findings
Board size	10 members
Number of executive directors	4 (Including Managing Director)
Number of non-executive directors	6 (Including Chairman)
Independent directors	Yes, 1
Tenure of non-executive directors	4 years each/max. 2 cycles
Number of board committees	5-(Credit, Finance and general purpose, Human capital and Remuneration, Audit and Risk Management, Innovation and Strategy Implementation)
Internal audit and compliance	Yes, independent unit
External auditors and rotation policy	KPMG Professional Services/10-year tenure (renewable annually)

Source: FCMB AFS

The change to the board's composition include retirement of a non-executive director, who moved from the bank to the Group level. He has subsequently been replaced with another director who was appointed during the year. Management has also informed GCR that the bank has received necessary approval for two additional directors who are expected to join the board during 2020.

Financial reporting

FCMB's financial statements were prepared in accordance with IFRS, the Companies and Allied Matters Act, Financial Reporting Council of Nigeria requirements and the Banks and Other Financial Institutions Act. The bank's external auditor, KPMG Professional Services, issued an unqualified opinion on the FY19 financial statements.

Operating environment[2]

Economic overview

The Nigerian economy sustained growth momentum in 2019, with the gross domestic product ("GDP") expanding by 2.27% y/y, up from 1.91% registered in 2018. The recorded growth was largely underpinned by the curtailed pipeline vandalism, calmness in the oil-producing regions, and the relative stability in global crude oil prices and foreign exchange ("FX") market. While the oil sector registered a robust growth of 4.59% (2018: 0.97%), the non-oil sector improved slightly by 2.06% in 2019 relative to 2% recorded in 2018. However, the Nigerian economy is currently witnessing a sharp slowdown due to the coronavirus disease ("COVID-19"), which is being compounded by the contraction in crude oil demands and dwindling prices at the international market. In a bid to stimulate prices, the Organisation of Petroleum Exporting Countries (OPEC) and its allies in mid-April 2020 agreed to a global production cut of about 10 million barrels per day. This production cut, coupled with the gradual easing of lockdown across most countries resulted in an uptick in global crude oil prices, which hovers between USD30/barrel and USD40/barrel in June 2020.

[1] Refer to previous FCMB reports for a detailed background.

[2] Refer to GCR's 2017 Nigerian Financial Institutions Overview for an overview of selected economic and industry developments.

The headline inflation rate increased to 12.8% in July 2020, for the eleventh consecutive months owing to supply constraints, higher input costs and increased system liquidity. To curtail inflationary pressures, CBN increased the cash reserve requirement ("CRR") by 500 basis points to 27.5% in January 2020, and has also recently released some policies to cushion the adverse impact of the COVID-19 pandemic on the economy. These measures include, among others, a reduction in interest rates on all CBN intervention facilities to 5% from 9% (for one year with effect from 01 March 2020), and the creation of N50bn targeted credit facility to households and SMEs negatively affected by the pandemic. However, the pressures of the current macroeconomic challenges have resulted in the depreciation of FX rate to N360/USD and N380/USD from N306.5/USD and N360/USD at the official window and Investors' & Exporters' window, respectively. Similarly, the external reserves declined to USD36.6bn at end-May 2020 from USD38.6bn as at 31 December 2019, with further contractions expected over the short term on account of the relatively low FX earnings. Given that the Nigerian economy is heavily dependent on the oil sector, which has overtime accounted for over 90% of foreign exchange earnings and over 60% of government budgetary revenues, the current dwindling global crude oil price remains a major concern.

In a bid to consolidate growth over the medium term, the Federal Government of Nigeria ("FGN") had maintained an expansionary policy, with a budget of N10.59tn for 2020 fiscal year (2019: N8.92tn). The estimate was based on an oil benchmark of USD57/barrel, a daily production output of 2.18mbpd, new value added tax rate of 7.5% (from 5% previously), inter alia. In light of the current macroeconomic challenges, the FGN reviewed the oil benchmark downwards to USD28/barrel, daily production output to 1.8mbpd, while also indicating external borrowing plans to cushion the economic impact of the pandemic. GCR however, expects the continuing slowdown in economic activities to have significant implications for budget implementation and its already elevated credit risk profile.

The Nigerian Stock Exchange ("NSE") All-Share Index ("ASI") sustained a negative trend in 2020, contracting by 5.9% as at end-May 2020. The bearish stock market performance was largely driven by the challenges in the macroeconomic landscape, underwhelming trends in foreign portfolio investments as well as profit takings.

Industry overview

As part of measures to boost credit extension and stimulate lending to the real sector of the economy, CBN in July 2019 issued a circular mandating Deposits Money Banks ("DMBs") to maintain an initial minimum loan to deposits ratio ("LDR") of 60% by 30 September 2019 and subsequently reviewed to 65% with effect from 31 December 2019. According to CBN, failure to comply with this specification would attract an additional CRR of 50% to the lending shortfall of the target LDR. To allay concerns of a possible spike in the industry's NPLs, CBN in October 2019 granted DMBs' approval to directly debit bank accounts belonging to loan defaulters across all banks in the country, through bank verification number and in collaboration with the Nigeria Inter-Bank Settlement System Plc. While cognizance is taken of the positive economy impact of the minimum LDR, the increment of CRR to 27.5% (from 22.5%) could exert liquidity pressures on most banks within the short term, as well as constrain their earnings capacity. Furthermore, CBN during 2019 restricted domestic investors and non-bank corporates from participating in the Open Market Operation ("OMO") instruments. This restriction has consequently led to a significant decline in yields on fixed-income securities, which currently trend below the average inflation rate.

Banking sector recorded improvement in profitability in 2019, underpinned by growth in interest income on account of expansion in loan book as well as fee and commission income as transactions volume on digital platforms increased. Per CBN statistics, total banking sector assets stood firmer at N41.9tn at end-December 2019 (December 2018: N37.2tn), while credit exposures increased by 12.6% to N22.3tn, as most banks sustained efforts to comply with the stipulated minimum LDR. The recorded expansion in loan portfolio coupled with the sustained resilience of the banking system saw the industry's average NPL ratio moderated to 6.1% at end-December 2019 (December 2018: 11.6%), while CAR declined by 80 basis points year-on-year to 14.5%. The oil and gas remained the dominant sector, accounting for over 30% of the Nigerian banking sector's credit portfolio at end-December 2019. However, the slowdown in economic activities and the current challenges in the oil and gas sector (exacerbated by dwindling global crude oil prices) pose a significant credit risk to the banking sector and could impact NPLs and profitability alike over the short term. To cushion this effect, CBN in March 2020, introduced a number of monetary policies, inter alia, include; extension of moratorium on all regulatory intervention facilities; granting of regulatory forbearance on loans to businesses and households which are highly vulnerable to COVID-19 pandemic.

Statistics as at 31 December 2019 reveals that Nigeria's financial sector comprised twenty-two commercial banks, four financial holding companies, five merchant banks, two non-interest banks, and over 4,000 other financial institutions. The commercial banks include eight international banks, eleven national banks, and three regional banks. Nigeria's five largest commercial banks accounted for over 70%

of total industry's assets at 31 December 2019. The competitive landscape of the Nigeria financial system remains stiff. This is further intensified by the issuance of operational licence to payment service banks (PSBs), financial technology companies (Fintechs), and super agents to deepen financial inclusion through the provision of diversified financial services.

Competitive position

Table 4 compares FCMB's key performance metrics against selected peers as at 31 December 2019. The bank is a Tier 2 bank, with a market share of 3.8% based on industry's total assets as at FY19. FCMB's balance sheet size and operational coverage compares favourably with other Tier 2 banks.

Financial profile

Likelihood of support

Considering the relative moderate size of the bank, available support is currently limited to the Holdco and its widely diversified shareholders base.

Funding composition

FCMB's major funding source remained customer deposits at FY19, which constituted 64.3% of total funding at the balance sheet date. Other funding sources include equity (11.9%), debt securities (5.1%), other borrowings (12.6%) and interbank borrowings (6.1%). Details of each source of funding are discussed below.

Customer deposits and interbank funding

The bank's deposit book expanded by 14.6% to N946.3bn at FY19, and grew further to N1.1tn at 1H FY20. Growth was largely supported by various innovations put in place by the bank, particularly within the digital space. Dominating the deposit mix at FY19, with about 69.9% are low cost deposits; current and savings deposits, combination of which grew by 14.2%. Furthermore, despite a reduction in fixed deposits rate during the year, a 15.3% growth was recorded for term deposits at the balance sheet date. Further supporting FCMB's liquidity is credit lines obtained from other banks which grew 2.3x to N90.1bn at FY19.

Table 3: Deposit Book Characteristics at FY19 (%)			
By type:		**Maturity:**	
Demand	44.1	<1 month	79.9
Savings	25.8	1-3months	6.8
Term	30.1	3-12 months	11.8
		>1 year	1.5
Concentration:			
Single largest	4.2	Ten largest	14.4
Five largest	10.6	Twenty largest	29.3

Source: FCMB

The maturity profile of deposits is largely short, with a notable 79.9% of the liability pool maturing within one month, albeit in most cases, these are rolled over at maturity. Concentration risk appears moderate, with the single and twenty largest depositors accounting for 4.2% and 29.3% of the book at the balance sheet date.

The bank is targeting a less than 1% growth in deposits in FY20, given the current though operating environment.

Capital structure

FCMB's Shareholders' funds grew 10.3% to N175.1bn at FY19, and ended 1H FY20 at N189.4bn, supported by strong internal capital generation. This translated to an improved risk weighted CAR of 15.1% at FY19 (FY18: 14%), albeit with a thin buffer above the regulatory minimum requirement for the bank's licence category. To shore up capital base and strengthen its balance sheet size, the bank is in the process of raising additional debt capital before the end of 2020.

Table 5: Capitalisation	FY18 N'bn	FY19 N'bn
Total qualifying Tier 1	110.2	119.5
Total qualifying Tier 2	33.2	39.8
Total regulatory capital	**143.5**	**159.3**
Total risk weighted assets	**1,024.6**	**1,057.9**
CAR (%)	**14.0**	**15.1**

Source: FCMB AFS

Borrowings

Total borrowings increased by 22.2% to N260bn at FY19, and have been broadly categorised into three; (i) debt securities, (ii) on-lending facilities and (iii) other borrowings. Each of these are discussed briefly

Table 4: Competitive position* FCMB vs. selected banks	Fidelity	Ecobank	UBN	FCMB	Sterling
Year end 31 December 2019					
Shareholders' funds (N'bn)	234.0	264.3	245.8	175.1	119.6
Total assets (N'bn)†	2,063.1	1,980.9	1,836.6	1,593.4	1,167.9
Net loans (N'bn)	1,127.0	811.6	550.6	693.0	618.7
Profit after tax (N'bn)	28.4	1.3	24.4	13.6	10.6
Capital/assets (%)	12.8	12.8	15.3	15.3	13.9
Liquid & trading assets/total short-term funding (%)	31.8	31.8	50.3	20.3	45.3
Gross NPL ratio (%)	3.3	3.3	5.8	3.6	2.2
Net interest margin (%)	7.5	5.7	5.7	7.6	7.9
Cost ratio (%)	76.6	76.6	74.5	70.3	81.2
ROaE (%)	17.7	13.3	10.5	9.8	9.8
ROaA (%)	2.0	1.5	1.5	1.1	0.9

*Ranked by total assets. †Excludes balances held in respect of letters of credit

Source: Audited Financial Statements.

below, with Table 6 reflecting the breakdown at the balance sheet date.

Debt Securities: These comprise USD denominated unsecured notes and Naira denominated unsecured bonds issued in three tranches, with tenor ranging between five and seven years. An additional USD46.6m was secured at FY19 with a fixed rate of 9.5% payable semi-annually and tenor of five years and six months.

On-lending facilities: These include intervention funds granted by Nigerian government-owned financial institutions (Bank of Industry and CBN) under its agriculture, power, aviation, micro, small and medium enterprise and manufacturing sectors credit schemes, for on-lending to qualified customers.

Table 6: Borrowings breakdown	FY18 N'bn	FY19 N'bn
Debt Securities*	57.5	74.8
On-lending facilities	57.9	70.9
Other borrowings	97.4	114.3
Total	**212.8**	**260.0**

*Qualifying Tier 2 Capital Source: FCMB AFS

Other borrowings: These comprise various credit facilities secured from both foreign and local institutions, having about 72% of it mature in more than one year.

Liquidity position

Liquidity risk appears to be well managed by the bank; with the statutory liquidity ratio ranging between 32.7% and 47.6% throughout 2019, and closed at 32.7%. Nonetheless, of concern is the relatively low GCR calculated liquid assets to short-term funding ratio which ended down at 16.1% at 1H FY20 (FY19: 20.3%, FY18: 19.2). Also, matching of assets/liabilities maturities at FY19 reflects a cumulative liquidity gap was recorded across the 'less than 12 months' maturity buckets. The liquidity gap stood at N346.5bn in the 'less than 30 days' maturity bucket and equated to 1.4x of capital at FY19. However, the behavioral pattern within the Nigerian banking system, sees a significant portion of deposits rolled over at maturity.

Table 7: Liquidity gap profile at FY19 (N'bn)	<1 month	1-3 months	3-12 months	>1 year
Assets	552.8	120.8	308.9	509.1
Liabilities	(899.4)	(105.6)	(221.3)	(209.2)
Net liquidity gap	(346.6)	15.2	87.6	299.9
Cumulative liquidity gap	**(346.6)**	**(331.4)**	**(234.8)**	**56.1**

Source: FCMB AFS

Operational profile

Risk management

Though FCMB's risk management structure remained largely unchanged in FY19, the bank continues to update its enterprise risk management framework in line with the economic and industry conditions. As such, with the current COVID-19 pandemic, the bank undertook a preliminary assessment on key risk areas (particularly, liquidity and credit risk) with mitigating actions being embarked upon.

Asset composition

Total assets grew 18% to N1.6tn at FY19, with a further 18.7% growth achieved at 1H FY20, fuelled by increased funding. Cash and other liquid assets rose by 33.7% at FY19 and constituted a higher 28.5% of the asset base. While loans to customers grew by 12.5%, it constituted a lower 43.5% of total assets at FY19, given the quantum of increase in other components of the balance sheet.

Table 8: Asset mix	FY18 N'bn	FY18 %	FY19 N'bn	FY19 %
Cash and liquid assets	340.1	25.2	454.6	28.5
Cash	*42.5*	*3.2*	*57.5*	*3.6*
Liquidity reserve deposits	*146.5*	*10.8*	*208.9*	*13.1*
Trading portfolio	*47.4*	*3.5*	*50.9*	*3.2*
Balances with other banks	*103.7*	*7.7*	*137.3*	*8.6*
Net loans and advances	616.0	45.6	693.0	43.5
Investment securities	229.6	17.0	234.7	14.7
Held to maturity (securities)	*87.5*	*6.5*	*123.5*	*7.8*
Available for sale	*142.1*	*10.5*	*111.2*	*7.0*
Property, plant and equipment	32.4	2.4	38.6	2.4
Other assets	132.2	9.8	172.5	10.8
Total*	**1,350.3**	**100.0**	**1,593.4**	**100.0**

*Excludes customer balances held in respect of letter of credit
Source: FCMB

Contingencies

Contingent assets, made up of bonds and guarantees, letters of credit and loan commitments, declined 10.6% to N209.9bn at FY19. These assets constituted 86.1% of the total capital base and 46.2% were cash covered.

Loan portfolio

Gross loans and advances grew by 10% to N729.8bn at FY19 and advanced further by 12% at 1H FY20, reflecting an increased risk appetite and the strategic plan to diversify portfolio by advancing loans to the real sectors of the economy.

Table 9: Loan book characteristics for FY19 (%)			
By sector			
Oil & gas	29.7	Agriculture	7.0
Individual	10.9	Manufacturing	10.5
Real Estate & Construction	11.2	Financial Institution	8.7
General commerce	6.3	Others	15.7
Largest exposures			
Single largest	5.9	Ten largest	39.9
Five largest	21.0	Twenty largest	50.6
By product		**By maturity**	
Term loans	89.5	<1 month	6.6
Overdraft	5.3	1-3 month	8.8
Others	7.6	3-12 month	31.5
		>12 month	53.1

Source: FCMB

While lending cuts across various sectors of the economy, the loan book remained skewed towards the oil and gas sector, although constituted a lower 29.7% of the loan book at FY19 (FY18: 41.4%). Going forward, management intends to further diversify from the oil and gas industry into sectors that are perceived to be resilient under the current economic dispensation.

Reflecting the dominance of term loans, the loan book remains largely long-dated, with more than half of the book maturing after twelve months. Concentration risk by obligor is heightened, with the single largest obligors constituting 5.9% of the book and 24.5% of shareholders' funds at FY19 (above the statutory obligor limit of 20%).

Foreign currency exposures

FCMB is exposed to FX risks through its FCY denominated transactions (largely in US Dollar). However, the bank's FX risk is considered moderate at FY19, with total balance sheet exposure of N68.8bn, equating to 43.9% of the total asset base at the balance sheet date. Furthermore, management has been mitigating the FX risk via effective matching of related assets and liabilities, hedging, as well as the conversion of some FCY loans to local currency.

Table 10: Net FCY position at FY19 (N'bn)	USD	EUR	GBP	Others
Financial assets	651.2	24.1	7.8	1.7
Financial liabilities	(538.5)	(9.7)	(4.3)	(0.4)
Net	**112.7**	**14.4**	**3.5**	**1.3**

Source: FCMB AFS

Asset quality

Table 11: Asset quality (N'bn)	FY18	FY19
Gross advances*	**663.5**	**729.8**
Performing	*624.2*	*703.6*
Impaired	*39.3*	*26.2*
Provision for impairment	**(47.5)**	**(36.8)**
12 month ECL	(17.4)	(16.9)
Lifetime ECL not credit-impaired	(3.7)	(5.2)
Lifetime ECL credit-impaired	(26.4)	(14.7)
Net NPL	**(8.2)**	**(10.6)**
Gross NPL ratio (%)	5.9	3.6
Net NPL ratio (%)	3.5	1.3
Net NPLs/Capital (%)	10.4	10.6

*Includes advances under finance lease. Source: FCMB

Following a loan book clean-up exercise undertaken by the bank in FY19 (write-off and restructuring), gross impaired loans moderated to N26.2bn, resulting in the gross NPL ratio improvement to 3.6% (FY18: 5.9%). This ratio was sustained at this satisfactory level (3.5%) at end-June 2020. The bank made adequate provisioning for the impaired loans, with a general coverage of 140.5% at FY19 (FY18: 120.9%).

Financial performance and prospects

A five-year financial synopsis, together with six months unaudited management accounts to 30 June 2020, is reflected on page 7 of this report, supplemented by the commentary below.

Notwithstanding the increase in business volumes during the year, net interest income declined by 4.4% to N65.4bn given the drop in rates during the period. This resulted in net interest margin shrinkage to 7.6% in FY19 from 8.7% previously. Also, a decline of 10.5% was reported in non-interest income, following a drop in FX gains during the year. Accordingly, TOI registered a 6.4% decline to N94.9bn in FY19. Improved profitability position for the year was mainly supported by the moderation in operating expenses during the period. A decline of 8.9% was reported in operating expenses for the year, owing to a write-back of N6.2bn provision made for litigation in previous years relating to the UK subsidiary of one of the defunct banks acquired by FCMB some years ago. Hence, cost to income ratio moderated by two percentage points to 70.3% in FY19. Overall, profit-before tax closed the year at N14.8bn in FY19, representing 4% increase from the previous year, which is well above budget for the year. Also, ROaE improved to 9.8% in FY19 from 8.7% previously, while ROaA stood flat at 1.1%.

Table 12 : Budget vs. actual (N'bn)	Actual FY19	Budget FY20	Actual 1H FY20	% of budget*
Net int. income	65.4	67.1	39.8	118.6
Other income	29.5	29.4	13.9	94.6
Total income	**94.9**	**96.5**	**53.7**	**111.2**
Impairment charge	(13.4)	(10.5)	(7.3)	69.5
Operating costs	(66.7)	(72.3)	(38.5)	106.5
Pre-tax profit	**14.8**	**13.7**	**7.9**	**115.3**
Advances	693.0	728.8	772.0	105.9
Deposits	946.3	951.1	1,111.3	116.8
Total capital	175.1	180.5	189.4	104.9
Total assets	1,593.4	1,599.2	1,890.8	118.2

*All annualised, except impairment charge. Source: FCMB

Given the current macroeconomic dynamics (particularly the negative impact of the COVID-19 pandemic), the bank revised its budget for the year. As such, a decline of 7.4% at the pre-tax profit level was forecast, which is to be driven by income growth. An increase in operating expense is expected for FY20 as information technology and digital cost are expected to rise. For the six-month period ending 30 June 2020, the bank has outperformed the set budget across most metrics, delivering a pre-tax profit of N7.9bn, which translated to 115.4% of budget on annualised basis.

First City Monument Bank Limited

(Naira in millions except as noted)

Year end: 31 December			Restated			
Statement of Comprehensive Income Analysis	**2015**	**2016**	**2017**	**2018**	**2019**	**1H 2020^**
Interest income	122,611	124,191	131,290	127,354	125,157	69,482
Interest expense	(59,780)	(55,630)	(62,322)	(58,892)	(59,716)	(29,695)
Net interest income	**62,830**	**68,561**	**68,968**	**68,463**	**65,441**	**39,787**
Other income	22,070	44,020	29,271	32,922	29,469	13,875
Total operating income	**84,900**	**112,581**	**98,239**	**101,385**	**94,910**	**53,662**
Impairment charge	(14,102)	(35,311)	(22,653)	(13,954)	(13,406)	(7,273)
Operating expenditure	(64,344)	(63,426)	(66,831)	(73,184)	(66,686)	(38,529)
Net profit before tax	**6,454**	**13,844**	**8,754**	**14,246**	**14,818**	**7,860**
Tax	(2,912)	(1,768)	(1,960)	(1,891)	(1,176)	(450)
Net profit after tax	**3,542**	**12,076**	**6,794**	**12,355**	**13,642**	**7,410**
Other comprehensive income for the year	2,328	4,102	2,272	1,912	2,710	6,881
Total comprehensive income	**5,870**	**16,178**	**9,067**	**14,267**	**16,352**	**14,291**
Statement of Financial Position Analysis						
Subscribed capital	102,847	102,847	102,847	102,847	102,847	102,847
Reserves (incl. net income for the year)	45,557	59,755	68,113	55,870	72,223	86,514
Hybrid capital (incl. eligible portion of subordinated term debt)	49,309	56,924	57,134	57,525	74,786	102,943
Less: Intangible assets (incl. goodwill)	(5,994)	(5,994)	(5,994)	(5,994)	(5,994)	(5,994)
Total capital and reserves	**191,719**	**213,532**	**222,100**	**210,248**	**243,861**	**286,309**
Bank borrowings (incl. deposits, placements & REPOs)	-	24,798	6,355	39,140	90,061	95,206
Deposits	704,666	664,406	668,710	807,060	932,263	1,111,309
Other borrowings	47,125	65,035	36,291	155,308	185,184	284,349
Short-term funding (< 1 year)	**751,792**	**754,239**	**711,357**	**1,001,509**	**1,207,508**	**1,490,864**
Deposits	6,358	247	23,679	18,916	14,030	-
Other borrowings	100,421	109,259	115,678	-	-	-
Long-term funding (> 1 year)	**106,779**	**109,506**	**139,357**	**18,916**	**14,030**	**-**
Payables/Deferred liabilities	80,991	57,541	73,755	119,745	128,031	113,637
Other liabilities	**80,991**	**57,541**	**73,755**	**119,745**	**128,031**	**113,637**
Total capital and liabilities	**1,131,282**	**1,134,818**	**1,146,569**	**1,350,417**	**1,593,430**	**1,890,810**
Balances with central bank	125,552	139,461	109,639	146,497	208,916	421,175
Property, plant and equipment	29,807	32,148	31,488	32,428	38,646	41,440
Receivables/Deferred assets (incl. zero rate loans)	92,043	88,039	100,291	132,198	172,528	117,391
Non-earnings assets	**247,403**	**259,647**	**241,418**	**311,123**	**420,090**	**580,006**
Short-term deposits & cash	37,662	27,925	27,301	42,543	57,488	55,319
Loans & advances (net of provisions)	592,672	659,700	649,379	616,006	692,974	772,024
Bank placements	127,241	55,876	58,145	103,652	137,256	173,134
Marketable/Trading securities	1,839	8,412	23,755	47,427	50,924	11,873
Other investments	124,465	123,258	146,572	229,667	234,698	298,454
Investments in subsidiaries/associates	-	-	-	-	-	-
Total earning assets	**883,878**	**875,170**	**905,152**	**1,039,294**	**1,173,340**	**1,310,805**
Total assets*	**1,131,282**	**1,134,818**	**1,146,569**	**1,350,417**	**1,593,430**	**1,890,810**
Contingencies	**142,062**	**159,476**	**167,211**	**234,931**	**209,940**	**195,963**
Ratio Analysis (%)						
Capitalisation						
Internal capital generation	4.0	9.9	5.3	9.0	9.3	7.5
Total capital / Net advances + net equity invest. + guarantees	22.3	22.7	23.1	19.5	21.4	22.6
Total capital / Total assets	16.9	18.8	19.4	15.6	15.3	15.1
Liquidity						
Net advances / Deposits + other short-term funding	78.2	87.4	88.3	60.4	56.7	51.8
Net advances / Total funding (excl. equity portion)	69.0	76.4	76.3	60.4	56.7	51.8
Liquid & trading assets / Total assets	14.7	8.1	9.5	14.3	15.4	12.7
Liquid & trading assets / Total short-term funding	22.2	12.2	15.4	19.3	20.3	16.1
Liquid & trading assets / Total funding (excl. equity portion)	19.4	10.7	12.8	19.0	20.1	16.1
Asset quality						
Impaired loans / Gross advances	4.2	3.7	4.9	5.9	3.6	3.5
Total loan loss reserves / Gross advances	3.0	3.1	3.2	3.2	2.9	2.6
Bad debt charge (income statement) / Gross advances (avg.)	2.3	5.5	3.4	2.1	2.0	1.0
Bad debt charge (income statement) / Total operating income	16.6	31.4	23.1	13.8	14.1	13.6
Profitability						
Net income / Total capital (avg.)	3.3	8.0	4.2	6.6	7.2	5.4
Net income / Total assets (avg.)	0.5	1.4	0.8	1.1	1.1	0.8
Net interest margin	8.6	9.2	9.2	8.7	7.6	8.3
Interest income + com. fees / Earning assets + guarantees (a/avg.)	5.8	6.5	6.5	6.0	5.0	2.6
Non-interest income / Total operating income	26.0	39.1	29.8	32.5	31.0	25.9
Non-interest income / Total operating expenses (or burden ratio)	34.3	69.4	43.8	45.0	44.2	36.0
Cost ratio	75.8	56.3	68.0	72.2	70.3	71.8
OEaA (or overhead ratio)	5.7	5.6	5.9	5.9	4.5	2.2
ROaE	4.0	10.4	5.4	8.7	9.8	15.7
ROaA	0.5	1.4	0.8	1.1	1.1	1.6
Nominal growth indicators						
Total assets	(0.2)	0.3	1.0	17.8	18.0	18.7
Net advances	(4.0)	11.3	(1.6)	(5.1)	12.5	11.4
Shareholders funds	3.2	9.6	5.1	(7.2)	10.3	8.2
Total capital and reserves	16.9	11.4	4.0	(5.3)	16.0	17.4
Deposits (wholesale)	(3.8)	(6.5)	4.2	19.3	14.6	17.4
Total funding (excl. equity portion)	0.5	0.6	(1.5)	19.9	19.7	22.0
Net income	(72.6)	175.6	(44.0)	57.4	14.6	74.8

^Unaudited results as at end-June 2020

*Excludes balances held in respect of letters of credit.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The ratings were solicited by, or on behalf of, First City Monument Bank Limited, and therefore, GCR has been compensated for the provision of the ratings.

First City Monument Bank Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to First City Monument Bank Limited and was contested.

The information received from First City Monument Bank Limited and other reliable third parties to accord the credit rating included the 31 December 2019 audited annual financial statements (plus four years of comparative numbers), full year detailed budgeted financial statements up to 31 December 2020 and unaudited financial statements to 30 June 2020. In addition, information specific to the rated entity and/or industry was also received.