Private credit rating report | Nigerian Non-Bank Financial Institutions | March 2023*

Credit Direct Limited

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
Credit Direct Limited	Long Term Issuer	National	BBB(NG)	Stable
	Short Term Issuer		A3(NG)	--

Strengths

- Strong capitalisation, supported by the company's sound earnings profile
- Credit Direct has a good market position within its niche and a strong distribution network across the country

Weaknesses

- High funding concentration, with reliance on short-term market funding
- Inherent sectorial concentration in the loan book, with non-performing loans registering slightly above the 10% regulatory benchmark

Rating Rationale

The ratings assigned to Credit Direct Limited ("Credit Direct" or "the company") reflect its market position as a highly profitable consumer lender with a strong capitalisation as well as benefits from its membership of the FCMB Group Plc ("the Group"), a financial service holding company in the Nigerian market. Counterbalancing these strengths are the company's relatively elevated risk position and limited funding and liquidity profile.

Credit Direct is a non-deposit-taking financial institution, licensed to operate as a finance company by the Central Bank of Nigeria ("CBN"). The company has a track record of over a decade, serving primarily retail clients with a historically strong focus on payroll lending to employees of public-sector organisations, albeit with increasing diversification into other market segments. Credit Direct's distribution network is considered relatively good, supported by its national footprint, with 24 branches as well as increased digitalisation of platforms, enabling greater customer reach and market penetration. The company's revenue is driven by stable sources, and profitability is sound. Net interest margins averaged a high c.45% over the review period, providing a comfortable buffer to the relatively elevated credit losses and funding costs associated with the consumer lending business.

Capitalisation is a strong positive ratings factor. Credit Direct has demonstrated prudent capital management over the review period, with the capital adequacy ratio consistently maintained at over 2x the regulatory minimum of 12.5% (FY21: 28.3%; FY20: 29.4%). The capital base is comprised mainly of core equity capital, and GCR-computed core capital and leverage ratios are expected to remain in the high band (>25%) over the next 12-18 months, notwithstanding the expected scaling of the loan book and upstreaming of dividends to the Group.

Risk is negative to the ratings, largely reflecting the inherently higher credit losses and default rates associated with consumer loans. The company conducts due diligence on partner organisations to assess financial viability and places

*The last rating notification was in August 2022. Rating reports are updated at least once a year from the date of the last announcement.

a 33%-40% cap on the loan amount as a percentage of the borrowers' monthly income, with deductions made at source. Overall, Credit Direct's underwriting standards are considered sufficient for its operational scale in the market.

However, the credit loss ratio averaged 3.6% over the review period (FY21: 4.2%; FY20: 5.3%), while stage 3 loans to gross loans ratio averaged 10.6% (FY21: 12.4%; FY20: 18.2%). GCR took cognizance of the moderation in the ratios following their review-period peak at FY20, reflecting the sector-wide impact of COVID-19. Due to the micro-nature of the loans, obligor concentration is inherently low, albeit with intrinsic sectorial concentration. The company is not exposed to significant market risk, and operational risk is considered well contained.

Funding and liquidity assessment is a negative ratings factor. Credit Direct is non-deposit-taking and primarily issues short-tenored promissory notes to high-net-worth individuals distributed through its sister company, FCMB Asset Management Limited. Resultantly, short-term wholesale funding constituted 100% of total liability funding throughout the review period. Liquidity is driven primarily by receipting of loan repayments. As part of its liquidity management, Credit Direct has set aside a cash-based fund of c.N2.5bn to cover for shortfalls should receipting fall below required obligations on a month-on-month basis.

Group support is factored in the ratings. Credit Direct is a wholly owned direct subsidiary of FCMB Group Plc. Although contribution to the Group's total assets is relatively low at around 1% over the review period, Credit Direct is an increasingly material contributor to the Group's earnings, with a contribution of 12.2% to the Group's profit before tax in FY21(FY20: 10.9%). The company has a history of performance within the Group and is considered an important lever to the Group's diversification strategy.

Outlook statement

The Stable Outlook reflects our expectation that Credit Direct will pursue its product diversification and market deepening strategy while maintaining its strong capitalisation and averting further weakening of its risk metrics, notwithstanding the company's asset quality sensitivities to the high inflationary environment.

Rating triggers

The ratings could be upgraded following a material moderation of credit losses on a sustainable basis, accompanied by a diversification of the funding profile as well as a more robust liquidity profile while mitigating capital erosion. Conversely, the ratings would be pressured downwards should capitalisation decline markedly over the next 12-18 months and/or further weakening of liquidity profile.

Private rating usage

Recipients of this credit rating notification are to note that the ratings accorded are private. A private rating is by nature confidential, but GCR may agree that the Rated Entity distributes the credit rating notification to (prospective) investors and other relevant counterparties, but only to the extent that such parties agree to confidentiality with the Rated Entity and agree that the credit rating action is private and only intended to be used in a closed circle of known parties. GCR requires Rated Entities to disclose the counterparties to whom it intends to distribute the Notification prior to such distribution.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Financial Institutions, May 2019
GCR Rating Scales, Symbols & Definitions, May 2022
GCR Country Risk Scores, February 2023
GCR Financial Institutions Sector Risk Scores, February 2023

Ratings History

Credit Direct Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term issuer	Initial/Last	National	BBB(NG)	Stable	August 2022
Short Term issuer			A3(NG)	---	

Analytical Entity: Credit Direct Limited

Credit Direct Limited is a wholly owned direct subsidiary of FCMB Group Plc, a non-operating financial services holding company in Nigeria. Credit Direct was established in 2007 and operates a finance company license regulated by the CBN. The company had 140,124 customers as of December 2021, which it serves through its 24 branches spread across the different sub-regions in Nigeria and digital platforms. Our analytical approach is a stand-alone credit analysis with group support factored in the ratings.

Operating Environment

The operating environment assessment is anchored by Credit Direct Limited's 100% exposure to Nigeria.

Country risk[2]

The revised Nigeria country risk score of '3.50' reflects the deterioration in its fiscal position amid rising debt levels and a narrow revenue base. Although the economy is fairly diversified, Nigeria remains vulnerable to commodity price shocks being that crude oil exports remain the dominant source of foreign currency inflows. Crude oil output was significantly depressed in 2022 due to oil theft and vandalism and as such, the nation's external reserves tanked to $37.08 billion in December 2022, from $40.52 billion in December 2021, despite the rallying of oil prices. Inflationary pressures will be sustained in 2023 and are principally stoked by external factors (high energy and import prices) and knock-on effects from supply shocks emanating from the Russian/Ukraine crisis. The lingering fuel crisis, local currency shortage (post the Naira redesign), foreign exchange scarcity, multiple exchange rates, erratic power supply, high inflation, rising interest rates and security challenges could significantly hamper short to medium term economic growth prospects. These challenges notwithstanding, the country has abundant natural resources (including the recently discovered high-grade lithium) and a wide consumption base due to its large population of approximately 220 million people. Nigeria is Africa's largest economy and contributes around 17% of continental GDP, however, like many of the continental peer group, wealth levels are low.

For full details, please see GCR's Country Risk Score report. The Country Risk Scores are available for download at https://gcrratings.com/risk-scores/

Sector risk

The Nigerian Financial Institutions Risk Score of 3.5 is supported by strong local currency liquidity within the sector and stability in the funding (which is largely deposit based). Also, the banking sector appears well capitalised on the

[2] The Nigeria country risk score was 3.75 as of Credit Direct's last rating review in August 2022, and it has been subsequently moderated to 3.50 in February 2023.

average. In addition, consideration was given to regulatory compliance, which is considered adequate and in line with the regional average. However, concentration of the loan book by sector (oil and gas) heightens credit risk, though with modest levels of non-performing loans. We note that the Nigerian banking sector is highly fragmented, with the top tier of the sector controlled by a few players and increasing competition amongst players within the sector. The relatively low private sector debt is expected to continually increase going forward given the regulatory backed position of increased lending to the private sector, which would enable diversification.

The non-bank financial institutions sector risk score of 2.5 represents a negative one adjustment (-1) from the banking sector risk score, due to the lower level of prudential regulation and oversight.

For full details, please see GCR's Financial Institutions Sector Risk Score report. The Sector Risk Scores are available for download at https://gcrratings.com/risk-scores/

Business Profile

Competitive position

Good market position with strong distribution networks across the country and a stable earnings profile.

Credit Direct is a non-deposit-taking financial institution, licensed to operate as a finance company by the Central Bank of Nigeria ("CBN"). The company has a track record of over a decade, serving primarily retail clients with a historically strong focus on payroll lending to employees of public-sector organisations, albeit with increasing diversification into other market segments. Credit Direct's distribution network is considered relatively good, supported by its national footprint, with 24 branches as well as increased digitalisation of platforms, enabling greater customer reach and market penetration. The company's loan facilities are relatively well spread across the country, with 30.5% exposure to South-West, 26.8% exposure to the North-West, 21.3% exposure to the North-Central and 10.3% exposure to the South-East region as of December 2021.

The company's revenue is driven by stable sources, and profitability is sound. Net interest income accounted for an average 90.2% of operating revenues over the review period. The revenue profile is expected to remain relatively stable, given the limited scope of activities allowed by the company's operating license. Net interest margins averaged a high c.45% over the review period, providing a comfortable buffer to the relatively elevated credit losses associated with the consumer lending business.

Management and governance

Management and governance assessment is a neutral ratings factor.

Financial Profile

Capital and Leverage

Sound capital and leverage position, providing a buffer to support the relatively high-risk position.

Capitalisation is a strong positive ratings factor. Credit Direct demonstrated prudent capital management over the review period, with the capital adequacy ratio consistently maintained at over 2x the regulatory minimum of 12.5% (FY21: 28.3%; FY20: 29.4%). The capital base is comprised mainly of core equity capital, and GCR-computed core capital and leverage ratios are expected to remain in the high band (>25%) over the next 12-18 months, notwithstanding the expected scaling of the loan book and upstreaming of dividends to the Group.

GCR's forecast factors in the following over the next 12-18 months:

- Loan book growth of 20% for FY22 and FY23
- GCR Core Capital is expected to grow at an annual rate of c.15% in FY22/23
- Sustained dividend payments to the Group, with a payout ratio of 80%

- Reserve coverage of stage 3 loans is expected to remain at over 50%

Table 1: Capitalisation	2023(f)	2022(e)	2021	2020	2019
GCR leverage ratio (%)	25.5	26.0	26.8	28.7	23.2
Internal capital generation/prior year's equity (%)	45.0	42.4	26.8	21.2	37.2
Loan loss reserves/gross non-performing assets (%)	>50	>50	61.1	77.7	113.2

e: GCR estimates; f: GCR forecasts.
Source: Credit Direct's financial results and GCR financial tool

Risk

Relatively elevated non-performing loans although deduction at source model helps mitigate credit delinquencies.

Risk is negative to the ratings, largely reflecting the inherently higher credit losses and default rates associated with consumer loans. The company conducts due diligence on partner organisations to assess financial viability and places a 33%-40% cap on the loan amount as a percentage of the borrowers' monthly income, with deductions made at source. Overall, Credit Direct's underwriting standards are considered sufficient for its operational scale in the market.

However, the credit loss ratio averaged 3.6% over the review period (FY21: 4.2%; FY20: 5.3%), while stage 3 loans to gross loans ratio averaged 10.6% (FY21: 12.4%; FY20: 18.2%). GCR took cognizance of the moderation in the ratios following their review-period peak at FY20, reflecting the sector-wide impact of the COVID-19. Due to the micro-nature of the loans, obligor concentration is inherently low, albeit with intrinsic sectorial concentration. The company is not exposed to significant market risk.

GCR considers operational risks to be well contained, with no material setbacks identified during our review. The operational and business continuity risks posed by the COVID-19 have been well managed to date.

Table 2: Risk	2023(f)	2022(e)	2021	2020	2019
New loan loss provisions to average customer loans (%)	3.1	3.8	4.2	5.3	4.6
Gross non-performing loans to average customer loans (%)	8.6	10.3	12.4	18.2	6.3

e: GCR estimates; f: GCR forecasts.
Source: Credit Direct's financial statements and GCR financial tool

Funding and Liquidity

High reliance on short-term market funding

Funding and liquidity assessment is a negative ratings factor. Credit Direct is non-deposit-taking and primarily issues short-tenored promissory notes to high-net-worth individuals distributed through its sister company, FCMB Asset Management Limited. Resultantly, short-term wholesale funding constituted 100% of total liability funding throughout the review period. Liquidity is driven primarily by receipting of loan repayments. As part of its liquidity management, Credit Direct has set aside a cash-based fund of c. N2.5bn to cover for shortfalls should receipting fall below required obligations on a month-on-month basis.

Table 3: Funding and Liquidity	2023(f)	2022(e)	2021	2020	2019
Long term funding ratio (%)	<50	<50	45.7	50.2	37.7
GCR Stable funds ratio (%)	<50	<50	26.8	28.7	23.2

e: GCR estimates; f: GCR forecasts
Source: Credit Direct's financial results and GCR financial tool

Comparative Profile

Peer analysis

The peer analysis is neutral to the ratings.

Group support

Group support is a positive rating factor.

Group support is factored in the ratings. Credit Direct is a wholly owned direct subsidiary of FCMB Group Plc. Although the company's contribution to the Group's total assets is relatively low at around 1% over the review period, Credit Direct's contribution to FCMB Group Plc's earnings has edged up, registering at 12.2% of the Group's profit before tax in FY21 (FY20: 10.9%). The company has a history of performance within the Group and is considered an important lever to the Group's diversification strategy.

Rating Adjustment Factors

Structural adjustments

No structural adjustments have been made to the Anchor Credit Evaluator in arriving at the final ratings.

Instrument ratings

No instrument rating adjustments.

Risk Score Summary

Rating Components & Factors	Risk Scores
Operating environment	**6.25**
Country risk score	3.75
Sector risk score	2.50
Business profile	**(2.50)**
Competitive position	(2.50)
Management and governance	0.00
Financial profile	**1.00**
Capital and Leverage	2.75
Risk	(1.00)
Funding and Liquidity	(0.75)
Comparative profile	**2.00**
Group support	2.00
Government support	0.00
Peer analysis	0.00
Total Score	**6.75**

Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Bond	A long-term debt instrument issued by either a company, institution or the government to raise funds.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Credit	A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Income	Money received, especially on a regular basis, for work or through investments.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Repayment	Payment made to honour obligations in regard to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Risk	The chance of future uncertainty (i.e., deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.

Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.

SALIENT POINTS OF ACCORDED RATING

GCR affirms that a.) no part of the rating process 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; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Subsequent to an appeal by the rated entity, the rating was revised as reflected in the announcement.

The credit ratings have been disclosed to Credit Direct Limited. *The ratings above were solicited by, or on behalf of, Credit Direct Limited, and therefore, GCR has been compensated for the provision of the ratings.*

Credit Direct Limited participated in the rating process via face-to-face management meetings, as well as other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Credit Direct Limited and other reliable third parties to accord the credit ratings included:

- Unaudited interim account as at 30 April 2022
- The audited financial results as at 31 December 2021
- Four years of comparative audited numbers
- Other related documents