



Credit Rating Announcement

GCR Upgrades FSDH Funding SPV Plc's Series 1 Tranche A Bonds Rating to BBB⁺_(NG) on Criteria Change; and Affirms the Series 1 Tranche B Bonds' A_(NG) National Scale Long-term Issue Rating, Outlook Stable.

Rating action

Lagos, 28 October 2021 – GCR Ratings ("GCR") has upgraded the national scale long-term issue rating of FSDH Funding SPV Plc's Series 1 Tranche A Bonds to BBB⁺_(NG) and affirmed the A_(NG) national scale long-term issue rating assigned to the Series 1 Tranche B Bonds, with a Stable Outlook.

Rated Issue	Rating class	Rating scale	Rating	Outlook
N7.05bn Subordinated Unsecured Bonds	Long term issue	National	BBB ⁺ _(NG)	Stable
N4.95bn Senior Unsecured Bonds	Long term issue	National	A _(NG)	Stable

Rating rationale

The Series 1 Tranche A and Tranche B Bonds ("the Bonds") were issued in February 2021 under FSDH Funding SPV Plc's ("the Issuer") N30bn Debt Issuance Programme ("the Programme" or "DIP"). The Issuer was established by FSDH Merchant Bank Limited ("FSDH" or "the Sponsor") for the purpose of raising funds for the Sponsor. The enabling resolution of the Issuer's Board of Directors permits the directors to issue the Bonds in tranches, different forms, and under different terms and conditions as it may deem fit, subject to the approval of the relevant regulatory authorities.

The Series 1 Tranche A Bonds constitute direct, unsecured and subordinated obligations of the Issuer, ranking pari passu without any preference among themselves. On the other hand, the Series 1 Tranche B Bonds are senior unsecured obligations of the Issuer, and rank pari passu among themselves and equally with all other existing and future unsecured, unsubordinated obligations of the Issuer. The proceeds of the Bonds were used to expand the Sponsor's credit risk asset base.

While the Issuer is FSDH Funding SPV Plc, repayment of the obligations under the Issues ultimately depends on the performance of the Sponsor, as the direct obligor of the Issues. Thus, the accorded rating is linked to FSDH's credit standing and financial position. FSDH has been accorded a long-term national scale credit rating of A_(NG) with a Stable Outlook in October 2021. The upgrade of the Series 1 Tranche A Bonds to BBB⁺_(NG) is driven by a change in GCR Criteria, which stipulates a one notch down rating for senior subordinated notes. The Series 1 Tranche B Bonds rating has been affirmed at A_(NG), as GCR considers the bonds to rank at par with the Sponsor's long-term Issuer credit rating.

According to the periodic performance reports provided to GCR by the Trustees to the Bondholders, dated September 8, 2021, the Issuer has been meeting all its obligations on a timely basis on the Bonds.

Outlook statement

The Stable Outlook reflects GCR's opinion that the financial profile of the Sponsor will remain stable over the next 12-18 months. While RWA is expected to increase significantly due to high loan book growth, we expect FSDH's capitalisation to remain firm within the high band over the rating horizon. Also, credit losses are expected to moderate with minimal adverse credit migration.

Rating triggers

Given that the ability of the Issuer to meet its obligations under these Issues is dependent on the financial condition of the Sponsor, the accorded rating would be sensitive to a positive rating action on the Sponsor. Non-compliance with the set covenants, as well as a downgrade of the Sponsor's rating could trigger negative rating actions.

Analytical contacts

Primary analyst Lagos, NG	Abdul Mukhtar Abdullahim@GCRratings.com	Financial Institutions Analyst +2341 904 9462
Committee chair Lagos, NG	Julius Adekeye Adekeye@GCRratings.com	Head of Ratings, Nigeria +2341 904 9462

Related criteria and research

Criteria for the GCR Ratings Framework, May 2019

Criteria for Rating Financial Institutions, May 2019

GCR Ratings Scales, Symbols & Definitions, May 2019

GCR Country Risk Scores, February 2021

GCR Financial Institutions Sector Risk Score, February 2021

Ratings history

FSDH Funding SPV Plc – Series 1 Tranche A Unsecured Subordinated Bonds

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issue	Indicative	National	BBB _(NG)	Stable Outlook	January 2021

FSDH Funding SPV Plc – Series 1 Tranche B Senior Unsecured Bonds

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issue	Indicative	National	A _{-(NG)}	Stable Outlook	January 2021

Glossary

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.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
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.
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.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Income	Money received, especially on a regular basis, for work or through investments.
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.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
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.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

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.

The credit ratings have been disclosed to FSDH Merchant Bank Limited. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

FSDH Merchant Bank Limited participated in the rating process via video conference management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The information received from FSDH Merchant Bank Limited and other reliable third parties to accord the credit ratings included:

- The audited financial results to 31 December 2020
- Four years of comparative audited numbers
- Bond performance report by the Trustees, September 2021
- Other related documents.

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GCRRATINGS.COM](http://GCRRATINGS.COM). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT WWW.GCRRATINGS.COM/RATING_INFORMATION. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2021 GCR INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.