



CREDIT RATING ANNOUNCEMENT

GCR assigns an indicative issue rating of AAA_{(NG)(sf)(IR)} to NGN30.0Bn Series 1 Bonds to be issued by DLM Funding SPV Plc; Outlook Stable

Rating Action

Johannesburg, 27 November 2024 – GCR Ratings (GCR) has assigned an indicative national scale long-term issue rating of AAA_{(NG)(sf)(IR)} to the Series 1 Bonds to be issued by DLM Funding SPV Plc (DLM Funding SPV or the Issuer) with a Stable Outlook. The indicative rating assigned to the Series 1 Bonds will expire on the sooner of 31 May 2025 or issuance of the Bonds.

Transaction	Amount	Rating Class	Rating Scale	Rating	Outlook
Series 1 Bonds	NGN30.0Bn	Long Term Issue	National	AAA _{(NG)(sf)(IR)} *	Stable

*IR: An Indicative Rating is denoted by an 'IR' suffix to indicate that a credit rating has been accorded based on the review of final draft documentation and expectations regarding final documentation. The Indicative Rating is expected to convert to a final credit rating subject to the receipt of final documentation in line with GCR's expectations. Typically, this suffix will be used when awaiting the finalisation of notes for a debt or program issuance. In this case, once the final documents are available the IR suffix may be removed. We expect the rating to convert upon regulatory approval, within the next 180 days.

The indicative credit rating assigned to the Series 1 Bonds relates to timely payment of the Scheduled Principal and the Scheduled Interest Amounts (as defined in transaction documentation) in accordance with the repayment schedule set out in the draft Series 1 Trust Deed and or Pricing Supplement.

Note that the indicative credit rating is accorded prior to GCR's receipt and analysis of final signed Legal Opinion, Tax Opinion, and final execution set of Transaction Documentation. Final credit rating will only be accorded on Bonds issuance and receipt of the abovementioned documents. Should the final set of information differ significantly from the preliminary information received, then this could lead to a variation in the final rating to be assigned.

Capitalised terms not defined in this rating announcement refer to defined terms in the transaction documentation.

Rating Rationale

DLM Funding SPV Plc is a bankruptcy remote Special Purpose Vehicle (SPV) that plans to issue NGN30.0Bn (USD17.86M) Series 1 Bonds under its newly established NGN30.0Bn Medium Term Notes Programme (the Programme). DLM Capital Group Limited (DLM or the Sponsor) will be the sponsor and DLM Trust Company Limited and FBNQuest Trustees Limited will be joint Bond Trustees. The Account Bank will be Access Bank Plc and lastly, AVA Trustees Limited will act as Share Trustee.

In this planned transaction, proceeds of the Series 1 Bonds issuance, will be used to finance the subscription of the Series 1 DLM Notes to be issued by DLM under the terms of the Series 1 Notes Purchase Agreement. The proceeds of the Series 1 DLM Notes will then be used to purchase Federal Government of Nigeria (FGN) Bonds, such that the repayment of the Scheduled Principal and the Scheduled Interest Amounts to the Bondholders shall be backed by cashflows legally assigned to the Issuer that are derived from FGN Bonds.

Where necessary, additional cashflow from the Sponsor's receivables (Unscheduled Interest Payments) can also be assigned to the Issuer towards the repayment of the Final Scheduled Bullet Interest Amount (NGN20.0Bn) due at Maturity. GCR is of the understanding that no Unscheduled Interest Payments will be included at initial issuance and as such does not form part of the indicative rating.

The rating of the Bonds reflects the ability of the underlying borrower (being the FGN), to make the payments due in accordance with the terms of the FGN Bonds, to the Issuer. GCR's indicative credit rating of the Series 1 Bonds to be issued is therefore based on a credit linkage approach to the long-term national scale credit rating of the respective reference entity being the FGN.

Bankruptcy Remoteness of the Issuer and Assigned Rights by the Sponsor

GCR in its rating analysis assumes that DLM Funding SPV will be able to operate and pay the Scheduled Principal and the Scheduled Interest Amounts on the Bonds even in the scenario of default of DLM.

In this regard, GCR received a draft legal opinion which states that there is a high level of bankruptcy remoteness of DLM Funding SPV and the FGN bonds have been assigned by the Sponsor to the Issuer (partial assignment of the Principal balance of the FGN Bonds and full assignment of the FGN Bonds Coupons).

The FGN Bonds will be held in the relevant custody account managed by the Custodian (Zenith Nominees Limited) in the name of the Issuer and for the Issuer's benefit with residual benefit to the bonds provided to the Sponsor only after all payment obligations of the Issuer to the Bondholders have been redeemed in full.

The draft legal opinion further states that in the event that the Sponsor becomes insolvent, the Issuer shall retain ownership over the FGN Bonds and continue to receive all Coupon Strips and Principal which accrue from the FGN Bonds.

It is vital that, where the Sponsor defaults in its obligations or becomes insolvent, the FGN Bonds receivables do not get absorbed into the bankruptcy proceedings of DLM and that the Bondholders are the ultimate recipient of the assigned FGN Bonds receivables. As such, GCR places a great deal of importance on the draft legal opinion and in arriving at the assumption that the Bondholders will receive the Scheduled Principal and the Scheduled Interest Amounts payments even in the event of default of the Sponsor.

Cash Flow Modelling

GCR's cash flow modelling is based on the structure presented in the draft transaction documentation. GCR also incorporated into its cash flow modelling a few assumptions as per communication with the Sponsor.

It is noted that a Cash Accumulation Account will be established in the name of the Issuer and managed by the Trustees with a limit of NGN6.5Bn to cover any shortfall in the payment obligations of the Issuer. The FGN Bonds are expected to be purchased at a discount and the discount amount after paying all upfront costs will be deposited into the Cash Accumulation Account. Thereafter, excess spread will be deposited into the Cash Accumulation Account until it reaches the target amount of NGN6.5Bn as per the Priority of Payments. GCR assumed 7% return on cash for the balance in the Cash Accumulation Account in its cash flow model.

The cash flow model took account of the expected transaction expenses of DLM Funding SPV over the lifetime of the Bonds under inflation assumptions.

The cash flow model results showed that Scheduled Principal and the Scheduled Interest Amounts would be paid in full from the assigned FGN Bonds Coupons and Principals after operating expenses are deducted for the SPV.

Counterparty Risk

The required ratings and remedial language for the Account Bank and Permitted Investments that are to be incorporated in the respective transaction documents and other relevant documentation are in line with GCR's counterparty criteria.

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Related Criteria and Research

Criteria for Rating Structured Finance Transactions, May 2024

Criteria for Rating Credit Linked Notes and Repackaging Vehicles, November 2018

Criteria for the GCR Ratings Framework, May 2024

GCR Rating Scales, Symbols and Definitions, May 2023

Ratings History

DLM Funding SPV Plc

Transaction	Review	Rating scale	Rating	Outlook	Date
Series 1 Bonds	Initial/Last	National	N.A	N.A	N.A

N.A: Not Applicable

Glossary

Account Bank	A bank where the transaction account is held.
Agreement	A negotiated and usually legally enforceable understanding between two or more legally competent parties.
Bankruptcy Remote	A feature, through real security and guarantees that reduces the enforceability of a creditor against a Special Purpose Vehicle. Typically a Security Special Purpose Vehicle should be bankruptcy remote.
Bankruptcy	Court proceedings at which an individual or a company is declared unable to pay its creditors. The liabilities of a bankrupt company typically exceed its assets.
Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Bondholder	Investor of capital market securities.
Borrower	The party indebted or the person making repayments for its borrowings.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Coupon	The interest paid on a bond expressed as a percentage of the face value. If a bond carries a fixed coupon, the interest is usually paid on an annual or semi-annual basis. The term also refers to the detachable certificate entitling the bearer to the interest payment.
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 typically 90 days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Excess Spread	The net weighted average interest rate receivable on a pool of assets being greater than the weighted average interest rate payable for the debt securities.
Insolvent	When an entity's liabilities exceed its assets.
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.
Legal Opinion	An opinion regarding the validity and enforceable of a transaction's legal documents.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Medium Term Notes	Debt securities with a tenor ranging from 3 months to 15 years.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Proceeds	Funds from issuance of debt securities or sale of assets.
Repayment	Payment made to honour obligations in regards 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.
Special Purpose Vehicle	An entity that is created to fulfil specific objectives. An SPV is normally bankruptcy/insolvency remote and created to isolate financial risk.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Timely Payment	The principal debt, interest, fees and expenses being repaid promptly in accordance with the contractual obligation.
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.
Trust Deed	A deed of conveyance creating and setting out the conditions of a trust.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Trustee	An individual or firm that holds or administers property or assets for the benefit of a third party.

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 process was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) the ratings process was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entity.

The ratings above were solicited by, or on behalf of, the rated entities.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Exchange Rate Source: Central Bank of Nigeria. 1,679.72 Naira: 1\$ as at 26 November 2024
- Draft Transaction Documents
- Draft Legal Opinion - Dated October 2024
- Draft Taxation Opinion

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