



Credit Rating Announcement

GCR Affirms First City Monument Bank Limited's National Scale Long-term and Short-term Issuer Credit Ratings of BBB⁺_(NG) and A2_(NG) Respectively, Outlook Revised to Positive from Negative.

Rating action

Lagos, 30 September 2021 – GCR Ratings ("GCR") has affirmed First City Monument Bank Limited's national scale long-term and short-term issuer credit ratings of BBB⁺_(NG) and A2_(NG) respectively, with the Outlook revised to Positive from Negative.

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
First City Monument Bank Limited	Long Term issuer	National	BBB ⁺ _(NG)	Positive Outlook
	Short Term issuer	National	A2 _(NG)	

Rating rationale

First City Monument Bank Limited ("FCMB" or "the bank") is considered a core operating entity in FCMB Group Plc ("the Group"), as such, the national scale issuer credit ratings on the bank reflect the strengths and weaknesses of the Group.

The ratings assigned to FCMB balances its good business franchise, strong funding structure and adequate liquidity position, and moderate risk profile against the modest levels of capitalisation and high loan book concentrations.

FCMB's competitive position is underpinned by the Group's track record, having maintained positive bottom-line earnings trajectory over the review period (FY17-FY20). The bank has a strong retail and small and medium enterprises (SME) focus, with a customer base of over 8 million as at FY20. FCMB compares well to the tier 2 peers in the Nigerian banking industry, contributing 3.9%, 4.7% and 4.5% to industry's total assets, customer deposits, and gross loans and advances respectively as at FY20. Its membership within the Group and foreign subsidiary FCMB UK are further supportive of the bank's competitive position, enabling greater diversification and cross-selling opportunities.

Capitalisation is negative to the rating. Capital adequacy ratio ("CAR") registered at 17.5% at FY20 (FY19: 17.2%), above the 15% regulatory requirement for its license category, albeit supported by tier 2 capital. However, GCR computed capital ratio is assessed to be within the low range (15%) and is forecast to remain at around 14.0% in FY21 through FY22. We positively considered the potential for capital support from the Group and take positive note of the bank's sustained earnings retention.

The risk position of the bank is a moderate rating positive. Credit losses registered at 2.6% at FY20 (FY19: 1.9%), below the industry average of 3%. Credit migration to stage 3 has been largely mitigated, with the non-performing loan ("NPL") ratio sustaining a downward trend from the review period high of 5.9% recorded at FY18 to 3.0% at FY20, well below the industry average of 6% and regulatory tolerable limit of 5%. Also, the bank's exposure to the currently challenged oil and gas sector compares well to peers, registering at 25.7% at FY20 (FY19: 29.7%), below the industry average of 35%. Notwithstanding, the loan book evidences significant concentrations, with the top twenty obligors contributing 53.0% to gross loans as at FY20, and foreign currency exposures accounting for 44.6% of the loan book at FY20 (FY19: 54.9%). We also noted the bank's restructured loans, which constituted a sizable 40% of the loan book at FY20, albeit balanced by management's representation that the loans are performing in line with the agreed terms and have moderated to 25% as at 1H21.

Funding and liquidity is a positive rating factor, underscoring the bank's stable funding structure and sufficiently liquid balance sheet. Stable core customer deposits constituted the bulk of the bank's funding base at 74.2% at FY20 (FY19:

71.0%), with the relatively low-cost current and savings account (CASA) contributing 55.5% to customer deposits at FY20. Also, the deposit book is well diversified, as the single and top twenty depositors contributed less than 1% and 16% to total deposits respectively at FY20. This highly stable funding structure is expected to be maintained in light of the bank's strong deposit mobilization drive and retail penetration. Liquidity position of the bank has been satisfactory. Regulatory liquidity ratio stood at 33.4% at FY20 (FY19: 32.7%), above the regulatory minimum of 30%, while GCR liquid assets coverage of total wholesale funding and customer deposits also registered at a healthy level of 2.0x and 45.4% respectively at FY20.

Outlook statement

The positive outlook reflects GCR's opinion that FCMB's financial profile will remain strong over the next 12-18 months, notwithstanding the challenging operating environment. We expect credit losses and NPL ratio to be maintained at the current levels, and GCR core capital ratio is expected to remain firm at 14%+ over the rating horizon, taking into account the Group's moderate earnings profile and expected growth in risk weighted assets.

Rating triggers

The ratings could be upgraded if GCR core capital increases to the intermediate range of 15%-25% on a sustainable basis, supported by strong internal capital generation. Also, we would expect to see the risk metrics (credit losses and NPL ratio) contained well below the industry averages. Greater diversification within the Group will also be supportive of an upward review. A downgrade is unlikely over the rating horizon. However, factors that may trigger a downward review include a rapid deterioration of the bank's risk metrics, and pressure on capitalisation.

Analytical contacts

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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

First City Monument Bank Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term issuer	Initial	National	A+(NG)	Stable Outlook	February 2000
Short Term issuer	Initial	National	A1(NG)		February 2000
Long Term issuer	Last	National	BBB+(NG)	Negative Outlook	August 2020
Short Term issuer	Last	National	A2(NG)		August 2020

Risk score summary

Rating Components & Factors	Risk Scores
Operating environment	7.50
Country risk score	4.00
Sector risk score	3.50
Business profile	1.00
Competitive position	1.00
Management and governance	0.00

Financial profile	(0.75)
Capital and Leverage	(1.50)
Risk	0.25
Funding and Liquidity	0.50
Comparative profile	0.00
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total Score	7.75

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 First City Monument 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.

First City Monument 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 First City Monument 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
- Other related documents.

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