

### CREDIT RATING ANNOUNCEMENT

GCR affirms FCMB Group Plc's national scale long and short-term issuer ratings of BBB<sub>(NG)</sub>/A2<sub>(NG)</sub>; Rating Watch Negative outlook extended due to the planned recapitalisation of the consolidated FCMB Group Plc

#### Rating action

Lagos, 30 April 2024 – GCR Ratings (GCR) has affirmed FCMB Group Plc's national scale long and short-term issuer ratings of BBB<sub>(NG)</sub> and A2<sub>(NG)</sub> respectively. Concurrently, GCR affirmed the Series 1 and Series 2 Additional Tier 1 Subordinated Bonds ratings of BBB<sub>(NG)</sub>, with the Rating Watch Negative outlook extended due to the planned recapitalisation of the consolidated FCMB Group Plc.

Rated entity/Issue	Rating class	Rating scale	Rating	Outlook/Watch
FCMB Group Plc	Long Term Issuer	National	BBB <sub>(NG)</sub>	Rating Watch Negative
	Short Term Issuer	National	A2 <sub>(NG)</sub>	
Series 1 NGN20.7 billion Additional Tier 1 Subordinated Bonds	Long Term Issue	National	BBB <sub>(NG)</sub>	Rating Watch Negative
Series 2 NGN26.0 billion Additional Tier 1 Subordinated Bonds	Long Term Issue	National	BBB <sub>(NG)</sub>	Rating Watch Negative

#### Rating rationale

The rating watch negative reflects the assigned outlook to FCMB Group Plc's (FCMB Group or the group) core operating entity, First City Monument Bank Limited (FCMB or the bank). The rating watch negative on FCMB follows ongoing pressure on capitalisation from the adverse impact of macroeconomic environment on the loan book. This is balanced against a sound funding structure, good liquidity and competitive position and the planned capital raise of NGN150 billion in 2024.

FCMB Group Plc's rating is one-notch lower than the consolidated group, due to the subsisting structural subordination. This reflects the Non-Operating Holding Company's (NOHC) reliance on cash flows and dividends from the bank and other subsidiaries, which could be diverted by regulatory intervention at a time of stress.

The Group is a financial service holding company in Nigeria with core operations in banking and an increasing presence in non-bank financial services through other subsidiaries. The Group had seven direct subsidiaries and four indirect subsidiaries as of 31 December 2023, with a growing franchise across different financial services areas including banking, consumer finance, investment management and investment banking.

For more information on the creditworthiness of the bank and group see [here](#), published on the GCR website.

The Series 1 and Series 2 perpetual, non-cumulative, fixed-rate, resettable, additional tier 1 subordinated Bonds (the Series 1 and Series 2 AT1 Bonds) are the first two series to be issued under the Group's NGN300 billion Debt Issuance Programme (the Programme). In 2023, the Issuer raised a cumulative of NGN46.7 billion under the Programme through the Series 1 and Series 2 AT1 Bonds in February and October respectively, both at a resettable fixed coupon rate of 16%, with no scheduled maturity date. The Series 1 and Series 2 AT1 Bonds qualified as AT1 capital for the Issuer under the approval of the regulator, Central Bank of Nigeria (CBN) and will constitute direct, unsecured, and subordinated obligations of the Issuer. The Series 1 and Series 2 AT1 Bonds shall rank *pari passu* among themselves and with any present and future parity obligations.

GCR has chosen to apply a 3-notch differential from the senior unsecured ratings of the bank due to a back-to-back loan agreement with the entity. This reflects the contractual subordination of the notes - they rank below senior unsecured and subordinated (tier two qualifying capital) bonds, interest payments are deferrable and non-cumulative, subject to the Issuer's discretion. Lastly, the Series 1 and Series 2 AT1 Bonds can be written down when the Issuer's core equity tier 1 (CET1) ratio reaches 10.75% (0.25% above the regulatory minimum) or when the CBN considers the Issuer to be at a point of non-viability (PONV). As of 31 December 2023, the CET1 ratio was 11.5%.

We believe the notes qualify for intermediary levels of capital under our methodology. In addition, we believe that the likelihood of the Series 1 and Series 2 AT1 Bonds being written down or converted increases as the bank's CET1 ratio reduces toward the pre-specified trigger point.

According to the periodic performance reports provided to GCR by the Trustees to the Bondholders, the report indicated that the coupon on the Series 1 and Series 2 AT1 Bonds is paid timely with no breach on financial covenants.

## Outlook statement

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The Rating Watch Negative reflects a weak GCR core capital ratio and pressure on capitalisation from the adverse impact of macroeconomic environment on the loan book. If the planned capital raise in the short term materialises, it would support the GCR core capital ratio at c.18% over the next 12 months (all else being equal), otherwise, we would lower the ratings in the near term. Credit migrations to IFRS 9 stage 3 classification are likely because of the weak macroeconomic climate, with the credit loss ratio registering between 3%-4% and a gradual resolution of the single obligor limit breaches over the next 12-18 months. While the funding structure remains sound, CBN's contractionary monetary policy stance could moderate the liquidity position over the outlook horizon.

## Rating triggers

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The positive or negative ratings action on FCMB Group plc will follow changes in the credit profile of the theoretical consolidated group. For more information on the creditworthiness of the bank and group see [here](#), published on the GCR website.

The ratings on Series 1 and Series 2 AT1 Bonds would be sensitive to a rating action on the bank. Furthermore, if the bank or Group's CET1 ratio lowers towards the trigger point for deferability of interest payments and/or the PONV/pre-specified trigger point, we could lower the rating on the Series 1 and Series 2 AT1 Bonds. Specifically, if the CET1 ratio lowers to below 11.5% we will lower the ratings on the notes independently from the bank or group.

Non-compliance with the set covenant would trigger a negative rating action.

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## Related criteria and research

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Criteria for the GCR Ratings Framework, January 2022

Criteria for Rating Financial Institutions, May 2019

GCR Ratings Scales, Symbols & Definitions, May 2023

GCR Country Risk Scores, February 2024

GCR Financial Institutions Sector Risk Score, December 2023

## Ratings history

FCMB Group Plc					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	BBB+(NG)	Stable Outlook	August 2022
Short Term Issuer	Initial	National	A2(NG)	---	August 2022
Long Term Issuer	Last	National	BBB+(NG)	Rating Watch Negative	August 2023
Short Term Issuer	Last	National	A2(NG)	---	August 2023
Series 1 NGN20.7 billion Additional Tier 1 Subordinated Bonds	Initial	National	BBB-(NG)	Stable Outlook	April 2023
Series 1 NGN20.7 billion Additional Tier 1 Subordinated Bonds	Last	National	BBB-(NG)	Rating Watch Negative	August 2023
Series 2 NGN26 billion Additional Tier 1 Subordinated Bonds	Initial/last	National	BBB-(NG)	Rating Watch Negative	March 2024

## Risk score summary

Rating Components & Factors	Risk Scores
<b>Operating environment</b>	<b>7.25</b>
Country risk score	3.75
Sector risk score	3.50
<b>Business profile</b>	<b>1.00</b>
Competitive position	1.00
Management and governance	0.00
<b>Financial profile</b>	<b>(1.00)</b>
Capital and Leverage	(1.50)
Risk	0.00
Funding and Liquidity	0.50
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Government support	0.00
Peer analysis	0.00
<b>Total Score</b>	<b>7.25</b>

## Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Bondholder	Investor of capital market securities.
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.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.

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.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
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.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Downgrade	The rating has been lowered on its specific scale.
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.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Fix	The setting of a currency or commodity price for trade at a future date.
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 Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
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).
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
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.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
Pari Passu	Side by side; at the same rate or on an equal footing. Securities issued with a pari passu clause have rights and privileges that are equivalent to those of existing securities of the same class.
Rating Horizon	The rating outlook period
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.
Senior	A security that has a higher repayment priority than junior securities.
Short Term	Current; ordinarily less than one year.
Subordination	The prioritising of the payment of interest and principal payments to tranches (senior, junior etc. Senior tranches are paid before junior tranches.
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 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 the rated entity.

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

The rated entity participated in the rating process 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:

- Unaudited management account as at 31 December 2023
- Four years of comparative audited numbers
- Other related documents

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