



## GCR Affirms First City Monument Bank Limited's rating of BBB+<sub>(NG)</sub>; Outlook Negative

Lagos Nigeria, 01 September 2020 - Global Credit Ratings has affirmed the national scale credit ratings assigned to First City Monument Bank Limited of BBB+<sub>(NG)</sub> and A2<sub>(NG)</sub> in the long term and short term respectively; with the outlook accorded as Negative. The ratings are valid until August 2021.

### **RATING RATIONALE**

Global Credit Ratings ("GCR") has accorded the above credit ratings to First City Monument Bank Limited ("FCMB" or "the bank") based on the following key criteria:

FCMB ranks among the mid-sized commercial banks in Nigeria, in terms of balance sheet size, accounting for 3.8% of the industry's total assets at FY19. The ratings took cognisance of the pressure on profitability metrics in FY19, further constrained by elevated risk in the operating environment, exacerbated by the uncertainties arising from COVID-19 pandemic.

FCMB's Shareholders' funds grew 10.3% to N175.1bn at FY19, and ended 1H FY20 at N189.4bn, supported by strong internal capital generation. This translated to an improved risk weighted capital adequacy ratio of 15.1% at FY19 (FY18: 14%), albeit with a thin buffer above the regulatory minimum requirement. Thus, the bank's plan to raise additional debt capital before the current year-end is considered a step in the right direction.

On the back of a loan book clean-up exercise undertaken in FY19 (write-off and restructuring), FCMB's gross impaired loans declined to N26.2bn, translating to a moderated gross non-performing loan ratio of 3.6% (FY18: 5.9%). Positively, the ratio was sustained at this satisfactory level at end-June 2020. Provisioning level is satisfactory, with total provisions covering impaired loans 1.4x at FY19.

Liquidity risk appears to be well managed by the bank; the statutory liquidity ratio ranged between 32.7% and 47.6% throughout 2019, and closed at 32.7%. Nonetheless, of concern is the relatively low GCR calculated liquid assets to short-term funding ratio, which weakened to 16.1% at 1H FY20 (FY19: 20.3%, FY18: 19.2%).

Improvement in profitability metrics in FY19 was mainly supported by decline in operating expenses, a fallout from the write-back of N6.2bn provision made for litigation in previous years. Notwithstanding the increase in business volumes during the year, net interest income declined by 4.4% to N65.4bn and resulted in net interest margin shrinkage to 7.6% (FY18:8.7%). Also, a decline in FX gains during the year impacted non-interest income. Accordingly, total operating income registered a 6.4% decline to N94.9bn during the year. That said, pre-tax profit of N14.8bn was recorded for FY19, representing a 4% increase from the previous year. Consequently, return on average equity improved to 9.8% (FY18: 8.7%), while return on average asset ended flat at 1.1%.



Unaudited results as at 30 June 2020 reflects a pre-tax profit of N7.9bn, which outperforms budget on an annualised basis.

An upgrade of the rating could emanate from a satisfactory improvement in the bank's profitability, asset quality, capital and liquidity metrics, as well as an enhanced competitive position. Conversely, the rating may be sensitive to further pressure on asset quality, profitability and capitalisation metrics.

### **NATIONAL SCALE RATINGS HISTORY**

Initial rating (February 2000)

Long term rating: A+<sub>(NG)</sub>

Short term rating: A1<sub>(NG)</sub>

Rating outlook: Stable

Last Rating (September 2019)

Long term rating: BBB+<sub>(NG)</sub>

Short term rating: A2<sub>(NG)</sub>

Rating outlook: Stable

### **ANALYTICAL CONTACTS**

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#### **Committee Chairperson**

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### **APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017

Sterling rating reports (2000-19)

Glossary of Terms/Ratios (February 2016)



## **RATING LIMITATIONS AND DISCLAIMERS**

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## **SALIENT FEATURES OF ACCORDED RATINGS**

GCR affirms that a.) no part of the ratings 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; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The ratings were solicited by, or on behalf of, First City Monument Bank Limited, and therefore, GCR has been compensated for the provision of the ratings.

First City Monument Bank Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to First City Monument Bank Limited and was not contested.

The information received from First City Monument Bank Limited and other reliable third parties to accord the credit rating included the 31 December 2019 audited annual financial statements (plus four years of comparative numbers), full year detailed budgeted financial statements up to 31 December 2020 and unaudited financial statements to 30 June 2020. In addition, information specific to the rated entity and/or industry was also received.