FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms FBN Holdings and First Bank of Nigeria at 'B-'; Outlook Stable

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Fitch Ratings - London - 08 Sep 2023: Fitch Ratings has affirmed FBN Holdings Plc's (FBNH) and First Bank of Nigeria Ltd's (FBN) Long-Term Issuer Default Ratings (IDRs) at 'B-' with a Stable Outlook. Fitch has also affirmed the issuers' National Long-Term Ratings at 'A(nga)' and assigned Stable Outlooks. A full list of rating actions is below.

KEY RATING DRIVERS

FBNH's and FBN's Long-Term IDRs of 'B-' are driven by their standalone creditworthiness, as expressed by their Viability Ratings (VR) of 'b-'. The VRs are constrained by Nigeria's Long-Term IDRs due to the issuers' high sovereign exposure relative to their capital and the concentration of their operations in Nigeria. The issuers' National Ratings balance a strong franchise, healthy profitability, moderate capital buffers and a stable funding profile against high credit concentrations.

VRs Equalised with Group VR: FBNH is a non-operating bank holding company (BHC). Its VR is equalised with the group VR, derived from the consolidated risk assessment of the group, due to the absence of double leverage and the BHC's strong liquidity management. As the main operating entity (end-2022: 95% of consolidated group assets), FBN's VR is also equalised with the group VR.

Fast Pace of Reforms: Recently-elected President Bola Tinubu has pursued key reforms faster than Fitch Ratings had expected, removing the fuel subsidy and devaluing the official exchange rate within weeks of inauguration in May 2023. These reforms overall are

Strong Franchise: FBN is Nigeria's third-largest bank, accounting for 10.4% of banking system assets at end-2022. Its strong franchise supports a stable funding profile and low funding costs. Revenue diversification is significant, with non-interest income representing 36% of operating income in 2022.

High Sovereign Exposure: Single-borrower credit concentration is material, with the 20-largest loans representing over 200% of total equity at end-2022. Oil and gas exposure (end-2022: 31% of net loans) is greater than the banking-system average. Sovereign exposure through securities and cash reserves at Central Bank of Nigeria is high relative to FBNH's Fitch Core Capital (FCC), at over 350% at end-2022.

High Stage 2 Loans: FBNH's impaired loans (Stage 3 loans under IFRS 9) ratio declined significantly to 4.7% at end-2022 from a peak of 25% at end-2018 as a result of sizeable write-offs, reclassifications and, more recently, the flattering effect of strong loan growth. Specific loan loss allowance coverage of impaired loans was 44% at end-2022. Stage 2 loans remain high (end-2022: 20% of gross loans; concentrated with oil and gas and largely US-dollar denominated) and represent a key risk to asset quality, having inflated following the naira devaluation.

Healthy Profitability: FBNH delivers healthy profitability, as indicated by operating returns on risk-weighted assets (RWAs) averaging 2.9% over the past four years. Earnings benefit from a low cost of funding and strong non-interest income, but are constrained by a high cost-to-income ratio (2022: 63%) and significant loan impairment charges (LICs).

Moderate Capital Buffer: FBN's standalone total capital adequacy ratio (CAR; end-1H23: 16.5% including unaudited interim profits) has a moderate buffer over the bank's minimum regulatory requirement of 15%. Impaired loans net of specific loan loss allowances has declined as a share of FCC to 10% at end-2022. Capitalisation may improve in the near term due to a proposed NGN150 billion rights issue.

Stable Funding Profile: FBNH's customer deposit base (end-1H23: 77% of total non-equity funding) comprises a high share of retail deposits and current and savings accounts (end-1H23: 80%), supporting funding stability and low funding costs. Depositor concentration is fairly low.

A sovereign downgrade could result in a downgrade of the VR and Long-Term IDR if Fitch believes that the direct and indirect effects of a sovereign default are likely to have a sufficiently large effect on capitalisation and FC liquidity to undermine the bank's viability.

Absent a sovereign downgrade, a downgrade of the VR and Long-Term IDR could result from the combination of a sharp naira depreciation and a marked increase in the impaired loans ratio, resulting in a breach of minimum capital requirements without near-term prospects for recovery. It could also result from a severe tightening of FC liquidity.

A downgrade of the bank's National Ratings would result from a weakening of its creditworthiness relative to other Nigerian issuers'.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of the VR and Long-Term IDR would require a sovereign upgrade and for the bank to maintain a strong financial profile.

An upgrade of the bank's National Ratings would result from a strengthening of its creditworthiness relative to other Nigerian issuers'.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Senior unsecured debt issued through FBN Finance Company B.V. is rated at the same level as FBN's Long-Term IDR, reflecting Fitch's view that the likelihood of default on these obligations is the same as the likelihood of default of the bank. The Recovery Rating of these notes is 'RR4', indicating average recovery prospects.

FBNH's Government Support Rating (GSR) of 'no support' (ns) reflects Fitch's view that sovereign support is unlikely to extend to a BHC, given its low systemic importance and a liability structure that may be more politically acceptable to be bailed in.

The government's ability to provide full and timely support to commercial banks is weak due to its constrained FC resources and high debt-servicing metrics. The GSR for FBN is therefore 'ns', reflecting our view of no reasonable assumption of support for senior creditors being forthcoming should the bank become non-viable.

An upgrade of FBN's GSR would require an improvement in the government's ability to provide support, which would most likely be indicated by an increase in international reserves and an improvement in debt servicing metrics. As a bank holding company, upside for FBNH's GSR is limited.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entities, either due to their nature or the way in which they are being managed by the entities. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
FBN Finance Company B.V					
senior unsecured	LT	B-	Affirmed	RR4	B-
First Bank of Nigeria Ltd	LT IDR	B- Rating Outlook Stable			B- Rating Outlook Stable

	ST IDR B Affirmed	B
	Natl LT A(nga) Rating Outlook Stable Affirmed	A(nga)
	Natl ST F1+(nga) Affirmed	F1+(nga)
	Viability b- Affirmed	b-
	Government Support ns Affirmed	ns
FBN Holdings Plc	LT IDR B- Rating Outlook Stable Affirmed	B- Rating Outlook Stable
	ST IDR B Affirmed	B

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Bank Rating Criteria (pub. 01 Sep 2023) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

FBN Finance Company B.V	UK Issued, EU Endorsed
FBN Holdings Plc	UK Issued, EU Endorsed
First Bank of Nigeria Ltd	UK Issued, EU Endorsed

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