

FITCH AFFIRMS FBN HOLDINGS PLC AND FIRST BANK OF NIGERIA AT 'B-'; OUTLOOK NEGATIVE

Fitch Ratings-London-31 January 2018: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDR) of FBN Holdings Plc (FBNH) and First Bank of Nigeria Ltd (FBN). The Outlooks are Negative. The banks' Viability Ratings (VR) have been affirmed at 'b-' and the Support Ratings at '5'. The Long-Term National Ratings have been affirmed at 'BB+(nga)'.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

IDRS, NATIONAL RATINGS AND VR

FBNH is the non-operating holding company which owns FBN. FBNH's ratings are aligned with those of FBN, its main operating subsidiary. FBN's ratings are driven by its standalone creditworthiness. Reducing the group's dependence on contributions from FBN is a medium-term target. Currently, FBN generates around 90% of group revenues, but the objective is to increase contributions from other subsidiaries over time. FBN represents around 95% of consolidated group assets.

FBN is one of Nigeria's largest banks, with shares of 14% and 17% of banking sector loans and deposits, respectively. FBNH has a strong franchise but its asset quality is troubled and capital levels are not commensurate with risk, in our view, reflecting high impaired loans. In the past, the group's business model was reliant on large, often oil-related, corporate lending. Risk-control deficiencies are being addressed by new management.

Gross loans represent slightly below half of FBNH's balance sheet. Around 40% of gross loans are extended to the oil and gas sectors, many of which have been restructured. In our view, restructuring efforts made to align debt servicing schedules with projected cash flows appear reasonable and the performance of restructured loans appears to be holding up well.

Loan loss reserve coverage reached 52% of impaired loans at end-September 2017, low compared with the average for large Nigerian banks peers (around 90%). Unreserved impaired loans represented 36% of Fitch Core Capital (FCC). FBNH's capital ratios are low compared with peers and capital weakness has a high influence on the ratings.

FBNH's margins are in line with peer averages and cost/income ratios are reasonable, considering the bank's large branch network. FBN's ability to generate revenues at pre-impairment operating level is strong, but high impairment charges have impacted earnings and profitability in 2016 and 2017.

The structure of FBNH's funding base is credit positive. Stable customer deposits, largely held at FBN and demonstrating considerable stability, represent around two-thirds of FBNH's total deposits. FBNH's funding costs are lower than peers, reflecting FBN's strong retail franchise. Local currency liquidity ratios are consistently well above minimum regulatory limits.

Foreign currency(FC)-denominated borrowings, which represent around 5% of total funding, mainly comprise two Eurobond issues, maturing in August 2020 and July 2021. Access to international capital markets can be unsteady for Nigerian banks, exposing them to refinancing risks, but international banks continued to lend to FBN throughout 2016 when several Nigerian banks experienced tight FC liquidity positions. This is an indication of market confidence in the group which we view positively.

The Negative Outlook reflects pressure on capital arising from a still large amount of unreserved impaired loans.

FBNH's and FBN's National Ratings reflect their creditworthiness relative to the country's best credit and relative to peers operating in Nigeria.

SUPPORT RATING AND SUPPORT RATING FLOOR

Fitch believes that sovereign support to Nigerian banks cannot be relied on given Nigeria's (B+/Negative) weak ability to provide support, particularly in FC. In addition, there are no clear messages from the authorities regarding their willingness to support the banking system. Therefore, the Support Rating Floor of all Nigerian banks is 'No Floor' and all Support Ratings are '5'. This reflects our view that senior creditors cannot rely on receiving full and timely extraordinary support from the Nigerian sovereign if any of the banks become non-viable.

SUBORDINATED DEBT

The subordinated debt issued by FBN Finance B.V., a special purpose company established by the group for the purpose of debt issuance, is rated one notch below FBN's VR. Recoveries on the notes in the event of default are considered to be below average, as evidenced by a Recovery Rating (RR) of 'RR5'.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS AND VR

FBN's and FBNH's ratings are primarily sensitive to a change in the level of loan loss reserve cover. At present, unreserved impaired loans weigh on capital adequacy and this has a high influence on the ratings. Once asset quality trends demonstrate sustained improvement, loan loss reserves cover a larger proportion of impaired loans, and assuming the operating environment does not deteriorate, the Outlook on the ratings would no longer be Negative and upgrades could be envisaged. If key weaknesses are addressed, FBNH and FBN could achieve multi-notch upgrades because their ratings are well below their natural levels considering FBN's size and position within Nigeria's banking sector.

A downgrade could result from further weakness in already limited capital buffers, which could threaten FBN's viability. Given the positive trends in asset quality improvement and capital retention, this is not our base case.

SUPPORT RATING AND SUPPORT RATING FLOOR

The SR is potentially sensitive to any change in assumptions around the propensity or ability of the sovereign to provide timely support to the bank.

SUBORDINATED DEBT

Ratings assigned to the subordinated notes are on Rating Watch Positive (RWP). If modifiers are introduced to the 'CCC' IDR category, as proposed by Fitch's exposure draft on Global Banking Criteria published on 12 December 2017, the subordinated notes would be rated 'CCC+', maintaining the one-notch differential with FBN's VR.

The rating actions are as follows:

FBN Holdings Plc and First Bank of Nigeria
Long-Term IDRs affirmed at 'B-'; Outlook Negative
Short-term IDRs affirmed at 'B'
Viability Ratings affirmed at 'b-'
National Long-Term Ratings: affirmed at BB+(nga)
Short-Term National Ratings affirmed at 'B(nga)'

Support Ratings affirmed at '5'
Support Rating Floors affirmed at 'NF'

FBN Finance Company BV
Subordinated bonds 'CCC'/'RR5'; maintained on RWP

Contact:

Primary Analyst
Janine Dow
Senior Director
+44 203 530 1464
Fitch Ratings Ltd
30 North Colonnade
London E14 5GN

Secondary Analyst
Andrew Parkinson
Director
+44 20 3530 1420

Committee Chairperson
Eric Dupont
Senior Director
+33 1 4429 9131

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email:
peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
<https://www.fitchratings.com/site/re/891051>
National Scale Ratings Criteria (pub. 07 Mar 2017)
<https://www.fitchratings.com/site/re/895106>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by

their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.