FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Outlooks on FBN Holdings and First Bank of Nigeria to Positive; Affirms at 'B-'

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Fitch Ratings - London - 25 Jul 2024: Fitch Ratings has revised the Outlooks on FBN Holdings Plc's (FBNH) and its main operating subsidiary First Bank of Nigeria Ltd's (FBN) Long-Term Issuer Default Ratings (IDRs) to Positive from Stable and affirmed the IDRs at 'B-'.

The revision of the Outlooks mirrors the recent sovereign Outlook revision and reflects Fitch's view that Nigeria's Long-Term IDRs are likely to represent less of a constraint on the issuers' standalone creditworthiness in the near term.

Fitch has also affirmed the issuers' National Long-Term Ratings at 'A(nga)' with Stable Outlooks. A full list of rating actions is below.

KEY RATING DRIVERS

FBN and FBNH's IDRs are driven by their standalone creditworthiness, as expressed by their Viability Ratings (VRs). The VRs reflect the banks' high sovereign exposure relative to capital and the concentration of their operations in Nigeria. The Positive Outlooks on the Long-Term IDRs mirror that on the sovereign. The National Ratings balance a strong franchise, healthy profitability and a stable funding profile against high credit concentrations and thin capital buffers.

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. FBN's VR is also equalised with the group VR as it is the main operating entity (end-1Q24: 96% of group assets).

Challenging Environment: President Tinubu has pursued key reforms since he assumed office in May 2023, reducing the fuel subsidy and overhauling monetary policy, including allowing the naira to devalue by over 65%. The reforms are positive for Nigeria's creditworthiness and FX market liquidity but pose near-term macro-economic challenges for the banking sector.

Strong Franchise: FBN is Nigeria's third-largest bank, representing 10.7% of banking system assets at end-2023. Its strong franchise supports a stable funding profile and low funding costs. Revenue diversification is significant, with non-interest income typically exceeding 40% of operating income.

High Sovereign Exposure: Single-borrower credit concentration is material, with the 20 largest loans representing 354% of FBN's total equity at end-1Q24. Oil and gas exposure (end-2023: 33% of gross loans) is greater than the banking-system average. Sovereign exposure through securities and cash reserves at the Central Bank of Nigeria (CBN) is high relative to FBNH's Fitch Core Capital (FCC; end-2023: 334%).

High Stage 2 Loans: FBNH's impaired loans (Stage 3 loans under IFRS 9) ratio increased slightly to 4.9% at end-2023 (end-2022: 4.7%) due to operating environment challenges. Specific loan loss allowance coverage of impaired loans was 40% at end-2023. Stage 2 loans remain high (end-2023: 20% of gross loans; concentrated in the oil and gas sector and largely US dollar-denominated) and represent a key risk to asset quality, having inflated due to the devaluation. Fitch forecasts the impaired loans ratio will increase moderately in the near term.

Healthy Profitability: FBNH has healthy profitability, as indicated by operating returns on risk-weighted assets (RWAs) averaging 3.5% over the past four years. Earnings benefit from a low cost of funding and strong non-interest income. Profitability improved notably in 2023 and 1Q24, primarily driven by FX revaluation gains accompanying the naira devaluation due to a net long foreign-currency position.

Thin Capital Buffer: FBN's bank-solo capital adequacy ratio (end-1Q24: 15.5% including unaudited interim profits) has a thin buffer over the bank's minimum regulatory requirement of 15%. Impaired loans net of specific loan loss allowances were 12% of FCC at end-2023. Fitch expects capitalisation to improve moderately in the near term as a result of strong profitability and capital raisings to comply with FBN's impending new paid-in capital requirement of NGN500 billion.

Stable Funding Profile: FBNH's customer deposit base (end-1Q24: 73% of total non-equity funding) comprises a high share of retail deposits and current and savings accounts (end-1Q24: 78%), supporting funding stability and low funding costs. Depositor concentration is fairly low.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A sovereign downgrade could result in a downgrade of the VRs and Long-Term IDRs if Fitch believes that the direct and indirect effects of a sovereign default would likely have a sufficiently large impact on capitalisation and FC liquidity insofar as to undermine the banks' viability. However, this is unlikely given the Positive Outlook on Nigeria's Long-Term IDRs.

Absent a sovereign downgrade, a downgrade of the VRs and Long-Term IDRs could result from the combination of a naira devaluation and a marked increase in problem loans, resulting in a breach of regulatory capital requirements without near-term prospects for recovery, or a severe tightening in FC liquidity.

FBNH's VR could be notched off the group VR if the BHC's double leverage increases above 120% for a sustained period without clear prospects for a moderation.

A downgrade of the National Ratings would result from a weakening of the entities' creditworthiness relative to that of other Nigerian issuers.

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

An upgrade of the VRs and Long-Term IDRs would require an upgrade of Nigeria's Long-Term IDRs in conjunction with stable financial profiles.

An upgrade of the National Ratings would result from a strengthening of the entities' creditworthiness relative to that of 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. FBN's GSR is therefore 'ns', reflecting our view of no reasonable assumption of support for senior creditors being forthcoming should the bank become non-viable.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The rating of the senior unsecured debt is sensitive to changes in FBN's Long-Term IDR.

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 BHC, upside for FBNH's GSR is limited.

VR ADJUSTMENTS

The capitalisation and leverage score of 'b-' is below the 'bb' category implied score due to the following adjustment reason: risk profile and business model (negative).

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

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

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 Positive Affirmed	B- Rating Outlook Stable
	ST IDR B Affirmed	B
	Natl LT A(nga) Rating Outlook Stable Affirmed	A(nga) Rating Outlook Stable
	Natl ST F1+(nga) Affirmed	F1+(nga)
	Viability b- Affirmed	b-
	Government Support ns Affirmed	ns
FBN Holdings Plc	LT IDR B- Rating Outlook Positive 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. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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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