FitchRatings

Banks
Universal Commercial Banks
Nigeria

FBN Holdings Plc

Key Rating Drivers

Standalone Strength Drives IDRs: FBN Holdings Plc's (FBNH) Issuer Default Ratings (IDRs) are driven by its intrinsic creditworthiness, as defined by its 'b-' Viability Rating (VR). The VR considers the challenging operating environment in Nigeria as well as FBNH's leading banking franchise and solid funding profile. The Negative Outlook is driven by reported corporate governance issues, which remain a factor of high importance to the VR, along with First Bank of Nigeria's (FBN) modest headroom over its minimum regulatory capital requirements.

Corporate Governance Shortcomings: In April 2021 the Central Bank of Nigeria (CBN) replaced the boards of FBNH and its main operating subsidiary, FBN, with its own appointees. The CBN said it acted because FBN had made significant executive management changes without prior notice or the approval of the regulator. The CBN also cited problematic long-standing related-party exposures at FBN.

Limited Capital Buffers at Bank: Capitalisation remains a rating weakness and has a high influence on the ratings. FBN reported a capital adequacy ratio of 15.7% at end-1H21 (excluding interim profits), which provides limited headroom above its 15% minimum regulatory requirement. In addition, FBNH's capitalisation metrics remain vulnerable to asset-quality risks given significant capital encumbrance by unreserved impaired loans: these represented 15.2% of Fitch Core Capital (FCC) at end-1H21, at the higher-end of Nigerian rated banks.

Asset Quality Pressures: FBNH's impaired loan ratio (Stage 3 under IFRS 9) improved to 7.6% at end-1H21 from a peak of 26% at end-2018, primarily reflecting write-offs, repayments and recoveries. As a result of the write-offs, the reserve coverage of impaired loans fell to a low 47% (end-2018: 72%). Fitch Ratings expects FBNH's impaired loans ratio to continue declining steadily in the near term due to rapid loan growth and recoveries.

Low Profitability Metrics: FBNH's profitability metrics typically lag behind those of large peers. Its operating profit/average total assets ratio of 1.2% (annualised) in 1H21 was well below the sector average of 2% mostly due to higher loan impairment charges (LICs). Nevertheless, FBNH's earning capacity remains sound, underpinned by below-sector-average funding costs.

Solid Funding Profile: FBNH's liquidity profile in local currency is strong by domestic standards, with a Fitch-calculated loans/customer deposits ratio of 52% at end-1H21. Local currency liquidity is ample, with excess liquidity placed in government securities.

FBNH Ratings Equalised: FBNH's ratings are equalised with the consolidated risk assessment of the group given modest double leverage at the holding company level, and high capital and liquidity fungibility within the group.

National Ratings: FBNH's National Ratings are lower than those of large Nigerian peers due to its comparatively weak financial profile, specifically its asset quality and capitalisation.

Rating Sensitivities

Downside Potential: FBNH's ratings would be downgraded if the corporate governance shortcomings highlighted by the CBN persist and further weaknesses are uncovered, potentially leading to a significant impact on the bank's financial metrics.

Renewed deterioration in FBNH's asset quality metrics, potentially indicated by a rise in the Stage 3 loans ratio to above 15% driving losses, or regulatory capital ratios falling below the regulatory minimum, could put further pressure on the rating, as could an increase in capital encumbrance from unreserved impaired loans.

Upside Potential: A positive rating action is unlikely at present.

Ratings

Foreign Currency	
Long-Term IDR	B-
Short-Term IDR	B
Viability Rating	b-
Support Rating	5
Support Rating Floor	NF
National	
National Long-Term Rating	BBB(nga)
National Short-Term Rating	F2(nga)
Sovereign Risk	
Long-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	B
Country Ceiling	B

Outlooks

Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Affirms FBN Holdings Plc and First Bank of Nigeria at 'B-'; Outlook Negative (September 2021)

Fitch Affirms FBN Holdings' Ratings at 'B-'/Negative After Board Removal by Central Bank (May 2021)

Nigerian Banks' Near-Term Credit Risks Ease (May 2021)

Nigeria (March 2021)

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Issuer Ratings

FBN Holdings Plc

Rating level	Rating	Outlook
Long-Term Foreign-Currency IDR	B-	Negative
Short-Term Foreign-Currency IDR	B	
Viability Rating	b-	
Support Rating	5	
Support Rating Floor	NF	
National Long-Term Rating	BBB(nga)	
National Short-Term Rating	F2(nga)	
Outlook	Negative	

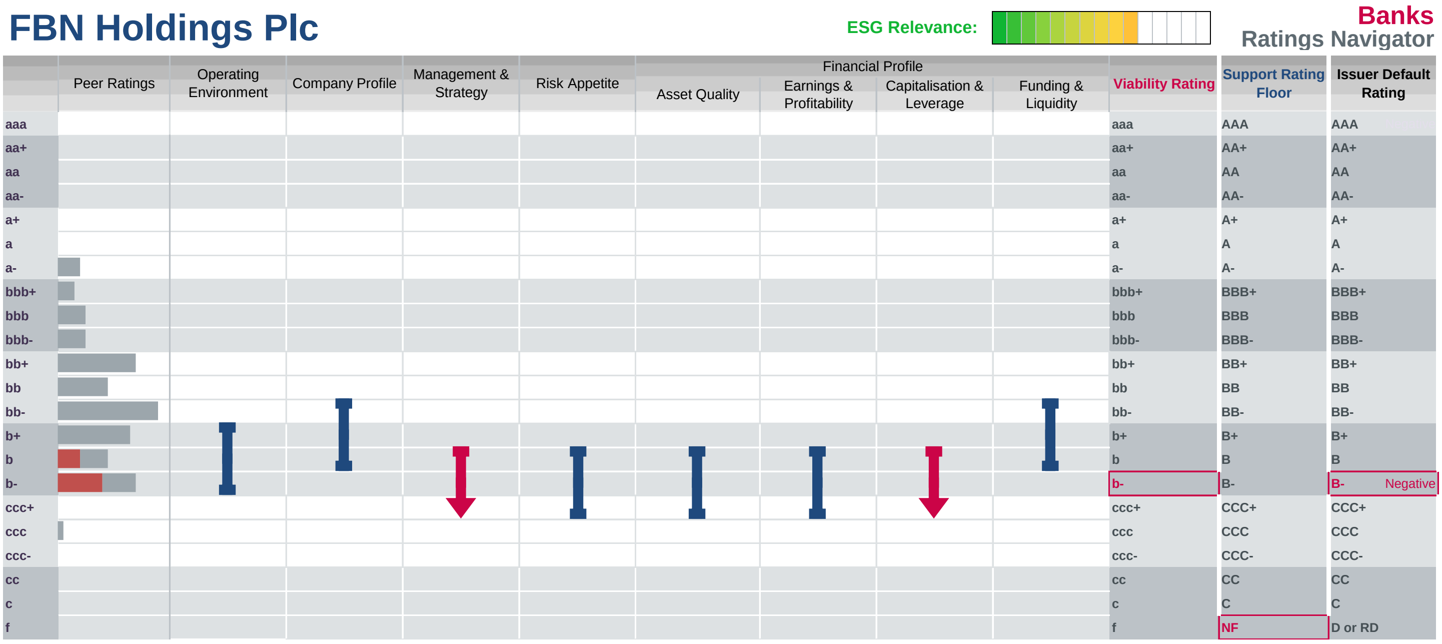
Source: Fitch Ratings

First Bank of Nigeria Ltd

Rating Level	Rating	Outlook
Long-Term Foreign-Currency IDR	B-	Negative
Short-Term Foreign-Currency IDR	B	
Viability Rating	b-	
Support Rating	5	
Support Rating Floor	NF	
National Long Term Rating	BBB(nga)	
National Short Term Rating	F2(nga)	
Outlook	Negative	
FBN Finance Company B.V senior unsecured debt	B-	

Source: Fitch Ratings

Ratings Navigator



Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			B
Actual country D-SIB SRF			NF
Support Rating Floor:			**NF**
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy	✓		
Size of potential problem			✓
Structure of banking system		✓	
Liability structure of banking system			✓
Sovereign financial flexibility (for rating level)			✓
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in		✓	
Track record of banking sector support	✓		
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance			✓
Liability structure of bank			✓
Ownership		✓	
Specifics of bank failure		✓	

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

Higher influence

Moderate influence

Lower influence

Bar Arrows – Rating Factor Outlook

⇧ Positive ⇩ Negative

⇳ Evolving ▫ Stable

High Propensity to Support; Weak Ability

Fitch considers the authorities' propensity to support the Nigerian banking system to be high and there is a record of recent support across the sector. However, we believe sovereign support for commercial banks cannot be relied on, given Nigeria's weak ability to support, particularly in foreign currency (FC). The Support Rating Floors of all commercial banks are at 'No Floor' and all Support Ratings are at '5', reflecting our view that senior creditors cannot rely on receiving full and timely extraordinary support from the authorities should a bank become non-viable. In addition, Fitch considers that sovereign support cannot be relied on for holding companies such as FBNH due to their low systemic importance.

Significant Changes

Corporate Governance Shortcomings Highlighted by the CBN

In April 2021 the CBN removed the non-executive directors from the boards of FBNH and FBN - a domestic systemically important bank (D-SIB) - and replaced them with its own appointees. The CBN says its actions were in the interest of financial stability and minority shareholders. It says it acted because FBN had made significant executive management changes, including replacing the CEO, without prior notice or the approval of the regulator. The CBN also highlighted other failings pertaining to long-standing and problematic related-party exposures, and a failure to comply with regulatory directives.

The governance issues cited by the CBN reflect poorly on FBNH's reputation and on the group's governance and control practices. Furthermore, these issues remain unresolved, creating significant uncertainty around the outcome, including the risk of further remedial measures and/or financial impact on FBNH/FBN.

Easing of Operating Environment Pressures

Operating conditions are gradually stabilising with banks performing better than anticipated in 2020. Our baseline scenario is that business volumes and earnings will continue rising in 2022, with Nigeria’s (B/Stable) economy forecast to grow by 1.9%, compared to a 1.8% contraction in 2020. The recovery in oil prices is also positive for the banks’ credit profile and a pick-up in economic activity post-lockdown means that near-term pressures on banks’ operating environment have eased.

However, downside risks linger, with banks still exposed to FC shortages in Nigeria, further currency devaluation, rising inflation and regulatory intervention by the CBN. A resurgence of the pandemic remains a key risk for the operating environment, particularly in light of the slow pace of the vaccination programme.

Under our baseline, we assume loan growth of 10% in 2021, reflecting pent-up credit demand, currency devaluation (around 40% of sector loans are in US dollars) and a regulatory push for banks to increase lending to priority sectors. Loan growth will also come from a strategic shift towards consumer lending, with many banks investing in, and rolling out, digital channels. Asset quality deterioration was contained in 2020 due to the loan moratoriums and other support measures from the authorities.

Sector asset quality is unlikely to worsen significantly in 2021, even though support measures are ending. Early indications show that customers benefiting from moratoriums resumed payments in 2021. Most new impaired loans will come from the SME segment given the extent of the economic shock on businesses. Current oil prices are supportive of the banks’ asset quality as they take pressure off the upstream sector, a traditionally problematic sector when prices and production drop. Oil-related loans form around 30% of sector loans.

Rising credit costs, slow growth, rate cuts and regulatory caps on fees depressed earnings and profitability in 2020. While performance metrics are unlikely to return to pre-pandemic levels for at least another two years, we believe banks will remain profitable in 2021 with a rebound in core revenue, even though loan impairment charges are likely to remain higher than usual.

We also believe net interest income will continue to benefit from renewed volume growth, persistent low funding costs (owing to abundant liquidity) and a gradual pick-up in government securities' yields. Non-interest income will remain healthy and adequate capital, funding and liquidity will continue to underpin the banks’ credit fundamentals.

Company Summary and Key Qualitative Assessment Factors

Top-Tier Franchise

FBNH is the bank holding company of a diversified financial services group. Formed in 1894 as the Bank for British West Africa, FBN is Nigeria's oldest bank. FBN is the main operating entity within FBNH and is Nigeria's leading retail bank, with about 34 million customer accounts and the country's largest retail deposit base.

FBNH's retail franchise is supported by the largest branch network in the country and alternative delivery channels, including digital and agency banking. FBNH has a market share of domestic credit of 16%. The CBN classifies the bank as a D-SIB. FBNH's other subsidiaries operate within merchant banking and capital markets.

Fitch rates both FBNH and FBN using FBNH's consolidated financials. FBNH was incorporated in 2012 as a listed bank holding company following CBN regulations requiring the separation of banking and non-banking activities. Liquidity and capital are relatively fungible across the group, in our view.

FBN accounted for 92% of FBNH's end-2020 total assets and 74% of its pre-tax profits. The bank's activities are split into retail banking, corporate banking, commercial banking, public sector banking and treasury. FBNH's company profile benefits from geographical diversification with subsidiaries in the United Kingdom and in six African countries.

In 2020, FBNH divested the 65% stake in FBN Insurance Limited to its existing JV partner in the business, South-Africa based Sanlam (PTY) Limited. The insurance company accounted for roughly 10% of FBNH's consolidated pre-tax profit but only 2% of the group's total assets. The proceeds of the divestment were used by FBNH to boost FBN's capital. This divestment did not affect our assessment of FBNH's company profile.

Execution Hampered by Legacy Asset Quality Issues and Weak Efficiency

FBNH generates robust core revenue underpinned by its franchise strength. However, its performance remains affected by high LICs. The management has achieved its objective of decreasing FBNH's impaired loans ratio to below 10% (7.6% at end-1H21 from a peak 26% at end-2018) but the ratio remains above the sector average. FBNH's performance is also hampered by its high cost-income ratio of 69% in 1H21.

Lower Risk Appetite

FBNH has adopted a more conservative risk appetite since its asset quality problems started in 2016. Changes to risk management started in 2017, including a full review of the risk-management framework, systems and processes, which are now broadly in line with direct peers.

FBN, nevertheless, shows persistently high credit concentrations by industry and borrower. We estimate that net loans to the oil and gas sector and the 20 largest borrowers represented 107% and 186% of total equity, respectively, at end-1H21. This is high by sector standards.

FBNH's most significant market risk is foreign exchange rate risk, similar to the peer group. This has improved in our view, with FBNH reporting a net long FC open position equivalent to 20% of FCC at end-2020, compared to 23% at end-2019.

FBNH is structurally exposed to a rise in interest rates (assuming no action is taken) with a 1% reduction in rates reducing 2020 net interest income by approximately 15% (equivalent to 1% of end-2020 FCC).

Summary Financials and Key Ratios

	30 Jun 21		31 Dec 20	31 Dec 19	31 Dec 18
	6 months - interim (USDm) Unaudited	6 Months - interim (NGNbn) Unaudited	Year end (NGNbn) Audited - unqualified	Year end (NGNbn) Audited - unqualified	Year end (NGNbn) Audited - unqualified
Summary income statement					
Net interest and dividend income	258	105.7	255.6	294.6	286.5
Net fees and commissions	140	57.4	93.8	83.8	75.4
Other operating income	145	59.2	77.2	60.5	49.3
Total operating income	543	222.3	426.6	438.9	411.2
Operating costs	372	152.6	299.8	305.8	266.5
Pre-impairment operating profit	170	69.7	126.8	133.1	144.7
Loan and other impairment charges	60	24.5	43.3	49.9	79.4
Operating profit	110	45.2	83.5	83.2	65.3
Other non-operating items (net)	0	0.0	14.3	0.2	-0.1
Tax	17	7.1	8.1	9.8	5.5
Net income	93	38.0	89.7	73.7	59.7
Other comprehensive income	-37	-15.0	36.4	69.3	-1.5
Fitch comprehensive income	56	23.1	126.1	142.9	58.1
Summary balance sheet					
Assets					
Gross loans	6,412	2,626.9	2,291.5	1,931.3	2,069.3
- Of which impaired	487	199.7	192.3	197.0	535.0
Loan loss allowances	217	88.9	74.3	78.9	385.5
Net loans	6,195	2,538.0	2,217.3	1,852.4	1,683.8
Interbank	2,149	880.3	1,016.8	754.9	863.4
Derivatives	148	60.5	72.2	38.4	17.8
Other securities and earning assets	6,049	2,477.9	2,240.5	2,127.6	2,068.1
Total earning assets	14,541	5,956.7	5,546.8	4,773.3	4,633.1
Cash and due from banks	3,980	1,630.4	1,631.7	1,025.3	653.3
Other assets	1,066	436.5	510.5	404.9	281.9
Total assets	19,586	8,023.6	7,689.0	6,203.5	5,568.3
Liabilities					
Customer deposits	12,396	5,078.0	4,894.7	4,019.8	3,486.7
Interbank and other short-term funding	3,561	1,458.7	1,215.8	904.0	945.9
Other long-term funding	830	340.1	436.8	333.6	338.2
Trading liabilities and derivatives	30	12.1	7.5	6.0	15.8
Total funding	16,816	6,888.9	6,554.8	5,263.4	4,786.6
Other liabilities	885	362.6	369.1	279.0	251.1
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	1,885	772.1	765.2	661.1	530.6
Total liabilities and equity	19,586	8,023.6	7,689.0	6,203.5	5,568.3
Exchange rate		USD1 = NGN409.66	USD1 = NGN381	USD1 = NGN307	USD1 = NGN306.31

Source: Fitch Ratings, Fitch Solutions, FBNH

Summary Financials and Key Ratios

	30 Jun 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	n.a.	n.a.	n.a.	n.a.
Net interest income/average earning assets	3.7	5.0	6.3	6.5
Non-interest expense/gross revenue	68.6	70.4	69.7	64.8
Net income/average equity	10.0	12.7	12.7	9.3
Asset quality				
Impaired loans ratio	7.6	8.4	10.2	25.9
Growth in gross loans	14.6	18.7	-6.7	-9.3
Loan loss allowances/impaired loans	44.5	38.6	40.1	72.1
Loan impairment charges/average gross loans	2.0	2.0	2.5	3.5
Capitalisation				
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	9.1	9.5	10.1	8.9
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	15.2	16.2	18.9	30.5
Funding and liquidity				
Loans/customer deposits	51.7	46.8	48.0	59.4
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	73.8	74.8	76.5	73.1
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, FBNH

Key Financial Metrics – Latest Developments

Asset Quality Improvement Expected -Excluding Additional CBN Action

FBNH's impaired (IFRS 9 Stage 3) loan ratio improved to 7.6% at end-1H21 (end-2020: 8.4%, end-2018: 26%) following large write-offs in 2019 but remains high compared to the peer average. As a result of write-offs, the loan-loss allowance/impaired loan ratio fell to 47% (end-2018: 72%), one of the weakest rates of coverage among Nigerian rated banks.

Additionally, FBNH has a sizeable stock of Stage 2 loans (mainly oil and gas related exposures restructured in 2015/2016), which we estimate formed a high 26% gross loans at end-1H21. This provides a high problem loan (defined as Stage 3 plus Stage 2 loans) ratio of about 33% of gross loans at end-1H21. Our assessment of FBNH's asset quality also captures sizeable investments in relatively liquid, though low-yielding, Nigerian government securities, which represented a high 31% of total assets at end-1H21.

Fitch expects FBNH's impaired loan ratio to continue declining at a steady pace in the coming years owing to rapid loan growth and recoveries. However, this does not consider possible corrective actions by the CBN. We estimate that, if the related-party loan highlighted by the CBN was classified as impaired, FBNH's impaired loan ratio would increase slightly but remain below 10%.

Impairment Charges Dampen Profits

FBNH's profitability metrics lag behind other large banks with an annualised operating profit/average total assets ratio of 1.2% in 1H21 versus a sector average of 2%. This is mainly due to high LICs, which consumed a high 35% of pre-impairment operating profits in 1H21 on an annualised basis.

FBNH has been able to absorb high LICs owing to its core revenue generation capacity. That said, large holdings of low-yielding government securities, a lower interest rate environment and high cash reserve requirements (CRR) have exerted negative pressure on net interest margins (NIMs) in the past 18 months; these weakened to 3.7% in 1H21 from 6.3% in 2019.

Pressure on NIMs was eased by relatively low funding costs as FBNH benefits from one of the cheapest deposit bases across the banking sector. In addition, non-interest revenue made up 52% of gross revenue in 1H21, up from 33% in 2019, which highlights the increasing earning diversification provided by the bank's digital banking channels.

Limited Capital Buffers – High Influence on VR

FBN's capital adequacy ratio (CAR) of 15.7% at end-1H21 (excluding interim profits) provides thin buffers above the 15% minimum regulatory requirement. FBN expects the CAR to improve to 16%-17% at end-2021 primarily on internal capital generation, which we believe is achievable. FBNH also indicates that the divestment of some of the non-permissible equity stakes as highlighted by the CBN could also provide a significant capital uplift.

The financial impact of the outstanding governance issues remains uncertain and, if significant, could materially affect capitalisation. Therefore we maintain a negative outlook for our assessment of this factor.

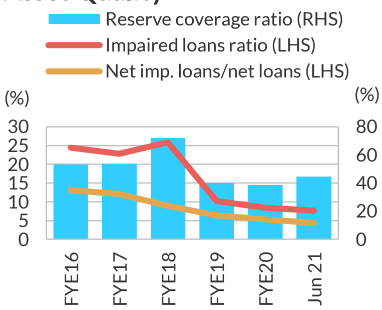
Capitalisation also remains vulnerable to further asset quality deterioration, with unreserved impaired loans measuring at a fairly high 15.2% of FCC at end-1H21, one of the highest levels among Nigerian rated banks.

Funding and Liquidity Remain Rating Strengths

FBNH enjoys a solid low-cost customer deposit base reflecting its strong retail franchise. At end-1H21, customer deposits formed 74% of the group's non-equity funding. FBNH's liquidity profile in local currency is strong, with a Fitch-calculated loans/customer deposits ratio of 52% at end-1H21 (end-2020: 47% and end-2019: 48%).

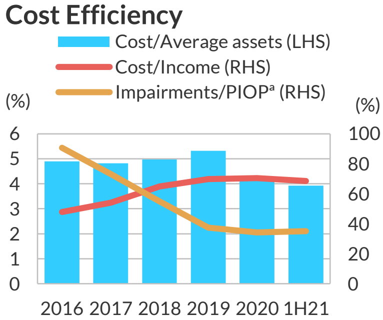
Local currency liquidity (excluding the CRR) is ample, with excess liquidity mainly placed in government securities. In addition, FBN has a good record in accessing international capital markets, as evidenced by its five-year USD350 million senior unsecured bond issuance in October 2020.

Asset Quality



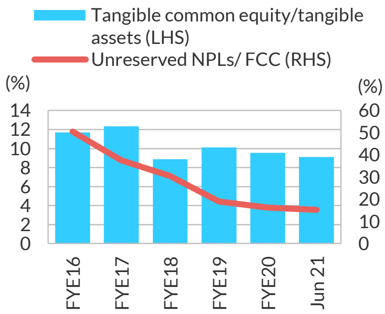
Source: Fitch Ratings, FBNH

Cost Efficiency



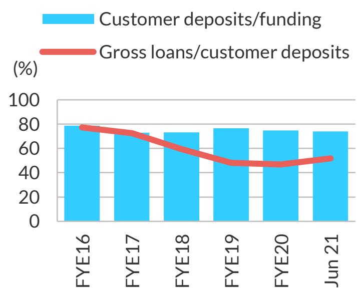
[a] Pre-impairment operating profit
Source: Fitch Ratings, FBNH

Capitalisation & Leverage



Source: Fitch Ratings, FBNH

Funding Profile



Source: Fitch Ratings, FBNH

Environmental, Social and Governance Considerations

FitchRatings **FBN Holdings Plc**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				Overall ESG Scale
FBN Holdings Plc has 1 ESG rating driver and 4 ESG potential rating drivers	key driver	0	issues	5
FBN Holdings Plc has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions which, in combination with other factors, impacts the rating.	driver	1	issues	4
FBN Holdings Plc has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.	potential driver	4	issues	3
FBN Holdings Plc has exposure to operational implementation of strategy but this has very low impact on the rating.	not a rating driver	4	issues	2
FBN Holdings Plc has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership but this has very low impact on the rating.		5	issues	1
FBN Holdings Plc has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.				

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	4	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

FBNH has an ESG Relevance Score of '4' for Governance Structure. We believe the recent governance shortcomings could damage FBNH's reputation and reduce investor confidence, and additional remedial actions from the CBN could damage FBNH financially, especially if regulatory investigations highlight the need for certain loans to be classified as impaired or if loan loss provisioning needs to be strengthened. This could have a negative impact on capital adequacy.

We therefore assess FBNH's ESG Relevance Score for Governance Structure at '4', as the group's governance issues are a contributor to the Negative Outlook. This has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors. 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 entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.