FitchRatings

**Banks**
Bank Holding Companies
Nigeria

# FBN Holdings Plc

## Key Rating Drivers

FBN Holdings Plc's (FBNH) and First Bank of Nigeria Ltd's (FBN) Long-Term Issuer Default Ratings (IDRs) of 'B' are driven by their standalone creditworthiness, as expressed by their Viability Ratings (VR) of 'b'.

The VRs balance a strong franchise, healthy profitability, improved capitalisation and a stable funding profile against material credit concentrations and remaining asset quality weaknesses.

The National Ratings are driven by FBNH's and FBN's standalone strengths. They are at the higher end of the scale given FBNH's and FBN's comparatively strong franchise, profitability, capitalisation and funding profile.

**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 high fungibility of capital and liquidity. As the main operating entity, FBN's VR is also equalised with the group VR.

**Downside to Operating Conditions:** Rising global risks will weigh on domestic operating conditions. Fitch Ratings expects inflation (20.52% in August 2022) to remain stubbornly high, posing the risk that our real GDP growth forecasts of 3% in 2022 and 3.1% in 2023 could be lowered. However, this is mitigated by strong oil prices, which should underpin growth in non-oil sectors and banks' asset quality.

**Strong Franchise:** FBN is the third-largest bank in Nigeria, representing 11% of domestic banking-system assets at end-2021. A strong franchise supports a stable funding profile and a low cost of funding. Revenue diversification is strong, with non-interest income representing 48% of operating income in 2021.

**Material Credit Concentrations:** Single-borrower credit concentration is material, with the 20-largest loans representing 157% of Fitch Core Capital (FCC) at end-1H22. Oil and gas exposure (30% of net loans at end-2021) is higher than the banking-system average and weighted towards higher-risk upstream and services sub-segments.

**Improved Asset Quality:** FBN's impaired loans (Stage 3 loans under IFRS 9) ratio has declined significantly to 5.6% at end-1H22 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. Stage 2 loans remain significant (15% of gross loans at end-1H22) but Fitch expects these loans to decline as oil and gas exposures return to performing status. Specific loan loss allowance coverage of impaired loans (49% at end-1H22) is acceptable in view of collateral levels.

**Healthy Profitability:** FBNH delivers healthy profitability, as indicated by operating returns on risk-weighted assets (RWAs) averaging 2.6% 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 (74% in 2021) and significant loan impairment charges (LICs) in recent years.

**Improved Capitalisation:** FBNH's FCC ratio (19.1% at end-1H22) has been on an upward trend in recent years as a result of strong internal capital generation, which has been influenced by a modest dividend pay-out ratio. Impaired loans net of specific loan loss allowances has declined as a share of FCC in recent years to a moderate 12% at end-1H22.

**Stable Funding Profile:** FBNH's customer deposit base (76% of total funding at end-1H22) comprises a high share of retail deposits (64% at end-2021) and current and savings accounts (81% at end-1H22), supporting funding stability and a low cost of funding. Depositor concentration is fairly low. Liquidity coverage is comfortable in local and foreign currencies (FC).

## Ratings

| | |
|---|---|
| **FBN Holdings Plc** | |
| **Foreign Currency** | |
| Long-Term IDR | B |
| Short-Term IDR | B |
| Viability Rating | b |
| Government Support Rating | ns |
| **National Rating** | |
| National Long-Term Rating | A(nga) |
| National Short-Term Rating | F1+(nga) |
| **First Bank of Nigeria Ltd** | |
| **Foreign Currency** | |
| Long-Term IDR | B |
| Short-Term IDR | B |
| Viability Rating | b |
| Government Support Rating | ns |
| **National Rating** | |
| National Long-Term Rating | A(nga) |
| National Short-Term Rating | F1+(nga) |
| **Sovereign Risk (Nigeria)** | |
| Long-Term Foreign-Currency IDR | B |
| Long-Term Local-Currency IDR | B |
| Country Ceiling | B |
| **Outlooks** | |
| Long-Term Foreign-Currency IDR | Stable |
| Sovereign Long-Term Foreign-Currency IDR | Stable |
| Sovereign Long-Term Local-Currency IDR | Stable |

## Applicable Criteria

Bank Rating Criteria (September 2022)

National Scale Rating Criteria (December 2020)

## Related Research

Fitch Upgrades FBN Holdings to 'B'; Outlook Stable (September 2022)

Nigerian Banks Face Risks Despite Oil Boost (May 2022)

Nigeria (August 2022)

Nigeria's Complex Policy Approach Hampers Inflation Fight (June 2022)

## Analysts

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## Rating Sensitivities

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

A sovereign downgrade would result in a downgrade of the Long-Term IDRs given that FBNH and FBN do not meet Fitch's criteria to be rated above the sovereign.

An increase in the impaired loans ratio to significantly above 10%, resulting in markedly weaker performance and very thin buffers over regulatory capital requirements or a sharp decline in the FCC ratio without clear prospects to restore capital would pressure the VRs.

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

An upgrade of the Long-Term IDRs would require a sovereign upgrade combined with an extended record of asset-quality performance.

## Other Debt and Issuer Ratings

### Debt Rating Classes

**FBN Finance Company B.V**

| Rating level | Rating | Rating Watch |
|---|---|---|
| Senior Unsecured: Long Term | B | n.a. |

Source: Fitch Ratings

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.

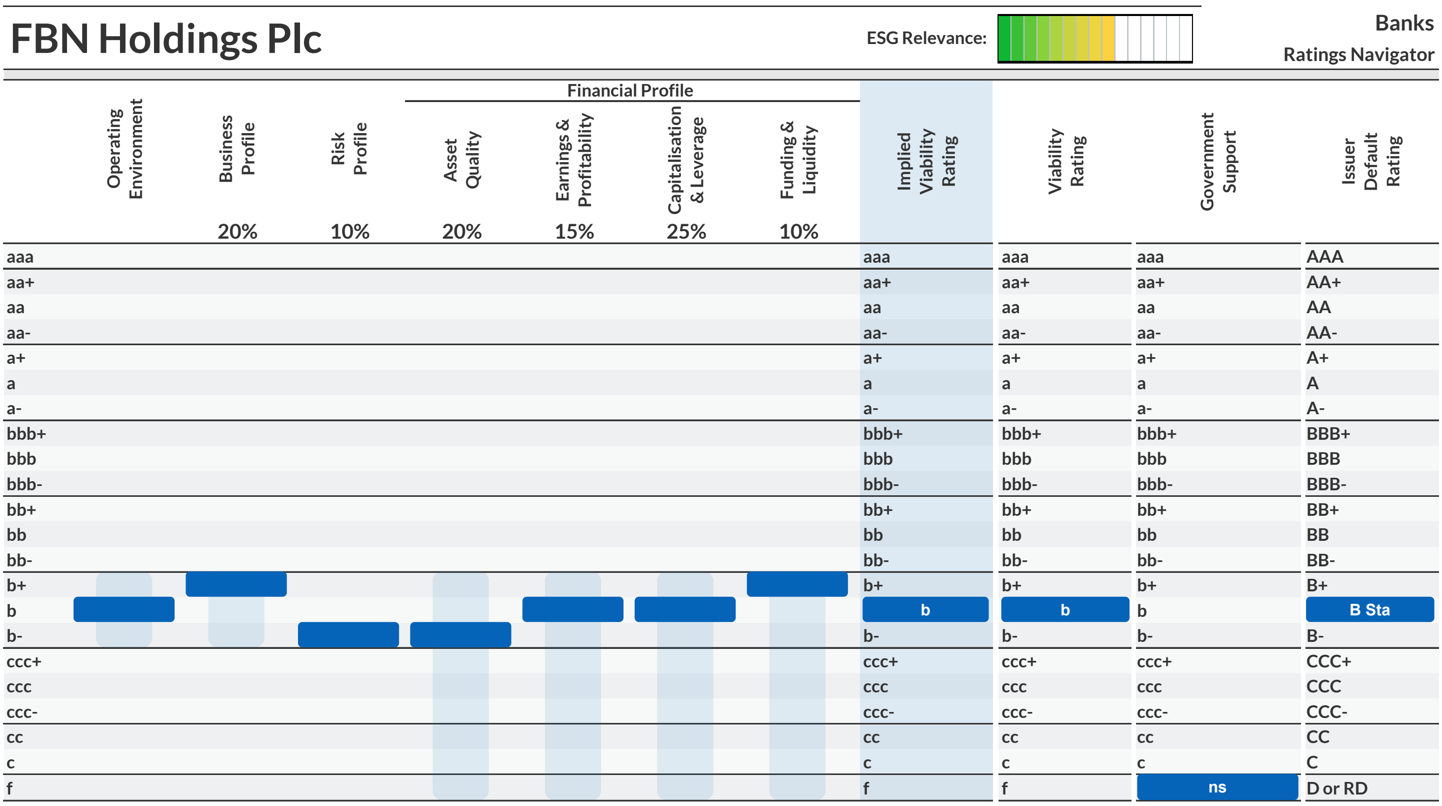
## Significant Changes from Last Review

### Upgrade Follows Corporate Governance Irregularities Being Addressed

Fitch upgraded FBNH's and FBN's Long-Term IDRs to 'B' from 'B-' on 16 September 2022. The upgrade of the Long-Term IDRs follows that of the VRs, reflecting Fitch's understanding that corporate governance irregularities publicly raised by the Central Bank of Nigeria (CBN) in April 2021, including two longstanding related-party exposures, have largely been addressed and therefore risks to capitalisation have receded, helped by strong internal capital generation since the irregularities were raised.

According to the management, the two related-party exposures highlighted by the CBN, which included equity and credit exposures to two companies of whom FBNH's previous chairman was also chairman, have largely been disposed of and repaid. Fitch understands from the management that FBNH and FBN have not been subject to penalties in relation to issues raised by the CBN in April 2021 and no further concerns have been raised.

## Ratings Navigator




The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

## Company Summary and Key Qualitative Factors

### Operating Environment

#### *Weakening Operating Conditions*

Operating conditions have weakened in 2022 as global conditions have affected Nigeria, with Fitch expecting inflation to remain stubbornly high (20.5% in August 2022) due to increased energy and food prices. High inflation is not unusual in Nigeria, averaging 14% over the last six years, but has led to interest rate hikes and poses downside risks to our real GDP growth forecasts of 3.0% in 2022 and 3.1% in 2023 (3.6% in 2021). Downside pressure on growth is counterbalanced by strong oil prices, expected to average USD100/barrel in 2022 and USD85/barrel in 2023.

The Nigerian naira is expected to remain under pressure in 2022/23 given high inflation, the backlog of hard currency demand, elevated costs of fuel subsidies underpinning continued demand for hard currency and oil production remaining below pre-pandemic levels. Hard currency shortages have led to a widening of the gap between the official exchange rate and the parallel market rate to about 50%. Forward markets are implying about a further 30% depreciation of the naira against the US dollar over the next 12 months.

Fitch expects the banking system's prudential non-performing loans (NPL) ratio (4.8% at end-2021), which is at its lowest level in over seven years, to remain broadly stable despite macroeconomic risks as high oil prices, which have historically been a key determinant of bank asset quality, support performance of oil and gas loans (23% of banking system loans at end-2021). Rate hikes will support net interest margins (NIM) and naira devaluation and greater market volatility will underpin non-interest revenues in 2022–2023. Fitch expects credit costs to remain contained, with most banks guiding a manageable increase in the cost of risk in 2022. Regulatory risks are expected to remain high, with high cash reserve requirements continuing to constrain NIMs and overall profitability.

Nigerian banks are undergoing a Basel III parallel run, but Fitch does not expect such requirements to be introduced until 2023. The majority of large banks will comfortably meet Basel III capital requirements but some smaller institutions are expected to have tight buffers. We expect higher earnings retention, capital raising and slower growth to boost capital buffers for banks that are not yet compliant.

Funding and liquidity remains a strength for banks, with over 70% of deposits composed of low-cost current and savings accounts (CASA). Eurobonds maturing in 2022 amount to about USD700 million and we expect banks to redeem given lower lending opportunities in FC and much tighter global financial conditions.

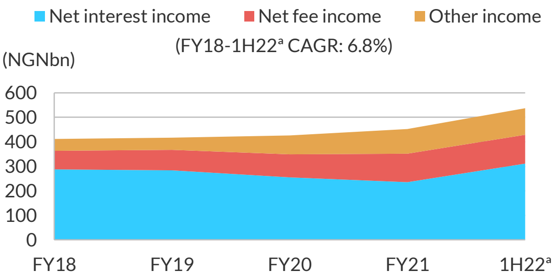
### Business Profile

#### *Strong Franchise*

FBN is Nigeria's oldest banking group and its third-largest by assets. FBN represented 11% of domestic banking system assets at end-2021 and is considered a domestic systemically important bank (D-SIB) by the CBN. Market share has declined in recent years as capital weakness has constrained growth in a period when other D-SIBs have grown aggressively.

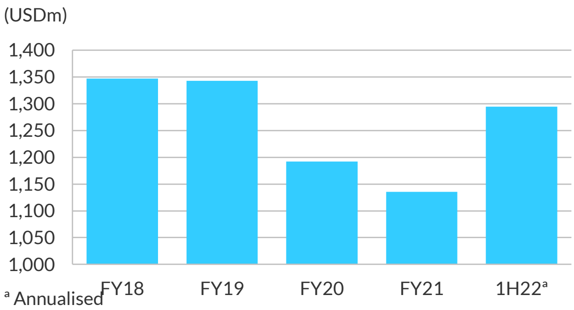
FBN has Nigeria's leading retail franchise, which is supported by its well-entrenched brand, the largest branch network in the country and strong digital and agency banking delivery channels. The franchise supports a large retail and current and savings accounts deposit base that provides for one of the lowest costs of funding in the banking system, giving pricing power over peers. FBNH's merchant banking business is a market leader within its key segment of trading and brokerage, while its asset management offering is second in terms of assets under management.

#### Revenue Breakdown




CAGR: compound annual growth rate
[a] Annualised
Source: Fitch Ratings, FBNH

#### Total Operating Income




[a] Annualised
Source: Fitch Ratings, Fitch Solutions

## Risk Profile

### *Conservative Asset Structure*

Net loans represented just 35% of total assets at end-1H22. Securities are the second-largest component of the asset base (32%), comprising mainly Nigerian government securities (B/Stable) and, to a lesser extent, hard currency denominated HQLA held by the UK subsidiary and sub-Saharan African government securities held by rest of Africa subsidiaries. Cash and amounts due from banks (17%) are largely in the form of cash reserves at the CBN. Loans and advances to banks largely comprises hard currency nostro balances with investment grade international banks. Exposure to the Nigerian sovereign through securities, cash and foreign-exchange swaps with the CBN is high.

### *Corporate-Focused Lending*

Large corporate lending (inclusive of public sector lending) remains the focus, representing 66% of net loans at end-2021. A review of the largest 20 loans, which represented 38% of gross loans at end-2021, suggests a good quality corporate customer base in the context of the operating environment, largely comprising oil and gas companies, state governments and leading Nigerian and African companies. Consumer lending (5% of net loans at end-2021) is largely salary-assigned to employees of large corporates or the public sector. Fitch expects the SME and consumer lending to grow moderately over the medium term.

Hard currency loans (54% of net loans at end-2021) is high by domestic standards, partly reflecting greater exposure to Nigeria's oil and gas sector. Hard currency loans are typically extended to customers with hard currency cash flows, eliminating currency mismatches. Hard currency lending has deliberately declined in recent years and Fitch expects this trend to continue on a constant currency basis.

### *Material Credit Concentrations*

Single-borrower credit concentration is material relative to capital, with the 20-largest loans representing 157% of FCC at end-1H22. Exposure to the oil and gas sector is significant, representing 30% of net loans, or 104% of FCC at end-2021. Oil and gas exposure is weighted towards the riskier upstream and services segments (estimated between 20% and 25% of net loans).

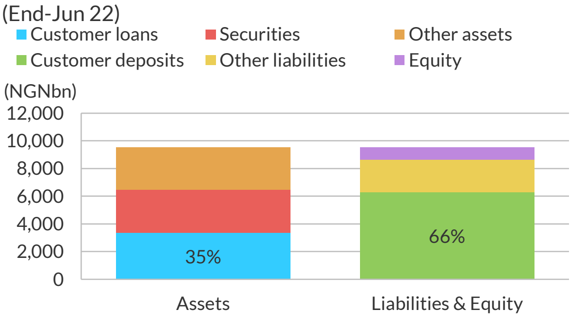
Upstream exposures tend to be large ticket items and therefore feature heavily among the 20-largest loans. FBNH has made deliberate efforts in recent years to diversify away from oil and gas lending, which has reduced from around 40% of net loans at end-2016. Efforts to diversify away from oil and gas have been hindered by depreciation of the naira, which inflates US dollar-denominated oil and gas loans in naira terms, and slow recoveries on restructured loans.

### *Large Net Long FC Position Mitigates Naira Devaluation Risks*

FBNH's balance sheet exhibits a high degree of dollarisation, with FC assets (hard currency and sub-Sahara African currencies) representing 40% of total assets at end-2021. FBNH had a large short FC position equivalent to 29% of total equity at end-2021 on a consolidated basis before swaps. However, FBNH has significant FX swap exposure (nominal value of USD1.3 billion) to the CBN. When considering this off-balance sheet derivatives position, FBNH had a large long net open position in FC equivalent to (estimated) 32% of total equity on a consolidated basis. Therefore, devaluation of the naira would lead to large FX translation gains, helping to cushion the impact of inflated FC RWAs on FBNH's capital ratios.

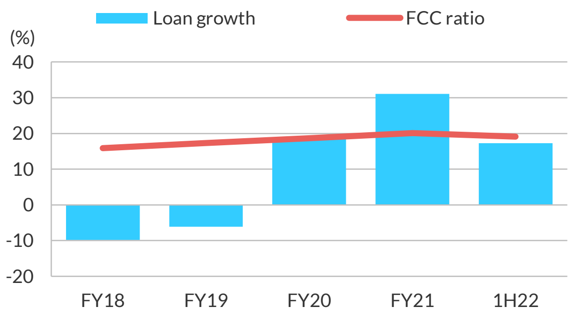
**Balance Sheet**

(End-Jun 22)




Source: Fitch Ratings, FBNH

**Loan Growth**




Source: Fitch Ratings, FBNH

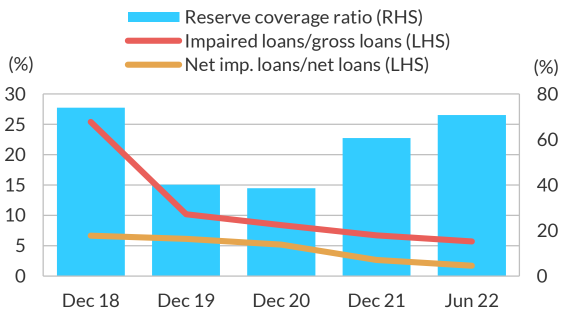
# Financial Profile

## Asset Quality

FBNH has experienced particularly weak asset quality over the past five years, reflecting poor underwriting standards prior to its risk management overhaul and extremely high exposure to the oil and gas sector that coincided with the collapse in oil prices in 2014/15. The impaired loans (Stage 3 loans under IFRS 9) ratio has declined significantly in recent years from the peak of 25% at end-2018 to 5.6% at end-1H22 as a result of sizeable write-offs, reclassifications and, more recently, the flattering effect of strong loan growth but remains above the banking system NPL ratio (4.8% at end-2021). Though remaining material, FBNH's Stage 2 loans ratio (15% of gross loans at end1H22) has gradually declined in recent years, although it has similarly been flattered by strong loan growth.

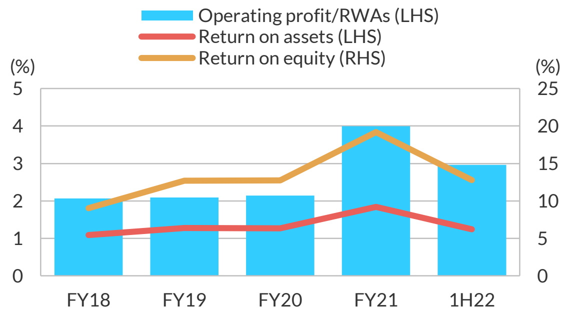
Total loan loss allowance coverage of impaired loans (73% at end-1H22) is flattered by provisions against Stage 2 loans. Specific loan loss allowance coverage of impaired loans (49% at end-1H22) has gradually improved over the past eighteen months (from 28% at end-2020), is broadly in line with domestic peers and is deemed acceptable in view of significant collateral coverage of impaired loans. Our asset quality assessment is positively influenced by significant non-loan assets, including sovereign fixed income securities and cash reserves at the CBN.

### Asset Quality Summary




Source: Fitch Ratings, FBNH

### Profitability Summary




Source: Fitch Ratings, FBNH

## Earnings and Profitability

FBNH delivers healthy profitability, as indicated by operating returns on (estimated) RWAs averaging 2.6% over the past four full years. Profitability benefits from a low cost of funding and healthy non-interest income but is weaker than that of other D-SIBs due to a higher cost-to-income ratio and sizeable LICs in recent years. Profitability has gradually improved in recent years despite a narrower NIM caused by the collapse of Nigerian sovereign fixed income yields, explained by reduced LICs that have accompanied receding asset quality problems.

Operating returns on RWAs improved significantly to 4.0% in 2021 from 2.1% in 2020 as a result of an extremely large recovery on a written-off upstream oil and gas exposure. Operating returns on RWAs declined to 2.9% in 1H22 but remained notably higher than in 2020, benefiting from a higher NIM stemming from the increased interest rate environment and strong loan growth.

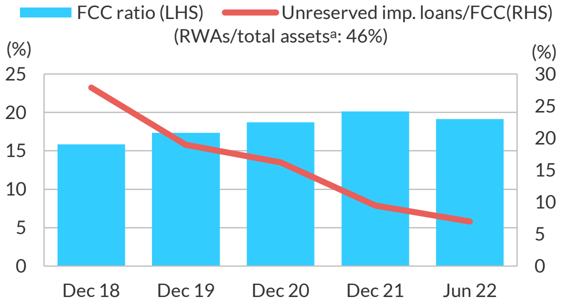
## Capital and Leverage

FBNH's FCC ratio (19.1% at end-1H22) is higher than the banking system average, reflecting lower balance sheet leverage as indicated by a tangible leverage ratio of 8.9% at end-1H22. The FCC ratio has been on an upward trend in recent years as a result of strong internal capital generation (which has been influenced by limited dividends) that has outstripped moderate RWAs growth. Fitch expects FBNH's dividend pay-out ratio to remain under 20%, accommodating the strong loan growth experienced in 1H22 and supporting capitalisation.

Asset quality does not impair our view of capitalisation, with impaired loans net of specific loan loss allowances representing a moderate 12% of FCC at end-2021. Pre-impairment operating profit is sizeable (an annualised 5.1% of average gross loans in 1H22), providing a significant buffer to absorb LICs without affecting capital. Solvency metrics are moderately more sensitive to naira devaluation than peers due to a higher percentage of assets and loans being denominated in FC.

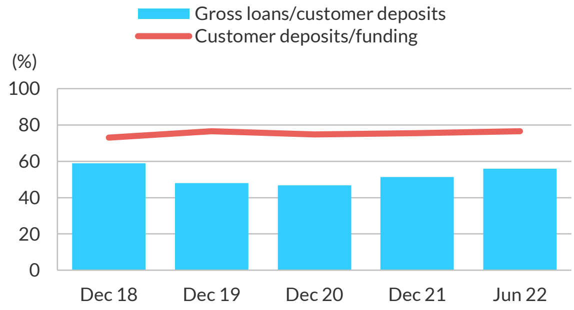
FBN's bank-solo (unconsolidated) Capital Adequacy Ratio (CAR; 16.0% at end-1H22) has a moderate buffer over the 15% minimum requirement but excludes unaudited interim net income, which would add a further 100bp at end-1H22. Fitch expects all of FBNH's banking subsidiaries to comfortably comply with impending Basel III capital requirements.

### Capitalisation & Leverage Summary




[a] Latest
Source: Fitch Ratings, FBNH

### Funding & Liquidity Summary




Source: Fitch Ratings, FBNH

## Funding and Liquidity

FBNH's funding profile largely comprises customer deposits (76% of non-equity funding at end-1H22). The structure of the customer deposit base is among the banking system's strongest, comprising a high percentage of retail deposits (64% of the total at end-2021) and current and savings accounts (81%). Depositor concentration is low, with the 20 largest customer deposits representing 12% of the total at end-1H22. Non-deposit funding represents a greater proportion of non-equity funding than at most other D-SIBs; this includes interbank funding, short-term trade finance related funding and senior unsecured debt and subordinated debt.

FBNH's low gross loans/customer deposits ratio (56% at end-1H22) is primarily reflective of a small loan book. Liquidity coverage is comfortable in both local currency and FC.

# Financials

## Financial Statements

| | 30 Jun 22 | | 31 Dec 21 | 31 Dec 20 | 31 Dec 19 |
|---|---|---|---|---|---|
| | 6 months - interim | 6 months - interim | Year end | Year end | Year end |
| | (USDm) | (NGNbn) | (NGNbn) | (NGNbn) | (NGNbn) |
| | Unaudited | Unaudited | Audited - unqualified | Audited - unqualified | Audited - unqualified |
| **Summary income statement** | | | | | |
| Net interest and dividend income | 376 | 155.8 | 234.8 | 255.6 | 284.0 |
| Net fees and commissions | 141 | 58.4 | 116.6 | 93.8 | 82.9 |
| Other operating income | 130 | 53.9 | 100.2 | 77.2 | 50.6 |
| Total operating income | 646 | 268.1 | 451.6 | 426.6 | 417.5 |
| Operating costs | 448 | 186.0 | 334.2 | 292.5 | 291.2 |
| Pre-impairment operating profit | 198 | 82.2 | 117.4 | 134.1 | 126.3 |
| Loan and other impairment charges | 41 | 17.2 | -49.3 | 50.6 | 51.1 |
| Operating profit | 157 | 65.0 | 166.7 | 83.5 | 75.2 |
| Other non-operating items (net) | 2 | 0.7 | -0.1 | 14.3 | 7.7 |
| Tax | 22 | 9.1 | 15.5 | 8.1 | 9.2 |
| Net income | 136 | 56.5 | 151.1 | 89.7 | 73.7 |
| Other comprehensive income | -89 | -37.1 | -20.2 | 36.4 | 69.3 |
| Fitch comprehensive income | 47 | 19.5 | 130.8 | 126.1 | 142.9 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| **Assets** | | | | | |
| Gross loans | 8,495 | 3,523.2 | 3,004.2 | 2,291.5 | 1,931.3 |
| - Of which impaired | 484 | 200.8 | 201.7 | 192.3 | 197.0 |
| Loan loss allowances | 342 | 142.0 | 122.3 | 74.3 | 78.9 |
| Net loans | 8,153 | 3,381.1 | 2,881.9 | 2,217.3 | 1,852.4 |
| Interbank | 2,433 | 1,009.2 | 1,015.1 | 1,016.8 | 754.9 |
| Derivatives | 66 | 27.2 | 78.8 | 72.2 | 38.4 |
| Other securities and earning assets | 7,419 | 3,076.8 | 2,949.5 | 2,240.5 | 2,127.6 |
| Total earning assets | 18,071 | 7,494.3 | 6,925.3 | 5,546.8 | 4,773.3 |
| Cash and due from banks | 3,962 | 1,643.0 | 1,586.8 | 1,631.7 | 1,025.3 |
| Other assets | 937 | 388.5 | 420.3 | 510.5 | 404.9 |
| Total assets | 22,969 | 9,525.9 | 8,932.4 | 7,689.0 | 6,203.5 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 15,198 | 6,302.9 | 5,849.5 | 4,894.7 | 4,019.8 |
| Interbank and other short-term funding | 3,683 | 1,527.4 | 1,540.4 | 1,314.2 | 1,070.0 |
| Other long-term funding | 992 | 411.3 | 356.1 | 338.4 | 167.6 |
| Trading liabilities and derivatives | 68 | 28.4 | 19.6 | 7.5 | 6.0 |
| Total funding and derivatives | 19,941 | 8,269.9 | 7,765.6 | 6,554.8 | 5,263.4 |
| Other liabilities | 890 | 369.2 | 286.9 | 369.1 | 279.0 |
| Preference shares and hybrid capital | n.a. | n.a. | n.a. | n.a. | n.a. |
| Total equity | 2,138 | 886.7 | 879.9 | 765.2 | 661.1 |
| Total liabilities and equity | 22,969 | 9,525.9 | 8,932.4 | 7,689.0 | 6,203.5 |
| Exchange rate | | USD1 = NGN414.72 | USD1 = NGN412.99 | USD1 = NGN381 | USD1 = NGN307 |

Source: Fitch Ratings, Fitch Solutions, FBNH

## Key Ratios

| | 30 Jun 22 | 31 Dec 21 | 31 Dec 20 | 31 Dec 19 |
|---|---|---|---|---|
| **Ratios (annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 3.0 | 4.0 | 2.1 | 2.1 |
| Net interest income/average earning assets | 4.4 | 3.8 | 5.0 | 6.1 |
| Non-interest expense/gross revenue | 69.3 | 74.0 | 68.6 | 69.8 |
| Net income/average equity | 12.8 | 19.2 | 12.7 | 12.7 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 5.7 | 6.7 | 8.4 | 10.2 |
| Growth in gross loans | 17.3 | 31.1 | 18.7 | -6.1 |
| Loan loss allowances/impaired loans | 70.7 | 60.6 | 38.6 | 40.1 |
| Loan impairment charges/average gross loans | 1.1 | -2.1 | 2.0 | 2.5 |
| | | | | |
| **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 | 19.1 | 20.1 | 18.7 | 17.3 |
| Tangible common equity/tangible assets | 8.9 | 9.5 | 9.5 | 10.1 |
| 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 | 7.0 | 9.5 | 16.2 | 18.9 |
| | | | | |
| **Funding and liquidity** | | | | |
| Gross loans/customer deposits | 55.9 | 51.4 | 46.8 | 48.0 |
| Liquidity coverage ratio | n.a. | n.a. | n.a. | n.a. |
| Customer deposits/total non-equity funding | 76.5 | 75.5 | 74.8 | 76.5 |
| Net stable funding ratio | n.a. | n.a. | n.a. | n.a. |

Source: Fitch Ratings, Fitch Solutions, FBNH

## Support Assessment

| Commercial Banks: Government Support | |
|---|---|
| Typical D-SIB GSR for sovereign's rating level (assuming high propensity) | B |
| Actual jurisdiction D-SIB GSR | ns |
| Government Support Rating | ns |
| | |
| **Government ability to support D-SIBs** | |
| Sovereign Rating | B/ Stable |
| Size of banking system | Neutral |
| Structure of banking system | Neutral |
| Sovereign financial flexibility (for rating level) | Negative |
| | |
| **Government propensity to support D-SIBs** | |
| Resolution legislation | Neutral |
| Support stance | Negative |
| | |
| **Government propensity to support bank** | |
| Systemic importance | Negative |
| Liability structure | Negative |
| Ownership | Neutral |

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

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

Government support to commercial banks in Nigeria, including FBN, cannot be relied on, given Nigeria's weak ability to provide support, particularly in FC. FBN's GSR is therefore 'no support', reflecting our view that senior creditors cannot rely on receiving full and timely extraordinary support if required.

## Environmental, Social and Governance Considerations

FitchRatings **FBN Holdings Plc**

Banks
Ratings Navigator

**Credit-Relevant ESG Derivation**

FBN Holdings Plc has 5 ESG potential rating drivers

- 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.
- Governance is minimally relevant to the rating and is not currently a driver.

| | | | Overall ESG Scale |
|---|---|---|---|
| key driver | 0 | issues | 5 |
| driver | 0 | issues | 4 |
| potential driver | 5 | issues | 3 |
| not a rating driver | 4 | issues | 2 |
| | 5 | issues | 1 |

**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 | Business Profile (incl. Management & governance); Risk Profile; 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 | Business Profile (incl. Management & governance); Risk Profile | 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; Business Profile (incl. Management & governance); Risk Profile | 4 |
| Labor Relations & Practices | 2 | Impact of labor negotiations, including board/employee compensation and composition | Business Profile (incl. Management & governance) | 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 | Business Profile (incl. Management & governance); Financial Profile | 1 |

**Governance (G)**

| General Issues | G Score | Sector-Specific Issues | Reference | G Scale |
|---|---|---|---|---|
| Management Strategy | 3 | Operational implementation of strategy | Business Profile (incl. Management & governance) | 5 |
| Governance Structure | 3 | Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions | Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage | 4 |
| Group Structure | 3 | Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership | Business Profile (incl. Management & governance) | 3 |
| Financial Transparency | 3 | Quality and frequency of financial reporting and auditing processes | Business Profile (incl. Management & governance) | 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's and FBN's ESG Relevance Score for corporate governance has been changed to '3' from '4', reflecting our view that corporate governance irregularities publicly raised by the CBN have been addressed without penalty and therefore the factor is no longer relevant to their ratings.

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.