FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms First City Monument Bank at 'B-'/Stable

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Fitch Ratings - London - 30 Sep 2021: Fitch Ratings has affirmed First City Monument Bank (FCMB) Limited's Long-Term Issuer Default Rating (IDR) at 'B-' with a Stable Outlook. The National Long-Term Rating has been upgraded to 'BBB+(nga)' from 'BBB(nga)', reflecting the bank's increased creditworthiness relative to that of other issuers in Nigeria. A full list of rating actions is below.

KEY RATING DRIVERS

IDRS and Viability Rating (VR)

The IDRs of FCMB are driven by its intrinsic creditworthiness, as defined by its 'b-' VR. The VR reflects FCMB's exposure to Nigeria's volatile operating environment, a small franchise and high credit concentrations. This is balanced by the bank's adequate capitalisation and asset quality for the rating, the latter partly reflecting large non-loan assets comprising mainly Nigerian government securities (B/Stable), and cash placements.

The Stable Outlook reflects Fitch's view that risks to FCMB's credit profile are captured by the current rating, with sufficient headroom under our base case to absorb the fallout from operating-environment pressures.

Operating conditions in Nigeria are gradually stabilising. Fitch forecasts 1.9% GDP growth in 2021, following a 1.8% contraction in 2020. Our baseline scenario is that business volumes and earnings should continue to rebound in 2021, while the rally in oil prices is also a positive factor. Nevertheless, downside risks linger, given inherently volatile market conditions, with banks still exposed to foreign currency (FC) shortages, potential further currency devaluation, rising inflation and regulatory intervention by the Central Bank of Nigeria (CBN).

FCMB's franchise is moderate (4% market share of total banking-system assets), resulting in limited pricing power compared with larger banks, and driving the bank's focus on higher-margin segments such as mid-sized corporates, retail and SME borrowers.

FCMB's impaired loans (stage 3 IFRS 9) ratio has improved in recent years. It fell to 3% at end-1H21 (end-2019: 3.6%), due primarily to improved economic conditions, loan growth and write-offs. However, FCMB has a large stock of stage 2 loans (22%), which are mostly restructured. The total restructured book amounts to 25% of total loans, slightly above the sector average. Reserves coverage of non-performing loans (NPLs) is solid (179% at end-1H21), although reserves against Stage 2 loans are fairly low.

Credit concentrations are significant with the 20-largest loans accounting for half of gross loans at end-1H21, or 2.2x Fitch core capital (FCC), exposing FCMB to event risk. Its oil and gas exposure - mainly relating to the high-risk upstream segment - represented a high 30% of loans.

Our asset-quality assessment also considers substantial non-loan assets - net loans comprised only 41% of total assets at end-1H21 - largely comprising investments in Nigerian government securities, and cash placements.

FCMB's profitability metrics typically lag behind those of small bank peers, despite the bank's reasonable net interest margin (NIM). The bank reported an annualised operating profit/risk-weighted assets (RWA) ratio of 1% in 1H21. Loan impairment charges (LICs) consumed 34% of pre-impairment profits in 1H21. FCMB's profitability is also affected negatively by a high cost base with a cost-income ratio of 83% in 1H21, higher than the peer average.

The bank's FCC ratio (15.2% at end-1H21) is in line with small bank peers'. Capitalisation is a strength at current rating level, but should be viewed against high credit concentration risks and balance-sheet dollarisation. At end-1H21, FCMB's capital adequacy ratio of 15.9% provided only limited headroom above the minimum regulatory requirement of 15%.

FCMB is largely funded by granular retail and SME deposits (70% of total funding at end-1H21, 73% in the form of current and saving accounts). Deposit growth has been rapid in recent years, driving a reduction in the Fitch-calculated loans/customers deposits ratio to 70% at end-1H21 (a level still above peers') from 77% at end-2019. FCMB is more reliant on wholesale funding (26% of total funding at end-1H21) than peers - mostly comprising borrowings from development financial institutions, on-lending facilities and a local-currency bond programme.

Local-currency liquidity is ample, with excess liquidity placed in government securities. FCMB's funding in FC largely comprises contractually short-term customer deposits, resulting in maturity mismatches, though behavioural data suggests that FC funding is fairly stable. FC liquidity largely relies on FC loan repayments but is also underpinned by access to committed lines.

SUPPORT RATING AND SUPPORT RATING FLOOR

Sovereign support to banks cannot be relied on given Nigeria's weak ability to provide support, particularly in FC. The Support Rating Floor (SRF) of all Nigerian banks is 'No Floor' and all Support Ratings (SR) 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.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Erosion of capital buffers to levels close to or below the bank's minimum regulatory requirements, which could result from a significant increase in impaired loans leading to losses.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of the Long-Term IDR would require a strengthening of the bank's company profile, franchise and funding and liquidity position.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

FCMB's National Ratings are driven by the bank's standalone strength. FCMB's National Short-Term Rating is the lower of two possible options for a 'BBB+(nga)' National Long-Term Rating under Fitch's criteria, reflecting weaknesses in the bank's funding and liquidity profile, which increase the vulnerability of default on its short-term local-currency obligations within Nigeria.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

NATIONAL RATING

The National Ratings are sensitive to a negative change in Fitch's view of the entity's creditworthiness relative to other Nigerian issuers'.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The National Ratings are sensitive to a positive change in Fitch's view of the entity's creditworthiness relative to other Nigerian issuers'.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

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 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

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
First City Monument Bank Limited	LT IDR	B- Rating Outlook Stable	Affirmed	B- Rating Outlook Stable

ENTITY/DEBT	RATING			PRIOR
	ST IDR	B	Affirmed	B
	Natl LT	BBB+(nga) Rating Outlook Stable	Upgrade	BBB(nga)
	Natl ST	F2(nga)	Upgrade	F3(nga)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

National Scale Rating Criteria (pub. 22 Dec 2020)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

First City Monument Bank Limited	UK Issued, EU Endorsed

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Banks Africa Nigeria