MOODY'S
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CREDIT OPINION

15 December 2023

Update

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RATINGS

First Bank of Nigeria Limited

Domicile	Lagos, Nigeria
Long Term CRR	Caa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Caa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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First Bank of Nigeria Limited

Update following change in outlook to Positive

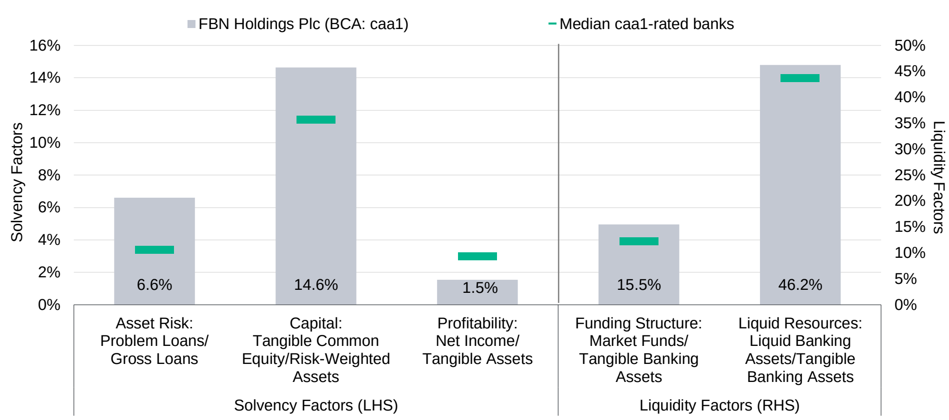
Summary

First Bank of Nigeria Ltd's (FBN) deposit ratings are on par with its caa1 Baseline Credit Assessment (BCA) and Nigeria's Caa1 sovereign rating, and reflects the bank's significant exposure to the government and the central bank, which links its creditworthiness to that of the government. FBN's asset exposure to the central bank and to government securities are estimated at 27% of total assets, or 2.9x its shareholder equity as of September 2023.

The ratings further capture the bank's strong liquidity buffers (especially in local currency), its sound deposit-based funding profile and, and its improving profitability. These strengths are moderated by the challenging operating conditions and the bank's still-high asset risks – although we do recognise the substantial drop in non-performing loans (NPLs) – and its modest capital buffers. Foreign currency (FC) liquidity is an issue we continue to monitor for all Nigerian banks, though we do note that FBN also benefits from FC liquidity sourced from its non-Nigerian affiliates.

Exhibit 1

Rating Scorecard - Key Financial Ratios as of 30 September 2023



These are our Banks Methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average and latest annual figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures.
Source: Moody's Investors Service

Credit strengths

» Primarily deposit-based funding profile, supported by robust local-currency liquidity

» Recovering earnings-generating capacity

» High probability of government support

Credit challenges

» Challenging operating conditions

» Modest capital buffers

» Broader, systemwide, foreign currency liquidity pressures

» Historically high asset risks, but significantly improved loan book quality

Outlook

FBN's ratings have a positive outlook, aligned with the positive outlook on Nigeria's sovereign rating, reflecting the bank's very high exposure to government securities. The positive outlook further balances the bank's improving profitability and stable funding and good liquidity in local currency; against high asset risks, modest capital buffers and foreign currency liquidity pressures.

Factors that could lead to an upgrade

FBN's ratings could be upgraded if there was a material improvement in the operating conditions and the sovereign's credit profile, combined with the bank's resilient financial performance and improved capital metrics.

Factors that could lead to a downgrade

The ratings could be downgraded if there was (1) a deterioration in the sovereign's credit profile; and/or (2) a significant weakening in the operating environment in Nigeria; and/or (3) a material deterioration in the bank's solvency and liquidity.

Key indicators

Exhibit 2

FBN Holdings Plc (Consolidated Financials) [1]

	09-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (NGN Million)	14,455,659.0	10,577,710.0	8,932,373.0	7,689,028.0	6,203,526.0	25.3[4]
Total Assets (USD Million)	18,103.5	22,957.6	21,588.8	19,478.2	17,093.4	1.5[4]
Tangible Common Equity (NGN Million)	1,238,686.0	869,710.0	762,469.0	569,051.0	479,911.0	28.8[4]
Tangible Common Equity (USD Million)	1,551.3	1,887.6	1,842.8	1,441.5	1,322.4	4.3[4]
Problem Loans / Gross Loans (%)	--	4.7	6.7	8.4	10.2	7.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	--	14.6	15.2	12.9	11.1	13.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	--	18.3	22.8	29.9	35.3	26.6[5]
Net Interest Margin (%)	4.2	3.9	2.9	3.8	5.1	4.0[5]
PPI / Average RWA (%)	--	3.9	2.5	3.1	3.0	3.1[6]
Net Income / Tangible Assets (%)	2.2	1.3	1.7	1.0	1.1	1.4[5]
Cost / Income Ratio (%)	50.5	63.1	74.0	68.6	69.7	65.2[5]
Market Funds / Tangible Banking Assets (%)	15.2	15.5	16.0	17.6	17.2	16.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	38.8	46.2	47.3	50.4	50.3	46.6[5]
Gross Loans / Due to Customers (%)	60.1	55.2	51.4	46.8	48.0	52.3[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel II; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel II periods.
Sources: Moody's Investors Service and company filings

Profile

First Bank of Nigeria Limited (FBN) is a commercial bank that offers corporate, retail, commercial, public and international banking, as well as treasury and advisory services. FBN is a fully-owned subsidiary of FBN Holdings Plc (FBNH, the Group), a holding company listed on the Nigerian Stock Exchange. As of September 2023, FBNH reported consolidated total assets of NGN14.5 trillion (about $18.1 billion). FBN operates through a network of 591 local branches and 144 Quick Service Points (QSPs) as of September 2023. As a 100% subsidiary of the holding company, FBN has stopped publicly releasing its financial statements, hence for the purpose of our analysis and scorecard we use FBNH's financial statements, which we consider a good proxy. FBN comprises over 96% of FBNH's total assets.

Detailed credit considerations

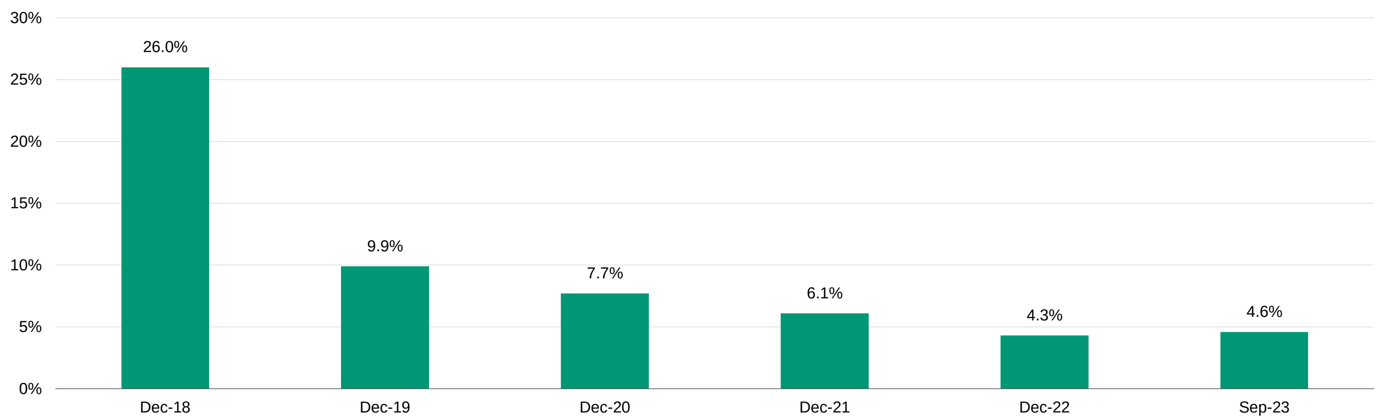
Improving NPL position is counterbalanced by difficult operating conditions and high asset risks

The Group reported a non-performing loan ratio (NPL/gross loans) of 4.6% as of September 2023 (4.3% as of December 2022), down from a peak of 26% in 2018 (Exhibit 3), and below the industry benchmark limit of 5%. . FBN has focused on strengthning its risk-management processes, including limits to single obligors and limits of foreign currency lending as a percentage of capital. The bank has also focused on rehabilitating problematic exposures and proactively taking required provisions, thereby constraining the formation of new NPLs while addressing legacy exposures. Higher oil prices have also supported the performance of the oil and gas borrowers, however the Group has been careful in managing it's oil and gas exposure, particularly in making reductions to downstream exposure, helping to bring down the overall oil and gas exposure to 38% of total loans as of September 2023 (42% as of FY 2016).

Exhibit 3

FBNH's NPL ratio improved materially since 2018, but we expect asset risks to remain significant going forward

NPLs/gross loans



Source: FBNH and Moody's Investors Service

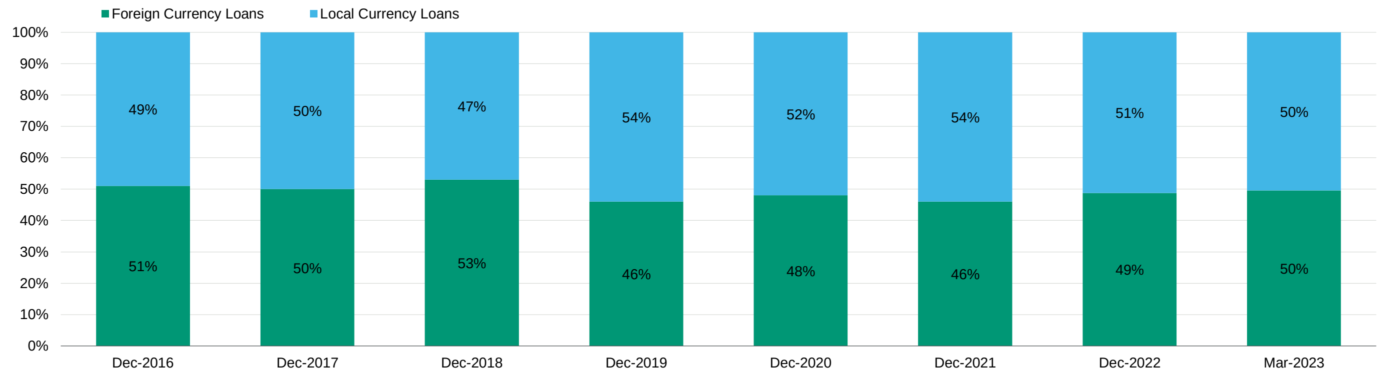
We expect asset to risks to remain high however, as high inflation, fragile macro conditions, as well as the deteriorating fiscal and debt position of the government will create negative pressures for borrowers. In addition, we note the bank's (1) high sectoral concentrations, particularly to the aforementioned exposure to the cyclical oil and gas sector, (2) high exposure to foreign-currency loans, at 50% of the loan book as of March 2023 (Exhibit 4), and (3) large single-name credit concentrations, indicating additional vulnerability in asset risk in the case of default by a few borrowers. FBN also has a relatively large volume of Stage 2 loans (i.e. loans that have shown a deterioration in creditworthiness, with payments between 30 and 90 days past due), at about 9% of its gross loans as of December 2022.

Regarding the bank's large volume of foreign currency loans, some of its unhedged borrowers are creating vulnerabilities which were exposed when the naira depreciated, which would diminish their repayment capacity. However, some of these foreign currency loans are of short-term nature (for example, around 40% of foreign currency loans are in the form of letters of credit, according to management), while management has also indicated increased usage of hedging solutions, which partly mitigate related currency risks.

However due to rising inflation and the potential for further currency depreciation, we continue to anticipate elevated risk of asset quality deterioration, as well as risks to capital buffers and cost of risk (CoR). FBN's CoR increased moderately to 1.8% as of September 2023 compared to 1.3% as of December 2022, driven primarily by lower recoveries on loans previously written-off.

Exhibit 4

FBN's loan book remains highly exposed to foreign currency loans



Source: FBNH and Moody's Investors Service

Profitability continues to improve, boosted by foreign-currency related gains

The Group reported a return on average assets of 2.5% in the first nine months of 2023, with bottom-line profits up 159% year-on-year to NGN236 billion. In addition to the NGN21 billion and NGN251 bn of profitability delivered by foreign currency trading gains and fair value gains on foreign currency denominated securities respectively in the first nine months of 2023, FBN's profitability continued to benefit from strong net interest income growth, which was up 51% year-on-year.

Going forward, we expect profitability metrics to remain broadly stable: revenue growth will be supported by improving net interest income on the back of rising interest rates and expectations of double-digit loan growth, but we also expect operating costs to remain elevated given high inflation (27.3% as of October 2023) and pressure on asset quality metrics that will require provisioning costs to remain elevated.

Non-interest income is strongly underpinned by fee and commission income, with FBN leveraging its electronic and mobile channels, and its expanded agency banking network, the largest of the domestic banks (221,000 agents as of September 2023). Similarly, the bank maintains a solid deposit franchise, with about 55% of total deposits in the form of (low cost) current and savings accounts as of September 2023, while another 23% and 22% account for term and domiciliary deposits, respectively, as of the same period. Cost management has also been a priority for the bank over the past few years, with increased control over procurement and the centralisation of transaction processes. FBNH's cost-to-income ratio improved to 50.5% as of September 2023 from 63% as of December 2022, following solid trading income generation following the devaluation of the Naira in June 2023. We expect regulatory costs, especially the Asset Management Corporation of Nigeria levy, investments in IT and on-going high level of inflation rate in the country to continue to strain the bank's cost base.

FBN's modest capital buffers leave it exposed to further naira depreciation, provisioning and Basel III implementation

FBN's reported capital adequacy ratio (excluding Q3 2023 profit) was 16.0% as of September 2023 (compared to 16.6% as of December 2022), which is 100bps above the minimum regulatory requirement of 15% but below the average for large Nigerian banks. The bank's high exposure to foreign currency loans (50% of net loan book as of March 2023) leaves the bank's capital vulnerable to exchange rate volatility. Following the exchange rate unification in June, which occurred on 14 June 2023, the bank's CAR remained relatively stable at 16.5% as the positive foreign currency translation gains of the bank's net open position, outweighed the inflationary impact on risk-weighted assets. In addition to the potential for further depreciation, implementation of Basel III will also place some downward pressure on capital buffers. Against these risks, the bank announced in August its intention to increase capital buffers through (a) the increase of its issued share capital to NGN22.4 billion from NGN17.9 billion and (b) a rights issue of up to NGN150 billion, following which shareholder approval was granted for a NGN139 billion rights issuance.

That said, the bank's improving profitability and positive foreign-currency net open position will partly offset the pressure on metrics in the event of a depreciation or devaluation of the naira because revaluation profits will likely increase. Furthermore, in November 2023 the regulator disclosed plans to increase capital for banks, indicating the likelihood of the bank taking further capital strengthening measures in the future.

Local currency underpins stable funding and liquidity profile, however vulnerability remains where foreign currency liquidity is concerned.

FBN maintains a stable deposit-based funding structure and tends to be a net interbank placer in the local currency market, demonstrating its solid deposit franchise; as of September 2023, FBNH reported that about 92% of total deposits were low cost deposits. The group was able to drive an increase in deposits of about 30% as of September 2023 compared to December 2022.

Customer deposits contributed approximately 71% of FBNH's non-equity liabilities as of September 2023. Contractually, the majority of these deposits have a 30-day maturity period, but the related asset-liability maturity risks are mitigated by their historically stable nature, with management expecting less than 10% of deposits to mature within the 30 day timeframe.

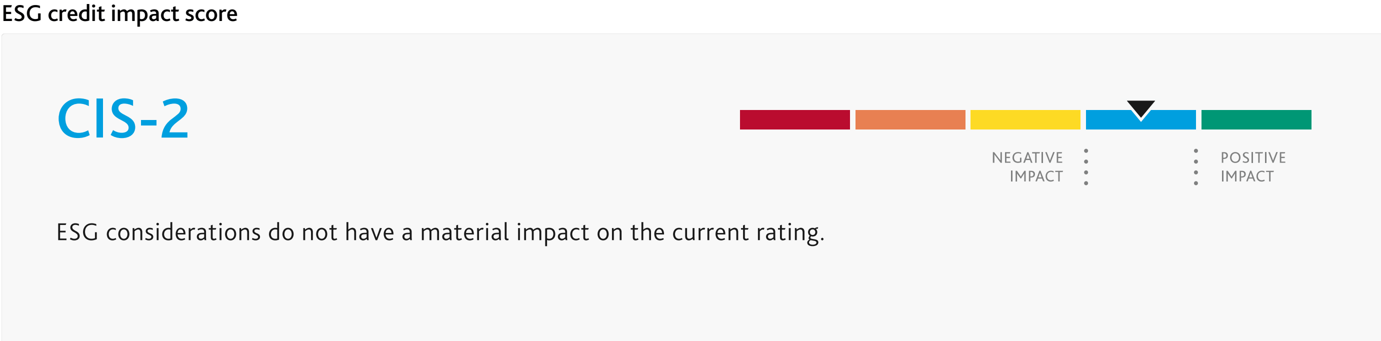
FBNH's loan-to-deposit (LDR) was just 60% as of September 2023 (55% as of December 2022), lower than the current regulatory threshold of 65%. The bank's proportion of market funds to total funding was around 15% as of September 2023 which remained stable from December 2022. At the same time, FBNH holds a large stock of liquid assets, which we estimate at around 39% of total assets as of September 2023. We note, however, that this high ratio partly reflects Nigeria's high cash reserve requirement (at 32.5%), which are not readily available for liquidity purposes (but could become accessible, in case of need). FBNH holds additional mandatory reserve deposits with the central bank, as a penalty for maintaining a loan-to-funding ratio below the required 65%.

In terms of foreign currency liquidity, FBNH's dollar loans-to-dollar deposits was 78% as of year-end 2022, up from 67% as of year-end 2021, but still much lower than the 154% of 2016 (when the group had a substantial funding gap in foreign currency). The group has access to borrowings from bilateral lenders and development finance institutions (DFIs), which enables it to extend the duration of its dollar liabilities, as well as from excess foreign currency liquidity from its non-Nigerian affiliates. As noted earlier, however, the country more broadly is faced with tightening foreign currency liquidity conditions, which may lead to increased foreign currency rationing. In turn, this could compromise the bank's operational ability to meet its foreign currency obligations as they fall due.

ESG considerations

First Bank of Nigeria Limited's ESG credit impact score is CIS-2

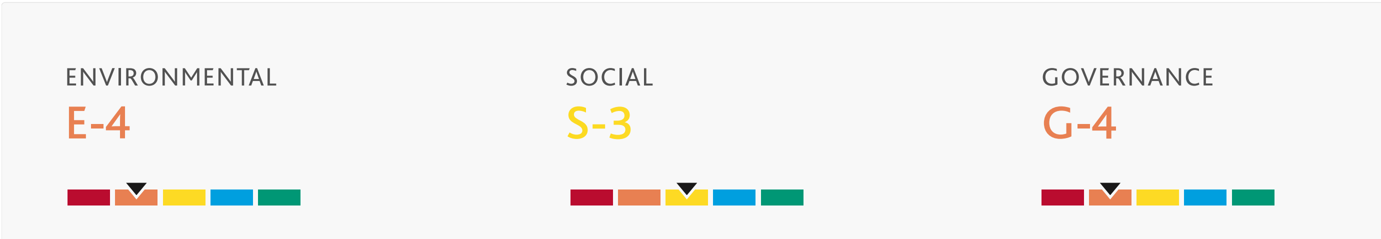
Exhibit 5
ESG credit impact score



Source: Moody's Investors Service

First Bank's **CIS-2** indicates that ESG considerations are not material to its deposit rating, because our high probability of government support assumption mitigates any downside risks stemming from any ESG-related factors that could potentially exert downward pressure on the bank's standalone credit profile.

Exhibit 6
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

First Bank's exposure to environmental risks mainly relates to carbon transition risk, primarily because of the high sector concentration of oil and gas loans. Moreover, the Nigerian economy and government's sizeable exposure to oil and gas industry, increases the vulnerability to environmental risks, potentially affecting the credit worthiness of the banks' counterparties. Mitigants to environmental risks include First Bank's enhanced risk management processes and its strategy to reduce its exposure to the oil and gas sector.

Social

First Bank faces moderate exposure to social risks, which is than the industry average, reflecting the fact that Nigerian banks have historically faced limited legal and regulatory actions related to mis-selling or misrepresentation. Personal data security risks are partly mitigated by the bank's IT framework. Risks related to societal and demographic trends are also lower than those for global peers, given Nigeria's young population and the country's drive to greater financial inclusion and digitalisation.

Governance

First Bank's governance risks are high, partly reflecting legacy risk management issues that have led to significant loan losses, as well as the constraints resulting from operating in a country with widespread corruption. A number of corporate governance weaknesses were also highlighted by the intervention by the regulator in April 2021, which replaced all non-executive board members. Governance practices have somewhat improved following the establishment of a new board and enhanced relations with a number of stakeholders, including the regulators.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support

We assume a high likelihood of government support for FBN's deposits. The bank – which maintains an estimated 14% market share of deposits – has been designated as a domestic systemically important bank, and its collapse would have significant consequences to both the payment system and the wider economy. Our support assumptions also reflect the strong willingness of the Nigerian government to support local banks, as demonstrated in previous crisis when banks were rescued through recapitalizations and balance-sheet cleanups via outright purchases of NPLs by the Asset Management Corporation of Nigeria. FBN's deposit ratings do not, however, benefit from a government support uplift, given the government's limited capacity to provide support beyond its Caa1 rating.

Counterparty Risk Ratings (CRRs) and Counterparty Risk (CR) Assessment

FBN's local currency CRRs are B3/NP, with foreign currency CRRs at Caa1/NP

We consider Nigeria a jurisdiction with a nonoperational resolution regime. For nonoperational resolution regime countries, the starting point for the CRR is one notch above the bank's Adjusted BCA (caa1) derived from our Basic LGF analysis. No additional government support uplift is incorporated into the ratings because the government's capacity to provide support is constrained at its Caa1 rating. As a result, we position the long-term local currency CRR at B3, but the foreign currency CRR is constrained by the relevant country ceiling at Caa1.

FBN's Counterparty Risk (CR) Assessment is also positioned at B3(cr)/Not Prime(cr), as the approach to reaching this assessment is identical to that for the CRR.

National Scale Ratings (NSRs)

FBN's Ba1.ng long-term and NG-4 short-term national scale deposit ratings are generated from the bank's global scale local-currency deposit ratings through maps specific to each country. NSRs are not intended to rank credits across multiple countries; instead, they provide a measure of relative creditworthiness within a single country (Nigeria in the case of FBN). Our NSRs are given a two-letter suffix to distinguish them from the agency's Global Scale Ratings. For example, NSRs in Nigeria have the country abbreviation “ng”.

Sources of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank-specific figures originate from banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document titled Financial Statement Adjustments in the Analysis of Financial Institutions, published on 9 August 2018.

Methodology and scorecard

About Moody's bank scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 7

FBN Holdings Plc

MACRO FACTORS		
WEIGHTED MACRO PROFILE	VERY WEAK	100%

FACTOR	HISTORIC RATIO	INITIAL SCORE	EXPECTED TREND	ASSIGNED SCORE	KEY DRIVER #1	KEY DRIVER #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	6.6%	caa2	↔	caa1	Expected trend	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel II)	14.6%	b3	↔	caa1	Access to capital	
Profitability						
Net Income / Tangible Assets	1.5%	b3	↔	b3	Expected trend	Return on assets
Combined Solvency Score		caa1		caa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	15.5%	caa1	↔	caa1	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	46.2%	b3	↓↓	b3	Stock of liquid assets	
Combined Liquidity Score		caa1		caa1		
Financial Profile				caa1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				-		
BCA Scorecard-indicated Outcome - Range				b3 - caa2		
Assigned BCA				caa1		
Affiliate Support notching				0		
Adjusted BCA				caa1		

INSTRUMENT CLASS	LOSS GIVEN FAILURE NOTCHING	ADDITIONAL NOTCHING	PRELIMINARY RATING ASSESSMENT	GOVERNMENT SUPPORT NOTCHING	LOCAL CURRENCY RATING	FOREIGN CURRENCY RATING
Counterparty Risk Rating	1	0	b3	-	B3	Caa1
Counterparty Risk Assessment	1	0	b3 (cr)	-	B3(cr)	
Deposits	0	0	caa1	-	Caa1	Caa1
Senior unsecured bank debt	0	0	caa1	-	Caa1	Caa1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
FIRST BANK OF NIGERIA LIMITED	
Outlook	Positive
Counterparty Risk Rating -Fgn Curr	Caa1/NP
Counterparty Risk Rating -Dom Curr	B3/NP
Bank Deposits	Caa1/NP
Baseline Credit Assessment	caa1
Adjusted Baseline Credit Assessment	caa1
Counterparty Risk Assessment	B3(cr)/NP(cr)
Issuer Rating	Caa1
ST Issuer Rating	NP

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454