Research Update:

First Bank of Nigeria Ltd. 'B-/B' Ratings Affirmed; Outlook Stable

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PRIMARY CREDIT ANALYST

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Overview

- Lower oil prices and the impact of COVID-19 continue to hinder economic activity in Nigeria, and we foresee a moderate deterioration of First Bank of Nigeria's (FirstBank's) asset quality.
- However, we expect FirstBank's regulatory capital ratios will remain well above the minimum requirement following an equity injection after the sale of the group's insurance subsidiary.
- We are affirming our 'B-/B' global scale ratings and 'ngBBB-/ngA-3' Nigeria national scale ratings on FirstBank and its parent, FBN Holdings PLC.
- The outlooks are stable because we expect that both entities can maintain a broadly stable credit profile over the next 12 months.

Rating Action

On Sept. 22, 2020, S&P Global Ratings affirmed its 'B-/B' long- and short-term issuer credit ratings on First Bank of Nigeria Ltd. (FirstBank) and its nonoperating holding company (NOHC), FBN Holdings PLC (FBNH). The outlooks on both entities are stable.

We also affirmed our 'ngBBB-/ngA-3' long- and short-term Nigeria national scale ratings on both entities.

Rationale

The affirmation reflects our view that FirstBank's regulatory capital ratios will remain well above the minimum requirement over the next 12-24 months, following an equity injection from FBNH after the sale of the group's insurance subsidiary. We expect that FirstBank's asset quality indicators will deteriorate moderately over the same period because of the economic downturn in Nigeria due to the COVID-19 pandemic and decline in oil prices. We expect the group's earnings will benefit from its expanded agency and digital banking franchise, despite its relatively high cost-to-income ratio, which we forecast will average 60% by 2022.

We note that, as of June 30, 2020, the group's nonperforming loans (NPLs) had improved to 8.8%

of total loans compared with 25% at year-end 2018. This was due to FirstBank's aggressive remediation, recovery, and write-off of legacy problem exposures and strengthening of its risk management capabilities. However, NPL coverage by loan loss provision decreased to around 42% at midyear 2020. We foresee a slight improvement in this ratio over the next 12-24 months as the bank continues to build provisions and NPLs increase relatively moderately.

We also expect FirstBank's risk-adjusted capital ratio will remain weak at 3.3%-3.6% through 2022 but this is neutral to the ratings. The regulatory capital ratio has improved to 16.5% (excluding unappropriated profits) following the capital increase. Since the increase was not debt funded, it did not lead to higher double leverage for FBNH.

Similar to rated domestic peers, we expect the group's funding to remain largely contractually short term; however, actuarial data suggests that funding is more stable. This is manageable, given the stable funding ratio remains well in excess of 100% while its ratio of broad liquid assets to short-term funding amounted to 2.8x in second-quarter 2020. Net broad liquid assets covered short-term deposits by around 60% during the same period. The group holds a long position in U.S. dollars, stemming from domiciliary accounts and funding raised in dollars in the past four years. In addition, the group's U.S. dollar position provides a natural hedge to its capital position in the event of a naira devaluation.

Outlook

The stable outlook on FirstBank, the main operating entity, reflects our view that the bank will maintain its regulatory capital ratio above the minimum requirement of 15%, and broadly stable liquidity profile, over the next 12 months. The outlook on FBNH reflects that on the bank.

Downside scenario

We would lower the ratings on FirstBank over the next 12 months if capital adequacy declines sharply due to a steeper depreciation of the naira than we expect a sharp deterioration of asset quality, or pressure on the bank's U.S. dollar liquidity position due to tighter supply in the banking sector. We would lower the ratings on FBNH if we lowered the ratings on FirstBank or saw material double leverage at the holding company.

Upside scenario

A positive rating action on FirstBank over the next 12 months would depend on there being a similar action on Nigeria and on an improvement in FirstBank's asset-quality indicators, all else being equal. We would not raise the ratings on FBNH if we raised the ratings on FirstBank because of our view of the structural subordination of FBNH's creditors.

Ratings Score Snapshot

Issuer Credit Rating B-/Stable/B

SACP b-

Anchor b

- Business Position Adequate
- Capital and Earnings Weak (0)

- Risk Position Moderate (-1)
- Funding Above Average
- Liquidity Adequate (0)

Support 0

- ALAC Support 0
- GRE Support 0
- Group Support 0
- Sovereign Support 0

Additional Factors 0

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

Ratings List

Ratings Affirmed	
FBN Holdings PLC	
First Bank of Nigeria Ltd.	
Issuer Credit Rating	B-/Stable/B
Nigeria National Scale	ngBBB-/--/ngA-3

Regulatory Disclosures

FBN Holdings PLC

- Primary Credit Analyst: Sahil Tribhowan, Associate Director
- Rating Committee Chairperson: Mohamed Damak

- Date initial rating assigned: June 11, 2013
- Date of previous review: June 22, 2020

First Bank of Nigeria Ltd.

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Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

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Materials used in the credit rating process: Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cash-flows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

This credit rating was disclosed to the rated entity or related third party before being issued.

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Glossary

- Anchor: The starting point for assigning a bank a long-term rating, based on economic and industry risk.
- Business position: A measure of the strength of a bank's business operations.
- Capital and earnings: A measure of a bank's ability to absorb losses.
- Core earnings: Net income before minority interest, minus nonrecurring income, plus nonrecurring expenses, plus/minus tax impact on adjustments, plus amortization/impairment of goodwill/intangibles, minus preferred dividends.
- Credit losses: Losses arising from credit risk.

- Credit risk: Risk that a borrower will default on its payment obligations.
- Date initial rating assigned: The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Ratings last reviewed the credit rating on the entity.
- Funding and liquidity: A combined assessment of the strength and stability of a bank's funding mix and its ability to manage its liquidity needs in adverse market and economic conditions over an extended period.
- Group support: An assessment of the likelihood that a parent or other group member would provide extraordinary support to a bank within that group.
- National scale rating: An opinion of an obligor's creditworthiness or overall capacity to meet specific financial obligations, relative to other issuers and issues in a given country or region.
- New loan-loss provisions over average customer loans: Credit loss provisions (including specific loan provisions and general and other provisions) minus recoveries, over average gross customer loans of current period and last fiscal year.
- Risk position: Our view of the specific risk characteristics of a particular bank.
- Risk-adjusted capital (RAC) ratio before diversification: This is calculated according to S&P Global Ratings' methodology as total adjusted capital over risk-adjusted assets.
- Sovereign support: An assessment of the likelihood that the government would provide extraordinary support to a bank.
- Stand-alone credit profile (SACP): An interim step in assessing a bank's overall creditworthiness. It includes government support, but not extraordinary government support.
- Total adjusted capital: adjusted common equity plus admissible preferred instruments and hybrids.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.