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First Bank of Nigeria Limited

Nigeria Bank Analysis **August 2016**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	A-(NG)	Stable	August 2017
Short-term	National	A1-(NG)		

Financial data:

(USDm comparative)

	31/12/14	31/12/15
NGN/USD (avg.)	165.1	197.9
NGN/USD (close)	182.6	198.9
Total assets	22,412.8	19,723.6
Primary capital	2,559.2	2,553.4
Secondary capital	776.6	766.4
Net advances	12,011.6	9,130.7
Liquid assets	6,045.9	5,268.2
Operating income	2,052.4	1,698.7
Profit after tax	514.5	14.9
Market cap.*	N125.6bn/USD428.9m	
Market share**	14.1%	

*For FBN Holdings Plc as at 20 July 2016.

**As a % of industry assets as at 31 December 2015.

Rating history:

Initial rating (September 2006)
Long-term: AA(NG)
Short-term: A1+(NG)
Rating outlook: Positive

Last rating (August 2015)
Long-term: AA-(NG)
Short-term: A1+(NG)
Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2016

Nigerian Banking Sector Bulletin, 2016

FirstBank rating reports (2006-15)

Glossary of Terms/Ratios, February 2016

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Summary rating rationale

- The negative rating trajectory of First Bank of Nigeria Limited[1] ("FirstBank" or "the Bank") reflects its moderating competitive position and financial performance challenges in recent years. However, key rating supports remain the Bank's established franchise and long track record in the market.
- The Bank's non-performing loan ("NPL") ratio escalated to 17.8% at FYE15 (a significant departure from less than 3.0% recorded in the last four years). This was largely driven by a marked growth in delinquent assets, particularly in the troubled oil and gas sector, where the Bank is highly exposed (38.1% of loan book at FYE15). Management noted that 12% of the loan book was restructured in F15, with the oil and gas sector accounting for 70% of restructured loans. Albeit FirstBank has shifted focus to loan recovery, and portfolio realignment towards perceived lower risk sectors, with muted loan growth prospects, Global Credit Rating Company Limited ("GCR") envisages additional impairments given the current risk level and unfavourable operating conditions, and hence, weaker asset quality by FYE16. The NPL ratio stood above 20% at 1H 2016.
- The Bank remains adequately capitalised for its current risk level. FirstBank (Nigeria) had a risk weighted capital adequacy ratio ("CAR") of 17.1% at FYE15, above the prudential threshold of 15%. The position is not expected to change imminently given management's reduced risk appetite with focus on building internal capital generative capacity.
- Although the Bank displayed a largely short-dated funding structure (a common industry feature), with slight contraction in the deposit book following implementation of the treasury single account ("TSA") policy and reduction in expensive funding, liquidity risk is considered to be low (FirstBank (Nigeria's) regulatory liquidity ratio was 51.9% at FYE15, well above the prudential minimum of 30%).
- Foreign currency exposure was evidenced in full-year 2015 ("F15"), given the Bank's high foreign currency denominated credits within the troubled oil and gas sector. Although FirstBank is taking necessary mitigating measures, GCR expects the socio-political unrest within the oil-producing region in Nigeria together with scarcity of foreign currency to continue to impact the risk level, pending future market stabilisation.
- Profitability was considerably eroded following a sharp rise in the impairment charge to N126bn (F14: N26bn), with the Bank posting a net profit after tax of N2.9bn in F15 (F14: N84.9bn). According to management, the Bank will continue to improve on its risk management processes and operational efficiency in order to enhance performance in the coming years.

Factors that could trigger a rating action may include

Positive change: While the challenging operating environment has heightened uncertainties across all forward looking scenarios, positive rating momentum is dependent on a rebound to strong asset quality and profitability, with markedly improved competitive positioning.

Negative change: The ratings will be sensitive to a further rise in impaired assets beyond anticipated level and/or pressure on profitability and capitalisation.

[1] First Bank of Nigeria Limited is the commercial banking group of FBN Holdings Plc. All figures are for the commercial banking group except where stated otherwise.

Organisational profile

Corporate summary[2]

FirstBank commenced operations in Nigeria in 1894 as a branch of the Bank of British West Africa ("BBWA"), and has since grown to become one of the leading banks by assets in Sub-Saharan Africa. FirstBank is the commercial banking group as well as the flagship and biggest business of FBN Holding Plc ("the Holdco"). The Bank offers a full range of banking services to both individual and corporate customers, with a strong retail franchise. It currently has nine subsidiaries and a presence in 12 countries[3].

Table 1: Revenues by geography	F14 N'bn	F15 N'bn
Nigeria	414.3	413.9
Outside Nigeria	41.2	51.9
Total	**455.5**	**465.8**

Source: FirstBank AFS.

Ownership structure

The Holdco is the Bank's largest shareholder, controlling 99.9% of its issued share capital. The ownership structure of the Holdco at FYE15 is shown in Table 2.

Table 2: Major Shareholders	% Holding	
	FYE14	FYE15
Retail	50.1	53.9
Domestic institutions	26.2	29.5
Foreign institutions	21.7	14.7
Government related holdings	1.9	1.9
Total	**100.0**	**100.0**

Source: FBN Holding Plc AFS.

Strategy and operations

FirstBank continued to leverage its expanded presence in Africa to diversify earnings and enhance operational efficiency. In recent years, management's efforts have been channelled towards strengthening group integration and synergy, especially within its information technology platforms. Also, the Bank continued to deepen relationships with existing customers, developing digital banking products and expanding its agency banking channels. Given the current challenging operating environment and the subsequent impact on Nigerian banks' performance, FirstBank's focus in the current year will be on strengthening its operational efficiency and improving risk management processes.

At FYE15, the Bank operated with 2,749 (FYE14: 2,600) ATMs, 746 (FYE14: 763) outlets (including 615 branches, and 62 quick service points and cash centres) and had 7,616 (FYE14: 8,176) employees.

Governance structure

FirstBank's corporate governance structure is in line with the relevant Central Bank of Nigeria ("CBN") Code of Corporate Governance as well as all relevant standards of its parent company. The Bank recently redesigned its organisational structure to reflect its new strategic business focus. The operating structure is now stratified into five market facing strategic business units, and six functionally based units. Adherence to selected aspects of appropriate corporate governance is set out below.

Description	Findings
Board size	14
Number of non-executive directors	10 (including the Chairman and 2 independent directors)
Number of executive directors	4 (including the Managing Director/Chief Executive Officer ("MD/CEO"))
Tenure of directors	3 years each/2 cycles
Board committees	Credit, Finance and Human Capital, Audit, Risk Management, and Governance.
Int. audit and compliance function	Yes, independent units
External auditors and rotation policy	PricewaterhouseCoopers / 10 year tenure
Internal and external practice guides	Yes, group wide rules applied

Key changes to the Board of Directors ("the board") during the current year include the appointment of a new MD/CEO, Deputy MD and Chairman.

Financial reporting

FirstBank's financial statements were prepared in accordance with all relevant and applicable laws, provisions and guidelines, and International Financial Reporting Standards ("IFRS"). The bank's external auditor, PricewaterhouseCoopers, issued a clean audit report on the F15 financial statements.

Operating environment[4]

Economic overview

Nigeria's macroeconomic fundamentals remained volatile in 2015. This was largely caused by the indeterminate political and economic direction in the earlier part of the year, as well as local and global challenges throughout the year. In particular, the steady drop in global oil prices (and the negative impact of this on the country's foreign reserves), and a significant fall in the value of Naira against the US dollar (largely due to the part oil plays in funding Nigeria's fiscal policy), have had the most significant impact. It is noted that Naira weakness is not solely a country-specific phenomenon, as the pervasive 'risk-off' attitude from global investing since late 2014, resulted in severe depreciation in many emerging market currencies. Together, this has contributed to the depreciation of the Naira from N167/USD at FYE14 to N198/USD at 31 December 2015 at CBN official rates. However, the exchange rate depreciated to N285/USD at FYE15 and N320/USD at the end of April 2016 in the parallel market.

In June 2016, CBN announced the adoption of a new flexible foreign exchange ("FX") policy, which will

[2] Refer to previous rating reports for a detailed background.

[3] Nigeria, Ghana, Gambia, Guinea, Senegal, Sierra-Leone, Democratic Republic of Congo, United Kingdom, France, United Arab Emirates, South Africa and China.

[4] Refer to GCR's 2016 Nigeria Banking Industry Bulletin for a review of relevant economic, regulatory and/or industry developments.

allow the interbank trading window to be driven purely by market forces. The policy entails the adoption of a single market structure through the autonomous interbank FX market, as well as the introduction of FX primary dealers. Furthermore, CBN maintained its restrictive policy that disqualified importers of forty-one items from accessing the Nigerian FX market. Despite these interventions, the currency remains under pressure, trading above N340/USD since mid-June 2016 to date in the parallel market.

The nation's real gross domestic product ("GDP") grew 2.8% in 2015, against 6.2% recorded in 2014. The major impetus for improvement continued to come from the non-oil sectors which grew by 3.0%. Inflation rose steadily from 8.0% in December 2014 to 9.5% in December 2015, and 16.5% at the end of June 2016. The Nigerian Stock Exchange's all-share index level and market capitalisation at 31 December 2015 were 28,642 points and N9.9tn, representing YoY declines of 17.4% and 14.2% respectively (but have increased to 29,598 points and N10.2tn respectively at 30 June 2016). To counteract the cyclical downturn within the economy (largely driven by the persistently low crude oil prices), the federal government of Nigeria ("FGN") is adopting an expansionary policy for the 2016 fiscal year, and has implemented a budget of N6.08tn against N4.49tn in 2015. The focus of FGN is to diversify the economic base (with increased investment in infrastructure, agriculture and other non-oil sectors), in order to stimulate the economy and reduce unemployment.

Industry overview

Given the FGN's reform agenda, recent CBN policies have shifted towards combating inflation/maintaining price stability. CBN adjusted the monetary policy rate ("MPR") to 14%, and maintained the cash reserve ratio ("CRR") at 22.5%, and the liquidity ratio at 30%. The interest rate hike is expected to increase funding costs, lower consumption and investment in infrastructure. Furthermore, this will lead to lower output and productivity, which in turn is likely to increase the severity of the current economic recession.

According to CBN's statistics, banks' aggregate NPL ratio was 4.9% at December 2015. This ratio is expected to rise in 2016 given increasing macro-economic challenges. A major shift in banks' lending focus to the middle market segment was noticeable in 2015, raising concern of a possible rise in delinquent assets, considering the segment's over-reliance on FX for business. In light of macroeconomic challenges, US dollar-denominated exposure (particularly to the oil and gas industry) is likely to impact banks' asset quality further in 2016. Similarly, exposures to the power sector (which continues to face high debt burdens and low capacity to generate sufficient cash flows due to poor infrastructure and management issues) may also raise credit risk. Considering the aforementioned challenges, coupled with the TSA policy (which has led to a total withdrawal of approved FGN funds from the Nigeria financial market), full implementation of Basel II, and the increase in general loan loss provisioning, industry bottom line earnings are anticipated to be negatively impacted at year-end 2016. Consequently, prospects for domestic banks largely depend on innovation and proactive underwriting and risk management, in order to mitigate key challenges.

As at 31 December 2015, the industry comprised 20 commercial banks, one non-interest bank and four merchant banks. The commercial banks are made up of ten international banks, nine national banks, and a regional bank (SunTrust Bank, which was licensed in November 2015). Keystone Bank Limited remained the only bridge bank under the management of Asset Management Corporation of Nigeria, following the 2014 acquisitions of Enterprise Bank (by Heritage Bank) and Mainstreet Bank (by Skye Bank). The eight largest banks (including FirstBank) in the country accounted for over 70% of the industry's total assets at December 2015.

Competitive position

Table 3 illustrates the Bank's key operating performances against a selection of its peers in F15.

Table 3: Competitive position* FirstBank vs. selected banks	Zenith	FirstBank	UBA	Access	GTBank
Year end 31 December 2015					
Total capital (N'bn)	694.2	653.6	412.6	445.6	401.1
Total assets (N'bn)†	3,934.9	3,922.9	2,738.3	2,582.7	2,504.8
Net loans (N'bn)	1,989.3	1,816.0	1,051.2	1,408.6	1,371.9
Profit after tax (N'bn)	105.7	2.9	59.7	65.9	99.4
Capital/assets (%)	17.6	16.7	15.1	17.3	16.0
Liquid and trading assets/total short-term funding (%)	46.6	19.5	17.2	16.1	17.3
Gross bad debt ratio (%)	2.2	17.8	1.7	1.7	3.2
Net interest margin (%)	7.5	10.0	10.1	7.3	10.1
Cost ratio (%)	54.3	59.5	65.0	62.0	42.0
ROaE (%)	18.4	0.6	20.4	20.7	31.5
ROaA (%)	2.8	0.1	2.2	2.8	5.0

*Ranked by total assets. †Excludes banks' balances held in respect of letters of credit. Source: Audited Financial Statements.

FirstBank registered a moderating market position in F15, as evidenced by the decline in its share of the industry's assets to 14.1% (FYE14: 14.9%). Furthermore, its F15 key asset quality indicators and profitability significantly lagged those of peers. However, key rating strengths for the Bank remain its long performance track record in the Nigerian banking sector; expanded national and regional footprint; and extensive customer base, which gives it a competitive advantages over other players.

Financial profile

Likelihood of support

Given FirstBank's systemic importance (as one of the leading banks in Nigeria), and being the flagship and the largest business segment of the Holdco (with 91% contribution to the group's gross revenue in F15), GCR envisages strong support from the FGN and the Holdco in the event that such support is required.

Funding composition

As is typical of most commercial banks, FirstBank's assets were largely funded by customer deposits, which constituted 76.5% and 74.0% of total funding and assets respectively. Other funding sources include capital (17.2%) and borrowings (6.2%). These are discussed in the sections which follow.

Customer deposits

The Bank's enlarged network and strong domestic franchise have supported growth in customer deposits over the years. However, the deposit book declined by 2.8% to N2,905bn (FYE14: N2,989bn) following the impacts of the TSA policy and management's decision to shed some expensive fixed deposits. FirstBank reported increased penetration in the retail segment, with current and saving accounts rising to 73.6% (FYE14: 71.9%) of total deposits at FYE15. Deposit mix is considered satisfactory.

Table 4: Deposit book characteristics (%)*			
By sector:		**By type:**	
Corporates	20.3	Demand	39.7
Retail	69.3	Savings	34.0
Public sector	10.4	Term	26.4
Concentration:		**Maturity profile[α]:**	
Single largest	4.0	< 1 month	87.3
Five largest	8.0	1-3 months	9.4
Ten largest	9.8	3-12 months	3.3
Twenty largest	12.0	> 12 months	0.0

*Nigeria Bank only. [α]on contractual basis.
Source: FirstBank AFS.

The book remains largely short-dated, with 87.3% in the 'less than one month' maturity bucket. However, the fact that over 90% of deposits are typically rolled-over on maturity provides some degree of comfort that contractual maturity does not necessarily indicate the likely actual maturity of the deposit book. Management plans to grow the deposit book through deepening relationship with existing customers, enhancing its retail banking arm and agency banking, and expanding product offering provided through digital banking platforms.

Capital funding

FirstBank remains well capitalised at FYE15, with sizeable shareholders' funds of N504.5bn (FYE14: N463bn). This, combined with Tier 2 capital of N152.4bn at FYE15 saw balance sheet capital total N653.6bn, a growth of 8.8% relative to FYE14 levels.

Tier 2 capital comprised US dollar-denominated Notes I and II, issued by FBN Finance Company B.V. in August 2013 and July 2014 respectively, for periods of 7 years each. The Notes are not callable until August 2018 and July 2019 respectively.

Table 5: Capitalisation*	FYE14 N'bn	FYE15 N'bn
Tier 1	**316.7**	**333.9**
Share capital	*16.3*	*16.3*
Share premium	*189.2*	*189.2*
Statutory reserve	*63.2*	*63.2*
SMEEIS reserves	*6.1*	*6.1*
Retained earnings	*87.2*	*130.8*
Less: Goodwill/Deferred tax	*(1.3)*	*(5.4)*
Less: Other deductions	*(44.0)*	*(66.4)*
Tier 2	**91.2**	**96.2**
Total regulatory capital	**407.9**	**430.1**
Total risk weighted assets	**2585.2**	**2518.3**
CAR (%)	**15.8**	**17.1**

*Nigeria Bank only. Source: FirstBank AFS.

The Bank's (Nigeria only) FYE15 regulatory risk weighted CAR rose to 17.1% from 15.8% at FYE14, underpinned by a 2.6% reduction in total risk weighted assets, following management's decision to moderate asset creation while focusing on recovery. GCR notes that FirstBank's capital for regulatory purposes is lower than the absolute balance sheet figure, due to differential classification of certain reserves, and regulatory restrictions in relation to limits on Tier 2 capital which is eligible for regulatory CAR purposes. In F16, FirstBank will continue to enhance capital adequacy and support its growth aspirations solely through organic growth initiatives.

Other borrowings

Table 6: Borrowings	FYE14 N'bn	FYE15 N'bn
European Investment Bank	0.6	-
On-lending facilities from FIs	32.4	83.3
Correspondent banks	188.1	14.1
Total	**221.2**	**97.5**

Source: FirstBank AFS.

The Bank's outstanding borrowings reduced at FYE15, following settlement of a substantial portion of the credits from correspondent banks which were utilised in funding letters of credit. This was undertaken in view of the prevalent volatility in FX markets. On-lending facilities rose by 157.1% to N83.3bn, driven by additional disbursements from

CBN and Bank of Industry ("BOI"), which are guaranteed by FirstBank for some specific customers. Further analysis of the borrowing book reveals that about 31% of the credit facilities matures in the 'less than one year' maturity bucket.

Liquidity positioning

The Bank's liquidity risk is considered to be low, with the FirstBank(Nigeria)'s liquidity ratio at FYE15 well above the prudential threshold of 30%, at 51.9% (FYE14: 44%). High liquidity levels are expected to be sustained through 2016, as the Bank maintains a sizeable portion of its balance sheet in cash and highly liquid investments. Cognisance is taken of the liquidity constraints across the industry on the back of scarce foreign currency liquidity, and CBN's use of monetary policy to reduce excess funds within the financial markets.

Operational profile

Risk management

The Bank's risk assets portfolio suffered a significant deterioration in quality during F15, in view of the excessive loan concentration within the oil and gas sector. To mitigate the unexpected rise in credit risk, and enhance risk monitoring and early detection of problem credits, FirstBank is undertaking a comprehensive overhaul of its enterprise risk management ("ERM") framework. The Bank renewed its focus on thorough and regular review of all loans and advances from origination until repayment, and diversification of the loan book away from high-risk sectors to a more balanced mix of high-yielding exposures. Furthermore, FirstBank revised its internal obligor limit to 6% of its shareholders' funds at any point in time (against the prudential cap of 20%), realigned credit approval limits (with more authority granted to the board), and established a credit recovery unit, headed by a top level officer. Overall, the Bank is considered to be significantly exposed to credit and foreign currency risk at FYE15.

Asset composition

Table 7: Asset mix	FYE14		FYE15	
	N'bn	%	N'bn	%
Cash and liquid assets*	**1,104.1**	**27.0**	**1,047.8**	**26.7**
Cash	*63.3*	*1.5*	*76.3*	*1.9*
Liquidity reserve deposits	*563.2*	*13.8*	*476.9*	*12.2*
Fin. assets held for trading	*10.7*	*0.3*	*5.0*	*0.1*
Balances with other banks	*466.8*	*11.4*	*489.5*	*12.5*
Net advances	2,193.6	53.6	1,816.0	46.3
Investments:	**598.9**	**14.6**	**830.6**	**21.2**
Available for sale	442.6	10.8	724.5	18.5
Held to maturity	156.4	3.8	106.0	2.7
Pledged assets	64.5	1.6	102.2	2.6
Property and Equipment	83.4	2.0	82.4	2.4
Other assets	48.5	1.2	43.9	1.1
Total	**4,093.0**	**100.0**	**3,922.9**	**100.0**

*Excludes client balances held in respect of letters of credit.
Source: FirstBank AFS.

In view of the impact of the TSA policy on the deposit book, the Bank's total assets reduced by 4.2% to N3.9tn. While cash and liquid assets remained relatively stable, net loans and advances declined by 17.2% to N1.8tn due to asset impairments and the bank's decision not to renew credits to the oil and gas sector (especially the upstream segment). Also, the Bank increased its investment portfolio to N831bn, with around 90% of the total invested in risk-free Treasury bills and FGN bonds.

Loan portfolio

Gross loans and advances to customers dipped by 12.2% to N1,964bn at FYE15 due to a gradual reduction of the Bank's exposures, most especially within the oil and gas sector. The Bank has been overly exposed to the oil and gas sector for the last four years, leveraging its strong capital base to participate in large transactions which were considered to be high-yielding at the time of risk acquisition. At FYE15, this concentration remained high at 38.1%, comprising 16.6% in the upstream segment, 13.9% in downstream, and 7.7% in oil services. However, lending concentration by obligor is considered acceptable, as the Bank's single largest exposure amounted to 4.4% of the total portfolio, translating to 16.9% of shareholders' funds at FYE15. Based on analysis of loan terms, it is noted that about 22.4% of loans and advances are concentrated in the 'less than three months' maturity band, while 45.7% mature after twelve months.

Table 8: Loan book characteristics (%)

By sector:	FYE14	FYE15
Agriculture	2.6	1.4
Oil and gas	38.5	38.1
Construction and real estate	7.9	11.9
Wholesale and retail trade	4.3	7.6
Public Sector	5.5	8.8
Manufacturing	16.7	14.1
IT and telecommunication	5.0	3.7
Transport	2.8	1.0
Individuals	12.7	8.7
Others	4.0	4.6

Largest exposures:	%	By product:	%
Single largest	4.4	Overdrafts	18.3
Five largest	17.6	Term loans	76.7
Ten largest	25.2	Others	5.0
Twenty largest	34.9		

Source: FirstBank AFS.

Going forward, management will continue to undertake a comprehensive review of its lending activities, restraining lending to the oil and gas sector, and placing lending to other economic sectors on short credit cycles, until a balanced and sound portfolio is attained.

Contingencies

FirstBank's off-balance sheet financial instruments constituted 9.7% of its balance sheet (including contingencies), against 27.3% at FYE14. The reduction in off-balance sheet exposure was driven by lower undertaking of performance bonds, guarantees, and letters of credit following a significant increase in market volatility.

Asset quality

The Bank's asset quality witnessed a sharp deterioration in F15, as evidenced by the escalation in the NPL ratio to 17.8% at FYE15 (up from less than 3% in the previous four years). NPLs rose significantly to N348.9bn from N64.8bn on the back of reclassifications of some large obligors within the oil and gas sector, where the Bank is overly exposed (38.1% of total loans at FYE15). According to management, 12% of the loan book was restructured in F15, with the oil and gas sector accounting for 70% of restructured assets. The remainder relate mainly to real estate, power, transportation and retail. The Bank's provisioning level is considered low, with specific provisions covering a lower 32.8% of NPLs (FYE14: 42.8%). While management has commenced active recovery and remedial action on some of these delinquent assets, GCR envisages further impairments given the current risk level within the oil and gas sector, which are likely to offset the full impact of recovery efforts by FYE16. Moreover, the unaudited results as at 1H F16 indicate that the NPL ratio remained above 20%.

Table 9: Asset Quality	FYE14 N'bn	FYE15 N'bn
Gross advances	**2,236.5**	**1,964.0**
Neither past due nor impaired	*2,078.2*	*1,515.6*
Past due but not impaired	*93.5*	*99.4*
Impaired	*64.8*	*348.9*
Provision for impairment	**(42.9)**	**(147.9)**
Individually impaired	*(27.7)*	*(114.5)*
Collectively impaired	*(15.2)*	*(33.4)*
Net NPL	**37.1**	**234.4**
Select asset quality ratios:		
Gross NPL ratio (%)	2.9	17.8
Net NPL ratio (%)	1.7	12.9
Net NPL/Capital (%)	6.2	35.9

Source: FirstBank AFS.

Due to the cumbersome judicial process in realising security in Nigeria, collateral was not given primary consideration in this analysis. Nevertheless, a mitigant against rising credit risk is the fact that the gross loans were virtually all secured in one form or another (including legal mortgage, guarantee, market securities/stock).

Foreign currency risk

Table 10: Net FCY position (FYE15)	USD N'bn	GBP N'bn	Euro N'bn	Others N'bn
Financial assets	1,231.4	138.8	109.5	65.4
Financial liabilities	(854.2)	(375.6)	(36.5)	(37.9)
Net assets/(liabilities)	**377.3**	**(236.9)**	**73.0**	**27.6**

Source: FirstBank AFS.

FirstBank is exposed to FX risks via its foreign currency denominated portfolios. About 45% of the loan book is foreign currency denominated, of which 65% is to the oil and gas sector. Although the Bank is taking necessary mitigating measures, GCR envisages that socio-political unrest within the oil-producing region in Nigeria (where majority of the obligors operate) and foreign currency illiquidity will continue to impact the Bank's exposure pending stability in the market. This notwithstanding, FirstBank is managing its risk level through partial matching of related assets/liabilities.

Financial performance and prospects

A five year financial synopsis (as well as unaudited six-month results to 30 June 2016) is reflected at the back of this report, supplemented by the commentary below.

Although FirstBank's gross earnings (of N465.6bn) remained strong during F15, its profitability was eroded by a sharp rise in impairments, which was necessitated by the classification of selected risk assets. The Bank's interest income rose by 8.4% to N258.8bn driven by higher interest rates. On the other hand, interest expense grew by 9.3%, reflecting the high interest rate environment during 2015, and raising the Bank's cost of funds to 3.7% (F14: 3.4%). Thus, net interest expense recorded a lower growth of 8%. FirstBank reported subdued non-interest income, following a reduction in net gains on FX income. Consequently, total operating income ("TOI") reduced marginally by 0.8% to N336.2bn. Lower TOI was further impacted by high impairment charges, which rose to N125.9bn in F15 (F14: N25.7bn). Operating expenses declined to N200bn (F14: N218.6bn) resulting in improved operational efficiency, with the cost/income ratio declining to 59.5% (F14: 64.5%). However, efficiency improvements did not offset the increase in impairment costs, and pre-tax profit fell to N10.2bn in F15 (from N94.5bn in F14). After charging N7.2bn in tax, the Bank ended with a net profit after tax ("NPAT") of N2.9bn (F14: N84.9bn).

For the six-month period to 30 June 2016, FirstBank delivered NPAT of N29.4bn, supported by a sizeable rise in non-interest income, and relatively lower interest expenses as the Bank continues to reduce expensive funding. The industry is expected to experience earnings constraints and weakened asset quality in 2016, given its increased exposure (of 26%) to the oil sector, as well as the decline in global oil demand, the anticipated high interest rate environment, and persistent socio-political unrest. FirstBank is not immune from these factors, and GCR considers that the anticipated increase in impairments may further weaken the Bank's performance relative to peers in F16. However, management has indicated renewed focus on operational efficiency and enhanced risk management practices to improve bottom line earnings.

First Bank of Nigeria Limited

(Naira in millions except as noted)

Year end: 31 December

Statement of Comprehensive Income Analysis	2011	2012*	2013*	2014	2015	1H 2016
Interest income	207,019	276,909	310,224	349,277	378,790	161,711
Interest expense	(34,727)	(58,586)	(86,409)	(109,722)	(119,980)	(38,994)
Net interest income	**172,292**	**218,323**	**223,815**	**239,555**	**258,810**	**122,717**
Other income	43,060	62,915	56,009	99,260	77,397	77,789
Total operating income	**215,352**	**281,238**	**279,824**	**338,815**	**336,207**	**200,506**
Impairment charge	(38,011)	(12,912)	(20,521)	(25,730)	(125,943)	(69,941)
Operating expenditure	(136,668)	(182,196)	(172,718)	(218,633)	(200,083)	(93,920)
Share of profit of associates	(1,507)	1,008	875	-	-	-
Net profit before tax	**39,166**	**87,138**	**87,460**	**94,452**	**10,181**	**36,645**
Tax	(18,864)	(15,006)	(21,009)	(9,526)	(7,235)	(7,286)
Profit from continuing operations	**20,302**	**72,132**	**66,451**	**84,926**	**2,946**	**29,359**
Profit/(loss) from discontinuied operations	(1,665)	3,838	-	(84)	-	-
Other comprehensive (loss)/gain	(40,032)	20,308	(9,778)	4,817	38,667	6,798
Total comprehenssive income	**(21,395)**	**96,278**	**56,673**	**89,659**	**41,613**	**36,157**

Statement of Financial Position Analysis	2011	2012*	2013*	2014	2015	1H 2016
Subscribed capital	270,840	205,557	205,557	205,557	205,557	205,556
Reserves (incl. net income for the year)	96,775	191,190	175,965	255,819	297,038	333,148
Hybrid capital (incl. eligible portion of subordinated term debt)	-	-	47,249	141,819	152,434	235,140
Minority interest	964	1,353	1,626	1,641	1,929	2,010
Less: Intangible assets (incl. goodwill)	-	-	(6,585)	(4,352)	(3,340)	(4,777)
Total capital and reserves	**368,579**	**398,100**	**423,812**	**600,484**	**653,618**	**771,077**
Bank borrowings (incl. deposits, placements & REPOs)	183,500	87,551	77,481	163,710	139,052	379,155
Deposits	1,950,991	2,405,031	2,863,177	2,823,835	2,756,997	2,869,307
Other borrowings	55,329	54,004	55,739	206,299	29,901	31,563
Short-term funding (< 1 year)	**2,189,820**	**2,546,586**	**2,996,397**	**3,193,844**	**2,925,950**	**3,280,025**
Deposits	330	4	79,605	165,900	148,073	148,073
Other borrowings	49,144	21,537	23,314	14,858	67,557	67,557
Long-term funding (> 1 year)	**49,474**	**21,541**	**102,919**	**180,758**	**215,630**	**215,630**
Payables/Deferred liabilities	191,194	116,713	159,633	117,933	127,716	215,436
Other liabilities	**191,194**	**116,713**	**159,633**	**117,933**	**127,716**	**215,436**
Total capital and liabilities	**2,799,067**	**3,082,940**	**3,682,761**	**4,093,019**	**3,922,914**	**4,482,168**
Balances with central bank	103,897	191,509	341,011	563,237	476,916	525,075
Properties, Plants and Equipments	65,874	74,474	78,489	83,404	82,351	83,675
Receivables/Deferred assets (incl. zero rate loans)	70,234	58,333	55,874	48,523	43,907	66,252
Non-earnings assets	**240,005**	**324,316**	**475,374**	**695,164**	**603,174**	**675,002**
Short-term deposits & cash	45,293	53,083	71,681	63,306	76,308	66,513
Loans & advances (net of provisions)	1,252,462	1,562,695	1,797,935	2,193,563	1,816,045	2,132,675
Bank placements	451,792	399,498	538,462	466,847	489,535	721,630
Marketable/Trading securities	310,804	304,566	427,095	10,708	5,049	13,497
Other investments/earning assets	409,465	383,560	330,579	621,086	883,322	821,783
Equity investments	52,093	49,613	35,410	42,345	49,481	51,068
Investments in subsidiaries/associates/properties	37,153	5,609	6,225	-	-	-
Total earning assets	**2,559,062**	**2,758,624**	**3,207,387**	**3,397,855**	**3,319,740**	**3,807,166**
Total assets†	**2,799,067**	**3,082,940**	**3,682,761**	**4,093,019**	**3,922,914**	**4,482,168**
Contingencies	**459,080**	**534,361**	**693,615**	**701,997**	**421,696**	**n.a.**

Ratio Analysis (%)	2011	2012*	2013*	2014	2015	1H 2016
Capitalisation						
Internal capital generation	n.a.	24.3	14.9	19.4	8.3	10.9
Total capital / Net advances + net equity invest. + guarantees	20.9	18.5	16.8	20.4	28.6	29.6
Total capital / Total assets	13.2	12.9	11.5	14.7	16.7	17.2
Liquidity ‡						
Net advances / Deposits + other short-term funding	57.2	61.4	58.5	65.3	59.1	62.2
Net advances / Total funding (excl. equity portion)	55.9	60.8	58.0	65.0	57.8	61.0
Liquid & trading assets / Total assets	28.9	24.6	28.2	13.2	14.6	17.9
Liquid & trading assets / Total short-term funding	36.9	29.7	34.6	16.9	19.5	24.4
Liquid & trading assets / Total funding (excl. equity portion)	36.1	29.5	33.5	16.0	18.2	22.9
Asset quality						
Impaired loans / Gross advances	2.6	2.6	2.9	2.9	17.8	n.a.$^{\alpha}$
Total loan loss reserves / Gross advances	2.6	2.5	2.5	1.9	7.5	10.7
Bad debt charge (income statement) / Gross advances (avg.)	3.1	0.9	1.2	1.3	6.1	3.4
Bad debt charge (income statement) / Total operating income	17.7	4.6	7.3	7.6	37.5	34.9
Profitability						
Net income / Total capital (avg.)	n.a.	25.1	13.8	17.5	6.6	4.1
Net income / Total assets (avg.)	n.a.	3.3	1.7	2.3	1.0	0.7
Net interest margin	9.0	10.0	8.8	8.7	10.0	8.8
Interest income + com. fees / Earning assets + guarantees (a/avg.)	5.7	8.0	6.9	6.8	8.0	3.8
Non-interest income / Total operating income	20.0	22.4	20.0	29.3	23.0	38.8
Non-interest income / Total operating expenses (or burden ratio)	31.5	34.5	32.4	45.4	38.7	82.8
Cost ratio	63.5	64.8	61.7	64.5	59.5	46.8
OEaA (or overhead ratio)	5.4	6.2	5.1	5.6	5.0	2.2
ROaE	5.5	18.9	17.1	20.2	0.6	11.3
ROaA	0.7	2.5	2.0	2.2	0.1	1.4
Nominal growth indicators						
Total assets	n.a.	10.1	19.5	11.1	(4.2)	14.3
Net advances	n.a.	24.8	15.1	22.0	(17.2)	17.4
Shareholders funds	n.a.	7.9	(3.8)	20.9	8.9	7.2
Total capital and reserves	n.a.	8.0	6.5	41.7	8.8	18.0
Deposits (wholesale)	n.a.	23.3	22.4	1.6	(2.8)	3.9
Total funding (excl. equity portion)	n.a.	14.7	20.7	8.9	(6.9)	11.3
Net income	n.a.	255.3	(7.9)	27.8	(96.5)	1,893.1

* Restated figures.

† Excludes client's balances held in respect of letters of credit.

‡ Please note that for these ratios, liquid assets exclude the statutory reserve balance.

$^{\alpha}$FirstBank (Nigeria)'s NPL ratio is 22.8%

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The ratings were solicited by, or on behalf of, First Bank of Nigeria Limited, and therefore, GCR has been compensated for the provision of the ratings.

First Bank of Nigeria Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings above were disclosed to First Bank of Nigeria Limited with no contestation of/changes to the ratings.

The information received from First Bank of Nigeria Limited and other reliable third parties to accord the credit rating included the latest audited annual financial statements as at 31 December 2015 (plus four years of comparative numbers), latest internal and/or external audit report to management, most recent year-to-date management accounts to 30 June 2016, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.