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First Bank of Nigeria Limited

Nigeria Bank Analysis **December 2019**

Rating class	Rating scale	Rating	Outlook	Expiry date
Long-term	National	A- (NG)	Stable	September 2020
Short-term	National	A1-(NG)		

Financial data:

(USDm comparative)ǂ

	31/12/17	31/12/18
NGN/USD (avg.)	305.3	305.6
NGN/USD (close)	305.5	306.5
Total assets	16,136.6	16,646.5
Primary capital	2,039.7	1,504.3
Secondary capital	833.5	541.3
Net advances	6,631.9	5,573.3
Liquid assets	7,090.0	8,906.7
Operating income	1,336.3	1,190.1
Profit after tax	161.1	131.8
Market cap.*	N179.5bn/USD585.9m	
Market share**	14.3%	

ǂCentral Bank of Nigeria's ("CBN") exchange rate

*For FBN Holdings Plc as at 11 September 2019.

**As a % of industry assets at 31 December 2018.

Rating history:

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

Last rating (November 2018)
Long-term: A-(NG)
Short-term: A1-(NG)
Rating Watch: Yes

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017

FirstBank rating reports (2006-18)

Glossary of Terms/Ratios, February 2016

GCR contacts:

Analysts
Yinka Adeoti/Julius Adekeye
Credit Analyst/Senior Credit Analyst
adeoti@globalratings.net
adekeye@globalratings.net

Committee Chairperson
Dave King
king@globalratings.net

Analysts location: Lagos, Nigeria

Tel: +234 1 904-9462

Website: www.globalratings.com.ng

Note: 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.

Summary rating rationale

- The accorded ratings take into consideration First Bank of Nigeria Limited's ("FirstBank" or "the bank") well established franchise and systemically important status, with the implied likelihood of support from the Federal Government of Nigeria ("FGN") if such support is required. However, the ratings remain constrained by the relatively improved but high risk position compared with other top-tier peers.
- Having displayed deterioration in asset quality in the last four years to FY18, FirstBank's gross non-performing loans ("NPL") ratio improved to 12.4% at 3Q FY19 (FY18: 25.5%; FY17: 22.5%), albeit remains above the industry's average for the period. The relative improvement in NPL ratio was mainly attributed to write-off of the largest delinquent loan amounting to N181.1bn (relating to the oil and gas sector and represents 9.5% of the loan portfolio at 1H FY19). Specifically, management has indicated that its ongoing remedial actions (including writing off of fully provisioned loans), loan restructuring, active recovery efforts, as well as cautious loan growth, would further support improved NPL ratio to a single digit by end-December 2019. Total loans provision coverage of impaired loans stood at 72.7% at FY18 (FY17: 53.8%).
- FirstBank's capitalisation declined at FY18, largely impacted by loan loss provisions adjustment to retained earnings on the back of implementation of IFRS 9 accounting standard. Consequently, shareholders' funds declined by 23.3% to N478.2bn at the balance sheet date, and translated to a lower risk-weighted capital adequacy ratio ("CAR") of 17.3% at FY18 (FY17: 17.7%) and closed at 16.4% at 3Q FY19 (including profit for the period), against the regulatory minimum of 15% for international commercial banks.
- The bank has a robust funding structure, backed by its strong retail franchise, and diversified deposit book, as evidenced by the single largest depositor accounting for a moderate 2.3% of total deposits at the balance sheet date. Liquidity risk is also considered low, with the bank's regulatory liquidity ratio ranging between 40.1% and 54.9% throughout FY18 (FirstBank Nigeria only), against the regulatory minimum of 30%.
- FirstBank reported a net profit before tax ("NPBT") of N40.1bn in FY18, representing 26.9% year-on-year decline. While non-interest income rose by 10.5% on account of improved fees and commission income, net interest margin compression saw total operating income ("TOI") contract by 10.9% to N363.7bn. Also, operating expenses grew by 9.4%, translating to a higher cost to income ratio of 63.7% (FY17: 51.9%). Overall, profitability indicator ended down, with the return on average equity and asset ("ROaE" and "ROaA") declining to 7.4% and 0.8% in FY18 (FY17: 8.6% and 1.1%) respectively. For the nine-month ended 30 September 2019, the bank recorded a pre-tax profit of N50.1bn, representing 18.4% growth over the corresponding period in 2018 and recorded a ROaE and ROaA of 11.9% and 1.1% respectively.

Factors that could trigger a rating action may include

Positive change: A positive rating action is dependent on a rebound to strong asset quality and profitability as well as further improvement in competitive positioning.

Negative change: Sustained pressure on asset quality, profitability and capitalisation metrics, coupled with a significant deterioration in the bank's liquidity position could trigger a negative rating action.

Organisational profile

Corporate summary[1]

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 total 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"), accounting for a sizeable 88.7% of the Holdco's gross earnings as at 3Q FY19. The bank offers a full range of financial service solutions to both individual and corporate customers across 10 countries[2], with a strong retail franchise.

Strategy and operations

FirstBank has been progressing well with the implementation of its short term (2017-2019) and long term strategic intent of becoming the market leader within the Nigerian banking sphere. This strategic initiative is anchored on the following: (i) strengthening technology infrastructure; (ii) developing and promoting a full digital and transaction banking offering; (iii) driving customer acquisition and profitability; (iv) progressively drive customer lending revolution; (v) improving group risk management and controls; (vi) strengthening corporate culture and brand; and (vii) increasing contributions of international subsidiaries to the banking group's earnings.

As part of its digitalisation strategy, FirstBank during 2018 launched a transaction banking platform ("FirstDirect") for corporate clients. This platform is a web based integrated cash management and trade finance solution, which allows corporate customers to initiate transactions conveniently. Furthermore, FirstBank upgraded its core application to 'Finacle Future Ready' in 2019, to improve operational efficiency, customers banking experience and enhance its capacity for further retail segment penetration.

In light of FirstBank's sustained efforts to drive financial inclusion and deepen penetration in the unbanked and underbanked segment of the economy, the bank continues to expand the footprint of its extensive agency banking channels "Firstmonie", which stood at over 35,000 as at 30 September 2019.

As at 30 September 2019, FirstBank operated through 759 business location (including 615 branches, 70 quick service points and 74 agent outlet), 2,953 ATMs, 12,716 POS terminals, and a staff complement of 6,995.

Governance structure

FirstBank's corporate governance structure is in line with CBN's code of corporate governance for banks in Nigeria and international best practice as well as all relevant standards of its parent company. As at 30 September 2019, the board of directors ("the board") comprised fourteen members, made up of four executive directors (including the Managing Director) and ten non-executive directors (which includes the Chairman and two independent directors). Major changes to the board in 2019 were the appointment of two additional non-executive directors and the retirement of a non-executive director. The board is considered to have satisfactory mix of knowledge and experience across banking and other business fields.

The board renders its oversight functions through five standing committees, namely: credit committee, human capital and general-purpose committee, audit committee, risk management committee, strategy and monitoring finance committee, and governance committee. While these committees have authority to examine particular issues and report back to the board with their decisions and/or recommendations, the ultimate responsibilities on all matters lies with the board.

Financial reporting

FirstBank's financial statements were prepared in accordance with all relevant and applicable local laws, provisions and guidelines, and International Financial Reporting Standards ("IFRS"). The bank's external auditor, PricewaterhouseCoopers, issued an unqualified opinion on the FY18 financial statements.

Operating environment

Economic overview

The Nigerian economy witnessed sustained economic growth in 2018, albeit characterised by mixed growth trajectory. Growth in the first half of the year was somewhat sluggish due to contractions in the oil sector (on the back of declined domestic oil production and volatility in global crude oil prices), delayed passage and implementation of the budget amongst other factors. However, performance was firmer in the second half, propelled by a combination of increased government investment on capital projects and the improved performance of the non-oil sector, ultimately accelerating the full-year economic growth rate. Specifically, the non-oil sector grew by 2.7% in 2018 compared to 1.5% in 2017, while the oil sector grew moderately by 1.1% (2017: 4.7%). Overall, real GDP expanded by 1.9% year-on-year up from 0.8% registered in 2017.

Real GDP growth for 2019 is projected at 2.0% and 2.2% by the International Monetary Fund and World Bank respectively. These forecasts are premised on anticipated recovery in global crude oil price amidst agreed global production cut by Organisation of Petroleum Exporting Countries (OPEC) and its allies, as well as sustained implementation of the Economic Recovery and Growth Plan (2017–2020) by the

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

[2] Nigeria, Ghana, The Gambia, Guinea, Senegal, Sierra-Leone, Democratic Republic of Congo, France, United Kingdom, and China.

government. Anticipated drawbacks to these projections include; the political risks associated with the 2019 general elections and persistent security challenges arising from insurgency in the North East and herdsmen attack in some parts of the country. Also, the upward review of the national minimum wage and other social intervention programs by the government could exacerbate inflationary pressures in 2019. To curtail this effect, CBN has engaged in a frequent Open Market Operations ("OMO") auctions to maintain tight monetary policies. However, with effect from October 2019, CBN has restricted individual and local corporates from participating in the OMO bills, which could strain the liquidity management strategy and further drive down the yields on government investment securities.

Foreign exchange ("FX") remained relatively stable in 2018 at an average rate of N305.6/USD and N364/USD at the official and parallel market respectively on account of various CBN's FX interventions aimed at easing pressure on Naira. Furthermore, CBN maintained a non-expansionary monetary policy stance by leaving the benchmark monetary policy rate constant at 14% throughout 2018 (albeit reviewed downward to 13.5% in March 2019), to curtail inflationary pressures. To this end, the headline inflation declined progressively from 15.1% in January 2018 to close at 11.4% in December 2018 and stood at 11.9% in November 2019.

The Nigerian Stock Exchange ("NSE") All Share Index (ASI) retreated by 17.8% (2017: 42% growth) to close at 31,430.50 points in 2018, with market capitalization dipping 13.9% to N11.7tn. The bearish stock market performance can be attributed to pre-election jitters and heightened capital outflows on the back of attractive yields in the developed economy as well as the trade war between the US and China.

Industry overview

In line with global practice, the Nigerian banking industry commenced full implementation of IFRS 9 with effect from 1 January 2018, shifting from incurred credit loss model to expected credit loss ("ECL") model, which is a more forward looking approach. To cushion the effect of ECL provisions on capitalisation, CBN introduced a four-year transitional arrangement which requires banks to hold static the adjusted day one impact of IFRS 9 impairment charges and spread it over a four-year period. This, combined with capital raising initiatives employed by a number of banks and strict dividend payment regulations resulted in the rise in the industry's average CAR to 15.3% in December 2018, from 10.2% in December 2017. According to CBN, a new capital rule is expected to be introduced before the end of 2019, aimed at *(inter alia)* aligning CAR computation with international regulatory accord (Basel III) as well as ensure banks maintain adequate capital buffer to withstand any acute financial stress scenario.

The industry's profitability for 2018 reflects an improvement, underpinned by declined impairment charge and growth in digital transaction volume. Total banking sector assets stood at N37.2tn at end-December 2018 (December 2017: N34.6tn), while the credit portfolio decreased by 3.2% to N19.8tn due to the conservative lending approach adopted by most banks. Per CBN's statistics, the industry's average gross NPL ratio declined to 11.6% at end-December 2018 (December 2017: 14.8%), albeit remaining above the regulatory threshold of 5%. The decline could be attributed to improvement in risk management practices in the industry.

In a bid to boost credit extension and stimulate lending to the real sector of the economy (particularly SMEs), CBN on 3rd July 2019 issued a circular mandating Deposits Money Banks ("DMBs") to maintain a minimum loan to deposits ratio ("LDR") of 60% and this was further reviewed to 65% with effect from 31 December 2019. Failure to meet this specification by the set deadline would attract additional cash reserve requirement of 50% to the lending shortfall of the target LDR. This policy could spike the industry's NPLs given the inherent pressure on banks to book more loans in order to comply with the stipulated threshold. In addressing these concerns, CBN in October 2019 granted DMBs' approval to directly debit bank accounts belonging to loan defaulters across all banks in the country, through bank verification number and in collaboration with the Nigeria Inter-Bank Settlement System Plc.

The evolution of financial technology companies ("fintech") and other non-bank companies leveraging technology (in provision of financial services) has intensified competitive pressure in the Nigerian banking sector, particularly in the retail banking space. The competitive dynamics was further intensified by the decision of CBN in October 2018 to licence the Payment Service Banks ("PSBs"). The decision was premised on the apex bank's objective of enhancing financial inclusion and stimulating economic activities in the rural and unbanked areas by leveraging on existing facilities of the telecommunication companies and other companies' predominantly in areas with limited banking presence and ultimately achieve 80% financial inclusion target by year-end 2020.

Statistics as at 30 September 2019 reveals Nigeria's financial sector comprised twenty-two commercial banks, five merchant banks, two non-interest banks, and over 4,000 other financial institutions. Commercial banks include eight international banks, eleven national banks, and three regional banks. Polaris Bank Limited, the only bridged bank under the control of Asset Management Corporation of Nigeria

("AMCON") was established in September 2018 following the assumption of the asset and liabilities of the defunct Skye Bank Plc by CBN. While the industry witnessed a merger between two commercial banks (Access Bank Plc and Diamond Bank Plc) in March 2019, two additional commercial banks and one non-interest bank were licensed by CBN in July 2019. Overall, the competitive position of players in the Nigerian banking space is expected to be altered and intensified going forward.

Competitive position

FirstBank remains a key player in the Nigeria financial landscape, controlling a sizeable market share of 14.3% based on the total industry assets at FY18. The bank's competitive position has over time been supported by its innovations, strong and established franchise, robust branch network and extensive customer base with an adequate mix of both retail and corporate customers. However, a major offsetting factor to performance remains the bank's elevated asset quality metric which has continued to constrain profitability level *vis-à-vis* top-tier peers. GCR expects management's ongoing remedial actions to support this metric within a reasonable level over the short term. Table 1 outlines the bank's key performance metrics against selected peers at FY18.

Likelihood of support

Given FirstBank's status as a systemically important bank, the flagship as well as the largest business segment of the Holdco (with 88.7% contribution to gross earnings as at 3Q FY19), there is the likelihood of state support (bailout) in the event that such support is required.

Funding composition

The bank is largely funded by customer deposits, which constituted 68.5% (FY17: 64.4%) of the total funding at FY18. Other funding sources include equity (9.7%), subordinated debt (3.4%), borrowings (3.5%) and interbank funding (14.9%). Details of each source of funding are discussed below.

Customer deposits and interbank funding

Customer deposits grew by 10.7% to N3.4tn at FY18, as the bank continued to leverage on its extensive branch and agency banking networks, digital channels as well as strong retail franchise to deepen retail segment penetration. In this regard, low cost deposits grew by 17.2%, to constitute a higher 85.1% (FY17: 82.9%) of the total deposits at FY18. Interbank funding also rose by 13.2% to N741.3bn at the balance sheet date to support the funding profile. Overall, the bank's weighted average cost of funds remained low at 3.1% at FY18.

Table 2: Deposit book characteristics at FY18 (%)*

By sector:		**By type:**	
Corporates and Commercial	17.7	Current	28.7
Retail	66.1	Savings	38.7
Public sector	6.4	Term	14.9
Others	9.8	Domiciliary	17.7
Concentration:		**Maturity profile$^{\alpha}$:**	
Single largest	2.3	< 1 month	4.8
Five largest	6.3	1-3 months	9.1
Ten largest	8.5	3-12 months	17.9
Twenty largest	11.5	> 12 months	68.2

*Refers to banking operations of FirstBank Nigeria
$^{\alpha}$on contractual basis

Further analysis of the book reflects a well-diversified deposits base, with the single and twenty largest deposits accounting for 2.3% and 11.5% of total deposits respectively at FY18. Also, the maturity profile of the book remains fairly long, with 68.2% maturing after 12 months. Management projects deposits growth of about 5% for FY19, through deepening relationships with existing customers, and expanding product offerings via digital banking platforms. Accordingly, 6% growth was recorded in customer deposits as at 3Q FY19.

Capital funding

FirstBank's capitalisation declined at FY18, largely impacted by loan loss provisions adjustment to retained earnings on the back of implementation of IFRS 9 accounting standard. Consequently, shareholders' funds declined by 23.3% to N478.2bn at the balance sheet date, and translated to a lower CAR of 17.3% at FY18 (FY17: 17.7%) and closed at 16.4% at 3Q FY19 (including profit for the period), against

Table 1: Competitive position* FirstBank vs. selected banks	Zenith	FirstBank	Access	UBA	GTBank
Year end 31 December 2018					
Shareholders' funds (N'bn)	815.8	478.2	490.5	502.6	558.2
Total assets (N'bn)†	5,914.5	5,102.2	4,928.0	4,832.2	3,264.2
Net loans (N'bn)	1,823.1	1,708.2	1,993.6	1,715.3	1,259.0
Net profit after tax (N'bn)	193.4	40.1	95.0	78.6	184.6
Total capital/Total assets (%)	13.8	12.5	9.9	10.8	17.4
Liquid and trading assets/Total short-term funding (%)	52.4	37.7	25.2	19.2	28.9
Gross NPL ratio (%)	5.0	25.5	2.7	6.5	7.3
Net interest margin (%)	6.8	7.4	6.9	8.9	10.9
Cost ratio (%)	47.4	63.7	62.2	64.0	36.6
ROaE (%)	23.8	7.4	20.1	15.8	36.8
ROaA (%)	3.4	0.8	2.3	1.8	6.5

*Ranked by total assets †Excludes clients' balances in respect of letters of credit — Source: Audited Financial Statements the regulatory minimum of 15% for international commercial banks. According to management, intensified focus on enhancement of its internal capital generation as well as balance sheet restructuring is expected to support improved capital efficiency over the short to medium term.

The reduction in shareholders' funds coupled with the redemption of USD denominated Note 1 Eurobond facility in August 2018, resulted in 26.8% decline in total capital and reserves to N639.6bn at FY18. Cognisance is also taken of redemption of the outstanding Note II Eurobond facility in July 2019. In this regard, cumulative USD750m Eurobonds facilities were redeemed during the period under review.

Table 3: Capitalisation*	FY17 N'bn	FY18 N'bn
Total qualifying Tier 1	419.7	359.0
Total qualifying Tier 2	115.9	84.2
Total regulatory capital	**535.7**	**443.2**
Total risk weighted assets	**3,019.9**	**2,568.0**
RWCAR (%)	**17.7**	**17.3**

*FirstBank Nigeria Source: FirstBank AFS

Borrowings
The bank's outstanding borrowings (excluding qualifying Tier 2 capital) expanded by 6.2% to N172.3bn at FY18. On-lending facilities represent intervention funds granted by Nigerian government-owned financial institutions (Bank of Industry and CBN) under approved schemes which are guaranteed by FirstBank for on-lending to qualified customers. Credit lines with correspondent banks include loans utilised in funding letters of credit. This was undertaken in view of the prevalent volatility in the forex markets. Further analysis of the book, reveals a substantial 87.8% had a maturity profile exceeding 12 months, while 76.5% of the amounts were foreign currency denominated. At 3Q FY19, outstanding borrowings declined by 6.1% to N161.8bn, following the repayment of matured facilities during the period.

Table 4: Borrowings	FY17 N'bn	FY18 N'bn
Subordinated debt*	254.6	165.9
Other borrowings	**162.3**	**172.3**
European Investment Bank	21.7	19.9
African Development Bank	67.4	72.9
On-lending facilities from FIs	58.3	62.0
Correspondent banks	14.9	17.5
Total	**416.9**	**338.2**

*Qualifying Tier 2 capital Source: FirstBank AFS

Liquidity positioning
Liquidity risk is considered low, with the bank's regulatory liquidity ratio ranging between 40.1% and 54.9% throughout the year (FirstBank Nigeria only), against the regulatory minimum of 30%. Furthermore, FirstBank's liquid and trading assets to total short-term funding ratio of 37.7% compares favourably with peers' average at FY18. Sound liquidity position is expected to be sustained going forward, as a sizeable portion of assets were maintained in cash and highly liquid investment securities.

Operational profile

Risk management
FirstBank continued to review and strengthen its enterprise risk management ("ERM") framework in line with the economic and industry conditions and to ultimately address the asset quality concerns. In this regard, the bank has put in place more stringent loan selection criteria, enhanced loan recovery mechanism, while also maintaining a well-diversified loan portfolio going forward. According to management, a robust ERM solution was implemented during the period under review to support the revamping of its risk management architecture and governance. More specifically, the bank reviewed downward its internal limit of single largest foreign currency ("FCY") exposures to 10% of shareholders' funds from 20% previously. This was aimed at reducing concentration risk and the effect of FCY volatility.

Asset composition
The bank's total assets expanded by 3.5% to N5.1tn at FY18, with cash and liquid assets accounting for a sizeable 53.5% of the asset pool, while net advances constituted a lower 33.5% (FY17: 41.1%). Growth in cash and liquid assets was largely driven by a substantial increase in risk-free investment securities on the back of sustained slowdown in risk assets creation during the year.

Table 5: Asset mix	FY17 N'bn	FY17 %	FY18 N'bn	FY18 %
Cash and liquid assets	**2,166.0**	**43.9**	**2,729.9**	**53.5**
Cash	*169.0*	*3.4*	*110.7*	*2.2*
Liquidity reserve deposits	*455.0*	*9.2*	*520.5*	*10.2*
FGN Bonds and Treasury bills	*878.2*	*17.8*	*1,435.4*	*28.1*
Balances with other banks	*663.8*	*13.5*	*663.3*	*13.0*
Net advances	2,026.0	41.1	1,708.2	33.5
Other investment securities	308.2	6.2	161.0	3.2
Pledged assets	195.0	*4.0*	*287.8*	*5.6*
Property and Equipment	82.8	*1.7*	86.3	*1.7*
Other assets	151.7	3.1	128.9	2.5
Total*	**4,929.7**	**100.0**	**5,102.2**	**100.0**

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

Loan portfolio
FirstBank's gross loans and advances evidenced a downward trend over the last three years on the back of sustained loan book clean-up. In this regard, the loan book declined by 9% to N2.1tn at FY18 and further down to N2.0tn at 3Q FY19. Although the sectoral distribution of the book remains heavily skewed towards the oil and gas sector, the bank's concerted efforts at maintaining a diversified loan portfolio has seen the concentration to this sector moderate somewhat to 35.3% at 3Q FY19 (FY18: 41.2%). Also, concentration risk by obligor moderated at 3Q FY19,

with the single largest exposure constituting a lower 5.2% and 18.3% of the loan book and shareholders' funds respectively (FY18: 9.3% and 40.6%). Further analysis of the book revealed a sizeable 45.3% were denominated in foreign currency as at 3Q FY19 (FY18: 52.7%).

Table 6: Loan book characteristics (%)*	FY18	3Q FY19
By sector		
Power and energy	4.6	4.3
Oil and gas	41.2	35.3
Construction	5.5	6.1
Real estate	7.0	6.7
Retail and consumer	5.8	6.3
General commerce	3.5	2.8
Public Sector	9.9	8.6
Manufacturing	14.1	15.6
IT and telecommunication	2.4	6.4
Others	6.0	7.9
Largest exposures		
Single largest	9.3	5.2
Five largest	27.6	21.6
Ten largest	38.0	34.3
Twenty largest	48.1	45.8
By product		
Term loans	89.6	85.2
Overdraft	10.4	14.8
Others	0.0	0.0

*Figures for FirstBank (Nigeria) only

Going forward, management intends to shift lending focus to manufacturing, retail, agriculture, agro-allied and telecommunication sectors, albeit with caution. This, coupled with efforts to comply with the minimum loan to deposits ratio of 65% by year-end, the bank expects the loan book to grow by about 10% in FY19.

Contingencies

Off-balance sheet commitments increased significantly 56.6% to N831.4bn at FY18, representing a notable 130% of the bank's total capital at year-end (FY17: 60.8%). The portfolio comprised; performance bonds and guarantees (42.4%) and letter of credit (57.6%).

Asset quality

Having displayed deterioration in asset quality in the last four years to FY18, Firstbank's gross NPL ratio improved to 12.4% at 3Q FY19 (FY18: 25.5%; FY17: 22.5%), albeit remains above the industry's average for the period. The relative improvement in NPL ratio was mainly attributed to write-off of the largest delinquent loan amounting to N181.1bn (relating to the oil and gas sector and represents 9.5% of the loan portfolio at 1H FY19). Specifically, management has indicated that its ongoing remedial actions (including writing off of fully provisioned loans), loan restructuring, active recovery efforts, as well as cautious loan growth, would further support improved NPL ratio to a single digit by end-December 2019. Sectoral distribution of the impaired loans reflects a significant 32.3% at 3Q FY19 (FY18: 58.2%) in the oil and gas sector. Other sectors with notable exposures include; general commerce and manufacturing sectors. Total loans provision coverage of impaired loans stood at 72.7% at FY18 (FY17: 53.8%).

Table 7: Asset quality (N'bn)	FY17	FY18	3Q FY19
Gross advances	**2,305.4**	**2,096.8**	**1,965.7**
Performing	*1,785.8*	*1,562.1*	*1,722.0*
Impaired	*519.6*	*534.7*	*243.7*
Provision for impairment	**(279.3)**	**(388.6)**	**(120.4)**
Individually impaired	(229.6)	-	-
Collectively impaired	(49.7)	-	-
12-month ECL	-	(5.5)	(9.2)
Lifetime ECL not credit-impaired	-	(9.7)	(9.9)
Lifetime ECL credit-impaired	-	(373.4)	(101.2)
Net NPL	**240.3**	**146.1**	**123.4**
Selected assets quality ratios:			
Gross NPL ratio (%)	22.5	25.5	12.4
Net NPL ratio (%)	11.9	8.6	6.7
Net NPLs/Capital (%)	27.5	22.8	22.4

Source: FirstBank AFS

Foreign currency risk

FirstBank is exposed to foreign exchange risks through its FCY denominated borrowings, deposits and advances. This is however mitigated through an effective matching of related assets and liabilities.

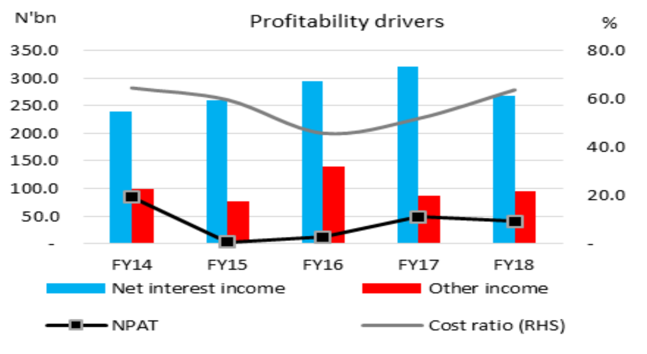
Table 8: Net FCY position (FY18)	USD N'bn	GBP N'bn	Euro N'bn	Others N'bn
Financial assets	1,998.9	238.6	84.6	133.5
Financial liabilities	(1,768.3)	(344.9)	60.2	85.8
Net assets/(liabilities)	**230.6**	**(106.3)**	**144.8**	**219.3**

Source: FirstBank AFS

Financial performance and prospects

A five-year financial synopsis, together with nine months unaudited management accounts to 30 September 2019, is reflected on page 7 of this report, supplemented by the commentary below.

The bank's net interest income declined by 16.6% to N268bn in FY18, largely constrained by moderating yields on investment securities and contractions in the loan book. The suspension of accrued interest on fully provisioned loans (in the oil and gas sector) also pressured net interest margin during the year, ending down at 7.4% (FY17: 8.9%). On the other hand, non-interest income grew by 10.5% on the back of improved transaction volume on digital channels as well as increased trading income. Overall, total operating income ("TOI") amounted to N363.7bn in FY18, representing a year-on-year 10.9% decline.



Impairment charge declined for the second consecutive year by 35% to N91.8bn in FY18, reflective of the bank's efforts at resolving its legacy loans. Conversely, operating expenses grew by 9.4% on the back of increased human capital-related cost, regulatory charges and professional fees. Management attributed the increased professional fee to the embedded cost of upgrading its information technology platforms during the year. This, combined with the aforementioned decline in TOI, saw cost to income ratio escalate to 63.7% (FY17: 51.9%). Overall, the bank registered 18.1% year-on-year decline in NPAT to N40.3bn, translating to a lower ROaE and ROaA of 7.4% and 0.8% in FY18 (FY17: 8.6% and 1.1%) respectively.

Table 9: 3Q FY18 Vs 3Q FY19 (N'bn)	FY18	3Q FY18	3Q FY19	% Change
Statement of comprehensive income				
Net interest income	268.0	208.5	196.7	(5.7)
Other income	95.7	75.4	75.9	0.7
Total income	**363.7**	**283.9**	**272.6**	**(4.0)**
Impairment charge	(91.8)	(76.0)	(28.1)	(63.0)
Operating expenses	(231.8)	(165.6)	(194.4)	17.4
NPBT	**40.1**	**42.3**	**50.1**	**18.4**
Statement of financial position				
Net advances	1,708.2	1,943.5	1,845.3	(5.1)
Deposits	3,392.6	3,258.1	3,595.0	10.3
Shareholders' funds	478.2	653.0	553.9	(15.2)
Total assets*	5,102.2	5,074.6	5,287.8	4.2

*Excludes clients' balances in respect of letters of credit
Source: FirstBank

For the nine-month period ended 30 September 2019, FirstBank recorded a pre-tax profit of N50.1bn, representing 18.4% growth over 3Q FY18, mainly driven by sustained contractions in credit loss provision. However, interest income declined in 3Q FY19 relative to the corresponding period in FY18, on account of moderation in lending activities and yields on government investment securities. According to management, performance is expected to further improve towards year-end 2019 as the bank continues to implement its various strategies aimed at driving customer acquisition, cost efficiency, earnings as well as strengthening risk management framework. While GCR takes cognisance of management's concerted efforts at addressing key ratings constraining factors, critical for a positive rating consideration would be rebound and sustenance of strong asset quality, capitalisation and profitability metrics in consonant with top-tier players' average within the short term.

First Bank of Nigeria Limited

(Naira in millions except as noted)

Year end: 31 December						
Statement of Comprehensive Income Analysis	**2014**	**2015**	**2016**	**2017***	**2018**	**3Q 2019**
Interest income	349,277	377,765	384,177	442,884	402,633	301,037
Interest expense	(109,722)	(118,809)	(89,893)	(121,527)	(134,650)	(104,309)
Net interest income	**239,555**	**258,956**	**294,284**	**321,357**	**267,983**	**196,728**
Other income	99,260	76,103	140,378	86,628	95,700	75,911
Total operating income	**338,815**	**335,059**	**434,662**	**407,985**	**363,683**	**272,639**
Impairment charge	(25,730)	(125,672)	(224,948)	(141,275)	(91,836)	(28,121)
Operating expenditure	(218,633)	(199,658)	(199,039)	(211,905)	(231,767)	(194,400)
Net profit before tax	**94,452**	**9,729**	**10,675**	**54,805**	**40,080**	**50,118**
Tax	(9,526)	(6,913)	1,093	(5,633)	201	(5,669)
Profit from continuing operations	**84,926**	**2,816**	**11,768**	**49,172**	**40,281**	**44,449**
Profit/(loss) from discontinued operations	(84)	129	(1,317)	(1,520)	-	-
Other comprehensive (loss)/gain	4,817	38,667	3,137	60,306	1,398	31,322
Total comprehensive income	**89,659**	**41,612**	**13,588**	**107,958**	**41,679**	**75,771**
Statement of Financial Position Analysis						
Subscribed capital	205,557	205,557	205,557	205,557	205,557	205,557
Reserves (incl. net income for the year)	255,819	297,038	311,416	417,560	255,504	330,754
Hybrid capital (incl. eligible portion of subordinated term debt)	141,819	152,434	233,976	254,623	165,907	-
Minority interest	1,641	1,929	965	-	17,109	17,629
Less: Intangible assets (incl. goodwill)	(4,352)	(3,340)	(4,314)	(4,460)	(4,460)	(4,101)
Total capital and reserves	**600,484**	**653,618**	**747,600**	**873,280**	**639,617**	**549,839**
Bank borrowings (incl. deposits, placements & REPOs)	163,710	139,052	377,214	655,042	741,312	825,826
Deposits	2,823,835	2,756,997	2,810,496	2,847,356	3,076,970	3,595,028
Other borrowings	206,299	29,901	36,758	48,437	41,116	161,799
Short-term funding (< 1 year)	**3,193,844**	**2,925,950**	**3,224,468**	**3,550,835**	**3,859,398**	**4,582,653**
Deposits	165,900	148,073	219,594	218,376	315,607	-
Other borrowings	14,858	67,557	46,058	113,848	131,191	-
Long-term funding (> 1 year)	**180,758**	**215,630**	**265,652**	**332,224**	**446,798**	**-**
Payables/Deferred liabilities	117,933	127,716	160,712	173,395	156,338	155,389
Other liabilities	**117,933**	**127,716**	**160,712**	**173,395**	**156,338**	**155,389**
Total capital and liabilities	**4,093,019**	**3,922,914**	**4,398,432**	**4,929,734**	**5,102,151**	**5,287,881**
Balances with central bank	563,237	476,916	542,302	454,983	520,511	491,040
Properties, Plants and Equipments	83,404	82,351	83,357	82,793	86,315	95,191
Receivables/Deferred assets (incl. zero rate loans)	48,523	43,907	66,983	151,719	128,879	189,486
Non-earnings assets	**695,164**	**603,174**	**692,642**	**689,495**	**735,705**	**775,717**
Short-term deposits & cash	63,306	76,308	101,251	169,031	110,703	119,874
Loans & advances (net of provisions)	2,193,563	1,816,045	2,086,741	2,026,038	1,708,219	1,845,323
Bank placements	466,847	489,535	371,936	663,843	663,335	691,796
Marketable/Trading securities	300,489	459,396	656,639	799,731	680,227	435,980
Other investments/earning assets	331,305	428,975	437,431	493,381	1,100,685	1,281,189
Equity investments	42,345	49,481	51,792	88,215	103,277	138,002
Total earning assets	**3,397,855**	**3,319,740**	**3,705,790**	**4,240,239**	**4,366,446**	**4,512,164**
Total assets†	**4,093,019**	**3,922,914**	**4,398,432**	**4,929,734**	**5,102,151**	**5,287,881**
Contingencies	**701,997**	**421,696**	**470,624**	**530,969**	**831,428**	**-**
Ratio Analysis (%)						
Capitalisation						
Internal capital generation	19.4	8.3	2.3	7.9	8.7	16.6
Total capital / Net advances + net equity invest. + guarantees	20.4	28.6	28.7	33.0	24.2	27.7
Total capital / Total assets	14.7	16.7	17.0	17.7	12.5	10.4
Liquidity ‡						
Net advances / Deposits + other short-term funding	65.3	59.1	60.6	53.8	40.9	40.3
Net advances / Total funding (excl. equity portion)	65.0	57.8	59.8	52.2	39.7	40.3
Liquid & trading assets / Total assets	20.3	26.1	25.7	33.1	28.5	23.6
Liquid & trading assets / Total short-term funding	26.0	35.0	35.0	46.0	37.7	27.2
Liquid & trading assets / Total funding (excl. equity portion)	24.6	32.6	32.4	42.0	33.8	27.2
Asset quality						
Impaired loans / Gross advances	2.9	17.8	24.2	22.5	25.5	12.4
Total loan loss reserves / Gross advances	1.9	7.5	8.9	1.9	2.0	7.5
Bad debt charge (income statement) / Gross advances (avg.)	1.3	6.0	10.7	6.4	4.5	1.5
Bad debt charge (income statement) / Total operating income	7.6	37.5	51.8	34.6	25.3	10.3
Profitability						
Net income / Total capital (avg.)	17.5	6.6	1.7	6.1	5.3	7.5
Net income / Total assets (avg.)	2.3	1.0	0.3	1.1	0.8	0.9
Net interest margin	8.2	8.8	9.3	8.9	7.4	8.0
Interest income + com. fees / Earning assets + guarantees (a/avg.)	6.5	7.2	7.9	7.6	6.1	4.7
Non-interest income / Total operating income	29.3	22.7	32.3	21.2	26.3	27.8
Non-interest income / Total operating expenses (or burden ratio)	45.4	38.1	70.5	40.9	41.3	39.0
Cost ratio	64.5	59.6	45.8	51.9	63.7	71.3
OEaA (or overhead ratio)	5.6	5.0	4.8	4.5	4.6	3.7
ROaE	20.2	0.6	2.3	8.6	7.4	11.9
ROaA	2.2	0.1	0.3	1.1	0.8	1.1
Nominal growth indicators						
Total assets	11.1	(4.2)	12.1	12.1	3.5	3.6
Net advances	22.0	(17.2)	14.9	(2.9)	(15.7)	8.0
Shareholders funds	20.9	8.9	2.9	20.5	(26.0)	16.3
Total capital and reserves	41.7	8.8	14.4	16.8	(26.8)	(14.0)
Deposits (wholesale)	1.6	(2.8)	4.3	1.2	10.7	6.0
Total funding (excl. equity portion)	8.9	(6.9)	11.1	11.3	10.9	6.4
Net income	27.8	(96.7)	317.9	317.8	(18.1)	47.1

* 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.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings 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 2018 (plus four years of comparative numbers), latest internal and/or external audit report to management, most recent year-to-date management accounts to 30 September 2019, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.