GCR GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

First Bank of Nigeria Limited

Nigeria Bank Analysis | **September 2017**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	A-(NG)	Stable	August 2018
Short-term	National	A1-(NG)		

Financial data:

(USDm comparative)

	31/12/15	31/12/16
NGN/USD (avg.)	197.9	256.0
NGN/USD (close)	198.9	305.5
Total assets	19,723.0	14,397.5
Primary capital	2,519.8	1,681.3
Secondary capital	766.4	765.9
Net advances	9,130.4	6,830.6
Liquid assets	5,268.0	3,400.9
Operating income	1,693.1	1,697.9
Profit after tax	14.2	46.0
Market cap.*	N215.7bn/USD705.9m	
Market share**	14.2%	

*For FBN Holdings Plc as at 2 August 2017.
**As a % of industry assets at 31 December 2016.

Rating history:

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

Last rating (August 2016)
Long-term: A-(NG)
Short-term: A1-(NG)
Rating outlook: Stable

Related methodologies/research:

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

Nigerian Banking Sector Bulletin, 2017

FirstBank rating reports (2006-16)

Glossary of Terms/Ratios, February 2017

GCR contacts:

Primary Analyst
Femi Atere
Credit Analyst
femi@globalratings.net

Committee Chairperson
Dave King
king@globalratings.net

Analyst location: Lagos, Nigeria

Tel: +234 1 462-2545

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 ratings of First Bank of Nigeria Limited ("FirstBank" or "the Bank") are supported by its established franchise and systemically important status, with likelihood of strong support from the Federal Government of Nigeria in the event that such support is required. Offsetting these key rating drivers is the Bank's moderated profitability in recent years, primarily due to the level of loan impairment charges.
- Asset quality remains a key rating concern, with the Bank's gross non-performing loan ("NPL") ratio escalating to 24.2% at FY16 (FY15: 17.8%). This was largely driven by rising delinquent loans, particularly within the troubled oil and gas sector, where the Bank remains highly exposed. While management efforts towards revamping the risk management framework and architecture are noted, additional impairment pressure is expected, as the exposure within the oil and gas sector remains substantial (constituting 38.6% of gross loans at 1H FY17), with the likelihood of offsetting the full impact of recovery efforts at FY17. Based on the unaudited results for 1H FY17, gross NPLs stood at 21.8% of total gross loans.
- The Bank remains adequately capitalised reporting a risk weighted capital adequacy ratio ("CAR") of 17.8% at FY16 FY15: 17.1%), above the prudential threshold of 15%. The position is not expected to change imminently, given management's muted loan growth prospects, with focus on organic growth through earnings accretion.
- FirstBank has a robust funding structure, supported by its strong franchise, and diversified deposit book, though largely short-dated on contractual basis. Liquidity risk is considered low, with regulatory liquidity ratio of 52.7% at FY16 (for FirstBank Nigeria only), well above the prudential minimum of 30%.
- The Bank's exposure to foreign currency risk remains a concern. At FY16, about 51% of gross loans were denominated in foreign currency ("FCY"), the bulk of which remains within the troubled oil and gas sector. Additionally, exposure exists within borrowings and deposits. While FirstBank is taking necessary mitigating measures (including portfolio realignment), the volatility in the foreign exchange ("forex") market remains a significant risk.
- Although FirstBank's net-interest income of N294.3bn stood above its peers, its bottom-line earnings were considerably weakened, due to high loan impairment charges. Thus, pre-tax profit remained low around N10.7bn (FY15: N9.7bn) in FY16, far below the peer average. According to management, the Bank will continue to enhance its risk management processes and operational efficiency in order to improve operating 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: Sustained negative trends in asset quality and profitability, coupled with a significant deterioration in the Bank's liquidity and capital ratios could result in 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"), the parent company. The Holdco is the Bank's largest shareholder, controlling 99.9% of its issued share capital. The Bank offers a full range of financial service solutions to both individual and corporate customers across 12 countries[2], with a strong retail franchise. However, Nigeria remains the biggest market of the Group, historically accounting for about 88.8% of its gross earnings. The Bank currently has nine subsidiaries (including a pension custodian and mortgage bank). However, there is an on-going plan to divest the mortgage banking arm.

Strategy and operations

FirstBank's strategy during 2016 was focused on strengthening management capabilities, improving risk management framework, enhancing operational efficiency, and leveraging information technology ("IT") platforms to diversify earnings and establish sustainable growth. In this regard, the Bank appointed a new executive director (corporate banking), chief risk officer and chief financial officer. Furthermore, the Bank also strengthened leadership in key business areas.

In view of the challenging operating environment, as well as the dynamism of the Nigerian banking industry, the Bank is implementing a new strategic plan (2017-2019), aimed at regaining leadership position through profitable growth that leverages technology to drive innovation and operating efficiency. Accordingly, FirstBank's focus in 2017 includes, among others: (i) strengthening IT platforms, particularly, the digital banking channels; (ii) enhancing operational efficiency across all businesses; (iii) ensuring alignment of all strategic business units to increase subsidiary contribution to the banking group's bottom line; and (iv) revamping the risk management frameworks through requisite policies, people, systems and processes.

In light of the operational efficiency drive, the Bank established a First Shared Services ("FSS") framework, which centralises and handles routine activities such as customer account opening and maintenance. FirstBank is also implementing an Enterprise Resource Planning ("ERP") framework and Fin-Track software to eliminate process redundancies and bolster the risk management and control environment.

At FY16, the Bank operated through 747 (FY15: 746) outlets (including 617 branches, and 63 quick service points and 67 cash centres), 2,779 (FY15: 2,749) ATMs, 7,048 POS terminals, and had 7,300 (FY15: 7,616) employees.

Governance structure

FirstBank's corporate governance structure is in line with Central Bank of Nigeria ("CBN") Code of Corporate Governance, as well as all relevant standards of its parent company. The Bank realigned its organisational structure to reflect its new strategic business focus. The operating structure is stratified into six market facing strategic business units, namely: commercial banking, retail banking, corporate, public sector, international banking and treasury services. Adherence to selected aspects of appropriate corporate governance is set out below.

Description	Findings
Board size	15
Number of non-executive directors	10 (including the Chairman and two independent directors)
Number of executive directors	Five (including the Managing Director/Chief Executive Officer ("MD/CEO"))
Tenure of directors	three years each/two 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

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 FY16 financial statements.

Operating environment[3]

Economic overview

Nigeria's macroeconomic fundamentals remained unstable throughout 2016 and the start of 2017, owing to the weak global price of crude oil, which has severely affected the country's foreign reserve levels and fiscal planning capacity. This, in turn led to the significant fall in the value of the Naira against the US dollar, which further heightened economic uncertainty. According to the National Bureau of Statistics ("NBS"), the nation's real Gross Domestic Product ("GDP") contracted by 1.5% in 2016 (compared to 2.8% and 6.2% growth recorded in

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

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

[3] Refer to GCR's 2017 Nigeria Banking Industry Bulletin for a review of relevant economic, regulatory and/or industry developments.

2015 and 2014 respectively), placing the country in a recession. The negative trend was exacerbated by the resurgence of hostilities in the Niger Delta region (which affected crude oil production outputs in the early part of 2016) and the impact of reduced forex earnings on the economy. As such, inflation rose markedly from 9.5% at end-December 2015 to 18.7% at end-January 2017, before easing to 16.05% at end-July 2017. However, recent statistics from NBS show that the GDP grew by 0.55% (year-on-year) in real terms in the 2Q 2017, indicating an emergence from the recession.

In addition to retaining its restrictive policy that denied access to forex (from the official CBN window) for 41 items, in June 2016, CBN jettisoned the exchange rate peg to the USD in favour of a flexible exchange rate policy, in order to mitigate the forex shortages and stimulate broader economic activity. Despite these interventions, the Naira remained under pressure, with the restrictive forex regime affecting many manufacturers, as they were unable to effectively fund raw material purchases, given the inadequate forex supply, which drove higher exchange rates in the parallel market (above N500/USD in February 2017). Pressure on the Naira appears to have eased recently (below N400/USD) as CBN has maintained liquidity in the forex market, but increased demand for forex for the items on the restricted list could limit the gains recorded. CBN has left the monetary policy rate unchanged at 14% (since July 2016), while the cash reserve ratio at 22.5% and the liquidity ratio at 30% have also been maintained, in line with efforts to combat inflation and maintain price stability.

Given the current macroeconomic challenges, prospects for growth remain mixed over the short to medium term. Both the International Monetary Fund and World Bank expect the economy to record a modest rebound in 2017 (of 0.8% and 1.2% respectively). Similarly, the federal government of Nigeria (“FGN") projects that accelerated infrastructural spend and the diversification of earnings would drive an increase in economic activities, thereby, resulting in an overall GDP growth in 2017. This is detailed in the Economic Recovery and Growth Plan (“ERGP”) 2017-2020, as released by the Ministry of Budget and National Planning. The ERGP centres on achieving macroeconomic stability and economic diversification, in order to boost non-oil revenues, with focus on key sectors ie, agriculture and food security, energy, transportation and manufacturing. The ERGP will aim to reduce the level of dependence on imports, while increasing revenue from a diversified stream of export activities. Overall, it seeks to achieve a robust 7% economic growth by end 2020.

Industry overview

At 31 December 2016, Nigeria’s financial sector comprised 21 commercial banks, one non-interest bank, four merchant banks and over 4,000 other financial institutions. The commercial banks include 10 international, nine national, and two regional banks. Keystone Bank, under Asset Management Corporation of Nigeria (“AMCON”) management since 2009, was sold to the Sigma Golf-Riverbank consortium (ie, Sigma Golf Nigeria Limited and Riverbank Investment Resources Limited) in March 2017. Nigeria’s eight largest banks (including FirstBank) accounted for about 70% of total industry assets at 31 December 2016.

Banking sector core earnings saw downward pressure in 2016, driven by margin compression, deteriorating asset quality, and moderating forex volumes. Per CBN statistics, total banking sector assets stood at N31.7tn at at end-December 2016 (2015: N28.2tn), while credit exposure increased 18.1% to N21.5tn. Oil and gas remained the dominant sector at end-December 2016, accounting for around 30% of the Nigerian banking sector’s credit portfolio. The banking sector’s aggregate gross NPL ratio rose to 14.0% at end-December 2016 (2015: 5.3%) and to 15.2% by April 2017, exceeding the prudential tolerable limit of 5.0% and signalling a significant weakening in asset quality across the industry (though largely driven by outliers). While CBN has allowed banks to write-off fully provisioned NPLs since July 2016, GCR expects the industry NPL ratio to remain high and above the regulatory limit in 2017, given continuing increases in delinquencies in some sectors. Sectors which exhibit asset quality stress include: (i) the oil and gas sector (ii) the middle market, which was an area of lending focus in 2016, and features over-reliance on forex for business, (iii) the power sector (which continues to face high debt burdens and low capacity to generate sufficient cash flows due to poor infrastructure/management issues) and, more recently (iv) telecommunications.

The industry average CAR reduced to 12.8% at April 2017, from 13.9% at end-December 2016 (2015: 16.1%), and some players began to fall below the minimum threshold required by regulation. Downward pressure on banks’ capitalisation levels has, for the most part, resulted from the devaluation of the Naira, as well as (oftentimes related) asset quality concerns. Naira devaluation has increased pressure on banks’ already moderating capital buffers, given the expansionary effect it has on forex denominated loans, and consequently on banks’ risk-weighted asset balances.

Challenges for Nigerian banks and other financial institutions persist in 2017, given ongoing macroeconomic uncertainties. In view of the current pressure on capital adequacy, banks are likely to raise additional capital (via debt or equity issues) to absorb additional losses and meet regulatory capital requirements.

Part of government's effort in terms of risk management is the recent passing into law of the Collateral Registry Act 2017, which is expected to address the issue of security (collateral) realisation by financial institutions; as well as the Credit Reporting Act 2017, which will facilitate and promote access to accurate, fair and reliable credit information.

Competitive position

FirstBank has witnessed profitability pressure in recent years, primarily due to asset quality issues. Notwithstanding this, the Bank remains the largest bank in Nigeria, measured by net interest earnings and total deposits at FY16. These have been supported by its long performance track record, wider geographical footprint, and extensive customer base, than any other bank in Nigeria, providing a competitive advantage.

Table 1 illustrates the Bank's key operating performances against a selection of its peers in FY16.

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 gross earnings in FY16), GCR envisages strong support from the Holdco and FGN in the event that such support is required.

Funding composition

FirstBank's funding structure remains stable, diversified and strong. Assets were largely deposit funded, which constituted 71.5% (FY15: 76.5%) and 68.9% of total funding and assets respectively. Other funding sources include capital (17.6%) and borrowings (10.9%). 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. The deposit book grew by 4.3% to N3,030.1bn at FY16, as the Bank continues to leverage its vast retail franchise to attract low-cost deposit. Accordingly, the proportion of current and saving accounts to total deposit expanded at FY16, while that of expensive funding reduced.

Table 2: Deposit book characteristics at FY16 (%)*

By sector:		By type:	
Corporates	17.5	Demand	26.8
Retail	68.1	Savings	37.6
Public sector	9.9	Term	16.7
Others	4.4	Domiciliary	18.9
Concentration:		**Maturity profile[α]:**	
Single largest	3.9	< 1 month	89.0
Five largest	9.1	1-3 months	6.3
Ten largest	11.4	3-12 months	4.6
Twenty largest	13.6	> 12 months	0.0

*Refers to banking operations in FirstBank Nigeria only.
[α]on contractual basis.

The book remains largely short-dated. However, the fact that over 90% of deposits are typically rolled-over on maturity provides some degree of comfort. Management plans to grow the deposit book by 10% at FY17, through deepening relationships with existing customers, enhancing retail and agency banking, and expanding product offering provided through digital banking platforms.

Capital funding

FirstBank remains well capitalised at FY16, with sizeable shareholders' funds of N517.9bn (FY15: N504.5bn). This, combined with Tier 2 capital of N234.0bn at FY16 (FY15: N152.4bn) saw balance sheet capital total N747.6bn, a growth of 14.4% relative to FY15 levels. The growth in Tier 2 capital was driven by currency translation effect, as this comprises 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.

Despite growth in risk weighted assets (following the currency translation effect), combined with the moderated retained earnings, the Bank's (FirstBank Nigeria) FY16 regulatory risk weighted CAR rose to 17.8% from 17.1% at FY15. GCR notes that

Table 1: Competitive position* FirstBank vs. selected banks	Zenith	FirstBank	UBA	Access	GTBank
Year end 31 December 2016					
Shareholders' funds (N'bn)	704.5	517.9	448.1	454.5	504.9
Total assets (N'bn)†	4,635.2	4,398.4	3,457.9	3,423.4	3,090.3
Net loans (N'bn)	2,289.4	2,086.7	1,505.3	1,854.7	1,589.4
Net profit after tax (N'bn)	129.7	11.8	72.3	71.4	132.3
Total capital/Total assets (%)	15.2	17.0	15.2	19.5	15.9
Liquid and trading assets/Total short-term funding (%)	45.9	15.4	17.2	20.5	21.7
Gross bad debt ratio (%)	3.0	24.2	3.9	2.1	3.7
Net interest margin (%)	6.9	11.2	10.2	7.2	10.5
Cost ratio (%)	48.0	45.8	56.3	58.8	33.0
ROaE (%)	20.0	2.3	19.0	17.4	36.6
ROaA (%)	3.0	0.3	2.3	2.4	5.9

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

FirstBank's capital for regulatory purposes differs from 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. According to management, there is no immediate need to raise additional capital, as CAR position is in line with prudential requirement. As such, the Bank will continue to enhance capital adequacy and support its growth aspirations solely through organic growth initiatives. Notwithstanding this, GCR considers the CAR position susceptible to further devaluation of the Naira and growth in risk weighted assets.

Table 3: Capitalisation*	FY15 N'bn	FY16 N'bn
Tier 1	**333.9**	**393.8**
Share capital	*16.3*	*16.3*
Share premium	*189.2*	*189.2*
Statutory reserve	*63.2*	*70.7*
SMEEIS reserves	*6.1*	*6.1*
Retained earnings	*130.8*	*153.9*
Less: Goodwill/Deferred tax	*(5.4)*	*(6.9)*
Less: Other deductions	*(66.4)*	*(35.6)*
Tier 2	**96.2**	**107.5**
Total regulatory capital	**430.1**	**501.3**
Total risk weighted assets	**2,518.3**	**2,818.2**
CAR (%)	**17.1**	**17.8**

*FirstBank Nigeria. Source: FirstBank AFS.

Other borrowings

FirstBank's outstanding borrowings (excluding those qualifying as Tier 2 capital) reduced by 15% to N82.8bn at FY16. This followed settlement of a substantial portion of on-lending facilities and credits from correspondent banks. The on-lending facilities include disbursements from CBN (for the commercial agricultural credit scheme) and Bank of Industry ("BOI"), for specific customers which are guaranteed by FirstBank. 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 borrowings book of FirstBank (Nigeria) reveals that about 44% of the credit facilities had a maturity profile of less than one year.

Table 4: Borrowings	FY15 N'bn	FY16 N'bn
European Investment Bank	-	20.0
On-lending facilities from FIs	83.3	53.7
Correspondent banks	14.1	9.1
Total	**97.5**	**82.8**

Source: FirstBank AFS.

Liquidity positioning

The Bank's liquidity risk is considered low, with a liquidity ratio of 52.7% at FY16 (FY15: 51.9%), well above the prudential threshold of 30%. High liquidity levels are expected to be sustained through 2017, as the Bank maintains a sizeable portion of its balance sheet in cash and highly liquid investments. However, GCR takes cognisance of the liquidity constraints across the industry due to uncertainty within the forex markets, and CBN's use of monetary policy to reduce excess funds within the financial markets.

Operational profile

Risk management

FirstBank continued to strengthen its enterprise risk management ("ERM") framework to reflect changes within its operating structure and environment. As in FY15, the Bank's risk assets portfolio suffered a significant deterioration in quality during FY16, due to excessive loan concentration within the oil and gas sector. As a result, the Bank revamped its risk management governance and architecture, commencing with a diagnostic review of the entire credit process to identify gaps and weaknesses which are being addressed. Focus is now on thorough and regular review of all loans from origination to repayment, and diversification of the loan book away from high-risk sectors to a more balanced mix of high-yielding exposures. The internal obligor limit has been reviewed to 6% of its shareholders' funds at any point in time (against the prudential cap of 20%), and credit approval limits were realigned, with more authority granted to the Board. Additionally, the Bank institutionalised a new credit culture including the selection of quality customers, improved adherence to lending conditions and better understanding of transaction structuring. This has necessitated various changes to top management in order to strengthen the risk environment and build a stronger portfolio of risk assets. Overall, the Bank is considered to be significantly exposed to credit and foreign currency risk, given the size and currency structure of its loan portfolio.

Asset composition

Table 5: Asset mix	FY15 N'bn	FY15 %	FY16 N'bn	FY16 %
Cash and liquid assets*	**1,047.8**	**26.7**	**1,039.0**	**23.6**
Cash	*76.3*	*1.9*	*101.3*	*2.3*
Liquidity reserve deposits	*476.9*	*12.2*	*542.3*	*12.3*
Fin. assets held for trading	*5.0*	*0.1*	*23.5*	*0.5*
Balances with other banks	*489.5*	*12.5*	*371.9*	*8.5*
Net advances	1,816.0	46.3	2,086.7	47.4
Investments:	**830.6**	**21.2**	**961.2**	**21.9**
Available for sale	724.5	18.5	*853.1*	*19.4*
Held to maturity	106.0	2.7	*108.2*	*2.5*
Pledged assets	102.2	2.6	161.1	3.7
Property and Equipment	82.4	2.4	83.4	1.9
Other assets	43.9	1.1	67.0	1.5
Total	**3,922.9**	**100.0**	**4,398.4**	**100.0**

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

The Bank's total assets increased by 12.1% to N4.4tn at FY16, underpinned by its strong funding profile, especially, the widened deposit base. While cash and liquid assets remained relatively stable, net loans and advances expanded by 14.9% to N2.1tn mainly due to the currency translation effect. While held to maturity investment remained relatively flat, available for sale investment rose by 17.7% (as the Bank took advantage of the attractive yields) and comprised treasury bills (74.2%), bonds (19.7%) and equity securities (6.1%). Overall, total investment portfolio grew by 17.8% to N984.7bn, with around 86.1% of the total invested in risk-free Treasury bills and FGN bonds.

Loan portfolio

Gross loans and advances to customers expanded by 22.5% to N2,406.1bn at FY16, primarily due to the impact of currency translation, especially on the oil and gas sector exposures. The Bank has been overly exposed to the oil and gas sector, leveraging its strong capital base to participate in large transactions which were considered to be high-yielding at the time of risk acquisition. At FY16, this concentration remained high at 42.2% for FirstBank (Nigeria), comprising 21.3% in the upstream segment, 14.1% in the downstream segment, and 6.8% in oil services. However, lending concentration by obligor is considered acceptable, as single largest exposure amounted to 7.4% of the total portfolio, translating to 29.3% of shareholders' funds at FY16.

Table 6: Loan book characteristics (%)*

By sector:			FY15	FY16
Agriculture			1.4	2.7
Oil and gas			38.1	42.2
Construction and real estate			4.3	4.1
Wholesale and retail trade			4.0	3.4
Public Sector			8.8	9.9
Manufacturing			14.1	10.6
IT and telecommunication			3.7	4.5
Transport			1.0	1.1
Individuals			8.7	6.0
Others			15.9	15.5
Largest exposures:	**%**	**By product:**		**%**
Single largest	7.4	Overdrafts		17.8
Five largest	27.5	Term loans		80.4
Ten largest	40.0	Others		1.8
Twenty largest	53.3			

*Figures for FirstBank (Nigeria) only

Based on analysis of loan terms, it is noted that about 12.5% (FY15: 13.6%) of loans and advances were concentrated in the 'less than one month' maturity band, while 46.7% mature after twelve months. For the current year, management is focusing on overhauling the underwriting standards and risk control, with muted loan growth, while most lending would be placed on short credit cycles.

Contingencies

FirstBank's off-balance sheet financial instruments rose by 11.6% at FY16, and constituted 9.7% (FY15: 9.7%) of total balance sheet assets (including contingencies). The growth in off-balance sheet exposure was on the back of higher undertaking of performance bonds, guarantees, and letters of credit, to meet the credit and financial requirements of customers.

Asset quality

Asset quality deterioration remains a key issue, with the Bank's gross NPL ratio registering at 24.2% at FY16 (FY15: 17.8%). The bulk of the NPLs remains within the oil and gas sector, where the Bank is overly exposed (38.6% of total loans at 1H FY17). According to management, 5% of the loan book was restructured in FY16, with the oil and gas sector accounting for 70% of restructured assets. The remainder relates mainly to real estate, power, and retail sectors. The Bank's provisioning level is considered low, with specific provisions covering 48.5% of gross NPLs (FY15: 32.8%). Management has commenced active recovery and remedial action on some of these delinquent assets, with the gross NPL ratio lowered to 21.8% at 1H FY17 (FY17 forecast: <20%). However, GCR expects the Bank's gross NPL ratio to remain above CBN's tolerable limit by FY17.

Table 7: Asset Quality	FY15 N'bn	FY16 N'bn
Gross advances	**1,964.0**	**2,406.1**
Neither past due nor impaired	*1,515.6*	*1,584.2*
Past due but not impaired	*99.4*	*239.2*
Impaired	*348.9*	*582.8*
Provision for impairment	**(147.9)**	**(319.4)**
Individually impaired	*(114.5)*	*(282.5)*
Collectively impaired	*(33.4)*	*(36.9)*
Net NPL	**234.4**	**300.3**
Select asset quality ratios:		
Gross NPL ratio (%)	17.8	24.2
Net NPL ratio (%)	12.9	14.4
Net NPL/Capital (%)	35.9	40.2

Source: FirstBank AFS.

A mitigating measure against rising credit risk and loan losses is the fact that the gross loans were virtually all secured in one form or another (including legal mortgage, guarantee, market securities/stock). However, due to the cumbersome judicial process in realising security in Nigeria, collateral was not given primary consideration in this analysis.

Foreign currency risk

Table 8: Net FCY position (FY16)	USD N'bn	GBP N'bn	Euro N'bn	Others N'bn
Financial assets	1,539.8	76.1	341.4	103.5
Financial liabilities	(1,309.9)	(400.7)	(53.2)	(63.1)
Net assets/(liabilities)	**229.9**	**(324.5)**	**288.2**	**40.4**

Source: FirstBank AFS.

FirstBank is exposed to forex risks via its FCY denominated portfolios including loans, Tier 2 capital, and deposits. About 51% of the loan book is FCY denominated, of which 48% is to the oil and gas sector. Although the Bank is taking necessary mitigating measures to reduce exposures, the uncertainty within the forex market remains a major concern.

Financial performance and prospects

A five year financial synopsis, together with six months unaudited management accounts to 30 June 2017, is reflected on page 9 of this report, supplemented by the commentary below.

FirstBank recorded gross earnings of N524.5bn in FY16, maintaining its leading position in the Nigerian banking sector. However, its bottom-line earnings was burdened by a sizeable impairment charge, following adverse classification of some selected risk assets. Net interest margin improved to 11.2% (FY15: 10%), underpinned by reduction in funding cost, as the proportion of expensive funding reduced. Growth in non-interest income was largely driven by revaluation gain, following exchange rate movements on the Bank's long term foreign currency balance sheet position at year-end. Consequently, total operating income ("TOI") grew by 29.7% to N434.7bn, representing the highest in the industry.

However, TOI was weakened by an all-time high impairment charge of N224.9bn, combined with relatively stable operating expenses of N199bn. Given the widened TOI, against the stable operating expenses, operational efficiency improved, with cost/income ratio declining further to 45.8% in FY16 (FY15: 59.5%). Overall, FirstBank's pre-tax profit registered at N10.7bn in FY16, marginally above N9.7bn reported in FY15. After accounting for a tax credit of N1.1bn, the Bank ended with NPAT of N11.8bn in FY16 (FY15: N2.8bn). For 1H FY17, FirstBank delivered NPAT of N23.0bn (1H FY16: N29.4bn), supported by balance sheet optimisation, better pricing of risk assets, and high yield from investment.

The banking industry will remain under pressure from asset-quality weakness and stricter enforcement of regulations, given the high exposure to the troubled oil and gas sector, persistent socio-political unrest in Nigeria, as well as the weakened macroeconomic fundamentals, which continue to constrain debt serviceability of obligors. FirstBank is not insulated from these factors, and GCR anticipates additional impairments in the current year, with higher impact on the Bank's performance, relative to its peers. Critical for a positive rating consideration is a rebound to strong asset quality and profitability, with markedly improved competitive positioning.

First Bank of Nigeria Limited

(Naira in millions except as noted)

Year end: 31 December

Statement of Comprehensive Income Analysis	2012*	2013*	2014	2015	2016	1H 2017ᵝ
Interest income	276,909	310,224	349,277	377,765	384,177	216,464
Interest expense	(58,586)	(86,409)	(109,722)	(118,809)	(89,893)	(60,479)
Net interest income	**218,323**	**223,815**	**239,555**	**258,956**	**294,284**	**155,985**
Other income	62,915	56,009	99,260	76,103	140,378	38,583
Total operating income	**281,238**	**279,824**	**338,815**	**335,059**	**434,662**	**194,568**
Impairment charge	(12,912)	(20,521)	(25,730)	(125,672)	(224,948)	(62,401)
Operating expenditure	(182,196)	(172,718)	(218,633)	(199,658)	(199,039)	(104,361)
Share of profit of associates	1,008	875	-	-	-	-
Net profit before tax	**87,138**	**87,460**	**94,452**	**9,729**	**10,675**	**27,806**
Tax	(15,006)	(21,009)	(9,526)	(6,913)	1,093	(4,764)
Profit from continuing operations	**72,132**	**66,451**	**84,926**	**2,816**	**11,768**	**23,042**
Profit/(loss) from discontinuied operations	3,838	-	(84)	129	(1,317)	(548)
Other comprehensive (loss)/gain	20,308	(9,778)	4,817	38,667	3,137	4,139
Total comprehenssive income	**96,278**	**56,673**	**89,659**	**41,612**	**13,588**	**26,633**

Statement of Financial Position Analysis	2012*	2013*	2014	2015	2016	1H 2017ᵝ
Subscribed capital	205,557	205,557	205,557	205,557	205,557	205,557
Reserves (incl. net income for the year)	191,190	175,965	255,819	297,038	311,416	338,927
Hybrid capital (incl. eligible portion of subordinated term debt)	-	47,249	141,819	152,434	233,976	233,976
Minority interest	1,353	1,626	1,641	1,929	965	603
Less: Intangible assets (incl. goodwill)	-	(6,585)	(4,352)	(3,340)	(4,314)	(4,314)
Total capital and reserves	**398,100**	**423,812**	**600,484**	**653,618**	**747,600**	**774,749**
Bank borrowings (incl. deposits, placements & REPOs)	87,551	77,481	163,710	139,052	377,214	554,032
Deposits	2,405,031	2,863,177	2,823,835	2,756,997	2,810,496	2,678,764
Other borrowings	54,004	55,739	206,299	29,901	36,758	103,783
Short-term funding (< 1 year)	**2,546,586**	**2,996,397**	**3,193,844**	**2,925,950**	**3,224,468**	**3,336,579**
Deposits	4	79,605	165,900	148,073	219,594	219,594
Other borrowings	21,537	23,314	14,858	67,557	46,058	46,058
Long-term funding (> 1 year)	**21,541**	**102,919**	**180,758**	**215,630**	**265,652**	**265,652**
Payables/Deferred liabilities	116,713	159,633	117,933	127,716	160,712	145,753
Other liabilities	**116,713**	**159,633**	**117,933**	**127,716**	**160,712**	**145,753**
Total capital and liabilities	**3,082,940**	**3,682,761**	**4,093,019**	**3,922,914**	**4,398,432**	**4,522,733**
Balances with central bank	191,509	341,011	563,237	476,916	542,302	422,875
Properties, Plants and Equipments	74,474	78,489	83,404	82,351	83,357	79,810
Receivables/Deferred assets (incl. zero rate loans)	58,333	55,874	48,523	43,907	66,983	88,604
Non-earnings assets	**324,316**	**475,374**	**695,164**	**603,174**	**692,642**	**591,289**
Short-term deposits & cash	53,083	71,681	63,306	76,308	101,251	90,178
Loans & advances (net of provisions)	1,562,695	1,797,935	2,193,563	1,816,045	2,086,741	2,002,171
Bank placements	399,498	538,462	466,847	489,535	371,936	673,534
Marketable/Trading securities	304,566	427,095	10,708	5,049	23,494	24,514
Other investments/earning assets	383,560	330,579	621,086	883,322	1,070,576	1,088,480
Equity investments	49,613	35,410	42,345	49,481	51,792	52,567
Investments in subsidiaries/associates/properties	5,609	6,225	-	-	-	-
Total earning assets	**2,758,624**	**3,207,387**	**3,397,855**	**3,319,740**	**3,705,790**	**3,931,444**
Total assets†	**3,082,940**	**3,682,761**	**4,093,019**	**3,922,914**	**4,398,432**	**4,522,733**
Contingencies	**534,361**	**693,615**	**701,997**	**421,696**	**470,624**	**-**

Ratio Analysis (%)	2012*	2013*	2014	2015	2016	1H 2017ᵝ
Capitalisation						
Internal capital generation	24.3	14.9	19.4	8.3	2.3	8.5
Total capital / Net advances + net equity invest. + guarantees	18.5	16.8	20.4	28.6	28.7	37.7
Total capital / Total assets	12.9	11.5	14.7	16.7	17.0	17.1
Liquidity ‡						
Net advances / Deposits + other short-term funding	61.4	58.5	65.3	59.1	60.6	56.3
Net advances / Total funding (excl. equity portion)	60.8	58.0	65.0	57.8	59.8	55.6
Liquid & trading assets / Total assets	24.6	28.2	13.2	14.6	11.3	17.4
Liquid & trading assets / Total short-term funding	29.7	34.6	16.9	19.5	15.4	23.6
Liquid & trading assets / Total funding (excl. equity portion)	29.5	33.5	16.0	18.2	14.2	21.9
Asset quality						
Impaired loans / Gross advances	2.6	2.9	2.9	17.8	24.2	21.8
Total loan loss reserves / Gross advances	2.5	2.5	1.9	7.5	13.3	10.9
Bad debt charge (income statement) / Gross advances (avg.)	0.9	1.2	1.3	6.0	10.7	2.9
Bad debt charge (income statement) / Total operating income	4.6	7.3	7.6	37.5	51.8	32.1
Profitability						
Net income / Total capital (avg.)	25.1	13.8	17.5	6.6	1.7	3.0
Net income / Total assets (avg.)	3.3	1.7	2.3	1.0	0.3	0.5
Net interest margin	10.0	8.8	8.7	10.0	11.2	10.9
Interest income + com. fees / Earning assets + guarantees (a/avg.)	8.0	6.9	6.8	8.0	9.3	4.9
Non-interest income / Total operating income	22.4	20.0	29.3	22.7	32.3	19.8
Non-interest income / Total operating expenses (or burden ratio)	34.5	32.4	45.4	38.1	70.5	37.0
Cost ratio	64.8	61.7	64.5	59.6	45.8	53.6
OEaA (or overhead ratio)	6.2	5.1	5.6	5.0	4.8	2.3
ROaE	18.9	17.1	20.2	0.6	2.3	8.7
ROaA	2.5	2.0	2.2	0.1	0.3	1.0
Nominal growth indicators						
Total assets	10.1	19.5	11.1	(4.2)	12.1	2.8
Net advances	24.8	15.1	22.0	(17.2)	14.9	(4.1)
Shareholders funds	7.9	(3.8)	20.9	8.9	2.9	5.3
Total capital and reserves	8.0	6.5	41.7	8.8	14.4	3.6
Deposits (wholesale)	23.3	22.4	1.6	(2.8)	4.3	(4.3)
Total funding (excl. equity portion)	14.7	20.7	8.9	(6.9)	11.1	3.2
Net income	255.3	(7.9)	27.8	(96.7)	317.9	291.6

ᵝ6-months unaudited management accounts to 30 June 2017, with annualised ratios.

* 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 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 2016 (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 2017, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.