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First Bank of Nigeria Ltd.

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First Bank of Nigeria Ltd.

SACP	b+	+	Support	0	+	Additional Factors	0

Anchor	b+	
Business Position	Adequate	0
Capital and Earnings	Weak	0
Risk Position	Adequate	0
Funding	Above Average	0
Liquidity	Adequate	

GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
B+/Stable/B

Major Rating Factors

Strengths:	Weaknesses:
• Dominant market position in Nigeria. • Strong and stable retail deposit base. • Low cost of funds.	• Inherently high economic and industry risk. • Weak capitalization. • High level of foreign currency lending.

Outlook: Stable

Standard & Poor's Ratings Services' stable outlook on First Bank of Nigeria Ltd. (FirstBank), a "core" subsidiary of the FBN Holdings PLC (FBNH), reflects our expectation that the bank's business and financial performance should remain broadly stable over the next 12 months.

We could lower the ratings if FirstBank's asset quality deteriorates as a result of higher credit losses, resulting in a weaker loan loss experience than top-tier banks.

An upgrade is unlikely in the next 12 months and would hinge on a similar rating action on Nigeria.

Our ratings on FirstBank's holding company, FBN Holdings PLC (FBNH), will move in tandem with those on FirstBank because we consider that FBNH is structurally subordinated to FirstBank owing to its status as a nonoperating holding company.

Rationale

The ratings on FirstBank reflect the overall creditworthiness of FBNH (the group), whose group credit profile (GCP) we assess at 'b+'. The bank in Nigeria is the core component of the group, which is one of the leaders in the Nigerian financial services industry and has a strong deposit franchise and good liquidity. The ratings are supported by the bank's position as the largest bank in Nigeria. In our opinion, FirstBank is well-placed to absorb economic jolts while maintaining its financial profile. Underpinning our assumptions are the bank's access to low cost of funds, and its well-established corporate and retail franchise. As a result, we expect the bank will operate with more stable credit losses and stronger margins than the sector average.

Although we view the bank's capital and earnings as weak, it is neutral for the ratings. FirstBank is funded by short-term customer deposits. Like its Nigerian peers, the bank runs a significant asset liability mismatch. Positively, the stable funding ratio stood at 115% as of Dec. 31, 2014.

Despite the bank's high systemic importance, the ratings on FirstBank reflect our assessment of the bank's "core" status to the group and its stand-alone credit profile at (SACP), which we assess at 'b+'. We classify the Nigerian government as supportive of the domestic banking sector, but we do not add extraordinary government support to the bank's SACP due to the bank's rating being at the same level as the sovereign

Our long-term rating on FBNH is 'B-', two notches below the GCP, reflecting its status as a nonoperating holding company. FBNH is subject to structural subordination and relies on dividends from its operating companies to meet its financial obligations, which exposes it to potential regulatory intervention.

Anchor: 'b+' for banks operating in Nigeria

We use our Banking Industry Country Risk Assessment's economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating to a bank under our criteria. The anchor for a commercial bank operating in Nigeria is 'b+', based on an economic risk score of '9' and an industry risk score of '8'.

Nigeria has considerable natural resources, in our view, but remains constrained by low wealth and infrastructure shortfalls. Although economic diversification is improving, the government remains largely reliant on oil revenues, which fuels economic imbalances, particularly in the context of low oil prices. The depreciation of the Nigerian naira as a result of low oil prices and reduced government spending could lead to slower economic growth and increase credit risk. Another source of economic risk stems from Nigeria's very weak payment culture and rule of law, poor underwriting standards, and high credit concentrations and foreign currency lending.

Regarding industry risk, regulation and supervision are improving after the implementation of Basel II standards in 2014. We believe that the regulator has a proactive stance toward ensuring the stability of the national banking sector and improving the institutional framework. Stability in the Nigerian banking sector has improved since the 2009-2010 global financial crisis, and we consider competitive dynamics unlikely to change materially in the next few years. Nigerian banks are predominantly funded by short-term customer deposits, although wholesale funding is increasing. However, U.S. dollar liquidity is not well managed across the banking sector, which may affect the banks' ability to repay their U.S dollar liabilities in the context of a weakening naira and lower foreign exchange reserves.

Table 1

FBN Holdings PLC Key Figures

	--Financial year ended Dec. 31--				
(Mil. NGN)	**2014**	**2013**	**2012**	**2011**	**2010**
Adjusted assets	4,332,572	3,860,253	3,182,607	2,859,161	2,354,337
Customer loans (gross)	2,221,621	1,814,177	1,581,011	1,285,404	1,207,248
Adjusted common equity	462,764	412,165	402,705	367,572	316,752
Operating revenues	354,193	296,652	296,883	235,439	174,405
Noninterest expenses	234,418	184,387	192,171	146,064	118,794
Core earnings	83,835	71,316	75,435	18,636	29,462

NGN--Nigerian naira.

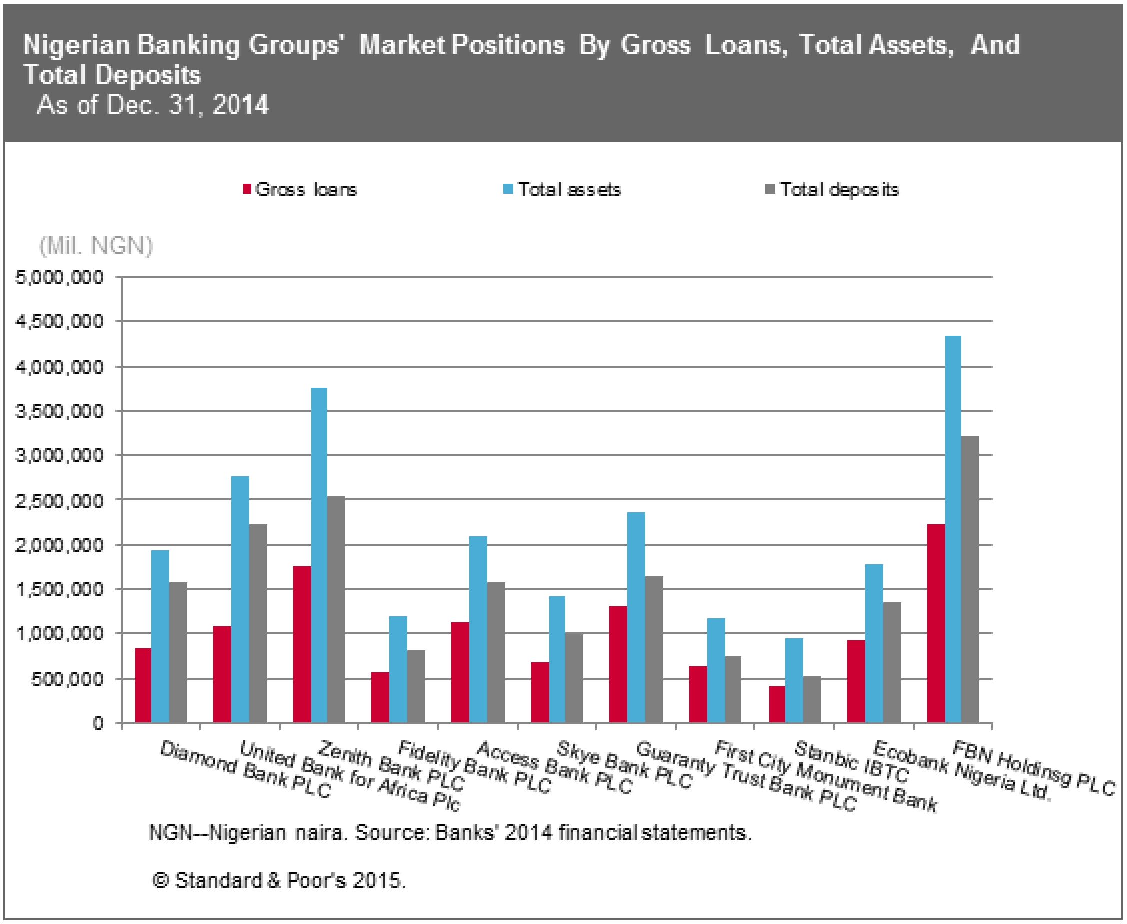
Business position:The largest financial services group operating in Nigeria

In assessing FirstBank's business position as "adequate," we balance our view of the bank's leading market share and domestic franchise and relatively diverse business mix, for a Nigerian bank, against its operational concentrations in Nigeria.

The group has total assets of Nigerian naira (NGN) 4.3 trillion (about $21.5 billion at NGN200 to $1), making it the largest financial services group in Nigeria (see chart 1). FirstBank is the largest entity within the group, accounting for about 93% of the group's assets and earnings on Dec. 31, 2014. Other group operations include asset management, investment banking, microfinance, and insurance, but none contribute significantly to profitability or assets.

We estimate the bank's market share in terms of assets to be about 15%. It has the largest retail franchise, with 8.5 million active retail accounts, approximately one in four of all active bank accounts in Nigeria, and more than 750 branches. However, in our view, FirstBank's corporate franchise is weaker than that of its comparative peers. Because of its stronger retail platform, the bank benefits from revenue diversification beyond that of most Nigerian banks and is well placed to capture the growth of the Nigerian retail market, even though competition is intensifying in that space.

Chart 1



The group has demonstrated a stable track record of revenue compared with the other top-tier rated banks in Nigeria. Its return on equity (ROE) over the past three years has been steady at 17% on average. Prior to 2012, the bank's earnings were more volatile, with ROE varying between 5.5% and 9.5%, partly because it has higher operating expenses and a higher cost of risk.

The group continues to expand geographically. In 2013, FirstBank purchased four banks from the International Commercial Bank in Ghana, Gambia, Guinea, and Sierra Leone; and completed the acquisition of ICB Senegal in 2014. These contributed less than 5% of the group's total assets on Dec. 31, 2014. We expect the group's geographic diversification to remain modest for the next two years. The largest foreign operation is the bank's U.K. subsidiary, which had approximately £1.5 billion in customer deposits and loans on Dec. 31, 2014, accounting for approximately 15% of the banking assets.

Table 2

FBN Holdings PLC Business Position					
	--Financial year ended Dec. 31--				
(%)	**2014**	**2013**	**2012**	**2011**	**2010**
Total revenues from business line (mil. NGN)	354,628	296,945	297,171	235,439	174,631

Table 2

FBN Holdings PLC Business Position (cont.)					
Commercial banking/total revenues from business line	91.14	91.62	95.33	95.51	N/A
Commercial & retail banking/total revenues from business line	91.14	91.62	95.33	95.51	96.97
Insurance activities/total revenues from business line	1.33	1.16	1.34	0.33	N/A
Asset management/total revenues from business line	5.31	6.47	2.69	1.64	0.15
Other revenues/total revenues from business line	2.21	0.76	0.64	2.52	(0.17)
Return on equity	16.85	15.52	18.88	5.53	9.61

NGN--Nigerian naira. N/A--Not applicable.

Capital and earnings: Pressure on net interest margins, and higher cost of risk

We regard FirstBank's capital and earnings as "weak." We estimated that on Dec. 31, 2014, our risk-adjusted capital (RAC) framework ratio before adjustments for the bank was 5%. The main risk charges, which are higher than those applied by the regulator, arise from the bank's corporate lending (about 65% of total risk charges year-end 2014). Furthermore, government exposure accounts for about 20% of total risk-weighted credit exposure. These include cash and balances at the central bank, and government securities. Our higher risk weight for government and corporate exposures largely explains the difference between our calculation of the bank's RAC ratio and FirstBank's regulatory capital adequacy ratio of 15.7% on Dec. 31, 2014.

We expect FirstBank's RAC ratio before adjustment will remain weak ranging between 4.5% and 5% over the next 12-18 months, due to pressure on net interest margins and fees and commissions, and high costs due to rising inflation.

More specifically, we forecast:

- Loan growth of 10%-15% through 2016;
- Slight compression of net interest margins to 7%;
- Credit losses rising to about 1.5% in 2015, respectively and a nonperforming loan (NPL; defined as loans 90 days past due) to total loan ratio increasing to 4.5%-5.0% over the next 12-18 months;
- Up to 10% growth in fees and commissions through 2016, supported by the bank's large customer base.
- An increase in loan loss charges as a portion of operating revenues to around 11% in 2016, and a higher cost base due to inflation, with cost to income reaching about 80% by year-end 2016.
- Reduced dividend payment through 2016, as we expect the bank to manage a buffer of 150 basis points (bps) above the minimum capital adequacy requirement.

Core pre-provisioning earnings should remain resilient, in our view, in a context of high net interest margins. FirstBank's loan loss reserve reduced to 66% at year-end 2014 compared with 83% in 2013, although its five-year average of 78% compares adequately with top-tier rated peers. We expect FirstBank's loan loss coverage to increase to about 65%-75% through 2015-2016.

In our view, FirstBank's quality of capital and earnings is good and compares adequately with domestic peers'. That said, FirstBank issued $450 million subordinated debt in 2014, to strengthen its regulatory capital. Similar to peers, net interest income to revenues amounts to more than two-thirds of the bank's total revenues, while fees and commissions accounted for about 20% of revenues in 2014.

Table 3

FBN Holdings PLC Capital And Earnings

	--Financial year ended Dec. 31--				
(%)	**2014**	**2013**	**2012**	**2011**	**2010**
Tier 1 capital ratio	12.25	12.26	19.60	23.09	17.70
S&P RAC ratio before diversification	5.00	5.16	N.M.	N.M.	N.M.
S&P RAC ratio after diversification	4.30	4.36	N.M.	N.M.	N.M.
Adjusted common equity/total adjusted capital	100.00	100.00	100.00	100.00	100.00
Double leverage	94.28	83.11	94.46	N.M.	N.M.
Net interest income/operating revenues	68.85	77.57	75.85	74.84	69.76
Fee income/operating revenues	17.16	18.23	20.20	20.21	25.80
Market-sensitive income/operating revenues	12.26	2.73	1.77	3.05	6.12
Noninterest expenses/operating revenues	66.18	62.16	64.73	62.04	68.11
Preprovision operating income/average assets	2.92	3.18	3.46	3.43	2.47
Core earnings/average managed assets	2.04	2.02	2.50	0.71	1.31

RAC--Risk-adjusted capital. N.M.--Not meaningful.

Table 4

FBN Holdings PLC Risk-Adjusted Capital Framework Data

(Mil. NGN)	**Exposure***	**Basel II RWA**	**Average Basel II RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	1,515,695	0	0	1,655,480	109
Institutions	529,529	0	0	373,929	71
Corporate	2,386,799	0	0	5,111,765	214
Retail	164,153	0	0	295,967	180
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets	197,447	0	0	551,821	279
Total credit risk	4,793,623	0	0	7,988,962	167
Market risk					
Equity in the banking book†	62,505	0	0	654,841	1,048
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	654,841	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	0	--	664,112	--
(Mil. NGN)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		0		9,307,914	100

Table 4

FBN Holdings PLC Risk-Adjusted Capital Framework Data (cont.)				
Total diversification/Concentration adjustments	--		1,432,999	15
RWA after diversification	0		10,740,913	115
(Mil. NGN)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	316,687	12.2	462,764	5.0
Capital ratio after adjustments‡	316,687	12.2	462,764	4.3

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. NGN--Nigerian naira. Sources: Company data as of Dec. 31, 2014, Standard & Poor's.

Risk position: Moderate lending and large securities portfolio

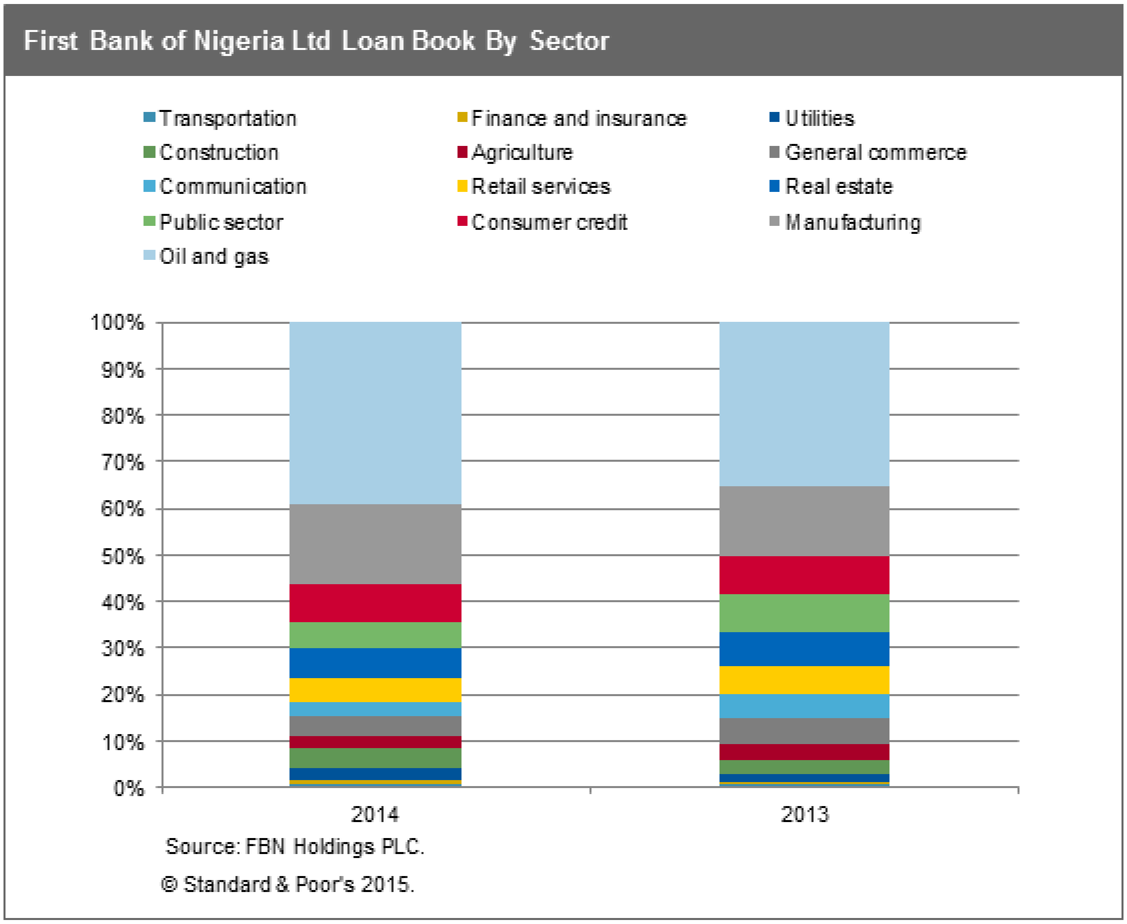
In our opinion, FirstBank's "adequate" risk position is underpinned by good underwriting standards, selective loan growth, and a large liquid position on the group's balance sheet. We forecast that FirstBank's NPLs will increase to about 4.5%-5.0% through 2016 and that its credit losses will rise to about 1.5% in 2015.

FirstBank's NPLs averaged 3.8% over the past five years. The bank's five-year average (2010-2014) cost of risk (defined as new loan-loss provisions to average customer loans) of 1.9%, compares well with the sector average over the same period. Comparison between Nigerian banks cost of risk metrics are difficult to assess given that the banks use different definitions to record losses or timeliness measures for an NPL. Therefore, in our analysis, we estimate a five-year average for Nigerian banks' NPLs.

The group exhibits comparatively high-quality assets given its cash position (12% of assets), bank deposits (10%; largely at banks outside Nigeria rated 'BBB-' or higher), securities (17%; of which 80% are Nigerian government debt), with loans of only 50% of assets at year-end 2014.

FirstBank's loan book grew by about 22% in 2014, of which half of the growth was due to the naira's devaluation. The current economic environment will likely constrain the bank's loan growth in 2015, particularly in the oil and gas sector. The bank's loan book demonstrates broadly similar industry concentrations. Notably, existing exposure to the oil and gas sector, constituted 39% of total loans with upstream accounting for 15% at year–end 2014. We expect the bank to restructure some loans, particularly exposures to the downstream sector in 2015 on the back of the lower oil prices but mostly in the SME space, because of the naira devaluation. Retail loans accounted for about 8% of total loans in 2014. We expect this segment to continue to be resilient at least in 2015, as the bank continues to manage its risk indicators tightly. The 20 largest loans accounted for 35% of total loans, which compares well with the sector average.

Chart 2



We also consider foreign currency lending to be a potential source of risk for banks operating in Nigeria. Of FirstBank's loan book, 46% was denominated in foreign currencies, which is mostly denominated in U.S. dollars. Positively, foreign currency loans are mainly to companies which have revenues in the same currency and the remainder extended to power and some manufacturing companies, are managed using hedges or by enforcing currency exchange when the naira devalues.

Table 5

FBN Holdings PLC Risk Position

	--Financial year ended Dec. 31--				
(%)	**2014**	**2013**	**2012**	**2011**	**2010**
Growth in customer loans	22.46	14.75	23.00	6.47	5.76
Total diversification adjustment/S&P RWA before diversification	N.M.	18.37	N.M.	N.M.	N.M.
Total managed assets/adjusted common equity (x)	9.38	9.39	7.91	7.78	7.43
New loan loss provisions/average customer loans	1.29	1.20	0.86	4.29	1.84
Net charge-offs/average customer loans	N.M.	1.13	3.98	0.81	1.61
Gross nonperforming assets/customer loans + other real estate owned	2.92	2.99	2.63	2.62	7.67
Loan loss reserves/gross nonperforming assets	65.82	82.97	94.46	97.91	50.72

RWA--Risk-weighted assets. N.M.--Mot meaningful.

Funding and liquidity: Strong deposit franchise leads to low cost of funds and good liquidity

We consider FirstBank's funding to be "above average" and its liquidity "adequate" as customer deposits with low-bearing interest continue to dominate the funding profile. The bank's total deposits accounted for about 70% of its total funding base on Dec. 31, 2014. Consequently, its stable funding ratio was a strong 115% on Dec. 31, 2014, which compares adequately with that of domestic peers. The deposit book is dominated by retail (55%) and public-sector (23%) deposits, and has fewer price-sensitive institutional and corporate deposits than peers. There is a fairly good diversification of customer deposits; the top 20 depositors accounted for 15% of total customer deposits at year-end 2014.

Long-term funding accounts for about 20% of the bank's funding base. Recent market issuance of a $450 million Eurobond supported the bank's funding needs due to its strong focus on oil and gas lending and extended the bank's liability duration and reduced maturity mismatches. Over the past four years, FirstBank's loan-to-deposit ratio has averaged 82%, which is higher than top-tier rated peers. We expect this ratio to remain broadly stable in 2015 on the back of muted loan growth and moderate deposit growth. Similarly to rated peers, FirstBank is still exposed to contractually short-term funds. Positively, these funds have been stable even under market stress.

We consider that the strong retail and public-sector funding profile supports the low cost of funds. Despite the increase of cash-reserve requirements to 75% for public sector funds in 2013, and access to the Eurobond market, FirstBank operates with a low cost of funds that has averaged 2.8% over the past four years. In our opinion, the low cost of funds is a key competitive advantage for the bank because it supports superior interest margins and allows it to finance higher-quality, and more price-sensitive, corporate borrowers. Furthermore, the high yielding liquid assets on the group's balance sheet compensate for changing regulatory cash-reserve requirements.

The group's liquidity indicators compares well with sector's average. As of Dec. 31, 2014, the group's broad liquid assets of NGN1.5 trillion covered about 42% of short-term customer deposits. The group's liquid assets comprise unrestricted cash, Nigerian treasury bills, and interbank placements, similar to those of other domestic banks we rate. The group's cash and deposits with other banks comprised 27% of total assets at year-end 2014. The group also benefits from a large portfolio of government securities.

Table 6

FBN Holdings PLC Funding And Liquidity

	--Financial year ended Dec. 31--				
(%)	**2014**	**2013**	**2012**	**2011**	**2010**
Core deposits/funding base	70.59	73.71	72.49	68.49	84.15
Customer loans (net)/customer deposits	85.94	76.50	82.90	81.67	80.01
Long-term funding ratio	78.11	78.94	77.28	76.11	91.84
Stable funding ratio	115.96	119.60	117.12	125.85	N/A
Short-term wholesale funding/funding base	10.66	4.52	5.48	9.16	9.77
Broad liquid assets/short-term wholesale funding (x)	4.17	10.81	8.75	6.37	N/A
Net broad liquid assets/short-term customer deposits	41.66	48.64	44.20	108.19	N/A
Short-term wholesale funding/total wholesale funding	36.26	17.21	19.92	29.06	61.61
Narrow liquid assets/3-month wholesale funding (x)	4.50	11.78	9.11	6.74	N/A

N/A--Not applicable.

Support:Core to the parent

We consider FirstBank to be a "core" subsidiary of its parent FBNH. The bank is the principal subsidiary of the holding company, operates in 11 countries, and represented about 93% of the group's assets and earnings on Dec. 31, 2014. FBN Holdings PLC was created in 2012 as a result of the Nigerian regulator's requirement to ring-fence core banking activities from noncore operations. The group has banking operations outside Nigeria, and the bank fully owns the recently acquired banks in West Africa.

Despite the bank's high systemic importance, the ratings on FirstBank reflect our assessment of the bank's "core" status to FBNH and its 'b+' SACP. We classify the Nigerian government as supportive of the domestic banking sector, but we do not add any notches above the bank's SACP.

Additional rating factors:None

No additional factors affect the ratings.

Related Criteria And Research

Related Criteria

- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Standard & Poor's National and Regional Scale Mapping Tables, Sept. 30, 2014
- National and Regional Scale Ratings, Sept. 22, 2014
- Group Rating Methodology, Nov. 19, 2013
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- Various Rating Actions On Nigerian Banks As Economic Imbalances Rise, April 15, 2015
- Nigeria Rating Lowered to 'B+' Because of Rising External Vulnerabilities; Outlook Stable, March 20, 2015
- Nigerian Banks Face Rising Uncertainties In 2015, Feb. 25, 2015
- Nigeria 'BB-' Rating Placed On CreditWatch Negative Following Sharp Decline In Oil Prices, Feb. 10, 2015
- Banking Industry Country Risk Assessment: Nigeria, Jan. 21, 2015
- Analytical Linkages Between Sovereign And Bank Ratings, Dec. 6, 2011

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	**9**	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	**b+**	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of August 25, 2015)

First Bank of Nigeria Ltd.	
Counterparty Credit Rating	B+/Stable/B
Nigeria National Scale	ngA/--/ngA-1
Subordinated	B-
Counterparty Credit Ratings History	
25-Mar-2015	B+/Stable/B
13-Feb-2015	BB-/Watch Neg/B
01-Apr-2014	BB-/Negative/B
11-Jun-2013	BB-/Stable/B
25-Mar-2015 *Nigeria National Scale*	ngA/--/ngA-1
13-Feb-2015	ngAA-/Watch Neg/ngA-1
11-Jun-2013	ngAA-/--/ngA-1
Sovereign Rating	
Nigeria (Federal Republic of)	B+/Stable/B
Nigeria National Scale	ngA/--/ngA-1
Related Entities	
FBN Finance Company B.V.	
Subordinated	B-
FBN Holdings PLC	
Issuer Credit Rating	B-/Stable/C
Nigeria National Scale	ngBB+/--/ngB

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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