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Research Update:

Nigeria-Based First Bank of Nigeria Ltd. 'B-/B' And 'ngBB+/ngB' Ratings Affirmed; Outlook Stable

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Overview

- We expect First Bank of Nigeria Ltd.'s asset quality to remain a rating weakness, over the next 12 months, despite the improved macroeconomic environment and as management continues to address legacy challenges.
- We believe that FirstBank's regulatory capital will remain comfortably above the minimum regulatory capital requirement, despite the negative impact from implementation of International Financial Reporting Standards (IFRS) 9.
- As a result, we are affirming our 'B-/B' global scale and 'ngBB+/ngB' national scale ratings on FirstBank.
- The stable outlook reflects our expectation that the bank will maintain a broadly stable financial profile over the next 12 months.

Rating Action

On June 22, 2018, S&P Global Ratings affirmed its 'B-/B' long- and short-term issuer credit ratings on Nigeria-based First Bank of Nigeria Ltd. and its non-operating holding company (NOHC), FBN Holdings PLC (FBNH). The outlook on both entities is stable.

At the same time, we also affirmed our 'ngBB+/ngB' long- and short-term Nigeria national scale ratings on the FirstBank and FBNH.

Rationale

The rating actions reflect our view that FirstBank will continue to display weaker asset quality metrics and lower profitability than other rated top-tier banks in Nigeria in 2018, due to still-high credit costs. That said, we believe that the bank's new leadership team will continue to progressively address the legacy asset-quality issues and institute more prudent risk-management measures.

Although declining, the bank's nonperforming loans (NPLs) remain high at 22.8% at year-end 2017 (following the write-off of 8.3% of total loans). The oil and gas sector remained the largest contributor to NPLs, accounting for 54.6% of total NPLs, followed by the telecommunication sector at 14.2%. Our assessment of FirstBank's credit profile also reflects the bank's high concentration by sector and significant exposure to foreign currency loans (50% of total loans in 2017). The bank's cost of risk remained elevated at 6.4% at year-end 2017. In our opinion, cost of risk will remain high and above the sector average, while NPLs will drop below 20% over the next 12-18 months due to some recoveries in the upstream oil and gas sector. Additionally, we expect that loan loss coverage by provisions will improve in the next 12-18 months.

We anticipate that our risk-adjusted capital ratio for the bank will remain below 5% in the next 12-18 months, compared with 4.9% at year-end 2017. The decline will mainly be attributable to the IFRS 9 implementation, which resulted in a deduction of Nigerian naira (NGN)36.1 billion (\$106 million) from retained earnings at March 31, 2018, and high credit losses. Nonetheless, we expect the bank to maintain its capital requirement (CAR) above the regulatory minimum of 15%, due to sufficient earnings retention and measured asset growth. Moreover, the bank's U.S. dollar-denominated subordinated debt would partly protect its capital position in case of naira depreciation.

Our assessment of FirstBank's credit profile also reflects its good competitive position in Nigeria underpinned by its large retail footprint, low cost of funding, and stable deposit base. On Dec. 31, 2017, FirstBank recorded a stable funding ratio of 145%, supported by a high proportion (74.3%) of deposit funding. Broad liquid assets covered 54.8% of short-term deposits and 3.2x short-term wholesale funding at the same date, which compares well with the level of peers. However, similar to other banks operating in Nigeria, FirstBank's deposit base is somewhat confidence sensitive, due to its contractually short-term nature.

The ratings on the bank reflect the overall creditworthiness of the FirstBank group, whose group credit profile (GCP) we assess at 'b-'. The bank is the core component of the group. We do not incorporate any external support in the bank's rating, despite our view of its high systemic importance. That is because we view the likelihood of support from the Nigerian government to systemically important banks as uncertain.

Our ratings on FirstBank's holding company, FBNH, are at the same level as the ratings on FirstBank, reflecting the absence of debt at the holding company level. Under our criteria, we generally notch down from the GCP to reflect the structural subordination of the NOHC and its exposure to potential regulatory intervention. Nevertheless, in FBNH's case, we take into account the absence of debt at the holding company level and believe that the risk of the NOHC defaulting is not commensurate with the 'CCC' rating category.

Outlook

The stable outlook on FirstBank reflects our view that the bank will maintain its CAR above the minimum requirement of 15% over the next 12 months, despite IFRS 9 implementation. It also reflects our view that asset quality will continue to stabilize, although still at weak levels, while the bank will maintain its above-average funding and adequate liquidity over the next 12 months.

We could lower the ratings on FirstBank if we see a further deterioration in the bank's asset-quality indicators, or a significant decline in capitalization because of higher credit losses.

A positive rating action appears remote and would require a substantial improvement in asset-quality indicators while maintaining capitalization and customer franchise at current levels.

Ratings Score Snapshot

Holding Company Rating	B-/Stable/B
Issuer Credit Rating	B-/Stable/B
SACP	b-
Anchor	b
Business Position	Adequate (0)
Capital and Earnings	Weak (0)
Risk Position	Moderate (-1)
Funding and Liquidity	Above Average And Adequate (0)
Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings - September 22,2014
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology - July 20,2017
- General Criteria: Group Rating Methodology - November 19,2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17,2013
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - August 14,2017
- General Criteria: Use Of CreditWatch And Outlooks - September 14,2009
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09,2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09,2011
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07,2017
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings - October 01,2012

Ratings List

Rating

To

From

First Bank of Nigeria Ltd.

Ratings List Continued...

Counterparty Credit Rating

Foreign and Local Currency	B-/Stable/B	B-/Stable/B
Nigeria National Scale	ngBB+/-/ngB	ngBB+/-/ngB
Subordinated		
Foreign Currency	CCC	CCC

FBN Finance Company B.V.

Subordinated

Foreign Currency	CCC	CCC
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FBN Holdings PLC

Counterparty Credit Rating

Foreign and Local Currency	B-/Stable/B	B-/Stable/B
Nigeria National Scale	ngBB+/-/ngB	ngBB+/-/ngB

Regulatory Disclosures

First Bank of Nigeria Ltd.

FBN Holdings PLC

- Primary Credit Analyst: Kuziva Murigo, Rating Analyst
- Rating Committee Chairperson: Mohamed Damak
- Date initial rating assigned: June 11, 2013
- Date of previous review: June 21, 2017

Disclaimers

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

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

Glossary

- **Anchor:** The starting point for assigning a bank a long-term rating, based on economic and industry risk.
- **Asset-liability mismatch:** Occurs when financial terms of an institution's assets and liabilities do not correspond.
- **Asset quality:** A key measure of the quality and performance of the assets of a bank.
- **Available stable funding:** Core deposits, plus deposits due to banks (net of those that mature within one year), plus other borrowings (net of maturities within one year), plus total equity, minus intangibles.
- **Broad liquid assets:** cash (net of restricted cash) and reserves at central bank, plus other cash and money market, plus bank loans and reverse repos that mature in less than one year, plus total liquid assets.
- **Business position:** A measure of the strength of a bank's business operations.
- **Capital and earnings:** A measure of a bank's ability to absorb losses.
- **Cost of funds:** Interest expense as a percentage of average interest-bearing liabilities.
- **Counterparty credit rating:** A form of issuer credit rating, which is a forward-looking opinion about an obligor's overall creditworthiness.
- **Credit losses:** Losses arising from credit risk.
- **Customer loans (gross):** Total customer loans before loan loss reserves.
- **Customer loans (net) over customer deposits:** Gross customer loans net of loan loss reserves, over core deposits.
- **Date initial rating assigned:** The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- **Date of previous review:** The date S&P Global Ratings last reviewed the credit rating on the entity.
- **Funding and liquidity:** A combined assessment of the strength and stability of a bank's funding mix and its ability to manage its liquidity needs in adverse market and economic conditions over an extended period.
- **Funding base:** Total deposits, plus acceptances, repurchase agreements, and other borrowings (including commercial papers, short- and long-term debt, subordinated debt, and minimal equity content hybrids).
- **Government-related entity (GRE) support:** An assessment of the likelihood that the government would provide extraordinary support to a bank that is a government-related entity.
- **Gross nonperforming assets over customer loans plus other real estate owned over customer loans:** Nonaccrual loans, plus restructured loans, plus repossessed assets plus loans 90-days past due; over gross customer loans plus repossessed assets.
- **Group support:** An assessment of the likelihood that a parent or other group member would provide extraordinary support to a bank within that group.
- **Loan loss reserves over gross nonperforming assets:** General plus specific reserves, over adjusted nonperforming assets (nonaccrual loans plus restructured loans plus repossessed assets plus 90-day past due loans).
- **National scale rating:** An opinion of an obligor's creditworthiness or overall capacity to meet specific financial obligations, relative to other issuers and issues in a given country or region.
- **Net charge-offs over average customer loans:** Gross charge-offs net of recoveries, over average gross customer loans of current period and last fiscal year.
- **New loan loss provisions over average customer loans:** Credit loss provisions

(including specific loan provisions and general and other provisions) minus recoveries, over average gross customer loans of current period and last fiscal year.

- Risk position: Our view of the specific risk characteristics of a particular bank.
- Risk-adjusted capital (RAC) ratio before diversification: This is calculated according to S&P Global Ratings' methodology as total adjusted capital over risk-adjusted assets.
- Short-term wholesale funding: Debt securities that mature in less than one year (of commercial papers, debt and senior and subordinated bonds), plus bank deposits that mature in less than one year.
- Sovereign support: An assessment of the likelihood that the government would provide extraordinary support to a bank.
- Stable funding needs: Restricted cash and reserves at the central bank, plus interbank deposits, plus loans to banks (net of maturities within one year), plus reverse repurchase agreements, plus gross customer loans net of loan-loss reserves, plus securities, minus total liquid securities, plus equity participations in nonfinancial entities, plus fixed assets, plus other assets (considering foreclosed assets, tax loss carryforwards, and deferred assets).
- Stable funding ratio: Available stable funding over stable funding needs.
- Stand-alone credit profile (SACP): An interim step in assessing a bank's overall creditworthiness. It includes government support, but not extraordinary government support.
- Total adjusted capital: Adjusted common equity plus admissible preferred instruments and hybrids.
- Total wholesale funding: Noncore deposits, plus acceptances, repurchase agreements, other borrowings (including commercial papers, debt and senior and subordinated bonds, minimal equity content hybrids), and total equity, minus minority interest and common shareholders' equity.

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