GCR GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

First Bank of Nigeria Limited

Nigeria Bank Analysis | **December 2020**

Rating class	Rating scale	Rating	Outlook	Expiry date
Long-term	National	A-(NG)	Positive	September 2021
Short-term	National	A2(NG)^		

Financial data:

(USDm comparative)ǂ

	31/12/18	31/12/19
NGN/USD (avg.)	305.6	306.4
NGN/USD (close)	306.5	306.5
Total assets	16,648.4	18,739.1
Primary capital	1,554.5	1,928.2
Secondary capital	541.3	231.7
Net advances	5,529.8	6,088.2
Liquid assets	4,304.1	5,877.9
Operating income	1,194.7	1,292.2
Profit after tax	127.1	204.5
Market cap.*	N260.2bn/USD685.7m	
Market share**	14.0%	

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

*For FBN Holdings Plc as at 26 November 2020.

**As a % of industry assets at 31 December 2019.

Rating history:

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

Last rating (December 2019)
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

FirstBank rating reports (2006-19)

Glossary of Terms/Ratios, February 2016

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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, significant domestic market share, and status as a systemically important bank in Nigeria. The ratings also reflect the notable improvement in asset quality and profitability metrics, adequate liquidity, as well as its stable funding structure. In addition, cognisance is taken of the elevated risk in the macroeconomic environment, aggravated by the challenges and uncertainties arising from the COVID-19 pandemic.
- Further loan book clean-up exercise (involving the write-off of fully provisioned impaired exposures totalling N366.4bn) undertaken by FirstBank saw the gross non-performing loans ("NPL") decline by 62.4% to N195.4bn at FY19, translating to a significantly improved gross NPL ratio of 10% (FY18: 25%). Positively, the ratio improved further to 8.7% at 3Q FY20, albeit still remained above the CBN's tolerable limit of 5%. Despite the increasingly tough macroeconomic condition, management envisaged NPL ratio to be sustained at single-digit, through leveraging CBN's forbearance (with 15% of loan portfolio restructured as at 3Q FY20), as well as its ongoing remedial actions and intensified recovery efforts. In Global Credit Rating Limited's ("GCR") view, the bank's provisioning level is considered low, as the loan loss provision coverage of impaired loans moderated to 41.9% at FY19 (FY18: 74.7%).
- FirstBank is adequately capitalised relative to its current risk level. Shareholders' funds grew by 24% to N591bn at FY19, fuelled mainly by internal capital generation. However, this translated to a lower capital adequacy ratio ("CAR") of 15.5% at FY19 (FY18: 17.3%) due to outpacing growth in risk weighted assets. Positively, additional tier 1 capital injection of N25bn by FBN Holdings Plc ("the Holdco") in June 2020 strengthened CAR to 16.5% at 1H FY20 and stood at 15.7% (excluding profit for the period) at 3Q FY20, following growth in risk assets.
- The bank's funding structure is robust, pillared by its strong retail franchise and well diversified deposit book. This is attested to by the well diversified deposit base, with the single largest depositor accounting for only 2.7% of total deposits at FY19. Furthermore, FirstBank's liquidity position appears strong, closing FY19 with a statutory liquidity ratio of 38.2% (FirstBank Nigeria only), against the regulatory minimum of 30%.
- Key profitability indicators improved in FY19, with pre-tax profit increasing significantly by 83.1% to N70.8bn, underpinned by a combination of strong revenue growth and moderation in impairment charge. While net interest income increased marginally by 0.9% due to the relatively low-yield environment, firmer growth in non-interest income accelerated growth at the total operating income ("TOI") level by 8.4%. Also, operating expenses rose by 17.2%, translating to a higher cost to income ratio of 69.3% (FY18: 64.1%), albeit moderated to 66.1% in 3Q FY20. Overall, return on average equity and asset ("ROaE" and "ROaA") improved to 12.1% and 1.2% in FY19 (FY18: 7.2% and 0.8%) respectively. For the nine-month ended 30 September 2020, the bank registered a pre-tax profit of N54.8bn, representing a 9.3% growth over the corresponding period in 2019.

Factors that could trigger a rating action may include

Positive change: A positive rating action is dependent on further improvement in asset quality and profitability metrics, as well as enhanced competitive positioning.

Negative change: Significant deterioration in asset quality, profitability and capitalisation metrics, as well as a material pressure on the bank's liquidity position could trigger a negative rating action.

^The change in the assigned short-term rating from A1-(NG) to A2(NG) was mainly attributed to the discontinuation of the former in GCR's updated rating scale.

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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 the Holdco, accounting for 93.3% of gross earnings as at 3Q FY20 (FY19: 88.2%). The bank offers a full range of financial service solutions to both individual and corporate customers across ten countries[2], with a strong retail franchise.

Strategy and operations

FirstBank concluded its three-year (2017-2019) transformation plan in December 2019, which was targeted at rebuilding and repositioning the bank for sustainable growth and profitability. According to management, the major accomplishments during the period include: (i) the enhancement of its revenue generation capabilities; (ii) strengthened balance sheet and improved operational efficiency; and (iii) improved asset quality and revamped risk management architecture (as evidenced by the single-digit NPL ratio recorded at end-2019). Additionally, the information technology ("IT") and digital platforms were strengthened to promote digital banking offerings and transaction-led banking model, while also improving customer banking experience and migration of more customers to digital channels.

Forging ahead, the bank has commenced the implementation of a new three-year (2020-2022) strategic plan, which aims to consolidate on the major milestones achieved thus far. Specifically, this strategic initiative is centred around five key strategic pillars, including: (i) reaching the full potential of existing business; (ii) expanding into attractive adjacencies; (iii) accelerating growth/optimising footprint across the African continent; (iv) maximising efficiency; and (v) building a world-class service (customer first) organisation.

In light of sustained efforts to drive financial inclusion and deepen penetration in the unbanked and underbanked segments of the economy, the bank has continued to expand the footprint of its extensive agency banking channels "Firstmonie", which stood at 75,996 as at 30 September 2020, with plans to keep increasing that number steadfastly.

As at 30 September 2020, FirstBank operated through 735 business locations, 3,014 ATMs, 13,958 POS terminals, and a staff complement of 6,692. The bank's core banking platform, "Finacle" is upgraded periodically for improved operational efficiency, quality service delivery, as well as enhanced capacity for the increasing number of customers, particularly within the retail space.

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 at 30 September 2020, the board of directors ("the board") comprised thirteen members, made up of three executive directors (including the Chief Executive Officer) and ten non-executive directors (which includes the Chairman and three independent directors). Overall, the board is considered to have satisfactory mix of knowledge and experience across banking and other business fields.

The board performs its oversight functions through six 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 to the board with their decisions and/or recommendations, the ultimate responsibilities on all matters rest with the board.

Financial reporting

FirstBank prepares its financial statements in accordance with International Financial Reporting Standards, the Companies and Allied Matters Act, Financial Reporting Council of Nigeria requirements and the Banks and Other Financial Institutions Act. The external auditor, PricewaterhouseCoopers, issued an unqualified opinion on the 2019 financial statements. Following the expiration of the ten years tenure of PricewaterhouseCoopers, KPMG Professional Services was appointed as the new external auditor at the Annual General Meeting in early 2020.

Operating environment

Economic overview

The Nigerian economy slipped into recession in 3Q 2020, following the second consecutive quarter contraction in gross domestic products ("GDP"), which contracted by 3.6% year-on-year. The negative trend was primarily attributed to the sharp slowdown in economic activities occasioned by the COVID-19 pandemic, further compounded by the weak global crude oil demands and the relatively low prices at the international market. In a bid to stimulate prices, the Organisation of Petroleum Exporting Countries (OPEC) and its allies had in mid-April 2020 agreed to a global production cut of about 10 million barrels per day. This production cut, coupled with the gradual easing of lockdown across most countries, resulted in an uptick in global crude oil prices, which hovered between USD40/barrel and USD45/barrel in

[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.

September 2020, compared to USD19.8/barrel in mid-April 2020.

The headline inflation rate increased to 14.9% in November 2020, for the fifteenth consecutive month, largely driven by persistent increase in food component, supply constraints, higher input costs and increased system liquidity. To curtail inflationary pressures, CBN earlier in 2020 increased the cash reserve requirement ("CRR") by 500 basis points to 27.5%, and has also released some policies to cushion the adverse impact of the COVID-19 pandemic on the economy. These measures include, among others, a reduction in interest rates on all CBN intervention facilities from 9% to 5% (for one year with effect from 01 March 2020), and the creation of N50bn targeted credit facility to households and SMEs negatively affected by the pandemic. However, the sustained FX liquidity pressures, coupled with CBN's efforts to unify the exchange rate at both the official and NAFEX window, necessitated a further depreciation in FX rate to N380/USD in July 2020 from N360/USD at the official window. Similarly, the external reserves declined to USD35.7bn at end-September 2020 from USD38.6bn as at 31 December 2019, with further contractions expected over the short term on account of the relatively low FX earnings. Given that the Nigerian economy is heavily dependent on the oil sector, which has over time accounted for over 90% of foreign exchange earnings and over 60% of government budgetary revenues, the soft global crude oil price remains a major concern.

The National budget estimate was based on an oil benchmark of USD57/barrel, a daily production output of 2.18mbpd, new value added tax rate of 7.5% (from 5% previously), *inter alia.* In light of the current macroeconomic challenges, FGN reviewed the oil benchmark downwards to USD28/barrel, daily production output to 1.8mbpd, while also indicating external borrowing plans to cushion the economic impact of the pandemic. GCR however, expects the continued slowdown in economic activities to have significant implications for budget implementation and its already elevated credit risk profile.

Despite the challenging operating environment, the Nigerian Stock Exchange ("NSE") All-Share Index ("ASI") recorded improved performance in 2020, as evidenced by strong growth of 29.7% as at mid-November 2020. After slipping into the negative territory in the first quarter of the year, the bullish stock market performance in the last two quarters was largely driven by the limited viable investment options, sustained low investment yields on fixed-income securities, as well as FX liquidity constraints (which continues to inhibit investment repatriation by the foreign portfolio investors).

Industry overview

As part of measures to boost credit extension and stimulate lending to the real sector of the economy, CBN in July 2019 issued a circular mandating Deposits Money Banks ("DMBs") to maintain an initial minimum loan to deposits ratio ("LDR") of 60% by 30 September 2019 and subsequently reviewed to 65% with effect from 31 December 2019. According to CBN, failure to comply with this specification would attract an additional CRR of 50% to the lending shortfall of the target LDR. To allay concerns of a possible spike in the industry's NPLs, CBN in August 2020 implemented the global standing instruction ("GSI"), which authorises DMBs 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).While cognisance is taken of the positive economic impact of the minimum LDR, the increment of CRR to 27.5% (from 22.5%) could exert liquidity pressures on most banks within the short term, as well as further constrain profitability. Also, in October 2019, CBN restricted domestic investors and non-bank corporates from participating in the Open Market Operation ("OMO") instruments. Consequent shift in investors focus to fixed-income securities has led to decline in yields, currently trending below the average inflation rate.

The banking industry's profitability improved in 2019, underpinned by a relatively lower impairment charge, growth in interest income on account of expansion in loan book, as well as fee and commission income (as transactions volume on digital platforms increased). Per CBN statistics, the industry's total assets stood firmer at N42trn at end-December 2019 (December 2018: N37.2trn), while loans and advances increased by 13.7% to N15.6trn, as most banks intensified efforts to comply with the stipulated minimum LDR. The recorded expansion in loan portfolio, coupled with the sustained resilience of the banking system saw the industry's average NPL ratio moderate to 6.1% at end-December 2019 (December 2018: 11.6%), while CAR declined by 80 basis points year-on-year to 14.5%. The oil and gas remained the dominant sector, accounting for over 30% of the banking industry's loan portfolio as at 31 December 2019. However, the slowdown in economic activity and the challenges in the oil and gas sector (exacerbated by dwindling global crude oil prices), pose a significant credit risk to the banking industry and could impact asset quality and profitability over the short to medium term. To cushion this effect, CBN in March 2020 introduced a number of monetary policies, which (*inter alia*) include; extension of moratorium on all regulatory intervention facilities; granting of regulatory forbearance on loans to businesses and households that are considered to be highly vulnerable to the COVID-19 pandemic.

As at 30 September 2020, Nigeria's financial sector comprised twenty-two commercial banks, four financial holding companies, six merchant banks, two non-interest banks, and over 4,000 other financial institutions. The commercial banks include eight international banks, eleven national banks, and three regional banks. Nigeria's five largest banks accounted for over 60% of industry's total assets at FY19. The competitive landscape of the Nigeria financial system remains stiff, further intensified by the issuance of operational licences to payment service banks (PSBs), financial technology companies ("Fintechs"), and super agents to deepen financial inclusion through the provision of diversified financial services to the unbanked and under-banked segments of the economy.

Competitive position

Table 1 illustrates the bank's key performance metrics against a selection of its peers in FY19. FirstBank remains a key player in the Nigerian banking space, controlling a sizeable market share of 14% based on the industry's total assets at FY19. Over the years, the bank's competitive position has been supported by its well-established franchise, expanded national and regional footprints, and extensive customer base, with a good mix of retail and corporate customers. Also, the bank's continuous investment in IT and digital platforms have further enhanced its position within the digital banking space, thus stimulating revenue generation capacity.

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, GCR envisages strong support from the Holdco and FGN should such support be required.

Funding composition

FirstBank's major funding source remained customer deposits, which constituted 70% (FY18: 68.8%) of the total funding at FY19. Other funding sources include: equity (10.6%), borrowings (4.5%) and interbank funding (14.9%). Details of each source of funding are discussed below.

Customer deposits and interbank funding

Supported by the bank's extensive branch and agency networks, digital platforms, and strong domestic franchise, customer deposits have grown consistently over the review period. The deposit book grew by 15.3% to N3.9trn at FY19 and accelerated to N4.5trn at 3Q FY20, as the bank continues to leverage its robust retail franchise to mobilise the relatively cheap deposits. As a result, the proportion of current, saving and domiciliary accounts to total deposit expanded to 89.3% at 3Q FY20 (FY19: 85.8%), translating to a lower cost of funds of 2.5% at 3Q FY20 (FY19: 3.1%). Also, interbank funding rose by 12.5% to N834.1bn at FY19, further augmenting the funding base.

Table 2: Deposit book characteristics at FY19 (%)*

By sector:		By type:	
Corporates and Commercial	14.6	Current	28.5
Retail	72.2	Savings	38.0
Public sector	7.7	Term	14.2
Others	5.5	Domiciliary	19.3
Concentration:		**Maturity profile[α]:**	
Single largest	2.7	< 3 months	14.5
Five largest	6.1	3 - 12 months	17.5
Ten largest	8.2	> 12 months	68.0
Twenty largest	10.8		

*Refers to banking operations of FirstBank Nigeria
[α]On contractual basis

In line with historical trends, the bank maintained a well-diversified deposit base at FY19, with the single and twenty largest depositors accounting for 2.7% and 10.8% of total deposits respectively. Also, the maturity profile of the book remains fairly long, with 68.0% maturing after 12 months, thus providing some level of funding stability.

Capital funding

FirstBank is adequately capitalised relative to its current risk level. Shareholders' funds grew by 24% to N591bn at FY19, fuelled mainly by internal capital generation, albeit translated to a lower capital adequacy ratio ("CAR") of 15.5% at FY19 (FY18: 17.3%) due to the recorded outpacing growth in risk weighted assets. Positively, additional tier 1 capital injection of N25bn by the Holdco in June 2020 strengthened the CAR to 16.5% at 1H FY20 and stood at 15.7% (excluding profit for the period) at 3Q FY20, following growth in risk assets. This capital injection represents a significant portion of the proceeds from

Table 1: Competitive position* FirstBank vs. selected banks	Access	Zenith	FirstBank	UBA	GTBank
Year end 31 December 2019					
Shareholders' funds (N'bn)	558.9	941.9	591.0	588.4	678.7
Total assets (N'bn)†	7,055.4	6,324.6	5,743.5	5,584.3	3,733.6
Net loans (N'bn)	2,911.6	2,305.6	1,866.0	2,061.1	1,500.6
Net profit after tax (N'bn)	97.5	208.8	62.7	89.1	196.9
Total capital/Total assets (%)	7.9	14.9	10.2	11.1	18.2
Liquid and trading assets/Total short-term funding (%)	17.7	42.4	28.1	16.9	26.0
Gross NPL ratio (%)	6.0	4.3	10.0	5.3	6.5
Net interest margin (%)	9.0	6.5	8.3	8.4	11.1
Cost ratio (%)	65.2	46.4	69.3	62.7	35.6
ROaE (%)	17.7	23.8	12.1	16.8	37.4
ROaA (%)	1.6	3.4	1.2	1.7	6.6

*Ranked by total assets †Excludes clients' balances in respect of letters of credit and goodwill   Source: Audited Financial Statements the divestment from the Holdco's insurance subsidiary during the year.

Table 3: Capitalisation*	FY18 N'bn	FY19 N'bn
Total qualifying Tier 1	359.0	376.4
Total qualifying Tier 2	84.2	89.9
Total regulatory capital	**443.2**	**466.3**
Total risk weighted assets	**2,568.0**	**3,019.0**
RWCAR (%)	**17.3**	**15.5**

*FirstBank Nigeria Source: FirstBank AFS

Borrowings

Total borrowings declined by 25.9% to N250.6bn at FY19 following the redemption of the bank's outstanding Eurobond facility during the year. A major addition to the borrowing book in FY19 was a five-year tenored USD194.5m subordinated debt. This facility was secured in December 2019, attracting a coupon rate of 9.0% per annum (payable semi-annually). 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 comprise loans from foreign banks, which were utilised in funding letters of credit for international trade. An analysis of the borrowing book by currency reveals that 66.9% of the borrowings were foreign currency ("FCY") denominated, while 37.6% of this liability pool matures within one year. At 3Q FY20, outstanding borrowings declined further by 1.0% to N248.2bn due to repayment of matured facilities during the period.

Table 4: Borrowings	FY18 N'bn	FY19 N'bn
Qualifying Tier 2 Capital	**165.9**	**71.0**
FBN Eurobond	165.9	-
Subordinated Debt	-	71.0
Other borrowings	**172.3**	**179.6**
Proparco	19.9	16.6
African Development Bank	72.9	55.7
On-lending facilities from FIs	62.0	83.0
Correspondent banks	17.5	24.3
Total	**338.2**	**250.6**

Source: FirstBank AFS

Liquidity positioning

Liquidity position remains strong at FY19, ending the year with a statutory liquidity ratio of 38.2% (FirstBank Nigeria only), against the regulatory minimum of 30%. GCR takes cognisance of the inherent liquidity constraints across the industry, compounded by the uncertainties within the FX market, the increment in CRR, and CBN's discretionary debit of DMBs for LDR shortfall. Nonetheless, we expect FirstBank's liquidity position to be sustained within strong range over the rating horizon, given that a sizeable portion of its assets are held in cash and highly liquid investments. The available credit lines from other financial institutions also provide adequate liquidity risk mitigants.

Operational profile

Risk management

FirstBank's enterprise risk management ("ERM") framework is reviewed continually in line with the economic and industry dynamics, and specifically to strengthen asset quality. To this end, the bank has institutionalised a more stringent credit approval process, enhanced loan recovery mechanism, and diversified the loan portfolio away from the oil and gas sector to sectors with relatively lower volatility. Furthermore, the bank has adopted a robust credit culture, including selecting quality customers, ensuring exposures are well collateralized, improving adherence to lending conditions, and better understanding of transaction structuring. The internal single obligor limit was also reviewed for disciplined portfolio management and minimisation of concentration risk. Overall risk management responsibility is vested in the board, and this is performed through a standing committee (the Board Risk Committee), supported by the Management Risk Committee.

Asset composition

FirstBank registered a 12.6% growth in asset base to N5.7trn at FY19, while further 15.3% growth widened the balance sheet to N6.6trn at 3Q FY20, fueled by an enhanced funding base. The asset mix skewed towards cash and liquid asset, increasing by 36.6% to N1.8trn on the back of a substantial rise in mandatory reserve with CBN (due to the bank's shortfall of the stipulated LDR at year-end). On the other hand, net advances constituted a relatively stable 32.5% of the asset base at FY19.

Table 5: Asset mix	FY18 N'bn	FY18 %	FY19 N'bn	FY19 %
Cash and liquid assets	**1,319.2**	**25.9**	**1,801.6**	**31.4**
Cash	*110.7*	*2.2*	*125.9*	*2.2*
Liquidity reserve deposits	*520.5*	*10.2*	*834.9*	*14.5*
Fin. Assets held for trading	*24.7*	*0.5*	*165.4*	*2.9*
*Balances with other banks**	*663.3*	*13.0*	*675.3*	*11.8*
Net advances	1,694.9	33.2	1,866.0	32.5
Investment securities	1,571.7	30.8	1,323.0	23.0
Pledged assets	287.8	5.6	425.5	7.4
Property, plant and equipment	86.3	1.7	107.9	1.9
Other assets	142.8	2.8	219.5	3.8
Total	**5,102.7**	**100.0**	**5,743.5**	**100.0**

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

Investment securities stood at N1.3trn at FY19, representing a 15.8% y/y decline. Credit risk associated with the portfolio is significantly mitigated by the fact that risk-free FGN securities (treasury bills and bonds) constituted a sizeable 87.3% of the pool. Other components of investment securities include: state and corporate bonds (1.1%), and equity investment (11.6%).

Loan portfolio

Gross loans and advances evidenced a downward trajectory over the review period, as the bank intensified efforts on loan book clean up and recoveries. In this regard, the loan portfolio declined by 6.5% to N1.9trn in FY19. Although GCR took note of the bank's concerted efforts to diversify the portfolio, exposures to the troubled oil and gas sector is still considered high at 34.3% at 3Q FY20 (FY19: 34.3%; FY18: 41.2%) and remains a concern, given the current macroeconomic challenges and the relatively low global crude oil prices. However, management has informed GCR that adequate risk-mitigating measures are in place, particularly, the hedging of a sizeable portion of its oil and gas exposures. Going forward, the bank intends to further reduce its exposures to the oil and gas sector and shift lending focus to the real sectors (manufacturing, retail, agriculture, agro-allied, and telecommunication sectors), albeit with a strong emphasis on quality obligors.

Table 6: Loan book characteristics (%)*	FY18	FY19
By sector		
Oil and gas	41.2	34.3
Construction and real estate	12.5	5.0
Manufacturing	14.1	16.5
Retail and consumer	5.8	5.7
General commerce	3.5	4.6
Public Sector	9.9	8.1
Agriculture	1.5	2.6
IT and telecommunication	2.4	7.2
Others	9.1	16.0
Largest exposures		
Single largest	11.2	6.2
Five largest	33.4	26.4
Ten largest	46.0	42.2
Twenty largest	58.4	57.8
By product		
Term loans	89.0	90.5
Overdraft	10.4	9.1
Others	0.6	0.4

*Figures for FirstBank (Nigeria) only

Reflecting the dominance of term loans, the loan book remains fairly long-dated, with 52.4% maturing after twelve months. Although concentration risk by obligor moderated somewhat relative to FY18's position, this (in GCR's opinion) remains high. The single largest exposure equated to 6.2% and 17.1% of the loan portfolio and shareholders' funds respectively at FY19, albeit maintained within the regulatory limit of 20%. Also, the twenty largest exposures jointly constituted more than half of the loan book at the balance sheet date. While management had taken measures to reduce FCY denominated exposures, the impact of Naira devaluation saw FCY exposures constitute a higher 47.6% of the loan portfolio at 3Q FY20 (FY19: 45.8%; FY18: 52.7%). This, coupled with disbursement of new loans, resulted in a 10.5% expansion in the loan book at 3Q FY20.

Contingencies

Off-balance sheet assets increased slightly by 1.9% to N847.2bn at FY19, representing a significant 128.7% of the bank's total capital at year-end (FY18: 130%). The portfolio comprised: performance bonds and guarantees (51.7%) and letters of credit (48.3%).

Asset quality

Further loan book clean-up exercise (involving the write off of fully provisioned impaired exposures totalling N366.4bn) undertaken by FirstBank saw the gross non-performing loans decline by 62.4% to N195.4bn at FY19, translating to a significantly improved gross NPL ratio of 10% (FY18: 25%). Positively, the ratio improved further to 8.7% at 3Q FY20, albeit remained above the CBN's tolerable limit of 5%. Despite the increasingly tough macroeconomic condition, management envisaged the NPL ratio to be sustained at single-digit through leveraging CBN's forbearance (with 15% of loan portfolio restructured as at 3Q FY20), as well as its ongoing remedial actions and intensified recovery efforts. In GCR's view, the bank's provisioning level is low, with the loan loss provision coverage of impaired loans moderated to 41.9% at FY19 (FY18: 74.7%).

Table 7: Asset quality (N'bn)	FY18	FY19	3Q FY20
Gross advances	**2,083.5**	**1,947.9**	**2,153.2**
Performing	*1,563.1*	*1,752.5*	*1,965.9*
Impaired	*520.3*	*195.4*	*187.3*
Provision for impairment	**(388.6)**	**(81.8)**	**(91.2)**
12-month ECL	(5.5)	(9.1)	(12.5)
Lifetime ECL not credit-impaired	(9.7)	(10.7)	(16.2)
Lifetime ECL credit-impaired	(373.4)	(62.1)	(62.5)
Net NPL	**131.7**	**113.6**	**96.1**
Selected assets quality ratios:			
Gross NPL ratio (%)	25.0	10.0	8.7
Net NPL ratio (%)	7.8	6.1	4.7
Net NPLs/Capital (%)	20.7	17.3	14.5

Source: FirstBank AFS

Foreign currency risk

FirstBank's FX risk relates primarily to its FCY denominated borrowings, deposits, and advances portfolios. The bank's exposure to this risk is considered low at FY19, as evidenced by the substantial positive net open position of N158.9bn. Given the current volatility and uncertainties in the FX market, management has been mitigating FX risk by effectively matching related assets and liabilities, and hedging through OTC futures transactions and forwards.

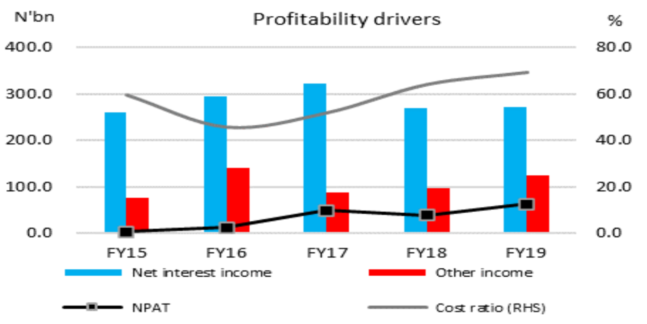
Table 8: Net FCY position (FY19)	USD N'bn	GBP N'bn	EUR N'bn	Others N'bn	Total N'bn
Financial assets	1,962.4	198.7	45.1	152.5	2,358.7
Financial liabilities	(1,728.0)	(317.7)	(50.4)	(103.7)	(2,199.8)
Net	**234.4**	**(119.0)**	**(5.3)**	**48.8**	**158.9**

Source: FirstBank AFS

Financial performance and prospects

A five-year financial synopsis, together with nine months unaudited management accounts to 30 September 2020, is reflected on page 8 of this report, supplemented by the commentary below.

Gross earnings grew by 7.2% to N553.6bn in FY19, largely propelled by the rising transaction volume on digital channels as the bank continues to implement its transaction-led banking model. As a result, non-interest income increased by 29.5% to N124.3bn, with net fee and commission income constituting a substantial 59% of the revenue stream. Conversely, the relatively low-yield environment and increased competition for quality assets, saw net interest income increase marginally by 0.9% in FY19. Overall, TOI closed the year at N395.9bn, representing an 8.4% y/y growth.



Operating expenses grew notably by 17.2% to N274.4bn in FY19, mainly attributed to a one-off operational loss relating to settlement of legacy disputes. Consequently, cost to income ratio escalated to 69.3% in FY19 (FY18: 64.1%) and ranked highest among Tier 1 peers, although the ratio reduced to 66.1% in 3Q FY20. Profitability level was, however, further supported by moderation in impairment charge, which reduced by 45% to N50.8bn. Overall, pre-tax profit grew by 83.1% in FY19, translating to an improved ROaE and ROaA of 12.1% and 1.2% (FY18: 7.2% and 0.8%) respectively.

Table 9: 3Q FY19 Vs 3Q FY20 (N'bn)	FY19	3Q FY19	3Q FY20	% Change
Statement of comprehensive income				
Net interest income	271.6	196.7	185.2	(5.8)
Other income	124.3	75.9	113.7	49.8
Total income	**395.9**	**272.6**	**299.0**	**9.7**
Impairment charge	(50.8)	(28.1)	(46.5)	65.5
Operating expenses	(274.4)	(194.4)	(197.7)	1.7
NPBT	**70.8**	**50.1**	**54.8**	**9.3**
Statement of financial position				
Net advances	1,866.0	1,845.3	2,062.0	11.7
Deposits	3,911.9	3,595.0	4,466.8	24.3
Shareholders' funds	591.0	553.9	668.8	20.7
Total assets*	5,743.5	5,287.8	6,625.0	25.3

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

For the nine-month period ended 30 September 2020, FirstBank recorded a pre-tax profit of N54.8bn, representing a 9.3% growth over 3Q FY19. Performance was largely driven by non-interest income growth. On the other hand, net interest income declined by 5.8% relative to the corresponding period in 2019, constrained by the prevailing low-yield environment. Asset quality was negatively impacted by currency translation impact on FCY loans and weak macroeconomic dynamics during 3Q FY20. As such, impairment charge grew by 65.5% y/y to N46.5bn, while operating expenses increased moderately by 1.7% to N197.7bn in 3Q FY20.

First Bank of Nigeria Limited

(Naira in millions except as noted)

Year end: 31 December

Statement of Comprehensive Income Analysis	2015	2016	2017*	2018*	2019	3Q 2020^
Interest income	377,765	384,177	442,884	403,786	408,784	281,798
Interest expense	(118,809)	(89,893)	(121,527)	(134,650)	(137,144)	(96,549)
Net interest income	**258,956**	**294,284**	**321,357**	**269,136**	**271,640**	**185,249**
Other income	76,103	140,378	86,628	95,978	124,287	113,707
Total operating income	**335,059**	**434,662**	**407,985**	**365,114**	**395,927**	**298,956**
Impairment charge	(125,672)	(224,948)	(141,275)	(92,390)	(50,821)	(46,500)
Operating expenditure	(199,658)	(199,039)	(211,905)	(234,082)	(274,352)	(197,675)
Net profit before tax	**9,729**	**10,675**	**54,805**	**38,642**	**70,754**	**54,781**
Tax	(6,913)	1,093	(5,633)	201	(8,088)	(5,935)
Profit from continuing operations	**2,816**	**11,768**	**49,172**	**38,843**	**62,666**	**48,846**
Profit/(loss) from discontinued operations	129	(1,317)	(1,520)	-	-	-
Other comprehensive (loss)/gain	38,667	3,137	60,306	1,129	64,370	3,985
Total comprehensive income	**41,612**	**13,588**	**107,958**	**39,972**	**127,036**	**52,831**

Statement of Financial Position Analysis	2015	2016	2017*	2018*	2019	3Q 2020^
Subscribed capital	205,557	205,557	205,557	205,557	205,557	230,557
Reserves (incl. net income for the year)	297,038	311,416	417,560	253,929	367,339	420,048
Hybrid capital (incl. eligible portion of subordinated term debt)	152,434	233,976	254,623	165,907	71,023	-
Minority interest	1,929	965	-	16,980	18,104	18,225
Less: Intangible assets (incl. goodwill)	(3,340)	(4,314)	(4,460)	(4,460)	(4,040)	(4,101)
Total capital and reserves	**653,618**	**747,600**	**873,280**	**637,913**	**657,983**	**664,729**
Bank borrowings (incl. deposits, placements & REPOs)	139,052	377,214	655,042	741,312	834,138	1,073,149
Deposits	2,756,997	2,810,496	2,847,356	3,076,970	3,731,036	4,466,800
Other borrowings	29,901	36,758	48,437	41,116	23,245	248,197
Short-term funding (< 1 year)	**2,925,950**	**3,224,468**	**3,550,835**	**3,859,398**	**4,588,419**	**5,788,146**
Deposits	148,073	219,594	218,376	315,607	180,857	-
Other borrowings	67,557	46,058	113,848	131,191	156,328	-
Long-term funding (> 1 year)	**215,630**	**265,652**	**332,224**	**446,798**	**337,185**	**-**
Payables/Deferred liabilities	127,716	160,712	173,395	158,634	159,955	172,142
Other liabilities	**127,716**	**160,712**	**173,395**	**158,634**	**159,955**	**172,142**
Total capital and liabilities	**3,922,914**	**4,398,432**	**4,929,734**	**5,102,743**	**5,743,542**	**6,625,017**
Balances with central bank	476,916	542,302	454,983	520,511	834,935	1,492,644
Properties, Plants and Equipments	82,351	83,357	82,793	86,315	107,854	111,006
Receivables/Deferred assets (incl. zero rate loans)	43,907	66,983	151,719	142,808	219,513	183,814
Non-earnings assets	**603,174**	**692,642**	**689,495**	**749,634**	**1,162,302**	**1,787,464**
Short-term deposits & cash	76,308	101,251	169,031	110,703	125,924	177,771
Loans & advances (net of provisions)	1,816,045	2,086,741	2,026,038	1,694,882	1,866,023	2,061,993
Bank placements	489,535	371,936	663,843	663,335	675,330	510,012
Marketable/Trading securities	459,396	656,639	799,731	680,227	488,166	541,394
Other investments/earning assets	428,975	437,431	493,381	1,100,685	1,271,101	1,389,519
Equity investments	49,481	51,792	88,215	103,277	154,696	156,864
Total earning assets	**3,319,740**	**3,705,790**	**4,240,239**	**4,353,109**	**4,581,240**	**4,837,553**
Total assets†	**3,922,914**	**4,398,432**	**4,929,734**	**5,102,743**	**5,743,542**	**6,625,017**
Contingencies	**421,696**	**470,624**	**530,969**	**831,428**	**847,150**	**-**

Ratio Analysis (%)	2015	2016	2017*	2018*	2019	3Q 2020^
Capitalisation						
Internal capital generation	8.3	2.3	7.9	8.5	21.9	15.0
Total capital / Net advances + net equity invest. + guarantees	28.6	28.7	33.0	24.3	22.9	30.0
Total capital / Total assets	16.7	17.0	17.7	12.5	11.5	10.0
Liquidity‡						
Net advances / Deposits + other short-term funding	59.1	60.6	53.8	40.6	39.1	35.6
Net advances / Total funding (excl. equity portion)	57.8	59.8	52.2	39.4	37.9	35.6
Liquid & trading assets / Total assets	26.1	25.7	33.1	28.5	22.4	18.6
Liquid & trading assets / Total short-term funding	35.0	35.0	46.0	37.7	28.1	21.2
Liquid & trading assets / Total funding (excl. equity portion)	32.6	32.4	42.0	33.8	26.2	21.2
Asset quality						
Impaired loans / Gross advances	17.8	24.2	22.5	25.0	10.0	8.7
Total loan loss reserves / Gross advances	7.5	8.9	1.9	2.1	2.2	6.9
Bad debt charge (income statement) / Gross advances (avg.)	6.0	10.7	6.4	4.5	2.8	2.3
Bad debt charge (income statement) / Total operating income	37.5	51.8	34.6	25.3	12.8	15.6
Profitability						
Net income / Total capital (avg.)	6.6	1.7	6.1	5.1	9.7	7.4
Net income / Total assets (avg.)	1.0	0.3	1.1	0.8	1.2	0.8
Net interest margin	8.8	9.3	8.9	7.5	8.3	7.8
Interest income + com. fees / Earning assets + guarantees (a/avg.)	7.2	7.9	7.6	6.1	6.4	4.5
Non-interest income / Total operating income	22.7	32.3	21.2	26.3	31.4	38.0
Non-interest income / Total operating expenses (or burden ratio)	38.1	70.5	40.9	41.0	45.3	57.5
Cost ratio	59.6	45.8	51.9	64.1	69.3	66.1
OEaA (or overhead ratio)	5.0	4.8	4.5	4.7	5.1	3.2
ROaE	0.6	2.3	8.6	7.2	12.1	10.6
ROaA	0.1	0.3	1.1	0.8	1.2	1.1
Nominal growth indicators						
Total assets	(4.2)	12.1	12.1	3.5	12.6	15.3
Net advances	(17.2)	14.9	(2.9)	(16.3)	10.1	10.5
Shareholders funds	8.9	2.9	20.5	(26.3)	24.7	13.6
Total capital and reserves	8.8	14.4	16.8	(27.0)	3.1	1.0
Deposits (wholesale)	(2.8)	4.3	1.2	10.7	15.3	14.2
Total funding (excl. equity portion)	(6.9)	11.1	11.3	10.9	14.4	17.5
Net income	(96.7)	317.9	317.8	(21.0)	61.3	3.9

* Restated figures.

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

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

^Unaudited nine-month accounts to 30 September 2020

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 2019 (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 2020, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.