Credit Rating Announcement

GCR Affirms First Bank of Nigeria Limited's National Scale Long and Short-term Issuer Ratings of A-$_{(NG)}$/A2$_{(NG)}$; Outlook revised to Stable from Negative Rating Watch.

Rating action

Lagos, 04 November 2021 – GCR Ratings ("GCR") has affirmed First Bank of Nigeria Limited's national scale long and short-term ratings of A-$_{(NG)}$ and A2$_{(NG)}$ respectively, with the outlook revised to Stable from Negative Rating Watch.

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
First Bank of Nigeria Limited	Long Term Issuer	National	A-$_{(NG)}$	Stable Outlook
	Short Term Issuer	National	A2$_{(NG)}$	---

Rating rationale

The national scale ratings on First Bank of Nigeria Limited ("FirstBank" or "the bank") reflect the strengths and weaknesses of FBN Holdings Plc ("the Group"), one of the largest financial services group in Nigeria. FirstBank is regarded as the core entity within the Group, accounting for about 95% of the Group's total assets at FY20. As such, the ratings of FirstBank are equalised to the Group's Anchor Credit Evaluator.

The revision of the rating outlook from Negative Rating Watch to Stable is underpinned by the prompt containment of the board of director ("board") tensions and inherent operational risk which triggered regulatory interventions and consequently the reconstitution of both the bank and Group's board by the Central Bank of Nigeria ("CBN") in April 2021. GCR will, however, continue to monitor the management and governance assessment and would react accordingly should there be any adverse impact on operations from a reoccurrence of the highlighted issues within the short to medium-term. The affirmed ratings reflect FirstBank's well-established brand franchise, good geographic diversification, and robust funding and liquidity position. However, these strengths are partly offset by the subdued capitalisation and elevated concentration risk across obligor, sector, and foreign currency ("FCY") exposures.

FirstBank is a top-tier bank in Nigeria and ranks among the leading banks in sub-Saharan Africa, with operations across seven African countries and three international financial markets (United Kingdom, France, and China). At FY20, the bank controlled a sizeable market share of 14.1%, 13.8% and 12.1% of the Nigerian banking industry's total assets, gross loans, and customer deposits respectively. Positively, the bank's extensive branch networks, sustained investment in technology and the increasing number of firstmonies agents, have continued to strengthen its retail franchise and market position. Being a member of the Group, FirstBank also benefits from cross selling opportunities and business diversification. While revenue stability is good, the bank's key profitability indicators (ROE and ROA) continue to lag tier-one peers' average.

The Group's risk profile evidenced a notable improvement over the review period, underpinned by management's remedial action and loan book clean-up exercise over the last five years. In this regard, non-performing loans declined steadily to 7.2% at 1H FY21 (FY20: 8.3%, FY19: 10.2%, FY18: 25.4%), albeit remained above the CBN's tolerable limit of 5% and the industry average of about 6%. Similarly, credit losses moderated to 2.0% at 1H FY21 (FY20: 2.4%, FY19: 2.6%, FY18: 4.0%). This is, however, counterbalanced by the elevated concentration risk. While FirstBank's top 20 obligors constituted a sizeable 48.5% of the loan portfolio at 1H FY21 (FY20: 53.7%), 34.5% of the loan book at 1H FY20 tilted towards the oil and gas sector, although at a decreasing rate. Also, FCY loans constituted a sizeable 47.5% of the loan portfolio at 1H FY21 (FY20: 47.9%) and measures above the estimated industry average of 35%. According to management, FCY risk is partly mitigated through effective matching of related assets and liabilities and hedging through OTC futures transactions and forwards.

The GCR computed core capital ratio registered at 14.1% at FY20 (FY19: 13.1%) and assessed within the low range. We also considered the loan loss reserve coverage to be low, covering a moderate 38.8% of impaired loans at FY20 (FY19: 40.1%). Looking ahead, we anticipate the planned disposal of identified assets (as directed by the CBN) would support capitalisation metrics by about 200bps over the rating horizon. As a result, we expect the core capital ratio to hover around 15% over the next 12-18 months. We also believe the sustained downward trend in credit losses and improved value propositions through leveraging digital platforms will further augment internal capital generation going forward.

The Group's Funding and Liquidity is robust and considered positively. The funding base is predominantly made up of customer deposits, which constituted a sizeable 76.7% at 1H FY21 (FY20: 77.5%). The deposit pool registered a CAGR of 15.1% over the last five years, as the bank continues to leverage its digital platforms, extensive branch networks and strong retail franchise to mobilise the relatively cheaper retail deposits. As a result, the low-cost CASA deposits constituted a substantial 82.6% of the deposit mix at 1H FY21 (FY20: 80.8%), underpinning the reported modest cost of funds of 1.8% at 1H FY21 (FY20: 2.3%). Furthermore, FirstBank's deposit book remained well diversified, with the 20 largest depositors accounting for 9.0% of customer deposits at 1H FY21 (FY20: 8.3%). Liquidity is positive, with liquid assets covering 5.2x and 33.5% of wholesale funding and customer deposits respectively at FY20. We also view the liquidity management of the FCY book to be sound, with FCY liquid assets covering around 40% of total FCY liabilities at FY20.

Outlook statement

The stable outlook reflects our expectation that asset quality metrics will continue to improve on the back of FirstBank's recently institutionalised discipline credit culture and the gradual loan book diversification from the oil and gas sector to the real sectors (like manufacturing and general commerce). We also do not envisage material credit migration on the back of gradual macroeconomic recovery. The improved earnings generation capacity and successful disposal of the available for sale assets is expected to support GCR core capital ratio around 15% over the rating horizon. However, we will continue to monitor the impact of management and governance over the next 12-18 months, given the array of events that has occurred in recent time.

Rating triggers

The rating could be upgraded if we get more comfort on management and governance concerns, and if the asset quality metrics continue to improve on a sustainable basis. We will also positively factor in the impact of the successful disposal of the available for sale assets on capitalisation metrics. Conversely, downward ratings movement could be triggered by material deterioration in capitalisation and asset quality metrics as well as further management and governance concerns.

Analytical contacts

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Financial Institutions, May 2019
GCR Ratings Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, October 2021
GCR Financial Institutions Sector Risk Score, February 2021

Ratings history

First Bank of Nigeria Limited					
Rating class	Review	Rating scale	Rating	Outlook/watch	Date
Long Term issuer	Initial	National	AA(NG)	Positive	September 2006
Short Term issuer	Initial	National	A1+(NG)	---	September 2006
Long Term issuer	Last	National	A-(NG)	Negative Watch	May 2021
Short Term issuer	Last	National	A2(NG)	---	May 2021

Risk score summary

Rating Components & Factors	Risk Scores
Operating environment	**8.50**
Country risk score	4.75
Sector risk score	3.75
Business profile	**1.50**
Competitive position	1.50
Management and governance	0.00
Financial profile	**(2.25)**
Capital and Leverage	(3.00)
Risk	(0.25)
Funding and Liquidity	1.00
Comparative profile	**0.00**
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total Score	**7.75**

Glossary

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Income	Money received, especially on a regular basis, for work or through investments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

SALIENT POINTS OF ACCORDED RATING

GCR affirms that a.) no part of the rating process 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; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to First Bank of Nigeria Limited. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

First Bank of Nigeria Limited participated in the rating process via video conference management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The information received from First Bank of Nigeria Limited and other reliable third parties to accord the credit ratings included:

- The audited financial results to 31 December 2020
- Four years of comparative audited numbers
- Management account as at 30 June 2021
- Other related documents.