



Credit Rating Announcement

GCR upgrades First Bank of Nigeria Limited's national scale long and short-term issuer ratings to A+(NG) and A1(NG) from A-(NG) and A2(NG) respectively; Outlook Stable

Rating action

Lagos, 31 October 2022 – GCR Ratings ("GCR") has upgraded First Bank of Nigeria Limited's national scale long and short-term issuer ratings to A+(NG) and A1(NG) from A-(NG) and A2(NG) respectively, with a Stable Outlook.

Rated Entity	Rating class	Rating scale	Rating	Outlook
First Bank of Nigeria Limited	Long Term Issuer	National	A+(NG)	Stable
	Short Term Issuer	National	A1(NG)	

Rating rationale

The national scale ratings of 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 groups in Nigeria. FirstBank is the core operating entity within the Group, accounting for about 95% of total assets and revenue at FY21. As such, the ratings of FirstBank are equalised to the Group's Anchor Credit Evaluator.

The ratings upgrade reflects the sustained improvement in risk profile and capitalisation, sound funding structure, and adequate liquidity position. However, these strengths are moderated by the Group's significant exposure to foreign currency ("FCY") risks.

Competitive position is a positive ratings factor, underpinned by the Group's strong banking franchise across ten international markets. Locally, FirstBank accounts for c.13% (as at 31 December 2021) of the Nigerian banking sector's customers deposits and loans, making it one of the largest financial services groups in Nigeria. The Group's diverse product offerings are distributed through a well-established retail franchise, which has over time supported the low-cost deposits mobilisation. In addition, the increased value proposition and sustained investment in technology continue to support revenue stability and diversification, with non-interest income averaging c.40% of total revenue over the review period. Although profitability improved over the review period, it continues to lag those of its peers.

GCR notes the overall improvement in the Group's risk profile over the review period, driven by write-offs, restructuring, and recoveries. The non-performing loans ratio ("NPLs") declined to 5.4% at 1H FY22 (FY21: 6.7%), while the credit loss ratio moderated to 1.3% at 1H FY22 (FY21: 3.5%). Furthermore, loan loss reserve coverage improved to 74.7% at 1H FY22 (FY21: 60.6%). We also took cognizance of the loan book diversification efforts, with the twenty largest obligors constituting a lower 38.1% of gross loans at 1H FY22 (FY21: 40.0%). A key source of risk to the Group remains its exposure to the Nigerian oil and gas sector, which is inherently volatile. However, GCR notes positively the sustained reduction in the Bank's exposure (1H FY22: 32.9%; FY21: 33.1%) to the sector. FCY risk, on the other hand, remains elevated, with FCY loans constituting 44.1% of the loan portfolio at 1H FY22 (FY21: 45.7%). This is partly mitigated through matching of related assets and liabilities and hedging through OTC futures transactions and forwards.

Capitalisation is assessed at an intermediate level, with GCR computed core capital ratio increasing to 17.8% at FY21 from 14.1% at FY20, due to relatively good internal capital generation. Specifically, pre-tax profit grew by 99.1% in FY21, mainly driven by the significant recoveries of previously written-off loans. Going forward, the GCR core capital ratio is expected to range between 14%-16% over the next 12-18 months in view of its increased risk appetite. Also, further Naira devaluation could adversely impact capitalisation assessment given the Group's FCY exposures.

The funding and liquidity assessment is a positive ratings factor given the Group's relatively stable funding structure as well as adequate liquidity cover. Customer deposits, which have grown steadily over the review period, accounted for 80.3% of Group funding at 1H FY22 (FY21: 79.6%). Furthermore, low-cost deposits constituted 84.6% of the customer deposits at 1H FY22 (FY21: 86.2%), resulting in a modest cost of funds of 2.1% at 1H FY22 (FY21: 1.8%). Group deposits are also well diversified, with the twenty largest depositors accounting for 12.5% of customer deposits at 1H FY22 (FY21: 11.8%). Although liquidity position remains good, overall banking sector liquidity could be further stressed by CBN's aggressive CRR stance. Nonetheless, the Group's liquidity metrics should remain above the regulatory minimum. At 1H FY22, the GCR liquid assets covered total wholesale funding strongly by 7.7x, while the ratio of GCR liquid assets to total customer deposits stood at 55.6%.

Outlook statement

The stable outlook reflects GCR's expectation that asset quality metrics (NPLs and credit losses) will continue to improve on the back of an improved credit culture as well as loan book diversification. As such, material credit migration is not envisaged in the near term. The GCR core capital ratio is anticipated to range between 14%-16% over the rating horizon, given the expected impact of loan book growth and possible local currency depreciation.

Rating triggers

The rating could be upgraded if the risk profile continues to improve on a sustainable basis, while maintaining capitalisation and liquidity position at sound range. Conversely, downward ratings movement could be triggered by material deterioration in asset quality and capitalisation metrics.

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Related criteria and research

Criteria for the GCR Ratings Framework, January 2022
 Criteria for Rating Financial Institutions, May 2019
 GCR Ratings Scales, Symbols & Definitions, May 2022
 GCR Country Risk Scores, August 2022
 GCR Financial Institutions Sector Risk Score, October 2022

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)	Stable	November 2021	
Short Term Issuer	Last	National	A2 _(NG)	---	November 2021	

Risk score summary

Rating Components & Factors	Risk Scores
Operating environment	8.00
Country risk score	4.25
Sector risk score	3.75
Business profile	1.75
Competitive position	1.75
Management and governance	0.00
Financial profile	(1.25)
Capital and Leverage	(2.00)
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	8.50

Glossary

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Coverage	The scope of the protection provided under a contract of insurance.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
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
Hedging	The act of managing risk, aimed at mitigating financial loss or other adverse circumstances. May include taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
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.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
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.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of

	any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Market	An assessment of the property value, with the value being compared to similar properties in the area.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Obligor	The party indebted or the person making repayments for its borrowings.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Performing	An obligation that performs according to its contractual obligations.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Rating Horizon	The rating outlook period
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Upgrade	The rating has been raised on its specific scale.

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 2021
- Management account as at 30 June 2022
- Other related documents

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