

CREDIT RATING ANNOUNCEMENT

GCR affirms First Bank of Nigeria Limited's national scale long and short-term issuer ratings of A^{+(NG)}/A1_(NG); Outlook revised to stable from positive.

Rating action

Lagos, 08 October 2024 – GCR Ratings (GCR) has affirmed First Bank of Nigeria Limited's national scale long and short-term issuer ratings of A^{+(NG)} and A1_(NG) respectively, with the outlook revised to stable from positive.

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

First Bank of Nigeria Limited's (FirstBank or the bank) ratings reflect the underlying credit profile of the broader FBN Holdings Plc (FBNH or the group) as GCR views FirstBank as the core operating entity within the group, accounting for over 90% of the group's assets and earnings. While the ratings have been assigned exclusively to the bank, the below analytical discussion relates primarily to the group.

The ratings were affirmed on account of FBNH's sustained strong competitive position within Nigeria's financial services sector, as well as a robust funding and liquidity profile. However, over the last 12 months, the bank's core capital position was pressured by a severe weakening of the Naira (NGN) against the US Dollar (USD). Consequently, we have revised the outlook from positive to stable after considering the potential impact of fresh equity injection and internal capital generation over the rating horizon.

Competitive position is a strong ratings driver, based on the group's market share, geographical diversification as well as sustained improvement in financial performance relative to peers. Being the fourth largest financial services group in Nigeria by earnings, deposits and asset size, FBNH plays a critical role in the Nigerian economy, such that the bank is considered a 'domestic systematically important bank' by the regulator. The group operates under a strong local brand, developed through over a century of providing financial services in Nigeria and more recently in six other countries across Africa and the United Kingdom, as well as representative offices in France and China. FBNH also maintains a good relationship with global international financial institutions, which positions the group as a leader in trade finance in Nigeria.

Capitalisation is a key rating constraint, due to sustained increases in the risk weighted assets following successive devaluations of the Naira. The bank's GCR core capital ratio (GCR CAR) has been declining since 2022 and reached c.13.0% as at March 2024 from 14.2% as at December 2023. Management expects to raise an additional NGN270Bn (USD164.8M) equity for the bank - to meet new minimum capital regulatory standards. Thus, we expect the core capital ratio to remain within the 12.5% to 15.0% band over the next 12

months depending on how much fresh equity is injected and considering projected internal earnings accretion over the period.

FBNH's risk position has not materially deteriorated despite significant local currency repricing, high interest rates and generally weaker macroeconomic indices. In terms of credit risk, we have continued to see lower cost of risk and decreased non-performing loan (NPL) ratios as a result of pragmatic efforts to achieve and maintain better asset quality. However, the group's risk position is slightly negative to the ratings because of relatively high obligor and foreign currency (USD) concentrations in the loan book. The group's operational risk management framework has been fairly effective at combating cybersecurity threats. Nevertheless, the bank was a victim of internal fraud by which c. NGN40Bn (USD24.4M) was lost over a period of time. The management has since taken concrete steps to remedy the situation by aggressively pursuing recoveries and implementing stricter internal controls to prevent future occurrences.

The group's funding structure is diversified, stable and relatively cheap. Customer deposits typically make up over 75% of total funding, with an overall stable funds ratio that has averaged more than 90% in the last five years. Although funding is predominantly low cost, the average cost of funds has increased to 5.9% as of March 2024 (from 2.3% in December 2023) due to monetary policy tightening. Liquidity is also strong, supported by behaviourally sticky deposits and good access to international financial institutions. The group also maintains sufficient liquid assets to meet local and foreign currency obligations. Liquid assets typically cover over 30% of deposits and over 200% of wholesale funding. Thus, funding and liquidity profile is a strong driver of the ratings.

Outlook statement

The outlook is stable. The addition of new equity capital could strengthen the bank and the group's capital position, but we do not expect the GCR CAR to exceed 15% over the next twelve months. We expect asset quality considerations especially cost of risk and NPL ratio to remain under 5.0% in line with peers in Nigeria, while concentrations (by obligor and currency) in the loan book will slightly reduce over the outlook period.

Rating triggers

There is little scope for an upgrade on the ratings in the near term, however, GCR CAR above 17.0% alongside better asset quality (NPL ratio sustained below 5.0% and cost of risk below 2.5%) will be positively considered. On the other hand, a ratings downgrade could result from further pressure on capital adequacy if risk-weighted assets continue to grow faster than core capital. The current ratings strongly reflect an expectation of new equity capital to be added within a three-to-twelve-month window, therefore, a negative rating action could become necessary if the window is missed. Specifically, if the GCR CAR falls below 12.5% over the outlook period we may downgrade the ratings. Also, if either or both NPL ratio and cost of risk is/are sustained above 5.0%, this may trigger a downgrade.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
Criteria for Rating Financial Institutions, May 2024
GCR Ratings Scales, Symbols & Definitions, May 2023
GCR Country Risk Scores, August 2024
GCR Financial Institutions Sector Risk Score, August 2024

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)	Positive	September 2023
Short Term Issuer	Last	National	A1 _(NG)	---	September 2023

Risk score summary

Rating Components & Factors	Risk Scores
Operating environment	7.50
Country risk score	4.00
Sector risk score	3.50
Business profile	1.75
Competitive position	1.75
Management and governance	0.00
Financial profile	(0.50)
Capital and Leverage	(1.25)
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	8.75

Glossary

Affirmation	See GCR Rating Scales, Symbols and Definitions.
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 Base	The issued capital of a company, plus reserves and retained profits.
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.
Currency Risk	The potential for losses arising from adverse movements in exchange rates.
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.
Downgrade	The rating has been lowered on its specific scale.
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.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
Hedge	A form of risk management 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.
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.
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.
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
Revaluation	Formal upward or downward adjustment to assets such as property or plant and equipment.
Rights Issue	One of the ways that a company can raise additional funds is to issue new shares. These must be first offered to current shareholders and a rights issue allows a shareholder to buy shares in proportion to the number already held.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.

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 ratings above were solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and 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 2023
- Unaudited management accounts as at 31 March 2024 (for the bank) and 30 June 2024 (for the group)
- Four years of comparative audited numbers
- Other related documents
- Exchange rate source: Central Bank of Nigeria USD1.00 = NGN1,638.2 (26 September 2024)

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