STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Research

First Bank of Nigeria Ltd

Primary Credit Analyst:
Matthew D Pirnie, Johannesburg (27) 011-214-1993; matthew.pirnie@standardandpoors.com

Secondary Contact:
Jones T Gondo, Johannesburg +27112141996; jones.gondo@standardandpoors.com

Table Of Contents

1233307 | 300642892

First Bank of Nigeria Ltd

SACP	bb-		+	Support	0	+	Additional Factors	0
Anchor	bb-			GRE Support	0		Issuer Credit Rating	
Business Position	Adequate	0		Group Support	0		BB-/Stable/B	
Capital and Earnings	Moderate	0		Sovereign Support	0			
Risk Position	Adequate	0						
Funding	Above Average	0						
Liquidity	Adequate							

Major Rating Factors

Strengths:

- Dominant market position in Nigeria.
- Strong and stable retail deposit base.
- High systemic importance.

Weaknesses:

- High level of foreign currency lending and relatively high credit losses.
- Moderate capitalization and revenue instability.
- Inherently high economic and industry risk.

Outlook: Stable

The stable outlook on the First Bank of Nigeria Ltd. (FBN) and FBN Holdings PLC (FBNH) reflects Standard & Poor's Ratings Services' view that the group will maintain its position at the top of the Nigerian banking sector, which we expect will support its superior customer deposit franchise and liquidity. However, we forecast credit losses to increase somewhat toward the normalized average of 2%-2.5% in 2014 and capitalization to decline, reflecting modest risk asset growth, stable earnings, and limited impact from the recent international acquisitions. We project the risk-adjusted capital (RAC) ratio to range between 5.2% and 5.5% next year, compared with 5.9% at year-end 2012.

We could lower the ratings if we observed a more pronounced deterioration of capitalization than we currently expect. This could happen if loan growth were faster than our current assumption of 10%-15% annually over the next two years, or if internal capital generation weakened. In addition, signs of increasing cost of risk or an erosion of asset quality, due to rapid loan growth or the large share of foreign currency lending could lead to a downgrade. Lastly, a downgrade of Nigeria would result in similar actions on FBN and FBNH.

An upgrade is highly unlikely over the next 12 months. It would only follow an upgrade of Nigeria and meaningful improvements in the bank's business position or financial profile, all other factors remaining unchanged.

Rationale

The ratings on the bank reflect the overall creditworthiness of the First Bank of Nigeria group (FirstBank), whose group credit profile (GCP) we assess at 'bb-'. The bank is the core component of the group, which is at the top of the Nigerian financial services industry with a leading deposit franchise and good liquidity. Negative rating factors include a moderate level of capitalization, limited geographic diversification outside Nigeria, and rising credit risks from rapid loan growth and a high share of foreign currency lending.

The group is dominated by its banking operations, which accounted for 98% of the group's assets and 91% of its revenues on Dec. 31, 2012. Our long-term rating on FBNH is two notches below the GCP due to FBNH's status as a non-operating holding company. FBNH is subject to structural subordination and relies on dividends from the operating companies to meet its obligations, which exposes it to potential regulatory intervention.

Anchor: 'bb-' for banks operating in Nigeria

Our bank criteria use our Banking Industry Country Risk Assessment's economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating in Nigeria is 'bb-', based on an economic risk score of '8' and an industry risk score of '7'.

In our view, Nigeria has considerable natural resources and economic diversification is improving, but wealth levels remain low and we see persistent political risks and large infrastructure deficiencies. However, we see no major economic imbalances at present. Because the economy depends on oil revenues, we believe there is a strong potential for future asset- and equity-price bubbles. The main source of economic risk stems from Nigeria's very weak payment culture and rule of law, poor underwriting standards, and high credit concentrations and foreign currency lending.

Regarding industry risk, regulation and supervision has been more effective than in the past, in our view. But we think this could weaken when the current central bank governor steps down. The latest round of consolidation among banks and Nigeria's sound economy should boost growth and competition in the banking sector. Systemwide funding derives largely from private-sector deposits and is predominantly short term; there is a limited but increasing amount of wholesale funding.

Table 1

FBN Holding PLC Key Figures					
		--Year-ended Dec. 31--			
(Mil. NGN)	**2013***	**2012**	**2011**	**2010**	**2009**
Adjusted assets	3,377,731	3,182,607	2,859,161	2,354,337	2,153,750
Customer loans (gross)	1,575,556	1,581,011	1,285,404	1,207,248	1,141,535
Adjusted common equity	424,037	402,705	367,572	316,752	304,279
Operating revenues	157,210	296,883	235,439	174,405	130,548
Noninterest expenses	92,283	192,171	146,064	118,794	78,339
Core earnings	45,998	75,435	18,636	29,462	3,189

*Data as of June 30. NGN--Nigerian naira.

Business position: The leading financial services group in Nigeria

We assess FirstBank's business position as "adequate." This reflects the balance of the bank's leading market share and domestic franchise and relatively diverse business mix for a Nigerian bank, against its concentrations in Nigeria and relative revenue instability compared with that of top-rated peers.

With total assets of Nigerian Naira (NGN) 3.4 trillion (about $21.5 billion at NGN160 to $1), FirstBank is the largest financial services group in Nigeria. FBN is the largest entity, accounting for 98% of the group's assets and 91% of its revenues on Dec. 31, 2012. The other group operations include asset management, investment banking, microfinance, and insurance but none are significant contributors to revenues or assets.

We estimate the bank's market share in term of assets to be about 15%, with a relatively stronger retail franchise than other leading Nigerian banks. It has one of the largest branch networks (about 790 branches) and 8 million active retail accounts, approximately one in four of all active bank accounts in Nigeria. Conversely, we believe the group's corporate franchise is relatively weaker than highly rated peers'. Nevertheless, as a consequence of its stronger retail platform, the bank benefits from revenue diversification beyond that of most Nigerian banks and is well placed to capture the growth of the Nigerian retail market, although competition will be fierce. To this end, the bank has been focusing on updating its network and channels to improve efficiency and service delivery.

Despite its size and strong domestic franchise the group has only achieved a moderate track record of stable revenue in comparison with the highest rated banks in Nigeria. Its return on equity (ROE) over the past five years stood at 11% and is below that of some peers, in part due to higher operating expenses and cost of risk.

FirstBank continues to expand geographically. In 2013, the group purchased four banks from the International Commercial Bank Group in Ghana, Gambia, Guinea, and Sierra Leone, but they contribute a small part of total assets (1.4% as of June 30, 2013). We expect the group's geographic diversification to remain modest for the next two to three years. The largest foreign operation is the bank's U.K subsidiary, which had approximately £1 billion in customer deposits and loans as of June 30, 2013, approximately 5% of the group's assets.

Table 2

FBN Holding PLC Business Position

		--Year-ended Dec. 31--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Total revenues from business line (mil. NGN)	157,336	297,171	235,439	174,631	130,548
Return on equity	20.7	18.9	5.5	9.6	1.3

*Data as of June 30. NGN--Nigerian naira.

Capital and earnings: Moderate capital likely to stay relatively stable due to muted asset growth and stable earnings

Our assessment of FirstBank's capital and earnings as "moderate" reflects our opinion that muted asset growth and stable earnings will allow our RAC ratio before adjustments to be between 5.2% and 5.5% over the next 12-18 months, which is just below the average for the Nigerian banking sector. The difference between our RAC ratio of 5.9% for FBN as of Dec. 31, 2012, and the regulatory capital ratio reflects the higher risk asset weights under our RAC framework (see table 4).

Our projections assume that the acquisition of International Commercial Bank Group will have a negative impact of about 0.2%-0.3% in the short term. We also expect that loan growth (of between 10%-15%) will remain muted in a Nigerian context, with quicker growth in other earning assets due to deposit growth of between 15% and 20%.

We also expect earnings to stabilize, with the ROE in the high teens, reflecting the following assumptions:

- A deterioration of interest margins, due to increased cash reserve requirements in Nigeria, which should still remain high at about 7.5%;
- Operating cost growth in line with inflation but cost to income staying higher than that of top-tier peers at about 60%;
- A slight rise in the cost of risk to about 1.0% in 2013, increasing closer to the normalized cost of risk of 2%-2.5% in 2014-2015, reflecting seasoning of loans and potential turbulence in Nigeria related to the presidential elections; and
- A dividend pay-out ratio of about 50%.

Table 3

FBN Holding PLC Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Tier 1 capital ratio	18.9	19.6	23.09	17.7	N.M.
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	71.7	75.9	74.8	69.8	73.7
Fee income/operating revenues	19.8	20.2	20.2	25.8	21.5
Market-sensitive income/operating revenues	5.5	1.8	3.1	6.1	4.2
Noninterest expenses/operating revenues	58.7	64.7	62.0	68.1	60.0
Preprovision operating income/average assets	4.0	3.5	3.4	2.5	3.3
Core earnings/average managed assets	2.8	2.5	0.7	1.3	0.2

*Data as of June 30. N.M--Not meaningful.

Table 4

First Bank of Nigeria Ltd. Risk-Adjusted Capital Framework Data

(Mil. NGN)	**Exposure***	**Basel II RWA**	**Average Basel II RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	936,023	0	0	910,167	97
Institutions	432,505	0	0	189,826	44
Corporate	1,883,139	0	0	3,401,954	181
Retail	150,099	0	0	231,892	154
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets	126,770	0	0	314,066	248
Total credit risk	3,528,536	0	0	5,047,905	143
Market risk					
Equity in the banking book†	79,231	0	0	789,972	997
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	789,972	--

Table 4

First Bank of Nigeria Ltd. Risk-Adjusted Capital Framework Data (cont.)					
Insurance risk					
Total insurance risk	--	--	--	25,000	--
Operational risk					
Total operational risk	--	0	--	556,656	--
(Mil. NGN)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		0		6,419,532	100
Total Diversification/Concentration Adjustments		--		1,095,486	17
RWA after diversification		0		7,515,019	117
(Mil. NGN)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		393,630	19.6	402,705	6.3
Capital ratio after adjustments‡		393,630	19.6	402,705	5.4

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. NGN--Nigerian naira . Sources: Company data as of Dec. 31, 2012, Standard & Poor's.

Risk position: Low loan leverage and improving loss experience

Our assessment of FirstBank's risk position as "adequate" balances the group's low loan leverage and abundance of cash and liquid securities against higher cost of risk than top rated Nigerian banks, a high proportion of foreign currency lending, and modest loan growth. As of year-end 2012, FirstBank's assets were split among cash (10%), bank deposits (14%; largely at banks outside Nigeria rated 'BBB-' or higher), securities (24%; three-quarters of which is Nigerian government debt), and loans 47%. Consequently, in a Nigerian context, the majority of assets are of high quality and liquid.

We expect FirstBank's loan growth to be modest over the next 12-18 months, with the majority of new loans in the power, infrastructure, and construction sectors and the retail segment. The bank's loan book, in line with peers', is prone to rapid change and demonstrates similar industry and single-name concentrations. Notably, exposure to the oil and gas sector is high at 36% of total loans, in line with the system, while consumer loans represent a meaningful contributor to the loan book (10%). The 20 largest loans accounted for 36% of total loans, which is in line with the sector average.

FBN's loan loss experience is moderately weaker than that of other 'BB-' rated Nigerian peers. Its five-year average cost of risk is 3.5%. For Nigeria, we estimate a five-year average because banks don't record losses in the same way, or with the same timeliness as each other, in our opinion. Positively, the cost of risk reduced in 2012 to 0.86% (annualized). However, we expect it to rise to about 2% over the next 18-24 months, depending on the domestic economy, the potential turbulence caused by the upcoming presidential elections, and the bank's exposure to less creditworthy Nigerian corporations.

We also consider foreign currency lending to be a potential source of risk for banks operating in Nigeria. Forty percent of First Bank's loan book is denominated in foreign currency, 25% in U.S. dollars, and 15% in British pounds, largely from the U.K. subsidiary lending to European corporations into Africa. Positively, foreign currency loans are mainly to companies with revenues in the same currency and the remainder are managed using hedges or by enforcing currency exchange if the Naira devalues.

Table 5

FBN Holding PLC Risk Position					
		--Year-ended Dec. 31--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Growth in customer loans	(0.7)	23.0	6.5	5.8	67.7
Total managed assets/adjusted common equity (x)	8.0	7.9	7.8	7.4	7.1
New loan loss provisions/average customer loans	1.3	0.9	4.3	1.8	5.5
Net charge-offs/average customer loans	N.M.	4.0	0.8	1.6	0.4
Gross nonperforming assets/customer loans + other real estate owned	3.5	2.6	2.6	7.7	8.4
Loan loss reserves/gross nonperforming assets	94.1	94.5	97.9	50.7	72.2

*Data as of June 30. N.M.--Not meaningful.

Funding and liquidity: Strong deposit franchise leads to low cost of funds and good liquidity

We assess First Bank's funding as "above average" and its liquidity as "adequate." The bank is almost fully funded by customer deposits. Consequently, its stable funding ratio was a strong 175% on June 30, 2013, which compares very well with that of international and domestic peers. The deposit book is dominated by retail (50%) and public-sector (30%) deposits, with fewer price-sensitive institutional and corporate deposits than peers.

We believe the strong retail and public-sector funding profile has supported a lower cost of funds. First Bank's cost of funds has averaged about 2.5% over the past five years, compared with the sector average of more than 3.5%. In our opinion, the low cost of funds is a key competitive advantage for the bank because it supports superior interest margins and allows it to finance higher quality, and more price-sensitive, corporate borrowers. On the other hand, we are concerned about the governance and stability of public-sector funds in a downturn. Furthermore, the recent increase in banks' regulatory cash-reserve requirements for public-sector funds to 50% from 12% will erode the benefit to margins in the future.

Liquidity benefits from low loan leverage and the low level of wholesale funds. As of June 30 2013, the bank's broad liquid assets of NGN1.5 trillion covered short-term wholesale debt (excluding institutional investor deposits) maturing over the next 12 months by more than 11x. FBN's liquid assets comprise unrestricted cash, Nigerian treasury bills, and interbank placements, similar to those of other domestic banks we rate.

Table 6

FBN Holding PLC Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Core deposits/funding base	74.87	72.49	68.49	84.15	86.51
Customer loans (net)/customer deposits	75.46	82.9	81.67	80.01	80.1

Table 6

FBN Holding PLC Funding And Liquidity (cont.)					
Long term funding ratio	78.8	77.3	76.1	91.8	90.7
Stable funding ratio	N/A	117.1	125.9	N/A	N/A
Short-term wholesale funding/funding base	4.9	5.5	9.2	9.8	11.2
Broad liquid assets/short-term wholesale funding (x)	11.5	8.8	6.4	N/A	N/A
Net broad liquid assets/short-term customer deposits	51.4	44.2	108.2	N/A	N/A
Short-term wholesale funding/total wholesale funding	19.3	19.9	29.1	61.6	83.0
Narrow liquid assets/3-month wholesale funding (x)	11.8	9.1	6.7	N/A	N/A

*Data as of June 30. N/A--Not applicable.

External support: No uplift in the long-term rating

Despite the bank's "high" systemic importance, reflecting its leading market share in Nigeria, the long-term rating on FBN reflects the GCP. The rating does not incorporate any uplift for potential extraordinary support from the Nigerian government, given the level of the ratings on Nigeria. We classify the Nigerian government as supportive of the domestic banking sector.

Additional rating factors: None

No additional factors affect the ratings.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- Banking Industry Country Risk Assessment: Nigeria, Nov. 22, 2013

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	**8**	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	**bb-**	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 26, 2013)

First Bank of Nigeria Ltd	
Counterparty Credit Rating	BB-/Stable/B
Nigeria National Scale	ngAA-/--/ngA-1
Subordinated	B
Counterparty Credit Ratings History	
11-Jun-2013	BB-/Stable/B
11-Jun-2013 *Nigeria National Scale*	ngAA-/--/ngA-1
Sovereign Rating	
Nigeria (Federal Republic of)	BB-/Stable/B
Nigeria National Scale	ngAA-/--/ngA-1
Related Entities	
FBN Finance Company B.V.	
Subordinated	B
FBN Holding Plc	
Issuer Credit Rating	B/Stable/B
Nigeria National Scale	ngBBB/--/ngA-3

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com