Agusto & Co

2014 Bank Rating Report

FIRST BANK OF NIGERIA LIMITED

RATING

FIRST BANK OF NIGERIA LIMITED

Rating assigned: Aa-

Outlook: Stable

Issue date: 16 July 2014

Expiry date: 30 June 2015

Previous rating: A+

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Bank Ratings

RATING RATIONALE

Agusto & Co. hereby upgrades the rating of First Bank of Nigeria Limited ("FBN" or "the Bank") to '**Aa-**' from '**A+**'. The rating reflects FBN's dominant market position and vast distribution network which provides stable & diversified pool of low-cost deposits, strong liquidity profile, as well as good profitability despite all regulatory changes. The rating also takes into cognizance the Bank's experienced management team, as well as diversified earnings sources which has sustained profitability. However, the rating is constrained by substantial level of new loan classifications, sector concentration, as well as deterioration in the quality of the Bank's large obligors.

FBN is one of eight banks labeled as strategically important banks in Nigeria. This designation recognizes the Bank's strong market position, as evidenced by its number one ranking in total assets & contingents, gross loans, net earnings and local currency (LCY) deposits as at 31 December 2013. Net of inter-bank takings, LCY deposits grew by 14% to ₦1.95 trillion during the year under review and adequately funded FBN's loan book. In addition, the Bank's liquidity ratio of 46% as at year-end 2013 was higher than the regulatory minimum of 30%. FBN's vast network of branches has provided the Bank with a fairly stable pool of low-cost funds. FBN is active in the Nigerian money market and has access to long-term funding from foreign financial institutions.

Despite the various regulatory headwinds targeted at the public sector and retail market space, the two major markets which FBN plays in, the Bank withstood these externalities aplomb. Profitability indicators remained healthy, with the Bank posting pre -tax return on average assets (ROA) and return on average equity (ROE) of 2.1% and 22.4% respectively for the period ended 31 December 2013 (2012: 2.7% and 23.0% respectively). These remained good for Q1 2014, with annualized pre-tax ROA and ROE of 1.9% and 21.5% respectively. We believe FBN's focus on retail and SME banking should continue to provide support for earnings in the short to medium term.

As at 31 December 2013, the Bank's impaired loans to gross loans ratio stood at 3.1%, nudging up from the 2.8% in December 2012. The slight deterioration reflects new credit classification of ₦28 billion, though the effect of new classifications was cushioned by a write-off of ₦17 billion. The Bank's charge off at 7% of interest income is the highest among peers. A significant 38% of FBN's loan book reflects credits granted to obligors in the oil & gas sector. Though these credits are further spread across different sub-segments, we deem this as sector concentration risk and is a rating concern. In addition, the Bank's own internal ratings show deterioration in the quality of the large borrowing customers, with 85% of obligors classified as non-investment grade quality. Agusto & Co. believes that undue pressure on the operating environment could put a strain on FBN's asset quality going forward. As at 31 March 2014, impaired loans to gross loans ratio nudged up further to 3.9%, but remained below the regulatory 5% guideline. We draw some comfort in the level of provisioning; with the Bank maintaining coverage at 104% of impaired credits as at 31 December 2013.

In our opinion, FBN's management team is highly experienced and we believe will continue to defend the Bank's leadership position in the Nigerian banking industry. The Bank has proposed a 10% loan growth in 2014, and has begun the process of raising additional tier II capital in the region of US$300 million to US$500 million to fund this growth and ensure capitalization complies with regulatory requirement. We believe that if successfully raised, it should enhance capitalization to support its risks. As at 31 December 2013, the ratio of adjusted capital to risk weighted assets at 15% was adequate.

Strengths

- Good profitability
- Strong brand & good domestic franchise
- Experienced management team
- Strong liquidity and access to low cost retail funds
- Good market share

Challenges

- Moderating credit classifications and losses
- Improving operational efficiency to enhance profitability

FINANCIAL DATA	December 2013	December 2012
Total assets & contingents	₦4.07 trillion	₦3.29 trillion
Total local currency deposits (excluding interbank takings)	₦1.95 trillion	₦1.63 trillion
Net earnings	₦236 billion	₦252 billion
Pre-tax return on average assets & contingents (ROA)	2.1%	2.7%
Pre-tax return on average equity (ROE)	22.4%	23.0%

Current Directors		Direct Ownership Stake (%)
• Prince Ajibola Afonja	(Chairman)	Nil
• Bisi Onasanya	(Group Managing Director)	Nil
• Urum Kalu Eke	(Executive)	Nil
• Abiodun Odubola	(Executive)	Nil
• Gbenga Shobo	(Executive)	Nil
• Dauda Lawal	(Executive)	Nil
• Tokunbo Abiru	(Executive)	Nil
• Adesola Adeduntan	(Executive)	Nil
• Ibukun Awosika		Nil
• Bello Maccido	(Rep. FBN Holdings Plc)	Nil
• Ambrose Feese		Nil
• Lawal Ibrahim		Nil
• Ebenezer Jolaoso		Nil
• Khadijah Alao-Straub		Nil
• Tunde Hassan-Odukale		Nil
• Ibrahim Waziri		Nil
• Obafemi Otudeko		Nil
• Mahey Rasheed, OFR	(Independent)	Nil
• Ije Jidenma	(Independent)	Nil

Significant shareholders

FBN Holdings Plc	99.99%
FBN Capital Limited	0.01%

Management Team

Mr. Bisi Onasanya was appointed the Group Managing Director/Chief Executive Officer of First Bank of Nigeria Limited in June 2009. Prior to this, he was the Bank's Executive Director overseeing Banking Operations and Services. Mr. Onasanya has over 28 years experience working in diverse areas of banking such as Banking Operations, Finance and Performance Management. He was the founding MD/CEO of First Pension Custodian Nigeria Limited (a subsidiary of First Bank of Nigeria Limited). Mr. Onasanya also serves in various capacities on the boards of First Registrars Limited (Chairman); FBN Holdings Plc (member); FBN Bank (UK) Limited (member), Africa Finance Corporation (member) and Kakawa Discount House (Chairman).

Mr. Onasanya holds a Higher National Diploma (Upper Credit) in Accountancy from the Lagos State College of Science & Technology, Nigeria. He is a Fellow of the Institute of Chartered Accountants of Nigeria (FCA), an associate member of the Chartered Institute of Taxation of Nigeria and an honorary member of the Chartered Institute of Bankers of Nigeria (CIBN).

Other members of executive management are:

• Urum Kalu Eke	Executive Director - Public Sector (South)
• Adesola Adeduntan	Executive Director - Chief Financial Officer
• Gbenga Shobo	Executive Director - Retail Banking (South)
• Dauda Lawal	Executive Director - Public Sector (North)
• Tokunbo Abiru	Executive Director - Corporate Banking
• Abiodun Odubola	Executive Director - Chief Risk Officer
• Bernadine Okeke	Head - Private and Transaction Banking
• Bashirat Odunewu	Head - Institutional Banking
• Abdullahi Ibrahim	Head - Retail Banking (North)
• Akinwumi Fanimokun	Head, Technology & Processes
• Cecelia Majekodunmi	Head, Commercial Banking

BANK PROFILE

First Bank of Nigeria Limited ("FBN" or "the Bank") was incorporated as a limited liability company in 1894 under the trade name 'Bank of British West Africa (BBWA)'. BBWA commenced operations as a commercial bank in its year of incorporation, and was listed on the Nigerian Stock Exchange (NSE) in March 1971. In 1979, BBWA was renamed First Bank Limited, before a subsequent change of name in 1991 to First Bank of Nigeria Plc. The Bank was issued a universal banking license by the Central Bank of Nigeria (CBN) in 2001.

In 2005, First Bank of Nigeria Plc merged with two other banks - MBC International Bank Limited and FBN (Merchant Bankers) Ltd - following the CBN's directive for all commercial banks in Nigeria to hold a minimum capital of ₦25 billion. The Bank retained its brand name post-merger and continued operations as a universal bank. However, following changes to banking licensing rules in 2010, the Bank has acquired an international commercial banking license from the apex bank.

The Bank is a 99.99% owned subsidiary of FBN Holdings Plc ('the HoldCo'), the non-operating holding company for all business operations of the FirstBank Group. The HoldCo. was established in 2012 to execute the FirstBank Group's holding company structure, adopted following the CBN's redefinition of the scope of banking activities. Upon establishment of FBN Holdings, First Bank of Nigeria Plc (previously a listed entity) was delisted from the NSE and renamed accordingly, while the HoldCo was listed in its place in 2012. As at year-end 2014, the HoldCo's equity was held by over 1.22 million indigenous & foreign shareholders, with no single entity controlling more than 5% of outstanding shares. As at the same date, FBN Holdings Plc had total assets and contingents of ₦3.75 trillion (US$24.2 billion @ ₦155.1/US$), with operations in 11 countries.

FBN is overseen by a nineteen member Board of Directors. The Board comprises six executive and thirteen non-executive directors who have a diverse mix of financial and commercial business experience in various markets. During the period under review, Mrs. Remi Odunlami and Mr. Kehinde Lawson exited the Board while Mr. Tokunbo Abiru was appointed. In 2014, Mrs. Ibiai Ani resigned while Mr. Adebayo Adelabu resigned from the Baord following his appointment as Deputy Governor at CBN. He was replaced by Mr. Adesola Adeduntan while Dr Ije Jidenma was appointed as the Bank's second independent Director in line with the CBN's Corporate Governance code.

First Bank of Nigeria Limited is Nigeria's oldest and largest bank on the bases of branches and total assets & contingents. The Bank has the largest credit portfolio and is also the largest custodian of customer deposits among the deposit money banks (DMBs) operating in Nigeria, with 8.5 million active customer accounts. Services offered by the Bank include loans, term deposits & current accounts, e-banking & card products, trade finance, leases, foreign exchange trading and money transfer.

The Bank is structured along six strategic business units (SBUs), namely Public Sector, Institutional, Corporate, Commercial, Private and Retail Banking. This structure was adopted to strengthen relationship management and specialization across the Bank's customer segments, and also to enhance service delivery. Two of these SBUs (Public Sector and Retail Banking) are further organized along regional lines and all are directly overseen by members of executive management.

FBN has adopted a 3-year strategic rolling plan approach, the first of which ended in 2013. The new cycle, which commenced in 2014, will see the Bank focus on driving revenues by enhancing transactional and commercial banking services, leverage retail banking platform, improve customer service and relationship management productivity. In addition, FBN intends to address cost issues by undertaking various branch transformation initiatives, realigning workforce, reduce credit losses through effective loan management and other cost containment measures.

The Bank's head office is located at Samuel Asabia House - 35 Marina, Lagos. Operations are supported by a network of 759 business offices (627 branches, 64 Quick Service Points - QSP & 69 agencies) distributed nationwide. The Bank has also significantly grown its network of Automated Teller Machines (ATM) over the years to a total of 2,437 as at 31 December 2013. In order to effectively leverage the budding cash-lite banking landscape in Nigeria, FBN has deployed about 18,530 Point of Sales (PoS) terminals and 5.4 million payment cards across the country.

Subsidiaries & Associates

FBN's investments in subsidiaries amounted to ₦58.5 billion as at year ended 31 December 2013. On this date, the Bank had two local subsidiaries and seven foreign subsidiaries as detailed below:

• FBN Ghana Ltd. (100%)	*Commercial Bank*
• FBN Gambia Ltd. (100%)	*Commercial Bank*
· FBN Guinea Ltd. (100%)	*Commercial Bank*
• FBN Sierra Leone Ltd. (100%)	*Commercial Bank*
· FBN Senegal Ltd. (100%)	*Commercial Bank*
• FBN Bank UK Ltd. (100%)	*Commercial Bank*
• Banque Internationale de Credit (75%)	*Commercial Bank*
• FBN Mortgages Ltd. (100%)	*Mortgages*
• First Pension Custodian Nig Ltd. (100%)	*Pension Custody services*

First Bank of Nigeria Limited, together with the above-listed subsidiaries, make up the Commercial Banking business group of FBN Holdings Plc. The Bank also has representative offices in Johannesburg (South Africa), Beijing (China) and Abu Dhabi (United Arab Emirates).

BANK PROFILE CONT'D

In order to comply fully with the CBN's guidelines on the 'scope of banking activities', all other previously owned subsidiaries of First Bank of Nigeria Limited have been transferred either to FBN Holdings Plc or FBN Capital Limited (previously also a subsidiary of the Bank but now a stand-alone subsidiary of the HoldCo).

As at year-end 2013, FBN's only associate was Kakawa Discount House Limited, in which the Bank controlled a 40% stake. Other significant affiliates of the Bank are:

• Valucard Nig. Plc (12.63%)	*Card Services*
• Banque International Du Benin (11.86%)	Commercial Bank
• ATMC (23.77%)	ATM solutions provider
• Africa Finance Corporation (9.19%)	Regional Development Financial Institution

Information Technology

FBN uses a variety of software applications for operations in order to mitigate the high costs of servicing its large retail clientelle. The Bank's core banking application for transaction processing is Finacle 10, while the Finacle Treasury and FinOne applications are used for Treasury operations and Loan management respectively. Other key applications in use within the Bank include Oracle HR for HR automation, OPENTEXT for records management, SAS Risk Management Suite for Basel II compliance and nCompass for automation of clearing processes.

FBN has three data processing facilities - a primary data centre, a disaster recovery site (bunker) and a remote warm site - for data management. The Bank's data centres and IT processes have been certified for compliance with ISO 27001 and BS 25999 requirements. All of FBN's branches, cash centres and QSPs are connected online and in real time via a Wide Area Network comprising VSAT links, radio links and fibre connections.

Correspondent Banks

FBN maintains correspondent banking relationships with: ABSA Bank (South Africa); ANZ Bank (London); Bank of Beirut (London); Banque Libano Francaise (Lebanon); Barclays Bank (UAE); BCGE (Switzerland); BCP (Switzerland); BNP Paribas (Paris); BNP Paribas Fortis (Belgium); Byblos Bank Group (Beirut); Citibank (New York); Commerzbank (Frankfurt); Credit Suisse (Zurich); Deutsche Bank (London); FBN Bank (UK) Ltd. (London); FirstRand Bank (South Africa); HSBC (South Africa); ICICI Bank (Bahrain); ING Bank (Brussels); JP Morgan Chase (London); KBC Bank (Belgium); Mashreq Bank (UAE); Mauritius Commercial Bank (Mauritius); Mizuho Corporate Bank (London); Natixis Bank (France); Nordea Bank (Norway); Raiffeisen Bank International (Austria); Standard Bank (South Africa); Standard Chartered Bank (London); Sumitomo Mitsui Banking Corporation (London); Svenska Handelsbanken (Sweden) and Union Bank of Switzerland (Zurich).

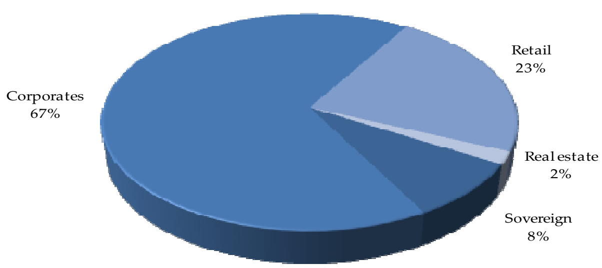
ANALYSTS' COMMENTS

ASSET QUALITY

As at 31 December 2013, FBN's total assets and contingents stood at ₦4.1 trillion. This reflects a 23% growth over prior year-end position and ranked the Bank as the largest in the Nigerian banking industry on the basis of total assets & contingents. The largest contributor to growth was FBN's contingent assets, which grew by 55% in the review period and accounted for one-fifth of total assets and contingents. These represent mainly performance bonds and guarantees, which are generally short-term commitments to third parties and are usually cash collaterised by customers. Also contributing significantly to the growth in assets was the level of restricted funds with the CBN. This grew by 73% to ₦324.7 billion on account of the increase in cash reserve requirement (CRR) for public sector deposits from 12% to 75% over the course of the year. The Bank's portfolio of liquids assets grew by 14%, and stood at ₦904 billion as at year end 2013. Government securities (including Asset Management Corporation of Nigeria bonds), accounted for 73% of liquid assets, while cash and cash equivalents increased by 115% to form 24% of liquid assets as at same date.

FBN's portfolio of risk assets amounted to ₦1.5 trillion as at 31 December 2013. This represents a 12% rise over the prior year and accounted for 37% of total assets and contingents. The Bank's loan book ranked as the largest in the Nigerian banking industry. FBN's credit customers remains predominantly large and mid-sized corporates, and to a lesser extent retail & commercial clients. As at year-end 2013, corporate clients accounted for two-thirds of the loan book, while commercial & retail clients formed 23%. Investments in sovereigns and real estate customers account for 10%. The Bank remains focused on maintaining a strong foothold in the corporate market, while diversifying into the commercial banking space (particularly Small and Medium Enterprise). This strategy is aimed at addressing the current economic realities of growing competition and thinning margins among corporate clients and to fully exploit the Bank's strong retail franchise.

Figure 1: Distribution of loan book by customer type (2013)



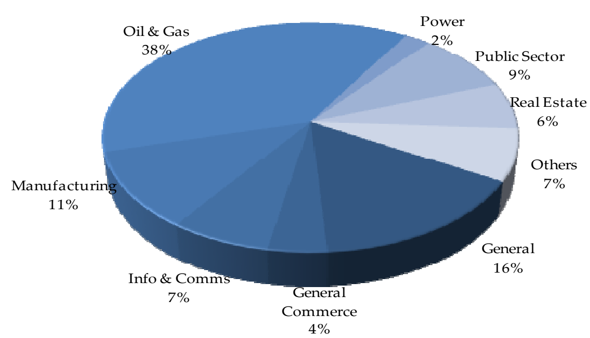
In 2013, FBN leveraged opportunities emanating from the ongoing power sector reforms in the country to increase lending to this key area. The Bank recorded a 539% loan growth (or ₦29 billion) in this sector, though exposure to power remains low at 2% of gross loans. There were modest increases to the telecommunications (32%) and real estate sectors (17%).

Table 1: Growth rate of selected sectors

Sector	Growth rate
Power	539%
Info & Comms	32%
Others	17%
Real Estate	17%
Public Sector	8%
Oil & Gas	8%
General	7%
Manufacturing	6%
General Commerce	-4%

In our opinion, FBN's loan book is highly concentrated in the oil & gas sector. As at year-end 2013, this sector accounted for 38% of gross loans. While we do take into consideration that oil & gas exposure is spread across three sub-segments, we are concerned by the fact that an exposure of this magnitude to a single underlying commodity poses a threat to asset quality. Management has provided guidance of 10% for loan growth in 2014 , which we believe will help moderate concentration. However, in the short term,, we expect the Bank's portfolio to remain skewed towards the oil & gas sector.

Figure 2: Sectoral distribution of credits (2013)



Obligor concentration in FBN's loan book remained high at 35% of gross loans as at 31 December 2013 (2012: 35%). Further eliciting concern is that according to the Bank's schedule of internal ratings, 85% of the top 20 loans were to obligors regarded as non-investment grade. As at year-end, a moderate 64% of FBN's gross loans were secured secured by tangible assets which include legal mortgages, debenture, cash and stocks while 27% are secured by intangible assets such as guarantees, domiciliation and receivables

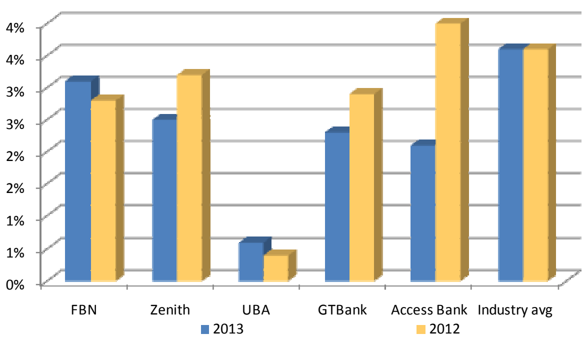
ASSET QUALITY (CONT'D)

Disclosed insider-related exposures amounted to ₦121 billion, constituting 8% of the Bank's credit portfolio and 36% of adjusted capital. As at year-end 2013, 99.8% of insider-related credits were reported as performing.

In 2013, newly classified credits amounted to ₦28 billion, culminating in impaired credits of ₦46.9 billion as at 31 December 2013. This reflects a 26% increase over the prior year. The Bank charged off ₦19.8 billion from its income for loan losses in 2013, which was equivalent to 7% of interest income (2012: 3.8%). Although this was lower than the industry average of 8.3%, it was significantly higher than industry peers - Zenith Bank Plc (Zenith: 4.0%), United Bank for Africa (UBA: 0.1%), Guaranty Trust Bank Plc (GTBank: 1.6%) and Access Bank Plc (Access: -5.9%).

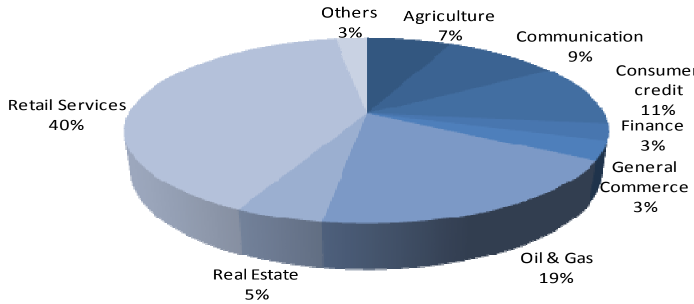
Significantly moderating the impact of new classifications during the year were write-offs totaling ₦17.7 billion. As at year-end 2013, impaired loans to gross loans ratio stood at 3.1%, higher than the 2.8% reported in the prior financial year. The Bank's impaired loans ratio as at year-end was the highest among selected peers. This ratio nudged higher to 3.9% by Q1 2014, but remained well below the CBN's recommended threshold of 5%.

Figure 4: Non-performing loans to Total loans



FBN's exposures to the retail sector accounted for the highest incidence of loan delinquency at 40%, while the oil & gas sector accounted for 19% as at year-end 2013. Management has indicated that the Bank is in the process of re-packaging some of the retail products and would continue to re-evaluate the risk acceptance for loans in the retail segment. As at year-end, cumulative loan provisions provided 88% coverage for the Bank's impaired loans. This improved to 104% when we include regulatory risk reserves.

Figure 5: Non-performing loans by economic sector (2013)



In our opinion, FBN's asset quality is satisfactory. Our concerns over the Bank's asset quality stems from the concentration in the oil & gas sector and the proportion of large names that are rated non-investment grade. Clients in these rating buckets typically have a higher risk of default, which could have a deleterious impact on the Bank's loan book should there be an adverse change in the economic conditions. Although impaired loans ratio trended upwards in the first quarter of 2014, we expect this to stay below management's target of 4% by year-end 2014. FBN's target is to achieve loan growth of about 10% for 2014. However, diversification into other sectors such as power, telecommunications, manufacturing and infrastructure development should help moderate sector concentration in the Bank's loan book.

Risk Management

Risk management functions at FBN fall under the auspices of the Bank's Risk Management Directorate (RMD) and guided by policies approved by the Board of Directors. The Board provides written policies for overall risk management covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. The RMD is headed by the Chief Risk Officer (CRO), an Executive Director, who reports to the Managing Director and the Board. The Internal Control department performs independent verification to ensure that all risk measures are in compliance with FBN's standards.

As part of ongoing improvements to risk management, FBN has implemented the Standardized approach for measuring credit risk as recommended in the Basle II framework. In addition, the Bank has an internal rating system which enhances obligor assessment and risk selection process. Management has identified credit risk as the largest source of risk to the Bank's business, and thus operates a centralized credit risk management team. The team reports to the CRO.

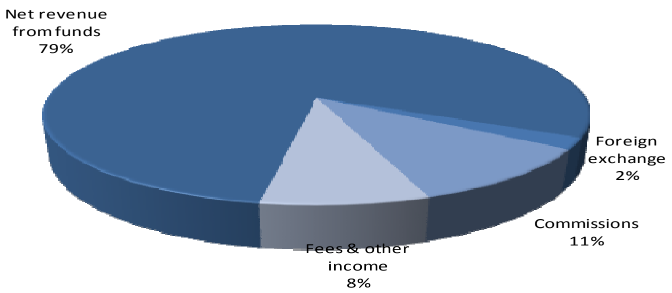
The Market & Liquidity Risk management department monitors compliance relating to market and liquidity controls at the Bank. FBN regularly conduct stress tests to evaluate the potential impact of possible extreme movements in financial variables on portfolio values. Stress scenarios are regularly updated to reflect changes in risk profile and economic events. The Asset & Liability Committee (ALCO) is responsible for reviewing stress exposures and where necessary, enforcing reductions in overall market risk exposure.

In our opinion, FBN's risk management framework is adequate. However, we maintain the view that ensuring strict adherence to these policies - particularly on issues relating to credit concentration - will be imperative to maintaining good asset quality.

EARNINGS

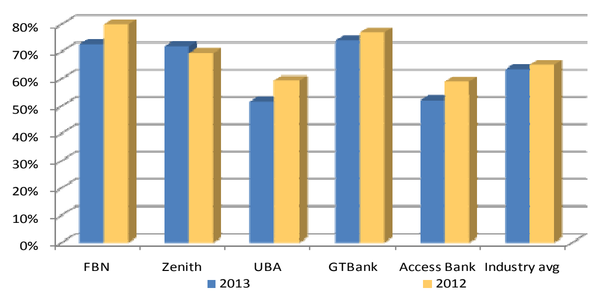
The financial performance of operators in the Nigerian banking industry was characterized by high funding and operating costs in 2013. This was due to various regulatory directives, including the raising of cash reserve requirements (CRR) on public sector deposits, the increase in the AMCON levy from 0.3% of total assets to 0.5% and the reduction in ancillary charges. These various regulatory headwinds had an impact on FBN as the Bank has a large pool of government deposits, significant asset base as the largest bank in Nigeria, and also one of the largest custodians of retail deposits in the industry. In addition, earnings were impaired by a significant 101% rise in credit costs.

Figure 6: Breakdown of Net earnings (2013)



In the period under review, FBN's net earnings declined by 6% to ₦236 billion. Interest income, comprising largely of interest derived from customer loans, grew by 11% during the review period. This was on account of a higher prevailing interest rate environment and the slight increase in the Bank's loan book. Moderating the impact of the growth in interest income was a 50% rise in interest expense (which includes a 67% increase in interest expense paid on customer deposits). Although FBN's margins came under severe pressure, with net interest margin (NIM) declining to 72.7% in 2013 (2012: 79.9%), margins remained higher than most of its peers and the industry average of 63.5%. In the short to medium term, management expects sustained support for margins given plans to grow loans in the higher-margin commercial, SME & retail segments, and also in view of the Bank's ample supply of low-cost funds. We expect the Bank's NIM to remain slightly subdued by FBN standards in the short term, given the Bank's modest loan growth target of 10% and sizeable pool of public sector deposits.

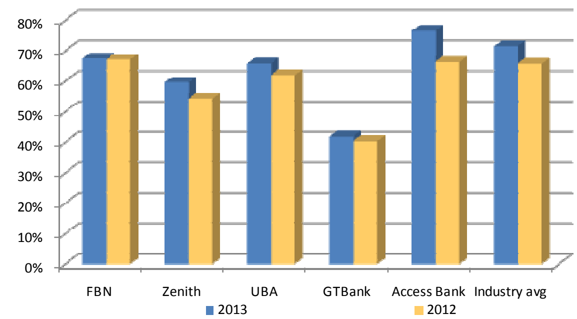
Figure 7: Comparison of Net Interest Margins (NIM)



In 2013, non-interest income (net) declined by 13% to ◎49 billion. The decline was largely attributed to a 16% drop (◎3.3 billion) in commission on turnover (COT) charges. However, cushioning the effects of the decline in this major source of revenue for the Bank was a 60% increase (◎2.8 billion) in foreign exchange trading income. On a cautionary note, we do recognize that income from foreign exchange trading is a volatile source of earnings and this level of growth is unlikely to be sustained. Going forward, management is optimistic that further growth in ancillary income can be accomplished through ongoing investments in alternative channels, as well as by deepening commitments to funds transfer and intermediation services.

Despite the 49% increase in regulatory induced costs (AMCON and a premium contribution to Nigeria Deposit Insurance Corporation) in the review period, FBN's operating expenses (OPEX) declined marginally by 6% to ₦159 billion. Contributing to the decline in operating expenses is staff costs, which reduced by 10% on account of the eradication of terminal benefits payments to staff. The Bank's ratio of operating expenses to net earnings (cost-to-income ratio) remained stable at 67%. The Bank's cost-to-income ratio (CIR) is comparable to its peers, with the exception of one, but much lower than the industry average of 71.5%. This ratio nudged up to industry average for the 3-month period ended 31 March 2014. We expect the Bank will continue various cost-cutting measures, which should moderate costs going forward.

Figure 8: Cost-to-income ratio

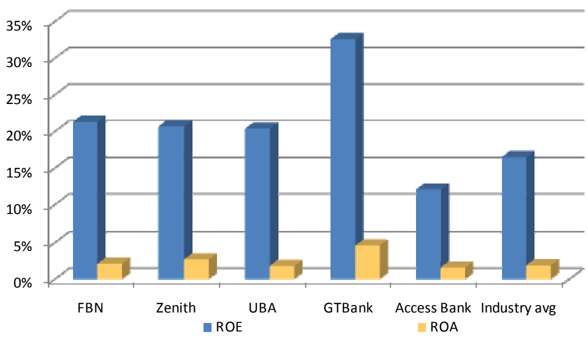


Pre-tax profits amounted to ₦76.9 billion for the year 2013, an 8% decline over the prior year. Nevertheless, profitability ratios remained healthy, as measured by pretax return on average assets (ROA) and pre-tax return on average equity (ROE) of 2.1% and 22.4% respectively (2012: 2.7% and 23.0% respectively). FBN's profitability indicators for the year were better than peer and industry averages. For the quarter ended 31 March 2014, the Bank's annualized pre-tax ROA and ROE remained good at 1.9% and 21.5% respectively.

EARNINGS (CONT'D)

Management forecasts a ROE of between 18% and 20% for the 2014. In our opinion, the ability to achieve this will be contingent on curtailing credit costs and growing loan book in high yielding assets. The Bank has indicated that branch expansion in 2014 is not in the offing, and we therefore expect operating costs to remain low. Barring unforeseen regulatory pronouncements which may impair earnings, we expect FBN to maintain good levels of profitability in the short to medium term due to the Bank's diversified and sustainable income sources.

Figure 9: Pre-tax profitability indicators



CAPITAL ADEQUACY

FBN's shareholders' funds (tier I capital) amounted to ₦337.6 billion, funding 8.3% of total assets & contingents as at year-end 2013 (2012: 10.5%). The Bank's quality of capital is good, with paid up capital and retained earnings forming 61% and 20% of shareholders' funds respectively. Various regulatory reserves made up the balance of 19%. FBN's core capital as at year-end 2013 was compliant with the regulatory minimum requirement of ₦50 billion for international commercial banks in Nigeria. In addition, core capital at 99.5% of adjusted capital as at year-end, was almost twice the regulatory minimum requirement of 50%.

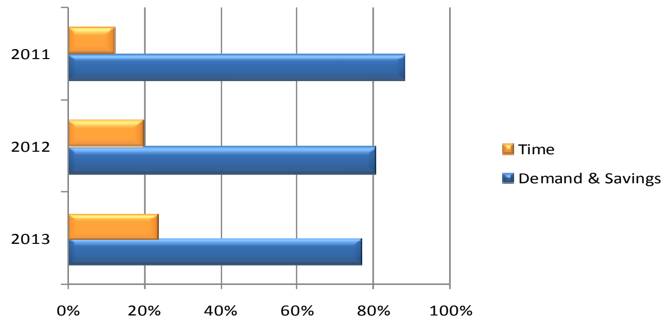
Supporting core capital as at year-end was the Bank's tier II capital of ₦61.9 billion. This amount represents largely a seven-year Eurobond issued by the Bank in August 2013. The Eurobond bears interest at 8.25% per annum up to the Bank call date of 7 August 2018. From the call date up to the maturity date, the notes bear interest at a fixed rate of 6.875% per annum plus the prevailing mid swap rate for United States Dollar swap transactions with a maturity of two years.

We consider the Bank's capital adequacy ratio (CAR) of 15% as at 31 December 2013 adequate. When we stress capital for additional losses using Agusto & Co.'s proprietary model, FBN's CAR deteriorates to 5%, which is well below our internal benchmark of 10%. In view of the Bank's targeted asset growth of 10% in 2014, FBN has begun the process of raising additional tier II capital in the form of Eurobonds. The Bank expects to raise between $300 million and $500 million to shore up capital. By our estimates, this level of capital injection should raise CAR between 250 and 300 basis points. Management has indicated that FBN has approval for several options to address capital needs, including the possibility of issuing additional tier II capital or raising equity. We expect the Bank to remain compliant with regulatory capital requirement.

LIQUIDITY AND LIABILITY GENERATION

FBN's good liquidity position reflects an established brand, which has translated to a strong and stable customer base. As at 31 December 2013, the Bank's total deposit liabilities (net of inter-bank) amounted to ₦2.6 trillion. This reflects an 18% increase over the prior year end and funded 63.1% of total assets and contingents (2012: 65.7%). Local currency (LCY) deposits were the main driver of growth, increasing by 20% in the review period and formed 76% of deposit liabilities. Foreign currency deposits grew by 14% over the same period. More importantly, FBN's regulatory filings indicate that LCY deposit volumes have been fairly stable throughout the year.

Figure 10: Change in structure of LCY deposits

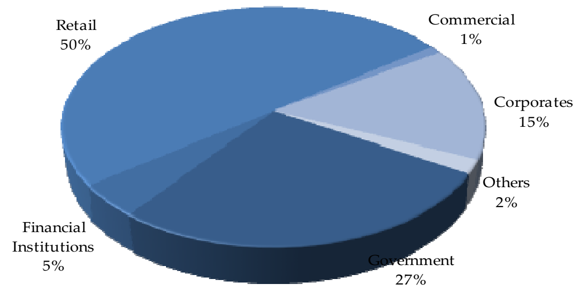


The Bank is funded by a diversified mix of retail, corporate and public sector deposits. This funding base ensures stability and low funding costs with minimal reliance on more expensive tenured deposits. As at 31 December 2013, 77% of the Bank's LCY deposits were in low-cost current and savings accounts. Further emphasizing the stability and diversity of FBN's funding base is the fact that 50% of the Bank's deposits were from retail customers and 15% from corporates. However, in view of the increase in CRR for public sector, we view with caution the fact that 27% of deposits are public sector funds.

As at 31 December 2013, the Bank had 760 business offices in operation across the country and has no plans to open additional offices unless business needs dictate otherwise. Going forward, management intends to shift emphasis on utilizing technology and alternative channels, while also reorganizing staff roles to drive business volumes. In our opinion, the Bank's deposits are stable.

FBN's Weighted Average Cost of Funds (WACF) increased from 2.6% in 2012 to 3.2% in 2013, reflecting the effects of a tight monetary policy in place during the year. Nevertheless, the Bank's WACF was among the lowest in the industry. The Industry recorded an average WACG 5.5% in 2013.

Figure 11: Breakdown of deposits by source (2013)



As in prior years, FBN's liquidity position is good. Liquid assets, largely comprising government bonds, amounted to ₦659.3 billion (or 16% of total assets & contingents) as at year-end 2013 (2012: 19.2%). As at this same date, the Bank's liquidity ratio stood at 45.8%, higher than the regulatory minimum of 30%.

Similar to most banks in Nigeria, a period end contractual maturity gap analysis reveals that loans and deposits are mismatched within various tenors. Approximately 59% of loans mature over 360 days, but funded by less than one percent of deposits (0.2%). Typically, most of these short term deposits are rolled over beyond the initial contractual period, with 74.86% of savings and 66.81% of current account deposits regarded as stable. Shortfalls are usually covered by on-lending facilities granted by multilateral institutions and a seven-year semi-annual note issued by the Bank. Agusto & Co. remains confident in the ability of FBN to secure foreign funding. As at year-end 2013, the Bank had standby credit lines totaling US$2.6 billion available to support foreign currency (FCY) transactions. Exchange rate risk is minimal, as FCY loans are mostly extended to clients who have dollar denominated revenues. Exchange risks are also mitigated through the use of open position limits recommended by the CBN as well as intra-day and risk exposure limits specified by the Bank.

FBN has a good reputation in the Nigerian money market, which enhances the ability to refinance should the need arise. We expect that the Bank will remain strong in terms of deposit mobilization, and will continually maintain a good funding structure.

OWNERSHIP, MANAGEMENT AND STAFF

First Bank of Nigeria Limited is a privately held Nigerian bank owned by two investors. FBN Holdings Plc (FBN's parent company) controls a 99.99% stake in the Bank, while FBN Capital Limited controls 0.01%. FBN Holdings is owned by over 1.22 million individual and foreign investors and is listed on the NSE.

FBN's Board comprises 6 executive and 13 non-executive members. Oversight functions of the Board are executed through six standing committees constituted in line with the CBN's code on corporate governance. In the period under review, Dr Ije Jidenma was appointed as the second independent Director to comply with the CBN's corporate governance code. Two members of the Board (Mrs. Remi Odunlami and Mr. Kehinde Lawson) retired from the Board in 2013, while Mr. Tokunbo Abiru and Mr. Abiodun Odubola were appointed. Subsequent to year-end 2013, Mr. Bayo Adelabu was appointed as the Deputy Governor at the CBN, which prompted his retirement and the subsequent appointment of Mr. Adesola Adeduntan as a replacement.

The Bank's operations are overseen by the Group Managing Director/Chief Executive officer, Mr. Bisi Onasanya. He is assisted by an executive management team comprising 6 executive directors and 5 other senior management executives. During the year ended 31 December 2013, the Bank employed an average of 7,903 employees, down marginally from 7,922 employees in 2012. As at this date, less than 1% (0.8%) of the employees were executive and management staff, while others were in non-management cadre.

Staff productivity, as measured by net earnings per staff, declined to ₦29.9 million from ₦31.82 million in the prior year on the back of lower earnings. However, staff cost per employee also decreased to ₦6.9 million, from ₦7.6 million. This decrease reflects the discontinuation of the staff gratuities, which in turn led to lower staff expenses. Nevertheless, FBN's staff productivity indicators are comparable to most peers and the industry averages (see table below). The Bank has established First Academy, a training school which provides bespoke training on an ongoing basis to staff. We expect these various initiatives will ensure that the Bank's staff remain productive and competitive in the Industry.

Table 1: Staff productivity indicators

Indicator	FBN ₦'000	Zenith ₦'000	UBA ₦'000	GTBank ₦'000	Access Bank ₦'000	Industry ₦'000
Cost/Staff	6,911	8,596	3,690	6,220	10,540	7,711
Net loans/Staff	186,491	170,304	79,960	293,814	304,083	147,194
LCY deposits/staff	248,579	275,683	110,939	400,005	379,067	218,138
Net earnings/staff	29,858	35,207	12,714	54,679	50,621	28,904

In our opinion, the management team is experienced and proactive in ensuring that FBN remains dominant in the Nigerian banking industry.

MARKET SHARE

By virtue of its age long standing presence, FBN has established a strong foothold in the Nigerian banking industry. The Bank has successfully leveraged 12 decades of operations and geographic footprint across the country to garner a sizable market share of the Industry's asset base and deposits. As at 31 December 2013, FBN controlled the largest share of the Industry's total assets, net loans and LCY deposits. The Bank ranked second on the basis of shareholders' funds as at same date.

Figure 12: Market share of Total assets & contingents

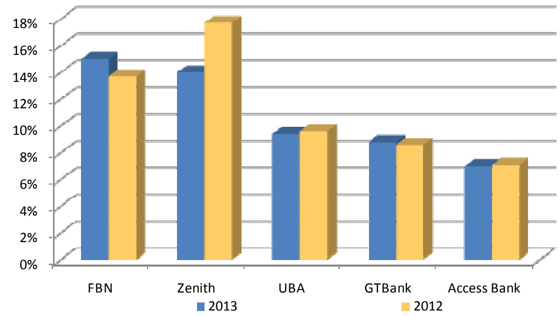


Figure 13: Market share of net loans

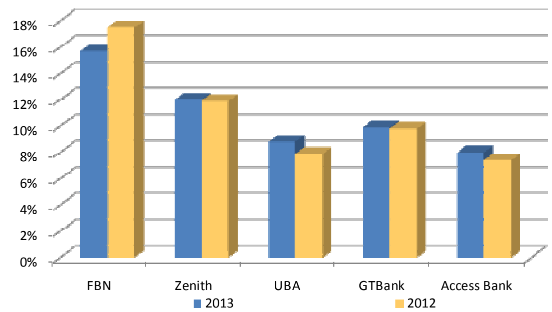
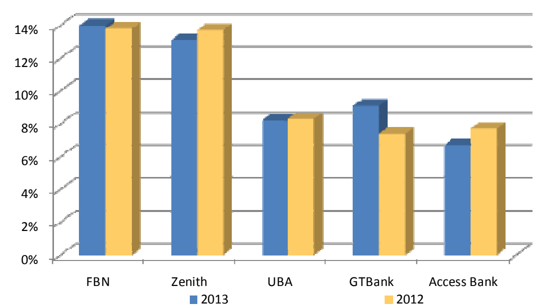


Figure 14: Market share of LCY deposits



FBN's success has hinged on successive management's focus to defend the institution's leading market position through continuous product innovation, restructuring of business lines and rebranding. Consequently, the Bank has successfully adapted to both economic changes and industry competition. FBN's network of 759 business offices is the largest among DMBs. In our opinion, we expect FBN to maintain a strong brand and sustain market position in the short to medium term.

OUTLOOK

FBN commenced the implementation of its second strategic planning cycle in 2014, with the overwhelming aim of remaining the largest banking institution in the country. Management has identified eleven specific measures, linked either to driving revenue or reducing costs. In our opinion, this pro-active approach is one of the reasons why FBN has been able to withstand (and should continue to withstand) the various headwinds which have impacted other operators in the industry.

In our opinion, FBN's key challenges remain the ability to keep loan losses under control and ensuring a team of service-oriented employees. We expect the Bank's vast network of branches and investments in technology, should continue to ensure a stable pool of funds, while liquidity remains strong. In addition, we believe the Bank will continue to adhere to regulatory capital requirement and profitability will remain good.

We therefore attach a **stable** outlook to the Bank's rating.

FIRST BANK OF NIGERIA LIMITED

	STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-13		31-Dec-12		31-Dec-11	
		₦'000		₦'000		₦'000	
	ASSETS						
1	Cash & equivalents	216,480,000	5.3%	100,670,000	3.0%	95,225,000	3.3%
2	Government securities	657,704,000	16.1%	634,560,000	19.2%	680,217,000	23.8%
3	AMCON Bonds						
4	Quoted investments	1,554,000	0.0%	1,131,000	0.0%	2,486,000	0.1%
5	Placements with discount houses	28,603,000	0.7%	54,689,000	1.7%	13,544,000	0.5%
6	LIQUID ASSETS	904,341,000	22.2%	791,050,000	23.9%	791,472,000	27.7%
7	BALANCES WITH NIGERIAN BANKS	1,620,000	0.0%	1,433,000	0.0%	9,746,000	0.3%
8	BALANCES WITH BANKS OUTSIDE NIGERIA	337,348,000	8.3%	272,998,000	8.3%	199,057,000	7.0%
9	Direct loans and advances - Gross	1,512,427,000	37.1%	1,349,604,000	40.9%	1,167,646,000	40.9%
10	Less: Cumulative loan loss provision	(41,449,000)	-1.0%	(36,978,000)	-1.1%	(27,796,000)	-1.0%
11	Direct loans & advances - net	1,470,978,000	36.1%	1,312,626,000	39.7%	1,139,850,000	39.9%
12	Advances under finance leases - net	2,862,000	0.1%	3,781,000	0.1%	4,611,000	0.2%
13	TOTAL LOANS & LEASES - NET	1,473,840,000	36.2%	1,316,407,000	39.8%	1,144,461,000	40.1%
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	37,709,000	0.9%	33,721,000	1.0%	44,728,000	1.6%
16	DEFERRED LOSSES	3,654,000	0.1%	6,703,000	0.2%	5,195,000	0.2%
17	RESTRICTED FUNDS	324,741,000	8.0%	187,455,000	5.7%	103,866,000	3.6%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES	58,531,000	1.4%	42,572,000	1.3%	46,515,000	1.6%
19	OTHER LONG-TERM INVESTMENTS	31,659,000	0.8%	46,309,000	1.4%	61,608,000	2.2%
20	FIXED ASSETS & INTANGIBLES	73,135,000	1.8%	72,026,000	2.2%	64,790,000	2.3%
21	**TOTAL ASSETS**	**3,246,578,000**	**79.7%**	**2,770,674,000**	**83.9%**	**2,471,438,000**	**86.6%**
22	TOTAL CONTINGENT ASSETS	827,385,000	20.3%	532,986,000	16.1%	382,052,000	13.4%
23	**TOTAL ASSETS & CONTINGENTS**	**4,073,963,000**	**100%**	**3,303,660,000**	**100%**	**2,853,490,000**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	337,646,000	8.3%	347,498,000	10.5%	368,084,000	12.9%
25	TIER 2 CAPITAL	61,915,000	1.5%	27,238,000	0.8%	38,656,000	1.4%
26	LONG TERM FOREIGN BORROWINGS	76,511,000	1.9%	79,427,000	2.4%	74,791,000	2.6%
27	Demand deposits	842,082,000	20.7%	765,402,000	23.2%	705,494,000	24.7%
28	Savings deposits	654,479,000	16.1%	544,807,000	16.5%	495,075,000	17.3%
29	Time deposits	457,805,000	11.2%	320,898,000	9.7%	166,206,000	5.8%
30	Inter-bank takings	10,155,000	0.2%	18,463,000	0.6%	51,306,000	1.8%
31	TOTAL DEPOSIT LIABILITIES - LCY	1,964,521,000	48.2%	1,649,570,000	49.9%	1,418,081,000	49.7%
32	Customers' foreign currency balances	616,353,000	15.1%	540,700,000	16.4%	417,715,000	14.6%
33	TOTAL DEPOSIT LIABILITIES	2,580,874,000	63.4%	2,190,270,000	66.3%	1,835,796,000	64.3%
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	189,632,000	4.7%	126,241,000	3.8%	154,111,000	5.4%
36	**TOTAL CAPITAL & LIABILITIES**	**3,246,578,000**	**79.7%**	**2,770,674,000**	**83.9%**	**2,471,438,000**	**86.6%**
37	TOTAL CONTINGENT LIABILITIES	827,385,000	20.3%	532,986,000	16.1%	382,052,000	13.4%
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**4,073,963,000**	**100%**	**3,303,660,000**	**100%**	**2,853,490,000**	**100%**
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes	352,008,000	8.6%	212,331,000	6.4%	153,695,000	5.4%
40	Guarantees, bonds etc..	475,377,000	11.7%	320,655,000	9.7%	228,357,000	8.0%
41	Short-term self liquidating contingencies						

FIRST BANK OF NIGERIA LIMITED

	STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Dec-13		31-Dec-12		31-Dec-11	
		₦'000		₦'000		₦'000	
42	Interest income	284,438,000	85.3%	257,325,000	82.0%	197,829,000	78.7%
43	Interest expense	(77,729,000)	-23.3%	(51,779,000)	-16.5%	(30,606,000)	-12.2%
44	Loan loss expense	(19,838,000)	-5.9%	(9,847,000)	-3.1%	(47,666,000)	-19.0%
45	NET REVENUE FROM FUNDS	186,871,000	56.0%	195,699,000	62.4%	119,557,000	47.6%
46	ALL OTHER INCOME	49,099,000	14.7%	56,497,000	18.0%	53,483,000	21.3%
47	**NET EARNINGS**	**235,970,000**	**70.7%**	**252,196,000**	**80.4%**	**173,040,000**	**68.9%**
48	Staff costs	(54,621,000)	-16.4%	(60,447,000)	-19.3%	(51,668,000)	-20.6%
49	Depreciation expense	(9,164,000)	-2.7%	(9,169,000)	-2.9%	(9,599,000)	-3.8%
50	Other operating expenses	(95,332,000)	-28.6%	(99,292,000)	-31.6%	(72,101,000)	-28.7%
51	TOTAL OPERATING EXPENSES	(159,117,000)	-47.7%	(168,908,000)	-53.8%	(133,368,000)	-53.1%
52	PROFIT (LOSS) BEFORE TAXATION	76,853,000	23.0%	83,288,000	26.5%	39,672,000	15.8%
53	TAX (EXPENSE) BENEFIT	(17,488,000)	-5.2%	(12,145,000)	-3.9%	(16,620,000)	-6.6%
54	**PROFIT (LOSS) AFTER TAXATION**	**59,365,000**	**17.8%**	**71,143,000**	**22.7%**	**23,052,000**	**9.2%**
55	NON-OPERATING INCOME (EXPENSE) - NET						
56	DIVIDEND	(71,790,000)	-21.5%	(26,105,000)	-8.3%	(19,580,000)	-7.8%
57	**GROSS EARNINGS**	**333,537,000**	**100%**	**313,822,000**	**100%**	**251,312,000**	**100%**
58	AUDITORS	PWC/PKF		PWC/PKF		PWC/PKF	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	31-Dec-13	31-Dec-12	31-Dec-11
	EARNINGS			
60	Net interest margin	72.7%	79.9%	84.5%
61	Loan loss expense/Interest income	7.0%	3.8%	24.1%
62	Return on average assets & contingents (Pre - tax)	2.1%	2.7%	1.5%
63	Return on average equity (Pre - tax)	22.4%	23.3%	11.1%
64	Operating Expenses/Net earnings	67.4%	67.0%	77.1%
65	Gross earnings/Total assets & contingents (average)	9.0%	10.2%	9.8%
	EARNINGS MIX			
66	Net revenue from funds	79.2%	77.6%	69.1%
67	All other income	20.8%	22.4%	30.9%
	LIQUIDITY			
68	Total loans & leases - net/Total lcy deposits	63.0%	66.8%	64.2%
69	Liquid assets/Total lcy deposits	45.8%	47.5%	54.9%
70	Demand deposits/Total lcy deposits	42.9%	46.4%	49.7%
71	Savings deposits/Total lcy deposits	33.3%	33.0%	34.9%
72	Time deposits/Total lcy deposits	23.3%	19.5%	11.7%
73	Inter-bank borrowings/Total lcy deposits	0.5%	1.1%	3.6%
74	Interest expense - banks/Interest expense	2.7%	12.4%	13.1%
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	(279,005,000)	(267,702,000)	(218,658,000)

FIRST BANK OF NIGERIA LIMITED

	KEY RATIOS CONT'D	31-Dec-13	31-Dec-12	31-Dec-11
	ASSET QUALITY			
76	Performing loans (₦'000)	1,468,384,000	1,316,088,000	1,144,228,000
77	Non-performing loans (₦'000)	46,905,000	37,297,000	28,115,000
78	Non-performing loans/Total loans - Gross	3.10%	2.76%	2.40%
79	Loan loss provision/Total loans - Gross	2.7%	2.7%	2.4%
80	Loan loss provision/Non-performing loans	88.4%	99.1%	98.9%
81	Risk-weighted assets/Total assets & contingents	56.0%	57.7%	57.3%
	CAPITAL ADEQUACY			
82	Adjusted capital/risk weighted assets	15%	17%	22%
83	Tier 1 capital/Adjusted capital	99%	105%	102%
84	Total loans (net)/Adjusted capital	4.38	4.06	3.23
85	Capital unimpaired by losses (₦'000)	333,992,000	340,795,000	362,889,000
	CAPITAL ADEQUACY STRESS TEST			
86	Adjusted capital (₦'000)	311,456,000	299,481,000	345,136,000
87	Cumulative loan loss provision (actual reserves)	41,449,000	36,978,000	27,796,000
88	Equity before all provision (line 86 + line 87)	352,905,000	336,459,000	372,932,000
89	Required reserves*	239,178,690	198,152,190	164,578,230
90	Equity after required reserves (line 88 - line 89)	113,726,310	138,306,810	208,353,770
91	Equity after required reserves/risk weighted assets	5.0%	7.3%	12.7%
	STAFF INFORMATION			
92	Net earnings per staff (₦'000)	29,858	31,835	22,182
93	Staff cost per employee (₦'000)	6,911	7,630	6,623
94	Staff costs/Operating expenses	34.3%	35.8%	38.7%
95	Average number of employees	7,903	7,922	7,801
96	Average staff per office	11	11	12
	OTHER KEY INFORMATION			
97	Legal lending limit(₦'000)	66,798,400	68,159,000	72,577,800
98	Other unamortised losses(₦'000)	NONE	NONE	NONE
99	Unreconciled inter-branch items (₦'000) DR/(CR)	NONE	NONE	NONE
100	Number of offices	715	715	650
101	Age (in years)	119	118	117
102	Government stake in equity (Indirect)	-	-	-
	MARKET SHARE OF INDUSTRY TOTAL	**Actual**	**Actual**	**Actual**
103	Lcy deposits (excluding interbank takings)	14.0%	12.3%	16.6%
104	Total assets & contingents	15.0%	12.6%	17.8%
105	Total loans & leases - net	15.7%	16.1%	19.7%
106	Non interest income	8.5%	9.7%	12.0%
107	Net interest income	22.7%	8.3%	7.8%

*: This is calculated as 100% of non-performing loans, 5% of performing loans (including direct credit substitutes disclosed as contingent assets) and 1% for all other assets excluding cash, federal government obligations, placements with discount houses and balances at CBN.

RATING DEFINITION

Aaa A financial institution of impeccable financial condition and overwhelming capacity to meet obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) are unlikely to lead to deterioration in financial condition or an impairment of the ability to meet its obligations as and when they fall due. In our opinion, regulatory and/or shareholder support will be obtained, if required.

Aa A financial institution of very good financial condition and strong capacity to meet its obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a slight increase the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain strong. Although regulatory support is not assured, shareholder support will be obtained, if required.

A A financial institution of good financial condition and strong capacity to meet its obligations. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain largely unchanged. In our opinion, shareholder support should be obtainable, if required.

Bbb A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due. It may have one major weakness which, if addressed, should not impair its ability to meet obligations as and when due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution.

Bb Financial condition is satisfactory and ability to meet obligations as and when they fall due exists. May have one or more major weaknesses. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly.

B Financial condition is weak but obligations are still being met as and when they fall due. Has more than one major weakness and may require external support, which, in our opinion, is not assured. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly.

C Financial condition is very weak. Net worth is likely to be negative and obligations may already be in default.

D In default.

A "+" (plus) or "-" (minus) sign may be assigned to ratings from Aa to C to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.