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First Bank of Nigeria Ltd

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First Bank of Nigeria Ltd

SACP	bb-	+	Support	0	+	Additional Factors	0

Anchor	bb-	
Business Position	Adequate	0
Capital and Earnings	Moderate	0
Risk Position	Adequate	0
Funding	Above Average	0
Liquidity	Adequate	

GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BB-/Negative/B

Major Rating Factors

Strengths:	Weaknesses:
• Dominant market position in Nigeria. • Strong and stable retail deposit base. • Low cost of funds.	• Moderate capitalization and revenue instability. • High level of foreign currency lending and single-name concentration. • Inherently high economic and industry risk.

Outlook: Negative

The negative outlook on First Bank of Nigeria Ltd. (FirstBank) reflects that on the sovereign rating of Nigeria, as well as Standard & Poor's Ratings Services' view that the bank's capital and earnings could come under pressure within the next 12-18 months if it does not improve its profitability and internal capital generation or raise capital to compensate for expected asset growth. Given that the ratings on the bank are currently at the same level as those on the sovereign, if we were to lower the ratings on the sovereign, we would lower the ratings on the bank.

We do not rate any bank in Nigeria higher than the sovereign because of the likely direct and indirect influence of sovereign distress on Nigerian banks' operations, including their ability to service foreign currency obligations, the possibility of regulatory intervention, and the high proportion of government securities and public sector deposits on their balance sheets.

The negative outlook also reflects our view that FirstBank's moderate capital and earnings assessment could come under pressure if the bank does not manage to improve its profitability or capitalization over the next 12-18 months. We would lower the ratings on the bank if its capitalization deteriorates to below 5% over the next 12 months.

We could also lower the ratings if asset quality deteriorates as a result of rapid growth of loans to lower-quality clients, resulting in a higher loan-loss experience than we currently anticipate.

A revision of the outlook on the sovereign to stable would not necessarily trigger a revision of the outlook on FirstBank to stable, unless the bank demonstrated better profitability and capitalization alongside stable growth and asset quality metrics.

Rationale

The ratings on the bank reflect the overall creditworthiness of the FirstBank group, whose group credit profile (GCP) we assess at 'bb-'. The bank is the core component of the group, which is one of the leaders in the Nigerian financial services industry and has a strong deposit franchise and good liquidity. Negative rating factors include a moderate level of capitalization and high single-name concentrations.

Despite the bank's high systemic importance, the ratings on FirstBank reflect our assessment of the bank's core group status to FBN Holding PLC (FBNH, the FirstBank group) and its stand-alone credit profile at (SACP) at 'bb-'. We classify the Nigerian government as supportive of the domestic banking sector, but we do not add extraordinary government support to the bank's SACP due to the bank rating being at the same level as that on the sovereign.

Our long-term rating on FirstBank's holding company is two notches below the GCP at 'B', reflecting its status as a nonoperating holding company. FBNH is subject to structural subordination and relies on dividends from its operating companies to meet its obligations, which exposes it to potential regulatory intervention.

Anchor: 'bb-' for banks operating in Nigeria

We 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 to a bank under our criteria. 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 '8'.

Nigeria has considerable natural resources, in our view, and economic diversification is improving. That said, wealth remains 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 consider that there is 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. We anticipate that the appointment of the new central bank governor, Godwin Emefiele, will bring some stability to the institution and consistency to the supervisory reform agenda. 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

FirstBank Group Key Figures

		--Year ended Dec. 31--			
(Mil. NGN)	**2014***	**2013**	**2012**	**2011**	**2010**
Adjusted assets	3,854,139	3,862,253	3,182,607	2,859,161	2,354,337
Customer loans (gross)	1,891,788	1,814,177	1,581,011	1,285,404	1,207,248
Adjusted common equity	468,363	463,029	402,705	367,572	316,752
Operating revenues	77,967	296,652	296,883	235,439	174,405
Noninterest expenses	51,476	183,542	192,171	146,064	118,794
Core earnings	21,555	72,095	75,435	18,636	29,462

*First quarter figures, to March 31. NGN--Nigerian naira.

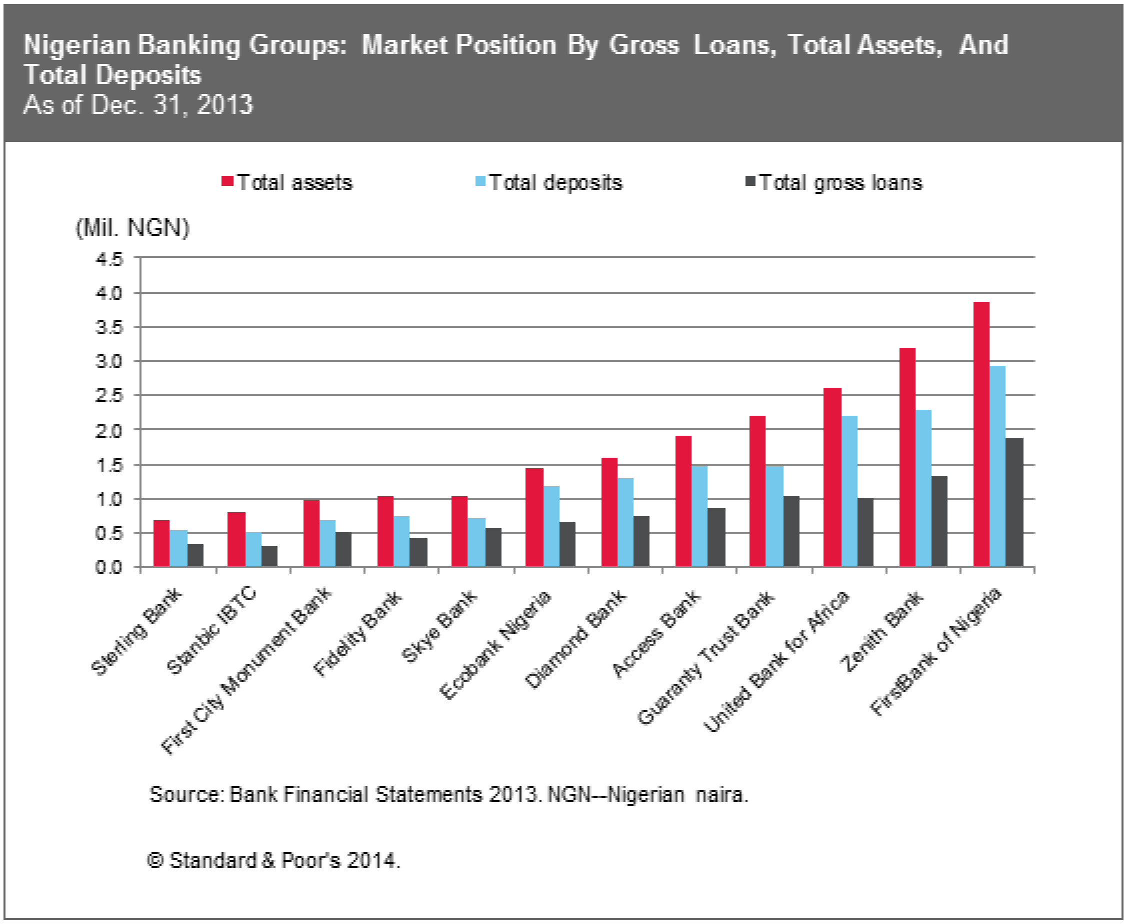
Business position: The largest financial services group operating in Nigeria

In assessing FirstBank group's business position as "adequate," we balance our view of the bank's leading market share and domestic franchise and relatively diverse business mix, for a Nigerian bank, against its operational concentrations in Nigeria.

The FirstBank group has total assets of Nigerian naira (NGN) 3.9 trillion (about $22.7 billion at NGN162.7 to $1), making it the largest financial services group in Nigeria (see chart 1). FirstBank is the largest entity within the group, accounting for 87% of the group's assets and 90% of its earnings on Dec. 31, 2013. Other group operations include asset management, investment banking, microfinance, and insurance, but none contribute significantly to profitability or assets.

We estimate the group's market share in term of assets to be about 16%. The bank has a stronger retail franchise than other leading Nigerian banks, one of the largest branch networks (comprising more than 750 locations), and 8.5 million active accounts, or approximately one in four of all active bank accounts in Nigeria as of Dec. 31, 2013. However, in our view, FirstBank's corporate franchise is weaker than that of its comparative peers. Because 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, even though competition is intensifying.

Chart 1



Despite its size and strong domestic franchise, the group has only achieved a moderate track record of stable revenue compared with the other top-tier rated banks in Nigeria. Its return on equity (ROE) over the past five years has been volatile--ranging from 5.5% to 18.9%. This is below the ROE of some peers, partly because it has higher operating expenses and a higher cost of risk.

FirstBank group continues to expand geographically. In 2013, the group purchased four banks from the International Commercial Bank in Ghana, Gambia, Guinea, and Sierra Leone; these contributed less than 2% of the group's total assets on Dec. 31, 2013. We expect the group's geographic diversification to remain modest for the next two years. The largest foreign operation is the bank's U.K. subsidiary, which had approximately £1 billion in customer deposits and loans on Dec. 31, 2013, approximately 5% of the group's assets.

Table 2

FirstBank Group Business Position

		--Year ended Dec. 31--			
(Mil. NGN)	**2014***	**2013**	**2012**	**2011**	**2010**
Total revenues from business line (mil. NGN)	N/A	395,943	297,171	235,439	174,631
Commercial banking/total revenues from business line	N.M.	93.71	95.33	95.51	N/A
Commercial & retail banking/total revenues from business line	N.M.	93.71	95.33	95.51	96.97

Table 2

FirstBank Group Business Position (cont.)					
Trading and sales income/total revenues from business line	N.M.	N/A	N/A	N/A	3.05
Insurance activities/total revenues from business line	N.M.	0.87	1.34	0.33	N/A
Asset management/total revenues from business line	N.M.	4.85	2.69	1.64	0.15
Other revenues/total revenues from business line	N.M.	0.57	0.64	2.52	(0.17)
Investment banking/total revenues from business line	N.M.	N/A	N/A	N/A	3.05
Return on equity	17.96	15.52	18.88	5.53	9.61

*First quarter figures, to March 31. NGN--Nigerian naira. N/A--Not applicable. N.M.--Not meaningful.

Capital and earnings: Pressure on noninterest revenues, margins, and high dividend payout

We regard FirstBank group's capital and earnings as "moderate." We estimated that on Dec. 31, 2013, our risk-adjusted capital (RAC) framework ratio before adjustments for the group was about 5.8%. The main risk charges, which are higher than those applied by the regulator, arise from the group's corporate lending (about 60% of total risk charges year-end 2013). Furthermore, government exposure accounts for about 13% of total risk-weighted credit exposure. These include cash and balances at the central bank, government bonds, and Asset Management Corporation of Nigeria (AMCON) bonds, which are guaranteed by the government. Our higher risk weight for government and corporate exposures largely explains the difference between our calculation of the group's RAC ratio and its regulatory capital adequacy ratio of 17.7% on Dec. 31, 2013.

We expect FirstBank group's RAC ratio before adjustment to stay at about 5% through 2016, based on robust economic growth and relatively stable interest rates, loan growth of 15%, good net interest margins, low cost of risk, and fairly high dividend payouts.

More specifically, we forecast:

- Loan growth of 15% through 2016;
- Net interest margins of 7.5% and flat noninterest income due to a regulatory cap on fees and commissions on transactions;
- A slow increase in credit losses to 1.3%-1.4% and a nonperforming loan (NPL; defined as loans 90 days past due) ratio at about 3% over the next 12-18 months;
- Operating cost growth in line with inflation, but cost-to-income ratio remaining higher than that of top-tier peers at about 60%; and
- A dividend payout ratio of about 45% of net profits.

We estimate FirstBank group's three-year average earnings buffer for 2014 at 0.7%, which is adequate compared with top-tier Nigerian peers.

In our view, FirstBank group's quality of capital and earnings is good and compares adequately with domestic peers'. That said, FirstBank issued $450 million of subordinated debt in 2014, to strengthen its regulatory capital. Similar to peers, net interest income to revenues amounts to more than two-thirds of the bank's total revenues, while fees and commissions accounted for about 20% of revenues in 2013.

Table 3

FirstBank Group Capital And Earnings

		--Year ended Dec. 31--			
(Mil. NGN)	**2014***	**2013**	**2012**	**2011**	**2010**
Tier 1 capital ratio	14.43	14.96	19.60	23.09	17.70
S&P RAC ratio before diversification	N.M.	5.80	N.M.	N.M.	N.M.
S&P RAC ratio after diversification	N.M.	4.90	N.M.	N.M.	N.M.
Adjusted common equity/total adjusted capital	100.00	100.00	100.00	100.00	100.00
Double leverage	N.M.	83.11	94.46	N.M.	N.M.
Net interest income/operating revenues	75.38	77.57	75.85	74.84	69.76
Fee income/operating revenues	18.55	18.23	20.20	20.21	25.80
Market-sensitive income/operating revenues	4.36	2.73	1.77	3.05	6.12
Noninterest expenses/operating revenues	66.02	61.87	64.73	62.04	68.11
Preprovision operating income/average assets	2.74	3.21	3.46	3.43	2.47
Core earnings/average managed assets	2.23	2.04	2.50	0.71	1.31

*First quarter figures, to March 31. NGN--Nigerian naira. RAC--Risk-adjusted capital. N.M.--Not meaningful.

Table 4

FBN Holding PLC 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	1,090,211	0	0	1,053,294	97
Institutions	445,888	0	0	281,548	63
Corporate	2,635,726	0	0	4,802,364	182
Retail	121,921	0	0	191,129	157
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets	172,540	0	0	424,382	246
Total credit risk	4,466,286	0	0	6,752,717	151
Market risk					
Equity in the banking book†	63,725	0	0	677,650	1,063
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	677,650	--
Insurance risk					
Total insurance risk	--	--	--	0	--
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	7,987,022	100

Table 4

FBN Holding PLC Risk-Adjusted Capital Framework Data (cont.)				
Total Diversification/Concentration Adjustments	--		1,467,272	18
RWA after diversification	0		9,454,294	118
(Mil. NGN)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	0	0.0	463,029	5.8
Capital ratio after adjustments‡	0	0.0	463,029	4.9

*Exposure at default. §Securitization exposure includes the securitization 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, 2013, Standard & Poor's.

Risk position: Low loan leverage and improving loss experience

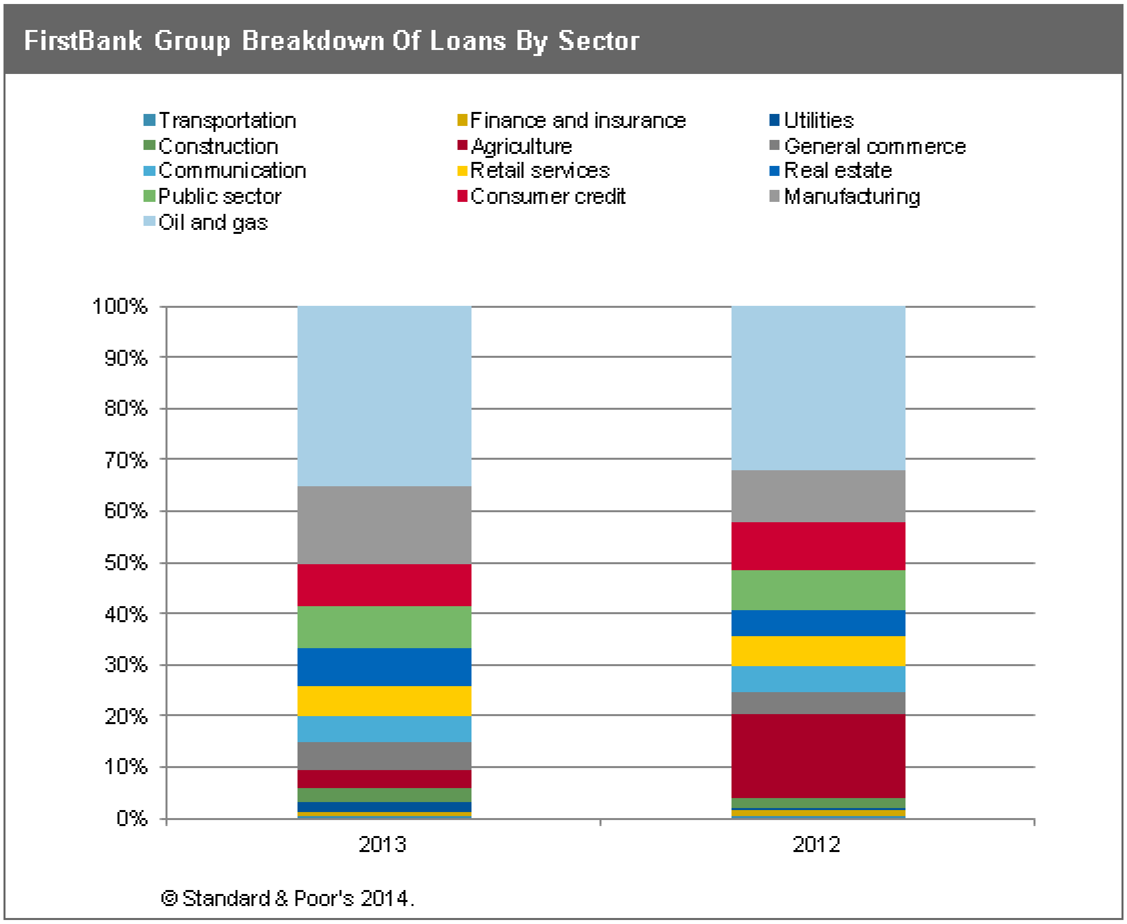
In our opinion, FirstBank group's "adequate" risk position is underpinned by good underwriting standards and selective loan growth. We forecast that FirstBank group's NPLs will remain at about 3% through 2016 and that its credit losses will rise to 1.4% through 2016.

FirstBank group's NPLs averaged 5.5% over the past five years. The bank's five-year average (2009-2013) cost of risk (defined as new loan-loss provisions to average customer loans) of 2.7% compares well with its peers' average of 3.2% over the same period. Comparisons between Nigerian banks' cost of risk metrics are difficult to assess because the banks use different definitions to record losses or timeliness measures for an NPL. Therefore, in our analysis, we estimate a five-year average for Nigerian banks' NPLs.

The FirstBank group exhibits comparatively high-quality assets given its cash position (10% of assets), bank deposits (14%; largely at banks outside Nigeria rated 'BBB-' or higher), securities (24%; three-quarters of which is Nigerian government debt), with loans of only 47% of assets at year-end 2013.

We expect FirstBank group's loan growth to be moderate over the next 12-18 months, with most new loans in the power, infrastructure, and construction sectors and the retail segment. The bank's loan book, in line with peers', prone to rapid change, and demonstrates similar industry and single-name concentrations. Notably, existing exposure to the oil and gas sector is high at 38% of total loans (see chart 2), but is in line with the system, while consumer loans represent a meaningful contributor to the loan book (11%). The 20 largest loans accounted for 35% of total loans, which is in line with the sector average.

Chart 2



We also consider foreign currency lending to be a potential source of risk for banks operating in Nigeria. Of FirstBank's loan book, 33% is denominated in foreign currencies, of which 32% in U.S. dollars. FirstBank's U.K. subsidiary offers most of these loans to European corporations operating in Africa. Positively, foreign currency loans are mainly to companies which have revenues in the same currency and the remainder are managed using hedges or by enforcing currency exchange if the naira devalues.

Table 5

FirstBank Group Risk Position

		--Year ended Dec. 31--			
(Mil. NGN)	**2014***	**2013**	**2012**	**2011**	**2010**
Growth in customer loans	17.11	14.75	23.00	6.47	5.76
Total diversification adjustment / S&P RWA before diversification	N.M.	18.37	N.M.	N.M.	N.M.
Total managed assets/adjusted common equity (x)	8.25	8.36	7.91	7.78	7.43
New loan loss provisions/average customer loans	0.37	1.20	0.86	4.29	1.84
Net charge-offs/average customer loans	N.M.	1.13	3.98	0.81	1.61
Gross nonperforming assets/customer loans + other real estate owned	3.26	2.59	2.63	2.62	7.67
Loan loss reserves/gross nonperforming assets	80.17	96.05	94.46	97.91	50.72

*First quarter figures, to March 31. NGN--Nigerian naira. RWA--Risk-weighted assets. N.M.--Not meaningful.

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

We consider FirstBank group's funding to be "above average" and its liquidity "adequate." FirstBank, like other banks operating in Nigeria, is largely deposit-funded--total deposits accounted for about 75% of its total funding base on Dec. 31, 2013. Consequently, its stable funding ratio was a strong 79% on Dec. 31, 2013, which compares well with that of domestic peers. The deposit book is dominated by retail (50%) and public-sector (30%) deposits, and has fewer price-sensitive institutional and corporate deposits than peers.

Long-term funding accounts for about 20% of the bank's funding base. There is a degree of concentration in customer deposits; the top 20 depositors accounted for 25% of total customer deposits at year-end 2013. Over the past four years, FirstBank's loan-to-deposit ratio has averaged 80%, which is higher than top-tier rated peers. We expect this ratio to gradually increase toward 85% over the next two years. Although it is largely stable, even under market stress, FirstBank is still exposed to contractually short-term funds.

We consider that the strong retail and public-sector funding profile supports the low cost of funds. Despite the increase of cash-reserve requirements to 75% for public sector funds in 2013, FirstBank'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. However, the recent increase in banks' regulatory cash-reserve requirements for private sector funding to 15% will erode the benefit to margins in the future.

Similar to other banking groups in Nigeria, FirstBank group maintains strong liquidity indicators by international standards. As of Dec. 31, 2013, the group'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. FirstBank group's liquid assets comprise unrestricted cash, Nigerian treasury bills, and interbank placements, similar to those of other domestic banks we rate. The group's cash and deposits with other banks comprised 24% of total assets at year-end 2013. FirstBank group also benefits from a large portfolio of government securities that we expect it will gradually deploy to increase loan growth.

Table 6

FirstBank Group Funding And Liquidity

		--Year ended Dec. 31--			
(Mil. NGN)	**2014***	**2013**	**2012**	**2011**	**2010**
Core deposits/funding base	75.13	73.71	72.49	68.49	84.15
Customer loans (net)/customer deposits	79.92	76.50	82.90	81.67	80.01
Long term funding ratio	80.40	78.94	77.28	76.11	91.84
Stable funding ratio	N/A	118.35	117.12	125.85	N/A
Short-term wholesale funding/funding base	4.76	4.52	5.48	9.16	9.77
Broad liquid assets/short-term wholesale funding (x)	11.21	10.81	8.75	6.37	N/A
Net broad liquid assets/short-term customer deposits	52.28	48.64	44.20	108.19	N/A
Short-term wholesale funding/total wholesale funding	19.14	17.21	19.92	29.06	61.61
Narrow liquid assets/three-month wholesale funding (x)	12.20	11.78	9.11	6.74	N/A

*First quarter figures, to March 31. NGN--Nigerian naira. N/A--Not applicable.

Support: Core to the parent

We consider FirstBank to be a "core" subsidiary of its parent, FNBH. The bank is the principal subsidiary of the holding company and operates in 11 countries and represents 87% of total assets and 95% of the group's profit before tax at year-end 2013. FNBH was created in 2012 as a result of the Nigerian regulator's requirement to ring-fence core banking activities from noncore operations. The group has banking operations outside Nigeria and the bank fully owns the recently acquired banks in West Africa.

Despite the bank's high systemic importance, the ratings on FirstBank reflect our assessment of the bank's core group status to the FirstBank group and its 'bb-' SACP. We classify the Nigerian government as supportive of the domestic banking sector, but we do not add any notches above the bank's SACP.

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 Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- First Bank of Nigeria Ltd 'BB-/B' Ratings Affirmed; Outlook Negative, July 14, 2014
- Outlooks On Five Nigerian Banks Revised To Negative After Sovereign Action; Ratings Affirmed, April 1, 2014
- Nigeria Ratings Affirmed; Outlook Negative On Increasing Political, Institutional, And Fiscal Risks, March 27, 2014
- Brighter Prospects For Nigeria's Banking Sector In 2014 Will Depend On Political And Regulatory Stability, Feb. 11, 2014
- Banking Industry Country Risk Assessment: Nigeria, Nov. 22, 2013
- Nigeria (Federal Republic of), Oct. 18, 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 August 25, 2014)

First Bank of Nigeria Ltd	
Counterparty Credit Rating	BB-/Negative/B
Nigeria National Scale	ngAA-/--/ngA-1
Subordinated	B
Counterparty Credit Ratings History	
01-Apr-2014	BB-/Negative/B
11-Jun-2013	BB-/Stable/B
11-Jun-2013 *Nigeria National Scale*	ngAA-/--/ngA-1
Sovereign Rating	
Nigeria (Federal Republic of)	BB-/Negative/B
Nigeria National Scale	ngAA-/--/ngA-1
Related Entities	
FBN Finance Company B.V.	
Subordinated	B
FBN Holding Plc	
Issuer Credit Rating	B/Negative/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.

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