GCR GLOBAL CREDIT RATING CO.
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First Bank of Nigeria Limited

Nigeria Bank Analysis **September 2013**

Security class	Rating scale	Rating	Rating outlook	Expiry date
Long term	National	AA-$_{(NG)}$	Stable	09/2014
Short term	National	A1+$_{(NG)}$		

Financial data:

(US$'m Comparative)

	31/12/11	31/12/12
NGN/US$ (avg.)	157.4	160.1
NGN/US$ (close)	164.1	156.6
Total assets	17,057.1	19,666.7
Tier I capital	2,179.1	2,107.9
Tier II capital	143.8	276.7
Net advances	7,632.3	9,980.9
Liquid assets	2,170.0	2,295.8
Operating income	1,368.2	1,751.5
Profit after tax	129.0	445.1
Market cap.	n.a.	
Market share**	14.5%	

***As a % of total commercial banking assets for the period ended 31 December 2012.*

Rating history:

Initial Rating (September 2006)
Long term rating: AA$_{(NG)}$
Short term rating: A1+$_{(NG)}$
Rating outlook: Positive

Last Rating (November 2012)
Long term rating: AA-$_{(NG)}$
Short term rating: A1+$_{(NG)}$
Rating outlook: Stable

Related methodologies/research:

Banking Criteria (updated 2013)
Banking Sector Bulletin (December 2012)
Previous Rating Reports (up to 2012)

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Summary rating rationale

The ratings are based on the following key factors:

- First Bank of Nigeria Limited ("FirstBank" or "the bank") controls the banking operations of the overall group and retained its slot as the largest local bank in terms of total assets, deposits, customer base and branch network. The bank currently operates as an international commercial bank, with subsidiaries in the UK and the Democratic Republic of Congo (including representative offices in China, South Africa and the United Arab Emirates).
- Though the bank is adequately capitalised at N394.5bn, the restructuring exercise, and subsequent transfer of shares between the bank and its Holding Company, saw its subscribed capital decline by 24.1% which, in turn, saw the capital adequacy ratio ("CAR") drop to 21.5% (F11: 25.5%), against a 15% minimum requirement for international commercial banks. Post-year-end, the bank announced the conclusion of a Eurobond transaction which saw it raise US$300m in Tier II debt capital. This is to support the bank's capital position and growth aspirations, going forward.
- Liquidity risk is systemic to the Nigerian banking sector with deposit liabilities usually with shorter maturities compared to assets. However, based on behavioural trends, these deposits are usually rolled over at maturity as reflected by the monthly liquidity ratio which ranged between 40% and 53% throughout F12, closing at 49.5% (against a 30% minimum regulatory requirement for international commercial banks).
- Asset quality is considered sound, with the bank posting a gross non-performing loan ("NPL") ratio of 2.6%, which compares favorably with its peers and ended below the 5% central bank tolerable limit.
- The bank recorded a significant improvement in performance at the end of 2012, as net interest income increased by 27% to N218bn and profit before tax grew by 120% to N86.2bn (well above the industry average). Though the cost ratio rose slightly to 65%, ROaE and ROaA improved to 24.5% and 3.2% from negative 5.6% and 0.8% respectively.

Factors that could trigger a rating action

Positive movement/s: The bank's ability to sustain the asset quality as well as profitability.

Negative movement/s: Significant/sharp decline in asset quality or profitability below that of peers.

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Organisational profile

Corporate summary[1]

The bank was incorporated in 1894, in Liverpool, as Bank of British West Africa, and acquired "African Banking Corporation". The bank was later incorporated locally as Standard Bank of Nigeria Limited in 1969 and became listed on the Nigeria Stock Exchange ("NSE") in 1971. The name 'First Bank of Nigeria' was adopted in 1979.

In November 2012, First Bank of Nigeria Plc was delisted from the NSE, in compliance with the new banking guidelines which requires banks to either divest from their non-banking subsidiaries or adopt a holding company. To that end, the bank went with the latter option and FBN Holdings Plc ("Holdco") was established and listed shortly after.

Ownership structure

As at December 2012, FirstBank became a wholly owned subsidiary of the Holdco (99.9%), while FBN capital controls the remaining minority. Prior to this, the bank was owned by over a million institutional and private investors (across several countries) who were transferred to the Holdco on a one-for-one shareholding basis during the restructuring exercise.

Strategy and operations

Despite its new restructuring, FirstBank remains focused on retail and corporate banking. The new banking group comprise: FirstBank, FBN Bank (UK) Limited, First Pension Custodian Nigeria Limited, FBN Mortgages Limited, FBN Bureau de Change Limited and Banque Internationale de Credit (BIC). The bank's operations remain classified along its 5 strategic business units ("SBU"s), which include: Corporate, Institutional, Private, Public Sector and Retail Banking. These business units were designed to align the structure with the strategy in place, which have been subdivided into financial and non-financial priorities and are: enhanced income, low cost deposit mobilisation, selective creation of loans and advances, pricing optimisation, cost efficiencies, credit quality/process excellence, service excellence, brand transformation, talent management and performance management.

As at December 2012, the bank had 714 outlets in Nigeria (comprising of 605 branch offices, 109 agents and quick service points) increased to 729 by 1H, 2013. The bank has recently upgraded its banking application to "Finacle 10", which is expected to strengthen operational flexibility.

Governance structure

Corporate governance within the bank was found to be broadly in line with best practice, as shown below.

Description	Findings
Number of non-executive directors	12/19 (including 1 independent)
Separation of power	Yes, Chairman different from CEO
Tenure of non-executive directors	3years, with maximum of 3 terms
Number of board committees	7, including those required by CBN†
Internal auditor & compliance	Yes, independent reports to board
External auditors	Pricewaterhouse Coopers & PKF.
Corporate governance appraisal	Yes, KPMG professional services

† Central Bank of Nigeria; Source: Annual Financial Statement (AFS).

Despite the depth of non-executive directors on the board, independence is a notable shortcoming and a standard pressure flag in GCR's structural assessment. That said, plans are in place to appoint at least one additional independent director to the board during the current financial year (though central bank approval has to be sought and could see the process delayed).

Financial reporting

The 2012 audited financial statements of the bank were compiled in line with International Financial Reporting Standard ("IFRS") as a first time adopter, the Companies and Allied Matters Act, Financial Reporting Council of Nigeria requirements and the Banks and Other Financial Institutions Act. The auditors issued an unqualified opinion on the financial statements.

Operating environment[2]

Industry overview

Competitors in the Nigerian banking space include commercial banks, merchant banks, development financial institutions, specialised financial institutions and non-bank financial institutions. The full take-off of the newly introduced stratified banking model in 2012 has dramatically reshaped the country's commercial banking universe. This segment presently comprise: 10 international banks, 9 national banks, and 2 regional banks - WEMA Bank Plc and Heritage Bank Limited (which commenced operation in 2013). Three of the national banks, namely: Enterprise Bank Limited, Keystone Bank Limited and Mainstreet Bank Limited, are presently under AMCON's[3] management. In addition, FirstBank, First City Monument Bank Plc, Stanbic IBTC Bank Plc and Union Bank of Nigeria Plc now operate as subsidiaries of their various holding companies, in line with the new banking rules.

Although yet to resume its banking operations, the banking license of Savannah Bank Limited was recently restored. Asset quality improved across the sector in 2012. However, this is mainly due to the mop up of banks' major toxic loans by AMCON. It may, however, be difficult to maintain the non-performing loans ("NPL") ratio at this level through

[1] Refer to previous First Bank reports for a detailed background.

[2] Refer to GCR's 2012 Nigeria Banking Industry Bulletin for a review of all relevant economic, regulatory and/or industry developments.

[3] A special intervention entity created through government decree.

2013, due to: (i) the temporary suspension of AMCON's mandate, and (ii) the general increased appetite for loan assets creation.

Competitive position

The structural changes, along with a number of mergers and acquisitions, altered the competitive landscape (especially within the top Tier band). However, FirstBank remain the largest in terms of total assets and ranks amongst the highest in terms of profitability and capital base. Table 1 below reflects the bank's position compared to its direct peers as at December 2012.

Financial profile

Funding composition

The bank is primarily funded by shareholders' funds (13.3%), deposit liabilities (81.2%), interbank placements (3%), and borrowings (2.5%).

Customer deposits and interbank funding

Total customer deposits grew by 23% in F12, largely emanating from the retail (which rose from N884bn to N1tn), institutional and corporate segments (with a combined growth of 43% in F12). The bank's weighted average cost of funds as at December 2012 amounted to 2.6%. Analysis into the books shows some level of concentration in terms of maturity and the single largest depositor (relates to the oil and gas). The bank intends to grow the deposit book by 15% in 2013.

Table 2: Deposit book characteristics (%)

By sector:		**By type:**	
Institutions & corporate	21.0	Demand	33.5
Retail	41.6	Savings	22.8
Public sector	24.6	Term	20.8
Others	12.8	Others	22.9
Concentration:		**Maturity profile:**	
Single largest	9.1	< 1 month	89.3
Five largest	15.4	1-3 months	7.6
Ten largest	18.8	3-12 months	3.1
Twenty largest	22.7	> 12 months	0.0

Source: Management.

Borrowings

After a 16% reduction in F11, total borrowings were rationalised by a further 28% to N75.5bn (F11: N104bn). Management explained that 2 major borrowings were repaid during the year, these are: (i) the dollar notes issued by FBN Capital Finance Company, Cayman Island, and (ii) a medium term loan (also dollar notes) secured by Standard Chartered Bank.

Consequently, major borrowings as at December 2012, are: on-lending facilities guaranteed by FBN (including Bank Of Industry funds and Commercial Agriculture Credit Scheme intervention funds) amounting to N25.8bn, as well as borrowings from correspondent banks amounting to N47.1bn.

Capital structure

As a result of the restructuring, and the subsequent transfer of shares between the bank and its Holdco, subscribed capital declined by 24.1% while the capital adequacy ratio ("CAR") declined to 21.5% at F12 (F11: 25.5%), against 15% minimum required for international commercial banks.

Post year-end, the bank announced the conclusion of a Eurobond transaction where an additional US$300m facility in Tier II debt capital was raised. This is to support the bank's capital position and growth aspirations going forward.

Liquidity positioning

Liquidity risk is systemic to the Nigerian banking sector with deposit liabilities usually reflecting shorter maturities compared to assets. However, based on behavioural trends, these deposits are usually rolled over at maturity as reflected by the monthly liquidity ratio which ranged between 40% and 53% through-out F12, to close at 49.5% (against 30% minimum regulatory requirement for international commercial banks). That said, 86% of the securities available for sale are held in treasury bills and government bonds which further mitigates liquidity risk.

Table 1: Competitive position* FirstBank vs. selected banks	FirstBank	Zenith	UBA	Access	GTBank
Year end 31 December 2012					
Capital (N'bn)	394.5	463.0	192.5	240.3	283.4
Total assets (N'bn)	3,079.8	2,566.1	2,260.2	1719.9	1,688.7
Net loans (N'bn)	1,563.0	989.8	687.4	608.6	783.9
Total comprehensive income (N'bn)	94.4	98.5	55.5	35.1	86.4
Capital/assets (%)	12.8	18.0	8.5	14.0	16.8
Liquid & trading assets/total short-term funding (%)	29.8	49.5	33.0	27.8	46.5
Gross bad debt ratio (%)	2.6	3.1	1.9	5.3	3.3
Net interest margin (%)	10.0	8.6	9.4	11.3	10.3
Cost ratio (%)	65.0	52.4	64.5	61.1	42.6
ROaE (%)	24.5	23.0	32.3	16.2	33.6
ROaA (%)	3.2	4.1	2.7	2.1	5.3

*Ranked by total assets.

Credit risk (strategic overview)

Risk management

Risk management processes within the bank are well defined and based on methodical event cycle. The credit division is sub-divided into 5 different departments, namely: (i) credit analysis and processing, (ii) specialised lending department, (iii) credit risk management, (iv) remedial management, and (v) classified assets management. Total assets increased by 10% for the year under review, with growth driven by customer advances (up 24.8%) and restricted deposits (up 84%); with the latter due to an increase in cash reserve ratio ("CRR") from 8% to 12% during F12.

Table 3: Asset mix	F11		F12	
	N'bn	%	N'bn	%
Cash & liquid assets	**605.8**	**21.6**	**644.4**	**20.9**
Cash	*45.3*	*1.6*	*53.1*	*1.7*
Liquidity reserve deposits	*103.9*	*3.7*	*191.5*	*6.2*
Fin assets held for trading	*4.8*	*0.2*	*0.7*	*< 0.1*
Balances with other banks	*451.8*	*16.1*	*399.2*	*13.0*
Investments:	**694.3**	**24.8**	**682.2**	**22.2**
Available for sale	*356.9*	*12.8*	*351.4*	*11.4*
Held to maturity	*337.3*	*12.1*	*330.9*	*10.7*
Pledged assets	72.1	2.6	50.1	1.6
Customer advances	1,252.5	44.7	1,563.0	50.8
Property, plant and equip.	65.9	2.4	74.5	2.4
Other assets	108.5	3.9	65.6	2.1
Total	**2,799.1**	**100.0**	**3,079.8**	**100.0**

Source: AFS.

Available for sale investments comprised treasury bills and government securities (accounting for 86%) and equity (14%). This was a strategic move by the bank to benefit from the current increase in market rates.

Contingencies

Off balance sheet assets and liabilities relate to performance bonds and guarantees (61%), as well as letters of credits (39%), totaling N564.5bn, compared to N459.1bn in the previous year.

Loan portfolio

Customer advances remains the largest component of the bank's credit risk exposure, and rose by 24.8% in F12. The loan growth was a strategic move by the bank as a means of supporting the economy, targeting the oil and gas, manufacturing, real estate and general commerce. This business focus is also not expected to change significantly going forward. However, maturity profiling of these exposures against the bank's liabilities will cause a liquidity mismatch. The loan to deposit ratio as at year end was 65%, against 80% maximum under prudential guideline.

Table 4: Loan book characteristics (%)			
By sector:		**Maturity:**	
Agriculture	3.5	< 1month	11.6
Oil & gas	35.5	1 - 3 months	32.6
Consumer credit	9.5	3 - 9 months	18.5
Gen. commerce	5.2	> 12 months	37.3
Public Sector	7.6		
Manufacturing	14.9	**By concentration:**	
Retail services	5.8	Single largest	3.6
Communication	5.2	Five largest	12.1
Real estate	8.3	Ten largest	19.6
Others	23.8	Twenty largest	30.5

Source: Management.

Asset quality

Asset quality is considered sound and compares favourably with peers, given that the gross NPL ratio was maintained at 2.6% for the second year of review and well below the 5% acceptable market limit. However, in monetary terms, total impaired loans increased by 23% to N41.4bn (from N33.6bn) in F12, given the large exposure to the oil and gas sector. Also, reflected is the bank's good reserving culture over the period with a 95% coverage ratio (F11: 98%).

While the bank did not sell any impaired loans to AMCON during the year, total write offs amounted to N5.2bn. Hence, net NPLs increased to N2.1bn at the end of 2012.

Table 5: Asset quality (N'bn)	F11	F12
	N'bn	N'bn
Gross advances*	1,285.4	1,602.3
Performing	*1,251.8*	*1,560.9*
Impaired	*33.6*	*41.4*
Provisions:	**(32.9)**	**(39.3)**
Individually impaired	*(12.9)*	*(17.1)*
Collectively impaired	*(20.0)*	*(22.2)*
Net NPLs	**0.7**	**2.1**
Selected asset quality ratio:		
Gross NPL ratio (%)	2.6	2.6
Net NPL ratio (%)	0.1	0.1
Net NPLs/Capital (%)	0.2	0.5

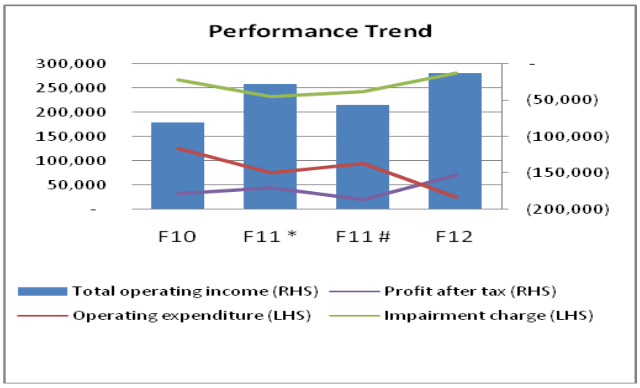
* Includes advances under finance leases; Source: AFS.

Financial performance and prospects

A 3-year financial synopsis is reflected at the back of this report, supplemented by the commentary below. Note is taken of the newly adopted reporting standard IFRS, which led to a major reclassification of the F11 financial results.

Nevertheless, a significant improvement in performance was recorded for the F12 period, with net interest income increasing by 27% to N218bn and profit before tax by 120% to N86.2bn (which is the highest so far for the bank and above the industry average).

On the other hand, operating expenses rose by 33% to N182bn, mainly due to one-off staff related expenses (includes staff rationalisation costs and revaluations of the employee benefit scheme) that took place during the year. Thus, the cost ratio rose to 65%, while ROaE and ROaA improved to 24.5% and 3.2%, from negative 5.6% and 0.8% respectively.



*F11 performance based on NGAAP; # Performance under IFRS.

Unaudited result at half year (for FirstBank Nigeria only) reflects profit before tax was slightly below the full year budget on an annualised basis. However, the latest directive by the CBN that the CRR on public sector deposits be increased to 50% is expected to impact on performance going forward (especially given that these deposits constitute 25% of the total deposit book). Nonetheless, management believes the impact will be short-lived as the bank will continue to leverage off its retail customer base.

First Bank Of Nigeria Limited

(Naira in millions except as noted)

Year end: 31 December	NGAAP		IFRS	
STATEMENT OF COMPREHENSIVE INCOME ANALYSIS	**Dec. 10**	**Dec. 11**	**Dec. 11**	**Dec. 12**
Interest income	174,040	220,397	207,019	276,795
Interest expense	(52,578)	(36,950)	(34,727)	(58,511)
Net interest income	**121,462**	**183,447**	**172,292**	**218,284**
Other income	57,957	75,787	43,060	62,126
Total operating income	**179,419**	**259,234**	**215,352**	**280,410**
Impairment charge	(21,590)	(44,814)	(38,011)	(12,912)
Operating expenditure	(116,530)	(148,865)	(136,668)	(182,329)
Exceptional items	1,889	(15,489)	(1,507)	1,008
Net profit before tax	**43,188**	**50,066**	**39,166**	**86,177**
Tax	(9,777)	(5,281)	(18,864)	(14,918)
Profit from continuing operations	**33,411**	**44,785**	**20,302**	**71,259**
Profit/(loss) from discontinuied operations	-	-	(1,665)	3,838
Other comprehensive (loss)/gain	-	884	(40,032)	19,264
Total comprehenssive income	**33,411**	**45,669**	**(21,395)**	**94,361**
STATEMENT OF FINANCIAL POSITION ANALYSIS				
Subscribed capital	270,840	270,840	270,840	205,557
Reserves (incl. net income for the year)	69,786	94,645	96,775	187,623
Minority interest	-	-	964	1,353
Total capital and reserves	**340,626**	**365,485**	**368,579**	**394,533**
Bank borrowings (incl. deposits, placements & REPOs)	148,286	181,892	183,500	87,551
Deposits	1,303,251	1,947,473	1,950,991	2,405,854
Other borrowings	20,012	44,140	55,329	54,004
Short-term funding (< 1 year)	**1,471,549**	**2,173,505**	**2,189,820**	**2,547,409**
Deposits	147,316	330	330	4
Other borrowings	104,605	49,144	49,144	21,537
Long-term funding (> 1 year)	**251,921**	**49,474**	**49,474**	**21,541**
Payables/Deferred liabilities	199,277	189,807	191,194	116,324
Other liabilities	**199,277**	**189,807**	**191,194**	**116,324**
Total capital and liabilities	**2,263,373**	**2,778,271**	**2,799,067**	**3,079,807**
Balances with central bank	11,130	103,897	103,897	191,509
Properties, Plants and Equipments	53,986	57,171	65,874	74,454
Receivables/Deferred assets (incl. zero rate loans)	97,764	163,737	142,363	108,192
Non-earnings assets	**162,880**	**324,805**	**312,134**	**374,155**
Short-term deposits & cash	33,156	45,292	45,293	53,083
Loans & advances (net of provisions)	1,151,195	1,240,257	1,252,462	1,563,006
Bank placements	539,760	393,895	451,792	399,155
Marketable/Trading securities	23,769	187,457	310,804	306,441
Equity investments	345,157	572,853	389,429	378,358
Investments in subsidiaries/associates/properties	7,456	13,712	37,153	5,609
Total earning assets	**2,100,493**	**2,453,466**	**2,486,933**	**2,705,652**
Total assets	**2,263,373**	**2,778,271**	**2,799,067**	**3,079,807**
Contingencies	**1,022,950**	**1,546,197**	**459,080**	**564,467**
Ratio Analysis (%)†				
Capitalisation				
Internal capital generation	9.8	12.5	n.a.	24.0
Total capital / Net advances + net equity invest. + guarantees	13.5	10.9	17.5	15.7
Total capital / Total assets	15.0	13.2	13.2	12.8
Liquidity‡				
Net advances / Deposits + other short-term funding	71.1	57.1	57.2	61.4
Net advances / Total funding (excl. equity portion)	66.8	55.8	55.9	60.8
Liquid & trading assets / Total assets	26.4	22.6	28.9	24.6
Liquid & trading assets / Total short-term funding	40.5	28.8	36.9	29.8
Liquid & trading assets / Total funding (excl. equity portion)	34.6	28.2	36.1	29.5
Asset quality				
Impaired loans / Gross advances	7.7	2.6	2.6	2.6
Total loan loss reserves / Gross advances	6.5	2.8	2.6	2.5
Bad debt charge (income statement) / Gross advances (avg.)	1.9	3.7	3.1	0.9
Bad debt charge (income statement) / Total operating income	12.0	17.3	17.7	4.6
Profitability				
Net income / Total capital (avg.)	10.3	12.9	n.a.	24.7
Net income / Total assets (avg.)	1.5	1.8	n.a.	3.2
Net interest margin	7.0	10.0	9.0	10.0
Interest income + com. fees / Earning assets + guarantees (a/avg.)	4.4	5.8	3.5	7.7
Non-interest income / Total operating income	32.3	29.2	20.0	22.2
Non-interest income / Total operating expenses (or burden ratio)	49.7	50.9	31.5	34.1
Cost ratio	64.9	57.4	63.5	65.0
OEaA (or overhead ratio)	5.3	5.9	5.4	6.2
ROaE	9.7	17.3	(5.6)	24.5
ROaA	1.4	2.4	(0.8)	3.2
Nominal growth indicators				
Total assets	5.3	22.7	23.7	10.0
Net advances	5.7	7.7	8.8	24.8
Shareholders funds	9.4	7.3	7.9	7.0
Total capital and reserves	9.4	7.3	8.2	7.0
Deposits (wholesale)	7.7	34.3	34.5	23.3
Total funding (excl. equity portion)	10.8	29.0	29.9	14.7
Net income	411.3	36.7	(164.0)	541.0

‡ Please note that for these ratios, liquid assets exclude the statutory reserve balance.
Note: Numbers under NGAAP refers to the former FBN group, which includes the banking and non-banking subsidiaries while that of the IFRS refers to the banking group only.
Total asset excludes customer balances in respect of credit transactions.

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SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The ratings were solicited by, or on behalf of, First Bank of Nigeria Limited, and therefore, GCR has been compensated for the provision of the ratings.

First Bank of Nigeria Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of info received was considered adequate and has been independently verified where possible.

The credit ratings above were disclosed to First Bank of Nigeria Limited with no contestation of/changes to the ratings.

The information received from First Bank of Nigeria Limited and other reliable third parties to accord the credit rating included the latest audited annual financial statements (plus four years of comparative numbers), latest internal and/or external report to management, most recent year-to-date management accounts, In addition, information specific to the rated entity and/or industry was also received.