First Bank:

Nigerian Pioneer Bank Reaps the Benefits of a Solid Legacy

Competition, Fragmentation and Compressed Margins

In the 1980s, the 3 musketeers of Nigerian banking (First Bank, Union Bank and UBA) controlled over 50% of total deposits and risk assets in the industry. All other players scrambled for the crumbs. Given their prominent positions, they collaborated with the regulator to ensure banking system stability and served as a major financial intermediary between the markets and policymakers.

Over the years, the financial industry has experienced a series of structural changes from being dominated by few institutions to multitudes. However, the impact of strict regulations necessitated the need for consolidation. This narrowed the number of existing entities, leaving the old generation banks to account for a small share of the industry. The new generation banks have penetrated the market through financial technology innovations that have transformed Nigerian banking operations.

In line with CBN's drive to promote financial inclusion, the Nigerian banking industry's market share is now split between fintechs, payment service banks, new and old generation banks. The cannibalisation of the banking industry has therefore intensified competition within the space and compressed margins of industry players.

FBNH'S VALUE PROPOSITION

FBN Holdings had over the years taken advantage of its geographical footprints. At one point in time it had over 25% of total bank branches in Nigeria. Leveraging on the economies of scale, today, FBN has made a mental shift from relying on its branches for doing business to a greater emphasis on its digital architecture. In the digital space, FBN is not only a fierce competitor but is a winning institution.

Despite the intense competition faced by Nigerian banks from fintechs and telecommunication operators, First Bank of Nigeria remains competitive in the digital banking space with increased customer acquisition from 10 million to 36 million in few years. Also, the group has a robust retail banking franchise; comprising of over 3,000 configured terminals and over 15,000 point of sale (POS) terminals, agency banking network, as well as internet and mobile banking platform.

The Nigerian oldest bank is well positioned to deepen its penetration in the information technology space through its wide branch network (deposit and loan portfolio of N6.13 trillion and N4.03 trillion respectively).

The era of an experienced and well-structured management team signifies a continued restructuring of the bank's operations and the gigantic return to profitability of a previously crippling giant.

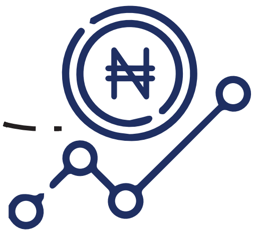
Also, the bank's international presence gives it an edge and serves as a buffer against currency weakness, political challenges and macro -economic vulnerabilities.

JOURNEY TO RE-INVENTION-RESURRECTING FUNDAMENTALS

Contrary to the reserved moves of its competitors, the FBN group was the foremost bank to embrace the holding company structure. Over the years, it has leveraged on its well-diversified financial service system, and their respective leadership positions in the sub-sets of the sector.

The bank which was formerly plagued with bad credit decisions, significant non-performing loans and poor corporate governance practices has taken drastic steps to tackle these worrisome issues and re-establish itself as a formidable force in the Nigerian banking space. This new identity can be tied to a restructuring exercise that improved corporate governance, asset quality and shareholders' value.

In line with the bank's proactive moves, First Bank pioneered the implementation of financial inclusion through its e-banking system. This has successfully served both the elite and under-banked population. The group performs well over 130 million electronic banking transactions per month.



As a result of First Bank's restructuring exercise, the bank reported a huge sum of N141 billion as loan recovery from previously written off Atlantic Energy Ltd loan in 2021. This exercise bolstered a 100% bottom-line growth in the period under review.

Impressively, the bank sustained this positive performance by recording 32% increase in gross earnings to N180bn in Q1'22 from N136.6bn in Q1'21. Profit after tax was up 108% to N32.4 billion (Q1'22) relative to N15.6 billion (Q1'21). This stellar performance is attributable to robust loan portfolio, effective cost structure and increased digital services.

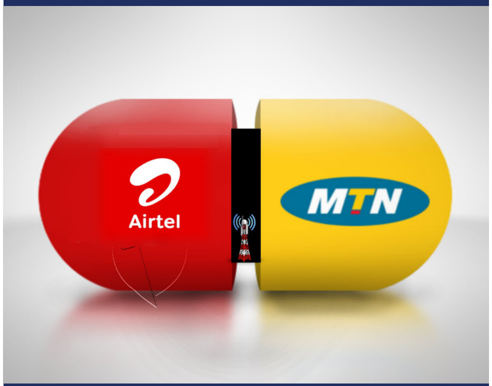
Financial Performance (%)

	2017	2018	2019	2020	2021
Share price	163%	-14%	-17%	14%	62%
PAT	209%	58%	-3%	54%	68%
Gross earnings	2%	-2%	1%	1%	28%

Key Ratios	Dec-17 (%)	Dec-18 (%)	Dec-19 (%)	Dec-20 (%)	Dec-21 (%)
CAR	17.7	17.3	15.5	17.0	17.4
NPL Ratio	22.8	24.7	9.90	7.7	6.10
LDR	72.5	59.3	48.0	46.8	51.4

Source: First Bank Financials, FDC Economic Think Thank

Drawbacks



Despite First Bank's strive to stay competitive in the digital space, the telecommunication giants (MTN Nigeria and Airtel Africa) seem to be one step ahead following the final approval and commencement of operations of the payment service banks.

A capital adequacy ratio of 17.4%, though higher than regulatory threshold is relatively low compared to peers. A major capital raising exercise is expected to push the CAR to a well competitive range.

We therefore expect the management's continuous remodelling to influence all other prudential ratios.