



FBNH (FBN) Troubles, Trials, and the Quest for Redemption

Olufemi Awoyemi
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CHATHAM
HOUSE “Rules
Apply”

“The best kind of **intelligence** is to understand what your market will think tomorrow (*imagination*), not find out what they thought yesterday....

...But In ’s Case, Governance flows from Culture which is all about **memory!**”

Five things I wish to achieve

- 🔦 **Deliver a “*family talk*” inspired by a shared interest in the institution;**
- 🔦 **Provide a “honest assessment” of the “*Day After*” the CBN Action ...The unspoken truth;**
- 🔦 **Present a quick peep into History... and interrogate the essence of *Institutional Memory*;**
- 🔦 **Briefly touch on ‘Data Evidence’... and raise issues around *what is possible* – *Moving From a ‘Siege/Survivor mindset’ to a ‘Legacy mindset’*; and**
- 🔦 **Respond to *Comments* as best as I Can.**



EXECUTIVE SUMMARY

THE BATTLE FOR TRUTH: *CAUSE & EFFECT*

The Morning After....

- 💡 It was not meant to be like this. FBHN **Disappointed** the public. Everyone was taken aback.
- 💡 The thin line between shareholders and stakeholders broke.... and something else emerged. A century old myth cracked and the worst scenario appeared possible.
- 💡 Beyond the CBN mandate: The public wants you to **take the bank back** quickly, away from **intensive care**.

The Mess in the Message....

💡 The biggest tragedy was neither the ill-informed action of the erstwhile board nor the response but a *slip* in the “communication” from the CBN.

💡 *Forbearance since 2016* signposted many things, but more poignant was the *distortion of the truth* and the *concurrence it delivered on insider relations* that left a bad taste.

💡 The follow-up press interview further confirmed our worst fears.... we had to speak up.


What we picked up....

- 💡 NEDs were compromised from the get-go thus weakening the *governance architecture* from within.
- 💡 The issue of *insider related loans* is historical (though not peculiar to the bank) and current board change may not address the problem.
- 💡 Institutional learning is absent and frameworks for best practice is episodic and *personality driven*.
- 💡 Rebuilding will require sacrifice and the setting aside of self-interest and an *Ostrich mindset* that plagues the bank.

“Pain is Inevitable but Suffering is Optional?”

..for the birds of hope are everywhere, listen to them
sing..

The Turning Point....?

- 💡 This Board unfortunately is unlike any other board. The public views it as the **board of the CBN**, not of shareholders.
- 💡 As long as CBN calls the shot, the bank is seen as not on a sound footing and corporates will vote with their feet.
- 💡 The Bank's top executive and indeed the board is seen as firmly in the Governor's pocket and controlled by factions.
- 💡 This is a divided house. 


Institutional Response Required

💡 FBHN has shown it lacks **institutional memory** and learning.

Que: ***Whose interest are you serving on this board?***

💡 FBHN must embrace the inevitable and this board must deliver on the following:

- Resolve what the *true state* of its finances are and determine how it wants to re-engage stakeholders;
- Decide what business it wants to do and build *competitive advantage* in;
- Take steps to resolve its *insider-related NPL* positions and related NPL issues; and
- Admit it needs *capital injection* and kick-start the process as part of its succession management plan.



We are not going to achieve a quantum leap by embracing a tunnel vision

..we will make mistakes, have false steps but we must recognise that this current state is NOT another crisis... **it is a disruptor in our governance model...**

We must dare to **RE-IMAGINE!!!**

IN GOD WE TRUST:

DATA PROVIDES THE GUIDE


FBN Holdings 







FBHN/FBN - The Giant?



With over **125 years** banking history tucked under its belt, First Bank of Nigeria, and its subsequent holding company FBNH should be **masters** of the **corporate survival universe**, with loyal customers sitting on ‘old’ money, and an intimidatingly large national branch network and asset size, the bank and its Holdco **should be Nigeria’s foremost banking franchise**, but unfortunately this is not the case.

FUGAZE: MEASURING THE ELEPHANT AGAINST THE JUNGLE

FINANCIAL ANALYSIS (N'm)										
	Gross Earnings	Net Interest Income	Non-Interest Income	Operating Expenses	Operating Income	PBT	Loans and Advances to customers	Deposit from customers	Total Assets	Total Equity
 FBNHoldings	579,429	251,615	174,700	292,500	426,300	83,703	2,217,268	4,894,715	7,689,028	765,171
 ZENITH	696,450	299,682	251,700	256,032	551,427	255,861	2,919,342	5,339,911	8,481,272	1,117,473
 GTBank	455,229	253,668	154,500	147,400	382,300	238,095	1,662,731	3,509,319	4,944,653	814,395
 UBA United Bank for Africa	620,375	259,467	190,000	249,847	407,645	131,860	2,554,975	5,676,011	7,697,980	724,148
 access	764,717	262,950	275,500	326,509	515,324	125,922	3,218,107	5,587,418	8,679,747	751,041
 Ecobank The Pan African Bank	841,142	346,605	295,148	402,694	641,753	66,598	3,699,028	7,324,818	10,384,349	811,754

RATIO ANALYSIS									
	Roae	ROaA	Net Interest Margin	Cost of Funds	Cost-to-Income Ratio	Non-Performing Loans	Capital Adequacy Ratio	Liquidity Ratio	Cost of Risk
 FBNHoldings	12.60%	1.30%	6.10%	2.30%	68.60%	7.70%	17%	34.80%	2.40%
 ZENITH	22.40%	3.10%	7.90%	2.10%	50.00%	4.29%	23.00%	66.20%	1.50%
 GTBank	26.83%	4.63%	9.26%	NA	38.24%	6.39%	21.89%	38.91%	1.18%
 UBA United Bank for Africa	17.20%	1.70%	5.40%	2.90%	61.30%	4.70%	22.40%		0.90%
 access	16.77%	1.45%	4.90%	3.30%	63.40%	4.30%	20.60%	46.00%	1.80%
 Ecobank The Pan African Bank	0.30%	0.64%	5.50%	NA	62.70%	7.60%	12.30%	47.80%	1.85%

Bank's Data as of FY2020

Source: Bank's Financial Statement, Proshare Research, Ecographics

FBN and FBNH... The issues

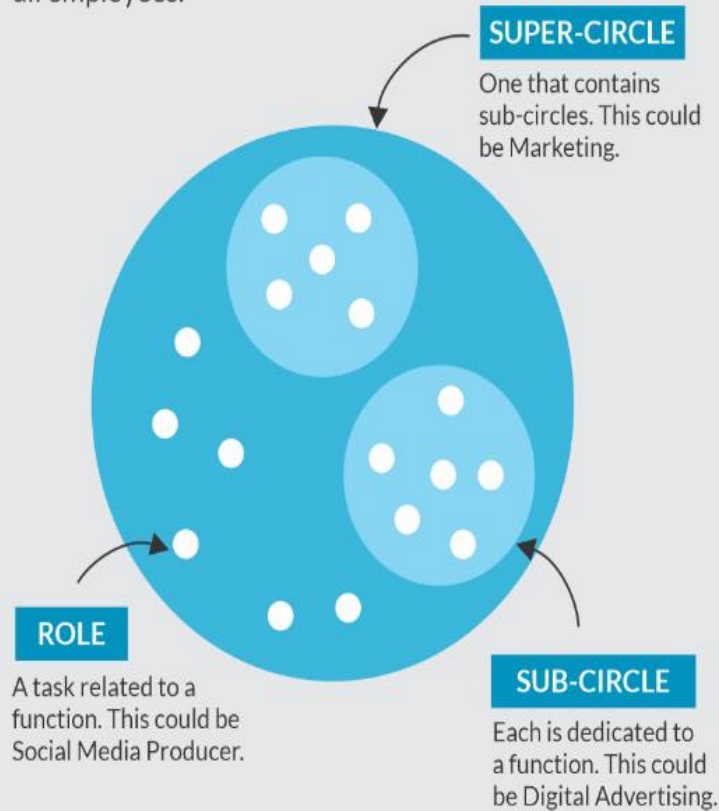
In its topsy turvy history the bank and its Holdco have dropped the corporate ball several times with damaging consequences to its short and long-term health. The reasons for the hiccups include but are not limited to the following:

- 💡 *Insider credit abuse (Board-related credit have been large and mainly unresolved).*
- 💡 *Poor risk management (over exposure to a narrow range of industries and companies, particularly in the Oil & Gas and Energy sectors has led to a strong positive correlation between the performance of these sectors and the bank's fiscal health).*
- 💡 *Poor and slow technology adoption and adaptation.*
- 💡 *Weak internal credit control (High NPLs and relatively low CAR)*
- 💡 *Stifling operational bureaucracy (hierarchy Vs holacracy (flat, team-based collaborations))*

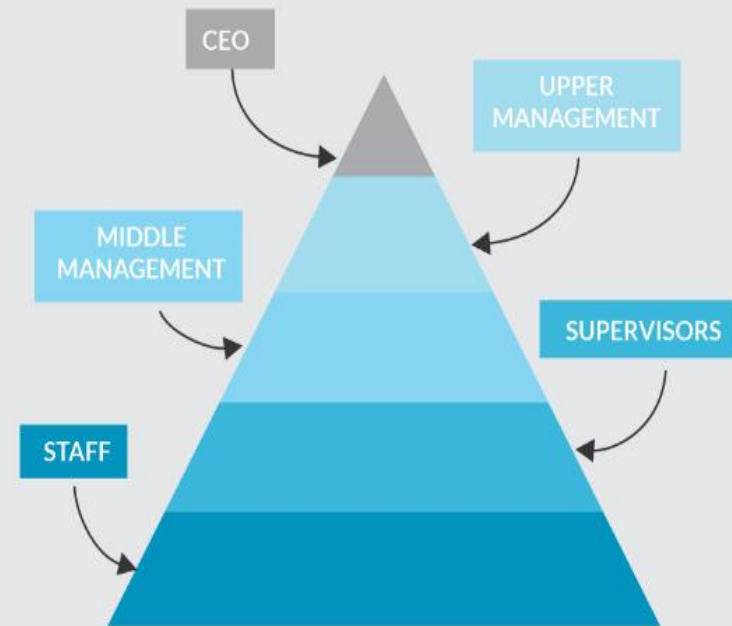
Holacracy Vs Hierarchy



Holacracy takes powers traditionally reserved for executives and managers and spreads them across all employees.



In a **traditional hierarchy**, layers of management establish how products are approved and monitored.



Source: Mckinsey, Proshare Research, Ecographics

FBN and FBNH... more weaknesses

- ❗ *Weak staff unlearning, learning, and relearning processes.*
- ❗ *Dominant operational siloes (weak cross sale of group businesses).*
- ❗ **Overbearing board of directors (BODs)** *influence over operational matters has at various times suffocated business, requiring corporate reoxygenation.*
- ❗ *Corporate planning has at different times been weak and unimaginative. The planning process has relied mainly on shifting base-rate revenue and cost assumptions rather than rethinking and reimagining the whole business process with big, hairy, and audacious goals (BHAGs) as has been seen with younger corporate rivals in Nigeria's Tier 1 banking category.*
- ❗ *The bank's foreign branch operations have at separate times been a drag on the group's overall performance - this contrasts with the value addition that has been observed with other Tier 1 banks that have ventured outside Nigeria.*

A PEEP INTO HISTORY:

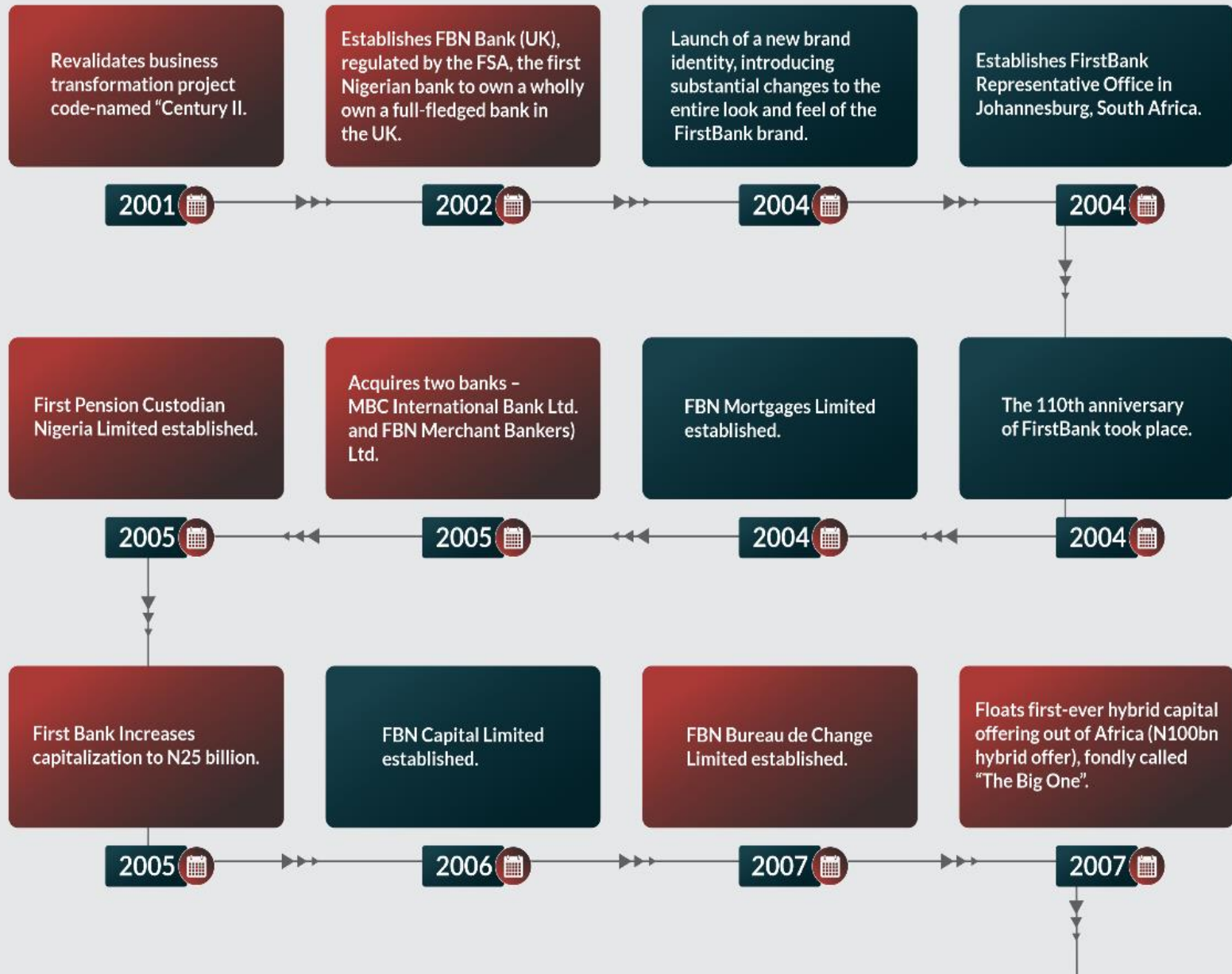
WHERE THEY CAME AND WHENCE THEY GO...

FBN Holdings 

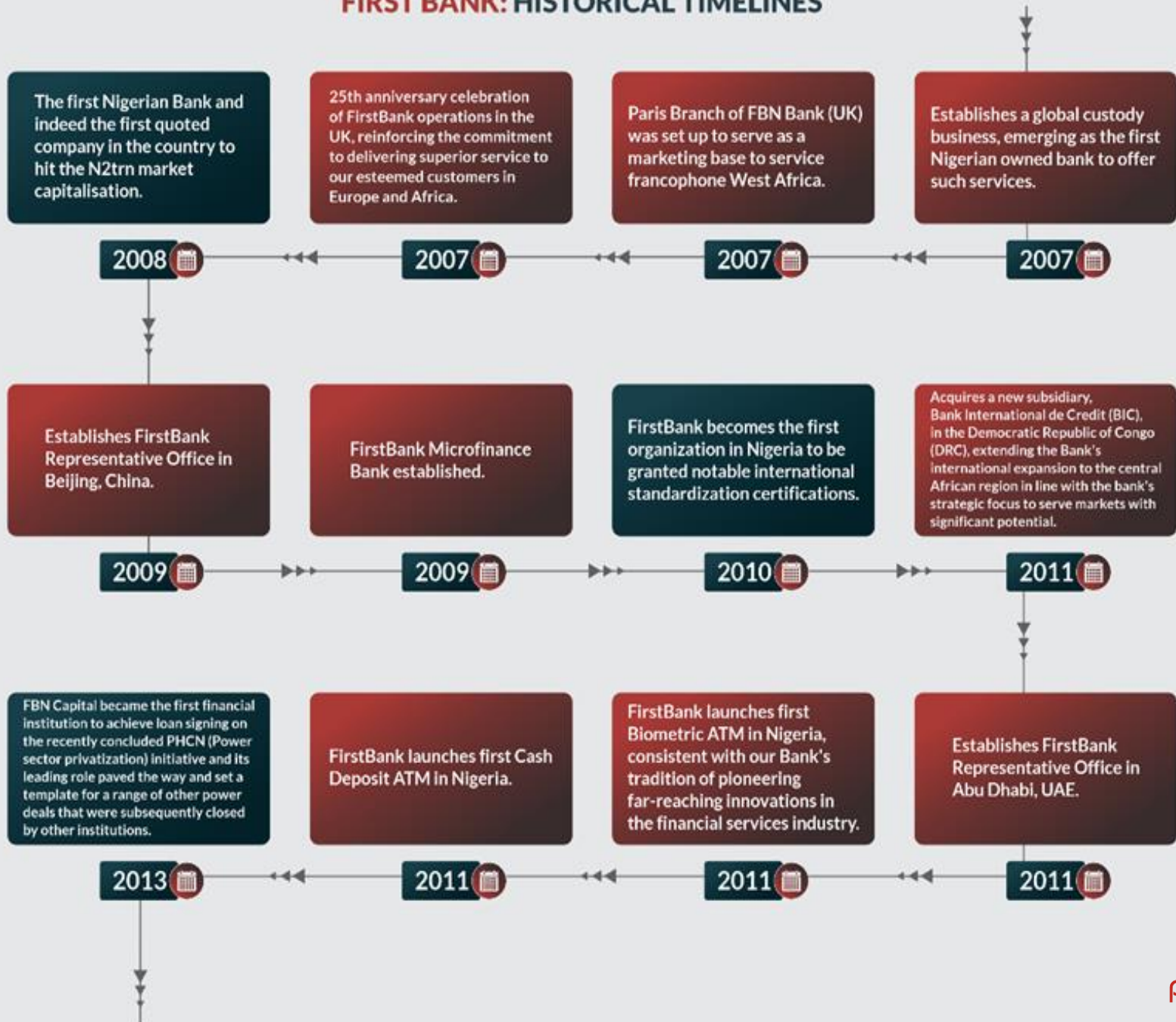
FBN's history since **2001**
has evolved through highs
and lows.

*This is where institutional learning
begins from and memory must give
way to imagination.*

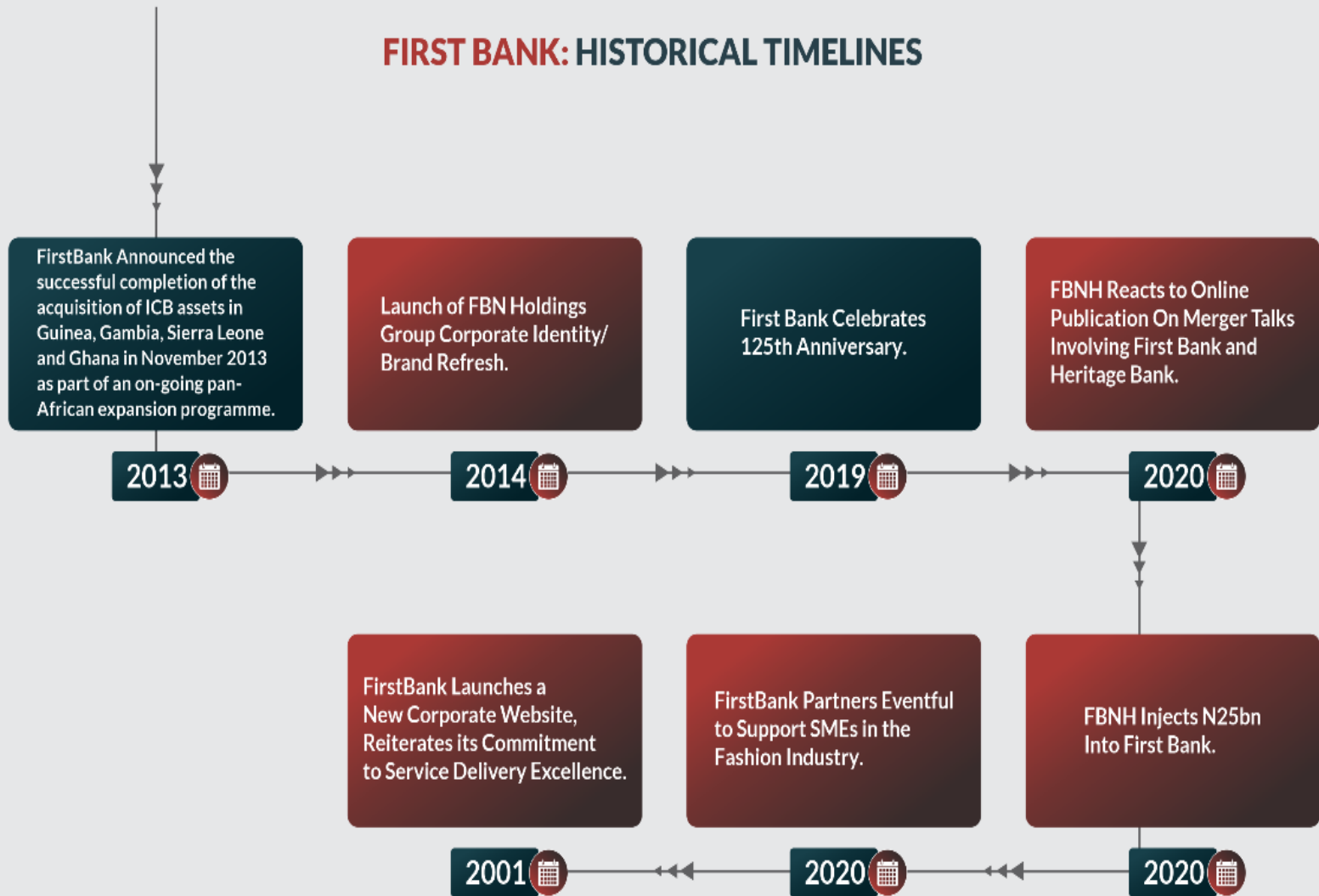
FIRST BANK: HISTORICAL TIMELINES



FIRST BANK: HISTORICAL TIMELINES



FIRST BANK: HISTORICAL TIMELINES



Where they came and whence they go...

- The early 2000s saw the bank embroiled in the CenturyII controversy (*and investors IILL*) which resulted in the bank's erstwhile Managing Director, Bernard Longe being removed....with consequences I might add.
- The CenturyII project was expected to see the bank lead a massive technological upgrade and make it the dominant banking franchise in Nigeria, with its large liquidity and net lending status in the domestic interbank market, the expectation was not farfetched.
- However, overriding personal interest, poor project conceptualization and weak execution tore up the playbook.
- The mid-2000s saw FBN drop a peg as the CBN ordered the recapitalization of all banks in the country and this meant that the elephant, FBN, had to raise additional equity capital. Nigerian banks were required to recapitalize from a minimum equity base of N2bn to a new base of N25bn.
- In 2005 FBN acquired two banks MBC International Bank and FBN Merchant Bank. In 2006 FBN created a capital market arm FBN Capital.

- ❗ In 2007 FBN set up new foreign branches (Paris and Dubai, for example) and in 2009 it set up a representative office in Beijing, China.
- ❗ The **strategy** was to improve customer experience in trade finance, but the key performance indices (KPIs) were neither properly defined nor aggressively pursued.
- ❗ Most of the bank's foreign branches were **loss leaders**. On the bright side in 2008, FBN became the first company listed on the NSE now NGX; and attained a capitalization of N2trn. This happened as the world pivoted into a global financial crisis (GFC).
- ❗ The downward spiral of the global economy and international oil prices coincided with a period the bank had decided to raise its lending exposure to both the Oil & Gas sector and the local Nigerian energy market, a decision that proved fatal.
- ❗ The fall in oil prices and the downturn in earnings of indigenous oil majors meant that loan defaults would rise and that the bank would need to raise impairment provisions as its non-performing loans (NPLs) spiked.
- ❗ The same was true for **loan exposures** to the energy sector, energy sector loans equally witnessed slow repayments as inefficient collections from consumers, excessive operating costs and weak internal administrative controls conspired to make energy sector risk assets increasingly delinquent.
- ❗ FBN had over **36%** or roughly a third of its total loan asset exposure in these two sectors reflecting the **high sectoral bias and riskiness of its average loan portfolio**. With NPLs adversely affecting the bank's liquidity it uncharacteristically increasingly resorted to highly priced interbank borrowings to cover its short exposure.

Hard Times and Harsher Finances...

- The situation continued to 2016 when the management of Dr. Adesola Adeduntan was appointed to run the bank.
- His predecessor, Mr. Bisi Onasanya, had to face the brunt of the bank's performance downturn between 2011 and 2016 and Adeduntan was appointed just as the world was about to pirouette into another global crisis as oil prices dipped after a brief reprieve and private corporate and national treasuries got smacked down as the global economy went into another contraction that stretched into 2017.
- Loan assets have remained weak with FBN having to cope with higher than industry average NPLs, lower than desired capital adequacy ratio (CAR), and cost to income ratios close to 70%. The indices between 2019 and 2020 show that even Adeduntan and his team have had dire fiscal battles with the situation still deteriorating for some ratios *as shown below*.
- The bank's loans to deposit ratios suggest a tight squeeze on its cash reserve ratio (CRR) as the Central Bank of Nigeria (CBN) would expectedly penalize the bank for a ratio below the regulatory expectation of 65%.
- In FYE 2019 it was 48% and in FYE 2020 it was 46.8%, suggesting poorer deposit to loan conversion rates.
- Q1 2021 does not paint a rosier picture. The bank's LDR was 46.9% as against 49.6% in Q1 2020.

FBNH: FY2020 FINANCIAL HIGHLIGHTS



Income Statement (N'bn)	FY 2020	FY 2019	% Change
Gross earnings	579.4	590.4	-1.86%
Interest income	384.8	431.9	-10.91%
Net-interest income	251.6	279.6	-10.01%
Non-interest income ¹	174.7	137.9	+26.69%
Operating income	426.3	417.5	+2.11%
Impairment charges for losses	50.6	51.1	-0.98%
Operating expenses	292.5	291.2	+0.45%
Profit before tax	83.7	75.3	+11.16%
Basic EPS (kobo)	245	195	+25.64%

Statement of Financial Position (N'bn)			
Total assets	7,689.00	6,203.50	+23.95%
Customer loans & advances	2,217.30	1,852.40	+19.70%
Customer deposits	4,894.70	4,019.80	+21.76%
Total Equity	755.60	661.13	+14.29%

Key Ratios %

Post-tax return on average equity ⁵	12.6	12.4	+1.61%
Post-tax return on average assets ⁶	1.3	1.3	0.00%
Net-interest margin	6.1	7.4	-17.57%
Cost of funds	2.3	3.1	-25.81%
Cost to income	68.6	69.7	-1.58%
Gross loans to deposit	46.8	48	-2.50%
Capital adequacy (FirstBank (Nigeria))	17	15.5	+9.68%
Capital adequacy (FBNQuest Merchant Bank)	26.6	17.7	+50.28%
NPL/Gross Loans	7.7	9.9	-22.22%
Cost of risk ¹	2.4	2.6	-7.69%
Book value per share	21.3	18.4	+15.76%

Source: FBNH Financial Statement, Proshare Research

FBNH: Q1 2021 FINANCIAL HIGHLIGHTS



Income Statement (N'bn)	Q1 2021	Q1 2020	% Change
Gross earnings	136.6	159.7	-14.46%
Interest income	78.4	104.9	-25.26%
Net-interest income	52.8	60.3	-12.44%
Non-interest income ¹	52.6	49.7	+5.84%
Operating income	105.4	110	-4.18%
Impairment charges for losses	13.2	9.7	+36.08%
Operating expenses	73.3	71.6	+2.37%
Profit before tax	18.9	28.7	-34.15%
Basic EPS (kobo)	0.43	0.69	-37.68%

Statement of Financial Position (N'bn)			
Total assets	7,835.80	7,023.39	+11.57%
Customer loans & advances	2,299.60	2,051.32	+12.10%
Customer deposits	5,096.50	4,290.09	+18.80%
Total Equity	764.84	689.35	+10.95%

Key Ratios %

Post-tax return on average equity ⁵	8.2	13.8	-40.58%
Post-tax return on average assets ⁶	0.8	1.6	-50.00%
Net-interest margin	4.6	6.3	-26.98%
Cost of funds	1.6	3.3	-51.52%
Cost to income	69.6	65.1	+6.91%
Gross loans to deposit	46.9	49.6	-5.44%
Capital adequacy (FirstBank (Nigeria))	16.6	15.3	+8.50%
Capital adequacy (FBNQuest Merchant Bank)	24.4	17.1	+42.69%
NPL/Gross Loans	7.9	9.2	-14.13%
Cost of risk ¹	2.3	1.9	+21.05%
Book value per share	21.3	19	+12.11%

Source: FBNH Financial Statement, Proshare Research

CURRENT STATUS:
WHERE IS FBN NOW?

Where are they...?

The bank and the Holdco are in muddy waters. The recent Central Bank of Nigeria's decision to change their board of directors still leaves some thoughts/decisions unresolved:

- 💡 What lessons were learned from the old Holdco's board's character and oversight and what must be done to ensure that personalities do not become bigger than institutions?
- 💡 What role should the board's audit committee play in the reeling in of highhanded or overzealous actions of significant insiders?
- 💡 What role should the board's Governance committee play in the trust-building objective of the board?

Where are they...2

- Recent Q1 2021 results of FBNH show that the Holdco saw a +14.46% drop in gross earnings, a -25.26% fall in interest income (indicating lower income from its primary business of lending year on year (Y-o-Y)), and a -34.15% fall in profit before tax (PBT) implying that the banks earning activities after adjusting for administrative and finance expenses has worsened by a third Y-o-Y.
- The banks net interest margin also fell by a quarter (26.98%) Y-o-Y speaking to a growing weakness in the group's core lending activity.
- Of particular importance is the groups NPLs to gross loans, this ratio fell from 9.2% in Q1 2020 to 7.9% in Q1 2021, **representing some improvement** even though it remains higher than the regulatory expectation of less than 5%.
- The lending group's cost of risk grew by +21.05% Y-o-Y from 1.9% in Q1 2020 to 2.3% in Q1 2021 suggesting higher cost of funds which reflects its increased recourse to the interbank market because of a prevailing liquidity squeeze.

Where are they...3

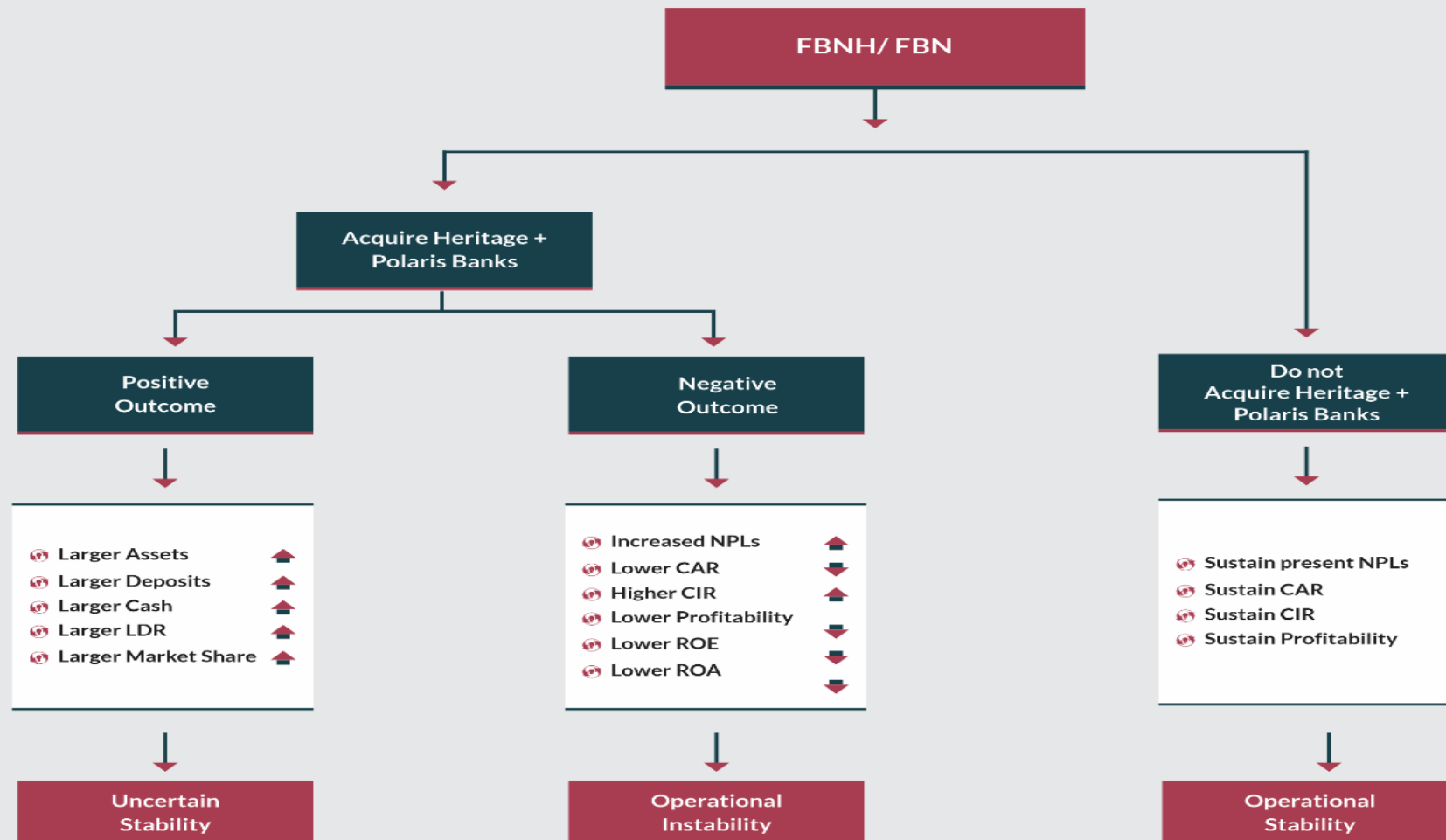
- 💡 The group's book value has gone up (it sold its insurance company for N25bn in 2020 and invested the proceeds in FBN) but this is a short-term reprieve that does not suggest improved organic operational strength.
- 💡 The injection of N25bn was a shot in the arm that improved the bank's capital adequacy ratio (CAR) and book value per share (BVPS) but still left a problem with the size of its non-performing assets.
- 💡 Therefore, the bank and holding company needs to repair their books and address the issue of forbearance mentioned by the CBN when the regulator decided to sack the directors of both institutions.
- 💡 The announcement that FBN had been under forbearance since 2016 shocked its various stakeholders except the Holdco and bank insiders resulting in asymmetric capital market information leading to the managed market pricing of the group's equity. ***This compromised the price discovery process and remains in the psyche of the market.***

**...Edison's electric
light did not come
about from the
continuous
improvement of the
candle...**

Posers arising therefrom...4

- 💡 What is the precise nature and size of the mentioned forbearance by the CBN?
- 💡 Who are the significant insiders responsible for large non-performing loans alluded to by the CBN apart from the erstwhile Holdco Chairman?
- 💡 What plans has the new board and management of the bank and Holdco of pulling the bank from CBN forbearance and how long would this take?
- 💡 What merit is there in the suspicion that FBN was mulling the acquisition of smaller banks with equally poor balance sheet positions (HBL for example)?
- 💡 Has the recent price of international oil (currently North of US\$72pb) improved the fortunes of FBN well enough to see an improvement in the risk asset exposure to the Oil & Gas sector, thereby reducing the size of the banks NPLs and reducing loan loss provisions?

FBNH - AQUISITION GAMBLE: A PLUNGE INTO UNCERTAINTY




NPL = Non-Performing Loans
CAR = Capital Adequacy Ratio

CIR = Cost-to-Income Ratio
ROE = Return on Equity

ROA = Return on Assets
LDR = Loan-to-Deposit Ratio

Heritage Gamble ... **Playing a Game of Thorns**

- 
- Even before the disclosure of the forbearance, we looked at this in Mar'20 and concluded that such a deal would hurt First Bank:
- HBL is up to N500bn in the redwith up to N203bn in risk assets and owing FBN a yet to be reconciled N282bn (estimated). The bank has toxic assets (from former eastern region) and a litany of law suits from the former ACB and legacy institution it acquired.
 - There was no possible upside in the deal apart from the bank's IT platform (and by the way, you are building or have built one yourself)?
 - The bank is paying an average of up to N3bn monthly and in the last 3yrs has accounted for about close to N200bn (estimated) in principal and interest on a relationship not premised on a contractual agreement but a common understanding off the regulators' approval around overdrawn clearing positions.
 - The bank is in need of capital injection; as much as FBN.

GENERATION IN TRANSITION



Today's young people differ from yesterday



Baby boomer
1940-59



Gen X
1960-79



Gen Y (millennial)
1980-94



Gen Z
1995-2010

CONTEXT

- Postwar
- Dictatorship and repression in Brazil

- Political transition
- Capitalism and meritocracy dominate

- Globalization
- Economic stability
- Emergent of Internet

- Mobility and multiple realities
- Social networks
- Digital natives

BEHAVIOUR

- Idealism
- Revolutionary
- Collectivist

- Materialistic
- Competitive
- Individualistic

- Globalist
- Questioning
- Oriented to self

- Undefined ID
- "Communaholic"
- "Dialoguer"
- Realistic

CONSUMPTION

- Ideology
- Vinyl and movies

- Status
- Brands and Cars
- Luxury Articles

- Experience
- Festivals and travel
- Flagships

- Uniqueness
- Unlimited
- Ethical

The Growth Game ... **Organic or Inorganic**

- 💡 Inorganic Positive (for Now) – Access Bank Plc
- 💡 Inorganic Negative - ETI Plc / Ecobank (not paid dividend for past 10 years)
- 💡 Organic Growth – GTB and Zenith (both built up without acquisitions)

- 💡 The case for competitive advantage is clear.
 - Which market is FBN controlling at this time?
 - Where does it seek to build competitive advantage?
 - How does it ramp up its retail capabilities?
 - How does the board grow an entity like FBN Quest to market dominance status?

“It is lightning that strikes, not
thunder.

Thunder is a direct result of
lightning. It IS possible that you
might **see** lightning and not
hear the thunder because it
was too **far away**”

- **Nuggets**, Separating Myth from Scien



STAKEHOLDERS PERCEPTION:
THE SILENT WHISPERS GETTING LOUD

Betting on Reputation... Rolling the Dice

- ❗ FBN has built a formidable brand identity over the last century, indeed up until the early 2000s, the bank was seen as one of Nigeria's strongest commercial franchises.
- ❗ However, from the mid-2000s the reputation and corporate performance of the bank began to deteriorate as management after management struggled with a series of self-inflicted challenges ranging from large insider-related loans, narrow risk asset diversification, weak internal controls and wrong-sized personnel and skills.
- ❗ FBHN as the later day parent institution of the bank suffered from unneeded intrusion from significant equity holders with shares of between 8% and 10% in the Holdco.
- ❗ The narrow interest of these individuals caused a governance crisis which impaired the confidence of the sector regulators (CBN and NDIC), Credit Rating Agencies, stock traders, analysts, and retail investors.
- ❗ The recent removal of some of the significant shareholders from the board of FBNH is yet to remedy the reputational damage the financial Holdco still suffers.

Survey Result... **Honest Assessment?**

The summary of a recent stakeholder perception survey conducted by **Proshare**:

Credit Rating Agencies

So far both FBN and FBNH have received poor credit ratings in May'21 and both institutions would need to pull up their sleeves to reverse this perception.

Stock Market Traders

FBNH needs to come clean about the size and nature of its delinquent loan asset portfolios; nay nature of forbearance (now public knowledge) and board direction.

Analysts

Share the perspective of traders and believe that expectations rest on FBHN's next 2 quarterly financial performances where it anticipates improved governance and loan resolutions with significant equity insiders announced.

Public

Caution is the key word, following fear of the hitherto unthinkable.

- 💡 **Fitch Ratings** dropped the groups rating from 'B' to 'B'- in May 2021 noting that the rating was considered consistent with the implications of **CBN's recent decision** to remove the boards of the bank and the Holdco. The Agency, however, added a caveat that this position could be subject to further review if CBN deemed that further action was necessary to stabilize the bank's operations.
- 💡 Fitch noted that the outlook of *FBNH remains negative* pre-existing asset quality and relatively weak capitalization.
- 💡 **Moody's Rating Agency's** review of FBN was a mirror image of Fitch's. Moody's analysts noted in their commentary in May 2021 that the review for a possible downgrade of the bank and its Holdco reflects the agency's view that the removal of all the group's non-executive directors reflects **corporate governance failings and weaknesses** in the previous board's oversight.
- 💡 The report writers noted that the bank needs to implement the regulator's recommendations concerning the resolution of non-performing loan assets. They also insisted that the outcome of the corrective measures is uncertain and the **long-term governance, reputational and financial consequences remain unclear**.

RATING AGENCIES ON FBNH & FBN FOLLOWING CBN ACTION


Rating Agency	Rating	Date of Rating	Positive Comments	Negative Comments
Fitch Ratings	Revises to B-' from B with a Negative Outlook.	07-May-21	The affirmation reflects our view that the impact of the Central Bank of Nigeria's (CBN) replacement of FBNH and FBN's boards, the identification of corporate governance failings and the imposition of corrective measures are tolerable at the rating level.	However, this does not consider any possible additional actions by the CBN, especially if FBN fails to implement the regulator's corrective measures or if there were any further uncovering of corporate governance irregularities.
			In our view, any remedial actions imposed by the CBN, including a potential reclassification of related-party exposures as impaired, will not have a material effect on the group's asset quality, profitability and capitalisation.	The Outlook remains Negative, reflecting FBNH's pre-existing asset quality and capitalisation weaknesses as well as the group's corporate governance weaknesses highlighted by the CBN. These could put pressure on the ratings.
			Our conversations with FBNH give us to understand there has been no adverse effect from recent events on its funding and liquidity profile, which remains healthy. FBNH's funding profile continues to benefit from a substantial customer deposit base, which provides around 75% of its non-equity funding.	FBNH is the non-operating holding company that owns FBN. FBNH's ratings are aligned with those of FBN (which represents around 90% of consolidated group assets) due to high capital and liquidity fungibility within the group, and low double leverage (at 95% at end-1H20) at the holding company level.
				The new boards appointed to FBNH and FBN comprise individuals with sufficient experience and expertise. However, we view such major change as hugely disruptive. There are no changes in FBNH and FBN's executive management team.
				We believe the governance shortcomings cited by the CBN reflect poorly on FBNH's reputation and on the group's governance and control practices. As a result, we have revised down our assessment of FBNH's Management and Strategy score to 'b-' from 'b'.
				We also assigned a negative outlook to this factor, which reflects the uncertainty surrounding additional remedial actions that the CBN may impose due to these related party exposures as well as the potential for further uncovering of governance irregularities. It also captures the lack of track record of the new board and its ability to restore confidence in FBNH and FBN.
				Asset quality remains a rating weakness. FBNH reported an improved impaired loan ratio of 7.9% at end-1Q21 (end-2020: 7.7%). However, FBNH's reported reserve coverage of 54.5% at end-1Q21 (end-2020: 48%) remains significantly weaker than domestic peers'. Our assessment indicates that if the related-party loan highlighted by the CBN were classified as impaired, the ratio would be unlikely to be above 10% (excluding any new impaired loan generation from ordinary business).


Rating Agency	Rating	Date of Rating	Positive Comments	Negative Comments
				Capitalisation remains a rating weakness and has a high influence on the ratings. FBN reported a capital adequacy ratio of 16.6% at end-1Q21 (excluding interim profits), which provides limited headroom above its 15% minimum regulatory requirement. In addition, FBNH's capitalisation metrics remain vulnerable to asset-quality risks given significant capital encumbrance by unreserved impaired loans.
				FBNH's profitability metrics typically lag behind those of the other large banks, mainly due to high loan impairment charges
				In our view, the corrective measures, including higher provisioning on related-party loans or the sale of 'non-permissible' equity investments, would not materially affect profitability in the near term.
				The ratings of FBNH would be downgraded if the corporate governance shortcomings highlighted by the CBN persist and if any further weaknesses are uncovered, potentially leading to a greater financial impact.
				Reputational repercussions that would make it harder for FBNH to meet its pre-tax profit growth ambitions, or significant adjustments to the group's management and strategy, could also contribute to rating pressure.
				Upside to the ratings is unlikely at present.
MOODY'S	Assessments of First Bank of Nigeria Limited (First Bank) on review for downgrade.	05-May-21		The review for possible downgrade reflects the rating agency's view that the removal of all non-executive directors of the bank's board by the regulator demonstrates corporate governance shortcomings and weaknesses in board oversight.
				The bank needs to implement regulatory directives concerning the resolutions of loans to and shareholding in non-banking related parties, which reportedly had not been executed in the recent past.
				Moody's notes that the outcomes of these developments are uncertain at this point, and the final and long-term governance, reputational and financial implications of the events for First Bank are also unclear.

Stock Market Traders

Proshare's discussion with traders unveiled the following perceptions:



- ❗ The FBN needs to come clean about the size and nature of its delinquent loan asset portfolios.
- ❗ A lack of regular trading action on the stock reflects the fact that there is a lack of clarity about the bank's net book value per share (BVPS) and so price action is sporadic, the relatively low volatility in the bank's price movement dampens the enthusiasm of intraday traders. This also reflects the wider dispersion of FBN shares compared to rivals such as GT Bank, Zenith Bank and Access Bank.
- ❗ Stock traders have put the Holdco on either a Sell or Hold action trigger. Value investors are worried about the size and nature of the Holdco's NPLs while growth investors are unimpressed with the Holdco's recent price movements. There are no breakout expectations that would have created hidden value trading opportunities .

 Traders expect that the bank's fortunes will improve as Oil & Gas loans become less toxic on the back of rising oil prices and an improvement in the revenues of local oil majors. This would write back earlier loan loss provisions to the bank's profit and loss account and raise the bank's bottom line even if gross earnings do not increase appreciably.

 Traders expressed gladness about the CBN's recent action concerning the removal of non-executive directors from the board of the Holdco and FBN and have expressed optimism that if the new management creates compelling reasons for confidence in the bank's future financial performance, the bank's equity valuation could rise gradually in months ahead. They expressed keen interest in the bank's Q2 and Q3 2021 financials as testimonies to the new board and management's ability to improve the bank's balance sheet position.

COMMENTS FROM ANALYSTS AFTER CBN BOARD REMOVAL



Analyst Firm	Recommendations	Date	Positive Comments	Negative Comments
 SBG Securities	BUY	30-Apr-21	We maintain our Buy recommendation on FBN Holdings and target price of N8.89	We also see the recent corporate governance challenges of the bank as a downside risk to earnings in the near-term.
				We see the recent board room corporate governance crisis as a downside risk in the near-term. Even though the intervention of the regulator should dampen the negative impact, the effect could slow down the material improvement in its operating performance over the past three years.
 Chapel Hill Denham	HOLD	30-Apr-21		Is it likely that we see M&A activity in the bank in the next 12-18 months? We think this is possible given the weaknesses in the CAR and NPL ratios, in breach of acceptable prudential standards of the CBN.
				We downgrade rating on FBNH to a HOLD from a Buy and the 12-month TP to N6.96 from N9.95. Our downgrade is partly reflective of the weak Q1-21 results and the upward adjustment of our risk free rate to 12.0% from 10.5% previously.
				Key disclosures by the CBN point to credit and corporate governance concerns. The CBN's target examination as at December 2020 revealed that insider loans were materially non-compliant with the terms of restructuring put in place by the bank and CBN in 2016.
				Non-perfection of lien on shares and collateral arrangements that the CBN had insisted on for over three years are key examples.

Source: SBG Securities, Chapel Hill Denham, Proshare Research, Ecographics

Analysts

- Analysts share the perspectives of traders and believe that expectations rest on FBNH's next two quarterly financial performances. Analysts expect governance to be improved within the bank and loan resolution with significant equity insiders would occur but at a pace slower than many would desire.
- The common view is that ***loan work out arrangements would be agreed with longer tenors and partial forgiveness of accumulated interest charges.*** This may be supported by a freeze on interest rates on the principal amount outstanding.
- Analysts are optimistic that with rising international oil prices local oil major loan exposures will decline as Oil & Gas companies start writing down their financing debt thereby helping FBN to improve its loan assets quality and reduce provisions for loan losses. This would help improve the bank's CAR and shore up its bottom line as it writes back recovered amounts to its P&L account.
- The oil ***industry price recovery is, however, unpredictable, and uncertain.*** Several factors could burst the price balloon as the market tumbles back. A few factors that affected the market in 2020 and could have an impact in 2021 appear in the illustration below:

FIVE STRUCTURAL CHALLENGES DEFINE THE CURRENT DOWNTURN IN DOWNSTREAM OIL & GAS.



Five key reasons downturn related to COVID-19 crisis is unlike any other

1



Ocean of Inventories

- ⌚ Abrupt demand Shock has created High inventories of Crude and product, Which may require Rest of 2020 to Work off.

- ⌚ Running more barrels When cracks turn Positive will extend Glut.

2



Escalated License-to-operate Costs

- ⌚ Regulatory Compliance Costs have tripled Since previous Market pullbacks

- ⌚ ESG¹ and corporate Social-responsibility Impacts are driving Conservatism and, In turn, high spend Rates.

3



Challenged Consumption Norms

- ⌚ Telecommuting has Proven successful
- ⌚ Airline-miles Traveled are projected To remain down 15 - 20% in near term

- ⌚ Projections of Vehicle-miles Traveled vary.

4



Uneven Product Return

- ⌚ Muted jet-fuel Demand to 2021 is Likely to cause crack And yield challenges As rates increase.

- ⌚ Reopening markets Could cause Geographics arbitrage And short-term Instability.

5



Limited Price Stability

- ⌚ OPEC+² alliance Is tenuous, with Propensity for Member nations to Act in own interests.

- ⌚ Streamlined permian Basin activity will Return and bring Rapid supply and Price feedback

1. Environmental, social, and governance.

2. Countries outside Organization of Petroleum Exporting Countries that export crude oil.

- 💡 Analysts, nevertheless, have chosen the path of guided optimism and expect the oil companies to do better in 2021 and to straighten out their loan books as they struggle to improve their debt-to-equity ratios and market valuation.
- 💡 FBN should be a lead beneficiary of this prospective Oil and Gas industry revival.
- 💡 However, ***data crunchers are still worried about the bank and Holdco's near-term corporate governance oversight going forward.*** They believe that if corporate governance is improved, then the culture of impunity would halt and insider abuses would be reduced [if not eliminated]. An improvement in the governance culture at the bank would provide a '***perception bonus***' that could be estimated by an upswing in the market value of the Holdco's equity on the Nigerian Exchange Plc (NGX).

Public (Customers and non-customers)

The public is anxious about the bank as some customers interviewed have already instructed relatives and other people to send money to their secondary accounts until the position with FBN is clearer.

- ❗ In an environment that is increasingly dominated by generation X, Y and Z, who lack tolerance to adverse corporate disruptions the potential for corporate migration is palpable, especially among generation Y and Z.
- ❗ The bank is seen to have had poor governance oversight and still has not come clean with respect to the actual size of its bad loans. This could stall new deposits as younger depositors vote with their feet to more trusted rivals.
- ❗ In rural communities not much impact has occurred as agency banks continue to operate at the same business levels as in Q1 2021 and Q4 2020. This is reflected in the rise in the bank's non-interest income.
- ❗ A lack of confidence in the Holdco's accounts seems to be a prominent feature of discussions with educated members of the public.
- ❗ The lack of 'believability' in the Holdco's financial statements would cause major investor discounts of its periodic results, hence penalizing the group for past bad behaviour.


WHAT NEXT?:

CLOSING THOUGHTS – A NEW NARRATIVE

Setting a New Narrative... **Eyes on the Sparrow**



It has been advised that institutions should **never allow the lessons of a good crisis go unattended.** The strategy of hope is a loser's game because **hope is not a method.** In times of unique difficulties emerge great opportunities, **FBNH would do well to seize the moment.**



Setting a New Narrative... **Eyes on the Sparrow**

- 💡 If FBN and FBNH are to rebuild brand loyalty, investor trust and 'believability' it must construct new and positive narratives.
- 💡 It should forget the ragdoll effort at acquisition of equally troubled banks and concentrate on improving corporate governance, right sizing its business, leverage technology to optimize resource allocation and customer service experience (UX/UI), while ensuring that investor and customer communication is regular, strategic, and transparent.
- 💡 The group may also need to realign its structure and reimagine the future of the industry in an era of open banking and opportunities that will emerge under the African Continental Free Trade Area (AfCFTA).
- 💡 Revisit what the role of the Board is - Get the bank back!

Institutional Response Repeated



💡 FBHN must embrace the inevitable and this board must deliver on the following:

- Resolve what the *true state* of its finances are and determine how it wants to re-engage stakeholders;
- Decide what business it wants to do and build *competitive advantage* in;
- Take steps to resolve its *insider-related NPL* positions and related NPL issues; and
- Admit it needs *capital injection* and kick-start the process as part of its succession management plan.

“Unburdened with the experience of the past, each generation of bankers believes it knows best, and each new generation produces some who have to learn the hard way.”

- *Irvine Sprague*, former chairman of the Federal Deposit Insurance Corporation and author of *Bailout: An Insider's Account of Bank Failures and Rescues!*

**“For this board,
refocusing this
bank will be your
defining legacy.”**

Q & A – Board Session



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Thank You



M: 0700PROSHARE **T:** 01-454 3811

E: info@proshareng.com **W:** www.proshareng.com

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