100 **Days After** CBN Board Removal

First Bank's Shaky House of Cards

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Foreword

"Behind any process of corporate decline, there is an infinite string of deceptions". – Pedro Nueno

Corporate governance is the bedrock of all modern corporations. How well a company survives lies in the quality of its board of directors and their understanding and preparedness to pursue a defined corporate purpose. Where the goal is unclear, the company sees itself drifting into crisis. Even where clarity of purpose exists, a weakness of executive commitment to implementing set objectives inevitably bludgeons the company into despair and possibly disaster.

Thus, when a company falls ill, unlike people, it is usually easier to diagnose the problem. In the field of corporate analysis, there is no such thing as an autopsy because when a company dies, the causes are usually known long before the fatal event happens. Those with the fiduciary responsibility to manage the enterprise simply failed to come to any agreement on how to avoid it, choosing to allow someone else to play the role of an undertaker.

A company gets a lucky break, when like a fallen tree, it can still provide food for many parasites and a chunk of it can be replanted to create a new one. Rather than allow the organisation to die, they can be placed on a sure path of recovery to help keep the objective and its service value to society functioning; once they can overcome the inability to resolve the self-preserving interest of individuals by addressing the corporate governance malaise. This option must not be another "perception" game but a clear effort to align the fiduciary responsibility(ies) of board members to match the expectations of shareholders.

The motley events around the recent removal of the boards of both First Bank of Nigeria (FBN) and its Holding Company (FBNH) reignite the debate around the purpose of corporate boards and the need to provide a monitoring mechanism to ensure that corporate oversight is not primarily self-interested and self-absorbed.

On April 29, 2021, in a historic smackdown, the Central Bank of Nigeria (CBN) sacked the boards of FBN and FBNH on the grounds of poor internal governance. The regulator vehemently complained about what it saw as the 'rash decision' of the board of FBNH to remove the managing director of the bank, Dr. Adesola Adeduntan. The removal of Adeduntan was considered by the banking sector regulator as unwise. In that meeting, according to reports, the CBN had hinted that it would not support the removal of the bank's MD/CEO.

More significantly and imperative however, since the regulator believed that the bank boss had steered a tidy ship since 2016, it argued that his removal would disrupt the turnaround arrangements agreed, concessions agreed upon and approved between the bank and the regulator. The CBN's position would appear debatable as the friendly relationship between FBN's CEO and the current CBN governor cannot be a tenable template for the sustainable governance of the bank, or a model for extant governance practice. It is, however, what it is – a consensus the board signed up to.

Indeed, CBN's open display of preference for a particular leadership of a bank it regulates flies in the face of impartiality and global best regulatory governance practice. The argument that Adeduntan had done an excellent job of following a CBN-supported clean-up exercise at the bank was at best tenuous and dangerous as it indicated that the reversal of FBN's deteriorated performance was not integral to a definite plan but dependent on a specific person; this exposed the problem as being far deeper and was one of proper governance beyond the public discourse.

The Wages of Defiance

The regulator's intrusion into the affairs of FBNH/FBN played up in its response to the decision of the previous Bank board to approve a change of bank personnel. In defiance of the CBN's instruction, the erstwhile board of FBNH went ahead to remove Adeduntan in April 2021 and replaced him with his deputy, Mr. Gbenga Shobo. Much of the rest of what happened after that remains muddy waters under the bridge. What is essential is that the CBN reinstated the bank's MD, Adeduntan, and reconstituted the boards of the Holdco and the bank.

To steer a new course therefore, Mr. Remi Babalola, a respected chartered accountant, banker, and former Minister of State for Finance, was appointed the Holdco's new Chairperson, taking over from former Chairperson, Dr. Oba Otudeko, considered to be one of the largest individual shareholders of the bank. The regulator in the same stretch removed Mrs. Ibukun Awosika, the Chairperson of the bank and replaced her with Mr. Tunde Hassan-Odukale, another prominent board insider and Chief Executive Officer (CEO) of Leadway Assurance.

The replacements were deft but curious CBN maneuvering amongst contending boardroom interests, with people like Globacom's reclusive Chairman Mike Adenuga lurking in the shadows. The CBN's move tried to introduce stricter boardroom oversight at the bank, but it equally played to the covert actions of a few large shareholders who thought that the time was up for the erstwhile Holdco Chairman, Oba Otudeko. While the struggle for the heart of the soul of FBN was unknown to most members of the investing public, it was boiling just under the surface, and insiders became trapped in a web of splintering camps and splitting loyalties that culminated in the welcoming posture of the CBN as an undertaker. The relationship between FBN Holdco and its bank may have improved slightly over the last three months prior to the big axe. Still, resistance by the bank to abiding by the new Holdco's directives makes the relationship fragile, tenuous, and shaky.

Outside observation of events at the bank indicates that FBN, in the first 100 days of the new board, has attempted to remove itself from the thumbs of its parent Holdco, either in continuation of its role as the majority player in the Holdco or as a cultural extension of how things have been. Instructively, the Holdco has since stamped its foot down on accountability and made it clear to the bank that oversight would be integral to the new corporate culture and under the Hold Co's direction; something public observers have appreciated.

While the shadowboxing and leg-shuffling between the two boards may have created mild tension over the last few weeks, this may actually be a good development that may lead to positive outcomes if egos are checked at the door. However, if simmering tensions escalate, the CBN may, unfortunately, see the need for a further intervention. The point of discord remains the substantive issue behind the report – who guards the guardians of the legacy institution with conflicting interests?

Generally, First Bank has shown such a great vitality, their ability to withstand is so high, and their tolerance of things being done badly is so great that it is almost impossible to kill such a company quickly. Pedro Nueno, whose work on corporate turnarounds makes the case for regeneration, had this to say: *"The only way to kill a company is by doing it little by little. If you shoot it in the heart, it survives bleeding for a long time. A company must be poisoned or malnourished, all of its parts must be pushed into a process of irreversible decay. So long as any one of its parts remain alive, the company can be regenerated from this single part".*

We hold on to the belief shared in the marketplace about the quality of the board to expect that it would think forward and recalibrate the organisation.

Thinking Forward - A Time to Reimagine, Relearn, and Restrategize

"When a flower doesn't bloom, you fix the environment and not the flower" is a statement that appears sensible but false, at least concerning **FBNH** and **FBN.**

Indeed, for the 127-year-old lender to restore itself to its fabled (but sketchy) ***'glory days'***, fixing the flower is inevitable. The bank's history should not be a pillar to lean on but a walking stick to remind it of its fragile state.

FBN's financial statements and corporate performances have gone through phases of haziness, brilliance, and naivety. From the aspirational but shadowy administration of *Bernard Longe* to the conservative and minimalist management of *Moyo Ajekigbe* to the aggressive and wildly transactional tenor of *Bisi Onasanya* to the 'paint and repair' era of *Adesola Adeduntan*, the bank has swung from one transition to another with different outcomes. Since the mid-1990s, the bank has had to cope with CIR, CAR and NPL difficulties; the elephant had inelegantly dropped to its knees barring a few intermediate years of the *Ajekigbe* era.

On resumption in 2016, **Adeduntan** fell into the deep-end with 3 certain reality checks that called for attention. He had to deal with a mountain of bad loan assets, a work culture that stood on bureaucracy and formality, and insider politics that threatened best practice corporate governance. FBN's checkered history and systemic importance (an evolving subject that requires contextualization to see its relevance in 2021) made it a prime candidate for CBN's close attention.

The fragile relationship between the Holdco and the bank should have settled after the removal of the previous boards but close observation indicates the contrary. Issues related to cleaning up of the bank's delinquent loan books, addressing the niche and value proposition; as well as establishing better governance are still at the front burner.

Analysts have thus argued that the ***Adeduntan led Bank and his Holdco bosses must make a few hard decisions:***

Reimagination – The FBN's Board must find a way to reimagine the bank's service delivery proposition and define their competitive advantage in a highly competitive financial market space. It must take steps to address the fundamental issues as well as upscale its service delivery channels and user experiences and interfaces (UX/UI). The COVID-19 era has created a new business narrative with ever-changing customer expectations and demands. The bank cannot afford to be the old lady of the business; and it either transforms its service propositions or it gets buried.

A few years ago, the bank said it would grow inorganically by acquisitions, which remains a legitimate aspiration; however, the merger or acquisition target choice(s) will be critical to corporate sustainability. At best, the rumored attempt to acquire one or two banks with negative shareholders funds; and one bank with a large Asset Management Company of Nigeria (AMCON) liability on its books in the region of N900bn looks unnecessary and ill-advised; no matter the scale argument as we have represented in previous posts. Swimming across a raging river is hard enough; but balancing a suitcase of replaceable clothes upon one's head appears to be impracticable and dangerous.

The attempt to look progressive by engaging in risky acquisitions to match public expectations is not the fitting legacy that the present bank management needs or will appear to be considering. The CBN-led management's goal is to get the bank out of intensive care and into a path of sustainable growth around sound parameters this Holdco board sets. History does not count for much when bad decisions create terminal outcomes. The fixation with the relative size of the bank is a sluice of water under the bridge; it has little significance in a digital open banking world. The asset size of FBN is less critical than its profitability and corporate sustainability.

The probable priorities of the bank may remain on a shortlist of desirable numbers, which would include but would not be limited to the following:

- Steadily reduce the bank's cost-to-income ratio (CIR)
- Slash down the bank's non-performing loan ratio (NPLR)
- Improve the bank's capital adequacy ratio (CAR)
- Increase the bank's loan asset quality and raise the bank's loan to deposit ratio (LDR)
- Collaborate with fintech companies to improve the bank's customer's service experience and service interface (UX/UI)
- Reduce the bank's cost of funding and cost of risk (CoR); and
- Wind back the bank's off-balance-sheet contingent liabilities.

The bank, analysts believe, needs to set a few legacy objectives that would lay the foundation for sustainability and growth, hence breaking away from its turbulent past. Nobody remembers a dead lion in the face of a living panther. The bank, according to commentators, needs to make the elephant dance, and dance consistently.

Relearning - FBNH and its bank FBN must come to a point where they let go of tiresome habits and pick up new processes, procedures, and policies designed to reshape their future. The problems of today need to guide the actions of today with an eye on tomorrow. To achieve this, the bank and its Holding company may require internal effort that adopts essential and straightforward measures to improve efficiency and effectiveness, including the following:

- In pursuit of governance excellence, a top-to-bottom review of the bank's people, processes, and procedures from the perspective of tomorrow's needs contrasts with today's wants.
- In a deliberate acculturation process, the bank needs to set a new culture that breaks away sufficiently from the past to establish a more professional future considering customers' experiences and expectations.
- The bank needs to adapt to the fast-paced competitive environment, not about size but speed and efficiency. The bank presently controls 22% of clearing activities in the local money market, but how does this translate into a market advantage? Data optimization, data management, and data leverage are the keys.
- Artificial intelligence (AI) and machine learning (ML) should improve service delivery quality ranking amongst the best in the world; a mystery customer survey should regularly assess the service delivery experiences of customers.

Re-strategize - The bank needs to craft generic strategies like cost containment and niche dominance into supporting approaches that develop uncontested markets in these self-designed ***'islands of opportunity.'***

The End Game

The First Bank saga is a trip into the nuances of modern bank governance in an emerging economy like Nigeria. The ***behind-the-scenes*** maneuverings are handsomely more dramatic than the colourless statements offered to the public.

The executive powerplays in Nigeria's banking boardrooms make popular American television series like ***'Empire'*** appear watered down, and a deadbeat corporate power move that lacks real C-suite passion, viciousness, and guile. The unfolding FBN story represents one of the most exemplary narratives of how developing market deposit money institutions move from challenges to redemption, from internal disputes to regulatory support, and from shaky corporate governance to what could be a revival of a once cherished corporate brand.

The bank's current public perception is 'dusty' but can be spring cleaned. The bank and its Holdco must restore public confidence by setting big hairy and audacious goals (**BHAGs**) that are clear and achievable. The mighty elephant's trumpet must be emptied of old baggage to enable it to sound bright and loud again.

In charting a new course to support two decades of sustained future growth, analysts have argued that the Remi Babalola led board working with Sola Adeduntan and his team needs to recalibrate the business.

The **endgame** for the bank and its Holdco is to bequeath to the financial system a banking institution flexible enough to withstand domestic and foreign shocks, sufficiently farsighted to see emerging opportunities, and diligent enough in implementing competition-beating and customer-pleasing strategies. **Ambition may not be a sin, but in the face of legacy, it is a risk. The new board(s) will need to find the balance.**

The boards of FBN and FBNH must know the difference between legacy and self-interest and set the institution on a new path of sustained growth; indeed, shareholders expect it, depositors demand it, and the financial regulator should require it. The public needs answered: How soon will the CBN-managed board transit into the leadership of a shareholder-led institution?

Teslim SHITTA-BEY
Chairman, Editorial Board
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Executive Summary

"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'!*

First Bank of Nigeria's (FBN's) tale of advancing but troubled existence continues. From reported high-powered nocturnal meetings with Central Bank of Nigeria (CBN) officials to high-speed maneuverings to edge out recalcitrant board members allegedly unwilling to bend to the regulators dictates; the text and subtext of the recent decisions by the monetary authority to nudge out directors and board members of FBN and its Holding company, FBNH, follows a fine line between regulatory firmness and subtle institutional interests. The silence of those affected is equally an instructive footnote to the observations and findings espoused in this report.

In a **confidential report** written by Proshare in March 2020, FBNH was in active discussions with the CBN to facilitate a takeover of the three domestic money banks sharing the characteristics of low capital adequacy ratios (CARs) negative shareholder funds. The targeted banks were Polaris Bank, Heritage Bank, and Unity Bank, individually considered ripe for acquisition. The deal was to pick up the banks in one fell swoop, but this was not possible; to acquire Polaris Bank with Heritage Bank pleasantly added as a 'deal sweetener.' These deals fell through, and it is instructive to note that FBN currently serves as the clearing-house bank to the three market DMB's putting it in pole position to understanding their cash flows and non-contingent business liabilities.

Notably, in Proshare's sidebar discussions with senior officers of the Holdco at the time, the executives insisted that such talks were not on the table and would be premature, if not a fishing expenditure on our part. Nevertheless, with the increased speculation in the local media of a forthcoming merger or acquisition of weaker deposit-taking institutions in 2020, FBN was quick to release a public statement which noted that:

"Recent events in the industry have thrown up Merger and Acquisition opportunities for Banks. Therefore, it is not unexpected that Analysts will continue to share viewpoints about the evolution of potential consolidation in the Nigerian Banking Industry.

There will always be speculation on FirstBank's involvement on account of its size, liquidity, systemic importance, and historic support in backstopping the industry.
Inorganic growth remains a strategic consideration for all financial institutions, but from FirstBank's perspective, will only be considered when it is value accretive to shareholders and other key stakeholders.

Similar to other Nigerian Banks, FirstBank continues to scan Sub-Saharan Africa in general for potential acquisitions. FBN Holdings Plc is mindful of its responsibilities as a Premium Board listed *company and will make appropriate disclosures should it find such value."*

Of note, the statement did not deny the possibility of a merger or acquisition. The bank release merely suggested that the Holding company was not immediately interested in such a corporate move. That was inconsistent with what our intelligence gathering had submitted.

The response by the bank therefore did not tie-up with continuing backroom discussions. More recent interrogation of events validates the earlier speculations of a proposed merger of Polaris Bank, Heritage Bank, and FBN. Nevertheless, considering ongoing events at Heritage Bank, any merger consideration comes with complications (including the deal that acquired Keystone Bank).

While in Q1 2020, FBNH's acquisition of Heritage Bank may have been a top-drawer consideration, the new turn of events sees the outcome of any deal as less compelling. The emergence of a strong takeover bid by a foreign investor with ties to a middle east venture capital advisor, could have reframed the takeover discussions. The advisor, currently concluding arrangements for business transactions in the Oil & Gas sector, may have succeeded in convincing the CBN of its client's superior bid for Heritage Bank. The middle east option would mean less systemic risk and new foreign direct investment (FDI) inflow.

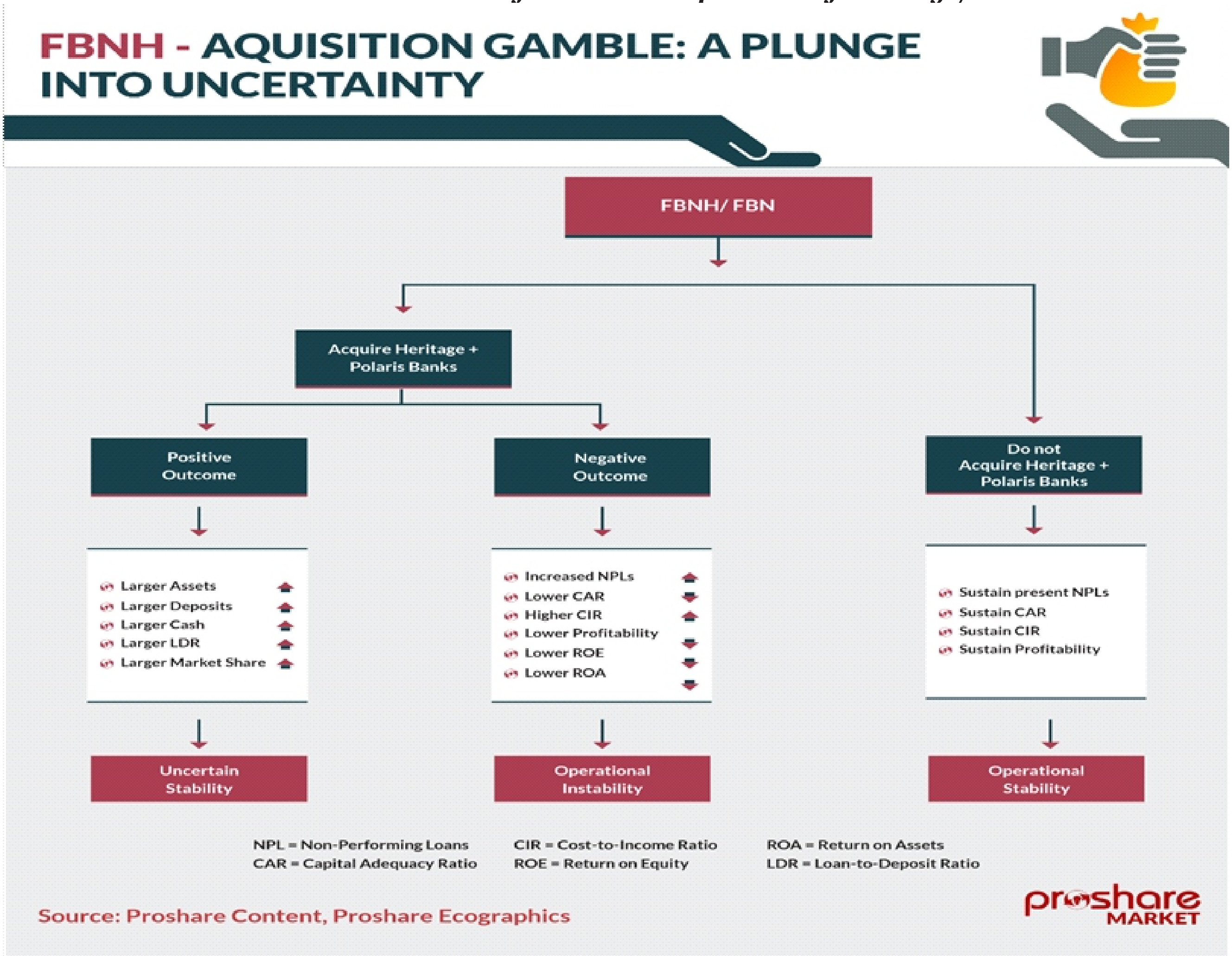
Yet, what remains a problem that has stalled the transaction's completion is Heritage Bank's chief executive officer (CEO) efforts to get the best possible buyout deal. The attempt by the CEO to negotiate an attractive handshake and retain a continued, but less prominent, presence at the bank has become a transaction dealbreaker.

According to those familiar with the matter, the Heritage Bank boss has held back his signature on agreed terms of acquisition as he reviews his response to the CBN, which recently required the bank to confirm the conclusion of its ongoing recapitalization arrangements. The ***catch-me-if-you-can*** intrigues between Heritage Bank, the CBN, and a series of prospective investors have made for gripping real-life drama over the last three years, but the game seems to be up (for all parties).

A few analysts have speculated that if Heritage Bank does not close a deal with the present investor, it would likely fall into the arms of FBN Holdings regardless of the financial institution's many denials of any prevailing interest. The FBN Holding outcome may be less attractive to Heritage Bank's present board of directors considering the balance of negotiable exits. Besides, FBNH acquiring Heritage Bank shows little upside for the acquirer (*see illustration 1 below*).

Illustration 1

Illustration 1: ***The Potential Outcomes of An FBNH Acquisition of Heritage/Polaris Banks***



In the aforementioned confidential Report, Proshare analysts noted that:
"It has been known for over a year that FBN served as the domestic clearing bank for Heritage Bank, with the management of Heritage paying billions in clearing account expenses to First Bank to date. However, we understand that Heritage Bank routinely stretches beyond its agreed clearing account balance, meaning that FBN could be a creditor (not precisely a loan agreement ab initio) to Heritage Bank to the tune of about N250bn (unreconciled). Even as a business with a large credit balance against Heritage Bank (without a CBN letter protecting it from potential future liabilities), FBN would be taking a considerable risk to enter an acquisition or merger with a bank with a negative shareholder's fund of over N286.58bn year-to-date (YTD) as of September 2019.

The other challenge would be Heritage Bank's loss before tax of N21.45b in Q3 2019 (or its loss of N3.53bn in September 2019), not to talk of carrying the near N1trn Asset Management Company of Nigeria (AMCON) burden of Polaris Bank".

Beyond Heritage, An Aerial view of Polaris Bank

FBN had stated as far back as four years ago that it would favor an inorganic strategic growth plan like Access Bank. The bank had viewed a carefully conceived set of acquisitions as the best way to expand and improve market share at a lower incremental cost of operations. The plan is not entirely wrong; if the bank identifies suitable targets, the inorganic growth strategy sits well with emerging global developments across financial markets. However, suitable is the operative word.

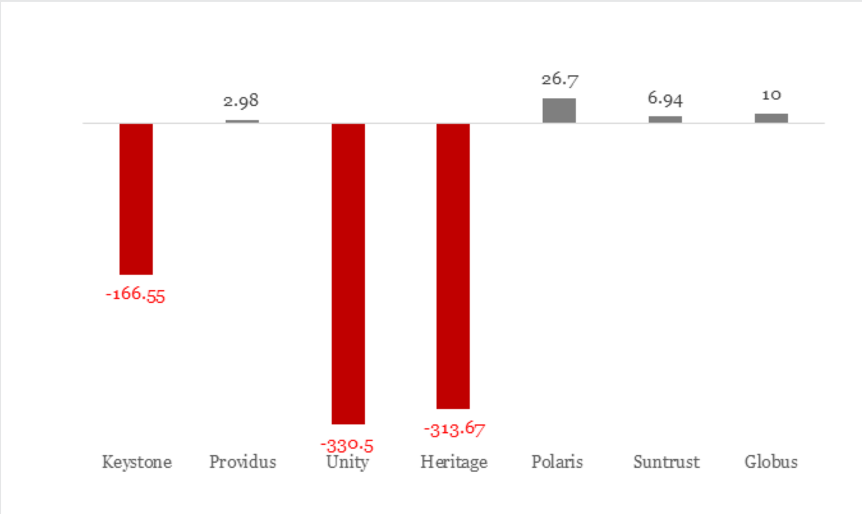
A bank like Polaris Bank, for example, would be a good acquisition in the general scheme of things. However, concerns about the bank's lean shareholder's fund and its large Asset Management Company of Nigeria (AMCON) exposure placed at slightly under N1trn in Q4 2020 would cause intended acquirers to pause. The Central Bank would have to prevail on AMCON to write off the outstanding Polaris Bank liability to make the acquisition worthwhile. Alternatively, the CBN would need to activate a process of rubbing out the debt from the bank's books. ***The forbearance would be in addition to a letter to any acquiring entity that such institution would not be vicariously liable for present and future legal actions that result from the activities of Polaris Bank (or any other bank) that took place before its acquisition. In FBN, the CBN would need to provide an official letter of non-liability for the clearing balances outstanding to the acquired bank (and similar institutions such as Heritage Bank) before the transaction would align with shareholder's broader interests.***

The knotty problem of clearing liabilities of the banks that clear through FBN would require deft regulatory arrangements to reduce the size of forbearance of any post-merger entity. In the wake of recent events at FBN and FBNH, the inorganic growth path must be trod carefully. One of the causes of Heritage Bank's shaky finances was its brave but ill-advised acquisition of Enterprise Bank, an AMCON legacy institution pockmarked with undisclosed toxic assets and off-balance sheet booby traps. The Heritage template needs a rewrite.

FBNH's and FBN's inorganic growth plans could work and improve operating performance but require skill and careful guidance. According to a bank insider, *"FBN needs to take bold steps to restore its leading position in the domestic banking industry, but there is a wide gulf between being bold and being reckless"*, this is true but harsh. An FBNH bid for Polaris Bank will make strategic sense if a top-to-bottom technical review of Polaris Bank's loans and advances shows loan quality within reasonable recovery limits (in other words, low delinquency). Furthermore, if the acquired bank's contingent liabilities can be negotiated to avoid the pain of the acquirer, then Polaris Bank would seem to be the best acquisition option of the three Nigerian banks (Heritage Bank, Unity Bank, and Polaris Bank) identified as showing weak to modest shareholder funds and profitability (*see charts 1 & 2 below*).

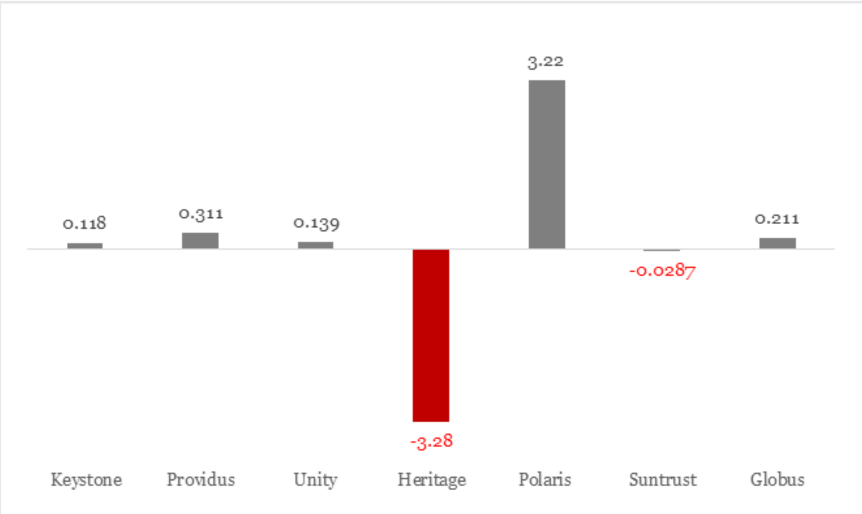
Chart 1

***Chart 1:* Selected Banks with Low and Negative Shareholder's Funds Jan. 2020**



Source: Proshare Regulatory Findings January 2020

***Chart 2:* Selected Banks Profit/(Loss) (N'bn) for January 2020**



Source: Proshare Regulatory Findings January 2020

Winning the Merger End Game

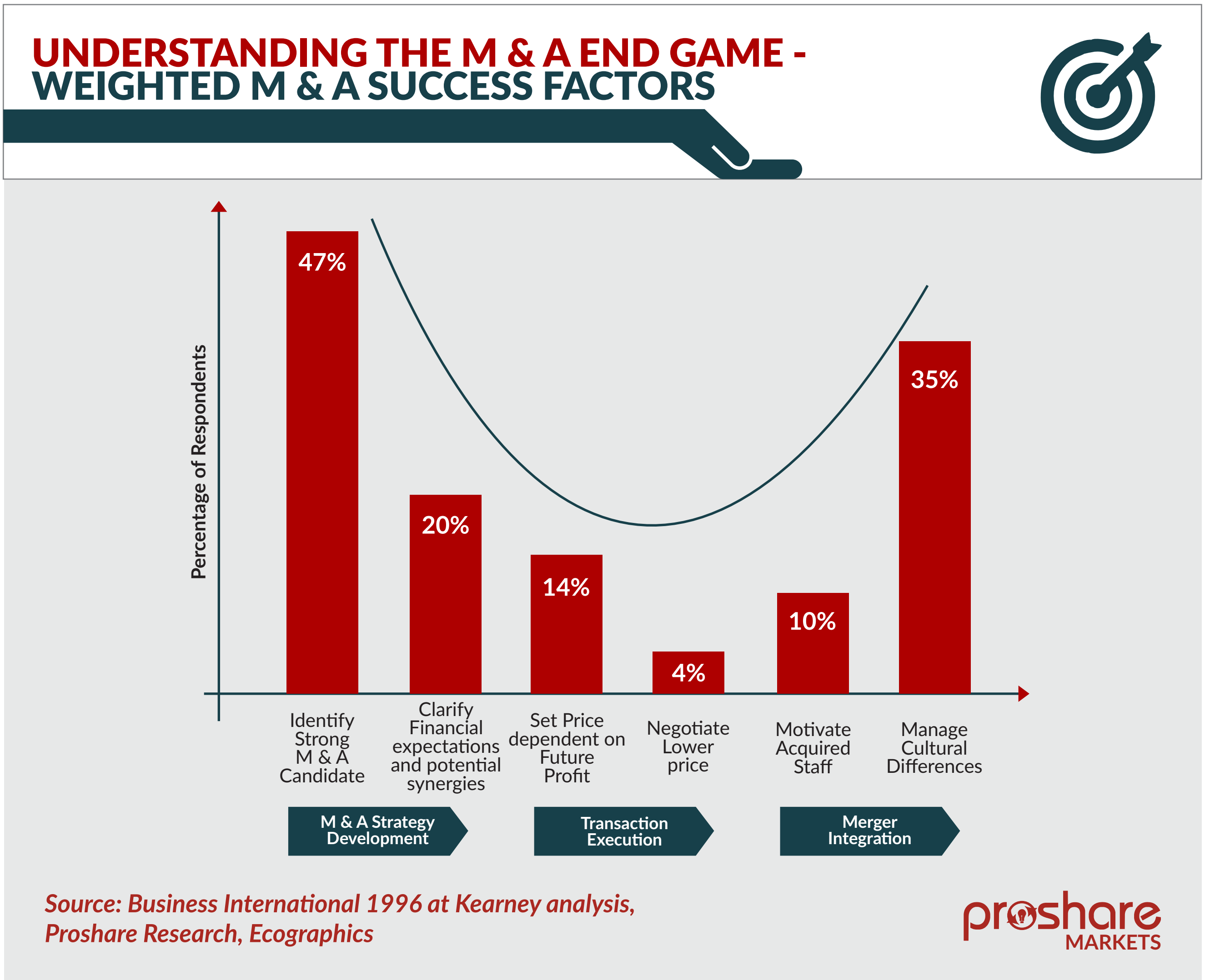
Mergers can be a complex brew, even with two good parties. Post-merger integration could be as easy as balancing a tray of eggs while fleeing from a burning building. The problem of corporate mergers is the nasty details of numbers, culture, vision, and management. When GT Bank bought the former Magnum Trust Bank, the board of GT Bank (now GTCO on adopting a Holdco structure in 2021) sold Magnum within a year of its acquisition.

In a 2015 private conversation on a project concerning the lives and times of corporate giants in Nigeria, Fola Adeola, the first managing director of GT Bank, was asked why GT sold Magnum Trust Bank quickly. Adeola noted that amongst the challenges faced by the acquirer was the sharp difference in banking culture, "we saw no way that the two cultures could find harmony. Hitching a horse and a bull to pull a carriage is not a bright idea," he noted.

According to Adeola, "the merger play must always be strategic and not based on a whim. Success requires institutions with compatible corporate DNAs to build what Arie de Geus called 'the living company'; otherwise, the new entity will suffer terminal challenges. The DNAs of merging companies do not have to be the same, but they must be sufficiently compatible to make the union work," he insisted.
Only a few banks in Nigeria have managed the DNA challenge successfully: Access Bank on merging with the former Intercontinental Bank (2012) and Diamond Bank (2019), and STB on combining with the old UBA (2005).

Almost half (47%) of merger success stories are about identifying the right merger partner. No matter how good a partner appears from afar, corporate marriages need compelling financial and strategic facts to thrive; as some analysts have noted, love is good but requires deep anchors. The fact that two companies admire themselves does not guarantee their successful union; businesses must show the correct numbers and cultures, not just the right emotions. Wrong numbers and incompatible cultures are instant deal-breakers for merger successes (*see illustration 2 below*).

Illustration 2: ***Weighing the M&A End Game***



Where the Future Matters

FBNH/FBN needs to resolve internal differences quickly and concentrate on operational excellence. Analysts note that the strain between the bank and Holdco must give way to more productive corporate action to drag the banking giant to new financial heights. It has become evident that past demons must be exorcised as the board and management frame the banking franchise's new narrative.

The Adetuntan-led bank management has a short time to make a significant impact. The management cannot fulfill a turnaround mandate if it is stuck in unnecessary board room squabbles and distractions. This said, the management would also be unsuccessful if it simply continues to do old things slightly better. Edison's electric light did not come about from the continuous improvement of the candle.

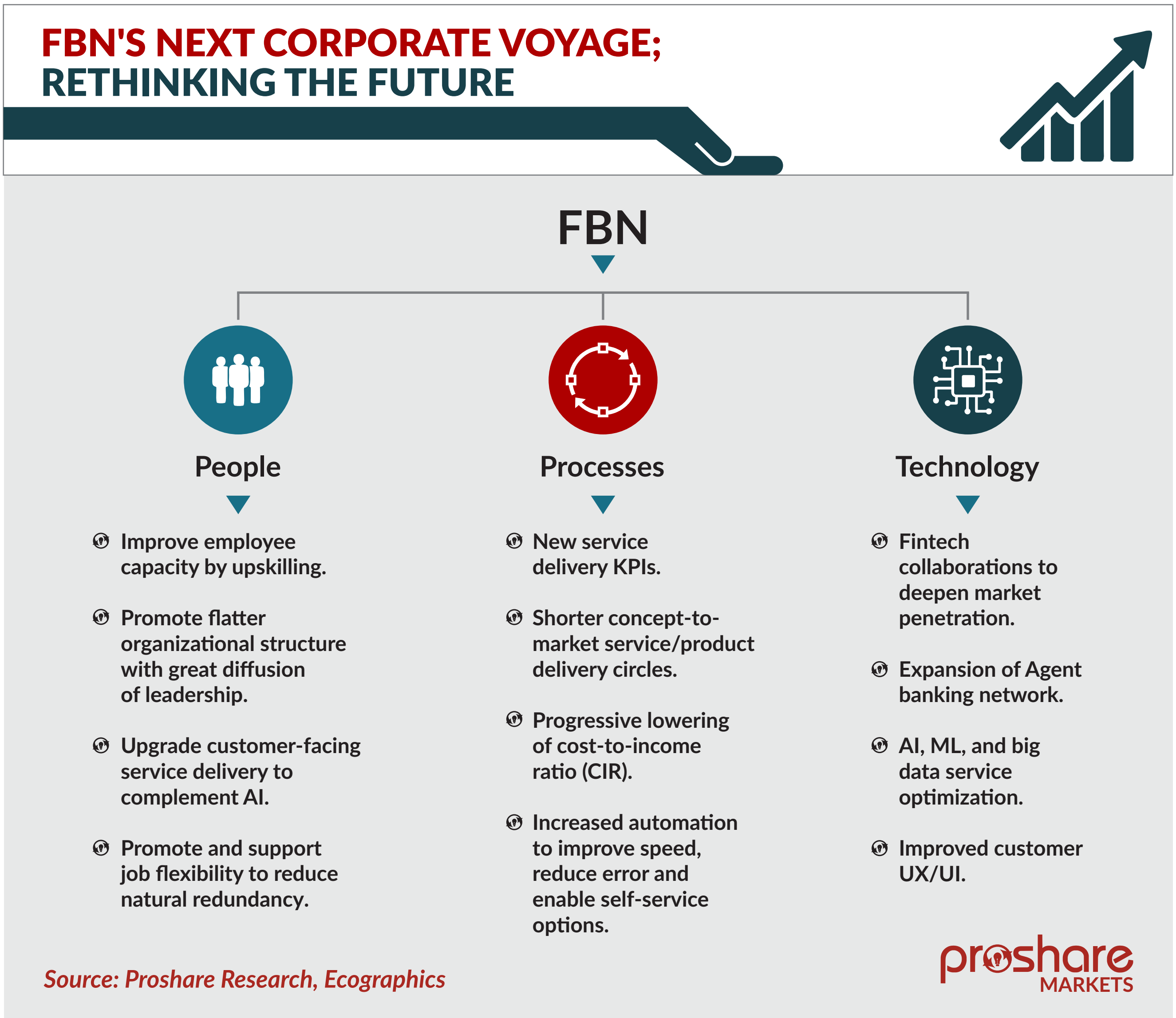
What FBNH and FBN need is a radical makeover. If FBN, and by extension FBNH, is to do well, then the bank must consider the following:

- *A new realignment of corporate culture around milestones; for example, a CIR of 50% would require a cut in paper, pens, logistics, and other administrative expenses. In addition, a reduction in the cost of risk (CoR) would throw a boon to a new shared culture of declining non-performing loans (NPLs).*
- *Loan concentration (excessive loans made to a sector or industry) must change as diversification of loan assets becomes as important as the ongoing winding down of insider-related credit (toxic insider loans were about 5% of the bank's total loan size as of H1 2021). The bank needs to keep its loan portfolio reasonably diversified within the leading economic growth sectors, including Oil & Gas and Energy; however, funding structures and collaterals would need revision. The bank may need to make more* ***sale*** *and* ***leaseback*** *arrangements and attempt* ***asset securitization*** *transactions to reduce loan risk.*
- *Technology competitiveness is acceptable, but the bank needs to be ahead of the technology curve. So, technology leadership should be its primary concern, especially as the management lays the foundation for a 25-year legacy. The bank may collaborate with tech partners, but it must also build solid in-house technology capabilities. Product and service development research must be an integral part of the business process. Simple improvements on basic service are necessary but insufficient. Financial lenders must infuse technology to ensure* **blue ocean** progress (dominating uncontested or weakly contested market spaces).

People, Processes, and Technology - Upgrading the Future

FBNH and FBN will have to improve the quality of staff through strategic planning and scenario analysis. With the delta-variant of COVID-19 raging across continents and confirmation that the variant has found its way into Nigeria, the financial lender will have to retool workers for an age of remote banking transactions. The new era would mean reviewing the staff needed and their skills to keep the bank as efficient and effective as their tier 1 counterparts. Riding on the back of a changing business environment, the bank would need to revise lending and monitoring processes. The lender would need to adopt procedures that roll up human-to-human contact and accelerate digital interventions (*see illustration 3 below*).

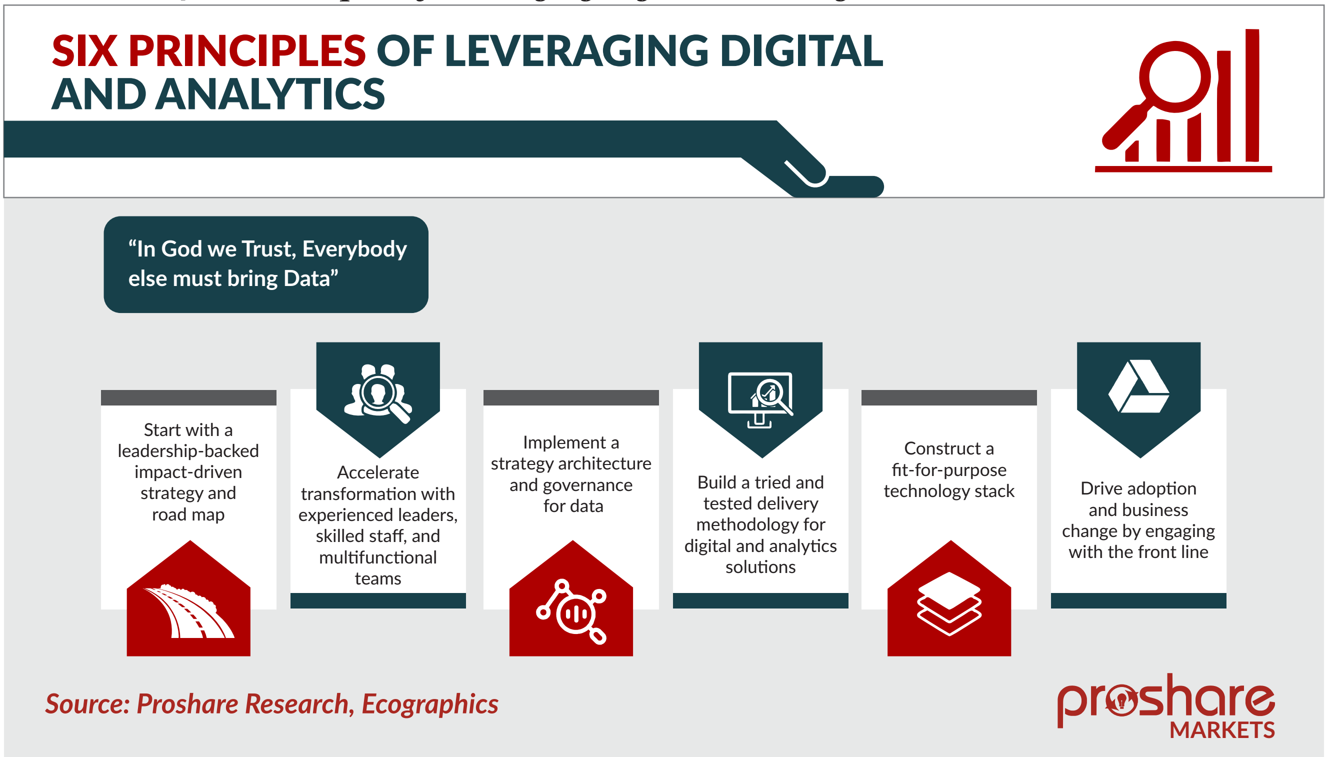
Illustration 3: ***FBNH/FBN Rethinking the Future***



The digital transaction age would mean that offices would be paperless, data storage would be cloud-based, and credit evaluation, approval, and monitoring would involve more significant data processing. The bank would have to drive more intense artificial intelligence (AI) and machine learning (ML) programs that are predictive rather than reactive. Data analytics would have to emerge as a vital tool of customer service excellence (*see illustration 4 below*).

Illustration 4

Illustration 4: ***Six Principles of Leveraging Digital and Analytics***



Proshare recently surveyed public perception of the bank, with the following insights:

- *The bank was not seen as a major technology-driven financial service provider (this perception may have been inaccurate given that the bank's firstmobile initiative was designed to improve rural financial penetration and fill the 'white spaces' in rural and urban SME banking service).*
- *However, its agency banking service has received praise.*
  The mid-2000s saw the reputation and corporate performance of the bank deteriorate as management after management struggled with a series of self-inflicted challenges ranging from large insider-related loans, limited risk asset diversification, weak internal controls, and wrong-sized personnel and skills.
- *FBHN, as a later day parent institution of FBN, suffered from unneeded intrusion from significant individual 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.*
- *The Holdco has received a poor credit rating, although more recent ratings by Moody's Credit Rating put a better twist to the Holdco's financial performance in H1 2021.*
- *Stock traders believed that FBNH and FBN must come clean about the nature and size of the CBN forbearance to give a clearer picture of the quality of the bank's assets.*
- *Analysts shared the opinion of traders. A lack of clarity over the nature and size of CBN's forbearance has created asymmetric information. The implication is that some people have superior knowledge of the bank's actual financial position, thereby creating price inefficiency*

and arbitrage gaps. Analysts and market traders are unclear about the bank's proper valuation.

- *The public is cautious about FBN and FBNH. The CBN's recent statements concerning forbearance and delinquent insider-related credit have made the bank a cautionary tale.*

Corporations should never allow the lessons of a good crisis to go unattended. The strategy of hope is a loser's game because **hope has never been a decent method**. In times of unique difficulties, great opportunities emerge, FBNH would do well to seize the moment. The Report underscores this point after appraising the bank's recent financial books and assessing its corporate governance. The **Report** tiptoes around the shaky pack of cards that make up its previous operating performances and the growth-restraining internal tensions and delivers its review in seven (7) sections.

Section 1 of the Report looked at all Tier 1 banks (nicknamed "FUGAZE") listed on the Nigeria Exchange (NGX) and tried to position FBNH within the league of competing peers. The analysis of FUGAZE created the context in which FBNH's H1 2021 financial result was assessed. The outcome was an improvement over the relatively poor results between 2016 and 2020. For example, as recently as 2018, the financial holding company had a nonperforming loan ratio (NPLR) of 26%, the worst in its banking class at the time. The more recent (H1 2021) ratio of 7.2% represents an improvement. The average NPLR for Tier 1 banks in Q1 2021 was 5.44% as against 4.42% of all banks listed on the NGX. The most obvious implication is that several second-tier banks achieved NPLRs lower than the average for tier 1 rivals.

The Report adopted a discounted cash flow (DCF) method to set a valuation on the deposit money institution to establish whether the stock market places a premium or discount on the lender. In addition, the section made a few financial projections to provide context for management's possible future strategy.

Section 2 provides historical context to the lender's choppy performance and management's 'mood swings,' which have prevented sustainable growth in the last two and a half decades. The banks over 100 years of existence count for little in a world where the swift and focused easily outperform the big and sluggish. With 127 years under its belt, FBN has punched chiefly below its weight, leaving newcomers like Access Bank, Zenith Bank, UBA, and GTCO to take charge.

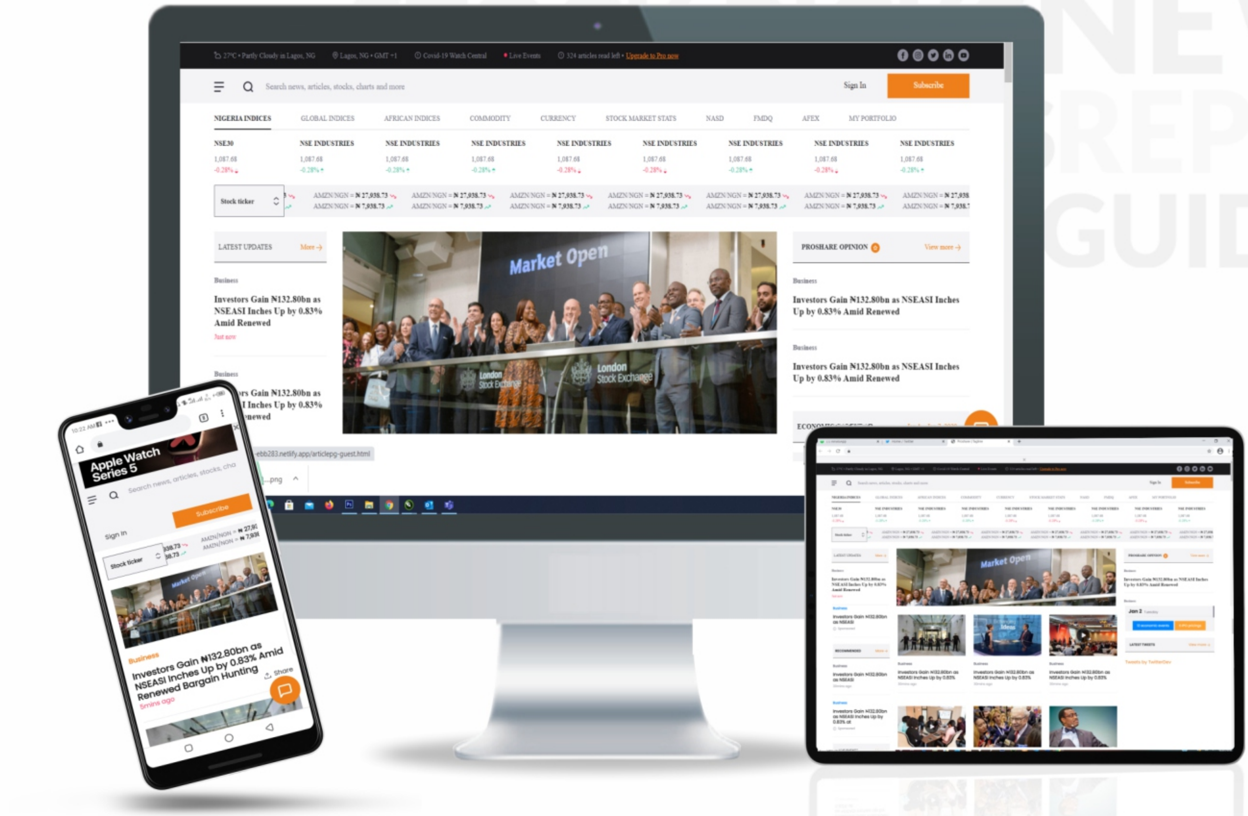
Section 3 looked at the Central Bank's decision to remove non-executive directors of the Holdco and the bank to restore confidence in the lender's overall management and governance.

Section 4 is an excursion into FBNH's financial numbers to understand where the lender appears to have operating challenges and opportunities.

Drawing from the financial figures in the previous section, **Section 5** looks at the imperatives for action and circumscribes the policy thrusts needed for corporate stability and legacy setting. The Report dives into Q1 and H1 2021 quarterly and half-year results to see if they sit within the lender's strategic intentions – **Impairments, NIM, NPLs, CIR, CoR, ROE, ROA, Valuation**. The section uses the comparative financials of the bank to think through the strategic threats and opportunities that may emerge shortly. From ***Michael Porter's*** five competitive forces, the section sees how ***W. Chan Kim*** and ***Renee Mauborgne's*** blue ocean shift could reshape FBNH/FBN's competitive future.

Section 6 of the Report looks at the strategic journey to healthier profits, dividend payouts, and executive stability. This Report section worked on the premise that the existing directors of the Holdco and the bank are in legacy mode, meaning they remain entirely focused on handing over a stable, profitable, and sustainable bank to the next generation of managers. The new would-be managers of FBNH/FBN will disrupt the financial market as they reimagine the future wholesale and retail service delivery landscape. These new corporate leaders would both meet customers' expectations and exceed them.

The final section of the Report, **Section 7**, breaks into an audacious attempt at FBNH valuation to see if the market has discounted the financial institutions underlying value. The section cautiously approaches



Market Open
Apple Watch Series 5

FBNH - A Sense of History

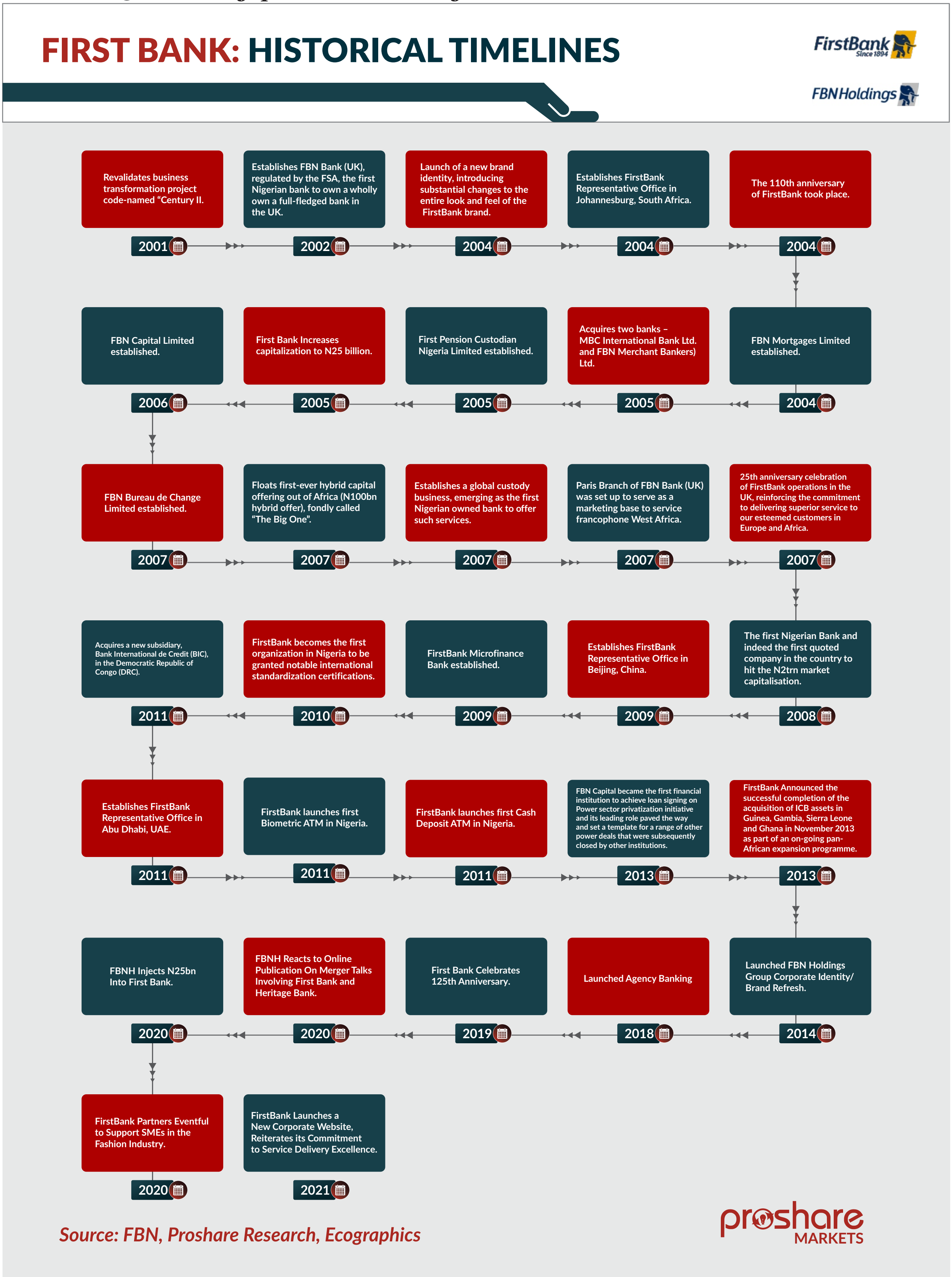
The tier 1 lender has dominated Nigeria's financial services market for over a century. Though still leveraging its brand as one of the most valued brands, the bank has had to relinquish some of its sectoral leadership to a couple of other institutions that gained market share after establishing themselves as new generation banks in the 1990s due to the growing dynamism of the industry. The financial holding company has also undergone significant historical changes to offer better customer service and improved products.

To respond successfully to changing conditions over the years, the Bank has undertaken several restructuring programs. From the first Nigerian bank to wholly own a full-fledged bank in the UK in 2002 to divest from the FBN Insurance in 2020 and to more recently launching a new corporate website of FirstBank. Based on key criteria such as asset size growth, deposit base growth, and gross loan size growth, the group's performance has improved substantially.

Below is an illustration of the high points and challenges faced by FBN Holdings over the last two decades (*see illustration 5 below*).

Illustration 5

Illustration 5: FBN – Highpoints and Challenges



When Boards Blur Vision: Understanding the CBN's Jackhammer

Getting a company's board to pull the organization in the right direction can be a mix of balancing egos, clever horse-trading, and clarity of purpose of a few good fellows, male and female. Company boards should be the chief visioners of a business, they set the tone and the beat of a company, and everybody else adopts dance steps that match the rhythm.

Good organizations see workers pull together with calculated order, but great organizations yield to coordination, creativity, and purpose, in an environment of controlled chaos. The dance steps are far from random, but they are equally not robotic; the **absence of this clever and deliberate orchestration** has formed part of the FBNH/FBN problem in the past two decades. A review of the lender's recent history shows that each successive management has set out its own goals untied to either earlier or later corporate plans. The result has been a lack of corporate continuity with only episodic institutional progress.

The attempt by the bank to accelerate towards a new technology-driven era has come with crippling challenges. In the early 2000s, FBN had conceived a period-defining cultural and technological leap that it codenamed **Century II** (2000-2002), designed to upgrade the bank's customer interface and create a paperless work environment that would be fast and efficient.

The Century II project became unstuck as its principal visioner and supporter; the bank's then managing director, Mr. Bernard Longe, was caught in a web of allegedly unsavory professional conduct (the courts acquitted him in 2006). The expected cultural reset became suspended, and the bank quickly reverted to its 'old ways.'

With Longe gone, his successor, Mr. Moyo Ajekigbe, was not sold on the audacious intentions of the **Century II** project and allowed it to fizzle unmentioned, unvisited, and unsung. Indeed, Ajekigbe had other fish to fry. With the bank beginning to see red ink drip through its books with younger rivals snapping up market share and growing their comparative profits, FBN found itself in a bone-crunching fist fight for business; the competitive waters had suddenly turned red.
Having to face a brutally unforgiving local market, Ajekigbe decided that a global play could prove to be the decisive trump card in a broiling business battle that was prepared to take no prisoners. The hassled bank boss decided to open up new FBN branches in both the United Kingdom (UK) and France; the gamble was fair but unrewarded. The London bank continued to be a drag on the financial performance of the group over the years and never really lived up to the early expectations.

From the Bisi Onasanya era, the board was chaired by Oba Otudeko, who had significant influence over other directors and often acted with good intentions but suffered from common human foibles. Otudeko, who doubled as the Chairman of the Honeywell Group, had purportedly used his position at the financial Holdco to secure loans for companies related to him, thereby creating a classic '***agency problem***,' meaning that the difference in the interest between the borrower and lender was unclear. Honeywell, for example, had loans that were restructured to allow for more convenient repayment terms over a longer tenor and under new repayment conditions.

On face value this was not a problem, but the trouble with Otudeko's related-party bank facilities spoke more to collateral support than the intention to repay. In addition, FBN, contrary to best global practices, acquired an equity interest in the Honeywell Group, thereby creating a layer of conflicting interest. The issue of FBN's equity interest in a related-party borrower and the non-perfection of its Holdco Chairman's collaterals partly informed the CBN's decision to relieve the non-executive directors of the Holdco of their board positions.
Three identifiable achievements marked the Moyo Ajekigbe tenure:

- *Establishment of FBN Bank UK Limited in London and Paris.*
- *Increasing Total Assets from N266.356b in 2002 to N1.3 trillion in the first 6 months of 2008; and*
- *Raising Shareholder Funds from N17.747 billion to N315.979billion.*

The achievements of Ajekigbe contrasted with the accomplishments of his predecessor, Bernard Longe, who had other considerations on his mind. Longe's three defining contributions to FBN were the following:

- *Masterminding the introduction and implementation of the first International Money Transfer System in Nigeria.*
- *Overseeing the crafting and implementation of the Enterprise Transformation Project Century II; and*
- *Stewarding the "Century II The New Frontier" project.*

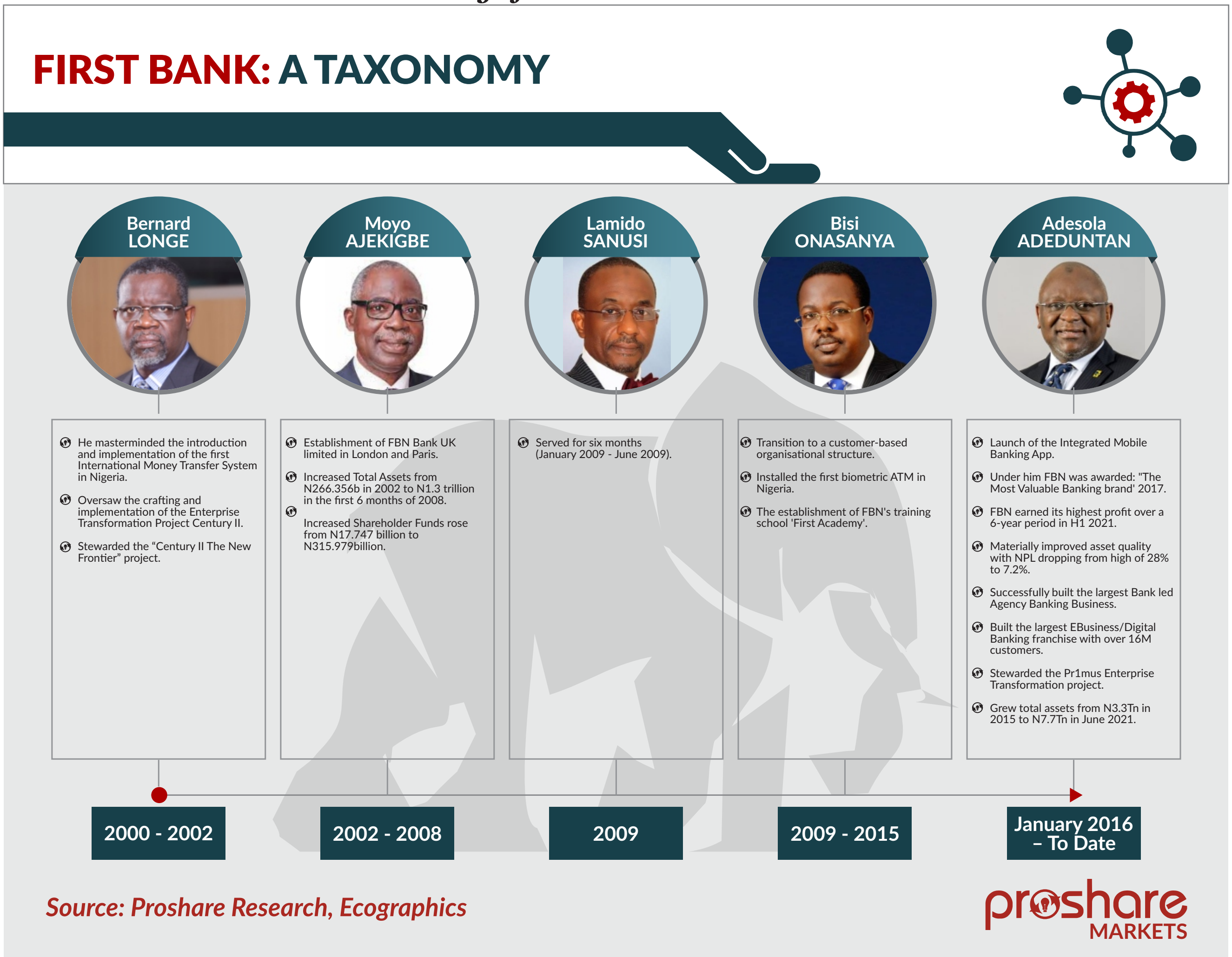
When Ajekigbe retired from the bank, there was a brief pause as the subsequent Governor of Central Bank of Nigeria, **Sanusi Lamido Sanusi**, was appointed FBN managing director in January 2009 but left to become a bank regulator in June of the same year. With Sanusi becoming CBN Governor, the board of the bank appointed **Mr. Bisi Onasanya** as his successor. The Onasanya era was mixed, as it saw the bank tramp on new and bolder grounds in fresh lending to the Oil and Gas and Energy sectors, but the effort ended badly regarding the quality of the loans granted and the risk management deployed. Onasanya's three significant achievements included the following:

- *Transition to a customer-based organizational structure.*
- *Installed the first biometric ATM in Nigeria; and*
- *The establishment of FBN's training school 'First Academy'.*

The Onasanya achievements in cultural transition and capacity upgrades became marred by numerous delinquent risk assets (i.e., loans) and liquidity difficulties caused by an increasingly depressed economy, global economic disruptions (2015-2016), and poor revenue recovery in the power sector. The bank was not alone in the fallout from the global financial crisis (GFC) that ensued as seen in the 'potential remedies' for delinquent loans discussed in a Report prepared by **Proshare** for **Debtors Africa** in 2019.

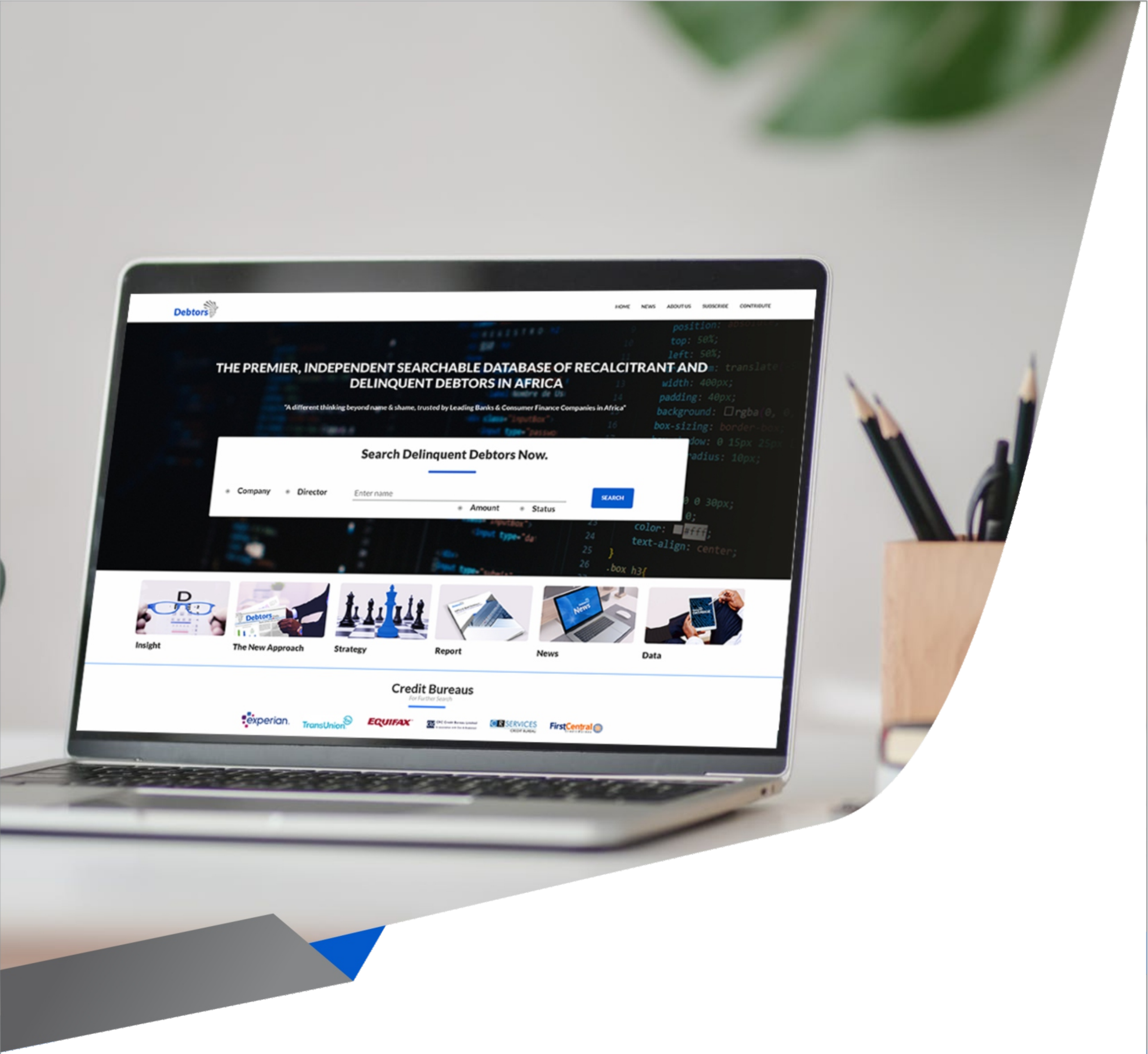
The **Report** emphasized the need for a new approach to reducing NPLs and achieving major loan-loss writebacks. One of the recommendations was creating a shareable digital register of delinquent borrowers properly profiled for credit status across continental and global markets. The register would have helped Onasanya in pressuring borrowers to repay their debts. The Onasanya epoch represented the strong, the weak, and the obscure parts of FBN's recent lending history. The former bank CEO's gamble to grow the bank's fiscal book size has seen a detour since 2016 under the new leadership of **Dr. Adesola Adeduntan** (*see illustration 6 below*).

Illustration 6: ***First Bank's Taxonomy of Growth***



Adeduntan has had to navigate a different path of cleaning up the Augean stable by attempting to take on delinquent loans head-on. The effort at recovering sticky loan assets had at times placed the bank's management in direct conflict with its Holding company's previous board of directors. However, with the new Holdco board, things appear better.

Nevertheless, in some measure, the drama that saw the exit of the bank's non-executive directors resulted from a powerplay between the bank's management and significant insiders on the board of the Holdco. The political chess moves by both parties were deft, but the outcome predictable; with the CBN solidly behind the bank's present management. It was just a matter of time before the non-executive directors of the bank and Holdco were gone, given the disposition of the CBN.



Debtors
THE PREMIER, INDEPENDENT SEARCHABLE DATABASE OF RECALCITRANT AND DELINQUENT DEBTORS IN AFRICA
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Company
Director
Enter name
Amount
Status
SEARCH
Insight
The New Approach
Strategy
Report
News
Data
Credit Bureaus
experian
TransUnion
EQUIFAX
FirstCentral

The CBN's position confirmed aspects of the recent **Fitch Global Ratings** review of FBNH. The financial Holdco received a B- rating from the Rating Agency. The B- rating, according to Fitch's analysis for May 2021 was because *"FBNH's IDR is driven by its intrinsic creditworthiness, as defined by its 'b-' Viability Rating (VR). The rating considers the group's exposure to Nigeria's volatile operating environment and factors in vulnerability in its capital position in the context of moderate earnings generation and asset-quality pressures, where headroom above the minimum regulatory capital requirements is also moderate. Capitalization is a factor of high importance to the VR."*

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The rating went on to say that: *"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."*

It concluded, saying *"We believe the governance shortcomings cited by the CBN reflect poorly on FBNH's reputation and 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.'"*

Adeduntan's Need for New Glasses: The Question of Legacy

FBN's new course must be clear-eyed and represent a significant break from the past. The bank has bobbed around like a beer bottle with no direction in the past two decades. The recent events with the removal of the old board of the Holdco and bank could provide the leeway required for the bank's managers to draw a line in the sand for sustainable growth and competitive advantage.

Adedutan must set bold, hairy, and audacious goals over the next few months (speculations exist about a possible brief extension). Indeed, despite the warm feelings that the bank's operating ratios give, if FBN is not to crumble like a poorly arranged stack of cards, it must be prepared for some radical governance changes and a critical rethinking of its corporate strategy. The board and management of the corporate giant are pressed for time to act fast. Analysts note that even in a short spell, the bank's administration could still create the foundations for a regenerated financial market leader.

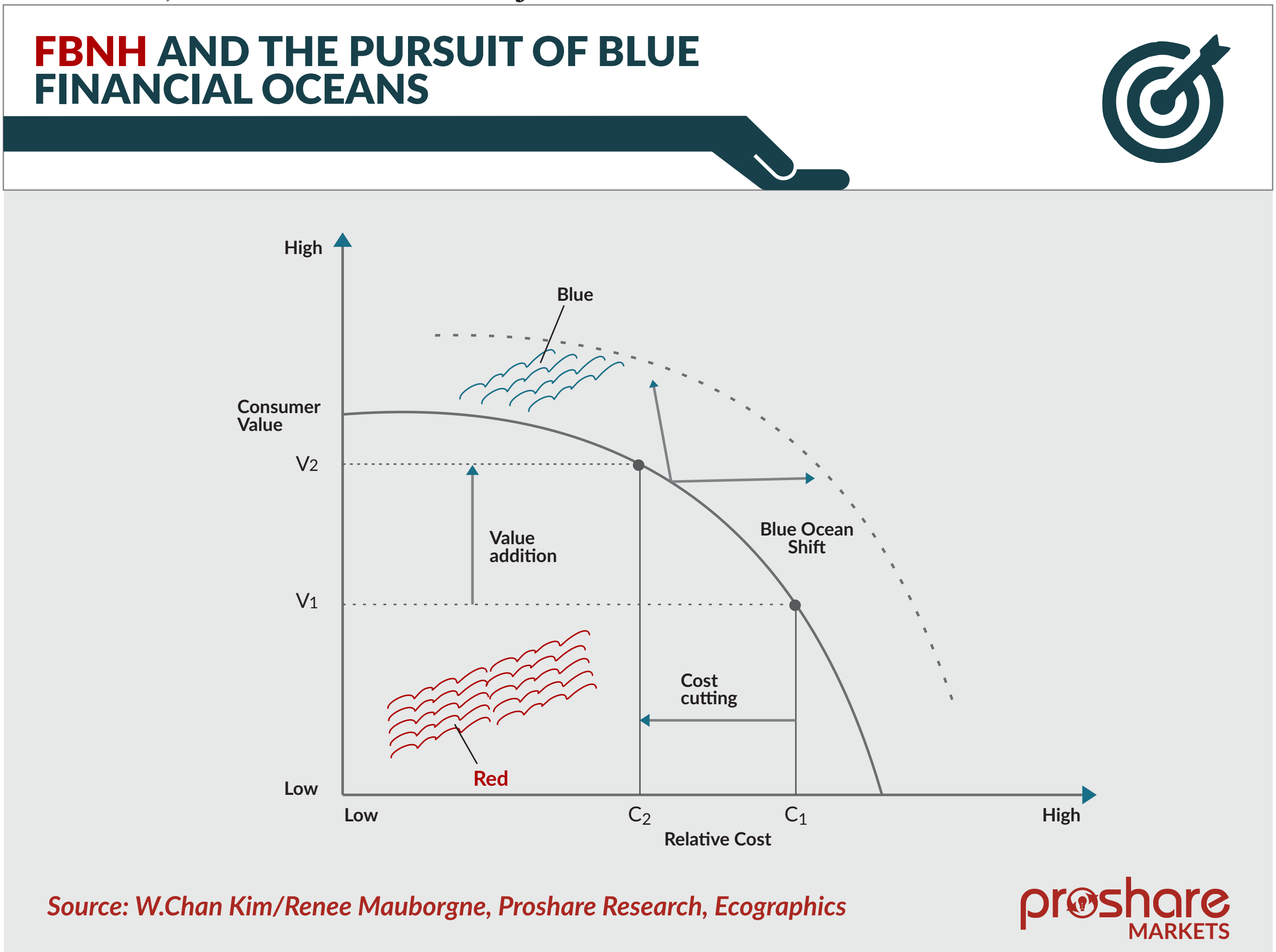
A survey of analysts would indicate that the three most significant achievements of Adeduntan over the last five years would include the following:

- *Improving the bank's risk asset quality.*
- *Writing down the size of the bank's insider-related delinquent loan assets; and*
- *Expanding the bank's agency banking activities.*

These achievements fall within what can be considered red ocean moves to improve bank performance, but as good as this seems, the true gem in the strategic crown would be the pursuit of **blue ocean** opportunities.

In their book 'Blue Ocean Strategy,' W. Chan Kim and Renee Mauborgne explain that organizations that seek corporate sustainability cannot afford to concentrate on trade-offs between cost and customer value propositions. They must break off the link value and cost and push the company to a point where it achieves increased customer value and reduced operating costs, thereby shifting the value/cost frontier outwards. The goal was to make competition irrelevant (*see illustration 7 below*).

Illustration 7:* *FBNH and The Pursuit of Blue Financial Oceans



Adeduntan and his team have wrestled the bank's cost-to-income (CIR) down over the last five years (although it remains the highest for FUGAZE banks listed on the NGX). However, to guarantee corporate sustainability, the FBN boss must go beyond generic strategic goals; he must either reimagine the service delivery box or do away with the box entirely. To swim in a blue competitive ocean First Bank must learn how to deliver data-backed competitive services. A blue ocean corporate shift for FBN will not come by accident but will require a cold, and hard commitment to business reinvention. At the heart of the corporate makeover of the bank would be **Big Data** and its clever use.

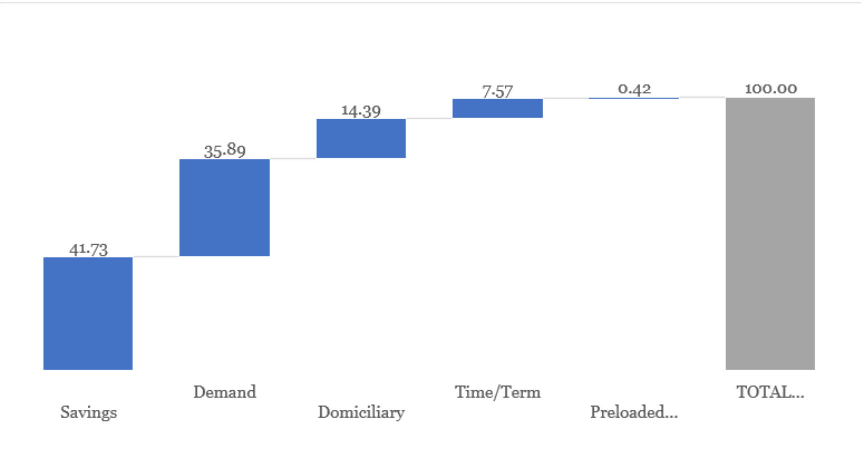
Of Numbers and Tables

A look at FBNH's results in the recent past provides analysts with an insight into the bank's areas of comparative strength and weaknesses. Essentially, by undertaking such a procedure, the best strategies required to consolidate the gains from the past could be identified just as challenges from the past could be addressed appropriately.

Mapping FBNH's Customers and Connecting the Dots

Understanding the dispersion of FBNH's many depositors is important, as this would provide Management with helpful information on the specific patterns of demand peculiar to segments of the society. Using data available to Proshare Research, it was found that in Q1 2021, 35.89% of the total deposits were made into demand deposit accounts, while 41.73% of customer deposits in the said period were made into savings accounts. Deposits into domiciliary accounts amounted to 14.39%, while term accounts got only 7.57% of total deposits, the last 0.42% of deposits were attributed to preloaded electronic funds (*see chart 3 below*).

Chart 3: An Account-based Analysis of Customer Deposits - Q12021 (%)

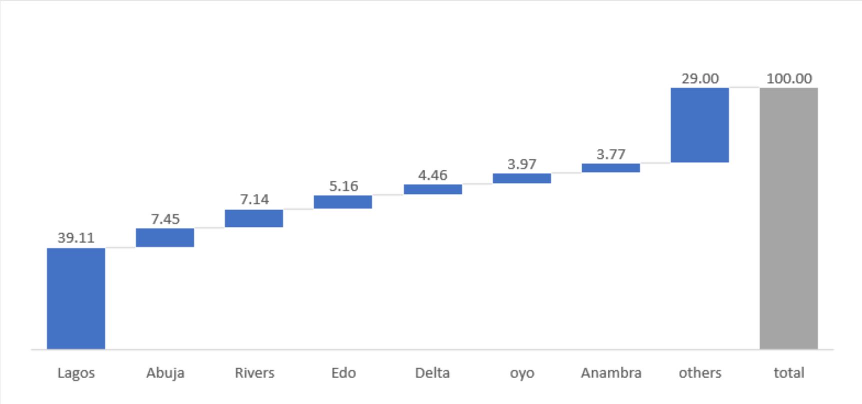


Source: Data available to Proshare Research

Given the above, the CASA ratio of the bank, computed as the ratio of the current account and savings account to total bank deposits, was estimated at 76%, an outcome which ideally was large enough to have a positive impact on FBN's cost of funds.

Likewise, data on the spatial distribution of FBN customers show that many of the bank's customers are within Lagos, where they deposited N1.602tr; this corresponds to 39.1% of total deposits. Abuja FCT came in second with a deposit of N302.32bn, an equivalent of 7.45% of the total deposits. Rivers State, Edo, and Delta states contributed 7.14%, 5.16%, and 4.46% of total deposits. As for Oyo and Anambra they accounted for less than 4% of total deposits in the period. The other 30 states contributed under 30% of the total deposits (*see chart 4 below*).

Chart 4: ***A Locational Analysis of Customer Deposits as of Q12021(%)***



Source: Data available to Proshare Research

Insider Lending, One Obligor Limit, and FBNH'S Net Exposure to Honeywell

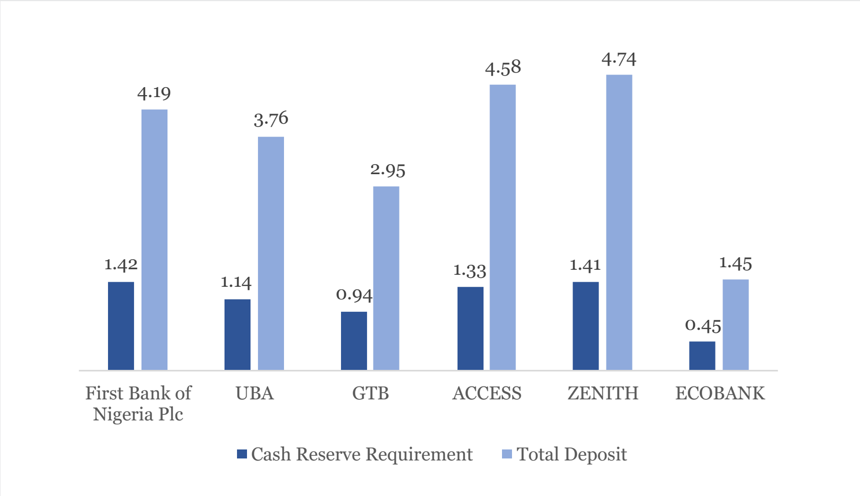
Review of FBNH's borrowers shows that the country's oldest lender advanced 17.7% of its total loans in 2020 to the Manufacturing sector, exceeding the 16.5% recorded in 2019. The exposure to the Manufacturing industry includes a N75bn loan to Honeywell Flour Mills, of which a former FBNH Director, Oba Otudeko, owned a large shareholding. The bank's corporate governance practices as questioned because of the insider loan, which exceeded the bank's single-obligor limit. According to the agreement, Honeywell Flour Mills reported that the loan had performed well. The loan was secured with collateral worth more than 170% of the forced sales value (FSV) and 230% of the loan's open market value (OMV). However, the regulator noted that the bank failed to perfect its lien on Otudeko's FBN shares used as collateral for the loan.

The Cash Reserves and Deposits Nexus, an LDR Problem

The CBN requires a minimum of 65% of total deposits to be loaned to customers; if unmet, the concerned bank would receive a cash reserve requirement levy equal to 50% of its LDR shortfall. From data available to Proshare, the analysts discovered that as of March 31, 2021, FBNH had a total deposit of N4.19trn, Access Bank and Zenith Bank held higher amounts- N4.58trn and N4.74trn as deposits, respectively. Interestingly, First Bank had an N1.42trn Cash reserve requirement exceeding Access Bank(N1.33trn) and Zenith Bank(N1.41trn). The variance resulted from the bank's inability to meet the statutory loans-to-deposit ratio (LDR). As of the end of Q1 2021, the LDR of the bank was 53.2% which falls 10 percentage points short of the statutory requirement (*see Chart 5 below*).

Chart 5

Chart 5: ***Cash Reserve Requirement for Tier 1 Banks as of March 31, 2021 (tr)***



Source: Data available to Proshare Research

Further analysis of the hundred most significant loans in Q1 2021 showed that Banks collectively had their major Net Exposure to Dangote conglomerate and Kann Utility Company (owners of AEDC). The two companies accounted for over 10% of the banks' loans and receivables. Likewise, 89% of all banks' new loans and receivables in Q1 2020 were rated BBB, while 11% were rated AAA.

As of July 31, 2021, data available to Proshare showed that FBNH ranks first on the list of banks with the highest shares of the industry's Cash Reserve Ratio (CRR), the country's oldest lender accounts for 14% of the total CRR of the industry. Access and Zenith Bank are tied in second position contributing 13% of total CRR. UBA ranked fourth, accounting for 11% of the industry CRR. The fifth-largest share of the industry CRR came from GTB with 8%, Fidelity Bank and Ecobank each held a 5% share of the entire industry CRR, thus jointly ranked sixth. UBN and Stanbic both held the eighth position with 4% of industry CRR. FCMB had a 3% share of the CRR, representing the tenth-largest share of industry-wide CRR

In terms of CRR debts, FBNH ranked highest as of July 31, 2021, with a CRR debt of N1.41trn, while Access Bank ranked second with the second-highest CRR debts of N1.30trn, Zenith Bank ranked third with a CRR debt of N1.29trn. UBN, Stanbic, and FCMB retained the bottom three positions with CRR debts of N445bn, N378bn, and N330bn, respectively. The ten banks accounted for N8.14trn of the total industry CRR debt of N10.12trn (*see table 1 below*).

Table 1

***Table 1:* Ranking of Banks based on Share of CRR, CRR Debits and CRR ratio**

TOP TEN BANKS

SHARE OF CRR

Rank	Banks	Share of CRR
1	First Bank	14%
2	Access	13%
3	Zenith	13%
4	UBA	11%
5	GTB	8%
6	Fidelity Bank	5%
7	Ecobank	5%
8	UBN	4%
9	Stanbic	4%
10	FCMB	3%
	Total	80%
	Others	20%
	Industry	100%

CRR DEBITS

Rank	Banks	CRR DEBTS (N'bn)
1	First Bank	1,412
2	Access	1,304
3	Zenith	1,299
4	UBA	1,094
5	GTB	853
6	Fidelity Bank	523
7	Ecobank	506
8	UBN	445
9	Stanbic	378
10	FCMB	330
	Total	8,145
	Others	1,984
	Industry	10,129

CRR RATIO

Rank	Banks	CRR Ratio
1	Stanbic	54%
2	Ecobank	48%
3	UBN	47%
4	First Bank	38%
5	Zenith	36%
6	GTB	36%
7	Access	34%
8	Fidelity Bank	33%
9	UBA	33%
10	FCMB	33%
	Total	37%
	Others	38%
	Industry	37%

Source: Data available to Proshare Research, Ecographics

proshare MARKETS

Also, as of July 31, 2021, a look at the Local currency deposits (LCY) shows that Access Bank recorded the highest LCY deposit of N3.79trn, closely followed by FBNH with LCY deposits N3.75trn. Zenith Bank ranked third with LCY deposits amounting to N3.6trn. Once again, FCMB, Stanbic, and UBN occupied the bottom three spots, only that this time FCMB ranked ahead of Stanbic and UBN, having recorded an LCY deposit of N1tr (*see table 2 below*).

Data available to Proshare also shows that as of July 31, 2021, the banks with the highest CRR ratios were Stanbic with 54%, Ecobank with 48%, and UBN 47%. FBNH ranked fourth in this regard with a CRR ratio of 38%. The Bank with the least CRR ratios was FCMB which had a CRR ratio of 33%.

Available data as of 31 July 2021 showed that Access bank had the highest deposits with deposits of N4.82trn, Zenith Bank ranked second with customer deposits of N4.81trn, First Bank had deposits of N4.37trn, placing it third ahead of UBA and GTB, which had customer deposits of 4.13trn and 2.96trn respectively. The bottom three banks on the list were FCMB, UBN, and Stanbic, which saw customers deposits of 1.29trn, 1.183trn, and 1.01trn, respectively. The ten banks accounted for N27.98trn out of the total customer deposits of N34.49trn. Access Bank recorded the highest amount of Gross loans in the period with a total N3.37trn, while Zenith Bank came in second with a customer's deposit of N2.9trn, First Bank ranked third with N2.57trn. In terms of gross loans, the bottom three banks were FCMB, Stanbic, and UBN, which had their Gross loans amounting to N913bn, N872bn, and N816bn, respectively.

As of July 31, 2021, Fidelity Bank ranked highest in terms of Loans to Deposit Ratio (LDR), a Tier 2 bank, topped the ranking with an LDR of 87%, followed by Stanbic with an LDR of 81%. Ecobank turned out to be the highest-ranking Tier 1 bank in terms of LDR as it recorded an LDR of 87%. FBN ranked the third lowest bank in terms of the ratio of liquidity to deposit, with an LDR of 59%. UBA and GTB, two other Tier 2 banks, ranked ninth and tenth positions with LDRs of 54% and 49%, respectively (*see table 2 below*).

***Table 2:* Ranking of Banks-based LCY Deposits, Customer Deposits, Gross Loans, and LDR**

TOP TEN BANKS

LCY DEPOSIT

Rank	Banks	LCY Deposits (N'bn)
1	Access	3,797
2	First Bank	3,751
3	Zenith	3,604
4	UBA	3,276
5	GTB	2,378
6	Fidelity Bank	1,605
7	Ecobank	1,057
8	FCMB	1,000
9	UBN	944
10	Stanbic	701
	Total	22,113
	Others	5,169
	Industry	27,282

CUSTOMER DEPOSITS

Rank	Banks	Customer Deposits (N'bn)
1	Access	4,824
2	Zenith	4,814
3	First Bank	4,372
4	UBA	4,130
5	GTB	2,964
6	Fidelity Bank	1,924
7	Ecobank	1,474
8	FCMB	1,289
9	UBN	1,183
10	Stanbic	1,010
	Total	27,986
	Others	6,503
	Industry	34,489

GROSS LOANS

Rank	Banks	Gross Loans (N'bn)
1	Access	3,370
2	Zenith	2,942
3	First Bank	2,578
4	UBA	2,227
5	Fidelity Bank	1,669
6	GTB	1,445
7	Ecobank	1,096
8	FCMB	913
9	UBN	872
10	Stanbic	816
	Total	17,927
	Others	4,127
	Industry	22,053

LDR

Rank	Banks	LDR
1	Fidelity Bank	87%
2	Stanbic	81%
3	Ecobank	74%
4	UBN	74%
5	FCMB	71%
6	Access	70%
7	Zenith	61%
8	First Bank	59%
9	UBA	54%
10	GTB	49%
	Total	64%
	Others	63%
	Industry	64%

Source: Data available to Proshare Research, Ecographics

Trend Assessment

TOP TEN BANKS IN TERMS OF CRR

S/N	Banks	Share of CRR	CRR DEBTS (N'trn)	LCY Deposits (N'trn)	CRR Ratio	Customer Deposits (N'trn)	Gross Loans (N'trn)	LDR
1	First Bank	14%	1,412	3,751	38%	4,372	2,578	59%
2	Access	13%	1,304	3,797	34%	4,824	3,370	70%
3	Zenith	13%	1,299	3,604	36%	4,814	2,942	61%
4	UBA	11%	1,094	3,276	33%	4,130	2,227	54%
5	GTB	8%	853	2,378	36%	2,964	1,445	49%
6	Fidelity Bank	5%	523	1,605	33%	1,924	1,669	87%
7	Ecobank	5%	506	1,057	48%	1,474	1,096	74%
8	UBN	4%	445	944	47%	1,183	872	74%
9	Stanbic	4%	378	701	54%	1,010	816	81%
10	FCMB	3%	330	1000	33%	1,289	913	71%
	Total	80%	8,145	22,113	37%	27,986	17,927	64%
	Others	20%	1,984	5,169	38%	6,503	4,127	63%
	Industry	100%	10,129	27,282	37%	34,489	22,053	64%

Source: Banks Financial Statement, Proshare Research

The Trend of Cost and Profitability (Income Statement)

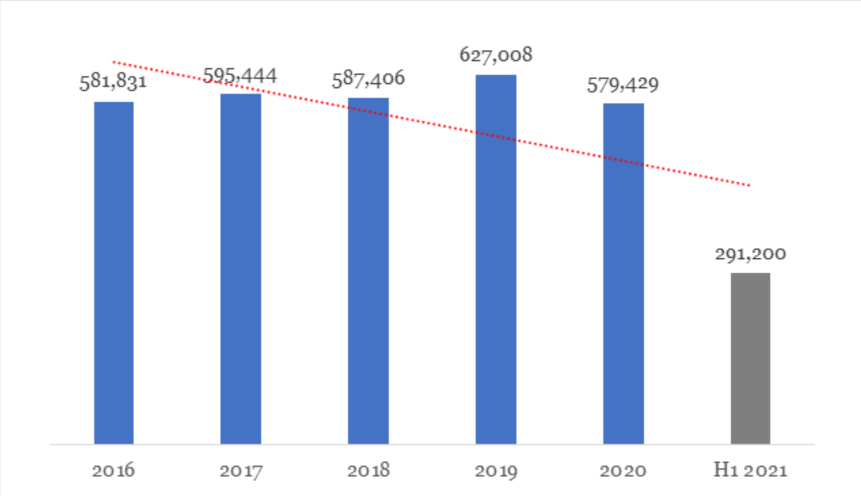
Joint income statements over five years for the ten largest local banks suggest that FBN's performance remains mixed.

Gross Earnings

Gross earnings have in the last four years fallen marginally. In 2016, the bank's top line had amounted to N581.83bn, in the following year earnings rose to N595.44bn this was despite a fall in total loans and advances from N2.08bn in 2016 to N2bn in 2017. In 2019, gross earnings reached N627.01bn growing by +6.74% year-on-year (Y-o-Y). FBNH reported a gross earning of N291.2bn in H1 2021 (*see chart 6 below*).

Chart 6

Chart 6: FBNH's Gross Earnings 2016 - H1 2021 (N'm)

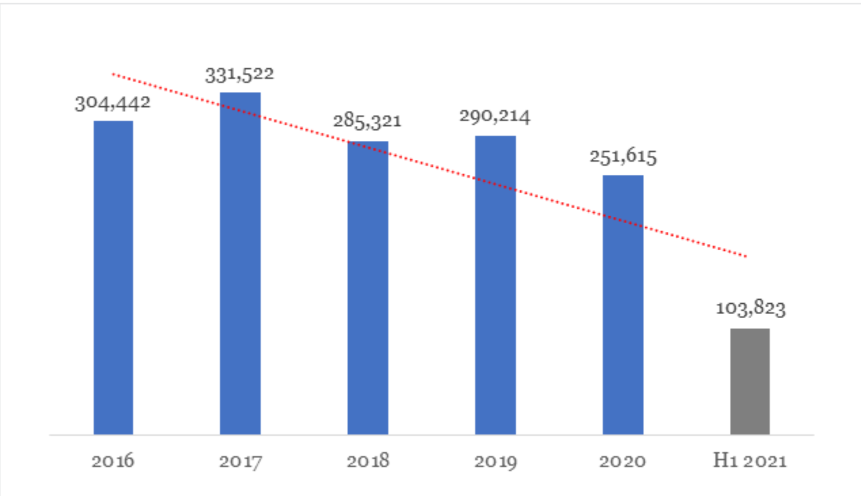


Source: FBNH, Proshare Research

Net Interest Income

Net Interest Income at FBNH has consistently declined, with the results from 2017 and 2019 being slight deviations from the trend. Between 2016 and 2020, Net Interest Income fell by -17.3% from N304bn in 2016 to N251bn in 2020. This implies that the difference between the bank's revenue generated from interest-bearing assets and the expenses associated with the payments on interest-bearing liabilities is thinning out. This can be attributed to the quality of the loan portfolio as well as the different and overall interest rates charged. Likewise, the steady rise in Net Interest Income at FBNH is indicative of the fact that the bank has not managed its interest rate risk as efficiently as it should (*see Chart 7 below*).

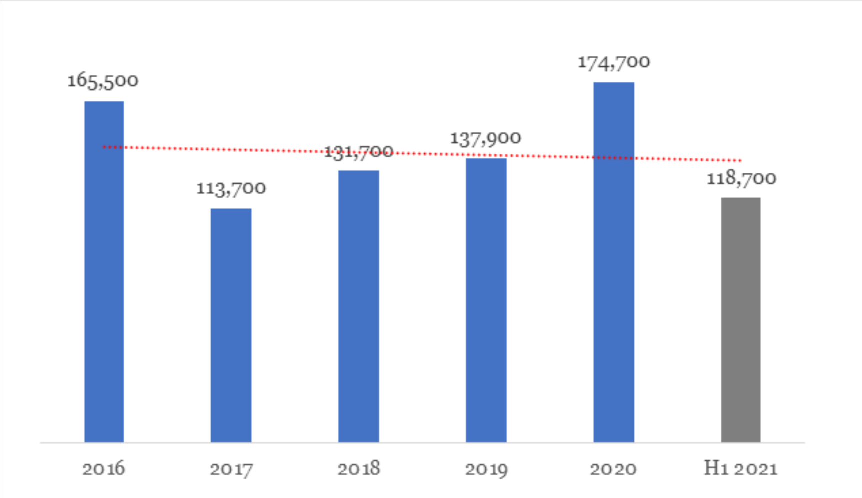
Chart 7: FBNH's Net Interest Income 2016 - H1 2021 (N'm)



Source: FBNH, Proshare Research

Non-Interest Income at FBNH has continued to rise since 2017. Take, for instance, in 2017, the bank's non-interest income was N113.7bn; by 2018, it had increased by +15.83% to settle at N131.7bn. It, however, would later spiral by +26.68% to N174.7bn in 2020 from N137.9bn in 2019. The rise in Non-Interest Income taken along with the consistent drop in Net Interest Income further supports the idea that FBNH appears to increase its reliance on service fees to buffer earnings. As of H1 2021, Non-Interest Income was N118.7bn, close to 70% of the entire amount recorded as non-interest income in 2020 (*see chart 8 below*).

Chart 8: FBNH's Non-Interest Income 2016 - H1 2021 (N'm)

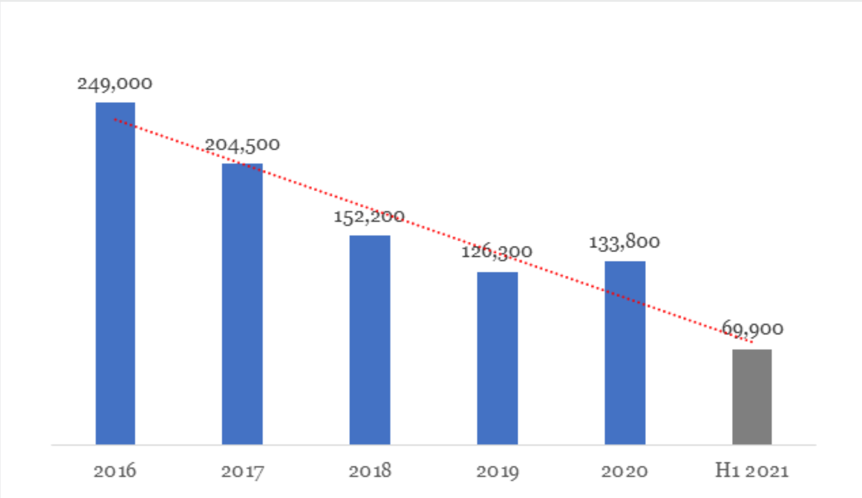


Source: FBNH, Proshare Research

Net Operating Income

As observed with Gross earnings and Net Interest Income, FBNH's Net Operating Income (NOI) also shuffled along a downward drift in the five years to 2020. In 2016, the bank reported a Net operating Income of N249bn, following which NOI dropped by -17.87% to reach N204bn in 2017. Similarly, between 2018 and 2020, the bank recorded a 12.08% decline in NOI. At the half-year mark in 2021, FBNH had recorded N69.9bn. This represents a reduction of -3.1% compared to the corresponding period of 2020 (*see chart 9 below*).

Chart 9: FBNH's Net Operating Income 2016 - H1 2021 (N'm)

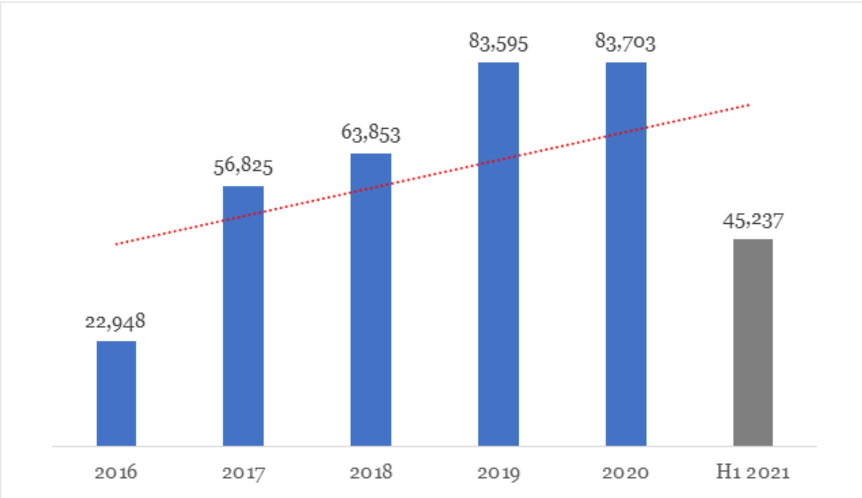


Source: FBNH, Proshare Research

Profit Before Tax

Profit Before Tax (PBT) has risen steadily in the last five years. In 2016, the Bank recorded a PBT of N22.95bn; in the following year, FBNH's PBT appreciated by +147.62% to settle at N56.82bn, between 2018 and 2019 saw a similar rise in PBT when it rose by +30.9% from N63.85bn to N83.6bn. The fact that 2020 was plagued by a major public health crisis that affected the bank's operating environment meant that a PBT of N83.70bn was a decent performance. However, the H1 2021 result shows a PBT of N45.24bn; this represents only a +9.23% increase from H1 2020 figures despite the full resumption of economic activities (*see chart 10 below*).

Chart 10: ***FBNH's Profit Before Tax 2016 - H1 2021 (N'm)***



Source: FBNH, Proshare Research

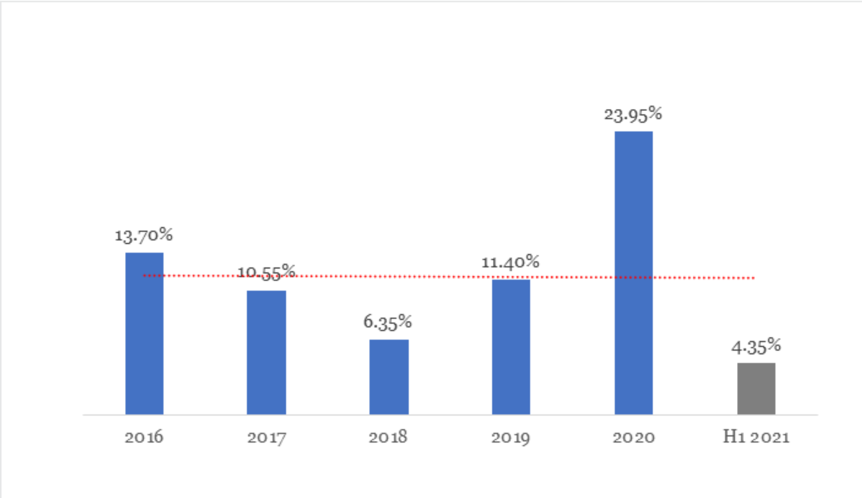
Statement Of Financial Position

Growth in Assets

FBNH's Assets grew by +4.35% in H1 2021 in comparison to FY 2020. In 2016, the bank's assets grew by +13.70%, while growth slowed to +10.55% and +6.35% in the two years that followed, respectively. Asset growth recovered in 2019, with a rise of +11.40% before spiralling by +23.95% in 2020. In the first half of 2021, FBNH's Assets rose Y-o-Y by +4.35% from N7.69tr in FY 2020 to N8.024tr in H1 2021 (*see chart 11 below*).

Chart 11:

Chart 11: ***FBNH's Growth in Total Assets 2016 - H1 2021 (%)***

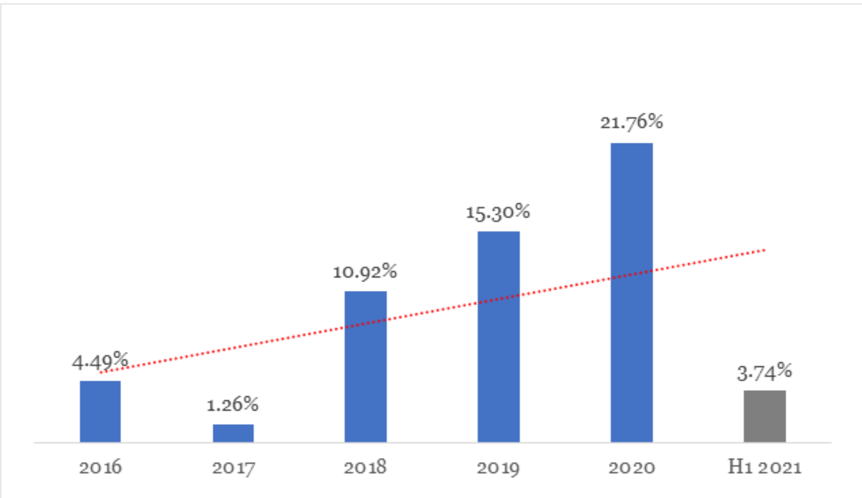


Source: FBNH, Proshare Research

Growth In Deposits

Customers' deposits grew by +3.74% between FY2020 and H1 2021, however on a Y-o-Y basis, deposits grew by +16% to N5.08trn in H1 2021 from N4.37trn in H1 2020. This implies that in comparison with the preceding period, the bank's most crucial liability added close to a sixth of its value in H12020. The growth in deposits in FY 2020 exceeds the annual deposit growth rates between 2016 and 2019 (*see chart 12 below*).

Chart 12: ***FBNH's Growth in Deposit from Customers 2016 - H1 2021 (%)***



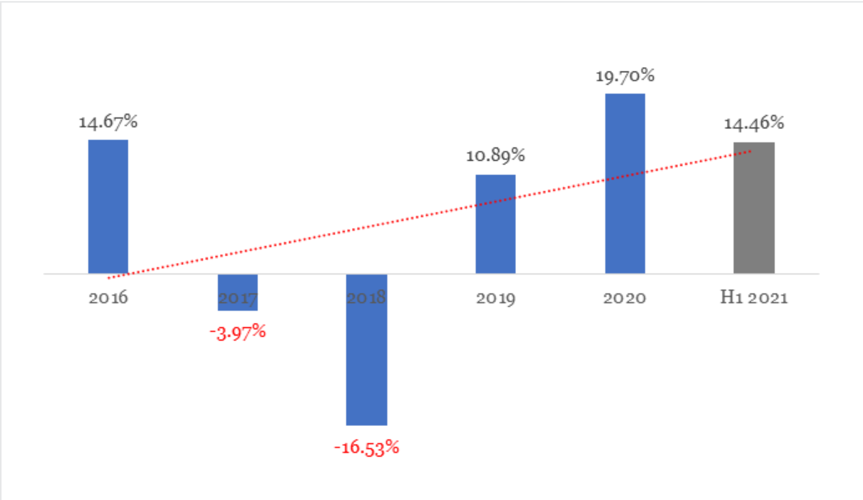
Source: FBNH, Proshare Research

The FY2020 result of FBNH confirms that deposits grew at a much faster rate in the year; this notably is not matched by the required increase in lending.

Growth in Loans and Advances

Over the last five years, FBNH has seen both positive and negative growth in Loans and advances. This was particularly evident in 2017 and 2018 when Loans and advances contracted by -3.97% and -16.53%, respectively. By 2019, the Loans and advances returned to their growth streak, consolidating the same in FY2020 results (*see chart 13 below*).

Chart 13: FBNH's Growth in Loans and Advances 2016 - H1 2021 (%)



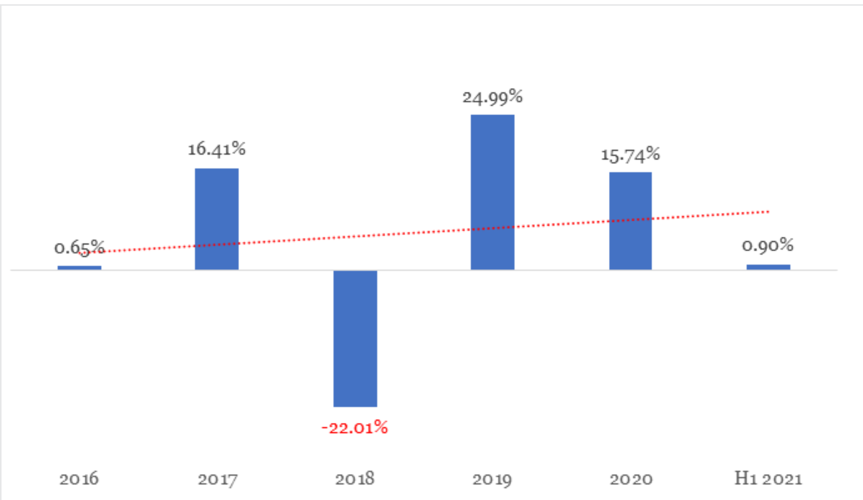
Source: FBNH, Proshare Research

Despite the appreciation of loans and advances in FY 2020 by +19.70%, it needed to grow loans and advances by 71% to meet the minimum LDR.

Growth in Shareholders' fund

After reporting negative growth in shareholders' funds in 2018, FBNH recorded a +24.99% growth in shareholder's funds in 2019. Since then, the change in shareholders' funds has slowed, moderating to +15.74% in 2020. In the first half of 2021, shareholders' funds increased by +0.99% against Fy 2020 figures. On a Y-o-Y basis shareholders fund rose by +9.66% to N772.09bn from H1 2020 (*See Chart 14 below*).

Chart 14: FBNH's Growth in Total Equity 2016 - H1 2021 (%)



Source: FBNH, Proshare Research

Staking Out the Future: A Call to Action

FBNH - A Look at the Ratios

The latest ratings from major rating agencies for both the Holdco business and the commercial bank as of December 2020 were B-/Stable/B or B-/Negative/B, except for Global Credit Rating, which rated the financial institution A-/Positive/A2 in the same period. The ratings seemed not to have changed even after the mind-blowing revelations made by CBN on the 12th of May 2021.

The financial ratios of the group have improved when compared to its position in 2016. The latest result of the lender shows some of the ratios met with the regulatory minimum. For instance, the CAR was 15.70% as of H1 2021, barely above 15% of the regulatory minimum. Also, the NPL ratio of 7.20% in the same period is above the regulatory threshold of 5%. Net interest margin (NIM) and gross earnings margin have both declined compared to the same period in 2020, indicating that profit from the loans and advances of the institution fell in the period. Investor returns have also seen a dip within the period (*see table 3 below*).

Table 3: FBNH – Financial Ratios

FBNH: FINANCIAL RATIOS

Financial Ratios (%)	FY 2020	H1 2020	H1 2021
Gross Earnings Margin	15.49%	16.69%	13.06%
Net Interest Margin	6.10%	6.80%	4.40%
NPLs	7.70%	8.80%	7.20%
CIR	68.60%	65.80%	68.60%
CAR	17%	16.50%	15.70%
CoR	2.40%	3.10%	2%
ROE	12.60%	14.50%	9.90%
ROA	1.30%	1.50%	1%

Source: FBNH, Proshare Research, Ecographics

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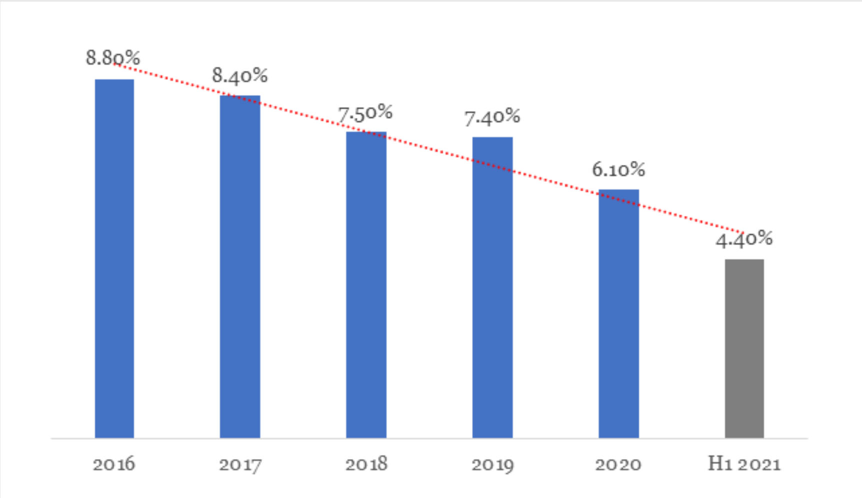
Net Interest Margin – The Case of Expense or Interest

The sliding movement in net interest income (NIM) between 2016 and 2020 has been contrary to a preferred shift in NIM. A higher NIM shows a higher interest income against interest expense. The group's net interest margin (NIM) fell by -30.68% between 2016 and 2020 and was 4.40% as of H1 2021.

In 2016, the group had its highest NIM of 8.80%, while 2020 records the lowest NIM of 6.10% during the period under review. Year on year, the NIM of the financial institution dipped substantially by -35.29% to 4.40% in H1 2021 from 6.80% in H1 2020 (*see chart 15 below*).

Chart 15:* *FBNH's Net Interest Margin 2016 – H1 2021



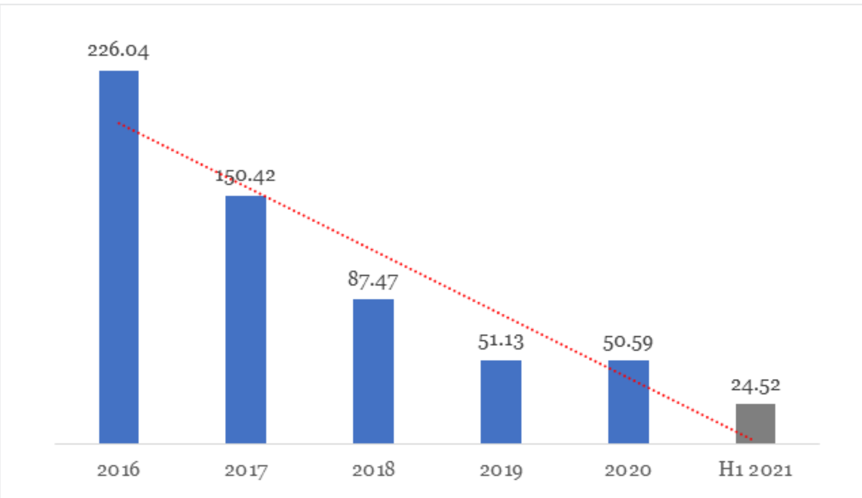
Source: FBNH, Proshare Research

The Bug called Impairments

FBNH's impairment charges for losses have been on a downward spiral between 2016 and 2021. The fall in charges mirrored the rise in PBT of the Holdco. In 2020, PBT rose Y-o-Y by +0.13%, while impairment charges dropped by -1.05%. The lender had the highest fall in impairment charges of -41.58%, while 2020 saw the lowest decline.

On a quarter-on-quarter (Q-o-Q) basis in 2021, FBNH did not record any impairment charge on losses in Q2 2021 against N13.18bn posted in Q1 2020 (*see chart 16 below*).

Chart 16:* *FBNH's Impairment Charge on Losses 2016 – H1 2021 (N'bn)



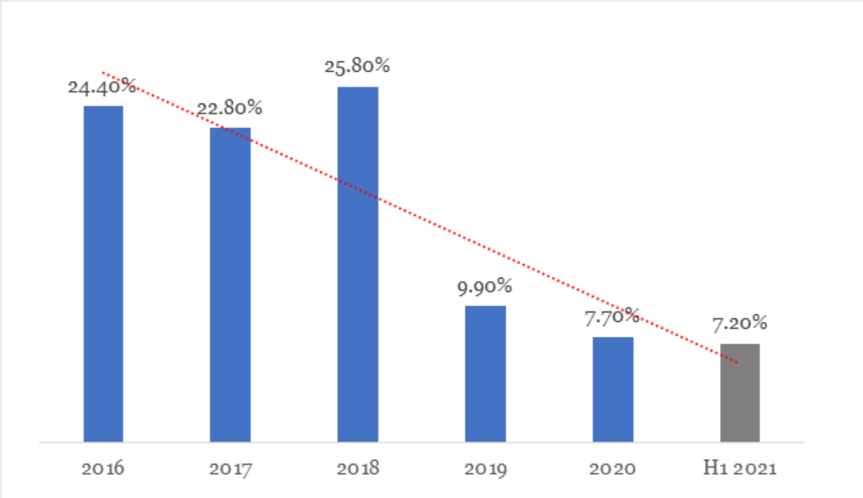
Source: FBNH, Proshare Research

Asset Quality

Non-Performing Loans

Non-performing loans (NPLs) of FBNH in recent years have improved, although still above the regulatory threshold of 5%. The steady decline in NPLs contrasted with the continued rise in loans and customer advances, implying improved loan quality. Loans and advances to customers were up Y-o-Y by +19.70% to N2.23trn for FY2020, while NPLs dipped by -22.22% in the same period (*see chart 17 below*).

*Chart 17: **FBNH's Non-Performing Loans 2016 – H1 2021***



Source: FBNH, Proshare Research

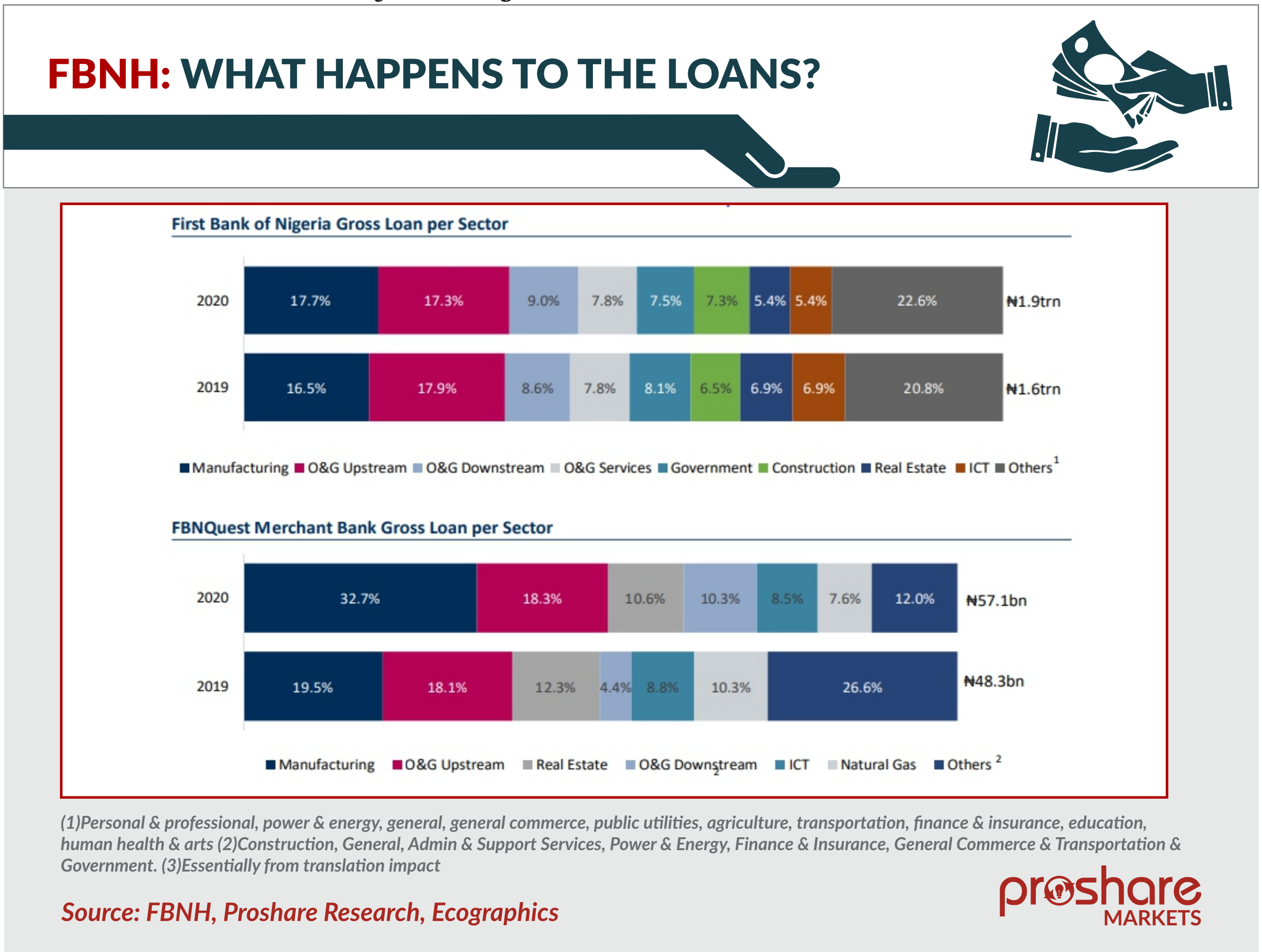
Loans By Sector

A breakdown of the group's commercial and merchant banking unit shows they are both primarily exposed to different sectors; however, the loan size of the merchant bank is just a fraction of that of the commercial counterpart.

FBN's Oil and Gas sector (downstream, upstream, and services) loans have been high-risk. The O&G industry is volatile, especially for local businesses, as the international market factors are beyond the country's control. Data also shows that the merchant bank business is exposed to the manufacturing sector (*see chart 18 below*).

Chart 18

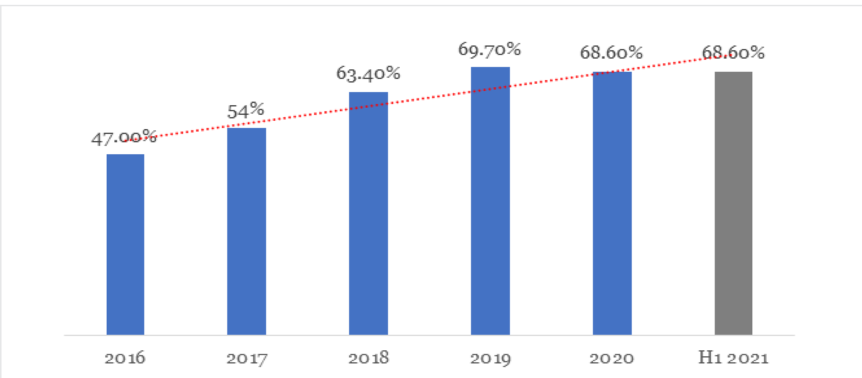
Chart 18: ***FBN: Breakdown of Loans by Sector***



Cost & Income

The change in operating expenses has been higher than the change in operating income. The change saw a rise in the lender's cost-to-income ratio (CIR) between 2016 and 2020. Double-digit inflation rates, a rise in regulatory costs, and administrative expenses pushed a +45.96% growth in CIR to 68.60% in 2020 from 47.00% in 2016 (*see chart 19 below*).

Chart 19: ***FBNH's Cost-to-Income Ratio 2016 – H1 2021***



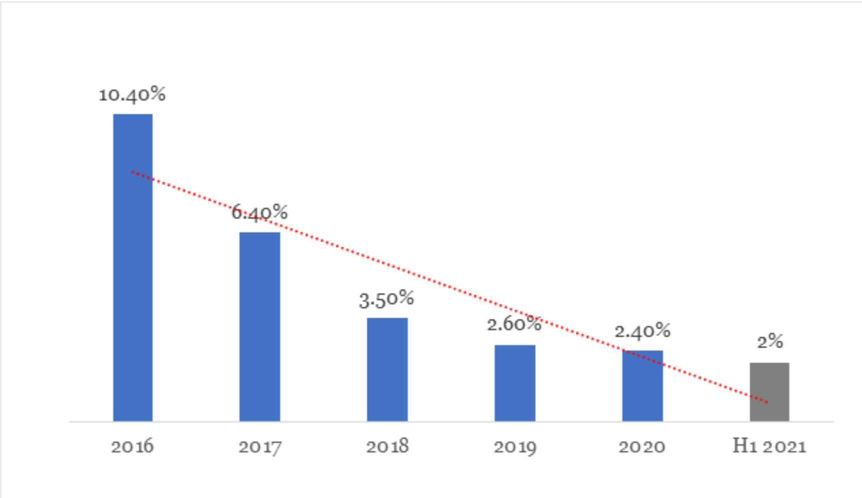
Source: FBNH, Proshare Research

Mitigating Cost, Controlling Risk

The bank's cost of risk improved between 2016 and 2020; this showed the downward spiral of the group's cost of risk (CoR). With 2016 recording the highest CoR of 10.40%, H1 2021 has the lowest CoR of the institution during the period under review (*see chart 20 below*).

Reducing CoR to less than 1% in 2024 was part of the group's strategic priorities. It intends to achieve this by "consolidating technology deployments across the group and, continue automation of key processes in the Bank to improve quality of service, turnaround time, and manage risk," as stated in the financial presentation of the bank.

Chart 20:* *FBNH's Cost of Risk 2016 – H1 2021



Source: FBNH, Proshare Research

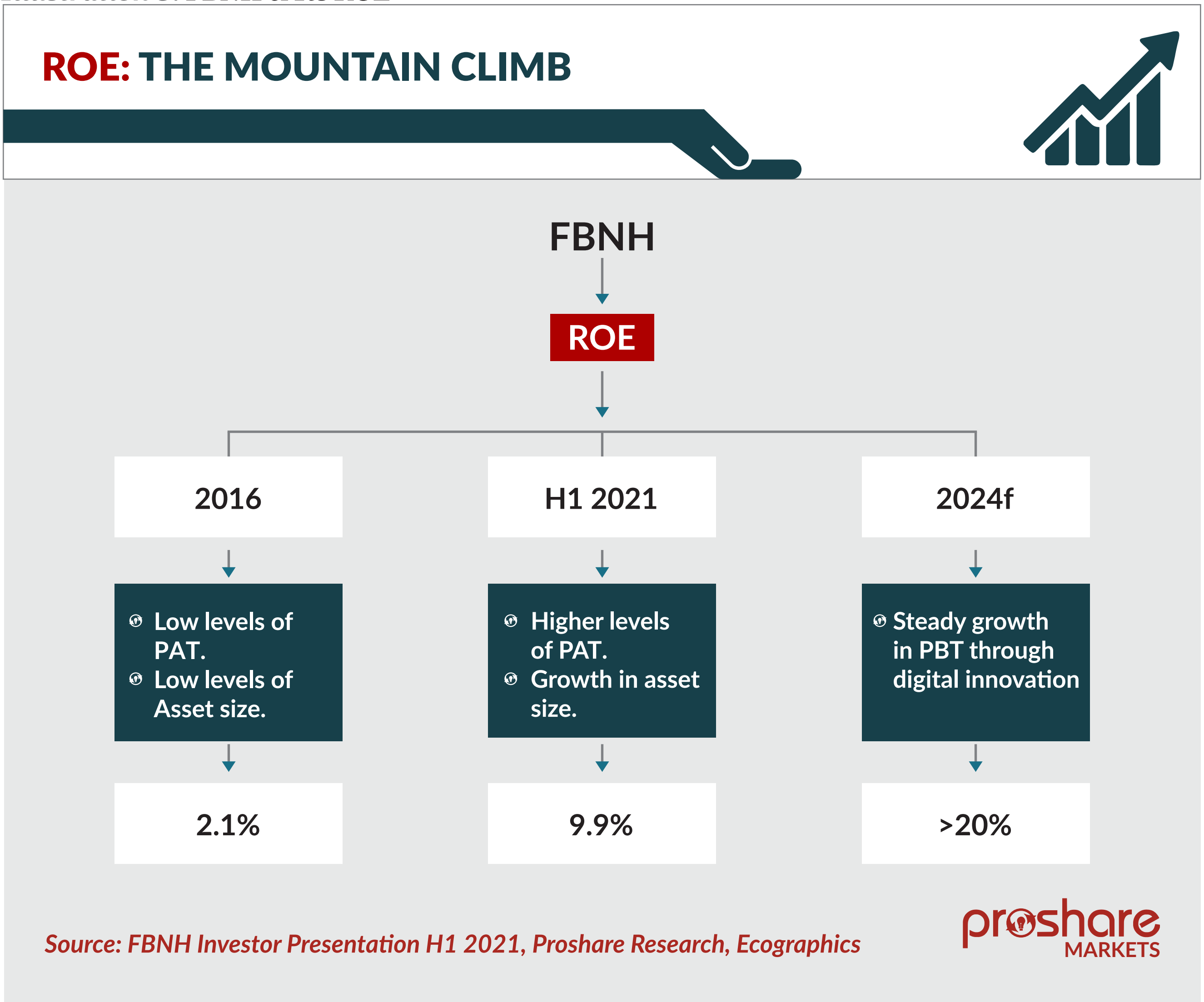
Investor Returns- Swimming with the Tide

The return on investment (ROI) of FBNH rose between 2016 and H1 2021. The rise swam on the back of the steady increases in top-line and bottom-line earnings, new cost management strategies and an improvement in asset quality.

The most recent published data by the group showed that the merchant bank had a higher investor return. In H1 2021, the return on average equity (ROaE) for FBNQuest Merchant bank was 10.8%, slightly higher than 10.4% of FirstBank Nigeria; however, in the preceding year, FBNQuest recorded an ROE of 16. 3% while the commercial bank posted an ROE of 10.4%.

The group targets an ROE greater than 20% in 2024, majorly driven by digital innovation, with the steady improve ment in earnings between 2016 and H1 2021; this projection may not be too ambitious as the institution intends to improve its product and service by deepening the usage of technology in its processes (*see illustration 8 below*).

*Illustration 8: **FBNH & Its ROE***

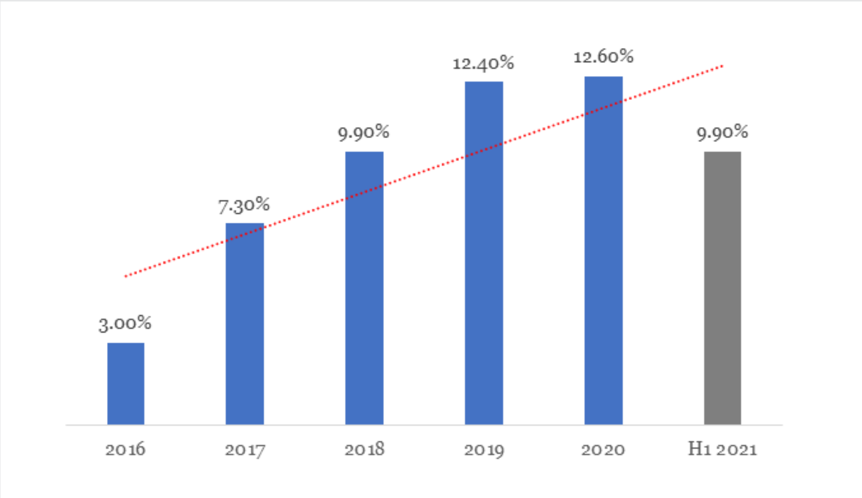


Return on Equity (ROE)

The percentage change in return on equity has moved in the same direction as the percentage change in PBT in recent years. ROE has grown continuously between 2016 and 2020. In the first half of 2021, it fell by -32.72% to 9.9% from 14.50% in the contemporary period of 2020.

The movement in growth of shareholders fund has been unstable, with total equity recording a decline of -22.01% in 2018, while in 2019, the institution recorded its highest growth of +24.99% in shareholders fund (*see chart 21 below*).

Chart 21: ***FBNH's Return on Equity 2016 – H1 2021***

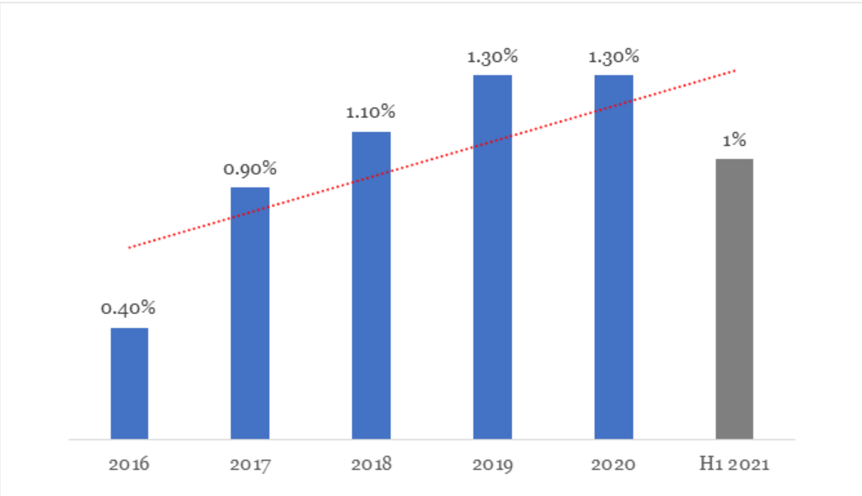


Source: FBNH, Proshare Research

Return on Assets (ROA)

In the recent past, return on average assets (ROaA) has been relatively stable, compared to the movement in total assets. On a Y-o-Y basis, ROaA declined to 1% in H1 2021 from 1.5% in H1 2020 (*see chart 22 below*).

Chart 22: ***FBNH's Return on Average Assets 2016 – H1 2021***



Source: FBNH, Proshare Research

The FUGAZE

The core business of the big players in the banking industry was not heavily impacted by the harsh economic environment brought about by the COVID-19 pandemic, except in Q2 and Q3 2020; however, by the end of 2020, earnings of the banks had looked upwards. This can be seen in the rating of the Tier 1 banks by major global rating agencies. As Fitch points out, the number of negative outlooks and watches on global financial institutions' ratings has declined in 2021, indicating that the pressure from the pandemic had receded (*see illustration 9 below*).

*Illustration 9: **FITCH Rating of FUGAZE***

FUGAZE: A RATING AGENCY'S OUTLOOK

	IDR Rating	Outlook
FBNH	B -	Negative
UBA	B	Stable
GT Bank	B	Stable
Access Bank	B	Stable
Zenith Bank	B	Stable
ETI	B -	Stable

Source: Fitch, Proshare Research, Ecographics

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Amongst tier 1 banks, FBNH ranked the highest in non-performing loans (NPLs) and cost-to-income ratio in 2020 and had the lowest net interest income in 2020.

Income Statement

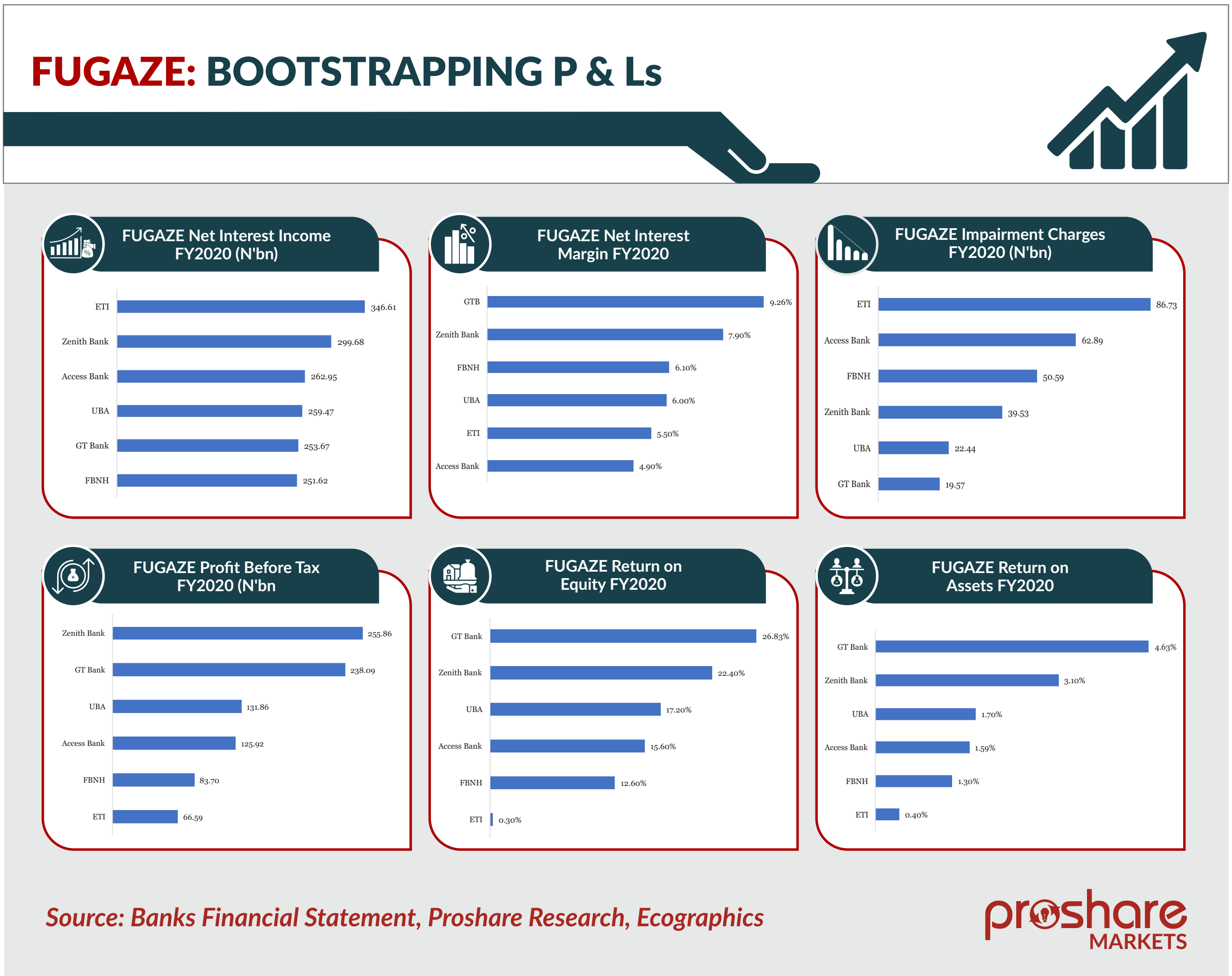
FBN Holdings N50.59bn impairment charges ranked third among tier 1 banks, with ETI showing the highest impairment charge of N86.73bn. In contrast, GT Bank had the least impairment charge for losses in 2020.

Ecobank Transnational Inc (ETI) posted the highest net interest income of N346.61bn in 2020. The high net interest income reflected the bank's in 35 continental markets. However, GT Bank ranked the highest in net interest margin (NIM), posting an NIM of 9.26%, indicating higher profitability in its core lending business.

Surprisingly, despite recording the highest net interest income of the FUGAZE banks in Nigeria in 2020, ETI ranked the least in profit before tax (PBT). In the bank's defence, it had a one-off goodwill impairment charge of N62.49bn related to the acquisition of Oceanic bank in 2011. Zenith bank recorded the highest PBT of N255.86bn while FBN Holding had N83.70bn in PBT, taking fifth place above ETI.

GT Bank had the highest investor return of 26.83% in ROE and 4.63% in ROA, while ETI ranked the least amongst the top banks in the industry (*see illustration 10 below*).

*Illustration 10: **FUGAZE in Numbers – The P&Ls***

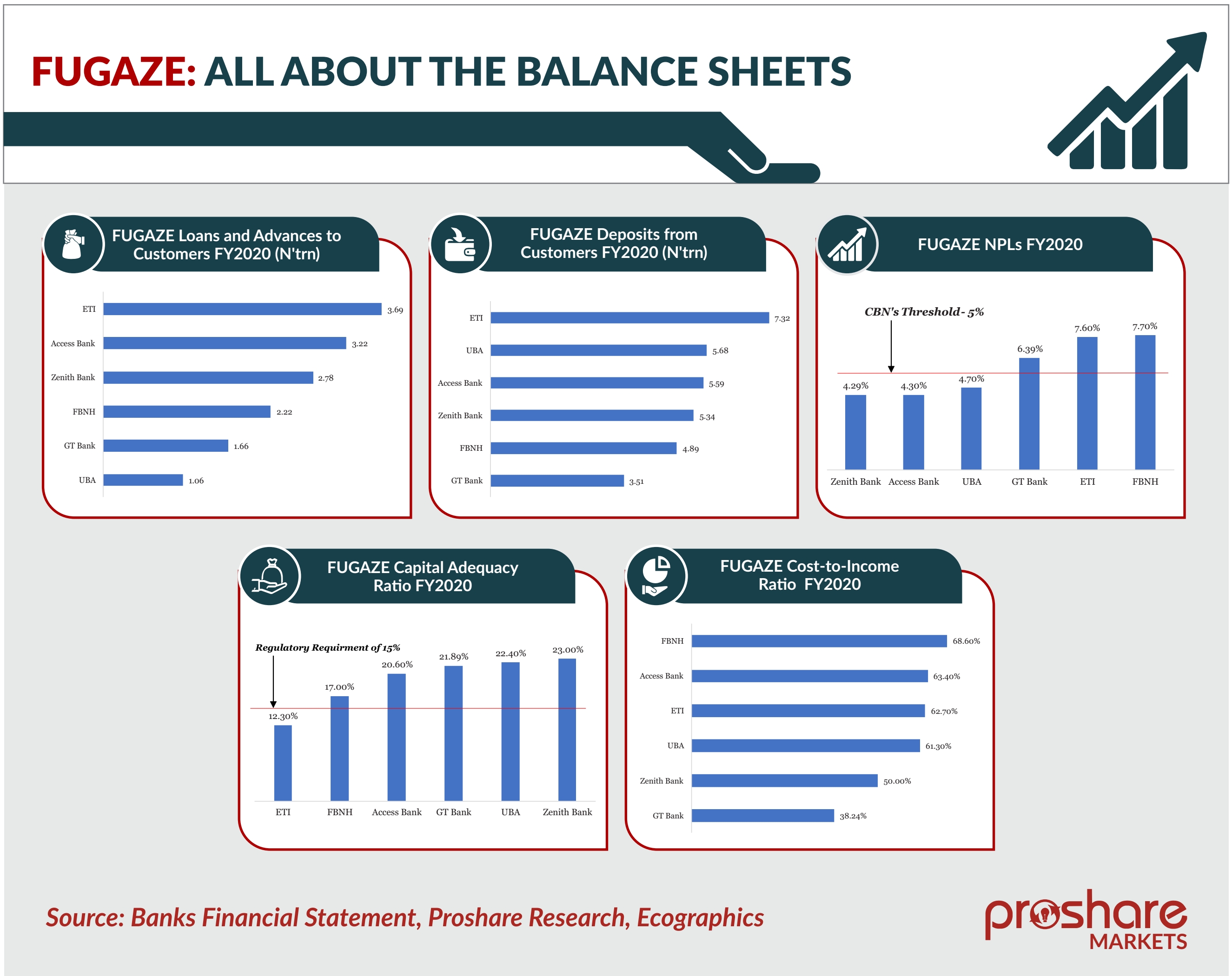


Financial Statements

None of the tier 1 banks met the loan-to-deposit ratio (LDR) requirement of 65% in 2020. Access bank, however, had the highest LDR of 57.60%, while UBA recorded the lowest LDR of 18.66%, explaining the bank's severe restraint in giving loans to customers.

Also, Zenith, Access, and UBA had NPLs below CBN's threshold of 5%. FBNH had the highest NPLs of 7.70%. Also, this shows a Y-o-Y improvement for the Holdco, as mentioned earlier. However, the sector giants all met the regulatory requirement of 15% in capital adequacy ratio (CAR), except ETI recording 12.3% in CAR in 2020. The CAR speaks to the solid capital base of the institutions (*see illustration 11 below*).

Illustration 11: ***FUGAZE in Numbers – The Balance Sheets***



Valuation: Turning the Analyst's Lenses on FBNH's Value

Proshare analysts adopted an earnings approach to the valuation of FBNH in the absence of annual dividends that would have allowed the analysts to value the company based on how much the company had paid its shareholders over the last five years. The analysts noted that other market professionals might object to the use of the discount factor and prefer a market-multiple approach. However, to avoid the arbitrariness associated with determining the riskiness of FBNH's business and the appropriate discount factor, they chose not to estimate future earnings discounted by the company's weighted cost of capital.

As an alternative, FBNH's average maintainable earnings was discounted in perpetuity at two different required rates of return, namely: a capitalisation rate of 35% and the July 2021 inflation rate of 17.38%, to find out if the equity of the institution had any hidden value or profit-taking opportunities.

In applying a capitalisation rate of 35% as the required rate of return, Proshare analysts used a discount factor of 2.86 compared to the inflation rate factor of 5.75.

The result was a fair value of N5.77, indicating a profit-taking opportunity. However, when an inflation rate of 17.38% was the required rate of return, it gave a fair value of N11.63 suggesting a potential hidden value of N4. Therefore, a pessimist would value the lender at roughly N6 per share, while an optimist would place it closer to N11 per share (*see table 4 below*).

*Table 4: **What the Data Says***

FBNH: DISTILLING VALUATION FROM NUMBERS

		1	2	3	4	5	6
		2016 A	2017 A	2018 A	2019 A	2020 A	2021 F
PAT (N'm)		12,243	40,011	59,667	73,665	89,730	84,761
Weight	21	0.05	0.10	0.14	0.19	0.24	0.29
Weighted PAT (N'm)		583.00	3,810.57	8,523.86	14,031.43	21,364.29	24,217.29
Total PAT (Today's Value From 2016 - 2021F)	72,530.44						
Rate of Return Using EPS/P (Inverted P/E Ratio)	0.35						
Discount Factor (Perpetuity - 1/r)	2.86						
PV	207,229.82						
NOSO (million)	35,895						
Fair Value	5.77						
Market Value (as of 25th August 2021)	7.4						
Rate of Return Using Inflation Rate	0.1738						
Discount Factor (Perpetuity - 1/r)	5.75						
PV	417,321.26						
NOSO (million)	35,895						
Fair Value	11.63						
Market Value (as of 25th August 2021)	7.4						

Source: FBNH, Proshare Research, Ecographics

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The Analysts Buggy Train

FBNH: Beyond History

Technical Analysis

The **Objective:**

- To evaluate the returns on the FBNH stock compared to those of tier one banks and the NGX Index.
- To ascertain the relative volatility or risk associated with the FBNH stock again with comparison; and
- To employ the Auto-regressive Moving Average model to predict future (majorly short-term) market trends.

Technical Analysis generally does not take the stock's intrinsic value into account, unlike in fundamental analysis. Investors' psychology creates patterns that anticipate when stock will be in high demand and when demand would fall. Analysts and investors rely on technical analysis of equities on the NGX. The ARMA model is one major form of technical analysis that employs the patterns historical data follow to determine good stock price increase or fall predictors.

Comparative Stock Performance of Tier 1 Banks- Year to Date

In the thirty-two weeks since the beginning of 2021, FBNH's share price recorded a year-to-date loss of -1.36% from N7.35 on January 8, 2021, to close at N7.25 on the August 13, 2021, trading session. With this drift, FBNH ranks 2nd behind Access Bank in terms of the year-to-date share price performance of Tier 1 banks. Notably, FBNH's share price dipped in April, resulting from investor pessimism arising from the CBN's decision to sack the Bank's board. Overall, the negative stock price performance indicates that investors are concerned about the bank's business. Comparing FBNH's price movement with other banks over the same period, Access Bank topped with a YTD market appreciation of +3.4%.

All other Tier 1 banks appeared to have recorded negative YTD growth in market share prices. Behind FBNH and in the third place, Zenith Bank Plc managed a -3.9% depreciation, while UBA came in fourth, having recorded a -12.79% fall in its share price. GT Bank, whose share price fell from N33 in January to N28 in August, ranked fifth place with a -13. 93% decline in its share price. The overall banking sector of the NGX recorded a -6% decline in its index, thus making Access Bank, FBNH, and Zenith Bank the only tier one banks to outperform the Subsector index. However, the negative trend so far recorded in the price movement of the shares of FBNH shows that the Management needs to address underlying issues.

The ASI, FBNH, and others

The All-Share Index (ASI) and the share price of FBNH have moved in the same direction for most of the year. FBNH's Beta coefficient was estimated by Proshare Analysts at 0.40, indicating that FBNH shares are a good hedge against the market risk. Similarly, a positive correlation coefficient of 0.4 was found between the share price of FBNH and the ASI. Likewise, FBNH stock marginally outperformed the ASI during the year (*see chart 23 below*).

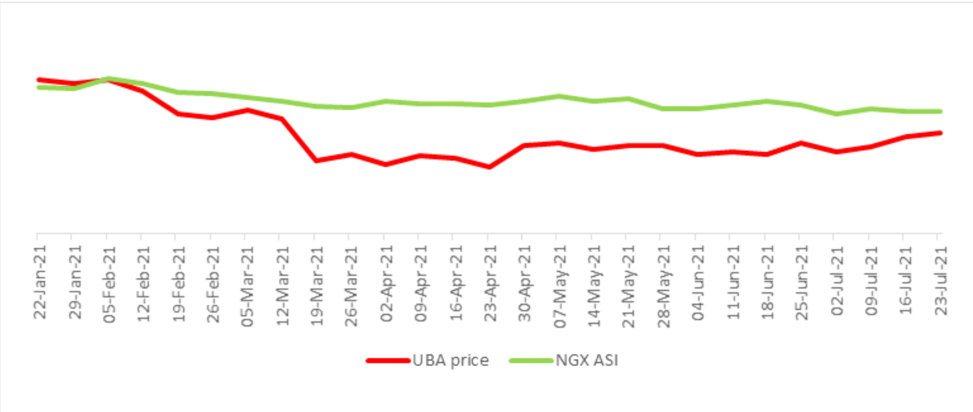
*Chart 23: **Indexed Chart of FBNH'S Share Price and NGX ASI***

Source: NGX, Proshare Markets

UBA

In the first half of 2021, UBA's share price fell by -12.79% YTD, which was worse than the ASI fall of -1.49%. UBA's share price fell below the NGX ASI until April, when it appeared to converge as the year progressed (*see chart 24 below*).

*Chart 24: **Indexed Chart of UBA Share Price and NGX ASI***

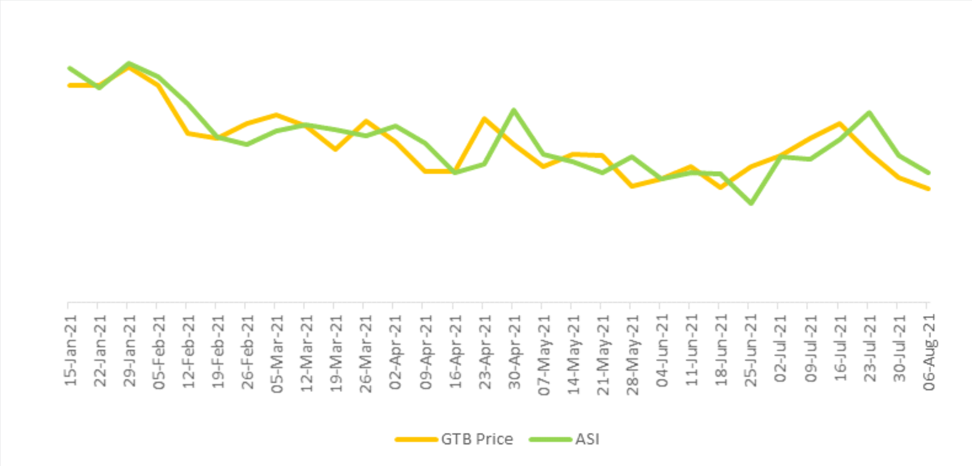


Source: NGX, Proshare Markets

GT Bank (now GTCO)

GTB's share price demonstrated a high positive correlation with the NGX ASI. **Proshare** computed a correlation coefficient of 0.74, although using weekly data covering the three years between February 2018-August 2021, GTB's equity Beta was estimated at 0.39. The implication was that GT Bank shares were protected from adverse systematic risk. Year-to-date, the shares recorded a -0.14% return, a return similar to the ASI (*see chart 25 below*).

*Chart 25: **Indexed Chart of GTB Share Price and NGX ASI***

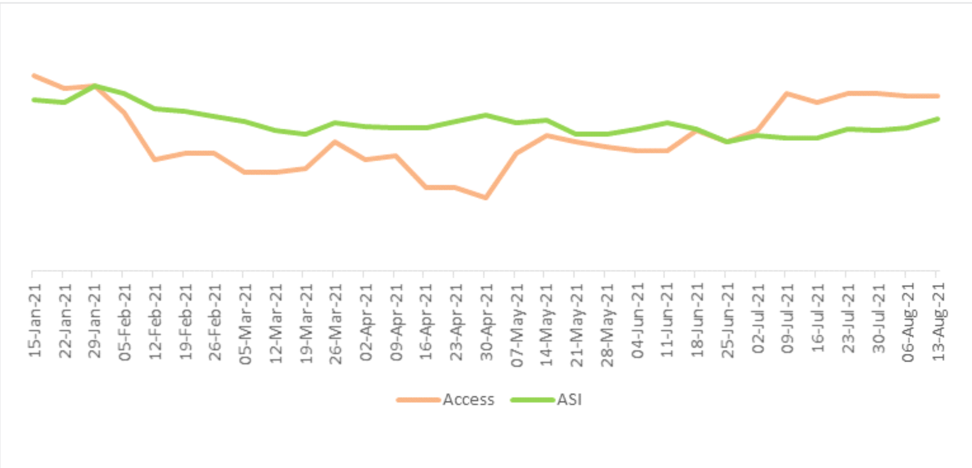


Source: NGX, Proshare Markets

Access Bank

Access Bank's shares returned a year-to-date gain of +3.4%. The shares sold for N8.8 in January 2021, and as of 13 August, N9.1. The share price fell to its year-to-date lowest in April. Overall, the bank's shares outperformed the NGX ASI, which slipped by -1.49%. Analysts used three-year weekly data and found that Access bank's share price had an equity beta of 0.40, suggesting that the bank was less exposed to volatility than the market (*see chart 26 below*).

*Chart 26: **Indexed Chart of Access Bank Share Price and NGX ASI***

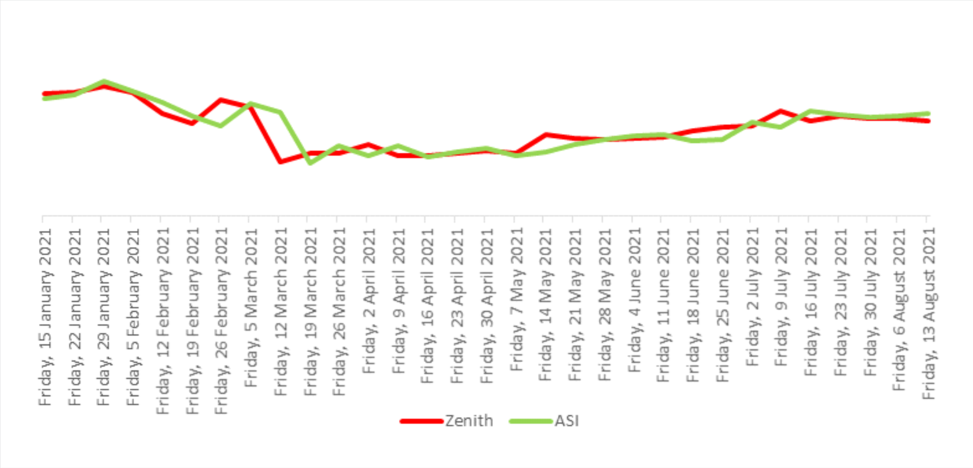


Source: NGX, Proshare Markets

Zenith Bank

Zenith Bank's share price recorded a year-to-date loss of -3.95%, having opened the year at N25.3 and stood at N24.3 as of August 13, 2021. This means that Zenith bank has not performed as well as the NGX ASI. The bank's shares fell to their year-to-date low of N21.45 in March but soon reversed to an upward trend in April after the bank announced a +5% rise in Profit After Tax for Q1 2020 (*see chart 27 below*).

Chart 27: ***Indexed Chart of Zenith Bank Share Price and NGX ASI***



Source: NGX, Proshare Markets

FBNH: In Search of Value

Moving average of market valuation compared to book valuation

Technically, First Bank Nigeria Plc share traded above its 200 days moving average, suggesting that its shares would be slightly bullish in outlook. However, when we consider the 20-day moving average as of the end of July 2021, we find convergence at N7.4, implying that FBNH's price would for some time remain in what technical analysts call a neutral flag (*see Chart 28 below*).

Chart 28: ***Moving Average of FBNH's Share Price(Feb 2018-July 2021)***

Source: NGX, Proshare Markets

While the Moving average of the share price is N7.4, the company's book value per share as of FY2020 is N21.36; this further lends credence to the fact that investors are not very optimistic about the expected stream of earnings from holding FBNH's shares.

ARMA: Forecasting FBNH's Year-End Share Price

The R-software employed for this report provides several powerful dynamic forecasting tools: the ARMA model. The ARMA model itself selects the ideal AR and MA orders required to forecast stock prices. The auto-regressive component addresses the changes in current stock prices arising from their correlation with their lags. In contrast, the moving average component determines the ideal number of lags needed to smoothen the distribution and isolate unexpected extraneous factors' impact. As a result, a dynamic model was built using the recommended lags and residuals to predict the future price.
Using weekly data from February 2018 to August 13, a total of 183 data points are employed to forecast the end of the quarter and end of the year stock prices of the Tier banks.

With the aid of an ARMA (2,1) model, FBNH's share price was forecast to settle at N7.30 at the end of Q3 2021 and slip slightly to N7.29 at the end of the year. This implies that the stock is expected to record an annual return of +0.85% by the end of the year. This ties in with the visualization of the 50 and 200-day moving average, which suggests that the bank's share price is not expected to substantially trend upward or downward in the near term (*see table 5*).

***Table 5:** Forecasts; The Analysts Tea Leaves*

FORECASTS; THE ANALYSTS TEA LEAVES

	FBNH	UBA	GTB	ACCESS	ZENITH
Q2 '21 Share Price	7.44	7.50	28	9.10	24.40
Q3 '21 Forecast	7.30	7.49	27.98	9.10	24.40
Q4 '21 Forecast	7.29	7.47	27.97	9.11	24.41
ARMA (p, q)	(2,1)	(0,0)	(2,2)	(2,4)	(0,1)

Source: Proshare Research, Ecographics

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Conclusion

Know When to Hold, When to Fold, and When to Walk Away

Beyond the complex numbers of an analyst's spreadsheet, Kenny Rogers's The Gambler song plays softly in the background to FBN's recent saga. Holding, folding, and walking away is simple but not random; the poker or bridge cards tell a story, and the hero at the end of the tale is the player that discerns the moves of others and creates an opportunity to ride upon their foibles.

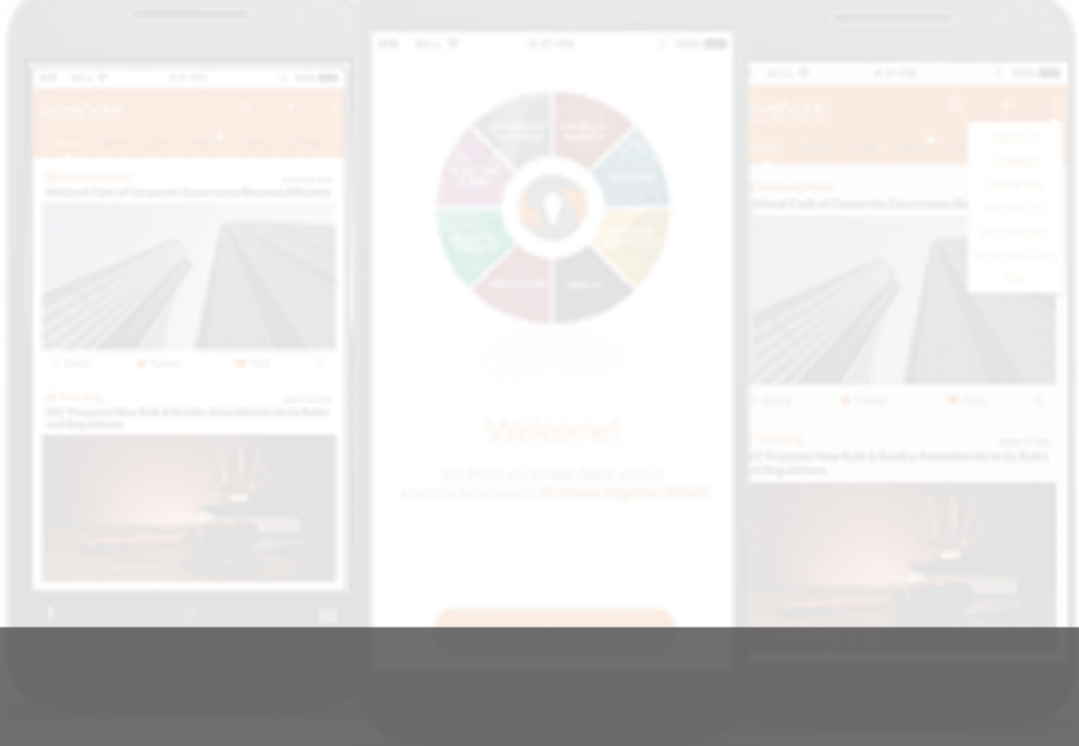
However, corporate card play is notably different. The intelligent corporate strategist is not obsessively worried by business rivals if generic marketplace strategies such as product or service differentiation and cost containment (Michael Porter's ***five forces*** surrogates) are used as dummy moves to disguise the actual intention of reimaging and redefining the marketplace or choosing to play a market game situated in uncontested commercial territories (Kim and Maugborgne's ***blue ocean shift***).

A few pointers to the path of corporate sustainability include the following:

- Understanding that customer loyalty is out and bargain hunting in.
- Realizing that at the top of market penetration and dominance is user experience and interface (UX/UI).
- Corporations that lounge will hit the ground. Speed, efficiency, and ease of use are becoming critical to customer satisfaction as the concept of 'satisficing' becomes a bedrock of retaining customer patronage. Within this context, FBN's front desk must be the best-in-class; otherwise, it would crumble in the face of more challenging and more customer-centric rivals.
- Millennial and post-millennial customers are partial to companies with high environmental, social, and governance (ESG) standards. The higher standards of corporate governance expected by millennial customers support the CBN's timeliness to review board appointments at the Holdco and its bank and the subsequent decision to make changes.
- FBNH and FBN need to raise their artificial intelligence (AI) and machine learning (ML) quotient. Business analysts note that the battle for the future will be a fierce fight for a larger market share of a tech-savvy customer base uninterested in excuses and impatient with laggards.
- The new marketplace is not just about size but also flexibility and creativity; the success of future businesses, in the words of IBM's one-time CEO, Lou Gerstner, requires that "***elephants learn how to dance.***"; and
- "Nowcasting" or using multiple models to predict consumer behavior will become a science and corporate art form that FBNH/FBN and its rivals must master if they must survive the brutal competitive battles to come. Market disruptions must be built into corporate strategies so that a situation like the high exposure of FBN to the oil and gas and energy sectors in 2015/2016 does not repeat itself and force the lender into a dire situation of multiple loan defaults (*see illustration 12 below*).

Illustration 12: ***The Hard Road to Sustainability***

The road to the future will be challenging and grueling; yet, if FBNH and FBN can resolve administrative and interest conflicts, the lender could hold its own in the Nigerian Tier 1 banks committee. However, if stubborn resistance to external and internal change is allowed to fester, then the circus trick of stacked gambling cards will come crashing down.



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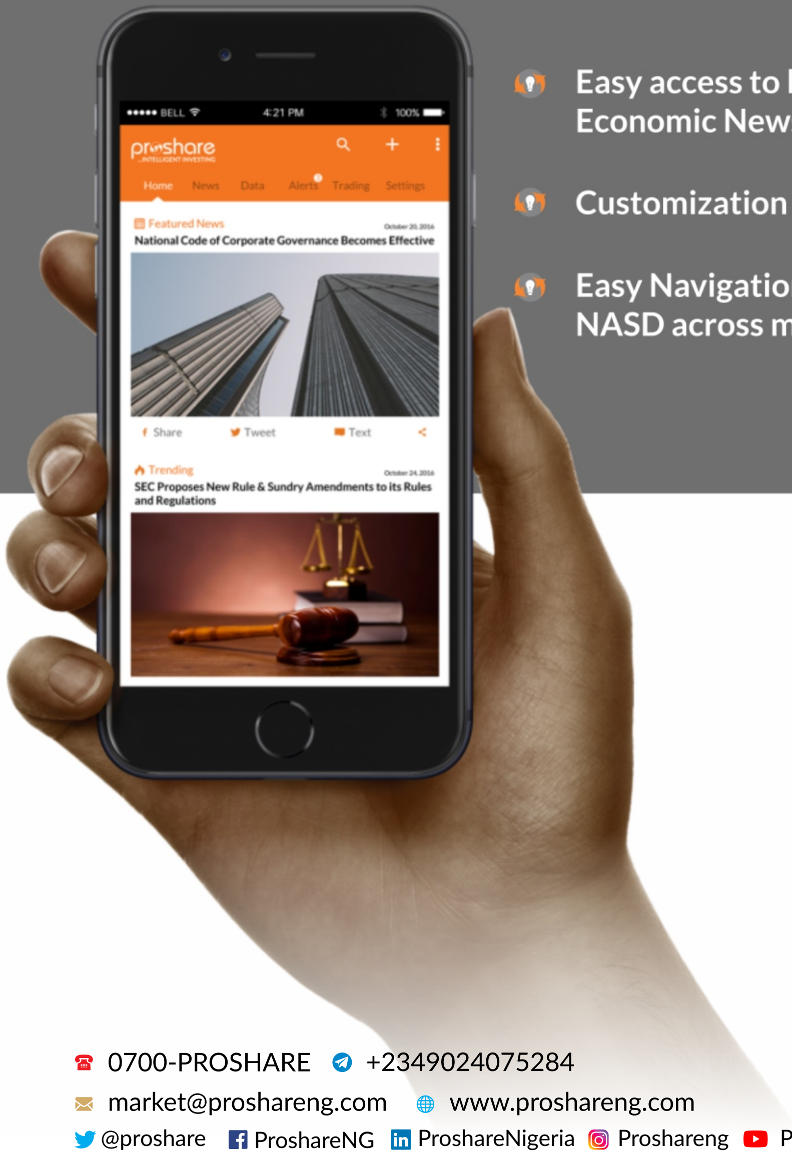

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