

Research Update:

New Operating Entity First Bank of Nigeria Ltd Assigned 'BB-/B' Ratings; FBN Holdings PLC Rated 'B/B'; Outlook Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

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Overview

- The First Bank of Nigeria group has undertaken a change in its structure, with the delisting of the major operating bank and creation of a non-operational holding company above a wider First Bank of Nigeria group.
- Consequently, we are assigning our 'BB-/B' ratings and 'ngAA-/ngA-1' Nigeria national scale ratings to First Bank of Nigeria Ltd, the main operating entity of the group. We are also assigning our 'B/B' and 'ngBBB/ngA-3' ratings to FBN Holdings PLC, the group's non-operating holding.
- The ratings on First Bank of Nigeria Ltd are based on the creditworthiness of the group, while the ratings on FBN Holdings PLC also reflect its status as non-operating holding company.
- The outlooks on the two entities are stable, reflecting our view that the group's business and financial profile will remain relatively unchanged in the next 12 months.

Rating Action

On June 11, 2013, Standard & Poor's Ratings Services assigned its 'BB-/B' long- and short-term counterparty credit ratings and 'ngAA-/ngA-1' Nigeria national scale ratings to First Bank of Nigeria Ltd (FBNB). We also assigned our 'B/B' long- and short-term counterparty credit ratings and 'ngBBB/ngA-3' Nigeria national scale ratings to FBN Holdings PLC (FBNH). The outlooks on the two entities are stable.

At the same time, we affirmed and then withdrew our 'BB-/B' counterparty credit ratings and 'ngAA-/ngA-1' Nigeria national scale ratings on First Bank of Nigeria PLC.

Rationale

The rating actions follow the restructuring of the First Bank of Nigeria group, which resulted in the delisting of First Bank of Nigeria PLC (formerly the group's major operating entity) and its subsidiaries, and the creation and listing of a non-operating holding company at the top of the group.

The ratings on the bank reflect the overall creditworthiness of the group, for which we assess the group credit profile (GCP) at 'bb-'. The bank is the core

component of the group. The group is positioned at the top of the Nigerian financial services industry and has a market leading deposit franchise alongside strong liquidity. Negative rating factors include a moderate level of capitalization, limited geographic diversification, and rising credit risks from pockets of rapid loan growth and a high share of foreign currency lending.

The group is dominated by its banking operations, which accounted for 98% of total group assets and 91% of group revenues on Dec. 31, 2012. Our long-term rating on FBNH is two notches (on the global scale) below the GCP due to its non-operating holding company status. The entity is subject to structural subordination and relies on dividends from the operating companies to meet its obligations, which exposes it to potential regulatory impositions.

Outlook

The stable outlooks reflect our view that the group will maintain its position at the top of the Nigerian banking sector in the next 12 months, which we expect to continue translating into a stronger than average customer deposit franchise and liquidity indicators. Due to fairly rapid pockets of loan growth, we are expecting credit losses to increase somewhat toward the normalized average going into 2014 and capital to deteriorate slowly.

We could lower our ratings on the bank and the holding company if we observed a more pronounced deterioration in capitalization than we currently expect. This could happen in a scenario where loan growth is faster than we assume (15%-20% annual loan growth in the next two years) or internal capital generation is weaker. Another important trigger is the bank's asset quality. Signs that the rapid loan growth or the large share of foreign currency lending is starting to materially weaken the bank's asset quality or cost of risk could bring the ratings down. Lastly, a downgrade of Nigeria would result in similar actions on FBNB and FBNH.

An upgrade is highly unlikely in the next 12 months. It would only follow an upgrade of Nigeria and meaningful improvements in the bank's business position or financial profile, all other things remaining equal.

Ratings Score Snapshot

First Bank of Nigeria Ltd	
Issuer Credit Rating	BB-/Stable/B
SACP	bb-
Anchor	bb-
Business Position	Adequate (0)
Capital & Earnings	Moderate (0)
Risk Position	Adequate (0)
Funding & Liquidity	Above Average & Adequate (0)

Support	(0)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)
Additional Factors	(0)

Related Criteria And Research

- Group Rating Methodology, May 7, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings List

New Rating; CreditWatch/Outlook Action

First Bank of Nigeria Ltd

Counterparty Credit Rating	BB-/Stable/B
Nigeria National Scale	ngAA-/--/ngA-1

FBN Holding Plc

Counterparty Credit Rating	B/Stable/B
Nigeria National Scale	ngBBB/--/ngA-3

Ratings Affirmed Then Withdrawn

	To	From
First Bank of Nigeria PLC		
Counterparty Credit Rating	NR	BB-/Stable/B
Nigeria National Scale	NR	ngAA-/--/ngA-1

Ratings Withdrawn

	To	From
FBN Capital Finance Co. Subordinated*	NR	B

*Issuer: First Bank of Nigeria PLC, SUPPORT: First Bank of Nigeria PLC

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