

Research

Research Update:

First Bank of Nigeria Ltd 'BB-/B' Ratings Affirmed; Outlook Negative

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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

- We consider First Bank of Nigeria Ltd. (FirstBank) well-positioned to compete in Nigeria's competitive banking sector, thanks to its large retail footprint and stable deposit base.
- However, we forecast declining capital and earnings over the next 12 months, owing to pressure on non-interest revenues, high dividend payouts, and a high cost-to-income ratio.
- We are affirming our 'BB-/B' and 'ngAA-/ngaA-1' ratings on FirstBank.
- We are also affirming our 'B/B' ratings on FBN Holding PLC, the nonoperating holding company.
- The negative outlook reflects that on the sovereign, as well as our view that the bank's capital and earnings could come under pressure within the next 12-18 months if the FirstBank group does not improve its profitability and internal capital generation, or raise capital to compensate for expected asset growth.

Rating Action

On July 14, 2014, Standard & Poor's Ratings Services affirmed its 'BB-/B' long- and short-term counterparty credit ratings on First Bank of Nigeria Ltd (FirstBank). The outlook is negative.

At the same time, we affirmed the long- and short-term 'ngAA-/ngaA-1' Nigeria national scale ratings on the bank.

We also affirmed our 'B/B' long- and short-term counterparty credit ratings and 'ngBBB/ngA-3' Nigeria national scale ratings on FBN Holdings PLC (FBNH). The outlook is negative.

Rationale

The affirmation reflects our view that FirstBank is well-positioned to compete in Nigeria's competitive banking sector, thanks to its large retail footprint and stable deposit base. However, the bank's capital and earnings will decline over the next two years, owing to pressure on non-interest revenues, fairly high dividend payouts, and a high cost-to-income ratio of about 62% through 2016.

We anticipate that our risk-adjusted capital (RAC) ratio for the bank will decline slightly to just above 5% in the next 12-18 months. This will result

from the bank's risk asset growth moderately outpacing internal capital generation.

The ratings on the bank reflect the overall creditworthiness of the FirstBank group, whose group credit profile (GCP) we assess at 'bb-'. The bank is the core component of the group, which is at the top of the Nigerian financial services industry, with a leading deposit franchise and good liquidity. Negative rating factors include a moderate level of capitalization and single-name concentrations.

Despite the bank's high systemic importance, the ratings on FirstBank reflect our assessment of the bank's core group status to the FirstBank group and its stand-alone credit profile (SACP) at 'bb-'. We classify the Nigerian government as supportive of the domestic banking sector, and we do not add extraordinary government support to the bank's SACP.

Our long-term rating on FirstBank's holding company FBNH is two notches below the GCP at 'B', reflecting its status as a nonoperating holding company. FBNH is subject to structural subordination and relies on dividends from its operating companies to meet its obligations, which exposes it to potential regulatory intervention.

Outlook

The negative outlook on FirstBank reflects that on Nigeria, as well as our view that the bank's capital and earnings could come under pressure within the next 12-18 months if it does not improve its profitability and internal capital generation or raise capital to compensate for expected asset growth. If we were to lower the ratings on the sovereign, we would lower the ratings on the bank.

We do not rate any bank in Nigeria higher than the sovereign because of the likely direct and indirect influence of sovereign distress on Nigerian banks' operations, including their ability to service foreign currency obligations, the possibility of regulatory intervention, and the high degree of government securities and public sector deposits on their balance sheets.

The negative outlook also reflects our view that FirstBank's moderate capital and earnings assessment could come under pressure if the bank does not manage to improve its profitability or capitalization over the next 12-18 months. We would lower the ratings on the bank if its capitalization deteriorates to below 5% in 2014.

We could also lower the ratings if asset quality deteriorates as a result of rapid growth of loans to lower-quality clients, resulting in higher loan-loss experience than we currently anticipate.

A revision of the outlook on the sovereign to stable would not necessarily trigger a revision of the outlook on FirstBank to stable, unless the bank

demonstrated better profitability and capitalization alongside stable growth and asset quality metrics.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BB-	BB-
SACP	bb-	bb-
Anchor	bb-	bb-
Business Position	Adequate	Adequate
Capital and Earnings	Moderate	Moderate
Risk Position	Adequate	Adequate
Funding and Liquidity	Above Average and Adequate	Above Average and Adequate
Support		
GRE Support	0	0
Group Support	Core	Core
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria And Research

Related criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related research

- Outlooks On Five Nigerian Banks Revised To Negative After Sovereign Action; Ratings Affirmed, April 1, 2014
- Nigeria Ratings Affirmed; Outlook Negative On Increasing Political, Institutional, And Fiscal Risks, March 27, 2014
- Brighter Prospects For Nigeria's Banking Sector In 2014 Will Depend On Political And Regulatory Stability, Feb. 11, 2014
- Banking Industry Country Risk Assessment: Nigeria, Nov. 22, 2013
- Nigeria (Federal Republic of), Oct. 18, 2013

Ratings List

Ratings Affirmed

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FirstBank of Nigeria Ltd	
Counterparty Credit Rating	BB-/Negative/B
Nigeria National Scale	ngAA/--/ngA-1
Subordinated	B
FBN Holding Plc	
Counterparty Credit Rating	B/Negative/B
Nigeria National Scale	ngBBB/--/ngA-3
FBN Finance Company B.V.	
Subordinated	B

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