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Negative Rating Action Taken On First Bank of Nigeria Ltd. After Sovereign Outlook Revision

OVERVIEW

- On March 18, 2016, we revised our outlook on Nigeria to negative from stable, reflecting our view of the ongoing effect of low oil prices on the country's economy.
- We believe Nigeria's foreign exchange policy is hampering banks' access to foreign currency and that banks face liquidity, asset quality, and profitability pressures over the next 12 months and higher cost of risk in 2016.
- In our view, economic and industry risk trends for Nigeria's banking sector are now negative.
- We are consequently revising our outlook on First Bank of Nigeria Ltd. to negative from stable and affirming the 'B+/B' ratings, while lowering our Nigeria national scale ratings on the bank to 'ngA-/ngA-2' from 'ngA/ngA-1'.
- The negative outlook primarily reflects that on Nigeria, indicating that we could lower the ratings on the bank if we downgrade the sovereign.

JOHANNESBURG (Standard & Poor's) March 24, 2016--Standard & Poor's Ratings Services said today that it has revised its outlook on First Bank of Nigeria Ltd. (FBN) to negative from stable.

The 'B+/B' long- and short-term counterparty credit ratings on the bank were affirmed.

At the same time, we lowered our Nigeria national scale long- and short-term ratings on FBN to 'ngA-/ngA-2' from 'ngA/ngA-1'.

We affirmed our 'B-/C' long- and short-term counterparty ratings and 'ngBB+/ngB' Nigeria national scale ratings on FBN's nonoperating holding company, FBN Holdings PLC (FBNH). The outlook on FBNH is stable.

Today's rating actions follow the revision of our outlook on Nigeria to negative from stable (see "Federal Republic of Nigeria Outlook Revised To Negative On Oil Price Pressures; 'B+/B' Ratings Affirmed," published March 18, 2016, on RatingsDirect). Oil prices have fallen further since our last review of Nigeria in September 2015. We have revised down our oil price assumptions to $40 per barrel (/bbl) in 2016, and expect a gradual increase to $50/bbl in 2018. Lower oil prices are having a negative impact on Nigeria's macroeconomic indicators and prospects for its GDP growth and current account, in our view.

In addition, we believe Nigeria's monetary policy is weakening the country's credit profile. We now consider Nigeria's foreign exchange regime to be a fixed arrangement rather than a managed float. The low-oil-price environment continues to weigh on Nigeria's GDP growth and external and fiscal balances. Furthermore, the Central Bank of Nigeria's strict foreign exchange controls is constraining manufacturing and trade, and fueling a parallel market in foreign exchange.

We anticipate moderate real GDP growth of 3.4% in 2016 alongside a devaluation of the local currency. As a result, we expect banks' asset quality indicators will deteriorate and that sectorwide credit losses will increase to 3% in 2016 from about 2% in 2015. The major areas of weakness include exposures to upstream oil and gas, power, and a significant amount of lending denominated in U.S. dollars. In addition, Nigeria's monetary policy could further hinder economic growth in the short term, hurting the manufacturing and trades sectors, among others. Consequently, we regard the economic risk trend for Nigeria's banking sector, under our Banking Industry Country Risk Assessment (BICRA), as negative rather than stable.

Furthermore, the country's restrictive foreign exchange regime is undermining the banking sector's foreign currency liquidity. Specifically, we believe that many Nigerian banks are now relying on the Central Bank of Nigeria to pay trade obligations. The shortage in U.S. dollars may affect domestic banks' ability to repay their dollar liabilities in the context of the weak naira and declining foreign exchange reserves, in our opinion.

What's more, mounting pressure on banks' earnings from the combination of regulatory changes, the restrictive foreign currency regime, and higher cost of risk--exacerbated by the potential naira devaluation--will affect banks' revenue stability, profitability, and capitalization. Further devaluation will prompt some banks to raise extra capital in the next 12-18 months to meet the additional 1% buffer applicable to domestic systemically important banks in 2016. However, we do not expect Nigeria's capital markets will be overly supportive and therefore a few banks may be close to minimum regulatory requirements at end of 2016.

In view of these factors, we now see a negative industry risk trend for Nigeria's banking sector. Nigeria remains in BICRA group '9'.

We do not rate Nigerian banks above the foreign currency sovereign credit rating. This reflects the likely direct and indirect influence of sovereign distress on domestic banks' operations, including the effect on their ability to service foreign currency obligations.

The negative outlook on FBN primarily reflects that on the sovereign and our negative view on the Nigerian banking sector. We would lower the ratings on the bank if we lowered the ratings on Nigeria. This could happen within the next 12 months if Nigeria's fiscal or external position weakens or if we see erosion of the banking sector's funding profile as a result of the prolonged fixed foreign exchange regime.

In addition, we could also lower the ratings on FBN within the next 12 months, if we see a sharp decline in capitalization to the minimum regulatory capital requirement or lower, potentially due to an increase in risk-weighted assets after a naira devaluation or weaker asset quality, reflected in higher credit losses than anticipated.

We would likely revise our outlook on FBN to stable, all else being equal, if we were to take the same action on the sovereign.

Our 'B-' long-term rating on FBNH is two notches below the group credit profile, reflecting FBNH's status as FBN's non-operating holding company. FBNH relies on dividends from its operating companies to meet its financial obligations, which exposes it to potential regulatory intervention.

The stable outlook on FBNH reflects its structural subordination as a nonoperating holding company.

We would lower the ratings on FBNH if we lowered the ratings on FBN and saw a high amount of double leverage, generally above 120%, or if we saw strain on FBNH's liquidity.

Although remote over the next 12 months, an upgrade of FBNH would hinge on a similar rating action on Nigeria and an improvement of the group credit profile.

BICRA SCORE SNAPSHOT

Nigeria	To	From
BICRA Group	9	9
Economic risk	9	9
Economic resilience	Very high risk	Very high risk
Economic imbalances	High risk	High risk
Credit risk in the economy	Extremely high risk	Extremely high risk
Trend	Negative	Stable
Industry risk	9	9
Institutional framework	Extremely high Risk	Extremely high Risk
Competitive dynamics	High risk	High risk
Systemwide funding	Very high risk	Very high risk
Trend	Negative	Stable

BANK RATINGS SCORE SNAPSHOT

	To	From
First Bank of Nigeria Ltd.		
Issuer Credit Rating	B+/Negative/B	B+/Stable/B
SACP	b+	b+
Anchor	b+	b+
Business Position	Adequate	Adequate
Capital and Earnings	Weak	Weak

Risk Position	Adequate	Adequate
Funding and Liquidity	Above Average And Adequate	Above Average And Adequate
Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Short-Term Support	0	0
Additional Factors	0	0

RATING LIST

	To	From
Outlook Action; Ratings Affirmed; Ratings Lowered		
First Bank of Nigeria Ltd.		
Counterparty Credit Rating	B+/Negative/B	B+/Stable/B
Nigeria National Scale	ngA-/ngA-2	ngA/ngA-1

Ratings Affirmed

FBN Holdings PLC	
Counterparty Credit Rating	B-/Stable/C
Nigeria National Scale	ngBB+/ngB

RELATED CRITERIA AND RESEARCH

Related Criteria

- **Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions**, Jan. 29, 2015
- **Standard & Poor's National And Regional Scale Mapping Tables**, Jan. 19, 2016
- **National And Regional Scale Ratings**, Sept. 22, 2014
- **Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions**, July 17, 2013
- **Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework,** June 22, 2012
- **Banks: Rating Methodology And Assumptions**, Nov. 9, 2011

- **Banking Industry Country Risk Assessment Methodology And Assumptions**, Nov. 9, 2011
- **Bank Capital Methodology And Assumptions**, Dec. 6, 2010
- **Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks**, May 4, 2010
- **Group Rating Methodology**, Nov. 19, 2013
- **Use Of CreditWatch And Outlooks**, Sept. 14, 2009
- **Commercial Paper I: Banks**, March 23, 2004

Related Research

- Federal Republic of Nigeria Rating Affirmed At 'B+'; Outlook revised to Negative on Oil Price Pressures, Mar. 18, 2016
- S&P lowered its Hydrocarbon Price Deck Assumptions on Market Oversupply; Recovery Price Deck Assumptions Also Lowered, Jan.12, 2016
- Banking Industry Country Risk Assessment Update: February 2016, Feb. 19. 2016
- Banking Industry Country Risk Assessment: Nigeria, Jan. 21, 2015
- Analytical Linkages Between Sovereign And Bank Ratings, Dec. 6, 2011

REGULATORY DISCLOSURES

- Primary credit analyst: Samira Mensah, Associate Director [First Bank of Nigeria Ltd., FBN Holdings PLC]
- Chairperson: Mohamed Damak

Date initial rating assigned:

- First Bank of Nigeria Ltd. 11-06-2013
- FBN Holdings PLC 11-06-2013

Date of previous review:

- First Bank of Nigeria Ltd. 14-07-2015
- FBN Holdings PLC 14-7-2015

DISCLAIMERS

All the credit ratings are solicited. The rated entities did participate in the credit rating process. Standard & Poor's Ratings Services did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entities or a related third party. Standard & Poor's Ratings Services has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

The ratings have been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with Standard & Poor's Ratings Services' published criteria and no part of this rating was influenced by any other business activities of Standard & Poor's Ratings Services.

GLOSSARY

- Anchor: The starting point for assigning a bank a long-term rating, based on economic and industry risk
- Bail-in: A process by which regulators can impose losses on certain creditors before a bankruptcy
- Barriers to entry: Obstacles that could hinder the entry of new participants to the banking sector
- Business position: A measure of the strength of a bank's business operations
- Capital and earnings: A measure of a bank's ability to absorb losses
- Cost of risk: As a percentage of total loans, the charge for bad and doubtful debts
- Counterparty Credit Rating: A form of issuer credit rating, which is a forward-looking opinion about an obligor's overall creditworthiness
- Date initial rating assigned: The date Standard & Poor's assigned the long-term foreign currency issuer credit rating on the entity
- Date of previous review: The date Standard & Poor's last reviewed the credit rating on the entity
- Funding and liquidity: A combined assessment of the strength and stability of a bank's funding mix and its ability to manage its liquidity needs in adverse market and economic conditions over an extended period
- Government-related entity (GRE) support: An assessment of the likelihood that the government would provide extraordinary support to a bank that is a government-related entity
- Group credit profile (GCP): Standard & Poor's opinion of a group's creditworthiness as if the group were a single legal entity, and is conceptually equivalent to an ICR. A GCP does not address any specific obligation

- Group support: An assessment of the likelihood that a parent or other group member would provide extraordinary support to a bank within that group
- National scale rating: An opinion of an obligor's creditworthiness or overall capacity to meet specific financial obligations, relative to other issuers and issues in a given country or region
- Nonperforming asset (NPA): Nonaccrual loans; restructured loans; repossessed/other real estate owned; loans 90 days past due, but accruing; and 90 plus days delinquent
- Risk position: Our view of the specific risk characteristics of a particular bank
- Return on equity (ROE): Annualized net income after preferred dividends divided by average common equity.
- Stand-alone credit profile (SACP): An interim step in assessing a bank's overall creditworthiness. It includes government support, but not extraordinary government support
- Sovereign support: An assessment of the likelihood that the government would provide extraordinary support to a bank