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First Bank of Nigeria Plc

Nigeria Bank Analysis **August 2011**

Security class	Rating scale	Currency	Rating	Rating watch	Expiry date
Long term	National	Naira	AA-	No	07/2012
Short term	National	Naira	A1+		

Financial data:

(US$'m Comparative)

	30/12/09	31/12/10
NGN/US$ (avg.)	150.97	152.80
NGN/US$ (close)	152.35	153.34
Total assets	11,478.4	12,490.9
Tier I capital	2,049.7	2,188.1
Tier II capital	267.1	317.2
Net advances	6,782.5	6,684.4
Liquid assets	2,060.8	2,872.7
Operating income	789.3	1,056.8
NPAT	8.4	176.3
Market cap†	2,665	
Market share‡	14%	

†Market value of stock as at 1 August 2011.

‡Based on total industry assets.

Fundamentals:

First Bank of Nigeria Plc ("FirstBank"or "the bank") was incorporated in 1894 as "Bank of British West Africa", and listed on the Nigeria Stock Exchange in 1971. In 1979, it was renamed First Bank of Nigeria. FirstBank's shares are widely held by over 1.3 million institutional and private investors across several countries, with no single shareholder holding more than 5% of the Bank's equity. Following the industry-wide consolidation in 2005, the bank acquired its merchant banking subsidiary, FBN (Merchant Bankers) Limited and MBC International Bank Plc.

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Rating rationale

The rating is based on the following key factors:

- FirstBank's strong brand underpinned by its long operational history, being one of the oldest banks in the country. FirstBank is the largest bank in the country based on total assets and deposits, and ranked as the second largest bank based on capital and branch network. Market share is around 14%, based on total assets, as at end-December 2010.
- FirstBank's wide geographic footing also enhances its access to retail deposits. On the back of a 16% growth in F09 (FirstBank being a major beneficiary of the customer flight to safety occasioned by the outcome of the stress test conducted by Central Bank of Nigeria ("CBN")/Nigeria Deposit Insurance Corporation ("NDIC") on the deposit money banks during the year), deposit growth pace decelerated to 7%, ending up at N1.3tr in F10. The growth pace was mainly constrained by the bank's decision to focus on low-cost deposits, which translated to a 26.6% growth in retail deposits (current and savings) in F10. The bank's weighted average cost of funds of 2.6% in December 2010 ranked among the industry lowest.
- Liquidity risk is minimal. The bank's liquidity ratio fluctuated between 40.5% and 52.2% (on a monthly basis) throughout F10, against the 25% prudential requirement. Furthermore, FirstBank's well diversified deposit base, coupled with access to committed credit lines from other financial institutions, further mitigates liquidity risk.
- Asset quality has remained a key challenge for FirstBank over the past 2 years, albeit a systemic problem. From 4.4% in March 2009, the bank's gross non-performing loan ("NPL") ratio rose to 8.2% in F10 (8.1% in December 2009), 32% of which were in arrears for more than 1 year. Impaired credits worth N10.5bn were sold to AMCON, while delinquent loans totalling N28.5bn were also written off in December 2010 in line with regulatory guidelines. After adjusting for the write-offs and the NPLs sold to AMCON, the provision coverage ratio increased to 74% (F09:64%). Following which, the net NPL ratio declined from 2.8% in F09 to 1.6%.
- FirstBank recorded a net profit after tax of N26.9bn in F10, representing a 15.8x increase in earnings over F09 (on an annualised basis). The reported after tax earnings were supported by a sharp reduction in credit losses, as well as a N2bn exceptional profit. Overall, the bank's ROaE and ROaA rose from 0.5% and 0.1% in F08 to 7.6% and 1.4% in F10 respectively.

Financial flexibility

FirstBank's funding structure, as at the balance sheet date, was made up as follows: customer deposits (71.9%), equity capital (18.4%), interbank borrowings (3%) and other borrowings (6.7%).

Business profile

Strategy and operations

FirstBank offers a wide array of banking and other financial services (including granting of loans and advances, corporate finance and money market activities) to corporate and individual customers. Locally, the bank had a total of 638 business offices (comprising 571 branch offices and 67 cash centres), supported by over 1,000 Automated Teller Machine outlets and 7,763 employees (as at June 2011). FirstBank carried out a major review on its operations and marketing structure in 2010. Consequently, the hitherto operated geographic focused structure was replaced with a market segment focused structure.

Corporate governance

FirstBank's governance structure conforms, for the most part, to the provisions of CBN's Code of Corporate Governance for Banks in Nigeria. The bank's directorate is made up 11 non-executive directors and 5 executive directors. The board is chaired by one of the non executive directors. In line regulations, the roles of chairman and managing director in the bank are different and separate. The chairman leads and manages the board, ensuring that it operates effectively. The board's responsibilities for the day-to-day management of the bank are delegated to the managing director/chief executive officer, who is supported by the executive committees, which he chairs. At present, the bank has only one independent director against a minimum of 2 independent directors required by the Code of Corporate Governance. In line with the CBN corporate governance code as well as the bank's new operating structure, 6 members of the bank's board (including the immediate past Chairman, Mr. Oba Otudeko, resigned their appointments during the year under review). One of the bank's joint auditors, Akintola Williams Deloitte, was replaced with PricewaterhouseCoopers, having served a maximum period of 10 years. The annual financial statements were prepared in accordance with Nigerian Statements of Accounting Standards, the Companies and Allied Matters Act 1990 and the Banks and other Financial Institutions Act ("BOFIA") and a clean audit opinion was issued on the financial statements by the joint external auditors, Pannell Kerr Foster and PricewaterhouseCoopers.

Industry overview

Banking operations in Nigeria are governed by the provisions of the Banks and Other Financial Act of 2004, with CBN being the chief regulator. A total of 24 deposit money banks are presently operating in the country, 21 of which are listed on The Nigerian Stock Exchange ("NSE"), while 3 are local subsidiaries of foreign banks. Little product differentiation existed among the banks due to the universal banking model in operation in the country. However, the universal banking model was repealed in November 2010, ushering in a reversal of policy and the re-introduction of a specialised banking model - categorising banks into 3 types, viz. commercial banks, merchant banks and specialised banks. Moreover, the geographic coverage of a commercial bank is dependent on the category of its banking licence, which, in turn, is split into 3 categories, viz. regional, national and international. Due to the asset quality problems confronting the Nigerian banking industry over the last 2 years, a revised set of prudential guidelines for banks was issued by the CBN in July 2010. Another key initiative to strengthen the industry includes the establishment of a state run asset management company ("AMCON"), with such empowered to purchase non-performing assets as well as inject equity (direct/debt facilities) into qualifying banks.

Competitive position

FirstBank's key performance indicators for the year ended 31 December 2010 are juxtaposed with that of some selected Nigerian banks in table 1 below.

Risk management

FirstBank is yet to fully implement the Basel committee's recommended risk management

Table 1: Competitive position FirstBank vs. selected banks	Zenith	FirstBank	GTBank	UBA	UBN
Year end 31 December 2010					
Capital (N'bn)	350.4	340.7	205.2	187.7	(135.9)
Total assets (N'bn)	1,736.5	1,915.4	1,037.1	1,418.3	795.6
Net loans (N'bn)	703.1	1,025.0	563.5	569.3	183.5
Net profit after tax (N'bn)	33.3	26.9	36.5	2.2	118.0
Capital/Assets (%)	20.1	17.8	19.8	13.2	(17.0)
Cash & liquid assets/Total short-term funding (%)	118.1	33.6	46.9	34.9	4.7
Gross non-performing loan ratio (%)	2.8	8.3	7.5	6.7	39.6
Net interest margin (%)	3.9	6.2	6.5	3.7	6.4
Cost ratio (%)	66.1	66.5	51.2	72.3	79.2
ROaE (%)	9.8	7.6	18.6	7.9	(29.9)
ROaA (%)	2.0	1.4	3.7	1.1	6.9

framework. That said, the bank's current risk protocols meet all CBN requirements. FirstBank's enterprise-wide risk management framework covers credit risk, market risk, liquidity risk, operational risk, information security risk, compliance risk and legal risk. The bank's risk management directorate provides central oversight across the bank and its subsidiaries, and is supported by other departments in the management of other key on-the-ground risks.

Credit risk

Total assets, after adjusting for balances held on behalf of third parties in respect of letters of credit, increased by 9.5% to N1.9tr as at end-December 2010 – with growth supported by an enlarged funding base.

Although the asset mix was generally stable, a slight shift from customer advances to interbank placements was noted, given the low inherent risk associated with bank placements (and this due to the guarantee of all local interbank cash flows/exposures granted by the central bank, effective until end-December 2011).

Table 2: Asset mix	F09		F10	
	N'm	%	N'm	%
Cash & liquid assets	**313,970**	**18.0**	**440,501**	**23.0**
Cash	*29,990*	*1.7*	*32,533*	*1.7*
Liquidity reserves	*10,308*	*0.6*	*11,130*	*0.6*
Treasury bills/bonds	*14,219*	*0.8*	*23,599*	*1.2*
Interbank placements	*259,453*	*14.9*	*373,239*	*19.5*
Customer advances	1,033,321	59.1	1,024,992	53.5
Investments	303,890	17.4	350,713	18.3
Fixed assets	46,302	2.6	52,616	2.7
Other assets	51,245	2.9	46,551	2.5
Total	**1,748,728**	**100.0**	**1,915,373**	**100.0**

*Excluding balances held on behalf of customers in respect of letter of credit

Consequently, advances made up a lower 53.5% (F09: 59%) of the bank's asset base. Credit risk associated with the investment portfolio is also low, as government bonds (both federal and state issued) formed a significant 70% of the total portfolio at balance sheet date. Other assets, in turn, included deferred acquisition expenses, open buy back treasury bills, receivables and prepayments. Off-balance sheet assets declined by 22.5% and ended the period at N334bn. The decline can largely be attributed to several exposures being taken on-balance sheet, thus to comply with recent regulatory circulars/changes.

Loan portfolio: Total advances (including loans, advances under finance lease and other on-lending facilities) grew by 2% to N1.1tr in F10 - with the oil & gas, finance & insurance, general commerce and real estate & construction sectors favored as primary targets. Moreover, given the large/lumpy facility values required by clients in these sectors, the bank displayed a fair degree of concentration by obligor, with the single largest loan constituting 9% and 28.7% of total advances and shareholders' funds respectively as at end-December 2010. This, in turn, is a breach of the statutory single loan limit of 20%.

Reflective of the sizeable term loan component, the maturity profile of the advances was fairly long, 38% of which mature after 1 year. A further 15% growth has been forecasted by management for F11, with increased focus on agriculture (to be financed through special intervention fund) and infrastructure.

Table 3: Loan book characteristics			
By sector: (%)			
Agriculture	1.1	Transport	0.2
Oil & gas	22.1	Communication	5.4
Consumer credit	9.4	General commerce	15.1
Manufacturing	6.4	Public sector	5.6
Real estate & construction	10.1	Utilities	0.1
Finance & insurance	18.8	Retail services	5.7
Largest exposures	**%**	**By Product:**	**%**
Single largest	9.0	Overdrafts	13.0
Five largest	23.1	Term loans	48.7
Ten largest	34.3	Finance leases	0.8
Twenty largest	48.2	Others	37.5

Asset quality

Portfolio quality has deteriorated noticeably over the last 2-years, albeit a systemic phenomenon that spared no one in the local banking market. From 4.4% in March 2009, the bank's gross NPL ratio rose to 8.2% in F10 (8.1% in December 2009), 32% of which were in arrears for more than 1 year. The debt servicing capacity of borrowers was weakened by the global economic downturn in 2009, which was accompanied by job losses and business downscale. The bulk of the NPLs were related to the general commerce, oil & gas, real estate & construction, finance and manufacturing sectors. To strengthen asset quality, impaired credits worth N10.5bn were sold to AMCON in December 2010. Impaired loans totaling N28.5bn were also written off during the year in line with regulatory requirements. After adjusting for the write-offs and the NPLs offloaded to AMCON, the provision coverage ratio increased to 74% (F09: 64%). Consequently, the net NPL ratio declined from 2.8% in F09 to 1.6%. With regards to security, and although a large portion of the advances portfolio is secured in one form or the other, the cumbersome judicial process involved in realising cash flows from collaterals in Nigeria reduces its consideration weight.

The NPL ratio is expected to improve further with the sale of additional NPLs totaling N31bn to AMCON in April 2011. The bank's credit approval process has also been tightened, with lending strictly governed by the bank's pre-determined product program and risk acceptance criteria.

Table 4: Asset quality	F09 N'm	F10 N'm
Gross advances	1,092,901	1,116,367
Loan classification		
Normal	1,004,395	1,024,967
Watch (30-90 days)	-	-
Substandard (90-180 days)	17,279	31,492
Doubtful (180-360 days)	31,550	30,285
Loss (>360 days)	39,677	29,623
Gross NPL's (> 90 days)	**88,506**	**91,400**
Less : interest in suspense	(7,434)	(23,606)
Capital value in arrears	**81,072**	**67,794**
Less: Provisions	**(52,146)**	**(50,460)**
Specific	(52,146)	(40,383)
General	-	(10,077)
Net NPLs	**28,926**	**17,334**
Gross NPL ratio (%)	**8.1**	**8.2**
Net NPL ratio (%)	**2.8**	**1.6**
Net NPLs/Capital (%)	**9.1**	**5.1**

Liquidity risk

FirstBank's liquidity ratio fluctuated between 40.5% and 52.2% (measured on a monthly basis) throughout the reviewed calendar year, against the 25% prudential requirement. Asset and liability maturity tenures were well managed, with a cash buffer of N473.7bn recorded in the less than 30-days maturity band. The bank's well diversified deposit base, coupled with committed credit lines with other financial institutions, further mitigates liquidity risk.

Financial flexibility

FirstBank's funding structure, as at the balance sheet date, is made up as follows: customer deposits (71.9%), equity capital (18.4%), interbank borrowings (3%) and other borrowings (6.7%). FirstBank also has access to the capital markets through its listing on the Nigerian Stock Exchange.

Table 5: Deposit book characteristics			
By source:	**%**	**By type:**	**%**
Corporates	24.3	Demand	43.2
Private banking customers	56.4	Savings	42.5
Public sector	19.3	Term	14.3
Concentration			
Single largest	10.5	Ten largest	20.2
Five largest	16.3	Twenty largest	23.9

Due to the bank's strong brand, and this underpinned by its long operational history (being one of the oldest banks in the country), FirstBank benefitted hugely from the flight-to-safety sparked by the unfavourable audit reports issued on some of its peers (as initiated by the central bank at the end of 2009). After growing 16% in F09, deposit flows slowed to 7% in F10, ending the period at N1.3tr. Growth was held back mainly by the bank's decision to focus on low-cost deposits in a bid to help contain margin pressure. Consequently, retail deposits (current and savings) grew by 26.6% in F10. FirstBank is a major banker to most of the regional states and parastatals. As such, public sector funds constituted 19.4% of the bank's total deposit base as at end-December 2010.

FirstBank also enjoys credit facilities from FBN Capital Finance Company ("FCFC"), the European Investment Bank ("EIB"), Standard Chartered Bank Limited ("SCB"), Bank of Industry Limited and a number of correspondence banks. Total outstanding borrowings stood at N124.6bn as at end December 2010. The unexpired tenure of the loans ranges from 2 to 15 years and interest payable on the loans varies between 1% and 9.8%.

Share Capital

FirstBank registered a year-on-year growth of 7.3% in shareholders' funds in F10, solely on account of retained earnings. This followed a 9.6% shrinkage in F09 - and this underpinned by 2 key factors vis. (i) the high impairment charge, which constrained growth at the NPBT level, and (ii) the payment of a dividend totalling N33.6bn, which further eroded the bank's retained earnings. At N340bn, the bank's capital base is 6.8x the statutorily required capital for an international bank, ranking FirstBank as the second most capitalised bank in the country. The bank's risk weighted capital adequacy ratio of 27% (F09: 21%) exceeded both the internally benchmark limit of 15% and the statutory requirement of 10%.

Financial performance

A 3-year financial synopsis of the bank is shown at the back of this report, with comment below.

FirstBank recorded a net profit after tax of N26.9bn in F10, representing a 15.8x increase in earnings over F09 (on an annualised basis) – the prior year income was squeezed by a rapid deterioration in asset quality, and this leading to an impairment charge that absorbed 46.6% of that year's net interest income.

Despite an annualised 18% decline in interest revenue (given the impact of a drop in asset yields and slow credit growth/volumes) in F10, the bank's strategic focus on low cost funds - which saw its net interest margin widen by 100bps to 6.2% - helped to moderate the drop in net interest income to just 4.8%. Earnings were further boosted by a sharp reduction in credit losses (down 59.1%) and a N2bn exceptional profit - being the difference between the net value and the discounted value of the delinquent loans sold to AMCON. The bank's cost ratio escalated from 58.8% in F09 to 66.5% due to an annualised 15% rise in operating expenditure - and this due to additional overhead expenses associated with the bank's branch expansion programme and retirement benefit costs.

Overall, the ROaE and ROaA rose from 0.5% and 0.1% in F09 to 7.6% and 1.4% in F10 respectively. In line with prudential requirements, 15% of net after tax earnings was transferred to the statutory reserve.

Future prospects

Following the repeal of the universal banking model by CBN, FirstBank has opted for an international banking license with a holding company ("HoldCo") structure. Under the HoldCo structure, the group holding company, FBN Holdings Plc, will be made up of the following business groups, namely: The Banking group (First Bank of Nigeria, FBN UK and FBN BDC), Investment Banking & Asset Management group (FBN Capital, First Trustees, First Funds and FBN Securities), Insurance group (FBN Life Assurance and FBN Insurance Brokers), and the Emerging Ventures (FBN Micro Finance, FBN Pension Custodian, FBN Mortgages and FBN Registrars).

Although the proposed HoldCo structure has been approved by the CBN, the granting of certain tax concessions (yet to be received) is considered a *sine qua non* for the implementation of the HoldCo structure by the bank. FirstBank's strategic decisions are guided by its 3 years strategic blue-print, covering the years 2011 to 2013. The bank will focus on (i) strengthening its capacity in investment banking and & asset management, and insurance in the immediate horizon, (ii) commence regional expansion to Sub-Sahara Africa in the medium term, and (iii) build economies of scale in all operating jurisdictions over the longer term.

FIRST BANK OF NIGERIA PLC

(Naira in millions except as noted)

Year end: 31 December

Income Statement Analysis	**Mar. 09**	**Dec. 09**	**Dec. 10**
Interest income	146,996	145,100	158,866
Interest expense	(43,587)	(56,167)	(45,940)
Net interest income	**103,409**	**88,933**	**112,926**
Other income	37,540	30,234	48,553
Total operating income	**140,949**	**119,167**	**161,479**
Impairment charge	(13,960)	(41,462)	(22,596)
Operating expenditure	(80,880)	(70,016)	(107,392)
Exceptional items	-	-	2,046
Net profit before tax	**46,109**	**7,689**	**33,537**
Tax	(11,036)	(6,414)	(6,601)
Net profit after tax	**35,073**	**1,275**	**26,936**
Other after-tax income / (expenses)	-	-	-
Net income	**35,073**	**1,275**	**26,936**

Balance Sheet Analysis			
Subscribed capital	266,956	269,028	270,840
Reserves (incl. net income for the year)	84,098	48,460	69,895
Hybrid capital (incl. eligible portion of subordinated term debt)	-	-	-
Less: Intangible assets (incl. goodwill)	-	-	-
Total capital and reserves	**351,054**	**317,488**	**340,735**
Bank borrowings (incl. deposits, placements & REPOs)	78,980	65,087	55,165
Deposits	976,047	1,129,881	1,203,069
Other borrowings	-	-	20,012
Short-term funding (< 1 year)	**1,055,027**	**1,194,968**	**1,278,246**
Bank borrowings (incl. deposits, placements & REPOs)	-	-	-
Deposits	95,789	114,149	127,702
Other borrowings	35,042	35,473	104,605
Long-term funding (> 1 year)	**130,831**	**149,622**	**232,307**
Payables/Deferred liabilities	83,918	86,650	64,085
Other liabilities	**83,918**	**86,650**	**64,085**
Total capital and liabilities	**1,620,830**	**1,748,728**	**1,915,373**
Balances with central bank	16,481	10,308	11,130
Fixed assets	38,320	46,302	52,616
Derivative financial assets	-	-	-
Receivables/Deferred assets (incl. zero rate loans)	612,421	310,698	419,790
Non-earnings assets	**667,222**	**367,308**	**483,536**
Short-term deposits & cash	23,588	29,990	32,533
Loans & advances (net of provisions)	695,876	1,033,321	1,024,992
Bank placements	-	-	-
Marketable/Trading securities	17,697	14,219	23,599
Equity investments	185,774	271,250	317,073
Investments in subsidiaries/associates	30,673	32,640	33,640
Total earning assets	**953,608**	**1,381,420**	**1,431,837**
Total assets	**1,620,830**	**1,748,728**	**1,915,373**
Contingencies (relating to unutilised credit card limits)	**314,973**	**431,316**	**334,126**

Ratio Analysis (%)†			
Capitalisation			
Internal capital generation	10.0	0.4	7.9
Total capital / Net advances + net equity invest. + guarantees	29.3	18.3	20.3
Total capital / Total assets	21.7	18.2	17.8
Liquidity ‡			
Net advances / Deposits + other short-term funding	60.5	78.9	72.9
Net advances / Total funding (excl. equity portion)	58.7	76.9	67.9
Liquid & trading assets / Total assets	37.4	17.4	22.4
Liquid & trading assets / Total short-term funding	57.4	25.4	33.6
Liquid & trading assets / Total funding (excl. equity portion)	51.1	22.6	28.4
Asset quality			
Impaired loans / Gross advances	4.4	8.1	8.3
Total loan loss reserves / Gross advances	2.5	4.8	4.5
Bad debt charge (income statement) / Gross advances (avg.)	n.a.	4.6	2.1
Bad debt charge (income statement) / Total operating income	9.9	34.8	14.0
Profitability			
Net income / Total capital (avg.)	n.a.	0.4	8.2
Net income / Total assets (avg.)	n.a.	0.1	1.5
Interest income + com. fees / Earning assets + guarantees (a/avg.)	n.a.	5.2	6.2
Non-interest income / Total operating income	26.6	25.4	30.1
Non-interest income / Total operating expenses (or burden ratio)	46.4	43.2	45.2
Cost ratio	57.4	58.8	66.5
OEaA (or overhead ratio)	n.a.	4.2	5.9
ROaE	20.0	0.5	7.6
ROaA	n.a.	0.1	1.4
Nominal growth indicators			
Total assets	n.a.	7.9	9.5
Net advances	n.a.	48.5	(0.8)
Total capital and reserves	n.a.	(9.6)	7.3
Deposits (wholesale)	n.a.	16.1	7.0
Total funding (excl. equity portion)	n.a.	13.4	12.3
Net income	n.a.	(95.2)	1,484.5

† Growth ratio's for 2007/2008 were not calculated due to a change in GCR's number capturing spread.

‡ Please note that for these ratios, liquid assets exclude the statutory reserve balance

Long term debt

Investment grade

AAA Highest credit quality. The risk factors are negligible, being only slightly more than for risk free government bonds.

AA+
AA
AA- Very high credit quality. Protection factors are very strong. Adverse changes in business, economic or financial conditions would increase investment risk, although not significantly.

A+
A
A- High credit quality. Protection factors are good. However, risk factors are more variable and greater in periods of economic stress.

BBB+
BBB
BBB- Adequate protection factors and considered sufficient for prudent investment. However, there is considerable variability in risk during economic cycles.

Non-investment grade

BB+
BB
BB- Below investment grade but capacity for timely repayment exists. Present or prospective financial protection factors fluctuate according to industry conditions or company fortunes. Overall quality may move up or down frequently within this category.

B+
B
B- Below investment grade and possessing risk that obligations will not be met when due. Financial protection factors will fluctuate widely according to economic cycles, industry conditions and/or company fortunes.

CCC Well below investment grade securities. Considerable uncertainty exists as to timely payment of principal or interest. Protection factors are narrow and risk can be substantial with unfavourable economic/industry conditions, and/or with unfavourable company developments.

DD Defaulted debt obligations. Issuer failed to meet scheduled principal and/or
Interest payments.

Short term debt

High Grade

A1+ Highest certainty of timely payment. Short-term liquidity, including internal operating factors and/or access to alternative sources of funds, is outstanding, and safety is just below that of risk-free treasury bills.

A1 Very high certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A1- High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.

Good Grade

A2 Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.

Satisfactory Grade

A3 Satisfactory liquidity and other protection factors qualify issues as to investment grade However, risk factors are larger and subject to greater variation.

Non-investment Grade

B Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation

Default

C Issuer failed to meet scheduled principal or interest payments.

Claims paying ability

Secure

AAA Highest claims paying ability. The risk factors are negligible.

AA+
AA
AA- Very high claims paying ability. Protection factors are strong. Risk is modest, but may vary slightly over time due to economic and/or underwriting conditions.

A+
A
A- High claims paying ability. Protection factors are above average although there is an expectation of variability in risk over time due to economic and/or underwriting conditions.

BBB+
BBB
BBB- Adequate claims paying ability. Protection factors are adequate although there is considerable variability in risk over time due to economic and/or underwriting conditions.

BB+
BB
BB- Uncertain claims paying ability and less than investment grade quality. The ability of these organisations to discharge obligations is considered moderate and thereby not well safeguarded in the future. Protection factors will vary widely with changes in economic and/or underwriting conditions.

B+
B
B- Possessing substantial risk that policyholder and contract-holder obligations will not be paid when due. Judged to be speculative to a high degree.

CCC Company has been, or is likely to be, placed under an order of the court.

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