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Summary:

First Bank of Nigeria PLC

Primary Credit Analyst:
Matthew Pirnie, London (44) 20-7176-7238; matthew_pirnie@standardandpoors.com

Secondary Credit Analyst:
Austen Koles-Boudreaux, Milan (39) 02-72-111-260; austen_koles-boudreaux@standardandpoors.com

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Credit Rating: BB-/Negative/B

Rationale

The ratings on First Bank of Nigeria PLC (First Bank) are constrained by the high economic and industry risks associated with operating in the Federal Republic of Nigeria (foreign currency BB-/Negative/B, local currency BB/Negative/B), credit risks associated with very rapid loan growth, and very high competition in the Nigerian banking sector. The ratings on First Bank are supported, on the other hand, by the bank's good market position, adequate capitalization, and moderate financial performance. Liquidity and funding, while still supportive, have nevertheless tightened, given aggressive asset growth and higher leveraging. The ratings on First Bank reflect the bank's stand-alone credit profile and do not include any uplift of extraordinary external support.

With total assets of Nigerian naira (NGN) 1.8 trillion ($12.7 billion at NGN141 to $1) at Dec. 31, 2008, First Bank is one of the largest banks operating in Nigeria, solidly located in the top tier of the sector. First Bank's good market position and moderate profitability are supported by a relatively strong business mix, comprising a number of revenue producing subsidiaries and wide distribution network.

High credit risks resulting from the very rapid growth in First Bank's loan portfolio in recent years, exacerbated by the high credit and operational risks inherent to operating in Nigeria, are a major restraint on the ratings. Risks resulting from aggressive loan and business growth are somewhat mitigated by the bank's average enterprise risk management and sound risk governance.

Credit growth, although set to be significantly moderated in the current year, has also tightened First Bank's liquid asset cushion and liquidity profile--the maintenance of which is important for current rating levels. Capitalization remains adequate, with an adjusted total equity-to-adjusted assets ratio of 18.4% at Dec. 31, 2008, which provides adequate room for moderated long-term expansion.

Outlook

The negative outlook mirrors that on Nigeria. This reflects our view of the increased risk that the institutional response to falling oil revenue will result in a continued worsening of the business environment, and a deterioration of Nigeria's balance sheet beyond our central assumptions. Furthermore, as economic growth prospects and public sector revenues deteriorate, we believe that domestic banks, including First Bank, will have to operate in the most difficult and volatile financial environments since consolidation, which is likely to exert pressure on funding and liquidity, asset quality, and profitability.

The ratings on First Bank of Nigeria will remain highly correlated with sovereign creditworthiness. A downgrade of the sovereign would trigger the same rating action on the bank.

If the outlook on the Nigerian sovereign is revised to stable, the outlook on First Bank would, absent other relevant factors at the time, likely be revised to stable if the bank maintains adequate capital and liquid asset cushions, with asset-quality deterioration minimized and profitability resilient.

Any material deterioration in asset quality, strains in funding and liquidity, or marked deterioration in profitability would, in the absence of any other relevant factors, be likely to have negative ratings implications.

A potential merger of First Bank with Togo-based Ecobank Transnational Incorp. (not rated)--which represents 60% of the bank's asset size--would be considered as a material transaction. The impact of the business combination on the stand-alone credit profile of First Bank is too early to assess in either a positive, negative, or neutral manner, and will depend on the business and financial profile of the resulting group. At present, this transaction has not been factored into the ratings on First Bank, given its early stage and uncertainty.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com