

October 26, 2011

First Bank of Nigeria PLC

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First Bank of Nigeria PLC

Major Rating Factors

Strengths:

- Leading bank in Nigeria.
- Strong deposit franchise.
- Liquid balance sheet.

Weaknesses:

- High economic and industry risks associated with operating in Nigeria.
- Moderate capitalization that compares unfavorably to peers.
- High credit risks, including credit concentrations and mutable asset quality.

Counterparty Credit Rating
B+/Stable/B
<i>Nigeria National Scale</i>
<i>ngA/--/ngA-1</i>

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 (B+/Stable/B), the bank's moderate capitalization, and the high credit risks from rapid loan growth and large single-name borrower concentrations. The ratings benefit from First Bank's leading market position in Nigeria, its strong deposit franchise, and its highly liquid balance sheet. Although Standard & Poor's Ratings Services considers First Bank to be of high systemic importance, the ratings on the bank reflect its stand-alone credit profile and do not incorporate any uplift for potential extraordinary support from the government of the Federal Republic of Nigeria. This reflects our view that the likelihood of extraordinary support from the Nigerian government is uncertain in light of the country's fragile political institutions.

With total assets of Nigerian naira (NGN) 2.9 trillion (\$18.8 billion, at \$1 to NGN154.5) and a market share of approximately 17% in terms of total assets on June 30, 2011, First Bank is the largest and one of the oldest banks in Nigeria. It benefits from a strong retail market position, good brand recognition, a wide branch network, and strong loyalty among its 5.6 million retail clients. This legacy has accorded the bank a leading deposit franchise and highly liquid balance sheet. This is reflected in the strong deposit growth in the last two years and a loans-to-deposits ratio of 66% at end-June 2011. Cash and money market instruments and securities accounted for 52% of total assets at end-June 2011.

In our opinion, First Bank's balance sheet continues to show strong recovery from the 2009 downturn. Nonperforming loans (NPLs) accounted for 3.8% of total loans at end-June 2011, down from 8.8% at year-end 2010. The improvement in asset quality largely reflects the sale of bad debt of NGN32 billion to the Asset Management Company of Nigeria (not rated) and the bad debt write-offs of NGN22 billion. We project that NPLs will remain at similar levels for the rest of the year due to the bank's increasing focus on bad debt recovery and as general economic improvement decelerates the development of new bad debts. However, we continue to view credit risk as a potential risk to the long-term ratings on First Bank. Our view takes into account the bank's high real estate exposure, large single-name borrower concentrations (the top 20 individual borrowers account for 38% of total loans and 154% of adjusted total equity), and First Bank's track record of volatile asset quality.

The momentum of the accelerated growth seen in 2010 was sustained into the first half of 2011 as a result of high

earnings. Earnings mainly benefitted from asset re-pricing, growth in earning assets, low-cost funding, and an annualized 65% growth in customer deposits due to a strong retail franchise. The return on assets rose further to 2.4% at the end of June 2011, from 1.4% at year-end 2010. In 2010, the net interest margin increased to 7.3% from 5.9% a year earlier. The new loan loss provisions were a low 12% of the operating revenues, which is similar to the level at year-end 2010. We project that earnings will stabilize from hereon in tandem with further improvement in the economy.

In our opinion, First Bank's capitalization is only moderate, comparing unfavourably to rated peers, although its capital adequacy ratio (CAR) of 17.6% is still well above the regulatory requirements. At year-end 2010, Standard & Poor's own risk-adjusted capital (RAC) ratio was 5.6% before concentration-related adjustments. Standard & Poor's assigns risk-weighting according to both economic risk and asset class exposure. Therefore the difference in the RAC and CAR can be explained to some extent by the higher risk weightings of Nigerian government debt, First Bank's corporate loan book, and the equity in the banking book under our methodology. Consequently, First Bank's RAC ratio is somewhat restrained by the large amount of liquid assets held on the balance sheet.

Outlook

The stable outlook reflects that on the Federal Republic of Nigeria. It also reflects our view that the improving economic cycle will benefit the bank's financial performance. We believe that the bank's asset quality and profitability will remain at current levels as general economic activity picks up, loan growth continues, and the bank's focus on bad debt recovery increases. Further loan growth may pressurize capitalization toward the end of 2011, which would constrain our ratings analysis. However, the long-term ratings on the Federal Republic of Nigeria limit rating upside potential because of the bank's high exposure to Nigerian government bonds and concentrations in the local economy.

In our view, the bank's strong funding position and very liquid balance sheet will remain key supports for the ratings in the long term. The ratings could come under pressure if asset quality deteriorated unexpectedly, profitability returned to 2009 levels, or if credit or earning asset growth brought capitalization down to weak levels.

Table 1

First Bank of Nigeria PLC Profitability Ratios					
	--Year-ended Dec. 31--			--Year-ended March 31--	
(%)	2011*	2010	2009	2009	2008
Net interest income/average earning assets	7.4	5.9	6.9	7.9	8.0
Net interest income/operating revenues	73.0	67.7	73.7	74.3	71.0
Fee income/operating revenues	21.2	25.1	21.5	21.1	24.3
Market-sensitive income/operating revenues	N/A	5.9	4.2	2.5	0.8
Personnel expenses/operating revenues	31.0	29.1	31.1	31.2	50.0
Noninterest expenses/operating revenues	58.6	64.9	60.0	54.5	58.4
New loan loss provisions/operating revenues	11.9	12.0	31.1	12.1	2.1
Preprovision operating income/loan loss provisions	348.8	291.3	128.5	376.8	1,952.0
Operating income after loss provisions/operating revenues	29.6	23.0	8.9	33.4	39.5
Pretax profit/operating revenues	29.6	24.1	8.9	17.2	40.4
Tax/pretax profit	12.5	22.6	72.5	54.6	22.6
Core earnings/operating revenues	25.9	17.8	2.4	15.2	30.5

Table 1

First Bank of Nigeria PLC Profitability Ratios (cont.)					
Core earnings/average adjusted assets	2.4	1.4	0.2	1.4	2.9
Noninterest expenses/average adjusted assets	5.4	5.2	5.0	5.0	5.6
Core earnings/average regulatory risk-weighted assets	3.2	1.8	0.3	2.4	6.5
Core earnings/average adjusted common equity	19.6	10.3	1.4	7.5	17.3
Pretax profit/average common equity	21.6	13.3	4.8	8.5	21.5

*Data as of June 30. N/A--Not applicable.

Table 2

First Bank of Nigeria PLC RACF [Risk-Adjusted Capital Framework] Data					
(Mil. NGN)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	425,579	0	0	490,041	115
Institutions	771,392	0	0	1,028,282	133
Corporate	1,360,801	0	0	2,836,340	208
Retail	87,259	0	0	159,983	183
Of which mortgage	0	0	0	0	0
Securitization	0	0	0	0	0
Other assets	130,022	0	0	357,580	275
Total credit risk	2,775,052	0	0	4,872,225	176
Market risk					
Equity in the banking book¶	48,552	0	0	518,658	1,068
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	518,658	--
Insurance risk					
Total insurance risk	--	--	--	12,500	--
Operational risk					
Total operational risk	--	0	--	335,926	--
(Mil. NGN)		Basel II RWA		Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments					
RWA before diversification		0		5,739,310	100
Total diversification/concentration adjustments		--		1,037,766	18
RWA after diversification		0		6,777,076	118
(Mil. NGN)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		0	0.0	318,667	5.6
Capital ratio after adjustments§		0	0.0	318,667	4.7

*Exposure at default. Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. ¶Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. §Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. NGN--Nigerian naira. Sources: Company data as of Dec. 31, 2010, Standard & Poor's.

Table 3

First Bank of Nigeria PLC Capital Ratios					
(%)	--Year-ended Dec. 31--			--Year-ended March 31--	
	2011*	2010	2009	2009	2008
Adjusted common equity/risk assets	16.3	16.8	18.4	22.9	50.5
Tier 1 capital ratio	14.9	N/A	N/A	N/A	N/A
Adjusted total equity/adjusted assets	10.8	13.5	13.9	14.8	23.1
Adjusted total equity/managed assets	10.8	13.5	13.9	14.8	23.1
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	27.5	34.8	41.9	42.4	75.6
Common dividend payout ratio	0.0	58.6	90.9	267.0	0.0

*Data as of June 30. N/A--Not applicable.

Table 4

First Bank of Nigeria PLC Summary Balance Sheet					
(Mil. NGN)	--Year-ended Dec. 31--			--Year-ended March 31--	
	2011*	2010	2009	2009	2008
Assets					
Cash and money market instruments	974,374	778,672	882,121	926,785	617,030
Securities	553,048	368,926	300,819	214,332	294,687
Trading securities (marked to market)	433,339	263,432	221,863	151,111	100,665
Nontrading securities	119,709	105,494	78,956	63,221	194,022
Customer loans (gross)	1,269,153	1,053,521	850,142	756,608	479,304
Loan loss reserves	35,411	55,067	55,174	23,499	9,634
Customer loans (net)	1,233,742	998,454	794,968	733,109	469,670
Earning assets	2,664,427	2,125,602	1,962,750	1,757,322	1,301,891
Equity interests/participations (nonfinancial)	N/A	N/A	N/A	N/A	6,969
Investments in unconsolidated subsidiaries (financial companies)	5,456	7,456	3,248	4,394	431
Fixed assets	55,621	53,986	47,980	39,695	32,184
Accrued receivables	19,812	24,090	26,549	18,967	13,618
All other assets	71,309	73,674	116,661	72,632	92,953
Total assets	2,913,362	2,305,258	2,172,346	2,009,914	1,527,542
Adjusted assets	2,913,362	2,305,258	2,172,346	2,009,914	1,527,542
Liabilities					
Total deposits	2,230,815	1,598,853	1,512,422	1,364,866	855,306
Noncore deposits	311,098	148,286	173,280	170,410	155,109
Core/customer deposits	1,919,717	1,450,567	1,339,142	1,194,456	700,197
Acceptances	N/A	N/A	N/A	0	0
Repurchase agreements	N/A	N/A	N/A	N/A	N/A
Other borrowings	115,502	124,617	35,473	35,042	29,414
Other liabilities	245,484	241,162	314,893	272,601	287,188
Total liabilities	2,591,801	1,964,632	1,862,788	1,672,509	1,171,908
Total equity	321,561	340,626	309,558	337,405	355,634
Minority interest-equity	517	0	N/A	N/A	N/A
Common shareholders' equity	321,044	340,626	309,558	337,405	355,634

Table 4

First Bank of Nigeria PLC Summary Balance Sheet (cont.)					
Share capital and surplus	270,840	270,840	269,028	266,956	264,469
Revaluation reserve	2,380	2,379	2,379	2,379	2,379
Retained profits	7,303	26,887	549	30,648	30,426
Total liabilities and equity	2,913,362	2,305,258	2,172,346	2,009,914	1,527,542

*Data as of June 30. NGN--Nigerian naira. N/A--Not applicable.

Table 5

(Mil. NGN)	2011*	--Year-ended Dec. 31--		--Year-ended March 31--	
		2010	2009	2009	2008
Common shareholders' equity	321,044	340,626	309,558	337,405	355,634
Plus minority interest (equity)	517	0	0	0	0
Minus dividends (not yet distributed)	N/A	(19,580)	(2,900)	(33,564)	0
Minus revaluation reserves	(2,380)	(2,379)	(2,379)	(2,379)	(2,379)
Adjusted common equity	319,181	318,667	304,279	301,462	353,255
Total Adjusted Capital	319,181	318,667	304,279	301,462	353,255
Minus equity in unconsolidated subsidiaries	(5,456)	(7,456)	(3,248)	(4,394)	(431)
Adjusted total equity	313,725	311,211	301,031	297,068	352,824

*Data as of June 30. NGN--Nigerian naira. N/A--Not applicable.

Table 6

(Mil. NGN)	2011*	--Year-ended Dec. 31--		--Year-ended March 31--	
		2010	2009	2009	2008
Net interest income	88,241	121,462	96,157	119,680	82,930
Interest income	107,046	174,040	162,041	176,332	116,717
Interest expense	18,805	52,578	65,884	56,652	33,787
Operating noninterest income	32,652	57,957	34,391	41,298	33,824
Fees and commissions	25,602	45,055	28,064	33,980	28,382
Trading gains	N/A	10,160	4,128	2,949	952
Other market-sensitive income	N/A	513	1,316	1,007	N/A
Equity in earnings of unconsolidated subsidiaries	N/A	1,496	24	0	0
Other noninterest income	7,050	733	859	3,362	4,490
Operating revenues	120,893	179,419	130,548	160,978	116,754
Noninterest expenses	70,802	116,530	78,339	87,740	68,187
Personnel expenses	37,434	52,138	40,604	50,203	58,374
Other general and administrative expense	29,083	55,997	37,735	37,537	5,161
Provision operating income	50,091	62,889	52,209	73,238	48,567
Credit loss provisions (net new)	14,361	21,590	40,624	19,439	2,488
Operating income after loss provisions	35,730	41,299	11,585	53,799	46,079
Nonrecurring/special income	N/A	1,889	N/A	N/A	1,135
Nonrecurring/special expense	N/A	N/A	N/A	26,113	0
Pretax profit	35,730	43,188	11,585	27,686	47,214

Table 6

First Bank of Nigeria PLC Profit And Loss (cont.)					
Tax expense/credit	4,466	9,777	8,396	15,117	10,674
Net income (before minority interest)	31,264	33,411	3,189	12,569	36,540
Minority interest in consolidated subsidiaries	50	N/A	N/A	N/A	N/A
Net income before extraordinary	31,214	33,411	3,189	12,569	36,540
Net income after extraordinary	31,214	33,411	3,189	12,569	36,540

*Data as of June 30. NGN--Nigerian naira. N/A--Not applicable.

Table 7

(Mil. NGN)	--Year-ended Dec. 31--		--Year-ended March 31--		
	2011*	2010	2009	2009	2008
Net income (before minority interest)	31,264.0	33,411.0	3,189.0	12,569.0	36,540.0
Minus nonrecurring/special income	0.0	(1,889.0)	0.0	0.0	(1,135.0)
Plus nonrecurring/special expense	N/A	N/A	N/A	26,113.0	0.0
Plus or minus tax impact of adjustments	N/A	427.6	N/A	(14,258.1)	256.6
Core earnings	31,264.0	31,949.6	3,189.0	24,423.9	35,661.6

*Data as of June 30. NGN--Nigerian naira. N/A--Not applicable.

Ratings Detail (As Of October 26, 2011)

First Bank of Nigeria PLC

Counterparty Credit Rating	B+/Stable/B
<i>Nigeria National Scale</i>	ngA/--/ngA-1
Certificate Of Deposit	B+/B
Subordinated (1 Issue)	B-

Counterparty Credit Ratings History

28-Jun-2011	B+/Stable/B
24-Aug-2009	B+/Negative/B
30-Mar-2009	BB-/Negative/B
14-Feb-2007	BB-/Stable/B
30-Mar-2009	ngA/--/ngA-1
30-Mar-2009	ngA+/-/ngA-1

Sovereign Rating

Nigeria (Federal Republic of)	B+/Stable/B
<i>Nigeria National Scale</i>	ngA+/-/ngA-1

Related Entities

FBN Capital Finance Co.

Subordinated (1 Issue)	B-
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*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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