Standard & Poor's Research

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Research Update:

First Bank of Nigeria PLC Outlook To Stable On Improved Asset Quality And Financial Performance; Ratings Affirmed

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Research Update:

First Bank of Nigeria PLC Outlook To Stable On Improved Asset Quality And Financial Performance; Ratings Affirmed

Overview

- First Bank of Nigeria's asset quality and profitability are reverting to normal levels after falling in the wake of the 2009 downturn.
- We are therefore revising our outlook on the bank to stable from negative and affirming our 'B+/B' counterparty credit ratings. We are also affirming our 'ngA/ngA-1' Nigeria national scale ratings.
- The stable outlook reflects our view on the Federal Republic of Nigeria, and our expectation that financial performance will stabilize over the next two years as the wider economy improves.

Rating Action

On June 28, 2011, Standard & Poor's Ratings Services revised its outlook on Nigeria-based First Bank of Nigeria (First Bank) to stable from negative. At the same time, we affirmed our 'B+/B' counterparty credit ratings and our 'ngA/ngA-1' Nigeria national scale ratings.

Rationale

The outlook revision on First Bank follows improvements in both asset quality and profitability. First Bank's balance sheet is slowly recovering from the 2009 downturn. Nonperforming loans (NPLs) accounted for a reported 7.3% of total loans on March 31, 2011, down from 11.23% on Dec. 31, 2009. The improved asset quality ratios largely reflect the growth in the loan book (24% in 2010) and the sale of bad debt to the Asset Management Company of Nigeria (AMCON, not rated). The bank sold Nigerian naira (NGN) 10.48 billion before December 2010.

We expect that NPLs will fall to around 6% of total loans by the start of the second half of 2011 as general economic improvement slows down the development of new bad debts and because a further NGN31 billion tranche of NPLs has been sold to AMCON. We still view credit risk as a potential risk to the long-term ratings on First Bank of Nigeria, however. Our view reflects the bank's high real estate exposure, moderate loan loss reserve coverage, and currently poor track record in asset quality.

Earnings improved quickly in 2010; return on assets rose to 1.4% at Dec. 31, 2010, from 0.2% at Dec. 31, 2009. The improvement was triggered by a mixture of good growth in operating revenues and a lower cost of risk. Operating revenue growth of 37% in 2010 reflected improved noninterest income, especially from fees and commissions, as general economic activity picked up throughout the year. The bank also managed to bring down its net interest expenses, despite some deposit growth throughout the year. This demonstrates the benefits of its strong retail franchise on the cost of funds. The cost of risk fell sharply in 2010--new loan loss provisions reduced to 12% of revenues at Dec. 31, 2010, from 31% one year earlier. We expect that earnings will continue to improve alongside the economy and as domestic interest rates start to creep up.

The ratings on First Bank are constrained by the high economic and industry risk associated with operating in the Federal Republic of Nigeria (B+/Stable/B), above-average credit risks and low loan loss reserve coverage, and a still somewhat restrained earnings profile. We consider capitalization levels to be only moderate, although they are well above minimum regulatory requirements.

The ratings benefit from First Bank's leading banking franchise in Nigeria, its stable deposit-based funding profile, and its highly liquid balance sheet. Although we consider First Bank to be of high systemic importance, the ratings on the bank reflect its stand-alone credit profile with no uplift for the potential extraordinary support from the government. 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.

Outlook

The stable outlook reflects Nigeria's improving economic prospects and First Bank's cleaner balance sheet. We expect that the bank's asset quality and profitability will both improve toward year-end 2011 as general economic activity picks up, loan growth continues, and more bad debts are sold to AMCON. Loan growth could put further pressure on capitalization toward the end of 2011, which would be a constraining factor in our ratings analysis. Further positive movement in the ratings is also limited by the long-term ratings on the Federal Republic of Nigeria (B+/Stable/B); we would not take positive rating action unless the rating on the sovereign had also improved.

We expect the bank's strong funding position and very liquid balance sheet to remain the key supports for the ratings in the long term. Ratings could come under pressure if the asset quality unexpectedly deteriorates, profitability returns to 2009 levels, and if credit growth puts capitalization under serious pressure.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Understanding National Rating Scales, April 14, 2005
- Credit FAQ: Standard & Poor's Nigeria National Scale Ratings, Aug. 14, 2008
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

- Banks: Rating Methodology, Jan. 6, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
First Bank of Nigeria PLC		
Counterparty Credit Rating	B+/Stable/B	B+/Negative/B

Ratings Affirmed

First Bank of Nigeria PLC	
Counterparty Credit Rating	
Local Currency	ngA/--/ngA-1
Certificate Of Deposit	B+/B
Subordinated	B-
FBN Capital Finance Co.	
Subordinated*	B-

*Supported by First Bank of Nigeria PLC

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