

RATINGS RELEASE

Agusto & Co Lowers Its Rating of First Securities Discount House to 'A'

Agusto & Co lowers its rating of First Securities Discount House to 'A' from 'Aa-'. The outlook is stable.

The downgrade reflects the significant deterioration in FSDH's commercial bills portfolio, the heightened pressure on the Nigerian economy as well as recent developments in the Nigerian financial services industry, which have impaired market activities and could impact the performance of the Discount House in the short term.

During the period ended 30 June 2009, FSDH's net earnings grew by 105% to 6 billion, from a significant increase in business volumes – particularly in its trading of commercial papers and bankers acceptances. However, this growth was accompanied by significant deterioration in asset quality, as non-performing bills increased by 3,769% to 2 billion. This volume of non-performing bills, which was largely from a single transaction accounted for 6% of the Discount House's commercial bills portfolio (2008: 0.3%). Though profitability indicators were good, with significant improvement in both pre-tax ROE (44% from 26% in the prior year) and pre-tax ROA (6% from 3% in 2008), we believe that FSDH's profitability is likely to be subdued in the short term and subject to less favourable conditions in the financial services industry.

Though FSDH's capital adequacy ratio declined to a three year low of 33% as at 30 June 2009, it remained higher than the regulatory minimum of 10%. As the Discount House adopts a more conservative approach to growing business volumes in line with current realities, in the short term, capital should remain good for its business risks and its liquidity profile, which is underpinned by significant investments in low risk easily tradable government securities should also remain good.

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