MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades First Citizens Bank Limited; outlook stable

Global Credit Research - 23 May 2014

New York, May 23, 2014 -- Moody's Investors Service has downgraded First Citizens Bank Limited (FCBL) standalone bank financial strength rating (BFSR) to D+ from C-, lowering the baseline credit assessment (BCA) to baa3 from baa1. The outlook has been revised to stable from negative.

At the same time, the bank's long- and short-term local currency deposit ratings were also downgraded to Baa1/Prime-2 from A2/Prime-1, with the outlook changed to stable from negative. The long- and short-term foreign currency deposit ratings of Baa1/Prime-2 were affirmed with a stable outlook.

Moody's also downgraded First Citizens (St. Lucia) Limited's foreign currency senior debt rating to Baa1 from A2, and changed the outlook to stable from negative, as it is mapped directly from the bank's local currency deposit rating.

The following ratings were downgraded, with the outlook changed to stable from negative:

First Citizens Bank Limited:

Standalone Bank Financial Strength Rating: to D+ from C-

Long and short term local currency deposit ratings: to Baa1 / Prime-2 from A2 / Prime-1

First Citizens (St. Lucia) Limited:

Long term foreign currency senior debt rating: to Baa1 from A2

The following ratings were affirmed with a stable outlook:

First Citizens Bank Limited:

Long and short term foreign currency deposit ratings: Baa1 and Prime-2.

RATINGS RATIONALE

Moody's said that the downgrade of FCBL's standalone BFSR to D+ from C- reflects corporate governance concerns evidenced by the non-renewal of the mandates of the former Chairwoman of the Board and three other Directors during the Annual Meeting of Shareholders held on 12 May 2014.

While the government maintains that there is no evidence of wrongdoing on the part of any members of the Board during FCBL's initial public offering (IPO) completed last September, in Moody's view, the non-renewal reflects concerns the government has regarding the actions of the former chief risk officer (CRO) during the IPO process and the effect these actions may have on public confidence in the bank's governance and oversight; Moody's is concerned about the impact this diminished confidence may have, in turn, on the bank's franchise. Because the government divested a relatively limited portion of its interest in the bank through the IPO, it remains the majority shareholder, with a total stake of just above 80% of outstanding shares.

The CRO exploited a loophole in the offering rules to buy a very large number of shares contrary to the government's aims of a broad distribution of shares to the public, benefiting from an undersubscribed bucket for employees. Following public disclosure of the CRO shareholding in the Bank's 2013 annual report, FCBL announced on 25 March 2014 that it had dismissed the executive, citing lack of confidence in his abilities to perform his duties.

PricewaterhouseCoopers (PwC) has conducted an audit of the IPO, but its findings have not been publicly disclosed. Further, there is an ongoing investigation by Trinidad and Tobago's Securities and Exchange Commission into possible criminal activity.

The downgrade in standalone ratings considers the flaws that recent events have revealed in the rules governing the IPO as well as potential shortcomings in the bank's governance and operational risk controls. Management expects the new board to be named in the next 30 days.

The downgrade also reflects the bank's profitability indicators having weakened during the past three years due to declining net interest margins and rising operating costs, partly as a consequence of increased competition. In addition, asset quality is expected to remain relatively weak by the bank's historical standards given still modest economic growth. The new board will likely be challenged to develop an effective strategy to address these negative trends while it is simultaneously addressing governance concerns.

Notwithstanding the two-notch downgrade, the baa3 BCA reflects a number of important credit strengths, including robust capitalization and still stable funding from retail and public sector deposits, as well as the bank's established franchise as one of Trinidad and Tobago's largest lenders. Moody's expects these strengths to remain over the medium term, which are reflected in the current stable outlook on standalone ratings.

FCBL's deposit ratings and First Citizens (St. Lucia) Limited's debt rating continue to benefit from two notches of uplift from the baa3 BCA reflecting Moody's assumptions of a very high probability of government support for FCBL's obligations if needed, based on the government's majority ownership and the importance of FCBL's lending and deposit franchise to the local economy.

The principal methodology used in this rating was Global Banks published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The last rating action on First Citizens Bank Limited was on 28 March 2014 when Moody's affirmed the bank's ratings and changed the outlook to negative from stable on the BFSR and on the local currency deposit ratings, while it affirmed the foreign currency deposit ratings with a stable outlook.

The last rating action on First Citizens (St. Lucia) was also on 28 March 2014 when Moody's changed the outlook on the foreign currency senior debt rating to negative from stable.

First Citizens Bank Limited is headquartered in Port of Spain, Trinidad and Tobago, and is 82.64% owned by the Republic. The bank reported total consolidated assets of TT$ 35.8 billion (US$ 5.6 billion) and shareholders' equity of TT$6 billion (US$ 945 million) as of March 31, 2014.

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