

## **FITCH REVISES OUTLOOK ON 3 NIGERIAN BANKS TO NEGATIVE; AFFIRMS RATINGS**

Fitch Ratings-London/Warsaw-18 February 2016: Fitch Ratings has revised the Outlooks on the Long-term foreign currency Issuer Default Ratings (IDRs) of First Bank of Nigeria Ltd (FBN), United Bank for Africa Plc (UBA) and Guaranty Trust Bank Plc (GTB) to Negative from Stable. The Outlook on FBN Holdings Plc's (FBNH) IDRs has also been revised to Negative.

Fitch has affirmed the Long-term IDRs of 11 Nigerian banks and institutions, including the abovementioned four. The other banks are Zenith Bank Plc (Zenith), Access Bank Plc (Access), Diamond Bank Plc (Diamond), Fidelity Bank Plc (Fidelity), Union Bank Plc (Union), First City Monument Bank Limited (FCMB) and Wema Bank Plc (Wema). Fitch has also affirmed the National Ratings of Stanbic IBTC Bank Plc (SIBTC) and Stanbic IBTC Holdings Plc (SIBTCH).

A full list of rating actions is available at the end of this rating action commentary.

The Fitch-rated banks are operating in increasingly challenging and volatile conditions. The collapse of the oil price has led to faltering GDP growth, a significantly weaker naira and scarcity of foreign currency. Coupled with an uncertain policy response, and external factors, these are, to varying degrees, taking a toll on the banks' risk profiles. Fitch believes that banks will continue to face multiple threats in the course of 2016, particularly from tight foreign currency liquidity, worsening asset quality and pressure on regulatory capital ratios.

The Long-term foreign currency IDRs of FBN and UBA are driven by sovereign support. The Outlooks have been revised to Negative, reflecting Fitch's view of the decreasing financial flexibility of the Nigerian sovereign (BB-/Negative) to support these banks' foreign currency obligations. The agency's view of the weakening ability to provide support is based on the premise that apart from pressures on the sovereign's foreign currency balance sheet, the size of potential support for the sector may be large should problems occur, which would be widespread, rather than surface in a limited number of banks.

The Outlook on GTB's foreign currency Long-term IDR is also revised to Negative and considers both the decreasing financial flexibility of the sovereign and expectation of downside pressure on its standalone creditworthiness (expressed in a Viability Rating (VR) of 'b+').

The revision of the Outlook on the Long-term IDR of FBNH to Negative reflects Fitch's expectations of downward pressures on the VR of its main operating company FBN, given the bank's larger loan concentration to higher risk segments compared with peers, which in Fitch's view could put pressure on its asset quality metrics, profitability and capital ratios. FBNH's IDR is aligned with FBN's VR.

The Support Rating Floor (SRF) of GTB is revised to 'B+' from 'B' to reflect Fitch's reassessment of the bank's increased systemic importance. Fitch considers that GTB, together with Zenith, UBA and FBN, are the more systemically important banks in Nigeria.

The National Rating of Access is upgraded to 'A (nga)'/F1(nga)' to reflect its improving creditworthiness over time relative to peers and to the best credits in Nigeria.

The banks' VRs are affirmed as these risks are to a large extent already captured in the ratings - which are all in the 'b' range. The highest VRs in Nigeria are Zenith and GTB - both at 'b+'.

While Zenith's VR factors remain broadly unchanged, we believe GTB's VR, at the current level, faces downside risk from weaker asset quality given high exposure to certain potentially problem segments.

#### KEY RATING DRIVERS

#### IDRS, SUPPORT RATINGS AND SRFs (ALL BANKS APART FROM SIBTC AND SIBTCH)

The IDRs of FBN, UBA, Diamond, Fidelity, Union and FCMB are support-driven whereas Zenith's, Access's and Wema's IDRs are driven by their standalone strength as defined by their VRs. GTB's Long-term foreign currency IDR is driven by both its standalone strength and the probability of sovereign support.

Fitch believes that while the willingness of the Nigerian authorities to support domestic banks continues to be high (as demonstrated in the past), its ability to support banks' foreign currency obligations is weaker, especially at the 'B+' level. Therefore, Fitch has revised the Outlook to Negative (from Stable) for the banks which have support-driven Long term foreign currency IDRs of 'B+'. However, Zenith's Long-term foreign currency IDR of 'B+' remains driven by its intrinsic creditworthiness; hence the Stable Outlook.

For the banks with support-driven IDRs of 'B' we are maintaining Stable Outlooks to reflect our view of the authorities' unchanged ability and willingness to provide support. The Long-term IDRs of Access and Wema also remain on Stable Outlook as these ratings are VR-driven and because the agency does not expect a material change in their intrinsic creditworthiness.

Fitch believes the authorities have a stronger ability to support the banks' local currency obligations versus foreign currency obligations, if required.

All banks (apart from Wema) have Support Ratings (SR) of '4' indicating a limited probability of external support. Wema's SR is '5', reflecting Fitch's view that external support is possible but cannot be relied upon.

Fitch assigns SRFs based on each bank's systemic importance. The more systemically important banks in Fitch's view are FBN, Zenith, UBA and GTB, which are assigned SRFs of B+'. The other banks (apart from Wema) have SRFs of 'B'. Wema's SRF is 'B-', reflecting Fitch's view of the bank's lower systemic importance.

FBNH is the holding company of FBN. Its SR of '5' and SRF of 'No Floor' reflect Fitch's view that while the Nigerian authorities' propensity to support local banks is high, the same level of support would not apply to holding companies.

#### VRs (ALL BANKS APART FROM SIBTC AND SIBTCH)

The operating environment in Nigeria and other key rating factors, particularly the banks' financial profiles, constrain the VRs in the 'b' range.

Fitch expects asset quality to weaken further with impaired loan (NPL) ratios for the sector to average between 6%-7% in 2016. This excludes potential material impairments arising from the oil and gas sector as we believe many of the upstream oil loans are likely to be restructured at the current oil price. However, sustained low oil prices may eventually lead to these loans becoming impaired (rather than being restructured). Despite pressure from higher loan impairment charges, Fitch expects banks to remain profitable in 2016.

Regulatory capital ratios, although currently healthy for the sector, could be impacted by a large devaluation of the naira given the extent of USD lending in the sector as well as a sharper rise in NPLs than forecast.

Fitch expects foreign currency liquidity to remain tight in 2016, particularly due to limited currency controls imposed by the central bank. While some banks have accumulated enough foreign currency liquidity to meet 2016 maturities, refinancing risk on the banks' foreign currency obligations has increased. At the same time, the agency believes naira liquidity is adequate especially after reduction of the cash reserve requirement to 20% from 25% (of naira deposits) in November 2015.

## NATIONAL RATINGS

The Nigerian banks' National Ratings reflect Fitch's opinion of each bank's creditworthiness relative to the best credits in the country.

SIBTC's and SIBTCH's National Ratings are based on the probability of support from Standard Bank Group Limited (SBG; BBB-/Stable). SBG has a majority 53.2% stake in SIBTCH, which in turn owns 100% of SIBTC. The ratings consider SBG's written commitment in its annual report to support certain banking subsidiaries (except in the case of political risk) and SBG's commitment to a pan-African strategy, of which Nigeria is a market of considerable importance. Fitch believes that SBG's support would extend equally to both the bank and the holding company.

## SENIOR DEBT AND SUBORDINATED DEBT SECURITIES

The senior debt ratings of Zenith, Access (issued via Access Finance BV), GTB (issued via GTB Finance BV), Diamond and Fidelity are in line with their respective Long-term IDRs. The senior debt ratings are affirmed, following the affirmation of the banks' respective Long-term IDRs.

The subordinated debt ratings of FBN (issued via FBN Finance BV) and Access are rated one notch below their respective VRs to reflect higher-than-average loss severity for subordinated relative to senior debt. No additional notches for non-performance risk have been applied. The subordinated debt ratings are affirmed, in line with the affirmation of the banks' respective VRs. The recovery ratings on these two subordinated debt issues have been revised to 'RR5' from 'RR6' due to reassessment of recovery prospects in Nigeria for such securities upon a default scenario.

## RATING SENSITIVITIES

### IDRS, SUPPORT RATINGS AND SUPPORT RATING FLOORS (ALL BANKS APART FROM SIBTC AND SIBTCH)

The ratings and Outlooks are sensitive to a prolonged and severe recession that would affect the ability or willingness of the Nigerian authorities to provide support. As the Outlooks on FBN's and UBA's Long-term foreign currency IDRs are Negative, a one-notch downgrade of the sovereign would lead to a downward revision of their SRFs and therefore their foreign currency IDRs.

GTB's foreign currency Long-term IDR is also on a Negative Outlook, but would only be downgraded if both its VR and its SRF are simultaneously downgraded and revised lower.

Zenith's, Access' and Wema's IDRs would only be downgraded if both their VRs and their SRFs are simultaneously downgraded (both banks' VRs and SRFs are currently at the same level) and revised lower.

A one-notch downgrade of the sovereign would not necessarily lead to a downgrade of the SRFs and subsequently the IDRs of Diamond, Fidelity, Union and FCMB.

FBNH's Negative Outlook means the IDR is sensitive to a weakening in its financial profile.

### VRs (ALL BANKS APART FROM SIBTC AND SIBTCH)

Upside potential is currently limited for banks' VRs which are constrained by the operating environment. A prolonged economic downturn and depressed low oil prices are a threat to all banks' VRs. The VRs are therefore sensitive to materially weaker asset quality, a sharp fall in

capital ratios and deteriorating foreign currency liquidity preventing banks from meeting their short- and long-term foreign currency obligations.

## NATIONAL RATINGS

The banks' National Ratings are sensitive to changes in their relative creditworthiness. The National Ratings of SIBTC and SIBTCH are sensitive to a change in potential support (relating to both ability and propensity) from their ultimate parent, SBG. The National Ratings of SIBTCH and SIBTC could withstand a one -notch downgrade of SBG.

## SENIOR DEBT and SUBORDINATED DEBT SECURITIES

The senior debt ratings of Zenith, Access (issued via Access Finance BV), GTB (issued via GTB Finance BV), Diamond and Fidelity are sensitive to a change in their respective Long-term IDRs.

The subordinated debt ratings of FBN (issued via FBN Finance BV) and Access are sensitive to a change in their respective VRs.

The rating actions are as follows:

### FBN

Long-term foreign currency IDR: affirmed at 'B+'; Outlook revised to Negative from Stable

Short-term foreign currency IDR: affirmed at 'B'

National Long-term rating: affirmed at 'A+(nga)';

National Short-term rating: affirmed at 'F1(nga)'

Viability Rating: affirmed at 'b'

Support Rating: affirmed at '4'

Support Rating Floor: affirmed at 'B+'

FBN Finance Company BV's subordinated notes: affirmed at 'B-'; Recovery Rating revised to 'RR5' from 'RR6'

### FBNH

Long-term foreign currency IDR: affirmed at 'B'; Outlook revised to Negative from Stable

Short-term foreign currency IDR: affirmed at 'B'

National Long-term rating: affirmed at 'A(nga)';

National Short-term Rating: affirmed at 'F1(nga)'

Viability Rating: affirmed at 'b'

Support Rating: affirmed at '5'

Support Rating Floor: affirmed at 'No Floor'

### Zenith

Long-term foreign currency IDR: affirmed at 'B+'; Stable Outlook

Short-term foreign currency IDR: affirmed at 'B'

National Long-term rating: affirmed at 'AA-(nga)';

National Short-term rating: affirmed at 'F1+(nga)'

Viability Rating: affirmed at 'b+'

Support Rating: affirmed at '4'

Support Rating Floor: affirmed at 'B+'

Global medium-term note programme affirmed at 'B+'/'RR4'/'B'

Senior unsecured notes: affirmed at 'B+'/'RR4'

### UBA

Long-term foreign currency IDR: affirmed at 'B+'; Outlook revised to Negative from Stable

Short-term foreign currency IDR: affirmed at 'B'

National Long-term rating: affirmed at 'A+(nga)'

National Short-term rating: affirmed at 'F1(nga)'

Viability Rating: affirmed at 'b'  
Support Rating: affirmed at '4'  
Support Rating Floor: affirmed at 'B+'

#### Access

Long-term foreign currency IDR: affirmed at 'B'; Stable Outlook  
Short-term foreign currency IDR: affirmed at 'B'  
National Long-term rating: upgraded to 'A(nga)' from 'A-(nga)'  
National Short-term rating: upgraded to 'F1(nga)' from 'F2(nga)'  
Viability Rating: affirmed at 'b'  
Support Rating: affirmed at '4'  
Support Rating Floor: affirmed at 'B'  
Access Finance BV's senior notes, guaranteed by Access Bank: affirmed at 'B'/RR4'  
Subordinated notes: affirmed at 'B-'; Recovery Rating revised to 'RR5' from 'RR6'

#### GTB

Long-term foreign-currency IDR: affirmed at 'B+'; Outlook revised to Negative from Stable  
Short-term foreign currency IDR: affirmed at 'B'  
National Long-term Rating: affirmed at 'AA-(nga)'  
National Short-term Rating: affirmed at 'F1+(nga)'  
Viability Rating: affirmed at 'b+'  
Support Rating: affirmed at '4'  
Support Rating Floor: revised to 'B+' from 'B'  
GTB Finance BV's senior notes, guaranteed by Guaranty Trust Bank: affirmed at 'B+/'RR4'  
GTB Finance BV's global medium-term note programme, guaranteed by Guaranty Trust Bank: affirmed at 'B+/'RR4/'B'

#### Diamond

Long-term foreign-currency IDR: affirmed at 'B'; Stable Outlook  
Short-term foreign currency IDR: affirmed at 'B'  
National Long-term Rating: affirmed at 'BBB+(nga)'  
National Short-term Rating: affirmed at 'F2(nga)'  
Viability Rating: affirmed at 'b-'  
Support Rating: affirmed at '4'  
Support Rating Floor: affirmed at 'B'  
Senior unsecured notes: affirmed at 'B'/RR4'

#### Union

Long-term foreign-currency IDR: affirmed at 'B'; Stable Outlook  
Short-term foreign currency IDR: affirmed at 'B'  
National Long-term Rating: affirmed at 'BBB+(nga)'  
National Short-term Rating: affirmed at 'F2(nga)'  
Viability Rating: affirmed at 'b-'  
Support Rating: affirmed at '4'  
Support Rating Floor: affirmed at 'B'

#### Fidelity

Long-term foreign-currency IDR: affirmed at 'B'; Stable Outlook  
Short-term foreign currency IDR: affirmed at 'B'  
National Long-term Rating: affirmed at 'BBB+(nga)'  
National Short-term Rating: affirmed at 'F2(nga)'  
Viability Rating: affirmed at 'b-'  
Support Rating: affirmed at '4'  
Support Rating Floor: affirmed at 'B'

Senior unsecured notes: affirmed at 'B'/'RR4'

#### FCMB

Long-term foreign-currency IDR: affirmed at 'B'; Stable Outlook

Short-term foreign currency IDR: affirmed at 'B'

National Long-term Rating: affirmed at 'BBB+(nga)'

National Short-term Rating: affirmed at 'F2(nga)'

Viability Rating: affirmed at 'b-'

Support Rating: affirmed at '4'

Support Rating Floor: affirmed at 'B'

#### SIBTC

National Long-term Rating: affirmed at 'AAA(nga)'

National Short-term Rating: affirmed at 'F1+(nga)'

#### SIBTCH

National Long-term Rating: affirmed at 'AAA(nga)'

National Short-term Rating: affirmed at 'F1+(nga)'

#### Wema

Long-term foreign-currency IDR affirmed at 'B-'; Outlook Stable

Short-term foreign currency - IDR affirmed at 'B'

Viability Rating affirmed at 'b-'

Support Rating affirmed at '5'

Support Rating Floor affirmed at 'B-'

National Long-term Rating affirmed at 'BBB-(nga)'

National Short-term Rating affirmed at 'F3(nga)'

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#### Applicable Criteria

Global Bank Rating Criteria (pub. 20 Mar 2015)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=863501](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501)

National Scale Ratings Criteria (pub. 30 Oct 2013)

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