

## **FITCH: NIGERIAN BANKS RATING ACTIONS AFTER SUPPORT REASSESSMENT**

Link to Fitch Ratings' Report: Fitch: Nigerian Banks Rating Actions After Support Reassessment  
<https://www.fitchratings.com/site/re/890305>

Fitch Ratings-London-18 November 2016: Fitch Ratings has revised down the Support Rating Floors (SRFs) of 10 Nigerian banks to 'No Floor' and downgraded nine banks' Support Ratings (SRs) to '5' following a reassessment of potential sovereign support for the banking sector.

As a consequence, the Long-Term Issuer Default Ratings (IDRs) of First Bank of Nigeria Limited (FBN), FBN Holdings Plc (FBNH), Diamond Bank Plc, Fidelity Bank Plc, First City Monument Bank Limited (FCMB), and Union Bank of Nigeria Plc are downgraded to 'B-' from 'B', in line with their stand-alone creditworthiness as defined by their Viability Ratings (VR).

The agency has affirmed the Long-Term IDRs of Zenith Bank Plc, Guaranty Trust Bank Plc (GTB), Access Bank Plc, United Bank for Africa Plc (UBA), Wema Bank Plc and Bank of Industry (BOI).

A full list of rating actions is given in the Rating Action Report above.

The downgrade of the nine banks' SRs and the revision of 10 banks' (including Wema) SRFs to 'No Floor' reflects Fitch's view that senior creditors can no longer rely on receiving full and timely extraordinary support from the Nigerian sovereign if any of the banks become non-viable.

Fitch believes that the Nigerian authorities retain a willingness to support the banks, but its ability to do so in foreign currency is weakening due to Nigeria's eroding foreign currency reserves/revenues, as well as limited confidence that any available foreign currency will not be used to execute other policy objectives. Therefore, Fitch takes the view that support, if ever required by the banks, cannot be relied upon.

The Long-Term IDRs of Diamond, Fidelity, FCMB and Union are downgraded to 'B-' as they are now underpinned by their VRs of 'b-' rather than their SRFs, as was previously the case.

The downgrade of FBN's Long-Term IDR reflects both a revision of its SRF and a downgrade of its VR. The latter reflects Fitch's view that the bank's capital base is no longer commensurate with its risk profile, reflecting questions about asset quality, particularly its level of unreserved impaired loans to Fitch Core Capital (54% at end-June 2016) and pressure on its regulatory capital adequacy ratio. The VR of FBNH has also been downgraded, which drives the downgrade of its Long-Term IDR to 'B-'.

Fitch has also downgraded the National Long-Term Ratings of Diamond, Fidelity, FCMB and Union, to 'BBB(nga)' from 'BBB+(nga)' following the rating actions on their Long-Term IDRs. The National Long-Term ratings of FBN and FBNH have also been downgraded to 'BBB(nga)' from 'A+(nga)' and 'BBB+(nga)', respectively. This also follows the downgrade of their Long-Term IDRs.

**KEY RATING DRIVERS**  
IDRs, SRs AND SRFs

The IDRs and Outlooks of all 11 Nigerian commercial banks are now driven by their standalone strengths, as reflected in their VRs.

The IDRs of BOI, a state-owned policy bank, are driven by its SRF of 'B+' and reflect a limited probability of sovereign support. They consider its 99.9% state ownership, policy role and strategic importance to Nigeria's economic and industrial development. They also consider the authorities' stronger ability to support BOI than commercial banks, as BOI's operations are solely in local currency. BOI's Long-Term IDR has a Stable Outlook, reflecting the Stable Outlook on the sovereign rating.

The SRFs for all commercial banks are at 'No Floor'

The SR of '5' for all commercial banks reflects their SRFs. A SR of '5' reflects Fitch's view that external support is possible but cannot be relied on.

FBNH is the holding company of FBN. Its SR of '5' and SRF of 'No Floor' reflect Fitch's view that although the Nigerian authorities retain a willingness to support local banks, we do not believe that this would apply to holding companies. FBNH's IDR of 'B-' is driven by the holding company's 'b-' VR. The latter is aligned with the VR of FBNH's main operating subsidiary, FBN.

#### VRs

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

Fitch is monitoring the banks' ability to meet maturing foreign-currency obligations. In the current difficult market conditions, Fitch believes the banks are face challenges to refinance existing obligations and/or obtain foreign exchange from the Central Bank of Nigeria to meet maturing obligations.

The new foreign-exchange regime has provided limited respite in accessing foreign currency in the interbank market. FX forward contracts provided by the central bank since June 2016 have helped reduce large overdue trade finance obligations, which were either extended or refinanced with international correspondent banks.

Fitch has not considered the extension/refinancing of overdue trade finance obligations by some Nigerian banks as a distressed debt exchange (DDE). For a debt restructuring to be classified as a DDE under Fitch's criteria, the restructuring must impose a material reduction in terms compared with the original contractual terms, and the restructuring or exchange must be conducted to avoid bankruptcy, similar insolvency or intervention proceedings, or a traditional payment default.

In our view, the extension/refinancing of overdue trade finance obligations has not led to a material reduction in terms for the correspondent banks. It is also uncertain whether the extension of these obligations would have prevented a traditional payment default. Extension/refinancing could be classified as a DDE if some banks continue to roll over these obligations.

Asset quality across all segments of the economy is being affected by currency depreciation, rising inflation and scarcity of foreign currency for key sectors. In our view, asset-quality problems are understated by high levels of restructured loans at many banks, particularly in the oil and gas sector. Sustained low oil prices and continuing production disruptions in the Niger Delta could cause industry NPL ratios to rise more dramatically.

Fitch expects banks to remain profitable in 2016 despite slower asset growth and higher loan impairment charges, due to still strong earnings generation and, for most banks, potential exchange gains from long foreign-currency positions.

Banks remain exposed to further depreciation of the naira against the US dollar. The main impact is on regulatory capital ratios due to the translation effect of risk-weighted assets. Some banks have limited buffers over regulatory minimums and any further erosion of capital ratios beyond our expectations could be credit negative.

Zenith and GTB have the highest VRs in the sector at 'b+', reflecting their relatively strong and resilient franchises and sound financial metrics compared to peers through the cycle.

Access and UBA have VRs of 'b'. These reflect good financial metrics compared to peers and relatively good franchises. They also consider weaker earnings and lower capital buffers than higher-rated peers.

The 'b-' VRs of the remaining banks reflect one or both of the following: weaker financial metrics, particularly in earnings, and smaller, more niche franchises, resulting in higher risk appetites. They also reflect other isolated weaknesses within certain banks, such as weak asset quality, funding and liquidity and pressure on capitalisation.

## NATIONAL RATINGS

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

The downgrade of the National Long- and Short-Term Ratings of Diamond, Fidelity, Union and FCMB reflect Fitch's reassessment of the likelihood of support. The downgrade of the National Long- and Short-Term Ratings of FBN and FBNH reflect the vulnerability of falling capital buffers to unreserved impaired loans and, for FBN, the reassessment of support.

Stanbic IBTC Bank PLC (SIBTC) and Stanbic IBTC Holdings PLC's (SIBTCH) National Ratings are based on the probability of support from their parent, Standard Bank Group Limited (SBG; BBB-/Stable). SBG has a majority 53.2% stake in SIBTCH, which owns 100% of SIBTC.

The ratings consider SBG's written commitment in the group's annual report to support certain banking subsidiaries (except in the case of political risk) and SBG's commitment to a pan-African strategy, in which Nigeria is a market of considerable importance. Fitch believes 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 the bank and Access Finance BV), and GTB (issued via GTB Finance BV) are in line with their respective Long-Term IDRs. The downgrade of the senior debt ratings of Diamond and Fidelity follows the downgrade of their 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. As a result, Fitch has downgraded the subordinated debt rating of FBN Finance BV to 'CCC' from 'B-', reflecting the downgrade of FBN's VR to 'b-'. The subordinated debt rating of Access is affirmed, in line with the affirmation of its VR.

## RATING SENSITIVITIES

IDRs, VRs, SRs, AND SRFs

The IDRs of all commercial banks are sensitive to rating action on their respective VRs. This is mostly likely to be triggered by any further worsening in foreign-currency funding or liquidity.

In addition, if any bank continues to roll over overdue trade finance obligations to the extent that Fitch considers this a DDE, that bank's IDRs would be downgraded.

The banks' VRs are also sensitive to materially weaker asset quality or a sharp fall in capital ratios.

Upside potential is limited for all banks' VRs due to the difficult operating environment.

FBN and FBNH's VRs face heightened sensitivity if asset quality and therefore capitalisation continues to deteriorate.

Upside to the SRs and SRFs of all commercial banks is unlikely in the near term due to the downgrades and revisions. In the medium term, positive rating action could result from a significant improvement in the sovereign's foreign-currency reserves and a significant improvement in foreign-currency liquidity in the system. It may also be triggered by clear evidence of timely extraordinary support for domestic banks.

BOI's IDRs, SR and SRF are sensitive to a weakening in Nigeria's ability to support the bank, which would be indicated by a downgrade of Nigeria's sovereign rating. The ratings could also be downgraded if Fitch's view of the state's willingness to support the bank changes adversely, for example if there is a material change in the government ownership or a change in the bank's policy role. This is not Fitch's base case.

#### NATIONAL RATINGS

The banks' National Ratings are sensitive to changes in their creditworthiness relative to other Nigerian entities. 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 two-notch downgrade of SBG's Long-Term IDR.

#### SENIOR DEBT AND SUBORDINATED DEBT SECURITIES

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

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

The ratings listed below were revised after their initial disclosure to the respective issuers:

--Long-Term IDRs of Zenith, GTB, UBA, Access, FBN, FBNH, Diamond, Fidelity, FCMB and Union

--National Long-Term Ratings of FBN and FBNH

--National Short-Term Ratings of FBN and FBNH

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Applicable Criteria  
Global Bank Rating Criteria (pub. 15 Jul 2016)  
<https://www.fitchratings.com/site/re/884135>  
National Scale Ratings Criteria (pub. 30 Oct 2013)  
<https://www.fitchratings.com/site/re/720082>

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