Various Rating Actions On Nigerian Banks Following Sovereign Downgrade; Outlooks Stable

March 31, 2020

PRIMARY CREDIT ANALYST

Samira Mensah
Johannesburg
(27) 11-214-4869
samira.mensah
@spglobal.com

SECONDARY CONTACTS

Sahil Tribhowan
Johannesburg
(27) 11-214-4862
sahil.tribhowan
@spglobal.com

Trevor Barsdorf
Johannesburg
+ 27 11 214 4852
trevor.barsdorf
@spglobal.com

ADDITIONAL CONTACT

Financial Institutions Ratings Europe
FIG_Europe
@spglobal.com

- On March 26, 2020, S&P Global Ratings lowered its long-term foreign and local currency ratings on Nigeria to 'B-' from 'B' on the weakening external position tied to lower oil prices.
- We believe that Nigerian banks' asset quality and earnings will be materially affected by lower oil prices because of their significant exposure to the sector.
- We do not rate financial institutions in Nigeria above the foreign currency sovereign ratings, due to the direct and indirect effect sovereign stress would have on banks' operations and creditworthiness.
- We are therefore lowering the long-term issuer credit ratings on six banks to 'B-' from 'B' and affirming our 'B' short-term ratings on these banks. We are also affirming our 'B-/B' ratings on five entities.
- At the same time, we are lowering our long- and short-term national scale ratings on most entities.

JOHANNESBURG (S&P Global Ratings) March 31, 2020-- S&P Global Ratings today lowered its long-term global scale issuer credit ratings to 'B-' from 'B' on Access Bank PLC (Access Bank), Ecobank Nigeria Ltd. (Ecobank Nigeria), Guaranty Trust Bank PLC (GTBank), Stanbic IBTC Bank PLC (Stanbic IBTC), United Bank for Africa Plc (UBA), and Zenith Bank PLC (Zenith). We affirmed our 'B' short-term global scale issuer credit ratings on these entities. We also lowered our Nigeria national scale ratings to 'ngBBB' from 'ngA-' and affirmed our 'ngA-2' short-term national scale ratings on Access, GTBank, Stanbic IBTC, UBA, and Zenith.

We affirmed our 'B-/B' global scale long- and short-term ratings on First Bank of Nigeria Ltd. (FirstBank), Ecobank Transnational Inc. (ETI), Fidelity Bank PLC (Fidelity), and First City Monument Bank (FCMB). We lowered our long and short-term national scale ratings to 'ngBBB-/ngA-3' from 'ngBBB/ngA-2'on Fidelity, FCMB, and FirstBank. Furthermore, we affirmed our 'ngBBB-/ngA-3' national scale ratings on FBN Holdings PLC (FBN Holdings).

The rating actions follow the March. 26, 2020, lowering of the foreign currency rating on Nigeria to 'B-' due to the country's weakening external position tied to lower oil prices (see "Nigeria Long-Term Rating Lowered To 'B-' On Weakening External Position Tied To Sharp Fall In Oil Prices; Outlook Stable," published on RatingsDirect). We do not rate financial institutions in Nigeria above the foreign currency sovereign ratings, due to the direct and indirect effects that sovereign distress would have on banks' operations, solvency, and liquidity. The banking sector is exposed to high credit risk because of Nigeria's reliance on oil and its sensitivity to currency depreciation and high inflation.

Given Nigeria's high reliance on oil revenue--over 85% of goods exports and about half of fiscal revenue--lower oil prices in 2020 will significantly hurt its external and fiscal positions. We estimate the economy will expand by about 1.5% in 2020 (our previous estimate was 2.2%) and average 2.0% in 2020-2023. Risks remain on the downside to our forecast given the rapidly evolving implications of COVID-19 for the global economy. Even our revised base case of 1.5% growth in 2020 would result in significant pressure on banks' asset quality and earnings because of their material exposure to the sector, averaging 30% for rated entities.

An additional shock to asset quality and earnings would come from our expectation of a weakening Nigerian naira (NGN) in 2020. Lower foreign-exchange (FX) inflows tied to lower oil receipts are likely to present policy challenges to the Central Bank of Nigeria (CBN) in the near term with regard to exchange–rate and foreign-exchange-reserve policy. Since partially liberalizing the naira (through the Nigerian Autonomous Foreign Exchange Fixing Mechanism-–NAFEX) in April 2017, the exchange rate has depreciated only marginally. The CBN lowered its official exchange rate by about 15% in March 2020. However, we forecast the naira will weaken to NGN410/$1 in 2020 as FX reserves will decline to close to $32 billion in 2020.

The 2016 oil price shock led to a significant restructuring of banks' oil and gas exposures, particularly the downstream sector which depends on government subsidies. We estimate that the effect of the current crisis will be somewhat mitigated by the restructuring, which saw banks use lower break-even prices of $25 per barrel (/bbl)-$40/bbl and restructure their exposures using a pre-funded debt service reserve account that provides three-to-six months of payment buffers during times of stress. That said, we expect restructured loans to increase to 15%-18% in 2020, from about 10% in 2019, given our lower oil price assumptions. We expect nonperforming loans (NPLs) will rise again to about 10% for rated banks compared with an estimated 6.3% in 2019. We forecast credit losses will increase to about 2.5% in 2020 and normalize at 2% in 2021, compared with a record high of 5% following the 2016 crisis.

As a result, the sector's profitability will be weaker on the back of higher impairments and lower net interest margins, due to a combination of pressure on asset quality and limited participation in the CBN's securities auctions. However, we still expect top-tier bank's financial performance to be resilient with return on equity averaging 15%-16% in 2020, compared with about 8% for mid-tier banks.

We believe that the risk of banks breaching minimum capital adequacy ratios could re-emerge if the naira weakens by more than 20%, which is higher than our current assumption for 2020.

Rated banks have repaid most of their Eurobonds. In addition, foreign-currency-denominated customer deposits account for about 20% of banks' total deposits at year-end 2019 and are generally stable. Naira liquidity is manageable for banks and the CBN has some flexibility to release additional liquidity through the cash reserve requirement, which sits at a high 27.5%. The extension of bank credit to the private sector will likely be subdued, despite the CBN introducing a minimum loan-to-deposit ratio of 65% to boost credit growth.

Access Bank, GTBank, UBA, Zenith

For these top-tier banks, we expect performance will remain resilient despite clear pressure on earnings stemming from lower net interest margins and higher credit losses. We continue to assess these entities' stand-alone creditworthiness above the sovereign ratings.

For UBA, we project that higher impairments will affect its bottom line and push its risk-adjusted capital (RAC) ratio (our measure of bank capitalization) to weaker levels of 4.3%-4.5% in the next 12-24 months. For Access Bank, we expect RAC will remain weak at below 4% through 2021, largely stemming from an increase of risk-weighted assets following the acquisition of Diamond Bank in 2019. Although Access Bank managed to resolve distressed loans inherited from the acquisition, we believe it will face challenges in deploying its new capabilities and capitalizing on its larger customer base. This will weigh on earnings in 2020, but we expect it will continue to manage it capital adequacy at similar levels to peers with at least a 300 basis point (bps) buffer. Furthermore, for GTBank a combination of weaker profitability in 2020 and maintenance of its dividend policy is likely to decrease the RAC ratio to about 6.5% by 2021, from an estimated 7.4% at year-end 2019.

Outlook

The stable outlooks on Access Bank, GTBank, UBA, and Zenith reflect that on Nigeria.

Downside scenario: We would lower the ratings on the banks over the next 12 months if we observed increasing risk that Nigeria would not meet its capacity to repay commercial obligations, either due to declining external liquidity or a continued reduction in fiscal flexibility, which will likely affect banks' U.S. dollar funding and liquidity positions.

Upside scenario: We would raise the ratings on the banks over the next 12 months if we were to take a positive rating action on Nigeria. This could happen if Nigeria experiences much stronger economic performance than we currently expect, or if external financing pressures prove to be temporary, all else being equal.

FirstBank of Nigeria and FBN Holdings

Our assessment of the group's stand-alone creditworthiness reflect its weaker-than-peer-average credit losses and NPL ratios. However, its starting point in the current crisis is stronger than 2016, since the group restructured and wrote-off a large portion of its NPLs. We forecast our RAC ratio will remain weak, below 4% through 2021, while the capital adequacy ratio (CAR) will likely be managed with a 200 bps buffer. We equalize our ratings on the holding company despite its structural subordination because there is no debt at FBN Holdings. We generally maintain a two-notch difference between the operating company and nonoperating holding company (NOHC) rating to reflect structural subordination.

Outlook

The stable outlook on FirstBank, the main operating bank of NOHC FBN Holdings, reflects our view that the bank will maintain its regulatory capital (CAR) above the minimum requirement of 15% and broadly stable liquidity profile over the next 12 months. The outlook on FBN Holdings reflects that on the bank.

Downside scenario: We would lower the ratings on FirstBank over the next 12 months if it breaches its minimum regulatory requirement stemming from a depreciation of the naira beyond our expectations and a sharp deterioration of its asset quality, or if we observe pressure on its U.S. dollar liquidity position due to tighter supply in the sector.

We would lower the ratings on FBN Holdings if we lowered the ratings on FirstBank or if we saw any emergence of leverage at the NOHC level.

Upside scenario: A positive rating action on FirstBank over the next 12 months would depend on the same action on Nigeria and the bank improving its asset-quality indicators, all else being equal.

We would not raise the ratings on FBN Holdings if we raised the ratings on FirstBank, reflecting our view of the structural subordination of NOHC creditors.

Ecobank Nigeria and ETI

Although the group is exposed to commodity-based economies, we expect its geographic diversification will support its profitability in 2020. We expect NPLs to increase and higher impairment charges to weigh on earnings in 2020-2021. We forecast our RAC will remain weak at 3.0%-3.5% through 2022. We view Ecobank Nigeria as a core subsidiary to Ecobank group, with a stand-alone credit profile (SACP) of 'b'. We affirmed the ratings on ETI at 'B-/B' because we expect double leverage will be manageable at about 120% and do not believe it is currently dependent to unfavorable conditions in meeting its financial obligations. We generally maintain a two-notch difference between the operating company and NOHC ratings to reflect structural subordination.

Outlook: Ecobank Nigeria

The stable outlook on Ecobank Nigeria reflects that on the sovereign.

Downside scenario: We would lower the rating on the bank over the next 12 months if we lowered the rating on Nigeria. We would also lower the ratings if the bank is in breach of its minimum capital adequacy ratio stemming from higher credit losses than we forecast, combined with a significant weakening of the naira, or if we observed pressure on the bank's U.S. dollar liquidity position as a result of tighter supply in the banking sector.

Upside scenario: We would raise the ratings on the bank over the next 12 months if we take a similar action on the sovereign, all else being equal, including our expectation that it will remain core to the group.

Outlook: ETI

The stable outlook on ETI reflects our expectation that the group's asset quality and financial performance will remain broadly stable over the next 12 months. We expect that the group can maintain adequate liquidity at the holding company level in response to its high double leverage.

Downside scenario: We would lower the ratings on ETI in our forecast horizon if liquidity buffers that mitigate its double leverage significantly diminished.

Upside scenario: We consider an upgrade of ETI to be unlikely within our forecast horizon of 12 months.

Stanbic IBTC Bank

The group's asset quality has historically been less resilient through the cycle. That said, we still expect our RAC ratio to be about 6% in 2022. We assess the SACP at 'b-' and no longer add any notches of support because of the sovereign rating cap. However, we continue to view it as strategically important to its South African parent, Standard Bank Group.

Outlook

The stable outlook on Stanbic IBTC reflects that on the sovereign.

Downside scenario: We would lower the ratings on the bank over the next 12 months if observed increasing risks that Nigeria would not meet its capacity to repay commercial obligations, either due to declining external liquidity or a continued reduction in fiscal flexibility. We would also take action if we observed pressure on the bank's U.S. dollar liquidity position as a result of tighter supply in the banking sector.

Upside scenario: We would raise the ratings on the bank if we take a similar action on the sovereign, all else being equal, including our expectation of group support from its parent Standard Bank Group over the next 12 months.

Fidelity and FCMB

Our 'b-' SACP reflects the banks' relative position in the competitive Nigerian banking sector, with smaller market share and higher cost of funds, as well as its vulnerability through the cycle. We expect credit losses and asset quality will be under pressure, but to a lesser extent than experienced during the 2016 crisis following a series of restructurings and write offs. We forecast RAC will remain weak at 4.0%-4.5% for Fidelity and 4.0%-4.5% for FCMB. However, we do not see material pressure on the CAR if the naira weakens by 10% against the U.S. dollar.

Outlook

The stable outlooks on Fidelity and FCMB reflect our expectation that the banks will maintain stable capital adequacy and adequate liquidity over the next 12 months.

Downside scenario: We would lower our ratings on either bank if they breach their minimum capital adequacy ratios due to a significant depreciation of the naira, or if we observed pressure on their U.S. dollar liquidity positions as a result of tighter supply in the banking sector.

Upside scenario: A positive rating action is unlikely in the next 12 months and would require a material improvement in macroeconomic conditions in Nigeria, all else being equal.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings:

Methodology And Assumptions, Nov. 19, 2013

- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Nigeria Long-Term Rating Lowered To 'B-' On Weakening External Position Tied To Sharp Fall In Oil Prices; Outlook Stable, March 26, 2020
- Nigeria Outlook Revised to Negative On Falling Foreign Exchange Reserves; 'B/B' Ratings Affirmed, Feb. 28, 2020
- Banking Industry Country Risk Assessment: Nigeria, Nov. 28, 2019

Ratings List

*** * * * * * * * * * * * * * * Access Bank PLC * * * * * * * * * * * * * ***		
Downgraded; Ratings Affirmed		
	To	**From**
Access Bank PLC		
Issuer Credit Rating	B-/Stable/B	B/Negative/B
Senior Unsecured	B-	B
Nigeria National Scale Rating	ngBBB/--/ngA-2	ngA-/--/ngA-2
*** * * * * * * * * * * * Ecobank Transnational Inc. * * * * * * * * * * * ***		
Downgraded; Ratings Affirmed		
	To	**From**
Ecobank Nigeria Ltd.		
Issuer Credit Rating	B-/Stable/B	B/Negative/B
Ecobank Transnational Inc.		
Issuer Credit Rating	B-/Stable/B	
Senior Unsecured	B-	

*** * * * * * * * * * * * * * * FBN Holdings PLC * * * * * * * * * * * * * ***		
Downgraded		
	To	**From**
First Bank of Nigeria Ltd.		
Nigeria National Scale Rating	ngBBB-/--/ngA-3	ngBBB/--/ngA-2
Ratings Affirmed		
FBN Holdings PLC		
Issuer Credit Rating	B-/Stable/B	
Nigeria National Scale Rating	ngBBB-/--/ngA-3	
First Bank of Nigeria Ltd.		
Issuer Credit Rating	B-/Stable/B	
Subordinated	CCC	
FBN Finance Company B.V.		
Subordinated	CCC	
*** * * * * * * * * * * * * * Fidelity Bank PLC * * * * * * * * * * * * * ***		
Downgraded		
	To	**From**
Fidelity Bank PLC		
Nigeria National Scale Rating	ngBBB-/--/ngA-3	ngBBB/--/ngA-2
Ratings Affirmed		
Fidelity Bank PLC		
Issuer Credit Rating	B-/Stable/B	
Senior Unsecured	B-	
*** * * * * * * * * * * * * First City Monument Bank * * * * * * * * * * * ***		
Downgraded		
	To	**From**
First City Monument Bank		
Nigeria National Scale Rating	ngBBB-/--/ngA-3	ngBBB/--/ngA-2
Ratings Affirmed		
First City Monument Bank		
Issuer Credit Rating	B-/Stable/B	
*** * * * * * * * * * * * * Guaranty Trust Bank PLC * * * * * * * * * * * ***		
Downgraded; Ratings Affirmed		
	To	**From**
Guaranty Trust Bank PLC		
Issuer Credit Rating	B-/Stable/B	B/Negative/B
Nigeria National Scale Rating	ngBBB/--/ngA-2	ngA-/--/ngA-2

*** * * * * * * * * * * * Stanbic IBTC Holdings PLC * * * * * * * * * * * ***		
Downgraded; Ratings Affirmed		
	To	**From**
Stanbic IBTC Bank PLC		
Issuer Credit Rating	B-/Stable/B	B/Negative/B
Nigeria National Scale Rating	ngBBB/--/ngA-2	ngA-/--/ngA-2
*** * * * * * * * * * * * United Bank for Africa Plc * * * * * * * * * * * ***		
Downgraded; Ratings Affirmed		
	To	**From**
United Bank for Africa Plc		
Issuer Credit Rating	B-/Stable/B	B/Negative/B
Senior Unsecured	B-	B
Nigeria National Scale Rating	ngBBB/--/ngA-2	ngA-/--/ngA-2
*** * * * * * * * * * * * * * * Zenith Bank PLC * * * * * * * * * * * * * ***		
Downgraded; Ratings Affirmed		
	To	**From**
Zenith Bank PLC		
Issuer Credit Rating	B-/Stable/B	B/Negative/B
Senior Unsecured	B-	B
Nigeria National Scale Rating	ngBBB/--/ngA-2	ngA-/--/ngA-2

Regulatory Disclosures

- Primary credit analyst: Sahil Tribhowan, Associate Director (Access Bank PLC, FirstBank of Nigeria Ltd., FBN Holdings PLC, Fidelity Bank PLC, First City Monument Bank PLC, Ecobank Nigeria Ltd., Ecobank Transnational Inc., Stanbic IBTC Bank PLC, United Bank for Africa PLC)
- Primary credit analyst: Trevor Barsdorf, Associate Director (Guaranty Trust Bank PLC, Zenith Bank PLC)
- Chairperson: Mohamed Damak

Date initial rating assigned:

- Access Bank PLC: March 12, 2009
- FBN Holdings PLC: June 11, 2013
- Fidelity Bank PLC: March 11, 2013
- First Bank of Nigeria Ltd.: June 11, 2013
- First City Monument Bank PLC: May 22, 2008
- Ecobank Nigeria Ltd.: July 17, 2014
- Ecobank Transnational Inc.: April 11, 2018

- Guaranty Trust Bank PLC: Nov. 27, 2006
- Stanbic IBTC Bank PLC: Nov. 13, 2013
- United Bank for Africa PLC: May 19, 2017
- Zenith Bank PLC: Nov. 16, 2007

Date of previous review:

- Access Bank PLC: March 3, 2020
- FBN Holdings PLC: July 2, 2018
- Fidelity Bank PLC: July 2, 2018
- First Bank of Nigeria Ltd.: July 2, 2018
- First City Monument Bank PLC: July 2, 2018
- Ecobank Nigeria Ltd.: March 3, 2020
- Ecobank Transnational Inc.: Sept. 27, 2019
- Guaranty Trust Bank PLC: March 3, 2020
- Stanbic IBTC Bank PLC: March 3, 2020
- United Bank for Africa PLC: March 3, 2020
- Zenith Bank PLC: March 3, 2020

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

Materials Used In The Credit Rating Process: Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cash-flows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

This credit rating was disclosed to the rated entity or related third party before being issued.

S&P Global Ratings' regulatory disclosures (PCRs) are published as of a point-in-time, which is current as of the date a Credit Rating Action was last published. S&P Global Ratings updates the PCR for a given Credit Rating to include any changes to PCR disclosures only when a subsequent Credit Rating Action is published. Thus, disclosure information in this PCR may not reflect changes to data within PCR disclosures that can occur over time subsequent to the publication of a PCR but that are not otherwise associated with a Credit Rating Action.

Glossary

- Counterparty credit rating: A form of issuer credit rating, which is a forward-looking opinion about an obligor's overall creditworthiness
- Credit losses: Loan loss provisions to average customer loans expressed as a percentage
- Date initial rating assigned: The date Standard & Poor's assigned the long-term foreign currency issuer credit rating on the entity
- Date of previous review: The date Standard & Poor's last reviewed the credit rating on the entity
- Group credit profile (GCP): Standard & Poor's opinion of a group's creditworthiness as if the group were a single legal entity, and is conceptually equivalent to an ICR. A GCP does not address any specific obligation
- National scale rating: An opinion of an obligor's creditworthiness or overall capacity to meet specific financial obligations, relative to other issuers and issues in a given country or region