

Rating Action: Moody's Assigns National Scale Ratings to Seven Nigerian banks

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Actions follow the publication of a new National Scale Rating map for Nigeria

Limassol, November 03, 2016 -- Moody's Investors Service, ("Moody's") has today assigned national scale ratings (NSRs) to seven Nigerian banks. Among these, national scale local currency deposit ratings were assigned to Zenith Bank Plc (Zenith), at Aaa.ng/NG-1; Guaranty Trust Bank Plc (GTBank) at Aa1.ng/NG-1; Access Bank Plc (Access) at Aa2.ng/NG-1; United Bank for Africa Plc (UBA) at Aa2.ng/NG-1; Sterling Bank Plc (Sterling) at A1.ng/NG-1; and First Bank of Nigeria Limited (FBN) at A2.ng/NG-1. For Bank of Industry (BOI), a national scale local currency issuer rating was assigned at Aa1.ng/NG-1. A full list of the banks' ratings is provided at the end of this press release.

This rating action follows the publication of new national scale rating maps for Nigeria, Kenya and Morocco on 28 October 2016. For more details of the new NSR maps, please see "National Scale Ratings Maps by Country" https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1047425.

NSRs provide a measure of relative creditworthiness within a single country, and are derived from global scale ratings (GSRs) using country-specific maps. With fewer than 20 fundamental issuers in Nigeria rated by Moody's, the NSR map has been designed using Moody's standard approach, whereby the map design is selected from a set of standard maps based upon the anchor point, or the lowest GSR that can map to a Aaa.ng. As per the standard approach, Nigeria's anchor point is set at B1, on par with the sovereign rating.

RATINGS RATIONALE

The rationale and key drivers are presented on a bank by bank basis below.

Zenith Bank Plc

Moody's assigned Aaa.ng/NG-1 national scale local currency deposit ratings to Zenith Bank Plc (Zenith). These ratings are underpinned by a standalone baseline credit assessment (BCA) of b1, which results in a global scale long-term issuer and deposit rating of B1. The Aaa.ng rating is the highest of three NSR categories corresponding to the bank's local currency deposit GSR. The bank's national scale foreign currency deposit ratings of Aa3.ng/NG-1 are constrained by the relevant country ceiling.

Zenith's national scale ratings capture the bank's (1) robust capital buffers, which provide a relatively thick cushion to withstand asset quality deterioration; (2) low stock of NPLs, accounting for around 1.6% of gross loans (Moody's adjusted) as of June 2016 (against a system average of around 11.7%); (3) high liquidity buffers, complimenting a predominantly deposit funded balance sheet; and (4) a strong and well-established franchise, which allows the bank to attract inexpensive deposits and to lend to high credit quality borrowers (relative to other Nigerian banks), resulting in relatively low NPLs and credit costs. These strengths are partially moderated by the bank's high proportion of more confidence sensitive corporate deposits versus retail deposits.

Moody's notes that Zenith exhibits above average levels of tangible common equity (16.1%) versus peers. Furthermore, the bank's peak NPL ratio of 6.5% in the banking crisis of 2009/2010 remained the lowest in the banking system (average NPLs of 38%), reflecting the bank's lower risk appetite and tighter underwriting procedures versus peers.

Guaranty Trust Bank Plc

Moody's assigned Aa1.ng/NG-1 national scale local currency deposit ratings to Guaranty Trust Bank Plc (GTBank). These ratings are underpinned by a standalone baseline credit assessment (BCA) of b1, which results in a global scale long-term issuer and deposit rating of B1. The Aa1.ng rating is the second highest of three NSR categories corresponding to the bank's local currency deposit GSR. The bank's national scale foreign currency deposit ratings of Aa3.ng/NG-1 are constrained by the relevant country ceiling.

GTBank's national scale ratings capture the bank's (1) resilient earnings generating capacity and robust capital buffers, which together provide a relatively thick cushion to withstand asset quality deterioration compared with domestic peers; (2) high liquidity buffers and a predominantly deposit funded balance sheet; and (3) early adoption of electronic banking platforms, which has allowed it to establish a robust retail franchise. These strengths are partially moderated by concentration risks in the bank's loan book, including to the oil and gas industry (39.2% of gross loans) and loans denominated in foreign currency (55.6% of gross loans).

GTBank's exposure to the oil and gas sector is significantly higher than the banking system average of 29% (as June 2016), exposing it to greater asset quality volatility than most peers. However, Moody's notes the bank's high level of profitability and capital, which provide large loss-absorbing buffers. As of June 2016, GTBank's preprovision income to average total assets of 9.5% and TCE of 18% were the highest out of Moody's rated Nigerian commercial banks.

Access Bank Plc

Moody's assigned Aa2.ng/NG-1 national scale local currency deposit ratings to Access Bank Plc (Access). These ratings are underpinned by a standalone baseline credit assessment (BCA) of b2 and one notch of government support uplift, which results in a global scale long-term issuer and deposit rating of B1. The Aa2.ng rating is the lowest of three NSR categories corresponding to the bank's local currency deposit GSR. The bank's national scale foreign currency deposit ratings of Aa3.ng/NG-1 are constrained by the relevant country ceiling.

Access' national scale ratings capture the bank's (1) strong asset quality metrics with NPLs of just 2.9% (Moody's adjusted) as of June 2016 (against a system average of around 11.7%); and (2) robust liquidity buffers and stable liability structure predominantly funded with deposits. These strengths are balanced against concentration risks in the bank's loan book, including to the oil and gas industry (28% of gross loans) and loans denominated in foreign currency (49.5% of gross loans).

As of end-June 2016, Access' TCE ratio was 13.7%, lower than that of GTBank and Zenith but in-line with other Moody's rated Nigerian banks. Access exhibits a relatively strong foreign currency liquidity position, a factor recently supported by the closing of its third Eurobond transaction of €300 million. We view Access Bank as being well placed to navigate the increasingly challenging foreign currency liquidity environment in Nigeria relative to peers.

United Bank for Africa Plc

Moody's assigned Aa2.ng/NG-1 national scale local currency deposit ratings to United Bank for Africa Plc (UBA). These ratings are underpinned by a standalone baseline credit assessment (BCA) of b2 and one notch of government support uplift, which results in a global scale long-term issuer and deposit rating of B1. The Aa2.ng rating is the lowest of three NSR categories corresponding to the bank's local currency deposit GSR. The bank's national scale foreign currency deposit ratings of Aa3.ng/NG-1 are constrained by the relevant country ceiling.

UBA's national scale ratings capture the bank's (1) resilient asset quality profile, which is more geographically diversified than most of its peers (Moody's adjusted NPL ratio as of end-June 2016 was just 2.4% versus 11.7% for the banking system); and (2) predominantly deposit funded balance sheet, which is supported by a solid pan-African franchise.

UBA's TCE ratio of 14% is lower than that of GTBank and Zenith, but compares favourably with that of Access. The bank also exhibits amongst the lowest NPLs in the banking system, a reflection of the bank's relatively rigorous underwriting standards. UBA's NPLs peaked at just 7.9% in the 2009/2010 crisis compared to 38% for the banking system.

Sterling Bank Plc

Moody's assigned A1.ng/NG-1 national scale local currency deposit ratings to Sterling Bank Plc (Sterling). These ratings are underpinned by a standalone baseline credit assessment (BCA) of b3 and one notch of government support uplift, which results in a global scale long-term issuer and deposit rating of B2. The A1.ng rating is the second highest of three NSR categories corresponding to the bank's local currency deposit GSR. Moody's also assigned A2.ng/NG-1 national scale foreign currency deposit ratings to Sterling.

Sterling's national scale ratings capture the bank's (1) solid asset quality metrics (reported NPL ratio of 2.8%

as of end-June 2016 versus 11.7% for the banking system) and provision coverage; and (2) solid deposit funding base. These strengths are balanced against (3) low foreign currency liquidity buffers, which underpin the lower national scale foreign currency deposit rating compared with its local currency deposit national scale rating; (4) vulnerabilities in asset quality on account of high single-name and sector concentration risks (e.g. oil and gas loans are 40% of gross loans); and (5) relatively modest capital levels, especially versus the bank's high foreign currency loans exposure (47% of gross loans).

Sterling has significant amounts of outstanding US dollar obligations coming due over the next 18 months compared to US dollar liquid assets currently on its balance sheet. As a result, and despite a low foreign currency loan to deposit ratio of 69% as end-December 2015, we anticipate that Sterling may need to access international markets to fund its foreign currency loan book, making the bank more reliant on confidence-sensitive market funding.

First Bank of Nigeria Limited

Moody's assigned A2.ng/NG-1 national scale local and foreign currency deposit ratings to FBN. These ratings are underpinned by a standalone BCA of b3 and one notch of government support uplift, which results in a global scale long-term issuer and deposit rating of B2. The A2.ng rating is the lowest of three NSR categories corresponding to the bank's local and foreign currency deposit GSRs.

FBN's national scale ratings capture the bank's (1) high and resilient pre-provision profitability, with the H1 2016 annualised pre-provision profits amounting to around 4.7% of total assets; and (2) stable, deposit-based funding structure and high liquidity buffers in local currency. These strengths are balanced against the bank's (3) deteriorating asset quality metrics, with NPLs accounting for around 23% of gross loans as of June 2016 (against a system average of around 11.7%), reflecting historically weak underwriting standards and the currently challenging operating domestic environment, as well as significant exposures to the troubled oil and gas sector and a high proportion (over 50%) of foreign currency lending. These exposures make FBN relatively more sensitive to downside risk scenarios than its immediate domestic peers; (4) tight foreign currency liquidity (borrowings from correspondent banks declined to N14 billion in 2015 from N188 billion in 2014); and (5) modest capitalization buffers.

Moody's also notes that -- compared to local peers -- FBN is faced with higher provisioning costs ahead, posed by its high stock of NPLs and low NPL coverage ratio, which could undermine the bank's earnings-generating capacity and expose capital if the difficult operating environment persists or worsens.

Bank of Industry

Moody's assigned Aa1.ng/NG-1 national scale local and foreign currency issuer ratings to BOI. These ratings are underpinned by a standalone credit assessment of b2 and one notch of government support uplift, which results in a global scale long-term issuer rating of B1. The Aa1.ng rating is the second highest of three NSR categories corresponding to BOI's GSR.

BOI's national scale ratings capture the bank's (1) robust capital buffers, with an equity to assets ratio of 30% as of Dec 2015; (2) stable liability structure made up of long-term funding at concessional rates; and (3) tangible improvements to governance and risk positioning in recent years. These strengths are balanced against our projection that asset quality will be increasingly pressured given the loan growth strategy that the bank is pursuing, particularly in the micro, small and medium-sized enterprises (MSMEs) segment, which may expose the bank to riskier assets.

WHAT COULD MOVE THE NSR RATINGS -- UP/DOWN

NSRs for all rated Nigerian banks will face upward or downward pressure if their corresponding GSRs are upgraded or downgraded, unless this is in conjunction with a sovereign rating action that results in a recalibration of the national scale with an offsetting impact on NSRs. The NSRs may also change if the sovereign is upgraded and the national scale map is recalibrated but the corresponding GSR is unaffected. Because of the higher granularity of national scales, NSRs may also face pressure due to changes in creditworthiness that are not sufficient to cause a change in the corresponding GSR, measured using the same methodologies used to determine the GSR.

Moody's also notes that there will be no recalibration of Nigeria's NSR maps if the sovereign rating is downgraded from current levels (B1), as the rating agency believes that the B1 map provides more than sufficient ability to differentiate and rank order credits in countries where the anchor point would otherwise be lower, even though the top of the national rating scale might be unavailable to even the highest rated domestic

issuers.

PRINCIPAL METHODOLOGY

The principal methodology used in rating Zenith Bank Plc, Guaranty Trust Bank Plc, Access Bank Plc, Sterling Bank Plc, United Bank for Africa Plc and First Bank of Nigeria Limited was Banks published in January 2016.

The principal methodology used in rating Bank of Industry was Government-Related Issuers published in October 2014. Please see the Rating Methodologies page on www.moody.com for a copy of these methodologies.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_189530.

LIST OF ASSIGNED RATINGS

Issuer: Zenith Bank Plc

- NSR LT Bank Deposits (Local Currency), Assigned Aaa.ng
- NSR LT Bank Deposits (Foreign Currency), Assigned Aa3.ng
- NSR ST Bank Deposits (Local Currency), Assigned NG-1
- NSR ST Bank Deposits (Foreign Currency), Assigned NG-1

Issuer: Guaranty Trust Bank Plc

- NSR LT Bank Deposits (Local Currency), Assigned Aa1.ng
- NSR LT Bank Deposits (Foreign Currency), Assigned Aa3.ng
- NSR ST Bank Deposits (Local Currency), Assigned NG-1
- NSR ST Bank Deposits (Foreign Currency), Assigned NG-1

Issuer: Access Bank Plc

- NSR LT Bank Deposits (Local Currency), Assigned Aa2.ng
- NSR LT Bank Deposits (Foreign Currency), Assigned Aa3.ng
- NSR ST Bank Deposits (Local Currency), Assigned NG-1
- NSR ST Bank Deposits (Foreign Currency), Assigned NG-1

Issuer: United Bank for Africa Plc

- NSR LT Bank Deposits (Local Currency), Assigned Aa2.ng
- NSR LT Bank Deposits (Foreign Currency), Assigned Aa3.ng
- NSR ST Bank Deposits (Local Currency), Assigned NG-1
- NSR ST Deposits (Foreign Currency), Assigned NG-1

Issuer: Sterling Bank Plc

- NSR LT Bank Deposits (Local Currency), Assigned A1.ng
- NSR LT Bank Deposits (Foreign Currency), Assigned A2.ng
- NSR ST Bank Deposits (Local Currency), Assigned NG-1
- NSR ST Bank Deposits (Foreign Currency), Assigned NG-1

Issuer: First Bank of Nigeria Limited

- NSR LT Bank Deposits (Local Currency), Assigned A2.ng
- NSR LT Bank Deposits (Foreign Currency), Assigned A2.ng
- NSR ST Bank Deposits (Local Currency), Assigned NG-1
- NSR ST Bank Deposits (Foreign Currency), Assigned NG-1

Issuer: Bank of Industry

- NSR LT Issuer Rating (Local Currency), Assigned Aa1.ng
- NSR LT Issuer Rating (Foreign Currency), Assigned Aa1.ng
- NSR ST Issuer Rating (Local Currency), Assigned NG-1
- NSR ST Issuer Rating (Foreign Currency), Assigned NG-1

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