Tagging Info

Fitch Affirms 10 Nigerian Banks on Peer Review; Stable Outlook

Ratings Endorsement Policy
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Fitch Ratings-London-23 February 2015: Fitch has affirmed the Long-term Issuer Default Ratings (IDRs) of 10 Nigerian banks. They are Zenith Bank Plc (Zenith), FBN Holdings Plc (FBNH), First Bank of Nigeria Ltd (FBN), United Bank for Africa Plc (UBA), Guaranty Trust Bank Plc (GTB), Access Bank Plc (Access), Diamond Bank Plc (Diamond), Fidelity Bank Plc (Fidelity), Union Bank Plc (Union) and First City Monument Bank Limited (FCMB).

All Outlooks are Stable. 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 ratings are all in the 'B' range, indicating highly speculative fundamental credit quality, and factor in Fitch's expectation of increasingly challenging economic conditions and market volatility in Nigeria. The operating environment is affected by persistently low oil prices, continuing pressure on the domestic currency naira, likely further monetary policy and regulatory actions and increased political uncertainty.

At the same time, the ratings are underpinned by continued strong underlying economic growth in Nigeria, particularly in non-oil sectors. Fitch expects non-oil GDP growth of 5.5% in 2015 (2014: 7.5%), driven by continued economic reforms and limited impact from public sector austerity.

For more details see "2015 Outlook Nigerian Banks: Oil Shock and Policy Moves Test Bank Resilience and Ratings" on www.fitchratings.com.

KEY RATING DRIVERS - IDRS, SUPPORT RATINGS AND SUPPORT RATING FLOORS (ALL BANKS APART FROM SIBTC AND SIBTCH THAT ONLY HAVE NATIONAL RATINGS)

The IDRs of FBN, UBA, Diamond, Fidelity, Union and FCMB are support-driven. Zenith's, FBNH's, GTB's and Access' IDRs are driven by their standalone strength as measured by their Viability Ratings (VRs).

In assessing the probability of sovereign support, Fitch considers the authorities' willingness to support the Nigerian banks to be high as demonstrated in the past, but its ability to do so may be constrained by Nigeria's 'BB-' sovereign rating. Fitch assigns Support Rating Floors (SRFs) based on each bank's systemic importance. The most systemically important banks in Fitch's view are FBN, Zenith and UBA, which are assigned SRFs of B+'. The other banks have SRFs of 'B'.

FBNH is the holding company of FBN. It's 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.

RATING SENSITIVITIES - IDRS, SUPPORT RATINGS AND SUPPORT RATING FLOORS
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. However, a one-notch downgrade of the sovereign would not necessarily lead to a downgrade of the SRFs.
Zenith's and Access' 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. The IDRs of GTB

and FBNH are driven by their VRs and are therefore not sensitive to changes in their SRFs.
KEY RATING DRIVERS - VRs

The highly challenging and volatile operating environment in Nigeria constrain the VRs and the other key rating factors, particularly the banks' financial profiles. The recent oil price shock and subsequent currency pressure has weakened the Nigerian operating environment and is likely to result in lower GDP growth in 2015. In turn, the banks are likely to report weaker profitability, asset quality and capital ratios. These pressures are to an extent captured in Fitch's ratings, and partly explain the Stable Outlooks. Nevertheless, should the operating environment deteriorate faster than expected, particularly should it significantly impact the banks' capital and asset quality, VR downgrades cannot be ruled out.

Fitch forecasts sector non-performing loans (NPLs) to rise above the Central Bank of Nigeria's (CBN) informal cap of 5%, but below 10% by end-2015. This reflects high credit concentrations as well as emerging risks, particularly in the oil and gas, and power sectors. These factors, together with a shift to Basel II and CBN's revised regulatory capital computation rules, are likely to add more pressure on capital than previously expected. Tier 1 capital ratios could fall below 15% for many banks, which is low in the Nigerian context.

Oil & gas exposures, particularly upstream segment lending, will be sensitive to low oil prices, in particular when loans are extended to indigenous companies rather than large international operators. If low oil prices persist in 2015, Fitch expects some banks will have to restructure part of these portfolios by extending tenors to better match new cash flow projections.

Fitch expects liquidity to remain tight in 2015, amplified by higher central bank reserve requirements. New limits on foreign currency borrowing and net open positions are likely to reduce US dollar debt issuance. Despite increasing competition for low-cost and stable deposits, customer deposit growth should remain healthy and help loans-to-deposit ratios remain below the regulatory limit of 80%.

In addition to the general pressures stemming from the economy, the VRs of the Fitch-rated banks consider the following factors. All references are made within the context of the Nigerian operating environment.

Zenith's VR considers its strong franchise, management quality, conservative risk appetite and robust financial metrics. Asset quality is sound and upstream oil & gas exposure represented a limited 6% of loans at end-September 2014. Zenith has a track record of good client selection and Fitch does not expect major impairments in its corporate book. The bank's capitalisation and leverage compare well with peers and benefit from a strong funding franchise, sound liquidity and proven access to wholesale markets. Zenith's resilient financial performance stands out, and the bank should manage 2015 better than most peers.

GTB's VR considers the bank's sound financial metrics compared with most domestic peers. This includes the bank's sound profitability, driven by efficiency gains from a low cost business model, healthy asset quality, driven by sound underwriting, and adequate capital. The VR also considers a proven strategy implemented by a strong management team.

FBNH's and FBN's VRs reflect the group's traditionally strong company profile and adequate capitalisation and profitability. Asset quality metrics are acceptable but the group has the highest oil & gas exposure among peers (40% of gross loans at end-September 2014). This is a key risk, in particular the upstream book (12%). FBNH's has a strong funding franchise. Its retail franchise allows it to source low-cost deposits, and it successfully accessed capital markets in 2014. Group liquidity is adequate.

UBA's VR is constrained by weak, albeit improving, capitalisation. The VR also considers a strong company profile, including a broader international footprint than peers. This makes the bank less sensitive than peers to current turbulence in Nigeria, although 2015 will still be challenging. Asset quality is adequate. NPLs are currently low, although Fitch expects these to increase. UBA has strong funding and liquidity. Its large pan-African network allows it to collect low-cost deposits, and the loan-to-deposit ratio is low.

Access' VR reflects the bank's adequate capitalisation, which will improve should a planned rights issue complete successfully. The VR also considers the bank's stronger company profile since the Intercontinental Bank acquisition. This has benefitted Access' financial metrics, including improved earnings and asset quality.

Diamond's VR is constrained by weak capitalisation, which is inadequate in light of the bank's risk profile, despite the completion of a rights issue in November 2014. Asset quality is slightly weaker than most peers. While the level of impaired loans is currently acceptable, certain large exposures present downside risk. Fitch views risk appetite as high, considering plans to materially expand retail and SME lending activities. While these segments are inherently risky, this is where the bank's expertise lies. Furthermore, risk controls and underwriting standards in the retail business are advanced. The VR also reflects Diamond's acceptable earnings, funding and liquidity.

Fidelity's VR reflects the bank's weaker company profile than peers. The bank's lack of scale manifests in its niche business model. The VR also considers Fidelity's weaker and less stable earnings than peers, a high cost base, and a greater reliance on non-core banking revenues. The VR also considers the bank's improved asset quality metrics over the last three years.

Union's VR reflects threats to asset quality ratios from a sizeable portfolio of past due, but not impaired, loans and a material exposure to the oil sector. The VR also considers a higher risk appetite than peers, indicated by loan growth above the sector average, albeit from a lower base than peers. The VR further considers some exposure to operational risk resulting from a weaker technological platform than peers, which Union is currently addressing. The VR factors in weak earnings, but also a resilient funding profile supported by adequate liquidity.

FCMB's VR is currently constrained by its small but evolving full service banking franchise. The bank plans to expand lending in what Fitch views as inherently high- risk retail and SME segments. Asset quality is acceptable, although its NPL ratio is likely to worsen as the loan book seasons. Capitalisation is sound, although Fitch expects a weakening in the medium term, driven by loan growth. Earnings are adequate despite a high cost-to-income ratio. Funding and liquidity are considered the bank's weaknesses, with the regulatory liquidity ratio being one of the lowest in the sector, and the loan-to-deposit ratio being close to 80%.

RATING SENSITIVITIES - VRs

There is limited upward potential for the banks' VRs outside the 'b' range as they are constrained by the operating environment. A prolonged economic downturn is a threat to all banks' VRs. The VRs are also sensitive to the following bank specific factors.

Zenith's VR is sensitive to a general increase in risk appetite, worsening underwriting standards and a reduced focus on liquidity.

The VRs of FBNH and FBN are sensitive to weaker asset quality, in particular relating to significant oil and gas exposures. VR upgrades, though unlikely at present, could in the longer term result from the group successfully broadening its franchise and strengthening revenue generation.

An upgrade of UBA's VR could result from the bank continuing to improve its capitalisation, accompanied by low credit losses, resilient profitability and manageable growth in lending.

GTB's VR is sensitive to loan concentration risks as several large corporate defaults could quickly erode the bank's capital base. Asset quality could also be put under pressure by the bank's increasing operations outside of Nigeria, particularly in east Africa.

Access' VR is most sensitive to asset quality deterioration from the current level. The VR may be upgraded in the medium term if its company profile continues to strengthen and if it can demonstrate healthy and stable financial metrics through the economic cycle.

An upgrade of Diamond's VR is unlikely in the near term given the bank's inadequate capitalisation and somewhat weak asset quality. In the longer term an upgrade could follow a continued improvement in capitalisation, combined with manageable growth and improved financial metrics.

Fidelity's VR currently has limited upside potential, due to the bank's limited franchise. A downgrade is most likely to result from prolonged losses resulting from an economic downturn and/or a liquidity shortfall.

Union's VR has limited potential for an upgrade at present, having recently emerged from insolvency in 2012. Over time, a sustained and significant improvement in the bank's financial profile through the economic cycle, particularly earnings and asset quality metrics, could lead to an upgrade of the VR. The VR remains sensitive to further material worsening in asset quality due to previously unrecognised problems or high loan concentrations.

FCMB's VR has limited upside potential at present. In the medium term an upgrade could result from the bank building a larger and sustainable franchise, achieving a strong performance track record and maintaining a more liquid balance sheet.

KEY RATING DRIVERS: NATIONAL RATINGS

The banks' National Ratings are driven by their respective Long-term IDRs and Fitch's opinion of each bank's creditworthiness relative to the best credits in Nigeria.

SIBTC's and SIBTCH's National Ratings are based on the support that the bank and the holding company derive from Standard Bank Group Limited (SBG; BBB/Negative). SBG has a majority 53.2%, stake in SIBTCH. The ratings factor in SBG's written commitment in its annual report to support certain banking subsidiaries. Fitch believes that SBG's support would extend equally to the bank and the holding company.

RATING SENSITIVITIES: NATIONAL RATINGS

The banks' National Ratings are sensitive to changes in their Long-term IDRs and relative creditworthiness. The National Ratings of SIBTC and SIBTCH are sensitive to a change in potential support from their ultimate parent, SBG.

The rating actions are as follows:
FBN
Long-term foreign currency IDR: affirmed at 'B+'; Stable Outlook
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-'; assigned 'RR6'
FBNH
Long-term foreign currency IDR: affirmed at 'B'; Stable Outlook
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+'; Stable Outlook
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: affirmed at 'A-(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'
Access Finance BV's senior notes, guaranteed by Access Bank: affirmed at 'B'/'RR4'
Subordinated notes: affirmed at 'B-'/ 'RR6'
GTB
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'
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: assigned at 'AAA(nga)'
National Short-term rating: assigned at 'F1+(nga)'
Contact:
Primary Analysts
Mahin Dissanayake (Access, Access Finance, GTB, GTB Finance, Union, Fidelity and FCMB)
Director
+44 20 3530 1618
Fitch Ratings Limited
30 North Colonnade
London, E14 5GN
Bjorn Norrman (FBNH, FBN, Zenith, UBA, Diamond, SIBTCH, SIBTCH)
Director
+44 20 3530 1330
Secondary Analysts
Andrew Parkinson (Access, Access Finance, GTB, GTB Finance, Union and Fidelity)
Analyst
+44 20 3530 1420

Mahin Dissanayake (FBNH, FBN, Zenith, UBA, Diamond, SIBTCH, SIBTCH)
Director
+44 20 3530 1618

Committee Chairperson
Jens Hallen
Senior Director
+44 20 3530 1326

Media Relations: Elaine Bailey, London, Tel: +44 203 530 1153, Email: elaine.bailey@fitchratings.com; Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com.

Additional information is available on www.fitchratings.com.

Applicable criteria, 'Global Financial Institutions Rating Criteria' (31 January 2014) 'National Scale Ratings Criteria' (30 October 2013) 'Assessing and Rating Bank Subordinated and Hybrid Securities' (31 January 2014) are available on www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
National Scale Ratings Criteria
Assessing and Rating Bank Subordinated and Hybrid Securities Criteria

Additional Disclosure
Solicitation Status

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