FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades 7 Nigerian Banks to 'B- 'Following Sovereign Downgrade

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Fitch Ratings - London - 21 Nov 2022: Fitch Ratings has downgraded the Long-Term Issuer Default Ratings (IDRs) of seven Nigerian banks and two bank holding companies (BHCs) to 'B-' from 'B'. The Outlooks are Stable. A full list of rating actions is below.

The rating actions follow the downgrade of Nigeria's Long-Term IDRs to 'B-' from 'B' on 11 November 2022 (see "Fitch Downgrades Nigeria to 'B-'; Outlook Stable" at www.fitchratings.com).

The downgrades of the IDRs of the six largest commercial banks and two BHCs are driven by the downgrade of their Viability Ratings (VRs) to 'b-' from 'b', which reflects our view that the issuers' standalone credit profiles are closely linked to that of the sovereign. The downgrade of Bank of Industry Limited (BOI; a policy bank) is driven by the downgrade of its Government Support Rating (GSR) to 'b-' from 'b', which reflects the authorities' weakened ability to provide support.

The issuers' National Ratings are unaffected by the rating actions and may be reviewed if our National Rating equivalency analysis results in different relative creditworthiness across Nigerian issuers.

Fitch has withdrawn Guaranty Trust Holding Company Plc's (GTCO) Long-Term Local-Currency IDR due to a previous publishing error.

KEY RATING DRIVERS

The Long-Term IDRs of Access Bank Plc, Zenith Bank Plc, FBN Holdings Plc (FBNH), First Bank of Nigeria Ltd (FBN), United Bank for Africa PLC (UBA), GTCO, Guaranty Trust Bank Limited (GTB) and Fidelity Bank PLC are driven by their standalone creditworthiness, as expressed by their 'b-' VRs.

BOI's Long-Term IDR is driven by a limited probability of government support, as expressed by its Government Support Rating (GSR) of 'b-'. As is common for policy banks, BOI is not assigned a VR. This reflects Fitch's view that BOI's business model is dependent on government support and could not be carried out on a commercial basis.

VR

The downgrades of the VRs of the six largest Nigerian commercial banks and two BHCs to 'b-' from 'b' reflect Fitch's view that their standalone credit profiles are constrained by the sovereign rating due to their high sovereign exposure relative to capital and the concentration of their operations in Nigeria. The VRs of Zenith Bank, UBA, GTCO and GTB are one notch below their 'b' implied VRs, reflecting the operating environment/sovereign rating constraint. The VRs of Access Bank, FBNH, FBN and Fidelity Bank are in line with their implied 'b-' VRs.

Sovereign exposure is primarily through holdings of Nigerian sovereign securities and cash reserves at the Central Bank of Nigeria (CBN), which combined are estimated to have represented between 236% and 529% of Fitch Core Capital (FCC) at end-2021 (the last date at which full disclosures are available; large changes in exposure since then are unlikely, in Fitch's view). Sovereign securities exposure is mainly naira-denominated, with the banks having only small exposure to Federal Government of Nigeria (FGN) Eurobonds. Cash reserves at the CBN are largely restricted due to a high cash reserve requirement, set at 32.5% of naira deposits, aimed at controlling naira liquidity and preserving exchange rate stability. Sovereign exposure is furthered by moderate public sector lending.

The Nigerian operating environment has weakened in 2022. Fitch forecasts real GDP growth of 3.0% in 2022 and 3.1% in 2023. However, we expect higher inflation, which reached a 17-year high of 20.8% in October 2022, rising interest rates and acute US dollar shortages stemming from Nigeria's declining FX earnings and reduced capital inflows to create more challenging operating conditions for banks over the next 12-18 months.

The commercial banks are experiencing difficulties in accessing US dollars on behalf of customers in respect of trade finance obligations but continue to maintain satisfactory FX liquidity buffers. Shortages in the official FX market have caused the naira to depreciate sharply on the parallel market to about NGN800/USD on 17 November, therefore trading at a large discount to the official rate of NGN443/USD, raising the possibility of a material devaluation of the official rate.

Fitch believes that the banks would be fairly resilient to a such a devaluation due to their net long foreign-currency (FC) positions, small FC-denominated risk-weighted assets and tighter US dollar lending standards in recent years. However, a sharp devaluation combined with moderate losses on holdings of Nigerian and Ghanaian sovereign debt (all commercial banks except Fidelity Bank have material exposure to the latter) could put significant pressure on capital ratios.

FBNH and GTCO are non-operating BHCs. Their VRs are equalised with their respective group VRs, derived from the consolidated risk assessment of the group, due to the absence of or low double leverage and strong BHC liquidity management. As main operating entities, FBN and GTB's VRs are also equalised with their respective group VRs.

GSR - BOI

The downgrade of BOI's GSR to 'b-' from 'b' reflects the authorities' weaker ability to provide support, if required, as indicated by the sovereign downgrade. Fitch believes that the authorities have a high propensity to support BOI given its important and unique policy role, 99.9% state ownership and significant state funding guarantees. Fitch believes that the link between the sovereign and BOI is strong, as demonstrated by the size of CBN and FGN guarantees provided for BOI's external funding. However, the authorities' ability to provide support is limited, as indicated by Nigeria's 'B-' Long-Term IDR.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A further sovereign downgrade could result in a downgrade of the Long-Term IDRs and VRs of the commercial banks and BHCs if Fitch believes that the direct and indirect effects of a sovereign default scenario would be likely to have a sufficiently large effect on capitalisation and FC liquidity to undermine their viability.

Absent a further sovereign downgrade, commercial bank downgrades could result from the combination of a sharp naira depreciation and a marked increase in the impaired loans ratio resulting in a breach of minimum capital requirements without near-term prospects for recovery. They could also result from a severe tightening of FC liquidity.

BOI's Long-Term IDR and GSR would be downgraded if Nigeria's Long-Term IDR was downgraded. A downgrade may also result from a reduced propensity of the authorities to support BOI, which could arise from a change in its policy role or a material reduction in government ownership.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of the Long-Term IDRs and VRs of the commercial banks and BHCs would require a sovereign upgrade and for the banks to maintain strong financial profiles.

BOI's Long-Term IDR and GSR would be upgraded if Nigeria's Long-Term IDR was upgraded.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Commercial banks' senior unsecured debt, where applicable, is rated in line with the IDRs as the likelihood of default on these obligations reflects that of the issuer. The Recovery Ratings are 'RR4', reflecting average recovery prospects.

BOI's EUR750 million 7.50% senior note participation notes due 2027 placed through BOI Finance B.V., a Netherlands-based special purpose vehicle, are rated in line with BOI's and Nigeria's Long-Term IDRs. BOI's financial obligations under the senior note are irrevocably and unconditionally guaranteed by the FGN.

The FGN guarantee does not apply to the notes issued to investors by BOI Finance but to BOI's obligations to BOI Finance under the senior note. However, given the guarantee and structural features of the transaction, in Fitch's view, if BOI fails to meet its obligations under the senior note, the FGN guarantee would serve to ensure the full and timely repayment of principal and interest on the notes issued by BOI Finance.

Government support to commercial banks cannot be relied on given Nigeria's weak ability to provide support, particularly in FC. The GSRs have therefore been affirmed at 'no support' (ns), reflecting our view that senior creditors cannot rely on receiving full and timely extraordinary support.

Fitch considers that government support is unlikely to extend to BHCs due to their low systemic importance and a liability structure, including foreign and wholesale funding, which could be more politically acceptable to bail in. The GSRs of FBNH and GTCO have therefore been affirmed at 'ns'.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The ratings of commercial banks' senior unsecured debt would move in tandem with the issuers' Long-Term IDRs.

BOI Finance's senior unsecured debt rating would be downgraded if both Nigeria's and BOI's Long-Term IDRs were downgraded. The senior debt rating would be upgraded if either Nigeria's or BOI's Long-Term IDRs were upgraded.

An upgrade of the GSRs of the commercial banks would require a material improvement in Nigeria's international reserves and the sovereign's overall financial flexibility.

VR ADJUSTMENTS

Zenith Bank's Business Profile Score of 'b' has been assigned below the 'bb' category implied score due to the following adjustment reason: Business Model (negative)

The Earnings and Profitability Scores of GTCO, GTB, UBA and Zenith Bank of 'b+' have been assigned below the 'bb' category implied score due to the following adjustment reason: Earnings Stability (negative)

The Capitalisation and Leverage Scores of GTCO, GTB and UBA of 'b' have been assigned below the 'bb' category implied score due to the following adjustment reasons: Risk Profile and Business Model (negative)

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to

'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

BOI's Long-Term IDR is directly linked to Nigeria's Long-Term IDRs.

ESG CONSIDERATIONS

BOI's ESG Relevance Score for 'Human Rights, Community Relations, Access & Affordability' of '4[+]' reflects the impact of its policy role, which includes supporting micro/small local agricultural, manufacturing and service companies, as well as women, youth and farmers, with the aim of creating employment and reducing Nigeria's reliance on imports. This has a positive impact on the credit profile through strengthening of BOI's policy role, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING		RECOVERY	PRIOR
Zenith Bank Plc	LT IDR	B- Rating Outlook Stable Downgrade		B Rating Outlook Stable

	ST IDR B Affirmed		B
	Viability b- Downgrade		b
	Government Support ns Affirmed		ns
senior unsecured	LT B- Downgrade	RR4	B
senior unsecured	ST B Affirmed		B
United Bank For Africa Plc	LT IDR B- Rating Outlook Stable Downgrade		B Rating Outlook Stable
	ST IDR B Affirmed		B
	Viability b- Downgrade		b
	Government Support ns Affirmed		ns

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 07 Sep 2022) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Access Bank Plc	UK Issued, EU Endorsed
Bank of Industry Limited	UK Issued, EU Endorsed
BOI Finance B.V.	UK Issued, EU Endorsed
FBN Finance Company B.V	UK Issued, EU Endorsed
FBN Holdings Plc	UK Issued, EU Endorsed
Fidelity Bank PLC	UK Issued, EU Endorsed
First Bank of Nigeria Ltd	UK Issued, EU Endorsed
Guaranty Trust Bank Limited	UK Issued, EU Endorsed
Guaranty Trust Holding Company Plc	UK Issued, EU Endorsed
United Bank For Africa Plc	UK Issued, EU Endorsed
Zenith Bank Plc	UK Issued, EU Endorsed

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