Fitch Ratings

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Fitch Places FCMB on RWN on Naira Devaluation; Affirms 7 Other Nigerian Banks

Fitch Ratings - London - 22 Jun 2023: Fitch Ratings has placed First City Monument Bank Limited's (FCMB) Long- and Short-Term Issuer Default Ratings (IDRs), Viability Rating (VR) and National Ratings on Rating Watch Negative (RWN) following the sharp devaluation of the Nigerian naira.

Fitch has simultaneously affirmed seven other Nigerian banks' and three bank holding companies' (BHCs) ratings, all with Stable Outlooks. A full list of rating actions is below.

The affected entities are Access Bank Plc, Zenith Bank Plc, FBN Holdings Plc, First Bank of Nigeria Ltd, United Bank for Africa Plc (UBA), Guaranty Trust Holding Company Plc (GTCO), Guaranty Trust Bank Limited (GTB), Fidelity Bank PLC, Stanbic IBTC Holdings PLC (SIBTCH) and Stanbic IBTC Bank PLC (SIBTC).

The RWN on FCMB reflects the risk of breaching its minimum total capital adequacy ratio (CAR) requirement due to the direct effect of the devaluation. It also reflects increased risks to core capital from large foreign-currency (FC)-denominated problem loans (Stage 2 + Stage 3 under IFRS9) that have been inflated by devaluation, which may necessitate greater prudential provisions and exert further pressure on CAR.

Fitch expects to resolve the RWN within the next six months when exchange-rate volatility may recede, the impact on the CAR is clear, and the scale of the second-order economic effects on loan quality becomes evident.

The affirmation of the other Nigerian banks and bank holding companies' ratings reflects Fitch's view that these issuers are likely to remain compliant with their respective regulatory minimum CAR requirements in the near term despite the sharp devaluation, with sufficient buffers and pre-impairment profits to accommodate the second-order economic effects on loan quality and restore compliance if necessary. The affirmation of SIBTCH's and SIBTC's National Ratings reflects Fitch's view of unchanged likelihood of shareholder support.

Key Rating Drivers

All issuers' IDRs and National Ratings are driven by their standalone creditworthiness, as expressed by their VRs of 'b-', except for SIBTCH's and SIBTC's, whose National Ratings are driven by a limited probability of support from their ultimate parent, South Africa-based Standard Bank Group Limited (SBG; BB-/Stable). Zenith Bank's, UBA's, GTCO's and GTB's VRs of 'b-' are one notch below their implied VRs of 'b', reflecting the operating environment/sovereign rating constraint.

The official exchange rate, namely the Investors and Exporters (I&E) window, depreciated sharply on 14 June following the Central Bank of Nigeria's (CBN) decision to unify its multiple exchange-rate windows and allow the naira to trade at a market-determined rate. The I&E window closed at 776/USD on 21 June, representing depreciation of about 40% since end-2022.

The move away from a longstanding managed exchange rate regime is intended to restore capital inflows and reduce foreign-currency (FC) shortages that have plagued the Nigerian economy in recent years. This major policy change came just days after the suspension of the CBN governor by recently-elected President Tinubu.

President Tinubu has implemented key reforms faster than Fitch expected, including removing fuel subsidy, within weeks of his inauguration. These reforms are positive for the sovereign's credit profile but pose near-term macroeconomic challenges. A large proportion of economic activity was already influenced by the parallel market exchange rate, which has traded over 700 naira to the US dollar for most of the past year, reducing the inflationary impact of the recent devaluation of the official exchange rate.

However, the devaluation and fuel subsidy removal will add to existing inflationary pressures, including the price of fuel, and increase risks of social unrest.

Fitch expects impaired loans ratios to increase in the near term at a faster pace following the devaluation and fuel subsidy removal as borrowers contend with higher inflation and interest rates. FC lending standards have tightened in recent years, influenced by a CBN directive prohibiting FC loans to borrowers without FC revenues and some banks restructuring FC loans to naira. Some legacy FC loans to borrowers without FC revenues remain and such loans are expected to weaken in the near term.

However, our assessment of asset quality takes also into account the banks' small loan books as they hold large cash reserves at the CBN and sovereign fixed-income securities holdings.

The devaluation will lead to the inflation of banks' FC-denominated risk-weighted assets (RWAs) in naira terms and exert downward pressure on capital ratios. Fitch believes the direct impact of the recent devaluation on capital ratios will be manageable for the banks we have affirmed due to their small FC-denominated RWAs and long net FC positions, which will lead to revaluation gains and help to cushion the impact of inflated RWAs on capital ratios.

We expect these banks will maintain sufficient capital buffers and pre-impairment operating profits to accommodate the second-order economic effects of the devaluation on loan quality and increased risks to capital from inflated FC-denominated problem loans.

Notwithstanding its small FC-denominated RWAs and long net FC position, Fitch believes the sheer scale of devaluation may lead to FCMB breaching its 15% minimum CAR requirement given its material loan book dollarisation relative to capital headroom.

FCMB has high Stage 2 loans (end-2022: 22% of gross loans, largely FC-denominated) that will be inflated by devaluation and may lead to greater prudential provisions and exert further pressure on

CAR while increasing risks to core capital. Fitch views its pre-impairment operating profit as providing only a moderate buffer to accommodate this and other loan-quality risks.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

A sovereign downgrade could result in a downgrade of the Long-Term IDRs and VRs if Fitch believes that the direct and indirect effects of a sovereign default would likely erode capitalisation and FC liquidity insofar as to undermine their viability.

Absent a sovereign downgrade, a downgrade (including resolution of RWNs on FCMB) could result from the combination of the naira devaluation and a marked increase in the impaired loans ratio, resulting in a breach of minimum capital requirements without near-term prospects for recovery. It could also result from a severe tightening of FC liquidity.

National Rating downgrades would result from a weakening in creditworthiness relative to other Nigerian issuers'.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of the Long-Term IDRs and VRs would require a sovereign upgrade and an improvement in operating conditions in conjunction with a strong financial profile.

The RWN on FCMB's ratings will be removed and the ratings will be affirmed at their current levels if Fitch determines that the bank will remain compliant with the minimum CAR requirement following the devaluation, with sufficient capital buffers to accommodate increased credit concentration and loan-quality risks.

National Rating upgrades would result from a strengthening in creditworthiness relative to other Nigerian issuers'.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Senior unsecured debt is rated in line with the respective issuers' IDRs or National Ratings as the likelihood of default on these obligations reflects that of the issuer. The Recovery Ratings are 'RR4', indicating average recovery prospects.

Access Bank's subordinated debt is rated two notches below its National Long-Term Rating for loss severity, reflecting poor recovery prospects in the event of non-performance.

The government's ability to provide full and timely support to commercial banks is weak due to its constrained FC resources and high debt servicing metrics. The Government Support Rating (GSR) for all relevant banks is therefore 'no support', reflecting our view of no reasonable assumption of support for senior creditors being forthcoming should they become non-viable.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Senior unsecured and subordinated debt ratings would move in tandem with their anchor ratings.

An upgrade of the GSR would require an improvement in the government's ability to provide support, which would most likely be indicated by an increase in international reserves and an improvement in debt servicing metrics. This will also depend on our assessment of the banks' systemic importance.

VR ADJUSTMENTS

Zenith Bank's business profile score of 'b' is below the 'bb' category implied score due to the following adjustment reason: business model (negative)

The earnings and profitability scores of Zenith Bank, GTCO, GTB and UBA of 'b+' are below the 'bb' category implied scores due to the following adjustment reason: earnings stability (negative)

The capitalisation and leverage scores of GTCO, GTB and UBA of 'b-' are below the 'bb' category implied scores 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

SIBTCH's and SIBTC's ratings are linked to the ratings of their ultimate parent, SBG.

ESG Considerations

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 entities, either due to their nature or the way in which they are being managed by the entities. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Fitch Ratings Analysts

Tim Slater
Director
Primary Rating Analyst
+44 20 3530 1791
Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

Ramy Habibi Alaoui
Associate Director
Primary Rating Analyst
+971 4 424 1275
Fitch Ratings Ltd Dubai Branch Maze Tower, 18th Floor Sheikh Zayed Road, P.O. Box 215584, Dubai

Ahmet Kilinc
Director
Primary Rating Analyst
+44 20 3530 1272
Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

Konstantin Alekseenko
Associate Director
Primary Rating Analyst
+44 20 3530 1165
Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

Elie Maalouf
Senior Analyst
Secondary Rating Analyst
+44 20 3530 1304

Konstantin Alekseenko
Associate Director
Secondary Rating Analyst
+44 20 3530 1165

Nicolas Charreyron
Senior Analyst
Secondary Rating Analyst
+44 20 3530 2715

Maria Rodriguez
Senior Analyst
Secondary Rating Analyst
+44 20 3530 1802

Anton Lopatin

Senior Director
Committee Chairperson
+971 4 424 1225

Media Contacts

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Zenith Bank Plc	LT IDR	B-	Affirmed		B-
	ST IDR	B	Affirmed		B
	Natl LT	AA-(nga)	Affirmed		AA-(nga)
	Natl ST	F1+(nga)	Affirmed		F1+(nga)
	Viability	b-	Affirmed		b-
	Government Support	ns	Affirmed		ns
• senior unsecured	LT	B-	Affirmed	RR4	B-
• senior unsecured	ST	B	Affirmed		B
United Bank For Africa Plc	LT IDR	B-	Affirmed		B-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	ST IDR	B	Affirmed		B
	Natl LT	A+(nga)	Affirmed		A+(nga)
	Natl ST	F1+(nga)	Affirmed		F1+(nga)
	Viability	b-	Affirmed		b-
	Government Support	ns	Affirmed		ns
• senior unsecured	LT	B-	Affirmed	RR4	B-
• senior unsecured	ST	B	Affirmed		B
FBN Finance Company B.V					
• senior unsecured	LT	B-	Affirmed	RR4	B-
Guaranty Trust Holding Company Plc	LT IDR	B-	Affirmed		B-
	ST IDR	B	Affirmed		B
	Natl LT	AA(nga)	Affirmed		AA(nga)
	Natl ST	F1+(nga)	Affirmed		F1+(nga)
	Viability	b-	Affirmed		b-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Government Support	ns	Affirmed		ns
First Bank of Nigeria Ltd	LT IDR	B-	Affirmed		B-
	ST IDR	B	Affirmed		B
	Natl LT	A(nga)	Affirmed		A(nga)
	Natl ST	F1+(nga)	Affirmed		F1+(nga)
	Viability	b-	Affirmed		b-
	Government Support	ns	Affirmed		ns
Stanbic IBTC Holdings PLC	Natl LT	AAA(nga)	Affirmed		AAA(nga)
	Natl ST	F1+(nga)	Affirmed		F1+(nga)
Access Bank Plc	LT IDR	B-	Affirmed		B-
	ST IDR	B	Affirmed		B
	Natl LT	A+(nga)	Affirmed		A+(nga)
	Natl ST	F1+(nga)	Affirmed		F1+(nga)
	Viability	b-	Affirmed		b-
	Government Support	ns	Affirmed		ns
• senior	LT	B-	Affirmed	RR4	B-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
unsecured					
• senior unsecured	ST	B	Affirmed		B
• subordinated	Natl LT	A-(nga)	Affirmed		A-(nga)
Guaranty Trust Bank Limited	LT IDR	B-	Affirmed		B-
	ST IDR	B	Affirmed		B
	Natl LT	AA(nga)	Affirmed		AA(nga)
	Natl ST	F1+(nga)	Affirmed		F1+(nga)
	Viability	b-	Affirmed		b-
	Government Support	ns	Affirmed		ns
Stanbic IBTC Bank PLC	Natl LT	AAA(nga)	Affirmed		AAA(nga)
	Natl ST	F1+(nga)	Affirmed		F1+(nga)
• senior unsecured	Natl LT	AAA(nga)	Affirmed		AAA(nga)
• senior	Natl ST	F1+(nga)	Affirmed		F1+(nga)

ENTITY/DEBT	RATING			RECOVERY	PRIOR
unsecured					
Fidelity Bank PLC	LT IDR	B-	Affirmed		B-
	ST IDR	B	Affirmed		B
	Natl LT	A(nga)	Affirmed		A(nga)
	Natl ST	F1+(nga)	Affirmed		F1+(nga)
	Viability	b-	Affirmed		b-
	Government Support	ns	Affirmed		ns
• senior unsecured	LT	B-	Affirmed	RR4	B-
FBN Holdings Plc	LT IDR	B-	Affirmed		B-
	ST IDR	B	Affirmed		B
	Natl LT	A(nga)	Affirmed		A(nga)
	Natl ST	F1+(nga)	Affirmed		F1+(nga)
	Viability	b-	Affirmed		b-
	Government Support	ns	Affirmed		ns
First City Monument	LT IDR	B-	Rating Watch On		B-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Bank Limited					
	ST IDR	B ⬙	Rating Watch On		B
	Natl LT	BBB+(nga) ⬙	Rating Watch On		BBB+(nga) ⊡
	Natl ST	F1(nga) ⬙	Rating Watch On		F1(nga)
	Viability	b- ⬙	Rating Watch On		b-
	Government Support	ns	Affirmed		ns

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◎	◆
STABLE	⊡	

Applicable Criteria

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

National Scale Rating Criteria (pub.22 Dec 2020)

Additional Disclosures

Solicitation Status

Endorsement Status

Access Bank Plc	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
First City Monument Bank Limited	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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