RATING ACTION COMMENTARY

# Fitch Takes Rating Action on 12 Nigerian Banks Following Naira Devaluation

Thu 15 Feb, 2024 - 12:40 PM ET

Fitch Ratings - London - 15 Feb 2024: Fitch Ratings has downgraded Ecobank Nigeria Limited's (ENG) Long-Term Issuer Default Rating (IDR) to 'CCC+' from 'B-' and removed it from Rating Watch Negative (RWN) following the recent devaluation of the Nigerian naira. The agency has also downgraded the bank's National Long-Term Rating to 'BB+(nga)' from 'BBB(nga)'. The Outlook on the Long-Term IDR and National Long-Term Rating is Stable.

Fitch has also maintained the RWN on First City Monument Bank's (FCMB) and Union Bank of Nigeria PLC's (UBN) Long-Term IDRs of 'B-' and National Long-Term Ratings of 'BBB+(nga)' and 'BBB(nga)', respectively.

Fitch has simultaneously affirmed eight other Nigerian banks' and two bank holdings companies' (BHCs) Long-Term IDRs at 'B-', while also affirming the issuers' National Long-Term Ratings with Stable Outlooks. These 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, Wema Bank PLC and Jaiz Bank PLC. The National Long-Term Ratings of Stanbic IBTC Holdings PLC (SIBTCH) and Stanbic IBTC Bank PLC (SIBTC) have also been affirmed at 'AAA(nga)' with a Stable Outlook.

ENG's Shareholder Support Rating (SSR) and the other issuers' Government Support Ratings are unaffected by the event. A full list of rating actions is below.

## KEY RATING DRIVERS

The Nigerian naira was recently devalued sharply (end-2023: 899/USD; 13 February: 1,516/USD; about 40% devaluation), exceeding our expectations of a more moderate depreciation in 2024. The large devaluation is the second within a year (70% devaluation since end-2022) and has converged the official exchange rate with the parallel market rate.

The continued move away from a longstanding managed exchange rate regime is conducive to restoring capital inflows and reducing foreign-currency (FC) shortages that have weighed on economic activity in recent years. However, it creates short-term macroeconomic risks, such as accentuating already-high inflation (December 2023: 29% yoy) that may weigh on economic growth, heightening loan quality and capital pressures already facing the banking sector.

Fitch now expects the banking sector's impaired loans (Stage 3 loans) ratio to increase at a faster pace than before the devaluation, which itself has caused already material FC-denominated problem loans (Stage 2 and Stage 3 loans; predominantly oil and gas sector loans) to have inflated relative to gross loans and core capital and accentuated credit concentration risks.

However, asset-quality risks are mitigated by the small size of banks' loan books (end-3Q23: net loans represented 35% of domestic banking sector assets; non-loan assets mainly being sovereign exposure) and most FC loans having been extended to borrowers with FC receivables. Furthermore, pre-impairment operating profit, which we expect to benefit from rising interest rates, generally provides a sufficient buffer to absorb loan impairment charges without affecting capital.

The Central Bank of Nigeria (CBN) has published new circulars and made a number of statements accompanying the recent devaluation. One circular issued after the devaluation on 31 January, aimed at increasing the supply of FC, prohibited banks from having net long FC positions, and set 1 February as the deadline for compliance. Net long FC positions have mitigated the impact of past devaluations, including the recent devaluation, on capital ratios as they result in foreign-exchange revaluation gains that cushion the impact of inflated FC-denominated risk-weighted assets (RWAs). Without net long FC positions, banks' capital positions are now more exposed to Fitch's expectation of a further moderate depreciation of the naira, but total capital adequacy ratios (CAR), in most cases, will remain above regulatory minimum requirements.

The Governor of the CBN, Yemi Cardoso, also announced plans to establish a FC gateway bank with the intention of centralising correspondent banking activities, while asserting that a recent audit has determined USD2.4 billion of overdue FX forwards invalid. Fitch believes these measures by the CBN may negatively affect the banking sector's FC liquidity.

The downgrade of ENG's Long-Term IDR follows the downgrade of the bank's VR to 'ccc+' from 'b-', which has been removed from RWN, and reflects Fitch's estimate that the bank has breached its regulatory minimum CAR requirement of 10%. It also reflects our view that, notwithstanding likely material forbearance in respect of single-obligor credit concentration, the bank's internal capital generation is likely to be insufficient to restore compliance with the regulatory minimum and core capital buffers commensurate with its risk profile in the near term. This is in view of pressure on the naira, increased asset-quality risks given material largely FC-denominated Stage 2 and Stage 3 loans (end-3Q23: a combined 38%of gross loans) and heightened credit concentration risks.

The downgrade also reflects FC liquidity risks that may stem from any CAR breach, including due to the accelerated repayment of its USD300 million Eurobond as a result of breach of covenant. ENG's IDRs and National Ratings are now driven by its VR and underpinned by potential support from its ultimate parent, Togo-based Ecobank Transnational Incorporated (B-/Stable), as expressed by its SSR of 'ccc+'.

SIBTCH's and SIBTC's National Ratings are driven by potential support from their ultimate parent, South Africa-based Standard Bank Group Limited (SBG; BB-/Stable). The IDRs and National Ratings of the 10 other banks and two BHCs are driven by their standalone creditworthiness, as expressed by their VRs.

The RWN on FCMB and UBN reflects our view that, while estimated to have remained compliant with their CAR requirements (15% and 10%, respectively) following the devaluation, the banks are at risk of breaching the requirement. This is due to further capital pressure emanating from further naira depreciation and credit losses considering already high Stage 2 and Stage 3 loans (end-3Q23: 31% of gross loans for FCMB; currently estimated at over 40% for UBN).

The RWN on UBN's Long-Term IDR also continues to reflect uncertainty surrounding the background to the recent intervention by the CBN (see: "Fitch Places UBN on RWN Following CBN Intervention"), the potential for further regulatory actions that may contribute to a CAR breach and the negative implications for the bank's standalone credit profile, particularly relating to corporate governance risks and liquidity pressures arising from potential funding instability.

Fitch expects to resolve the RWNs in the next six months when prospects for CAR compliance and, in the case of UBN, the implications of the CBN intervention are clear.

The affirmation of the other Nigerian banks' and BHCs' Long-Term IDRs and National Ratings reflects Fitch's view that these issuers are likely to remain compliant with their respective regulatory minimum CAR requirements despite the devaluation, with sufficient buffers and pre-impairment operating profits to tolerate a further moderate naira depreciation and the second-order effects of a challenging economic environment on loan quality.

The VRs of Zenith Bank, UBA, GTCO and GTB are one notch below their implied VRs of 'b', reflecting the operating environment/sovereign rating constraint. ENG's VR is one notch below its implied VR of 'b-' due to the following adjustment: Weakest Link - capitalisation and leverage.

## RATING SENSITIVITIES

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

A further downgrade of ENG's Long-Term IDR would require a downgrade of its VR and SSR. A downgrade of the other issuers' Long-Term IDRs would require just a downgrade of their VRs.

A sovereign downgrade could result in a downgrade of the 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 viability.

A downgrade of the VRs (including the resolution of the RWN on FCMB and UBN) could result from the combination of the naira devaluation and a marked increase in the problem loans ratio, resulting in a breach of minimum CAR requirements without near-term prospects for recovery. A downgrade of UBN's VR may also result from further regulatory intervention, such as the imposition of restrictive measures on the bank's activities, fines or other regulatory findings, which contribute to a breach of the bank's minimum CAR requirement. A downgrade of UBN's VR may also result from funding instability, such as deposit outflows or additional liquidity sources becoming unavailable to the bank, as a result of the CBN intervention.

A further downgrade of ENG's VR could result from a prolonged breach of CAR requirements, in addition to tightening in FC liquidity resulting from the breach.

A downgrade of the issuers' VRs may also result from a severe tightening in FC liquidity.

A downgrade of ENG's SSR would result from a weakening in ETI's ability or propensity to provide support. A change in ETI's ability to provide support would most likely be indicated by a change in its Long-Term IDR.

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 ENG's Long-Term IDR would require an upgrade of its VR or SSR. An upgrade of the other issuers' Long-Term IDRs would most likely derive from an upgrade of their VRs.

An upgrade of ENG's VR would require restoring CAR compliance with sufficient buffers to tolerate potential further naira depreciation risks, credit losses and increased credit concentration risk.

The RWN on FCMB's and UBN's ratings will be removed and the ratings affirmed at their current levels if Fitch determines that the banks' will remain compliant with their respective CAR requirements with sufficient buffers to accommodate further naira depreciation and asset-quality pressures. In the case of UBN, the affirmation would also require CBN intervention and funding stability risks receding.

An upgrade of the other issuers' VRs would require a sovereign upgrade and an improvement in operating conditions in conjunction with a strong financial profile.

An upgrade of ENG's SSR would require an improved ability of ETI to provide support, which would most likely be indicated by an upgrade of its Long-Term IDR.

National Rating upgrades would result from a strengthening in creditworthiness relative to other Nigerian issuers. SIBTCH's and SIBTC's National Ratings are at the highest level on Fitch's national rating scale and cannot be upgraded.

## 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. Their 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.

## OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

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

## 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 reason: risk profile and business model (negative).

## EXTERNAL APPEAL COMMITTEE OUTCOMES

In accordance with Fitch's policies FCMB appealed and provided additional information to Fitch that resulted in a rating action that is different to the original rating committee outcome.

## 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 National Ratings are linked to their parent SBG's Long-Term IDR.

## ESG CONSIDERATIONS

Jaiz Bank has an ESG Relevance Score of '4' for Governance. Islamic banks need to ensure compliance of their entire operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and sharia audit. This results in a Governance Structure ESG Relevance Score of '4', which has a negative impact on the bank's credit profile and is relevant to the ratings in combination with other factors.

Jaiz Bank has an ESG Relevance Score of '3' for Exposure to Social Impact, above sector guidance for an ESG relevance score of '2' for comparable conventional banks. This reflects that Islamic banks have certain sharia limitations embedded in their operations and obligations, although this only has a minimal credit impact on the entities.

UBN's has an ESG Relevance Score of '4' for Governance Structure (in contrast to a typical ESG relevance score of '3') due to the recent dissolution of the board and management by the CBN. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

## RATING ACTIONS

| ENTITY / DEBT | RATING | | | RECOVERY | PRIOR |
|---|---|---|---|---|---|
| FBN Finance Company B.V | | | | | |
| senior unsecured | LT | B- | Affirmed | RR4 | B- |
| Stanbic IBTC Holdings PLC | Natl LT | AAA(nga) Rating Outlook Stable | Affirmed | | AAA(nga) Ra Outlook Stable |
| | Natl ST | F1+(nga) | Affirmed | | F1+(nga) |
| Ecobank Nigeria Limited | LT IDR | CCC+ Rating Outlook Stable | Downgrade | | B- Rating Watch Negative |
| | ST IDR | C | Downgrade | | B Rating Watch Negative |

| | | | | |
|---|---|---|---|---|
| | Natl LT | BB+(nga) Rating Outlook Stable | Downgrade | BBB(nga) Rat Watch Negative |
| | Natl ST | B(nga) | Downgrade | F2(nga) Ratir Watch Negative |
| | Viability | ccc+ | Downgrade | b- Rating Watch Negative |
| FBN Holdings Plc | LT IDR | B- Rating Outlook Stable | Affirmed | B- Rating Outlook Stable |

VIEW ADDITIONAL RATING DETAILS

## FITCH RATINGS ANALYSTS

**Tim Slater**
Director
Primary Rating Analyst
+44 20 3530 1791
tim.slater@fitchratings.com
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

**Ahmet Kilinc**
Director
Primary Rating Analyst
+44 20 3530 1272
ahmet.kilinc@fitchratings.com
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

**Ramy Habibi Alaoui**
Associate Director

Primary Rating Analyst
+971 4 424 1275
ramy.habibialaoui@fitchratings.com
Fitch Ratings Ltd
Dubai Branch Maze Tower, 18th Floor Sheikh Zayed Road, P.O. Box 215584, Dubai

**Konstantin Alekseenko**
Associate Director
Primary Rating Analyst
+44 20 3530 1165
konstantin.alekseenko@fitchratings.com
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

**Elie Maalouf**
Senior Analyst
Secondary Rating Analyst
+44 20 3530 1304
elie.maalouf@fitchratings.com

**Tim Slater**
Director
Secondary Rating Analyst
+44 20 3530 1791
tim.slater@fitchratings.com

**Nicolas Charreyron**
Senior Analyst
Secondary Rating Analyst
+44 20 3530 2715
nicolas.charreyron@fitchratings.com

**Konstantin Alekseenko**
Associate Director
Secondary Rating Analyst
+44 20 3530 1165
konstantin.alekseenko@fitchratings.com

**Maria Rodriguez**
Senior Analyst
Secondary Rating Analyst

+44 20 3530 1802
maria.rodriguez2@fitchratings.com

**Anton Lopatin**
Senior Director
Committee Chairperson
+971 4 424 1225
anton.lopatin@fitchratings.com

## MEDIA CONTACTS

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

Additional information is available on www.fitchratings.com

## PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Bank Rating Criteria (pub. 01 Sep 2023) (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 |
| EBN Finance Company B.V. | UK Issued, EU Endorsed |
| Ecobank Nigeria Limited | UK Issued, EU Endorsed |
| FBN Finance Company B.V | UK Issued, EU Endorsed |
| FBN Holdings 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 |
| Jaiz Bank PLC | UK Issued, EU Endorsed |
| United Bank For Africa Plc | UK Issued, EU Endorsed |
| Zenith Bank Plc | UK Issued, EU Endorsed |
| Fidelity Bank PLC | UK Issued, EU Endorsed |
| Wema Bank PLC | UK Issued, EU Endorsed |
| Union Bank of Nigeria PLC | UK Issued, EU Endorsed |
| EBN Finance Company B.V. | UK Issued, EU Endorsed |
| Ecobank Nigeria Limited | UK Issued, EU Endorsed |
| First City Monument Bank Limited | UK Issued, EU Endorsed |

## DISCLAIMER & DISCLOSURES

unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

## SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.