MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time ratings to four large Nigerian banks

Global Credit Research - 15 Sep 2016

Limassol, September 15, 2016 -- Moody's Investors Service has today assigned first-time ratings to Zenith Bank Plc (Zenith), Guaranty Trust Bank Plc (GTBank), United Bank for Africa Plc (UBA) and First Bank of Nigeria Limited (FBN), four leading Nigerian banks that account for approximately 48% of the country's banking assets. A full list of the banks' ratings is at the end of this press release.

For Zenith and GTBank, Moody's has assigned B1 local-currency deposit and issuer ratings with a stable outlook, aligned with the ratings of the Nigerian government. Both banks reach these rating levels solely based on their standalone strength, as indicated by the Baseline Credit Assessments (BCA) of b1 assigned to the two banks, Moody's highest in Nigeria. The primary drivers for Zenith and GTBank's BCAs are their robust loss-absorbing buffers, low levels of non-performing loans and their resilient liquidity profiles. Although Zenith and GTBank are systemically important and we attach a high probability of government support in case of needs, their ratings do not benefit from any uplift because their standalone BCAs are already at the government's rating level. Moody's also assigned a Counterparty Risk Assessment (CRA) of Ba3(cr) to both banks.

For UBA, Moody's has assigned B1 local currency deposit and issuer ratings, with a stable outlook. These ratings are underpinned by a standalone BCA of b2 and one notch of uplift based on Moody's view of a high likelihood of government support, owing to UBA's status as a systemically important bank. UBA's standalone BCA of b2 ranks second highest in Moody's Nigerian banking universe, reflecting the balance between the bank's resilient asset quality profile, which is more geographically diversified than most of its peers, and capitalization levels that are slightly below the first tier bank peer average. Moody's also assigned a CRA of B1(cr).

For FBN, Moody's has assigned B2 local and foreign-currency issuer and deposit ratings, with a negative outlook. These ratings are underpinned by a standalone BCA of b3, which is driven by the bank's strong pre-provision profitability and solid local currency funding profile, moderated by the bank's relatively weak loan book and high provisioning costs. Moody's views FBN as a systemically important bank and its ratings benefit from one notch of uplift due to our high government support assumptions. FBN was also assigned a CRA of B1(cr).

In addition to the bank specific considerations, an overarching credit factor behind the bank ratings assigned today is the currently challenging Nigerian operating environment, as the oil and gas dependent economy continues to experience a period of weak economic growth and volatile monetary conditions. In this context, the key credit differentiation factors relate primarily to the relative ability of individual banks to withstand a prolonged difficult environment. The complete Nigeria banking macro profile can be seen on www.moodys.com.

RATINGS RATIONALE

RATINGS RATIONALE AND KEY RATING DRIVERS

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

Zenith Bank

Zenith bank has been assigned B1 local currency deposit and issuer ratings, with a stable outlook. The ratings are anchored by a standalone BCA of b1. A full list of Zenith's ratings is provided at the end of this press release.

Zenith's ratings are underpinned by the bank's resilient earnings generating capacity and robust capital buffers, which together provide a relatively thick cushion to withstand asset quality deterioration compared with domestic peers. Zenith's net income to tangible assets has remained fairly stable over the last year and, at 2.1% as of June-end 2016, is significantly stronger than the global b1 BCA peer median of 0.7%. We also expect profitability will continue to be supported by the bank's robust franchise, which allows it to attract inexpensive deposits and to lend to high credit quality borrowers (relative to other Nigerian banks), resulting in relatively low credit costs.

As of June 2016, tangible common equity as a percentage of risk-weighted assets stood at 16.1%, also significantly higher than the global b1 BCA peer median of 10.3%. That said, we view Zenith's reported capitalization as being moderated by the bank's exposure to foreign currency risks. As 36% of the bank's loan book is denominated in foreign currency, any further depreciation of the Naira would inflate risk-weighted assets, thus reducing capital ratios.

Another factor that leads Moody's to view Zenith as relatively well positioned to withstand the difficult operating environment is the consistently low level of adjusted non-performing loans (NPLs) that the bank has generated through previous credit cycles. This highlights the bank's conservative underwriting standards and its focus on large corporate borrowers, a large proportion of which are international conglomerates that are broadly diversified. Nevertheless, we expect some asset quality deterioration in the coming quarters given the weak economy, the bank's high exposure to foreign currency denominated loans (36% of total loans as of June 2016), as well as to sizable single-name exposures. Moody's expects the degree of deterioration, however, to remain well within the ability of the bank to absorb through pre-provision earnings.

Zenith's relatively stronger capacity to manage the ongoing foreign currency liquidity pressure in Nigeria following the recent floating of the Naira and the rationing of dollars through other policy measures, is also another important factor underpinning the bank's credit profile. The bank reports high liquidity metrics, with liquid assets to total assets of 37.7% as of June 2016, which is markedly higher than that of its global peers. However, while the bank is predominantly deposit funded, with deposits making up 72% of the bank's funding sources, the majority of deposits are more volatile corporate deposits rather than retail deposits. Similarly, the dollar funding portion of the bank's books is not entirely covered by dollar deposits, with a dollar loan-to-deposit ratio of about 113%, exposing the bank to market access and cost risks. That said, we note the bank's robust level of dollar liquidity (32%) and its positive net open dollar position.

Given that the bank's BCA is at the same level as the Nigerian government's issuer rating of B1, we do not incorporate any rating uplift on the bank's BCA despite our assessment of a 'high' likelihood of government support in the event of need. Our assessment reflects the bank's Domestic Systemically Important Bank (D-SIB) status in Nigeria and the government's willingness to support troubled banks, as indicated in government interventions in the past.

GTBank

GTBank bank carries B1 local currency deposit and issuer ratings, with a stable outlook. The ratings are underpinned by a standalone BCA of b1. A full list of GTBank's ratings is provided at the end of this press release.

GTBank's credit profile is also underpinned by high pre-provision profitability, which we expect to remain relatively strong around 5% over RWAs (we note that the recent spike in this metric, to about 11%, is due to a one-off gain resulting from foreign exchange re-valuation), and robust capital buffers that provide a considerable cushion to withstand erosion in asset quality in the currently challenging environment. In order to drive profitability, GTBank's business model has focused on operational efficiency through the early exploitation of electronic banking platforms and a high utilization/deployment of funds into risk-assets, which has led the bank to report one of the strongest efficiency metrics among its peers globally, with a 42% cost to income ratio. Also, as a reflection of GTBank's consistently high profitability metrics, we expect the bank's tangible common equity as a percentage of risk-weighted assets, which stood at 18% as of June 2016 (significantly higher than the global b1 BCA peer median of 10.3%), to remain solid over the coming quarters.

While solid loan underwriting and asset quality is a key strength of GTBank's credit profile (Moody's adjusted NPLs was 4.4% of total loans as of June 2016), we do expect some deterioration in asset quality and increasing credit costs on account of the difficult operating environment and the bank's concentration risks. GTBank has high exposure to foreign currency denominated loans (56% of total loans as of June 2016, above the Nigerian banking industry's average of 50%) and to the oil and gas industry (reported ratio of 36% of total loans, which is higher than the first tier bank average of about 28%). However, we expect the magnitude of the deterioration to be relatively modest and, therefore, manageable through pre-provision earnings.

Moody's BCA assigned to GTBank also reflects the bank's well managed liability profile, which should allow it to navigate through the volatile currency environment in Nigeria. The bank is predominantly deposit funded with a low reliance on more sensitive market funds (deposits make up 80% of the bank's funding sources). Additionally, 45% of deposits are retail, which is a higher ratio than that of most Nigerian banks. We view this positively, as we consider retail deposits to be less confidence sensitive than corporate deposits. Furthermore, the bank maintains a moderate liquidity buffer, with liquid assets to total assets of 29% as of June 2016, which provides a cushion that is in line with global peers. Considering foreign currency liquidity only, GTBank's liquidity profile is robust, covering funding needs based on Moody's assessment. While GTBank's dollar-only loan-to-deposit ratio is high at 162% (Moody's ratio, as of June 2016), we consider it positive that GTBank holds about 19% of its total dollar assets in on-balance sheet liquid dollar assets (cash and securities), while also carrying a long dollar position in derivative contracts. For the purpose of downside scenario analysis, we estimate these liquidity instruments would be sufficient to cover the bank's maturing obligations over the next 12 to 18 months in the event of debt market interruptions.

Given that GTBank's BCA is at the same level as the Nigerian government's rating of B1, we do not incorporate any rating uplift on the bank's BCA despite Moody's assessment of a 'high' probability of support in case of financial stress given its systemic importance, as indicated by its classification as a D-SIB in Nigeria.

UBA

UBA has been assigned B1 local currency deposit and issuer ratings, with a stable outlook. The ratings are underpinned by a standalone BCA of b2 and one notch of government support uplift. A full list of UBA's ratings is provided at the end of this press release.

A key strength of UBA's credit profile is its asset quality profile, which Moody's expects will lead to lower asset quality deterioration than peers despite the current challenging operating environment in Nigeria. NPLs have remained consistently lower than peers in recent quarters, currently standing at 2.4% as of June 2016, and are covered 1.1 times by provisions, thus providing a buffer beyond the current stock of problem loans. Although we expect that the challenging domestic operating environment will lead to an increase in NPLs, we expect the magnitude of the deterioration to be moderated by the bank's geographic diversification.

Operating in 18 African countries (slightly over 20% of the bank's total assets), it is the most geographically diversified of the rated Nigerian banks. Additionally, of UBA's loan book, 22% is to the oil and gas sector compared with 28% for first tier banks. Moreover, while foreign currency denominated loans will expose borrowers to the exchange rate volatility of the Naira, 37% of UBA's loan book is denominated in U.S. dollars, lower than first tier banks average of around 43%.

Our BCA also reflects the bank's solid liability profile and ability to face liquidity headwinds brought about by currency volatility and the more difficult access to the dollar market observed throughout the system. UBA is predominantly deposit funded with a low reliance on more sensitive market funds (deposits make up 84% of the bank's funding sources), though we observe that the majority of deposits are from corporate deposits, which we generally view as more volatile than retail deposits. Furthermore, unlike other Nigerian banks, UBA maintains a comparatively low U.S. dollar loans to deposit ratio of 85% and a high level of U.S. dollar liquid assets on its balance sheet (23% of dollar assets are liquid).

Balanced against these strengths, UBA's credit profile is moderated by the bank's modest capital buffers relative to other leading Nigerian banks. As of June 2016, tangible common equity as a percentage of risk-weighted assets stood at 14%, which, although higher than the global b2 BCA peer median of 13%, is slightly lower than the first tier Nigerian bank average.

Going forward, however, we expect the bank's capitalisation to remain stable, primarily because of UBA's resilient profitability metrics. UBA's net income to tangible assets has remained fairly stable over the last year and was 2.0% as of June 2016, better than the global b2 BCA peer median of 1%. Profitability is supported by the bank's robust franchise, which allows it to attract inexpensive deposits and lend to high credit quality borrowers (relative to other Nigerian banks), resulting in relatively low credit costs.

The local currency deposit ratings incorporate a one-notch uplift from UBA's b2 BCA, based on our assessment of a 'high' likelihood of government support in the event of need given the systemic importance of the bank as a D-SIB.

First Bank of Nigeria Limited

FBN carries B2 local and foreign-currency issuer and deposit ratings, with a negative outlook. These ratings are underpinned by a standalone BCA of b3 and one notch of government support uplift. A full list of FBN's ratings is provided at the end of this press release.

FBN's ratings and outlook capture the bank's deteriorating asset quality metrics, with NPLs accounting for around 23% of gross loans as of June 2016, on the back of the challenging operating domestic environment (reflected in Macro Profile of 'Very Weak+'), as well as significant exposures to the troubled oil & gas sector (slightly above 40% of total loans in Nigeria as of June 2016) and a high proportion (over 50%) of foreign currency lending. These exposures also make FBN relatively more sensitive to downside risk scenarios than its immediate domestic peers.

The bank also faces relatively tight foreign currency liquidity, with the bank increasingly challenged to raise dollar funding -- borrowings from correspondent banks declined to N14 billion in 2015 from N188 billion in 2014 -- or meet clients' dollar needs.

That said, FBN's standalone credit profile also captures the bank's high and resilient pre-provision profitability that can absorb additional provisions and build up its NPL coverage (of around 42% as of June 2016). FBN's H1 2016 annualised pre-provision profits amounted to around 4.7% of total assets (or 9.0% of gross loans), with the equity-to-assets ratio at 11.8% as of June 2016. In addition, FBN maintains a stable, deposit-based funding structure and high liquidity buffers in local currency. As of June 2016, the bank maintained cash, interbank balances and investments (primarily government bonds) of around N2,214 billion or 48% of total assets.

FBN's B2 long-term deposit rating also factors in Moody's assessment of a high probability of government support in case of need. This support assumption reflects FBN's designation by the Central Bank of Nigeria as a D-SIB (given its 12% market share of deposits) and Nigeria's track record of supporting troubled banks in the past.

STABLE OUTLOOKS ON ZENITH, GTBANK AND UBA

The stable outlooks on the ratings of Zenith, GTbank and UBA reflect our expectations that credit costs associated with the expected deterioration in asset quality will be absorbed by pre-provision profits and that overall, these banks' credit fundamentals will continue to compare favorably with peers in the B rating level despite pressures arising from the challenging operating environment.

NEGATIVE OUTLOOK ON FBN's RATINGS

FBN's negative rating outlook reflects the risk of high 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.

WHAT COULD MOVE THE RATING -- UP/DOWN

Although the difficult operating environment suggests that there is limited upward pressure for upgrades in the short term, a demonstrated ability to contain NPLs through the down cycle, while maintaining good profitability and capital generation capacity, would put upward pressure on the banks' BCA.

For Zenith and GTBank, their BCAs are constrained by the fact that they are at the sovereign rating level and, therefore, to translate into upgrades, any improvement in the intrinsic credit profile of the banks would need to be accompanied by an upgrade of the government.

For FBN, the negative outlook implies limited upwards pressure at present. Nevertheless, upward pressure on the rating could develop if there is a material improvement in the bank's asset quality metrics that would allow for the recovery in the bank's bottom-line profitability.

Conversely, Zenith, GTBank and UBA's ratings could be downgraded if their asset quality deteriorates meaningfully, putting pressure on the banks' profitability and capital buffers. A substantial deterioration of the banks' foreign currency funding and liquidity profile could also trigger a downgrade driven by a weakening of the standalone credit profile of the bank, as would a downgrade of the sovereign itself, implying reduced capacity to provide support.

A downgrade of FBN's ratings could be driven by further deterioration in the bank's asset quality metrics that would place additional pressure on the bank's earnings generating capacity and capital buffers. A downgrade of Moody's Nigeria sovereign rating would also pressure the bank's ratings as it would imply reduced capacity to provide support.

The principal methodology used in these ratings was Banks published in January 2016. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

LIST OF ASSIGNED RATINGS

Assignments:

..Issuer: First Bank of Nigeria Limited

.... LT Issuer Rating (Foreign Currency and Local Currency), Assigned B2 Negative

.... LT Bank Deposits (Foreign Currency and Local Currency), Assigned B2 Negative

.... ST Issuer Rating (Foreign Currency and Local Currency), Assigned NP

.... ST Bank Deposits (Foreign Currency and Local Currency), Assigned NP

.... Adjusted Baseline Credit Assessment, Assigned b3

.... Baseline Credit Assessment, Assigned b3

.... Counterparty Risk Assessment, Assigned B1(cr)

.... Counterparty Risk Assessment, Assigned NP(cr)

..Issuer: Guaranty Trust Bank Plc

.... LT Issuer Rating (Foreign Currency and Local Currency), Assigned B1 Stable

.... LT Bank Deposits (Foreign Currency), Assigned B2 Stable

.... LT Bank Deposits (Local Currency), Assigned B1 Stable

.... ST Issuer Rating (Foreign Currency and Local Currency), Assigned NP

.... ST Bank Deposits (Foreign Currency and Local Currency), Assigned NP

.... Adjusted Baseline Credit Assessment, Assigned b1

.... Baseline Credit Assessment, Assigned b1

.... Counterparty Risk Assessment, Assigned Ba3(cr)

.... Counterparty Risk Assessment, Assigned NP(cr)

..Issuer: Zenith Bank Plc

.... LT Issuer Rating (Foreign Currency and Local Currency), Assigned B1 Stable

.... LT Bank Deposits (Foreign Currency), Assigned B2 Stable

.... LT Bank Deposits (Local Currency), Assigned B1 Stable

.... ST Issuer Rating (Foreign Currency and Local Currency), Assigned NP

.... ST Bank Deposits (Foreign Currency and Local Currency), Assigned NP

.... Adjusted Baseline Credit Assessment, Assigned b1

.... Baseline Credit Assessment, Assigned b1

.... Counterparty Risk Assessment, Assigned Ba3(cr)

.... Counterparty Risk Assessment, Assigned NP(cr)

..Issuer: United Bank for Africa Plc

.... LT Issuer Rating (Foreign Currency and Local Currency), Assigned B1 Stable

.... LT Bank Deposits (Foreign Currency), Assigned B2 Stable

.... LT Bank Deposits (Local Currency), Assigned B1 Stable

.... ST Issuer Rating (Foreign Currency and Local Currency), Assigned NP

.... ST Bank Deposits (Foreign Currency and Local Currency), Assigned NP

.... Adjusted Baseline Credit Assessment, Assigned b2

.... Baseline Credit Assessment, Assigned b2

.... Counterparty Risk Assessment, Assigned B1(cr)

.... Counterparty Risk Assessment, Assigned NP(cr)

Outlook Actions:

..Issuer: First Bank of Nigeria Limited

....Outlook, Assigned Negative

..Issuer: Guaranty Trust Bank Plc

....Outlook, Assigned Stable

..Issuer: Zenith Bank Plc

....Outlook, Assigned Stable

..Issuer: United Bank for Africa Plc

....Outlook, Assigned Stable

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