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Research Update:

Outlooks On Five Nigerian Banks Revised To Negative After Sovereign Action; Ratings Affirmed

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Overview

- On March 27, 2014, we revised our outlook on Nigeria to negative from stable to reflect heightened political and institutional risks in the country.
- We do not rate any bank in Nigeria above the sovereign because of the likely direct and indirect influence sovereign distress would have on the banks' operations.
- We are therefore revising to negative from stable our outlooks on the five Nigerian banks that we rate at the sovereign foreign currency level.
- We are affirming our 'BB-/B' counterparty credit ratings and our Nigeria national scale ratings on these banks.

Rating Action

On April 1, 2014, Standard & Poor's Ratings Services revised its outlook to negative from stable on the following Nigerian financial institutions:
- Access Bank PLC,
- FirstBank of Nigeria Ltd, and its holding company, FBN Holding PLC,
- Stanbic IBTC Bank PLC,
- Guaranty Trust Bank PLC, and
- Zenith Bank PLC.

At the same time, we affirmed our 'BB-/B' long- and short-term counterparty credit ratings on the banks and our 'B/B' long- and short-term counterparty credit ratings on the holding company FBN Holding PLC (see "Ratings List" section).

Rationale

The outlook revision on the banks follows our similar action on Nigeria (see "Nigeria Ratings Affirmed; Outlook Negative On Increasing Political, Institutional, And Fiscal Risks," published on RatingsDirect on March 27, 2014). The sovereign outlook revision reflects infighting within the ruling party--which, in our opinion, has heightened political and institutional tensions--and extensive oil theft and consequent installation shutdowns that have caused oil production to fall below the government's assumptions for its 2013 budget and 2014 budget plan. At the same time, fiscal buffers in the excess crude account have been depleted over the past year.

We do not rate any regulated bank in Nigeria above our sovereign ratings on

Nigeria because of the likely direct and indirect influence of sovereign distress on the banks' operations--including their ability to service foreign currency obligations and the possibility of regulatory intervention--and because of the high proportion of government securities and public sector deposits on their balance sheets.

The stand-alone credit profiles (SACP) of the above mentioned banks and holding company (FBN Holding) remain unchanged, despite our expectation that Nigeria's mounting political pressures and regulatory changes are likely to test banks' operating performances over the next 12-18 months, particularly earnings capacity and potentially cost of risk, owing to rapid loan growth. Nevertheless, we expect economic growth and gradual diversification, plus the currently low level of nonperforming loans and sound liquidity indicators, to be broadly supportive of financial sector stability over this period. We factor into our ratings our opinion that the newly appointed governor of the Central Bank, Godwin Emefiele, the CEO of Zenith Bank, will continue the regulatory reform process and not weaken the roles of regulators and the government in maintaining banking sector stability.

Outlook

The negative outlooks on the banks currently reflect that on the sovereign. We would lower the ratings on the banks if we lowered our sovereign rating on Nigeria, as we do not rate any bank in the country above the foreign-currency ratings on the sovereign.

We would also lower the ratings on the individual banks, if asset quality, operating performance, or capitalization indicators did not meet our current expectations. Furthermore, if competition increased significantly (as evidenced by a weakening in credit origination standards and pricing or erratic growth), if the regulatory reform process slowed, or if we saw evidence of political interference or governance issues at the Central Bank, we would also lower the ratings on the banks.

A revision of the outlook on the sovereign to stable would trigger an outlook revision to stable on the banks, provided that the individual banks' business and financial profiles do not deteriorate from their current levels.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- Nigeria Ratings Affirmed; Outlook Negative On Increasing Political, Institutional, And Fiscal Risks, March 27, 2014
- Nigeria Ratings On Watch Negative Following Appeal Of Rating Decision, March 21, 2014
- Brighter prospects For Nigeria's Banking Sector In 2014 Will Depend On Political And Regulatory Stability, Feb. 11, 2014
- Banking Industry Country Risk Assessment: Nigeria, Nov. 22, 2013
- Nigeria (Federal Republic of), Oct. 18, 2013

Ratings List

	To	From
Access Bank PLC		
Counterparty Credit Rating	BB-/Negative/B	BB-/Stable/B
National Scale Rating	ngAA-	ngAA-
FirstBank of Nigeria Ltd		
Counterparty Credit Rating	BB-/Negative/B	BB-/Stable/B
National Scale Rating	ngAA-/ngA-1	ngAA-/ngA-1
FBN Holding PLC		
Counterparty Credit Rating	B/Negative/B	B/Stable/B
National Scale Rating	ngBBB/ngA-3	ngBBB/ngA-3
Stanbic IBTC Bank PLC		
Counterparty Credit Rating	BB-/Negative/B	BB-/Stable/B
National Scale Rating	ngAA-/ngA-1	ngAA-/ngA-1
Guaranty Trust Bank PLC		
Counterparty Credit Rating	BB-/Negative/B	BB-/Stable/B
National Scale Rating	ngAA-/ngA-1	ngAA-/ngA-1
Zenith Bank PLC		
Counterparty Credit Rating	BB-/Negative/B	BB-/Stable/B
National Scale Rating	ngAA-/ngA-1	ngAA-/ngA-1

N.B. This list does not include all ratings affected.

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