

Nigeria  
Special Report

# Nigerian Banking Sector: Annual Review and Outlook

## Ratings

	National Long-Term Rating	Foreign-Currency Long-Term IDR
Stanbic IBTC Bank PLC	AAA(nga)	NR <sup>a</sup>
Guaranty Trust Bank PLC	AA-(nga)	B+/Stable Outlook
Zenith Bank Plc	AA-(nga)	B+/Stable Outlook
First Bank of Nigeria Plc	A+(nga)	B+/Stable Outlook
Intercontinental Bank Plc	A+(nga)	B+/Stable Outlook
United Bank For Africa Plc	A+(nga)	B+/Stable Outlook
Union Bank of Nigeria PLC	A+(nga)	B+/Stable Outlook
Diamond Bank Plc	A-(nga)	B/Stable Outlook
Oceanic Bank International Plc	BBB+(nga)	B/Stable Outlook
Ecobank Nigeria Plc	BBB-(nga)	B-/Stable Outlook
Access Bank Plc	BBB-(nga)	NR

<sup>a</sup> NR - Not Rated

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## Summary and Outlook

2008 marked the end of a period of rapid expansion for the Nigerian banking sector with the onset of the global credit crisis and lower oil prices causing a weakening in the operating environment. How the sector deals with the excesses built up in recent years will be a feature for the next couple of years. However, the system-wide consolidation in 2005/2006 when the banks' minimum capital requirements were raised significantly has better positioned the sector to absorb these risks and a slower period of growth would be a positive development.

Share-backed lending has emerged as an important risk consideration following the collapse in share prices since early 2008 and is going to have to be absorbed in some form. The Central Bank of Nigeria (CBN), which estimates the sector-wide exposure to be about NGN800bn-NGN1,200bn at end-2008, has allowed banks to reschedule these obligations, without classifying them as non-performing. Sector estimates vary due to different definitions but for the Fitch-rated banks the exposures provided by management appear to be lower. A capital sensitivity test for Fitch-rated banks that assumes a 50% provision against estimated exposures provided by management reveals that no bank would breach minimum capital requirements and all would still have Tier 1 capital ratios above 15%. The sector average total capital adequacy ratio (CAR) was 21.9% at FYE08 with most of the Fitch-rated banks having Tier 1 capital ratios in excess of 20%.

Another area of pressure has been system liquidity. Risk aversion has seen foreign funds being withdrawn (although this was not significant in the first place) and there has been some evidence of a flight to quality due to market concerns about share lending exposures. In response, the CBN has reduced the minimum regulatory liquidity requirements on a number of occasions. While some banks may be under more pressure than others, liquidity in the system appears adequate and Fitch Ratings expects loan-to-deposit ratios to moderate as loan growth slows.

The various risk concerns in the banking system have highlighted the issue of information disclosure deficiencies. While this has improved as banks have sought to access the international capital markets, the sector still has some way to go and is lagging other emerging markets in this respect and would benefit from the introduction of IFRS and a uniform accounting financial year.

In spite of the environment, Nigerian banks continued to report strong earnings growth in 2008 due to rapid credit growth and the agency expects growth to continue in 2009, although it will be lower. Rapid growth has masked the increasing risk in the system and we expect impaired loans to rise as the economy slows. This rapid credit growth (the highest of any country covered by Fitch during 2007/08) led to Fitch's Macro Prudential Indicator (MPI) increasing from '2' to '3' in May 2009, the highest risk category. The MPI aims to identify potential for systemic stress.

Given the various issues facing the sector, the following rating actions were taken during 2008: the Outlooks on Guaranty Trust Bank Plc and Zenith Bank Plc were revised to Stable from Positive; Access Bank's National Long-term rating was downgraded to 'BBB-'(nga); Ecobank Nigeria Plc's IDR was downgraded to 'B-' from 'B'; and Union Bank Plc's Individual rating was downgraded to 'D/E' from 'D'. Should the risks from very rapid credit growth or the exposures to share-backed lending lead to significantly higher impairments, this could result in rating pressure.

- Concentrated banking sector comprising 24 banks at FYE08
- Significant increase in regulatory activity
- Further market-driven consolidation expected in the wake of an increasingly challenging operating environment

## Profile

The Nigerian banking sector comprised 24 banks at 31 December 2008. This was reduced substantially from 89 following the regulatory-driven consolidation of 2005/2006. The sector is concentrated, with the 10-largest banks controlling about 80% of total system assets at FYE08.

The Nigerian banking sector has enjoyed relatively benign operating conditions and robust economic activity over the past four years with GDP growth at 6.8% during 2008 (2007: 6.2%) against inflation of 14.6%. The relatively stable operating environment, combined with significant new equity in the banking system contributed to Nigeria having the highest credit growth of any country covered by Fitch during 2007 and continuing to be rapid throughout 2008 (see 'Bank Systemic Risk Report', published on [www.fitchratings.com](http://www.fitchratings.com) on 11 May 2009). As a result, Fitch's Macro Prudential Indicator was downgraded to '3' from '2' in May 2009, signalling the potential for increased risks within the system.

Since late 2008, Fitch has noted several factors that indicate an increasingly difficult operating environment in Nigeria from FY09 as a result of the economic consequences of the global financial crisis. These factors included increased concentrations to margin- and share-backed lending on the back of a 50% fall in equity markets during FY08 and further contraction during FY09, low oil prices which are expected to affect growth in the economy and asset quality, increased currency volatility and declining levels of liquidity in the market.

During late 2008 and the beginning of 2009, Fitch noted increased government intervention in the economy and several changes to banking regulations in an effort to mitigate the repercussions of a slowing economy.

## Recent Regulatory Changes

The CBN recently increased the intensity of its supervision by deploying resident examiners in all banks from January 2009. Examiners are authorised to attend board and management meetings (including their committees) as observers, query banks' systems as and when necessary and carry out all other functions necessary to accomplish the objectives of bank supervision.

Following the significant reduction in stock prices during FY08, the CBN allowed banks to elect to restructure loans granted for the purpose of acquiring shares on the Nigerian Stock Exchange for longer periods without classifying them as non-performing loans (see 'Share Lending Exposures' below).

To offset liquidity pressure in the banking sector, the CBN reduced the minimum liquidity requirement for banks to 30% from 40% in September 2008. At the same time, cash reserve requirements were reduced to 2% from 4%. Further relaxation occurred in April 2009, when liquidity and cash reserve requirements reduced to 25% and 1% respectively. During October 2008, the CBN provided for an expanded discount window, availing all deposit taking banks and discount houses of standing lending facilities and fixed-tenor repurchase facilities. The tenor of borrowing was extended from overnight to 360 days.

The increased volatility in the country's currency markets caused the authorities to reintroduce foreign exchange (FX) controls in February 2009 and has reduced the maximum allowable net open FX position for banks to 1% of shareholders' funds (see 'Market Risk'). This was revised upwards to 2.5% during May 2009 (end-2007: 20%).

During the course of 2008, the CBN decreed a common December-year-end for all Nigerian banks but subsequently revoked this order. However, during Q109, the CBN reiterated this instruction, with effect from December 2009. Fitch believes that this could lead to even tighter liquidity as the banks proactively seek to improve their own liquidity as they draw closer to the common year-end.

The CBN has also indicated that it may require Nigerian banks to report under International Financial Reporting Standards (IFRS) from the financial year-ended 31 December 2009. The agency is of the opinion that this will prove extremely challenging given the domestic market's inexperience with IFRS and consequent skills shortage within the domestic market.

Other recent circulars have included: imposing a cap on lending and deposit rates, with stiff penalties for institutions that do not comply; draft guidelines on the regulation of Non-Interest (Islamic) Banking; and guidelines for the licensing and regulation of credit bureaux in Nigeria. In May 2009, the CBN stated that it intends to reintroduce the Wholesale Dutch Auction System and move toward a fully liberalised foreign exchange market during the course of the next few months.

### Market-Driven Consolidation

After December 2008, Bank PHB Plc acquired a controlling interest in Spring Bank, bringing the total number of banks in the sector to 23. Given the increasingly challenging operating environment, exposure to share lending and stronger competition between the banks, Fitch expects further market-driven consolidation during 2009 and 2010. Tightening liquidity and deteriorating asset quality in the market could result in some of the marginal players in the sector being taken over by stronger institutions.

## Transparency and Share Lending Exposures

### Levels of Transparency

Transparency is weak in Nigeria although there have been improvements in some of the more internationally active institutions. With the exception of GTB, bank financial statements are only presented in local GAAP. While Fitch recognises that Nigerian GAAP do not require the same levels of detailed disclosure as IFRS, the agency notes that most Nigerian banks do not provide supplementary information of their Tier 1 and total capital adequacy ratios and detailed information regarding their loan portfolios in their annual reports (with the exception of the banks identified in Table 1). First Bank was the only bank in the sector to disclose its share lending exposure at end-2008 in its annual report.

- Weak transparency
- Better disclosure by more internationally active banks

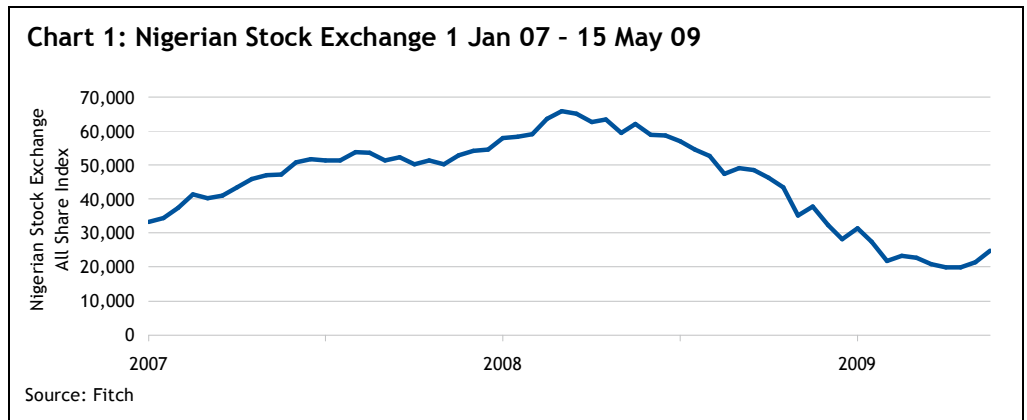
**Table 1: Transparency of Annual Reports**

	Nigerian GAAP	IFRS	Tier 1 and total capital adequacy ratios	Breakdown of loan book by sector	Disclosure of share lending transactions
Access	✓	x	✓	x	x
Diamond	✓	x	x	x	x
Ecobank	✓	x	x	x	x
First Bank	✓	x	✓	✓	✓
GTB	✓	✓	✓	✓	x
Intercontinental	✓	x	x	x	x
Oceanic	✓	x	x	x	x
SIBTC	✓	x	x	x	x
UBA	✓	x	✓	x	x
Union	✓	x	x	x	x
Zenith	✓	x	x	x	x

Source: Banks, Fitch

### Share Lending Exposures

Share-backed and margin lending have become a feature of many Nigerian banks over the past two years. The CBN estimated sector-wide exposure to this type of lending to be about NGN800bn-NGN1,200bn at end-2008. According to the CBN, this represented 30%-45% of system-wide shareholders' funds at FYE08. Of this amount, the CBN estimates that about NGN400bn related to margin lending. These facilities are primarily to individuals and stock brokers for the purpose of acquiring shares.



Fitch makes the distinction between margin lending and share-backed loans to corporates for the purpose of acquiring shares, with the former considered to be far riskier because of the counterparties' reliance on favourable share performance in order to repay the loan. At the same time, Fitch is aware that stockbrokers in Nigeria tend to hold relatively low levels of capital. Share-backed loans to corporates are considered to be less risky as their cash flows and consequent ability to repay these loans are dependent on the underlying operations of the company. During October 2008, the CBN issued a circular that allowed banks to elect to reschedule these obligations, without classifying them as NPLs.

**Table 2: Share Lending Exposure**

	Margin lending (NGNbn) <sup>a</sup>	Other corporates (NGNbn) <sup>a</sup>	Total exposure (NGNbn) <sup>a</sup>	Equity <sup>a</sup>	% of equity	% of loans	Tier 1 ratio	Projected Tier 1 with 50% impairment
Intercontinental <sup>b</sup>	36.9	48.3	85.2	229.3	37.2	14.6	25.8	22.0
GTB	18.9	51.4	70.3	182.0	38.6	16.4	22.4	18.8
Ecobank <sup>c</sup>	59.2	-	59.2	n.a.	n.a.	n.a.	n.a.	n.a.
First Bank	-	-	58.8 <sup>f</sup>	355.6	16.5	12.3	39.2	37.2
Access <sup>d</sup>	20.1	13.4	33.5	184.2	18.1	7.8	33.0	30.9
Zenith	9.2	13.8	23.0	346.6	6.6	4.9	36.1	35.3
Oceanic <sup>e</sup>	22.0	-	22.0	223.1	9.9	6.2	36.0	34.8
UBA	21.6	-	21.6	194.9	11.1	4.7	20.9	20.0
Diamond	19.6	0.6	20.2	117.3	17.2	7.2	20.5	19.0
Union	17.8	-	17.8	125.3	14.2	6.0	17.6	16.6
SIBTC <sup>e</sup>	5.2	4.9	10.1	76.0	13.3	10.9	41.4	39.8

<sup>a</sup> Latest available information - margin lending includes loans to individuals, stockbrokers or classified as margin lending

<sup>b</sup> Calculations based on H109 balance sheet position

<sup>c</sup> Ratio's have not been calculated as Ecobank raised new capital during FY08

<sup>d</sup> unaudited management information at 31 March 2009

<sup>e</sup> Balance sheet position based on FYE07

<sup>f</sup> Breakdown not available

n.a.: at the time of writing, these December-year-end banks had yet to publish their accounts

Source: Fitch, Banks

It remains to be seen how Nigerian banks will address their share lending exposures in their financial statements. The agency considers that significant impairment charges could arise if these exposures become non-performing or if the value of collateral continues to remain below minimum coverage ratios. A potential mitigant is the proposed establishment of an asset management company which will take the form of a voluntary scheme that will enable banks to sell off these exposures at a discount to clean up their balance sheets. This law has yet to be passed, although Fitch understands that some banks have indicated their willingness to participate in such a scheme. Table 2 illustrates the banks' exposure to margin lending and share-backed lending and the potential impact on capital adequacy of a 50%-impairment of these exposures. Fitch has applied a 50%-impairment consistently across all banks in this test and recognises that it may be a blunt tool as no recognition has been given to future profits by the bank and tax benefits on any provisions.

However it clearly shows that on this relatively conservative measure, capital ratios for the Fitch-rated banks would not fall below 15% and with most remaining above 20%.

Estimates of total share-backed and margin lending vary across the sector due to differing definitions, but the estimates provided by the Fitch-rated banks' management appears to be lower than CBN estimates.

- Strong earnings growth on the back of rapid balance sheet expansion
- Earnings expected to be negatively affected by increasing impairment charges
- Weak efficiency ratios

### Performance

The earnings of the Nigerian banks continued to grow strongly during FY08 on the back of improvements in net interest and non-interest income following expansion of the banks' loan and depositor books. Net earnings increased by 60%-165% in the Fitch-rated banks, with many of these institutions doubling their post-tax profits during FY08. This growth was supported by high levels of GDP growth and stable but increasing inflation for most of the year. These improved earnings do not reflect the potential impairment charges that the banks may incur as a result of exposures to share lending (see above). The economic effects of the global financial crisis are expected to affect the Nigerian economy more significantly during 2009, with GDP growth expected to slow to about 3% on the back of lower oil prices. Tighter liquidity, increased currency volatility and weaker asset quality are also expected to negatively affect FY09 earnings.

The sector recorded improved financial performance indicators, with the 11 Fitch-rated banks reporting a return on average assets (ROAA) of between 2.3%-4.1% during FY08. Similarly return on average equity (ROAE) ranged from 15.0%-23.1% during FY08.

The consolidated performance of the 11 Fitch-rated banks at their respective 2008 year ends (FYE08) is shown in table 3. These banks represent more than 80% of total system assets and include: United Bank for Africa Plc (UBA); Oceanic Bank International Plc (Oceanic); Zenith Bank Plc (Zenith); First Bank of Nigeria Plc (First Bank); Intercontinental Bank Plc (Intercontinental); Union Bank of Nigeria Plc (Union); Guaranty Trust Bank Plc (GTB); Access Bank Plc (Access); Diamond Bank Plc (Diamond); Stanbic IBTC Bank Plc (SIBTC) and; Ecobank Nigeria Plc (Ecobank).

**Table 3: Financial Performance of Fitch-Rated Banks**

	(NGNbn)						(%)					
	Total assets		Total equity		Net income		ROAE		ROAA		Cost/income	
	FYE08	FYE07	FYE08	FYE07	FYE08	FYE07	FYE08	FYE07	FYE08	FYE07	FYE08	FYE07
UBA	1,673.0	1,191.0	194.9	168.1	40.8	21.4	22.5	19.8	2.8	2.1	61.6	60.2
Oceanic	n.a.	1,038.4	n.a.	223.1	n.a.	17.5	n.a.	13.5	n.a.	2.5	n.a.	58.5
Zenith	1,787.8	972.9	346.6	116.5	52.0 <sup>a</sup>	18.8	17.9	17.3	3.0	2.4	59.6	63.7
First Bank	1,527.5	911.4	355.6	83.6	36.5	18.7	16.6	25.2	3.0	2.4	56.1	61.7
Inter-continental	1,392.2	704.8	208.9	158.6	34.8	15.5	18.9	14.5	3.3	2.9	57.6	60.7
Union	1,128.9	700.1	125.3	107.5	26.9	13.9	23.1	13.3	2.9	2.0	55.9	72.4
GTB <sup>b</sup>	962.7	735.7	182.0	163.3	28.3	21.2	19.8	19.8	4.1	4.2	52.1	49.6
Access	1,043.5	328.6	172.0	28.4	16.1	6.1	16.0	21.2	2.3	2.4	46.7	57.2
Diamond	625.7	321.0	117.3	53.3	12.8	5.8	15.0	13.1	2.7	2.1	56.0	67.8
SIBTC	n.a.	315.1	n.a.	76.0	n.a.	7.9	n.a.	17.8	n.a.	4.5	n.a.	42.4
Ecobank	n.a.	311.4	n.a.	34.8	n.a.	7.4	n.a.	23.2	n.a.	3.4	n.a.	57.3

n.a.: at the time of writing, these December-year-end banks had yet to publish their accounts

<sup>a</sup> 15 months

<sup>b</sup> The FYE08 figures for GTB reflect the 10-month period to December 2008, the FYE07 figures reflect the financial year-ended 28 February 2008

Source: Banks, Fitch

### Revenue

Net interest income continued to be supported by strong credit growth as well as interest earned on increased holdings of government securities, particularly in the

banks that raised capital during FY08. Fitch notes that many of the banks had improved net interest margins, especially those with later year-ends, on the back of increasing interest rates during 2008. This could reduce during FY09 owing to tighter market liquidity and increasing competition in the banking sector.

Non-interest earnings also grew relatively strongly as a result of improved fee and commission income on the back of expanded loan and depositor books. This has been driven by a growing proportion of Nigerians having access to banking services and increased off-balance sheet exposures relating to guarantees, letters of credit and other trade-related transactions. The notable exception was Union, which only increased non-interest income by 4% during FY08 following flat performance in investment income, bond trading and foreign exchange (FX) income.

### Operating Expenses

The Nigerian banking sector is characterised by weak efficiency ratios which result from an underdeveloped economic infrastructure and a lack of operational scale in many of the banks. In addition, significant increases in personnel costs in the Fitch-rated banks constrained improved efficiencies. This was partly as a result of increased staff complements to support larger branch infrastructures but also due to salary adjustments, making remuneration more competitive on the back of a skills shortage in the market.

Efficiency ratios tend to be between 55%-60% among the Fitch-rated banks, with GTB and Access being the main outliers at FYE08 (see Table 3 above).

### Loan Loss Provisions

With the exception of UBA, all of the Fitch-rated banks reported increased provision charges during FY08. Although UBA's provision charge reduced, the bank's absolute amount of NPLs increased, resulting in a deterioration of the bank's coverage ratio. While GTB and Intercontinental reported increased provisions of 23.1% and 58.2% respectively, the remaining banks all reported provision charges at least double the FY07 charge. In light of the rapid credit growth over the last four years and the slowing economic environment Fitch expects this trend to continue (see 'Loan Loss Reserves').

### Prospects

Fitch expects the Fitch-rated Nigerian banks' earnings to continue to grow during 2009, albeit at a slower rate than has been achieved over the past four years. The slowdown in earnings growth will come as a result of higher provision charges, particularly in the retail and SME/commercial sectors, and the country's reduced GDP growth and low oil prices which will contribute to slower credit growth. Further impairment charges relating to share lending facilities could affect the bank's FY09 profitability if the CBN dispensation is not exercised (see above) but will certainly be reflected in system profits during the next two to three years.

In addition, the recent cap on the maximum lending rate (see 'Recent Regulatory Changes') could constrain the sector's revenue growth. While this practice seeks to curtail the exploitation of consumers it may, in some cases, prevent banks from pricing their risk appropriately.

FX controls have effectively closed the interbank FX market, which had enjoyed considerable growth over the past four years. The loss of this revenue stream is also expected to negatively affect profitability growth.

### Risk Management

Risk management within Nigeria remains in the development phase. Fitch considers that risk management is weak and has not kept pace with the rapid credit and balance sheet growth witnessed in the banking sector over the past four years. The primary risks faced by Nigerian banks relate to their on- and off-balance sheet

- Credit and operational risk are main components of risk in Nigeria
- Shortage of risk management skills in the sector
- Increased levels of market risk as a result of margin lending exposures

lending activities and operational risk. Credit risk is exacerbated by the fact that a large proportion of the recent credit growth occurred in the relatively untested consumer segment of the economy. Operational risk stems from a weak legal system, a lack of skills breadth within the risk management departments of the banks and an increasingly challenging operating environment. Attempts to mitigate these risks have been addressed in legislation such as the CBN's guidelines for effective corporate governance, requirements that all Nigerian banks establish an enterprise-wide risk management framework and the new requirement for all banks to report under IFRS. Fitch believes that the benefits these regulations will only be effective once the banking sector addresses the shortage of risk management skills currently affecting the market.

### Credit Risk

Credit growth has been strong in Nigeria over the past four years with the Fitch-rated banks' gross loan books growing by 37.7%-126.2% during FY08, against an average of 60.9% for the sector. Of the Fitch-rated banks, Union (37.7%) and GTB (54.5%) were the most conservative although both grew aggressively during FY07. The majority of the banks reported credit growth of 60%-100%, with Diamond (126%), Access (115%) and First Bank (110%) reporting the most aggressive FY08 growth. While a significant proportion of this growth was attributable to large corporates on the back of a rapidly growing economy, Fitch notes that strong growth was also a feature in the SME segment, individuals and share lending facilities (see above).

Given the emerging constraint on raising fresh capital in Nigeria (see 'Capital'), Fitch considers that these levels of credit growth are not sustainable. In addition, the agency is of the opinion that risk management within the sector remains in a developmental phase and that, given slower levels of economic activity, NPLs are expected to increase. Asset quality could also be negatively affected by exposure to share lending facilities (see above).

Credit is concentrated within the domestic banking sector with most of the Fitch-rated banks reporting 20-largest exposures in excess of 20% of total loans. This concentration is mitigated to some extent by capital bases which have benefited from inflows during 2007 and 2008, with the 20-largest loans generally representing less than 100% of shareholders' funds at FYE08.

### Loan Loss Reserves

**Table 4: Asset Quality**

	NPL Ratio (%)		Coverage (%)	
	FYE08	FYE07	FYE08	FYE07
UBA	3.5	4.4	86.9	102.2
Oceanic	n.a.	3.2	n.a.	104.1
Zenith	2.0	1.7	145.1	153.4
First Bank	1.5	2.2	131.5	141.3
Intercontinental	3.5	4.4	126.9	115.6
Union	24.3	18.6	46.6	64.8
GTB <sup>a</sup>	1.8	1.3	118.6	166.0
Access	3.6	8.8	117.8	98.2
Diamond	4.0	6.8	91.1	86.1
SIBTC	n.a.	12.0	n.a.	103.6
Ecobank	n.a.	9.0	n.a.	42.9

n.a.: at the time of writing, these December-year-end banks had yet to publish their accounts

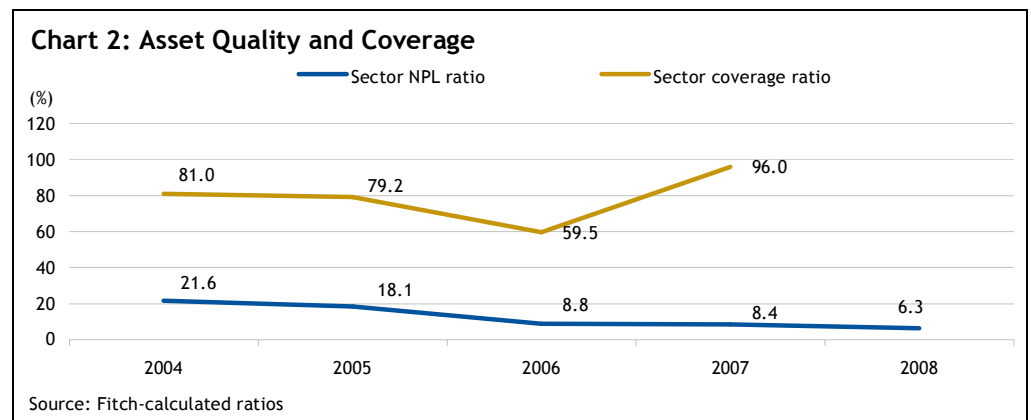
<sup>a</sup> The FYE08 figures for GTB reflect the 10-month period to December 2008, the FYE07 figures reflect the financial year-ended 28 February 2008

Source: Banks, Fitch

Impairment reserves are generally acceptable for disclosed NPLs in Nigeria at more than 100% in most of the Fitch-rated banks in light of the difficulty in realising security and Nigeria's creditor unfriendly environment. Fitch notes that the

acceptable levels of coverage come as a result of the CBN's requirement that provisions of 1% are held against a bank's performing loan book. The outliers include Union and Ecobank (both with Individual ratings of 'D/E'), with coverage ratios of less than 50%.

At end-2008, the CBN estimated the sector NPL ratio to be 6.3%. Fitch considers the level of non-performing loans to be artificially low in light of the share lending facilities (see 'Share Lending Exposures') and as a result of the high levels of credit growth evident in the sector over the last four years. Fitch expects asset quality indicators to deteriorate during FY09 on the back of slower credit growth and an increasingly difficult operating environment. At FYE08, the Fitch-rated banks that had reported 2008 results, with the exception of Union, all reported NPLs at levels below the sector average. Fitch notes that GTB included a disclosure in its December 2008 financials stating that it would not take advantage of the CBN dispensation on margin lending and had elected to recognise impairments as they occurred.



### Market Risk

With the exception of the banks' exposure to share lending facilities, Fitch considers market risk in Nigeria to be low. Exposure to equity investments was relatively low in the past and ranged from 5%-30% of shareholders' funds for the Fitch-rated banks at FYE08. However, Fitch believes that the sector's exposure to share lending greatly increases the levels of market risk to which Nigerian banks are exposed.

Interest rate risk is low, with lending and deposits being predominantly short-term in Nigeria, allowing for rapid repricing. Most banks manage asset-liability mismatches within gap limits. Foreign exchange rate risk has historically been low and this has been further enhanced through the reduction of the regulatory maximum net open foreign exchange position to 1% in February 2009. This was revised upwards to 2.5% during May 2009 (end-2007: 20%).

- Continued deposit growth on the back of branch expansion and depositor confidence
- Tightening liquidity as deposit growth lagged rapid credit expansion
- Ability to raise fresh capital expected to be constrained by negative sentiment in equity markets

### Funding and Capital

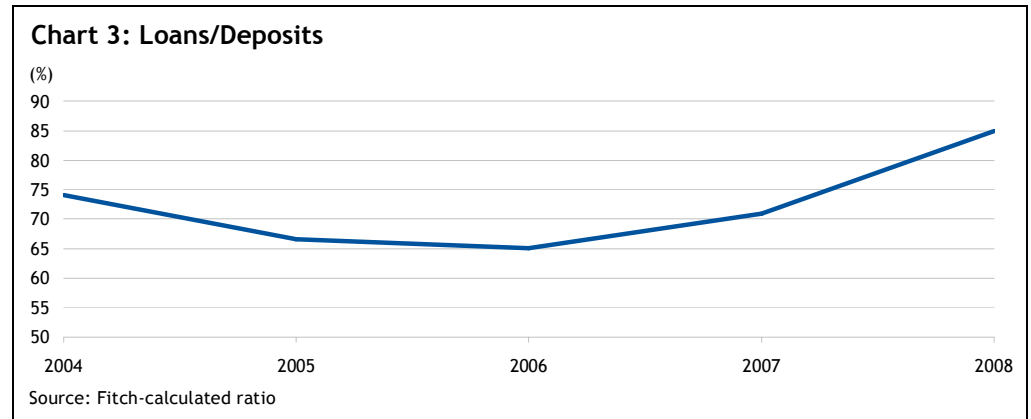
#### Funding

Funding is primarily from domestic customer deposits with some interbank funding. Growth in customer funding, particularly in retail, has been strong over the last four years as the banks' expanding branch infrastructures have mobilised previously unbanked deposits. Fitch notes that deposit growth has not kept pace with the rapid credit expansion, resulting in tighter liquidity measures across the sector (see Chart 3 below).

#### Liquidity

Liquidity tightened significantly in Nigeria during FY08, resulting in the CBN reducing the high regulatory minimum ratios to ease some of the strain in the

banking sector (see ‘Recent Regulatory Changes’). At end-December 2008, the CBN calculated a sector liquidity ratio of 37.3% (FYE07: 56.6%) which was below the previous limit of 40%. Fitch believes that this could lead to even tighter liquidity as the banks proactively seek to improve their own liquidity as they draw closer to the common year-end. In addition, Fitch is aware that foreign currency liquidity has also tightened due to the increased FX controls by the CBN and negative investor sentiment to emerging markets by foreign investors.



### Capital

The average total CAR was 21.9% for the sector at FYE08. While most of the Fitch-rated banks appeared adequately capitalised at FYE08, the agency believes that some banks’ levels of capital adequacy could be affected by the potential impairment charges relating to share lending facilities (see ‘Share Lending Exposure’ above). Of the banks that have reported FYE08 results, Intercontinental, Access, First Bank and Zenith would maintain a Tier 1 ratio in excess of 20% after a 50%-impairment of the exposure to share lending (see Table 2: Share Lending Exposure). The other Fitch-rated banks would all maintain a Tier 1 CAR in excess of 15% after this impairment.

Ecobank’s FYE07 low Tier-1 ratio has been boosted by a recent rights offering (see below). These regulatory ratios do not account for profitability since the reporting date, however Fitch recognises that subsequent dividend payments should also be taken into account. Given the risks facing the Nigerian banking sector, Fitch considers the maintenance of Tier 1 capital well above the minimum regulatory requirements to be a critical rating factor.

Fitch notes that the downturn in the Nigerian equity markets has made domestic investors wary of the stock market and made new capital issues very difficult for Nigerian banks under current conditions.

Fitch is aware that Ecobank Transnational Incorporated, the parent of Ecobank, was only able to raise USD550.8m of a proposed USD2.5bn capital issue during FY08. The bulk of the new equity was used to recapitalise Ecobank. In addition, due to lack of appetite in the market, Union Bank decided not to go to market with its proposed capital raising exercise.

**Table 5: Fitch-Rated Banks Tier 1 Capital Ratios**

(%)	FYE08	FYE07
UBA	20.9	20.3
Oceanic	n.a.	36.0
Zenith	36.1	27.5
First Bank	39.2	17.4
Intercontinental	24.9	38.7
Union	17.6	26.5
GTB <sup>a</sup>	22.4	27.8
Access	37.6	18.7
Diamond	20.5	18.6
SIBTC	n.a.	41.4
Ecobank Nigeria Plc	n.a.	13.4

n.a.: at the time of writing, these December-year-end banks had not yet published their accounts  
<sup>a</sup> The FYE08 figures for GTB reflect the 10-month period to December 2008, the FYE07 figures depict the financial year-ended 28 February 2008  
 Source: Banks

The repercussions for the Nigerian banking sector are that loan growth will be constrained due to a lack of new equity which supported the aggressive credit growth undertaken in 2006 and 2007. In addition, the banks will have to focus on internal capital generation, which could mean that the generous dividend policies seen in many of the country's banks will need to be revised.

## Appendix A

### Deposit Money Banks

1	Access Bank Plc
2	Afribank Nigeria Plc
3	Bank PHB Plc
4	Diamond Bank Plc
5	Ecobank Nigeria Plc
6	Equitorial Trust Bank Plc
7	Fidelity Bank Plc
8	First Bank of Nigeria Plc
9	First City Monument Bank Plc
10	First Inland Bank Plc
11	Guaranty Trust Bank Plc
12	Intercontinental Bank Plc
13	Nigeria International Bank Plc
14	Oceanic International Bank Plc
15	Skye Bank Plc
16	Spring Bank Plc
17	Stanbic - IBTC Chartered Bank Plc
18	Standard Chartered Bank Nigeria Plc
19	Sterling Bank Plc
20	Union Bank of Nigeria Plc
21	United Bank for Africa Plc
22	Unity Bank Plc
23	Wema Bank Plc
24	Zenith Bank Plc

Source: CBN

## Appendix B

### Settlement and Clearing Banks

	Bank name
1	Access Bank Plc
2	Afribank Nigeria Plc
3	Diamond Bank Plc
4	First Bank of Nigeria Plc
5	Guaranty Trust Bank Plc
6	Intercontinental Bank Plc
7	Oceanic International Bank Plc
8	Stanbic - IBTC Chartered Bank Plc
9	United Bank for Africa Plc
10	Union Bank of Nigeria Plc
11	Zenith Bank Plc

Source: CBN, Banks

### CBN Appointed Banks to Manage External Reserves and Foreign Partners

	Local Bank	Foreign Partner
1	Access Bank Plc	ABN Amro
2	Diamond Bank Plc	Crown Agent Investment Management
3	Ecobank Nigeria Plc	ING Belgium S.A.
4	Fidelity Bank Plc	Investec Asset Management
5	First Bank of Nigeria Plc	HSBC Bank Plc
6	Guaranty Trust Bank Plc	Morgan Stanley Investment Management Ltd
7	Intercontinental Bank Plc	BNP Paribas
8	Oceanic International Bank Plc	Commerzbank
9	Platinum Habib Bank Plc	Fortis Investment Management
10	Stanbic - IBTC Chartered Bank Plc	Credit Suisse
11	Union Bank of Nigeria Plc	Blackrock
12	United Bank for Africa Plc	UBS Global Asset Management
13	Zenith Bank Plc	JP Morgan Chase Bank

Source: CBN

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