

FITCH AFFIRMS ACCESS AT 'B'; UPGRADES NATIONAL RATING TO 'A+(NGA)'

Fitch Ratings-London-31 January 2018: Fitch Ratings has affirmed Access Bank Plc's Long-Term Issuer Default Rating (IDR) at 'B'. The Outlook is Stable. At the same time, Fitch has upgraded Access' National Long-Term Rating to 'A+(nga)' from 'A(nga)'. All other ratings have been affirmed. A full list of rating actions is at the end of this rating action commentary.

The upgrade of Access' National Long-Term Rating reflects Fitch's view of an improvement in its creditworthiness relative to other rated Nigerian institutions. This considers continued expansion of the bank's franchise and stable asset quality.

KEY RATING DRIVERS

IDRS, VIABILITY RATING, NATIONAL RATINGS AND SENIOR DEBT RATINGS

Access' IDRs are driven by the bank's intrinsic creditworthiness as defined by its Viability Rating (VR). Access' VR reflects solid financial metrics, which are stronger than most Nigerian banks.

Asset quality metrics compare especially well with its immediate peers. The bank's stock of non-performing loans has remained under control, comprising 2.6% of gross loans at end-September 2017, the lowest of all large Nigerian banks. In our view, resilient asset quality reflects Access' good corporate banking franchise and good management stability, including a robust risk management framework. A high Fitch Core Capital ratio (19.6% at end-September 2017) also provides a buffer against potential asset quality deterioration.

Asset quality has remained favourable despite challenging operating conditions in Nigeria, including tight liquidity in both local and foreign currency. Tight liquidity dates back to the sharp fall in oil prices, which has also adversely impacted asset quality sector wide.

Access' VR also considers adequate profitability, albeit lower than the highest rated Nigerian banks. This reflects a larger cost base and Access' modest retail franchise, resulting in a higher cost of funding than peers, although low loan impairment charges partially offset this. Access' smaller retail franchise increases reliance on wholesale funding sources (as evidenced by its higher cost of funding). However, large cash holdings (22% of assets at end-September 2017) provide sufficient liquidity to mitigate this. The refinancing of the bank's Eurobond in 2016 eased the bank's foreign currency liquidity position.

Access' National Ratings are a reflection of its relative creditworthiness to the best credits in Nigeria.

The long- and short-term ratings on Access' senior unsecured programme have been affirmed at 'B'. The long-term rating of senior debt issued under the programme has also been affirmed at 'B' with a Recovery Rating of 'RR4' indicating average recovery prospects.

SUBORDINATED DEBT

The long-term rating on subordinated debt issued by Access is notched down once from its VR to 'B-'. This reflects higher loss severity compared to senior debt. The Recovery Rating has been affirmed at 'RR5', a lower expected recovery than senior debt issued by the bank.

SUPPORT RATING AND SUPPORT RATING FLOOR

Fitch believes that sovereign support to Nigerian banks cannot be relied on given Nigeria's (B+/Negative) weak ability to provide support, particularly in foreign currency. In addition, there

are no clear messages from the authorities regarding their willingness to support the banking system. Therefore, the Support Rating Floor of all Nigerian banks is 'No Floor' and all Support Ratings are '5'. This reflects our view that senior creditors cannot rely on receiving full and timely extraordinary support from the Nigerian sovereign if any of the banks become non-viable.

RATING SENSITIVITIES

IDRS, VIABILITY RATING AND NATIONAL RATINGS

Access' IDRs are sensitive to rating action on its VR. Access' VR is sensitive to a material weakening of liquidity. The VR is also sensitive to a sharp deterioration in asset quality that would erode capital and threaten the bank's viability. This is not Fitch's base case. An upgrade of the bank's IDRs would require continued improvement in financial metrics to the level of the highest rated banks in the country. In particular, a material improvement in the bank's funding structure in order to capture a greater share of stable low retail cost deposits would be credit positive.

Access' National Ratings are sensitive to a change in its creditworthiness relative to other Nigerian banks.

The long-term and short-term ratings on Access' senior unsecured programme are sensitive to any change in Access' IDRs.

SUBORDINATED DEBT

The long-term rating on subordinated debt issued by Access is sensitive to any change in Access' VR.

SUPPORT RATING AND SUPPORT RATING FLOOR

The SR is potentially sensitive to any change in assumptions around the propensity or ability of the sovereign to provide timely support to the bank.

The rating actions are as follows:

Long-Term IDR affirmed at 'B'; Outlook Stable

Short-Term IDR affirmed at 'B'

Viability Rating affirmed at 'b'

Support Rating affirmed at '5'

Support Rating Floor affirmed at 'No Floor'

National Long-Term Rating upgraded to A+(nga) from 'A(nga)'

National Short-Term Rating affirmed at 'F1(nga)'

Senior unsecured long-term rating affirmed at 'B/RR4'

Senior unsecured short-term rating affirmed at 'B'

Subordinated long-term rating affirmed at 'B-/RR5'

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Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016)

<https://www.fitchratings.com/site/re/891051>

National Scale Ratings Criteria (pub. 07 Mar 2017)

<https://www.fitchratings.com/site/re/895106>

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