

FITCH UPGRADES UNITED BANK FOR AFRICA TO 'B+'; OUTLOOK STABLE

Fitch Ratings-London-27 November 2018: Fitch Ratings has upgraded United Bank for Africa Plc's (UBA) Long-Term Issuer Default Rating (IDR) to 'B+' from 'B'. The Outlook is Stable. UBA's Viability Rating (VR) has been upgraded to 'b+' from 'b'. A full list of rating actions is at the end of this rating action commentary.

The upgrades reflect an improvement in the bank's performance metrics and funding and liquidity profile, which we consider to be sustainable. UBA's strong capital ratios, increasingly diversified funding base and well managed liquidity mean that its risk profile is now more closely aligned with those of Zenith Bank and Guaranty Trust Bank, both rated 'B+'.

KEY RATING DRIVERS

IDRS, VR, NATIONAL RATINGS AND SENIOR DEBT

UBA's IDRs are driven by its intrinsic creditworthiness, as defined by its VR. Like all Nigerian banks, UBA's VR is constrained by the operating environment in Nigeria (B+/Stable) where the fragile economic recovery restrains banks' growth prospects and asset quality. The VR reflects UBA's position as one of Nigeria's largest banks, as well as its sound financial metrics and reasonable capital buffers. It controls an overall market share in Nigeria of approximately 10% and its well-established franchise is a rating strength.

Operating conditions are still difficult for banks. Despite stronger oil prices in 2H18 supporting economic growth, credit demand is weak and banks face pressure on margins and capital.

UBA is also Nigeria's most international bank, operating in 20 other sub-Saharan African countries. Its objective is to operate as a pan-African commercial bank. Our assessment is that geographic diversification is credit positive because it provides growth opportunities and can reduce exposure to Nigeria's cyclical economic growth trends but it also adds complexity, especially considering the high risk environment associated with many sub-Saharan African countries. This also constrains the VR.

International subsidiaries contributed 40% of group earnings in 1H18, but Nigerian assets dominate the group, representing around 70% of consolidated assets.

Corporate lending dominates the loan book and large borrower concentrations are high, as is common in Nigeria. This exposes the group to potentially high losses in the event of default. The top 20 loans represented approximately 42% of total end-1H18 loans. Positively, exposure to the oil sector represented 20% of total loans, below the 30% sector average. Retail lending, representing 7% of total loans at end-1H18, is developing steadily. Impaired loans represented 7.2% of gross loans at end-1H18, slightly higher than the 5% average for its closest peers. Loan loss cover at approximately 95% is reasonable, but not outstanding, in our view.

UBA's local currency funding profile is a rating strength. Its loans/deposits ratio (57% at end-1H18) is low compared with peers (69%). The deposit base is well diversified by single customer and retail deposits represent approximately one-third of customer deposits, which is higher than the average for rated peers. UBA's digital offerings continue to attract deposit inflows. Local currency liquidity ratios are comfortable and the issue of a USD500 million senior medium-term bond on the international capital markets in June 2017 eased pressure on the group's overall foreign currency liquidity position.

UBA's Fitch Core Capital/weighted risks ratio (24.9% at end-1H18) is among the highest in the sector. However, capital and leverage are not considered to be outstanding compared with Guaranty Trust Bank and Zenith Bank because UBA's risk-weight density is lower and concentrations at UBA can be high, especially at the subsidiaries. This could lead to potential unexpected losses.

UBA's earnings and profitability trends show signs of improvement and have been stable for many years, which we view positively. Our expectation is that performance trends will continue to strengthen, based on growing contributions from international subsidiaries and increased stability in Nigeria.

UBA's National Ratings reflect its creditworthiness relative to Nigeria's best credit and relative to peers operating in Nigeria.

SUPPORT RATING AND SUPPORT RATING FLOOR

Fitch believes that sovereign support to Nigerian banks cannot be relied on given Nigeria's weak ability to provide support, particularly in FC. In addition, there are no clear messages of support 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.

SENIOR DEBT

Senior debt issued by UBA is rated at the same level as the bank's Long-Term IDR because, in our view, the likelihood of default on these notes reflects the likelihood of default of the bank. Where a bank has a Long-Term IDR of 'B+' or below, we usually assign a Recovery Rating (RR) to the issue. The RR assigned to these notes is 'RR4' indicating average recovery prospects.

RATING SENSITIVITIES

IDRS, VR AND NATIONAL RATINGS

UBA's VR, and therefore its IDRs, will not be upgraded until the operating environment in Nigeria improves. However, this is unlikely in the near-term, given the Stable Outlook on the sovereign's rating. Asset quality and capital weakening, which we do not expect in the foreseeable future, would likely have a negative impact on the ratings. A change in UBA's risk profile relative to its peers would trigger a change in its National Ratings.]

SUPPORT RATING AND SUPPORT RATING FLOOR

The SR and SRF are sensitive to any change in assumptions around the propensity or ability of the sovereign to provide timely support to the bank. Given Nigeria's sovereign ratings, this is not our base case.

SENIOR DEBT

The senior debt is sensitive to a change in UBA's Long-Term IDR.

The rating actions are as follows:

United Bank for Africa Plc

Long-Term IDR upgraded to 'B+' from 'B'; Outlook Stable

Short-Term IDR affirmed at 'B'

Viability Rating upgraded to 'b+' from 'b'

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

Short-Term National Rating upgraded to 'F1+(nga)' from 'F1(nga)'

Support Rating affirmed at '5'

Support Rating Floor affirmed at 'No Floor'

Long-term senior unsecured debt upgraded to 'B+'/'RR4' from 'B'/'RR4'

Contact:
Primary Analyst
Janine Dow
Senior Director
+44 20 3530 1464
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Tim Slater
Analyst
+44 203 530 1791

Committee Chairperson
Alexander Danilov
Senior Director
+7495 956 2408

Media Relations: Louisa Williams, London, Tel: 2452, Email: louisa.williams@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

<https://www.fitchratings.com/site/re/10044408>

National Scale Ratings Criteria (pub. 18 Jul 2018)

<https://www.fitchratings.com/site/re/10038626>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, 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.