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Research Update:

Ratings On Nigeria-Based Zenith Bank PLC Affirmed At 'B+/B'; Outlook Stable

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Overview

- Following a review of Zenith Bank PLC (Zenith) under Standard & Poor's revised bank criteria (published on Nov. 9, 2011), we have affirmed the long- and short-term counterparty credit ratings on Zenith at 'B+/B'. The outlook is stable. At the same time, we affirmed the bank's Nigerian national scale ratings at 'ngA/ngA-1'.
- Our ratings on Zenith reflect the bank's 'bb-' anchor, as well as its adequate business position, adequate capital and earnings, strong risk position, above-average funding, and adequate liquidity.
- The ratings on the bank are constrained by the foreign-currency sovereign ratings on the Federal Republic of Nigeria (B+/Stable/B).
- In our view, the bank's creditworthiness will likely remain stable over the next 12 months, with cost of risk stabilizing at current levels.

Rating Action

As we previously announced on Dec. 1, 2011, Standard & Poor's Ratings Services affirmed its long- and short-term counterparty credit ratings on Zenith Bank PLC (Zenith) at 'B+/B'. We also affirmed our Nigerian national scale ratings on Zenith at 'ngA/ngA-1'. The outlook is stable.

Rationale

Standard & Poor's bases its ratings on Zenith on our assessment of the company's "adequate" business position, "adequate" capital and earnings, "strong" risk position, "above-average" funding, and "adequate" liquidity, as the criteria define these terms. The stand-alone credit profile (SACP) is 'bb'.

Under our bank criteria, we use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Nigeria is 'bb-'. We view Nigeria as having high political risk and infrastructure needs, both factors that contribute to a volatile and risky operating environment. Nigeria has extensive natural resources, low government debt, and high economic growth potential, which partly mitigate these risks. The Central Bank of Nigeria's recent actions as banking supervisor have been positive, but its regulatory track record has been weak, historically. Our opinion on industry risk reflects this track record and the prevalence of poor corporate governance, as well as the sector's limited stability. There have been numerous bankruptcies, and several mergers and acquisitions are ongoing. We view the industry's funding profile as a strength. Although banks are mainly funded by short-term deposits, the risk is largely offset by the good level of liquidity.

Zenith's business position compares well with rated peers and is considered "adequate", particularly regarding management's execution strategy. Amid changing competitive dynamics in Nigeria, we expect Zenith will maintain its leading position, with about 12% market share. With total assets of Nigeria naira (NGN) 2.05 trillion (US$13.7 billion, $1 = NGN150) at June 30, 2011, Zenith is one of the largest banks in Nigeria. The bank has developed a strong franchise over time by capturing business from large corporate clients, while offering banking services to its suppliers, distributors, and staff. Zenith's management has shown a consistent operating strategy of organically developing the franchise in the domestic market and strengthening enterprise risk management to reduce credit risk.

We assess Zenith's capital and earnings as "adequate", considering the bank's capitalization earning capacity. We estimate the RAC ratio before adjustments to remain slightly above 7.0% in the next 12-18 months based on stable cost of risk and moderate loan growth. We forecast the three-year average earnings buffer to be around 100 basis points in 2012, which compares well with peers'. Further, we view quality of capital as strong because Zenith's capital comprises pure common equity. We believe that Zenith should continue to exhibit a similar operating performance trend in 2012, thanks to a sustained revenue-generating capacity underpinned by lower provisioning charges, reduced costs, and further signs of improvement in the Nigerian economy. Quality of earnings is considered strong, with net interest margins above 7% comparing favorably with peers'.

We assess Zenith's risk position as "strong". Reported impaired loans stood at 6.6% at year-end 2010 and were reduced to 3.3% at end-June 2011, following the transfer to the Asset Management Corporation of Nigeria (AMCON) of a portion of nonperforming loans. AMCON was set up by the Central Bank of Nigeria to reduce the amount of bad debt in the banking system. We expect Zenith's nonperforming loans to remain below 5% in the short and medium terms, further supported by the bank's moderate risk appetite.

Zenith's loan book exhibits some concentration, namely in the manufacturing and oil and gas sectors, and in single names. Exposures to the manufacturing sector were 25% of total loans while oil and gas loans were 17% of total loans at end-June 2011. Top-20 loans stood at 34.5% of total loans and 75% of adjusted total equity at end-June, which compares favorably with peers.

Zenith's funding is "above average" and its liquidity is "adequate", in our opinion. Its funding profile, dominated by customer deposits (98%), is considered stable and fairly diversified and there are no material single-name concentrations. Total loans to deposits were 55% as of June 30, 2011. At the same date, 42% of total deposits were contractually short term with maturities of three months or less, and 55% had maturities spanning 1-2 years. Zenith benefits from a large pool of liquid assets, with liquid assets to total deposits at 58% as end-June 2011. Liquid assets, in excess of 40% of total assets, are comprised of cash and government T-Bills, including AMCON bonds. This apparently strong ratio is countered by the high exposure to the Nigerian government.

The economic and industry risks of operating in a given country are incorporated into our anchor and SACP with the exception of the sovereign default scenario, which is only incorporated into the issuer credit rating. As highlighted by its 'bb' SACP, the main constraint on Zenith's ratings is the foreign-currency sovereign rating on Nigeria. In our opinion, the bank would not withstand a scenario where Nigeria defaults on its obligations. Therefore, its issuer credit ratings do not exceed the ratings on the sovereign.

Outlook

The stable outlook on Zenith largely reflects that on the ratings on Nigeria. The outlook also reflects our view that the bank's financial performance will likely remain stable over the short-to-medium term. Any positive ratings momentum would require a similar movement in the sovereign ratings, alongside maintaining the bank's current SACP at 'bb-' or higher. A negative rating action, although unexpected in the medium term, could result from a significant rise in the bank's risk profile, including a sharp deterioration in asset quality, which would result in a decline in our risk position assessment. We would also lower the ratings if the sovereign ratings were lowered.

Ratings Score Snapshot

Issuer Credit Rating	B+/Stable/B
SACP	bb
Anchor	bb-
Business Position	Adequate (0)
Capital and Earnings	Adequate (0)
Risk Position	Strong (+1)
Funding and Liquidity	Above Average and Adequate (0)
Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	-2

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Oct. 24, 2011

Ratings List

Ratings Affirmed

Zenith Bank PLC

Counterparty Credit Rating	B+/Stable/B
Nigerian National Scale Rating	ngA/--/ngA-1
Certificate Of Deposit	B+/B

Additional Contact:
Financial Institutions Ratings Europe;FIG_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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