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Zenith Bank PLC

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Zenith Bank PLC

SACP	bb

+

Support	0

+

Additional Factors	-1

Anchor	bb-	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Strong	+1
Funding	Above Average	0
Liquidity	Adequate	

GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BB-/Stable/B

Major Rating Factors

Strengths:	Weaknesses:
• A leading top-tier bank, with strong revenue growth. • A strong risk position, underpinned by a prudent underwriting standard and moderate loan growth target. • Adequate capitalization, underpinned by strong earnings. • Stable core deposit base, with strong liquidity indicators.	• Moderately high single-name and industry loan concentrations. • High economic and industry risk associated with operating in Nigeria. • Limited geographic diversification.

Outlook: Stable

The stable outlook on Nigerian bank Zenith Bank PLC (Zenith) reflects our view that the sovereign rating and the bank's business and financial risk profiles will remain unchanged over the next 12 months. Furthermore, we anticipate that positive economic prospects in Nigeria will support Zenith's financial performance.

We would raise the ratings on Zenith if we were to raise the ratings on Nigeria, provided that the bank maintained a stand-alone credit profile (SACP) of at least 'bb'. A downgrade of the sovereign rating would trigger a downgrade of Zenith.

Rationale

The ratings on Zenith reflect its anchor of 'bb-', and our view of the company's "adequate" business position, "adequate" capital and earnings, "strong" risk position, "above average" funding, and "adequate" liquidity, as our criteria define these terms. Zenith's SACP is 'bb'.

The ratings on Zenith are supported by its franchise in the corporate and retail segments in Nigeria. We consider business stability to be strong at Zenith, owing to its stable management and strategy driven by moderate risk appetite. We anticipate that the bank's capital and earnings will remain adequate on the back of its strong earnings capacity and slowly declining cost of risk and cost base. We expect Zenith's loan book to exhibit comparatively good asset quality and low credit loan loss charges through 2014. Similar to other rated peers, Zenith is funded by short-term customer deposits and benefits from a sizable portfolio of liquid assets.

Anchor:'bb-' for banks operating only in Nigeria

Table 1

Zenith Bank PLC Key Figures

	--Year-ended Dec. 31--				
(Mil. NGN)	**2012**	**2011**	**2010**	**2009**	**2008**
Adjusted assets	2,603,098.0	2,308,619.0	1,895,027.0	1,659,703.0	1,787,831.7
Customer loans (gross)	1,014,526.0	876,957.0	759,239.0	752,971.0	464,330.3
Adjusted common equity	409,031.0	349,700.0	363,463.0	326,490.0	317,829.2
Operating revenues	227,128.0	197,914.0	152,148.0	188,238.0	154,695.7
Noninterest expenses	118,560.0	117,928.0	97,769.0	113,261.0	92,257.6
Core earnings	98,101.3	40,628.9	37,414.0	20,618.9	51,985.4

NGN--Nigerian naira.

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 in Nigeria is 'bb-'. We view Nigeria as having high political risk and infrastructure needs, both of which contribute to a volatile and risky operating environment. Nigeria has extensive natural resources, low government debt, and high economic growth potential, all of which partly mitigate these risks.

In our view, the Central Bank of Nigeria's recent actions as banking supervisor have been positive, but its regulatory track record has historically been weak. 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. However, we view the industry's funding profile as a strength. Although Nigerian banks are mainly funded by short-term deposits, risk is largely offset by good levels of liquidity.

Business position: Well-established franchise in Nigeria

Table 2

Zenith Bank PLC Business Position

	--Year-ended Dec. 31--				
(%)	**2012**	**2011**	**2010**	**2009**	**2008**
Total revenues from business line (currency in millions)	242,544.0	203,263.0	152,148.0	188,238.0	154,703.1
Commercial & retail banking/total revenues from business line	89.5	114.2	119.6	143.8	94.8
Trading and sales income/total revenues from business line	0.6	0.6	1.1	N/A	N/A
Insurance activities/total revenues from business line	3.6	5.1	5.0	N/A	N/A
Other revenues/total revenues from business line	6.4	(19.9)	(25.8)	(43.8)	5.2
Investment banking/total revenues from business line	0.6	0.6	1.1	N/A	N/A
Return on equity	24.0	11.9	10.7	4.8	18.0

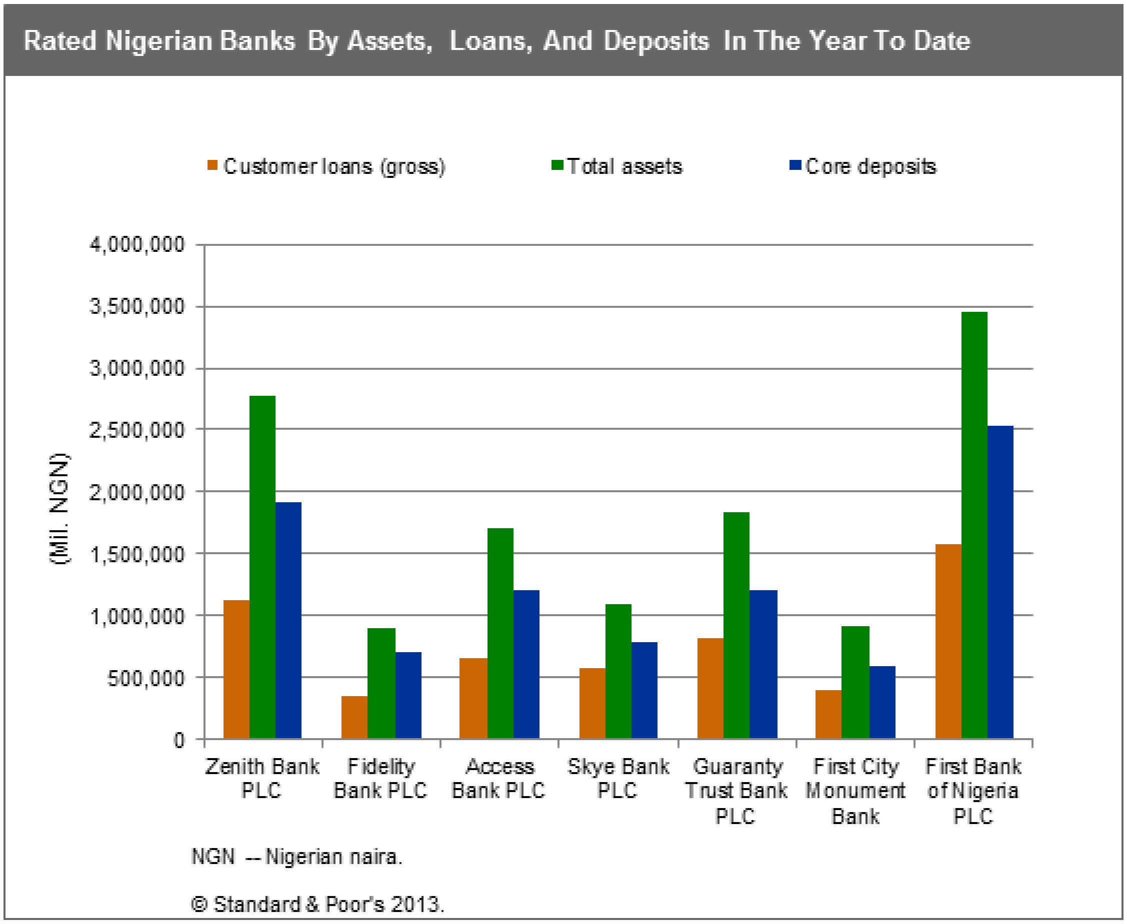
N/A--Not applicable.

We consider Zenith's business position to be "adequate" and a neutral rating factor. Zenith is one of the largest banks in Nigeria. It continues to enjoy a leading market position and accounts for approximately 15% of total banking sector assets. The bank had total consolidated assets of Nigerian naira [NGN] 2.60 trillion ($16.6 billion) as of year-end 2012.

Zenith's revenues mostly derive from corporate and retail banking in Nigeria. However, the bank has a high degree of geographic concentration within Nigeria, and revenues from nonbanking services or outside Nigeria are limited.

Zenith's high-quality and stable management has maintained a consistent operating strategy of organically developing the domestic franchise and strengthening enterprise risk management to reduce risks. The bank's strong relationships with large corporate clients have resulted in strong revenue stability. 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.

Chart 1



Capital and earnings: Internal capital generation enables the bank to maintain a stable capital ratio

Table 3

Zenith Bank PLC Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2012**	**2011**	**2010**	**2009**	**2008**
Tier 1 capital ratio	29.8	26.6	N/A	N/A	N/A
S&P RAC ratio before diversification	8.1	7.2	7.4	N.M.	N.M.
S&P RAC ratio after diversification	6.7	5.7	5.6	N.M.	N.M.
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Double leverage	N.M.	N.M.	N.M.	N.M.	N.M.
Net interest income/operating revenues	69.0	63.5	60.2	58.2	57.4
Fee income/operating revenues	22.2	26.6	32.0	26.6	30.7
Market-sensitive income/operating revenues	8.4	9.3	7.3	10.5	0.0
Noninterest expenses/operating revenues	52.2	59.6	64.3	60.2	59.6
Preprovision operating income/average assets	4.4	3.8	3.1	3.5	3.6
Core earnings/average managed assets	4.0	1.9	2.1	1.0	3.0

N/A--Not applicable. N.M.--Not meaningful.

We regard Zenith's capital and earnings as "adequate." Our risk-adjusted capital (RAC) framework ratio before adjustments for Zenith, based on its 2012 financial statements, was an estimated 8.1%. The main risk charges, which are higher than those applied by the regulator, arise from the bank's corporate lending. Zenith's corporate loan book represents about 52% of its total risk-weighted credit exposure. Furthermore, exposure to government debt, including cash and balances at the Central Bank, government bonds, and Asset Management Corporation of Nigeria bonds guaranteed by the government, accounts for about one-third of total risk-weighted credit exposure. Our higher risk weight for government and corporate exposure largely explains the difference between our RAC ratio and Zenith's regulatory capital adequacy ratio of 31.4% as of Dec. 31, 2012.

We forecast that the bank will continue to operate with a RAC ratio before adjustments of above 8% through 2014, on the back of solid earnings. Our specific assumptions are as follows:

- Moderate loan growth, with 12% annual credit growth over the next two years, below our forecasts for the domestic sector.
- Relatively stable net interest margins as the bank continues to allocate funds to high-yield government securities in an environment of high interest rates.
- Single-digit growth in fee income as the bank's off-balance sheet remains relatively stable.
- Slow increase in loan loss charges as a portion of operating revenues, and a slightly declining cost base at about 50% by year-end 2014.
- Decline of the bank's credit losses in line with a decline in the ratio of nonperforming loans (NPLs; defined as 90 days past due loans) over the next 12-18 months.
- A dividend payout ratio of about 50%, managed to maintain adequate reserves.

We estimate Zenith's three-year average earnings buffer for 2014 at about 1.6%, which compares very favorably with its international peers.

In our view, Zenith's quality of capital and earnings is good and compares adequately with domestic peers. Similar to peers, net interest income to revenues amounts to about two-thirds of the bank's total revenues, while trading revenues account for less than 10% of revenues in 2012.

Table 4

Zenith Bank PLC RACF [Risk-Adjusted Capital Framework] Data

(Mil. NGN)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	1,083,539	0	0	1,072,173	99
Institutions	199,638	0	0	85,866	43
Corporate	1,632,826	0	0	2,925,198	179
Retail	74,501	0	0	121,749	163
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets	137,040	0	0	342,249	250
Total credit risk	3,127,544	0	0	4,547,234	145
Market risk					
Equity in the banking book†	9,405	0	0	99,928	1,063

Table 4

Zenith Bank PLC RACF [Risk-Adjusted Capital Framework] Data (cont.)

Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	99,928	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	0	--	431,397	--
(Mil. NGN)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		0		5,078,559	100
Total diversification/Concentration adjustments		--		1,049,291	21
RWA after diversification		0		6,127,850	121
(Mil. NGN)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		462,500	30.0	409,031	8.1
Capital ratio after adjustments‡		462,500	30.0	409,031	6.7

*Exposure at default. §Securitisationexposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital.NGN--Nigerian naira. Sources: Company data as of Dec. 31, 2012, Standard & Poor's.

Risk position: Strong, with higher asset quality than rated peers

Table 5

Zenith Bank PLC Risk Position

	--Year-ended Dec. 31--				
(%)	**2012**	**2011**	**2010**	**2009**	**2008**
Growth in customer loans	15.7	15.5	0.8	49.7	45.2
Total diversification adjustment / S&P RWA before diversification	20.7	25.3	30.7	N.M.	N.M.
Total managed assets/adjusted common equity (x)	6.4	6.6	5.2	5.1	5.6
New loan loss provisions/average customer loans	1.0	3.0	0.6	5.2	1.3
Net charge-offs/average customer loans	1.1	0.1	0.0	N.M.	N.M.
Gross nonperforming assets/customer loans + other real estate owned	3.1	4.2	5.8	5.6	2.0
Loan loss reserves/gross nonperforming assets	77.4	100.5	74.0	115.8	148.4

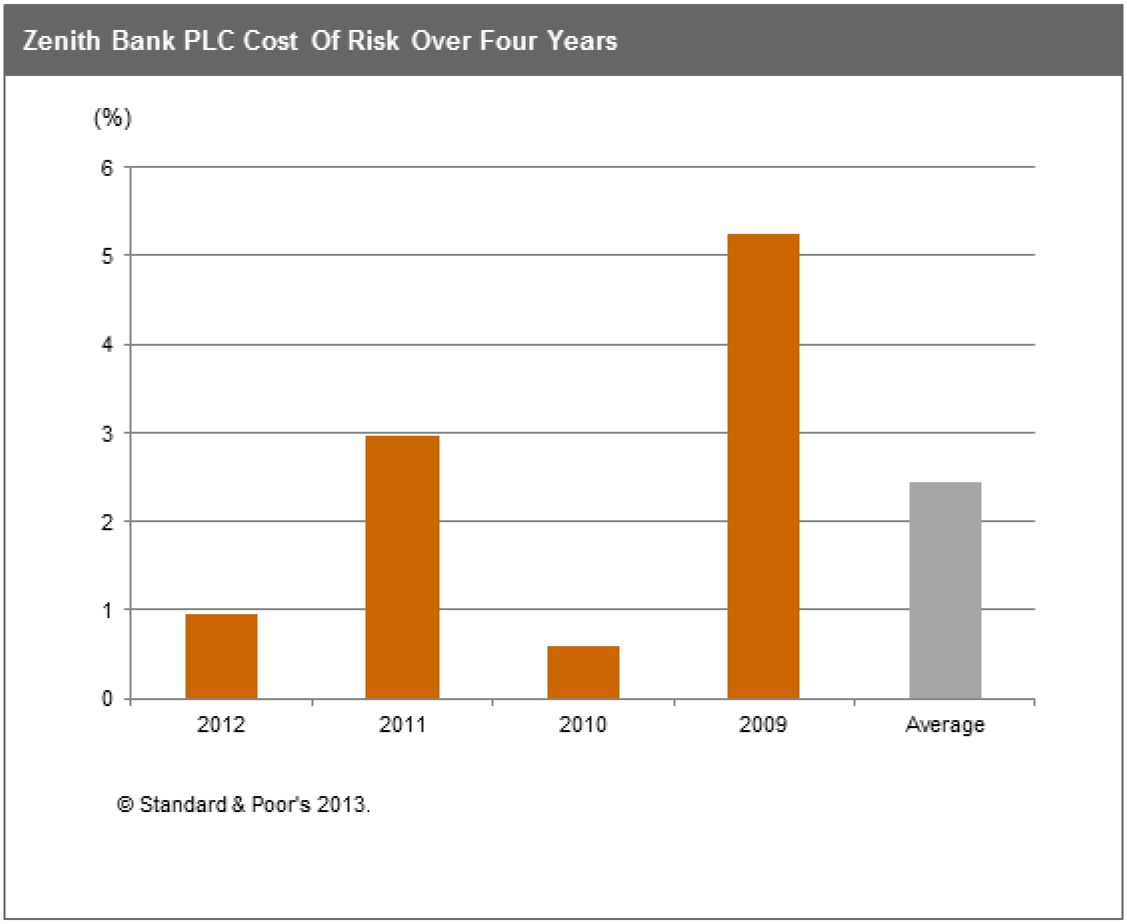
N.M.--Not meaningful.

In our opinion, Zenith's risk position is "strong," underpinned by its conservative underwriting standards and moderate loan growth. Throughout the global financial crisis in 2009-2010, Zenith's NPLs remained among the lowest in Nigeria. While rated peers' NPLs reached double digits, Zenith's NPLs peaked in 2010 at a modest 5.8% of total loans. Additionally, Zenith's provisioning has remained strong compared with peers, averaging 103% over the past five years, and as of Dec. 31, 2012, covering 77% of NPLs. Cost of risk remains a strength for Zenith, with a four-year average of

2.4% in 2009-2012, compared with a peer average of 3.2%. We forecast that Zenith's NPLs will remain below 3% and its cost of risk below 1% and in line with its peers' average through 2014.

Similar to other banks in Nigeria, Zenith's loan book demonstrates some sector and single-name concentrations. On Dec. 31, 2012, manufacturing contributed to 23% of the total loan book, oil and gas accounted for another 18%, while communication grew by about NGN40 million to account for 15% of the total loan book. On the same date, Zenith's top-20 exposures represented 32% of total loans and 77% adjusted total equity.

Chart 2



Funding and liquidity: A large and stable funding base, and a liquid balance sheet

Table 6

Zenith Bank PLC Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	**2012**	**2011**	**2010**	**2009**	**2008**
Core deposits/funding base	94.0	96.6	97.9	97.1	97.3
Customer loans (net)/customer deposits	52.6	51.9	55.1	57.4	36.0
Long term funding ratio	96.7	98.2	100.0	100.0	100.0
Stable funding ratio	162.8	174.0	183.2	186.8	N/A
Short-term wholesale funding/funding base	4.1	2.2	N/A	N/A	0.0

Table 6

Zenith Bank PLC Funding And Liquidity (cont.)					
Broad liquid assets/short-term wholesale funding (x)	15.1	33.6	N.M.	N.M.	N/A
Net broad liquid assets/short-term customer deposits	61.8	167.1	154.7	128.2	N/A
Short-term wholesale funding/total wholesale funding	68.3	63.4	N/A	N/A	0.0

N/A--Not applicable. N.M.--Not meaningful.

We consider Zenith's funding to be "above average" and its liquidity "adequate." Zenith, like other banks operating in Nigeria, is largely deposit-funded, with total deposits accounting for 94% of its total funding base on Dec. 31, 2012. The funding base is fairly diversified, with no material single-name concentration. Over the past five years, Zenith's loan-to-deposit ratio has compared very well with that of its Nigerian peers. At year-end 2012, Zenith had a loan-to-deposit ratio of 52.6%, up slightly from 51.9% at year-end 2011. While largely stable, even under market stress, the bank is still exposed to contractually short-term funds. We expect Zenith's liquidity gap to remain unchanged as the bank is not looking to raise debt in the near future.

Similar to other banks in Nigeria, Zenith maintains strong liquidity indicators by international standards. The bank's cash and deposits with other banks equated to 20% of total assets at year-end 2012. Zenith also benefits from a large portfolio for government securities that we expect it will gradually deploy to fund loan growth.

External support: No uplift to the SACP, although the bank is of high systemic importance

As one of the largest banks in Nigeria, we consider Zenith to be of "high" systemic importance. However, we do not factor in any extraordinary government support into our ratings on Zenith because of the level of the sovereign ratings. At the same time, we consider the Nigerian government to be "supportive" of the banking system, evident in recent regulatory actions by the Central Bank of Nigeria.

Additional rating factors: Sovereign credit rating

We incorporate the economic and industry risks of operating in a given country into our anchor and SACP, with the exception of the sovereign default scenario, which we only incorporate into our issuer credit ratings. The main constraint on Zenith's ratings is the sovereign ratings on Nigeria, reflected in Zenith's 'bb' SACP.

Related Criteria And Research

All articles listed below are available on RatingsDirect, unless otherwise stated.

- 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

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	**8**	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	**bb-**	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of August 21, 2013)

Zenith Bank PLC		
Counterparty Credit Rating		BB-/Stable/B
Nigeria National Scale		ngAA-/--/ngA-1
Counterparty Credit Ratings History		
09-Nov-2012		BB-/Stable/B
05-Jan-2012		B+/Positive/B
01-Jul-2010		B+/Stable/B
24-Aug-2009		B+/Negative/B
30-Mar-2009		BB-/Negative/B
09-Nov-2012	*Nigeria National Scale*	ngAA-/--/ngA-1
05-Jan-2012		ngA+/--/ngA-1
24-Aug-2009		ngA/--/ngA-1
30-Mar-2009		ngA+/--/ngA-1
26-Mar-2009		ngAA-/--/ngA-1
Sovereign Rating		
Nigeria (Federal Republic of)		BB-/Stable/B
Nigeria National Scale		ngAA-/--/ngA-1

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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