S&P Global Ratings

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Zenith Bank PLC

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Zenith Bank PLC

SACP	b
Anchor	b	
Business Position	Adequate	0
Capital and Earnings	Moderate	0
Risk Position	Adequate	0
Funding	Above Average	0
Liquidity	Adequate	

\+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating

B/Stable/B

Major Rating Factors

Strengths:	Weaknesses:
• A top-tier bank in Nigeria. • Good profitability.	• Limited geographic diversification. • High economic and industry risk associated with operating in Nigeria. • High concentration risks

Outlook: Stable

S&P Global Ratings' outlook on Nigeria-based Zenith Bank PLC (Zenith) is stable, reflecting the outlook on Nigeria (B/Stable/B), and our expectation that the bank's earnings and asset quality metrics will remain broadly stable over the next 12-18 months.

We would lower the ratings on Zenith over the next 12 months if we downgraded Nigeria or if we saw a material deterioration in the bank's asset-quality indicators.

An upgrade appears remote over our 12-month outlook horizon, because it would hinge on an upgrade of Nigeria, as well as an improvement in banking risk in Nigeria, while all other factors remain unchanged.

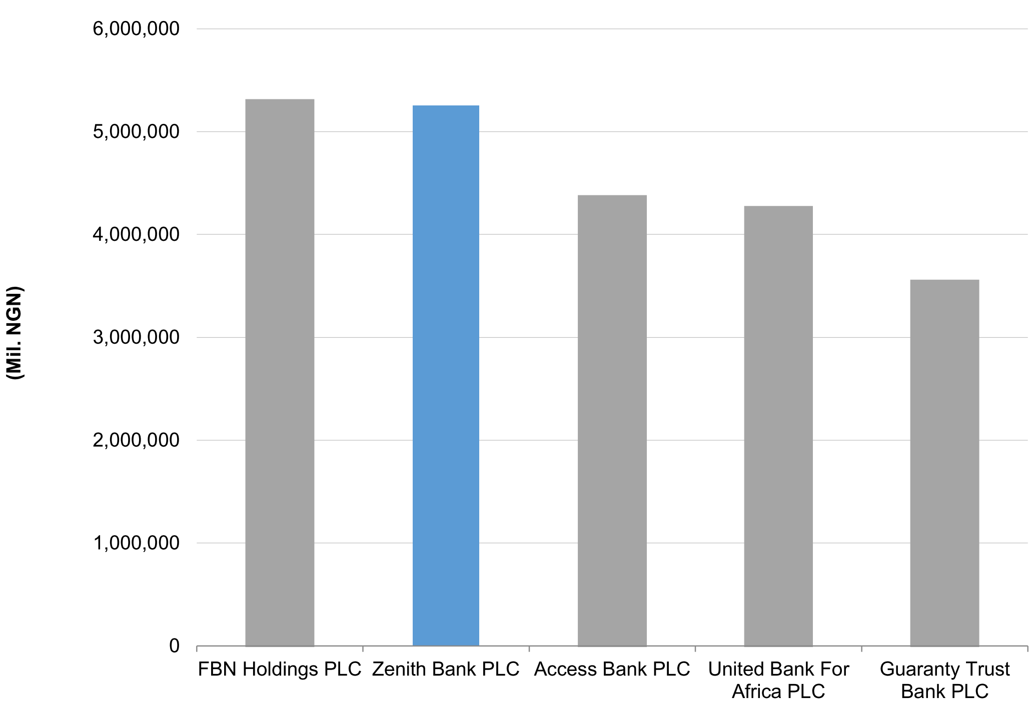
Rationale

The ratings reflect Zenith's leading market position in Nigeria, underpinned by a strong corporate franchise and a sizable branch network, which enable the bank to maintain a stable and low-cost funding base. Despite a challenging operating environment, we believe that Zenith's profitability, capitalization, and asset-quality indicators will remain broadly stable and continue to compare well with those of domestic peers. Specifically, we expect our risk-adjusted capital (RAC) ratio before adjustments for diversification to remain above 5% (versus 5.4% at year-end 2017, and credit costs to be around 1.3% over the next 12-18 months.

In our base-case scenario, we exclude concentration risk, although, like its Nigerian peers, Zenith displays a significant asset-liability maturity mismatch, which we view as a source of liquidity risk. However, we regard as positive the bank's proactive liquidity management approach, high net broad liquid assets to short-term deposits of 70%, and broad liquid assets to short-term wholesale funding of 12x.

Chart 1

Five Largest Nigerian Banks By Total Assets (June 2018)



NGN--Nigerian naira.

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Anchor:'b' for banks operating only in Nigeria

We use our Banking Industry Country Risk Assessment's 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 'b', based on an economic risk score of '10' and an industry risk score of '9'.

Following years of heightened risks, operating conditions for the Nigerian banking sector are improving, thanks to the gradual economic recovery, rising oil prices, and increasing U.S. dollar supply in the banking system. We consider that the Nigerian banking sector is still in a correction phase. We project slow economic recovery with real GDP growth of 2.4% in 2018. We also anticipate muted nominal credit growth (excluding the impact of depreciation) in 2018 of 8%. Asset quality and profitability of the sector will likely improve only gradually, with top-tier banks faring better than the sector average. We believe that, as in 2017, credit losses will remain high at 3%-4% in 2018.

We consider regulatory oversight to be weak. We acknowledge, however, the Central Bank of Nigeria's (CBN's) efforts to strengthen the sector's stability. In addition, the CBN has restricted banks from distributing dividends if their nonperforming loan (NPL) ratio exceeds the 5% regulatory limit. We may see some banks convert their banking license into a national one to meet the lower minimum capital adequacy ratio. Positively, the majority of banks have overcome their short-term liquidity challenges. That said, Nigeria still operates with multiple exchange rates and we expect a convergence of these rates by the end of 2018.

Table 1

Zenith Bank PLC Key Figures

		--Year-ended Dec. 31--			
(Mil. NGN)	**2018***	**2017**	**2016**	**2015**	**2014**
Adjusted assets	5,242,426	5,582,264	4,735,180	4,003,602	3,753,062
Customer loans (gross)	2,109,968	2,252,172	2,360,809	2,032,256	1,758,335
Adjusted common equity	686,917	705,938	619,009	524,679	482,978
Operating revenues	247,492	528,552	363,619	307,551	296,052
Noninterest expenses	129,297	225,233	173,086	166,638	162,974
Core earnings	82,854	179,564	131,087	105,544	99,760

*Data as of June 30. NGN--Nigerian naira.

Business position: A top-tier bank with stable revenues

We view Zenith as one of the leading banks in the competitive Nigerian banking sector. The bank enjoys a strong corporate banking franchise with good revenues stability, but remains concentrated in its home country. With total assets of Nigerian naira (NGN) 5.3 trillion (approximately $15.3 billion) at midyear 2018, Zenith is the second largest bank in Nigeria, with about 15% of the system's loans and deposits.

Zenith's strategy remains focused on increasing low-cost retail deposits and lending competitively to large, low-margin, but creditworthy corporate entities, while generating greater transactional revenue through its electronic platforms from an expanding retail base. We believe that Zenith's position in the market will enable it to continue generating stable revenues over the next 12-18 months. Zenith's return on average assets (defined as core earnings over average adjusted assets) and return on equity reached 3.2% and 21% respectively at end-June 2018, and compares well with peers'.

Zenith's geographic diversification outside Nigeria is limited. Around 10% of the bank's revenues came from international activities in 2017, including 7.7% from the rest of Africa and 2.3% from Europe. We understand that the

European exposure is linked to Nigerian borrowers.

Table 2

Zenith Bank PLC Business Position

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (mil. NGN)	247,492.0	528,552.0	363,619.0	309,166.0	296,562.0
Commercial & retail banking/total revenues from business line	N/A	91.4	90.8	93.4	93.8
Other revenues/total revenues from business line	N/A	8.6	9.2	6.6	6.2
Return on average common equity (%)	21.2	23.3	20.0	18.4	18.8

*Data as of June 30. NGN--Nigerian naira. N/A--Not applicable.

Capital and earnings: Stable capitalization

Our assessment of Zenith's capital and earnings reflects our opinion that the group will maintain a RAC ratio before adjustments above 5% over the next 12-18 months compared with 5.4% at the end of 2017. On June 30, 2018, the bank's Basel II regulatory capital adequacy ratio (CAR) was 21%. Our higher risk weight for government and corporate exposures largely explains the difference between our RAC ratio and the bank's regulatory CAR. We expect the bank to manage capital tightly, balancing moderate earnings growth with slower risk-asset accumulation.

Our projected RAC ratio for Zenith takes into account the following assumptions throughout 2018 and 2019:

- Average loan growth of about 7%, reflecting partly on our assumption of a naira depreciation.
- A gradual increase in the bank's net interest margins, balancing our view of the predominance of low-margin corporate lending in the bank's portfolio, but expected redemption of its first tranche $500 million Eurobond in April 2019, as well as a positive effect reducing fixed deposits and mobilization of saving deposits.
- A 65%/35% split between net interest income and noninterest income, as well as fee and commissions of 20%-23%, with strong income generation from selling and trading in foreign currencies for corporate customers.
- A cost-to-income ratio in the 50%-53% range, which is better than the average in Nigeria.
- A cost of risk of about 1.3% over the next 12-18 months.
- A dividend payout ratio of around 50% of net income.

We calculate Zenith's earnings buffer at close to 1%, which means that we expect the group's earnings to cover normalized losses. The quality of Zenith's capital and earnings is good and compares adequately with that of rated domestic peers. All of the bank's adjusted common equity comprises total adjusted capital.

Table 3

Zenith Bank PLC Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	20.1	25.2	21.6	21.2	19.8
S&P RAC ratio before diversification	N/A	5.4	5.1	5.2	6.3
S&P RAC ratio after diversification	N/A	4.2	3.9	4.3	5.3
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0

Table 3

Zenith Bank PLC Capital And Earnings (cont.)

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Net interest income/operating revenues	62.2	48.8	66.1	73.0	69.8
Fee income/operating revenues	18.9	17.1	18.8	19.8	23.8
Noninterest expenses/operating revenues	52.2	42.6	47.6	54.2	55.0
Preprovision operating income/average assets	4.4	5.9	4.4	3.6	3.9
Core earnings/average managed assets	3.1	3.5	3.0	2.7	2.9

*Data as of June 30. N/A--Not applicable.

Table 4

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

(Mil. NGN)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government and central banks	2,674,073	922,757	35	3,158,601	118
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	574,389	461,378	80	801,855	140
Corporate	2,796,046	922,757	33	6,694,565	239
Retail	190,424	0	0	422,675	222
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets†	108,569	0	0	521,485	480
Total credit risk	6,343,501	2,306,892	36	11,599,181	183
Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--
Market risk					
Equity in the banking book	14,101	0	0	158,636	1,125
Trading book market risk	--	84,690	--	238,191	--
Total market risk	--	84,690	--	396,827	--
Operational risk					
Total operational risk	--	595,934	--	1,028,056	--
(Mil. NGN)		**Basel III RWA**		**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification		2,987,516		13,024,064	100
Total Diversification/Concentration Adjustments		--		3,829,028	29
RWA after diversification		2,987,516		16,853,092	129

Table 4

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

(Mil. NGN)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	753,367	25.2	705,938	5.4
Capital ratio after adjustments‡	753,367	25.2	705,938	4.2

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡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, 2017, S&P Global.

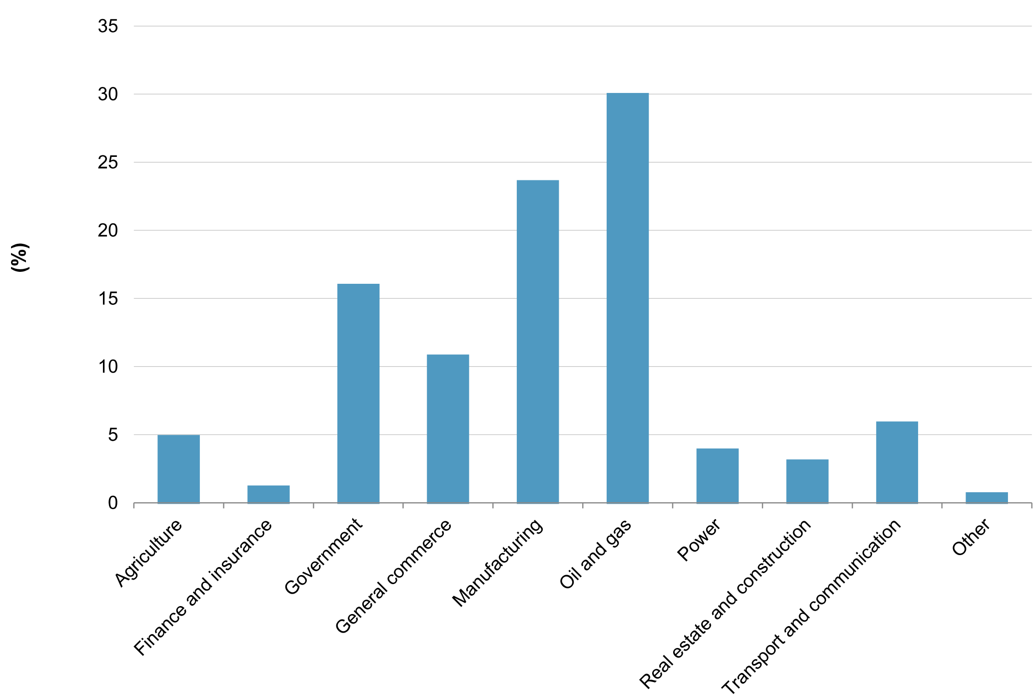
Risk position: Good loan loss experience

Our assessment of Zenith's risk position reflects Zenith's low loan-loss track record versus domestic peers' and its conservative risk management. We expect NPLs to remain at around 5% of total loans in 2018, but decline gradually below 5% in subsequent years as the economy recovers and the loan book expands.

Although relatively high by international standards, Zenith's loan book concentration is lower than Nigerian peers'. On June 30, 2018, oil and gas exposures made up about 30% of total loans (see chart 2), while the top 20 loans accounted for 51.5% of total loans.

Chart 2

Zenith Bank PLC Customer Loan Breakdown (June 2018)



Source: Company accounts.

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We consider the high degree of foreign currency--predominantly assets and loans--to be a key risk facing all Nigerian banks. On June 30, 2018, a significant 47.2% of total loans was denominated in foreign currencies. However, Zenith's exposures are partly mitigated by extending foreign currency loans to firms that have foreign currency revenues or use currency hedges.

Table 5

Zenith Bank PLC Risk Position

	--Year-ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
Growth in customer loans	(12.6)	(4.6)	16.2	15.6	37.8
Total managed assets/adjusted common equity (x)	7.7	7.9	7.7	7.6	7.8
New loan loss provisions/average customer loans	0.9	4.3	1.5	0.8	0.9
Net charge-offs/average customer loans	0.4	0.6	0.4	0.1	0.6
Gross nonperforming assets/customer loans + other real estate owned	4.9	4.7	3.0	2.2	1.7
Loan loss reserves/gross nonperforming assets	229.0	143.4	100.1	95.6	93.7

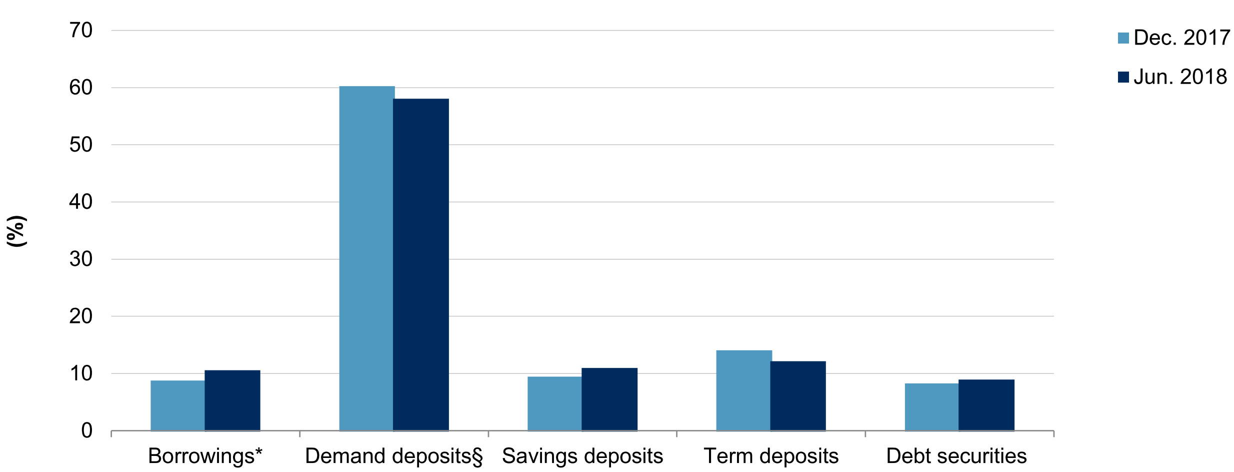
*Data as of June 30.

Funding and liquidity: Above-average funding and adequate liquidity

Our assessment of funding and liquidity is neutral to the ratings. The bank's funding profile is dominated by stable customer deposits. On June 30, 2018, core deposits accounted for 73% of the funding base and the bank's deposit profile remained well diversified, with the top 20 deposits accounting for 9% of total deposits. On the same date, the bank's cost of funds (interest expense to average funding base) decreased to 3.4% from 5.2% a year earlier, due to its deliberate strategy of shedding expensive fixed deposits while mobilizing savings deposits. We expect the bank will redeem the $500 million first tranche of its $1 billion two-tranche Euro bond program in April 2019, and continue its retail expansion to support the net interest margin. This strategy is expected to moderate funding costs somewhat.

Chart 3

Zenith Bank PLC Funding Structure



Source: Zenith Bank PLC. *Comprises mostly of funding from other banks. §Includes domiciliary accounts.

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Like its Nigerian peers, Zenith operates with a significant asset-liability maturity mismatch. We assume this will increase as the bank pursues lower-cost demand deposits to reduce its cost of funds and improve its margins. Positively, the stable funding ratio was 151% on June 30, 2018. At end-June, Zenith's net broad liquid assets accounted for 70% of short-term deposits, while its broad liquid assets covered 12x short-term wholesale funding.

We believe that Zenith's dollar liquidity risk has improved, given the increased availability of U.S. dollars in Nigeria, as well as the Eurobond issue. Zenith keeps an adequate cash cushion in foreign currencies, which covered about 15% of foreign currency deposits as of Dec. 31, 2017.

Table 5

Zenith Bank PLC Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	73.1	76.2	79.5	79.8	87.6
Customer loans (net)/customer deposits	59.2	61.1	76.7	77.8	68.2
Long term funding ratio	96.3	97.4	93.1	97.3	97.9
Stable funding ratio	151.4	154.8	129.9	133.3	143.5
Short-term wholesale funding/funding base	4.3	3.0	8.2	3.2	2.5
Broad liquid assets/short-term wholesale funding (x)	11.9	17.3	5.3	13.4	21.1
Net broad liquid assets/short-term customer deposits	64.2	65.1	44.3	61.4	73.6
Short-term wholesale funding/total wholesale funding	16.0	12.8	40.0	16.0	20.1
Narrow liquid assets/3-month wholesale funding (x)	14.2	18.0	9.4	15.5	22.5

*Data as of June 30.

Support: No notches of uplift to the SACP

The ratings on Zenith reflect its stand-alone credit profile (SACP) and do not incorporate any notches of uplift for external support.

Despite Zenith's high systemic importance to Nigeria, we do not provide uplift because we classify support from the Nigerian government as uncertain.

Additional rating factors: None

No additional factors affect this rating.

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013

- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Nigeria-Based Zenith Bank 'B/B' And 'ngBBB/ngA-2' Ratings Affirmed; Outlook Stable, Sept. 23, 2018
- Federal Republic of Nigeria Ratings Affirmed At 'B/B'; Outlook Stable, Sept. 15, 2018
- Nigerian Financial Institutions National Scale Ratings Revised After Criteria Update; Removed From Criteria Observation, July 2, 2018
- Nigeria National Scale Ratings Placed Under Criteria Observation On Revised National Scale Credit Rating Methodology, June 25, 2018
- S&P Global Ratings' National And Regional Scale Mapping Specifications, June 25, 2018
- Banking Industry Country Risk Assessment: Nigeria, Nov. 10, 2017

Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found at "Nigeria-Based Zenith Bank 'B/B' And 'ngBBB/ngA-2' Ratings Affirmed; Outlook Stable," published Sept. 13, 2018, on RatingsDirect.

Glossary

- Anchor: The starting point for assigning a bank a long-term rating, based on economic and industry risk.
- Asset-liability mismatch: Occurs when financial terms of an institution's assets and liabilities do not correspond.
- Asset quality: A key measure of the quality and performance of the assets of a bank.
- Available stable funding: Core deposits, plus deposits due to banks (net of those that mature within one year), plus other borrowings (net of maturities within one year), plus total equity, minus intangibles.
- Broad liquid assets: cash (net of restricted cash) and reserves at central bank, plus other cash and money market, plus bank loans and reverse repos that mature in less than one year, plus total liquid assets.
- Business position: A measure of the strength of a bank's business operations.
- Capital and earnings: A measure of a bank's ability to absorb losses.
- Cost of funds: Interest expense as a percentage of average interest-bearing liabilities.
- Counterparty credit rating: A form of issuer credit rating, which is a forward-looking opinion about an obligor's overall creditworthiness.
- Credit losses: Losses arising from credit risk.
- Credit risk: Risk that a borrower will default on its payment obligations.

- Customer loans (gross): Total customer loans before loan loss reserves.
- Date initial rating assigned: The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Ratings last reviewed the
- credit rating on the entity.
- Earning capacity: The capacity of a bank to generate sufficient earnings against losses and the primary way that a bank builds or maintains its capitalization.
- Fee income over operating revenues: Net income on fees and commissions over operating revenues.
- Funding and liquidity: A combined assessment of the strength and stability of a bank's funding mix and its ability to manage its liquidity needs in adverse market and economic conditions over an extended period.
- Funding base: Total deposits, plus acceptances, repurchase agreements, and other borrowings (including commercial papers, short- and long-term debt, subordinated debt, and minimal equity content hybrids).
- Government-related entity (GRE) support: An assessment of the likelihood that the government would provide extraordinary support to a bank that is a government-related entity.
- Gross nonperforming assets over customer loans plus other real estate
- owned over customer loans: Nonaccrual loans, plus restructured loans, plus repossessed assets plus loans 90-days past due; over gross customer loans plus repossessed assets.
- Loan loss reserves over gross nonperforming assets: General plus specific reserves, over adjusted nonperforming assets (nonaccrual loans plus restructured loans plus repossessed assets plus 90-day past due loans).
- Long term funding ratio: Available stable funding, over funding base plus total equity, minus intangibles.
- National scale rating: An opinion of an obligor's creditworthiness or overall capacity to meet specific financial obligations, relative to other issuers and issues in a given country or region.
- New loan loss provisions over average customer loans: Credit loss provisions (including specific loan provisions and general and other provisions) minus recoveries, over average gross customer loans of current period and last fiscal year.
- Noninterest expenses: Salaries and general administrative expenses (including depreciations and amortizations).
- Operating revenues: Net interest income, plus operating non-interest income (that mainly includes fees and commissions and trading gains).
- Return on equity: Net income before extraordinary results minus preferred dividends over average common (average between current period and last fiscal period).
- Risk position: Our view of the specific risk characteristics of a particular bank.
- Risk-adjusted capital (RAC) ratio before diversification: This is calculated according to S&P Global Ratings' methodology as total adjusted capital over risk-adjusted assets.
- Short-term wholesale funding: Debt securities that mature in less than one year (of commercial papers, debt and senior and subordinated bonds), plus bank deposits that mature in less than one year.
- Sovereign support: An assessment of the likelihood that the government would provide extraordinary support to a

bank.

- Stable funding needs: Restricted cash and reserves at the central bank, plus interbank deposits, plus loans to banks (net of maturities within one year), plus reverse repurchase agreements, plus gross customer loans net of loan-loss reserves, plus securities, minus total liquid securities, plus equity participations in nonfinancial entities, plus fixed assets, plus other assets (considering foreclosed assets, tax loss carryforwards, and deferred assets).
- Stable funding ratio: Available stable funding over stable funding needs.
- Stand-alone credit profile (SACP): An interim step in assessing a bank's overall creditworthiness. It includes government support, but not extraordinary government support.
- Total adjusted capital: Adjusted common equity plus admissible preferred instruments and hybrids.

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 November 23, 2018)

Zenith Bank PLC		
Issuer Credit Rating		B/Stable/B
Nigeria National Scale		ngA/--/ngA-1
Senior Unsecured		B
Short-Term Debt		B
Issuer Credit Ratings History		
22-Sep-2016		B/Stable/B
24-Mar-2016		B+/Negative/B
25-Mar-2015		B+/Stable/B
13-Feb-2015		BB-/Watch Neg/B
01-Apr-2014		BB-/Negative/B
02-Jul-2018	*Nigeria National Scale*	ngA/--/ngA-1
22-Sep-2016		ngBBB/--/ngA-2
24-Mar-2016		ngA-/--/ngA-2
25-Mar-2015		ngA/--/ngA-1
13-Feb-2015		ngAA-/Watch Neg/ngA-1

Ratings Detail (As Of November 23, 2018) (cont.)	
Sovereign Rating	
Nigeria	B/Stable/B
Nigeria National Scale	ngA/--/ngA-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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