

FITCH AFFIRMS ZENITH BANK AT 'B+'; OUTLOOK NEGATIVE

Fitch Ratings-London-31 January 2018: Fitch Ratings has affirmed Zenith Bank Plc's Long-Term Issuer Default Rating (IDR) at 'B+'. The Outlook is Negative. The bank's Viability Rating (VR) has been affirmed at 'b+' and its Support Rating at '5'. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

IDRS, NATIONAL RATINGS AND VR

The bank's IDRs are driven by its standalone creditworthiness, defined by the VR. The VR is constrained by Nigeria's sovereign rating and the Negative Outlook on the Long-Term IDR mirrors the Outlook on Nigeria's sovereign rating (B+/Negative).

Zenith's VR is the highest assigned by Fitch to a Nigerian bank. This reflects the bank's established franchise in Nigeria where it controls an overall markets share of around 16%. The franchise is particularly strong in the corporate segment. Loss-absorption capacity is strong relative to peers and management has demonstrated its ability to deliver a good performance through volatile operating cycles.

Fitch views Zenith's management team positively. Decision-making is well spread across a broad number of executives to minimise reliance on individuals. Achieving targets in a volatile operating environment can be difficult but Zenith's execution is strong relative to peers. The bank's strategy is primarily to continue to service leading corporate clients.

The loan book represents around 45% of assets, which is lower than international banks, but in line with the average for large Nigerian banks. Zenith's underwriting standards and risk controls compare favourably with the average for rated peers. Reported impaired loans are low as a percentage of gross loans (around 4%) and reserve coverage is above 100%. Lending to the oil and gas sector represents around 30% of total loans, average for the sector, and the top 20 loans represent around one-quarter of total loans, which is lower than average comparative figures reported by large Nigerian banks (around 40%).

The bank's performance metrics compare favourably with peers. Margins are narrower, reflecting the corporate focus, but loan impairment charges also tend to be lower, as could be expected given the more resilient nature of the bank's clients. Cost control has been reasonable considering high inflation in Nigeria. In 2018, we expect profitability to decline for many Nigerian banks, reflecting weak loan growth, lower Treasury Bill issuance and falling yields on these government securities. IFRS-9 will also result in a rise in loan impairment charges, although this is likely to be containable at Zenith.

Zenith's capital adequacy ratios are among the strongest in Nigeria and leverage ratios are stable. The bank's relative capital strengths are a positive ratings differentiator.

Like most Nigerian banks, deposits provide the bulk of funding (72% of total non-equity funding at end-September 2017). Deposits from corporate customers represented 57% of consolidated deposits at end-September 2017, but these tend to be stable.

Zenith issued a five-year USD500 million senior bond in the international capital markets in June 2017. Zenith's ability to access international market funding, even in times of stress for Nigeria's

economy, is credit positive in our view, providing the bank with funding diversification and access to longer-term finance.

Zenith's foreign currency (FC) liquidity position shows no apparent signs of stress over a 12-month horizon. The bank holds a sizeable FC liquid asset buffer and its ability to continue to honour FC obligations even during recent periods of extreme FC stress in the Nigerian banking sector demonstrates Zenith's close attention to the management of its FC liquidity position.

The Long-Term National Rating has been affirmed at 'AA-(nga)'. National Ratings reflect Zenith's creditworthiness relative to the country's best credit and to peers operating in Nigeria.

SENIOR DEBT

Senior debt issued by Zenith is rated at the same level as the bank's IDRs because in our view, the likelihood of default on these notes reflects the likelihood of default of the bank. The Recovery Rating (RR) assigned to these notes is 'RR4' indicating average recovery prospects.

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 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, NATIONAL RATINGS AND VR

The bank's IDRs, National Ratings and VR are sensitive to changes in Nigeria's operating environment and to factors impacting Zenith's intrinsic creditworthiness. The operating environment is unlikely to improve until the outlook for the sovereign rating improves. Zenith's ratings are sensitive to a significant deterioration in asset quality and a resultant weakening of loss absorption capacity. This is not our base case. Upside potential for the ratings is limited given the operating environment.

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.

SENIOR DEBT

Ratings on the senior debt will change in line with the bank's IDRs.

The rating actions are as follows:

Long-Term IDR affirmed at 'B+'; Outlook Negative

Short-Term IDR affirmed at 'B'

Viability Rating affirmed at 'b+'

National Long-Term Rating: affirmed at 'AA-(nga)'

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

Support Rating affirmed at '5'

Support Rating Floor affirmed at 'NF'

Long-term senior unsecured debt issues affirmed at 'B+'/'RR4'

Short-term senior unsecured debt affirmed at 'B'

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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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