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Research Update:

Nigeria-Based Zenith Bank 'B/B' And 'ngA/ngA-1' Ratings Affirmed; Outlook Stable

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Overview

- We forecast that Zenith Bank's asset quality will remain stronger than that of its domestic peers and that despite the slow economic recovery in Nigeria, it will report sound earnings generation.
- We are affirming our 'B/B' global scale and 'ngA/ngA-1' national scale ratings on Zenith.
- The stable outlook on Zenith reflects that on Nigeria and our expectation that the bank's financial and risk profiles will remain broadly stable over the next 12 months.

Rating Action

On Sept. 13, 2018, S&P Global Ratings affirmed its 'B' long-term and 'B' short-term issuer credit ratings on Nigeria-based Zenith Bank PLC (Zenith). The outlook is stable. At the same time, we affirmed our national scale ratings on the bank at 'ngA/ngA-1'.

Rationale

The affirmation reflects our view that Zenith will continue to display better asset quality indicators than its domestic peers and sound revenue generation over the next 12-18 months despite the generally slow economic recovery in Nigeria.

As of June 30, 2018, Zenith had total assets of Nigerian naira (NGN) 5.3 trillion (approximately \$15.3 billion), making it the second-largest bank in Nigeria. It has a strong corporate franchise in the country and displayed both healthy revenue generation and earnings stability, despite the challenging operating conditions in Nigeria over the past couple of years.

We assess Zenith's capital and earnings as moderate. The bank's S&P Global Ratings' risk-adjusted capital (RAC) ratio before adjustments reached 5.4% at end-2017, compared with 5.1% a year earlier. We expect this ratio will be 5.2%-5.5% over the next 12-18 months. We factor into our RAC calculation our expectations that loan growth will be 3% in 2018 and 10% in 2019, and that interest margins will show a slight increase (balancing our expectation of a reduction in expensive fixed deposits and redemption of its \$500 million Eurobond in April 2019). We also consider Zenith's good fees and commission generation, and its dividend payout ratio of about 50%.

Zenith's asset quality metrics improved somewhat in the first half of 2018, with credit costs declining to 0.9% and coverage by loan loss reserves increasing to 229% (following the implementation of International Financial Reporting Standards [IFRS] 9 and including Stage 1 and Stage 2 provisions). This compares with credit costs of

4.3% and a coverage ratio of 143% at year-end 2017. In the six months to June 30, 2018, nonperforming loans (NPLs) declined in absolute terms, but increased in relative terms. It accounted for 4.9% of the loan book, compared with 4.7% at year-end 2017. Although restructured exposures increased to around 12.6% of total loans at mid-2018, compared with 11.8% a year earlier, we expect asset quality indicators to remain broadly stable, because we do not anticipate material migrations of these exposures to NPLs. We therefore believe that the bank's cost of risk will stabilize at around 1.2% in the next 12-18 months.

Zenith is mainly deposit-funded, which has resulted in a stable funding base. It recorded a stable funding ratio of 151.4% on the back of a healthy proportion of deposit funding at mid-2018. Broad liquid assets covered 1.9x of total wholesale funding and net broad liquid assets accounted for 64.2% of short-term customer deposits at the same date. However, given the short-dated nature of the bank's deposit profile, which is a feature it shares with its domestic peers, Zenith's deposit base is confidence-sensitive.

Outlook

The stable outlook on Zenith reflects that on Nigeria, 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 the bank if we lowered the ratings on Nigeria, or if we see a material deterioration in the bank's asset quality indicators.

An upgrade appears remote in the next 12 months, because it would hinge on an upgrade of Nigeria or a material strengthening of the bank's capitalization, all other factors remaining equal.

Ratings Score Snapshot

	To
Issuer Credit Rating	B/Stable/B
SACP	b
Anchor	b
Business Position	Adequate (0)
Capital and Earnings	Moderate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Above Average And Adequate (0)
Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Additional Factors	To
	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Related Criteria And Research

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: Group Rating Methodology - November 19,2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17,2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14,2009
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09,2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09,2011
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07,2017

Ratings List

	Rating	
	To	From
Zenith Bank PLC		
Issuer Credit Rating		
Foreign and Local Currency	B/Stable/B	B/Stable/B
Nigeria National Scale	ngA/--/ngA-1	ngA/--/ngA-1
Senior Unsecured		
Foreign Currency	B	B
Short-Term Debt		
Foreign Currency	B	B

Regulatory Disclosures

- Primary Credit Analyst: Kuziva Murigo, Rating Analyst
- Rating Committee Chairperson: Mohamed Damak
- Date initial rating assigned: Nov. 16, 2007
- Date of previous review: Sept. 13, 2018

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

Materials Used in The Credit Rating Process

Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cash-flows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

This credit rating was disclosed to the rated entity or related third party before being issued.

Glossary

- Adjusted assets: Total assets less nonservicing intangibles.
- Anchor: The starting point for assigning a bank a long-term rating, based on economic and industry risk.
- 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.
- Core deposits: Total deposits minus noncore deposits (such as deposits due to banks and certificates of deposits).
- Core earnings: Net income before minority interest, minus nonrecurring income, plus nonrecurring expenses, plus/minus tax impact on adjustments, plus amortization/impairment of goodwill/intangibles, minus preferred dividends.
- Customer loans (gross): Total customer loans before loan loss reserves.
- Customer loans (net) over customer deposits: Gross customer loans net of loan loss reserves, over core deposits.
- 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.
- 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.
- Group support: An assessment of the likelihood that a parent or other group member would provide extraordinary support to a bank within that group.
- Issuer credit rating: A forward-looking opinion about an obligor's overall creditworthiness.
- 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.
- Operating revenues: Net interest income, plus operating non-interest income (that mainly includes fees and commissions and trading gains).
- 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 wholesale funding: Noncore deposits, plus acceptances, repurchase agreements, other borrowings (including commercial papers, debt and senior and subordinated bonds, minimal equity content hybrids), and total equity, minus

minority interest and common shareholders' equity.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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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