

### Research Update:

## Nigeria's Zenith Bank PLC Outlook To Stable On Financial Profile Resilience; 'B+/B' Ratings Affirmed

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# Nigeria's Zenith Bank PLC Outlook To Stable On Financial Profile Resilience; 'B+/B' Ratings Affirmed

## Overview

- Zenith Bank's financial profile has proved resilient to tougher operating conditions in Nigeria, helping the bank stabilize its creditworthiness.
- We are revising the outlook on the ratings on Zenith to stable from negative. At the same time, we are affirming the 'B+/B' long- and short-term counterparty credit and 'ngA/ngA-1' Nigeria national scale ratings.
- The stable outlook on Zenith reflects our view that the bank's financial profile is proving comparatively resilient to the domestic market turmoil that began last year.
- Exposure to credit risk remains significant, given the bank's operating environment, but asset quality deterioration is likely to remain manageable. We also expect financial performance to improve in 2010, after weakening in 2009.

## Rating Action

On July 1, 2010, Standard & Poor's Ratings Services revised the outlook on Nigeria-based Zenith Bank PLC to stable from negative. At the same time, we affirmed the 'B+/B' long- and short-term global-scale ratings and the 'ngA/ngA-1' national-scale ratings on the bank.

## Rationale

The outlook revision reflects our view that Zenith's financial profile is proving resilient to the tougher operating conditions in the Federal Republic of Nigeria (B+/Stable/B). This has helped the bank stabilize its creditworthiness.

Asset quality deterioration at Zenith has, in our view, been manageable. Loan portfolio deterioration has been less pronounced than that of domestic peers. The ratio of nonperforming loans (including loss, doubtful, and substandard loans) rose to approximately 6% of total lending at year-end 2009 (2.0% at year-end 2008). Coverage of problem loans by reserves has also remained adequate, at 101% on Dec. 31, 2009.

Earnings were weakened in 2009 by a significant increase in loan loss provisioning charges and, during the first quarter of 2010, by reduced interest earnings. This was partly alleviated by reduced expenditures.

Operating conditions in the domestic market remain uncertain; however, we still assume that Zenith's financial performance will improve in 2010 as growth in lending volumes resumes and commercial margins stabilize. Credit risk charges are also unlikely to exceed the amount incurred in 2009, particularly given management's focus on problem loan collections, work-outs, and recoveries.

The ratings on Zenith continue to be constrained by the high economic and industry risks associated with operating in Nigeria, the bank's restricted geographic and business diversification, high exposure to credit risk, and deteriorated asset quality indicators. Factors which support the ratings include Zenith's leading market position in high-end corporate banking in Nigeria, solid funding and liquidity profile, and satisfactory capitalization and reserves, which support the bank's loss-absorption capacity. The ratings on Zenith reflect the bank's stand-alone credit profile, and do not incorporate any uplift for potential extraordinary support from the Nigerian government.

Founded in 1990, Zenith is one of the largest banks operating in Nigeria, with total assets of Nigerian naira (NGN) 1.81 trillion on March 31, 2010 (\$11.96 billion, at NGN151.29 to \$1). The bank focuses on private-sector banking with traditionally higher-quality Nigerian corporates and multinationals—leading to a comparatively conservative risk profile relative to certain domestic peers.

## Outlook

The stable outlook on Zenith reflects our view that the bank's financial profile is proving comparatively resilient to the domestic market turmoil that began last year. Exposure to credit risk remains significant, given the bank's high risk and narrow operating environment. That said, asset quality deterioration is likely to remain manageable. We also expect financial performance to improve in 2010, after weakening in 2009. The bank's funding and liquidity profile remains comfortable, with capitalization still at a satisfactory level.

In the absence of any other relevant factors, were Zenith's loan portfolio or profitability to deteriorate meaningfully, with the knock-on effect these factors could have on capital, it would put downward pressure on the ratings. As Zenith's creditworthiness also depends on the ratings on Nigeria, any negative action on the sovereign would lead to a similar action on Zenith, as this could indicate deterioration in the domestic economy and increased pressure on the bank's financial profile.

Positive rating action is unlikely for the foreseeable future, and would depend on the sovereign rating and improvement in Zenith's operating environment, as well as on the bank's own ability to strengthen its financial profile, particularly regarding asset quality.

## Related Criteria And Research

- Various Central Bank Initiatives Are Steps In The Right Direction, But Risks Remain High For Nigerian Banks, Sept. 8, 2009
- Principles Of Corporate And Government Ratings, June 26, 2007
- Bank Rating Analysis Methodology Profile, March 18, 2004

## Ratings List

Zenith Bank PLC

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Counterparty Credit Rating	B+/Stable/B	B+/Negative/B

Ratings Affirmed

Counterparty Credit Rating

Local Currency ngA/--/ngA-1

Certificate Of Deposit B+/B

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