FitchRatings

FITCH AFFIRMS NIGERIA'S ZENITH BANK PLC 'B+'; OUTLOOK STABLE

Fitch Ratings-London/Johannesburg-01 October 2010: Fitch Ratings has affirmed Nigeria-based Zenith Bank Plc's (Zenith) ratings at Long-term foreign currency Issuer Default Rating (IDR) 'B+', Short-term foreign currency IDR 'B', Individual 'D' , Support '4', National Long-term 'AA-(nga)' and National Short-term 'F1+(nga)'. The Outlook for the Long-term IDR is Stable. The Support Rating Floor is affirmed at 'B+'.

The ratings reflect Zenith's strong and well-established domestic franchise and acceptable levels of tier 1 capital. The ratings also reflect Nigeria's difficult operating environment and Zenith's weakened financial performance and asset quality indicators during FY09, although Fitch notes Zenith's improved financial performance in H110.

Zenith's financial performance indicators weakened considerably in the 15 months to its new financial year-end reporting date, 31 December 2009 (FYE09). This was largely on account of significantly higher impairment charges and operating costs, whilst revenue growth was constrained. Overall levels of financial performance improved markedly in H110 on the back of lower impairment charges. Fitch expects Zenith's financial performance indicators at end-2010 will mirror those for H110, although overall levels of performance may depend on how successfully the bank manages operating costs while revenues remain under pressure.

Following rapid credit growth in FY09, the bank's loan book contracted 3.1% in H110, albeit in line with Zenith's peers. Concentrations in credit risk are evident, in particular to the manufacturing and oil and gas sectors. Zenith's asset quality indicators deteriorated significantly during FY09, primarily on the back of defaulted capital market exposures resulting in an NPL ratio of 6.4% (FYE08: 2%). Fitch notes that Zenith's asset quality indicators appear to have stabilised since FYE09, with the bank reporting a NPL ratio of 6.6% at end-H110. Coverage of 105.4% at end-H110 was also considered acceptable (FYE09: 101.6%).

Zenith's stable funding franchise and conservative levels of leverage ensured acceptable levels of liquidity and capitalisation at end-H110. Zenith reported a tier 1 capital adequacy ratio of 28.9% at end-H110 (FYE09: 29.1%). While Fitch considers overall levels of tier 1 capital to be acceptable, the agency is concerned that Zenith's generous dividend policy could erode the overall levels of capital over time.

Zenith commenced operations in 1990 and became a public limited liability company in 2004, with shares listed on the Nigerian Stock Exchange. Zenith is one of Nigeria's largest banks by total assets and controlled about 12% of system assets at FYE09. It is headquartered in Lagos and owns international subsidiaries in Ghana, Sierra Leone, Gambia and the United Kingdom.

Contact:

Primary Analyst
Anthony Walker
Senior Director
+27 11 380 0912
Fitch Southern Africa (Pty) Limited
36 Morsim Street, Hyde Park, 2196
Johannesburg, South Africa

Secondary Analyst
Denzil de Bie
Director

+27 11 380 0911

Committee Chairperson
Mark Young
Managing Director
+44 20 7417 4268

Media Relations: Hannah Warrington, London, Tel: +44 (0) 207 417 6298, Email: hannah.warrington@fitchratings.com.

Note to Editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(nga)' for National ratings in Nigeria. Specific letter grades are not therefore internationally comparable.

Additional information is available at www.fitchratings.com.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2010, and 'National Ratings - Methodology Update', dated 18 December 2006, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547685
National Ratings - Methodology Update
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=305544