

Update: Zenith Bank PLC

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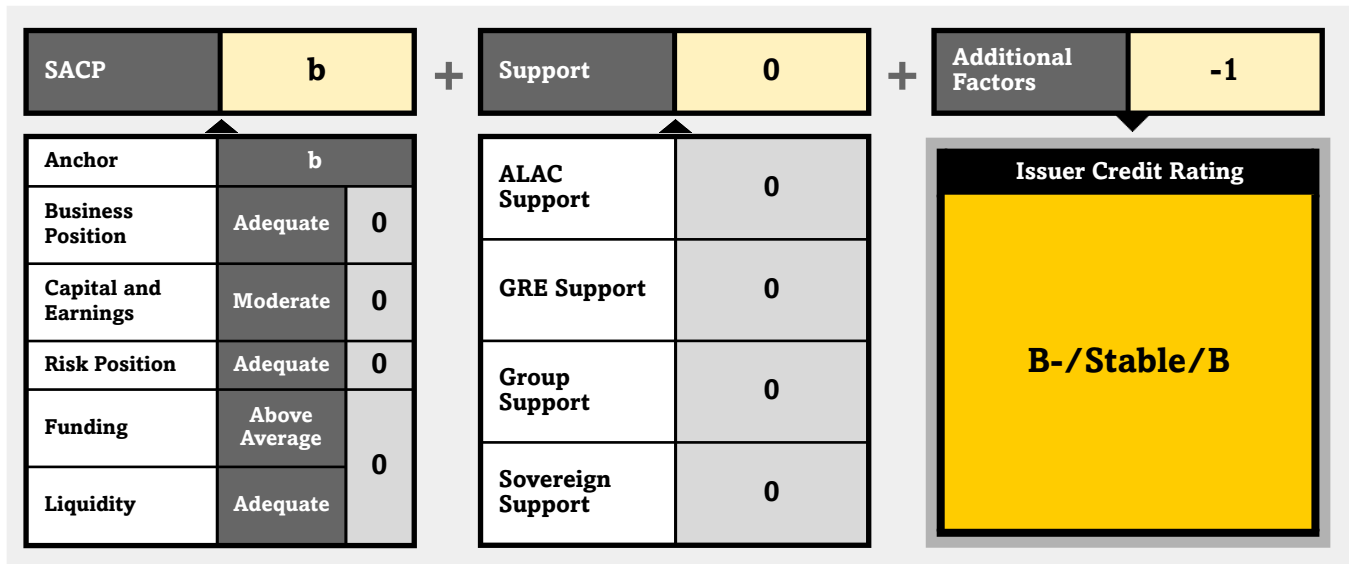
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Update: Zenith Bank PLC



Credit Highlights

Overview

Key strengths

A top-tier bank in Nigeria.

Historically strong earnings, supported by noninterest income.

Key risks

Concentration in the domestic market.

High economic and industry risk associated with operating in Nigeria.

The bank's digital strategy will continue to support growth of non-interest income and improve operating efficiency. S&P Global Ratings expects Zenith Bank's earnings will remain high, supported by resilient loan growth and higher noninterest income. Zenith Bank demonstrates better operating efficiency than most of its domestic peers, and its investment in digitization will also help improve efficiency and profitability. We forecast the bank to post a return on equity (ROE) of 19%-20% over the next 12 to 18 months.

Asset quality metrics will slightly increase once forbearance measures end. We expect nonperforming loans (NPLs) to tick up slightly in 2021 to 4.5%-5.0% as forbearance measures end and some loans transition to stage 3. The cost of risk will remain above historical levels, however, but start declining from that in 2020. Overall asset quality metrics will still compare well with those of peers, reflecting the bank's good risk management practices.

Access to low-cost retail deposits will continue to support funding and push down the cost of funds. Zenith Bank is funded by stable customer deposits, which are largely short term. This is in line with domestic peers' funding profiles and results in a significant asset-liability mismatch. The group is continuously increasing the proportion of retail deposits in its funding base, resulting from the bank's digital and financial inclusion initiative to mobilize sustainable, low-cost retail deposits. We expect this to continue to consistently push down the cost of funds and support net interest margins.

The bank's stand-alone credit profile (SACP) remains better than the sovereign's, but our ratings are capped by that on Nigeria. We assess Zenith's SACP at 'b'. However, our long-term rating on the bank is capped at the 'B-' long-term foreign currency sovereign credit rating. This is because we do not rate Nigerian banks above the sovereign in view of the likely direct and indirect influence of sovereign distress on their operations, including their ability to service

foreign-currency obligations.

Outlook: Stable

Our stable outlook on Nigeria-based Zenith Bank PLC is stable, reflecting the outlook on Nigeria (B-/Stable/B).

Downside scenario

We would likely lower the ratings on the bank over the next 12 months if we observed increasing risk that Nigeria would be unable to meet its commercial obligations, either due to declining external liquidity or a continued reduction in fiscal flexibility, which will likely affect banks' access to U.S.-dollar liquidity.

Upside scenario

We could raise the ratings on Zenith Bank over the next 12 months if we were to take a positive rating action on Nigeria. This could happen if Nigeria experiences much stronger economic performance than we currently expect, or if external financing pressures prove to be temporary, all else being equal.

Key Metrics

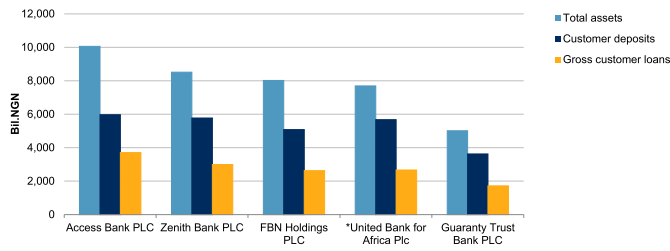
Zenith Bank PLC--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31 --				
(%)	2018a	2019a	2020a	2021f	2022f
Growth in operating revenue	(10.1)	5.0	9.6	5.5-6.7	11.8-14.5
Growth in customer loans	(10.5)	22.1	18.6	9.0-11.0	13.5-16.5
Net interest income/average earning assets (NIM)	7.1	5.9	5.5	5.2-5.8	5.5-6.0
Cost to income ratio	46.4	45.8	46.8	47.3-49.7	46.0-48.3
Return on average common equity	23.6	23.8	22.4	18.0-19.9	18.9-20.9
New loan loss provisions/average customer loans	0.9	1.1	1.3	1.1-1.2	1.0-1.1
Gross nonperforming assets/customer loans	5.0	4.3	4.3	4.4-4.9	4.4-4.8
Risk-adjusted capital ratio	6.3	7.5	6.2	6.2-6.6	6.3-6.6

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Chart 1

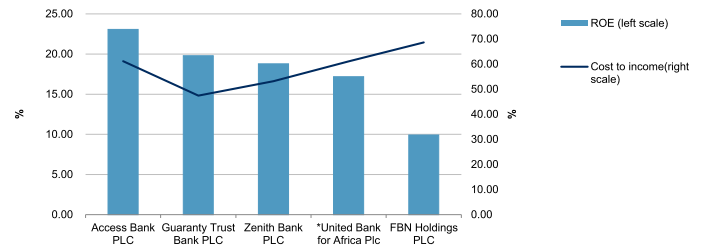
Five Largest Nigerian Banks By Total Assets, Deposits And Loans (June 2021)
Zenith remains one of the largest banks in the system



NGN--Nigerian Naira. *United Bank for Africa Plc data as at December 2020. Source: Company filings. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 2

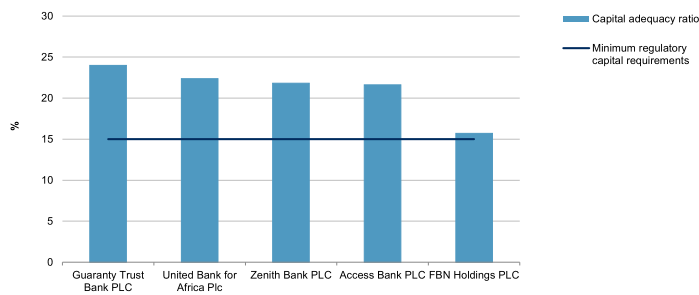
Zenith Bank's Profitability Metrics Versus Peers
Zenith continues to exhibit operational efficiency



*United Bank for Africa data as at December 2020. Source: S&P Global Ratings. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 3

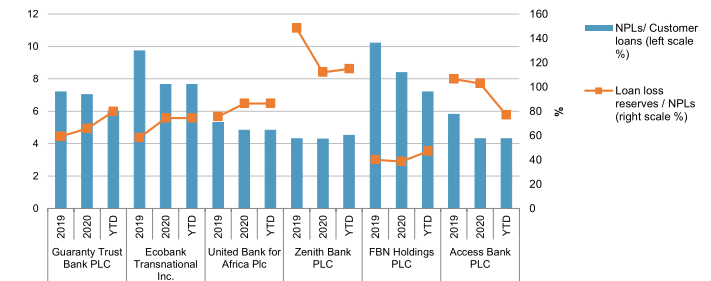
Rated Nigerian Banks' Capital Adequacy Ratios Meet Minimum Regulatory Requirements
Zenith demonstrates sound capitalization well above the minimum



Data as at June 2021 except for Stanbic IBTC Bank PLC and Fidelity Bank PLC where data is as at March 2021 and United Bank for Africa PLC where data is as at December 2020. Note: FBN Holdings excludes unappropriated profits. Source: S&P Global Ratings. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 4

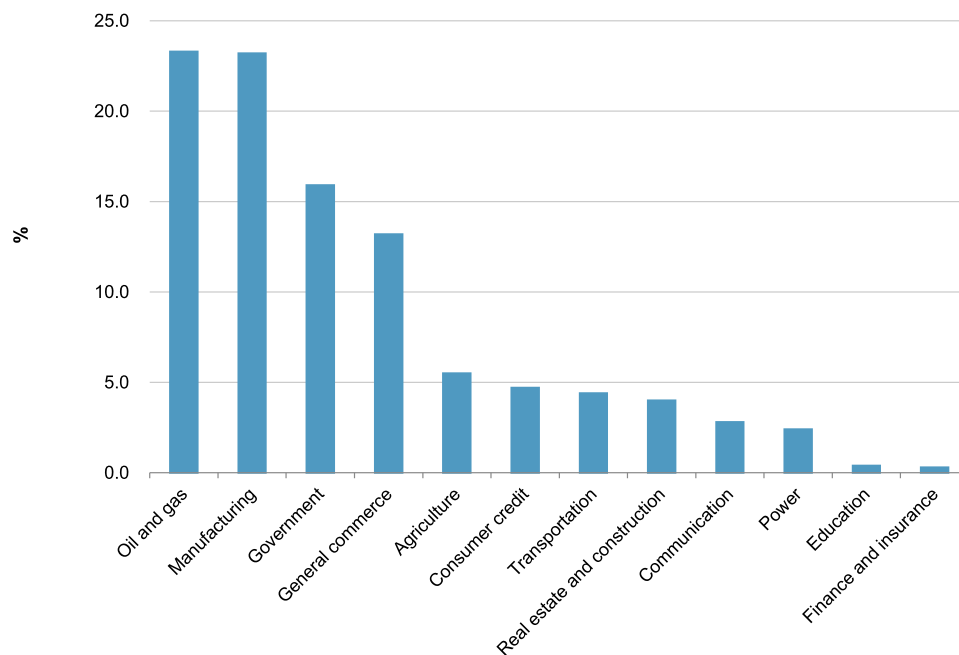
Top-Tier Nigerian Banks' Asset Quality Metrics
Risk metrics remain prudent



YTD--Year-to-Date data as at end of June 2021 except for United Bank for Africa Plc and Ecobank Transnational Inc with data as at end of December 2020. Source: S&P Global Ratings. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 5**Zenith Bank's Customer Loan Breakdown (June 30, 2021)**

Relatively diverse loan exposure and concentrations in line with peers



Source: Company financials.

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Key Statistics

Table 1**Zenith Bank PLC--Key Figures**

	--Year-ended Dec. 31--				
(Mil. NGN)	2021*	2020	2019	2018	2017
Adjusted assets	8,503,122.0	8,465,029.0	6,330,382.0	5,934,569.0	5,582,264.0
Customer loans (gross)	2,992,498.0	2,919,342.0	2,462,359.0	2,016,520.0	2,252,172.0
Adjusted common equity	1,079,797.0	964,941.0	813,299.0	696,842.0	715,499.0
Operating revenues	281,844.0	547,037.0	499,004.0	475,298.0	528,552.0
Noninterest expenses	149,850.0	256,032.0	228,747.0	220,709.0	225,233.0
Core earnings	106,060.0	230,252.0	211,794.8	197,998.8	179,564.0

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

Table 2

Zenith Bank PLC--Business Position					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Total revenues from business line (Mil. NGN)	281,909.0	547,384.0	499,151.0	475,557.0	528,552.0
Commercial & retail banking/total revenues from business line	99.8	92.0	89.9	89.2	91.4
Other revenues/total revenues from business line	0.2	8.0	10.1	10.8	8.6
Return on average common equity (%)	18.8	22.4	23.8	23.6	23.3

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

Table 3

Zenith Bank PLC--Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Tier 1 capital ratio	20.1	20.8	20.4	23.9	25.2
S&P RAC ratio before diversification	N/A	6.2	7.5	6.3	5.4
S&P RAC ratio after diversification	N/A	4.8	6.0	5.1	4.2
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	56.9	55.3	53.5	62.2	48.8
Fee income/operating revenues	16.9	14.5	20.1	17.2	17.1
Noninterest expenses/operating revenues	53.2	46.8	45.8	46.4	42.6
Provision operating income/average assets	3.1	3.9	4.4	4.4	5.9
Core earnings/average managed assets	2.5	3.1	3.4	3.4	3.5

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

Table 4

Zenith Bank PLC--Risk-Adjusted Capital Framework Data						
(Mil. NGN)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)	
Credit risk						
Government and central banks	3,898,006.0	1,244,740.7	31.9	7,944,379.4	203.8	
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0	
Institutions and CCPs	819,436.0	1,244,740.7	151.9	1,280,047.1	156.2	
Corporate	2,406,060.0	1,244,740.7	51.7	3,000,705.9	124.7	
Retail	111,663.0	0.0	0.0	246,808.6	221.0	
Of which mortgage	0.0	0.0	0.0	0.0	0.0	
Securitization§	0.0	0.0	0.0	0.0	0.0	
Other assets†	235,041.8	0.0	0.0	768,491.0	327.0	
Total credit risk	7,470,206.8	3,734,222.0	50.0	13,240,432.1	177.2	
Credit valuation adjustment						
Total credit valuation adjustment	--	0.0	--	0.0	--	
Market Risk						
Equity in the banking book	79,975.0	0.0	0.0	899,718.8	1,125.0	

Table 4

Zenith Bank PLC--Risk-Adjusted Capital Framework Data (cont.)					
Trading book market risk	--	175,625.0	--	493,945.3	--
Total market risk	--	175,625.0	--	1,393,664.1	--
Operational risk					
Total operational risk	--	921,168.0	--	1,025,694.4	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	4,831,015.0	--	15,659,790.6	100.0
Total Diversification/ Concentration Adjustments	--	--	--	4,634,565.0	29.6
RWA after diversification	--	4,831,015.0	--	20,294,355.5	129.6
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		1005045.0	20.8	964941.0	6.2
Capital ratio after adjustments†		1005045.0	20.8	964941.0	4.8

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

‡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 2020', S&P Global Ratings.

Table 5

Zenith Bank PLC--Risk Position	--Year-ended Dec. 31--				
	2021*	2020	2019	2018	2017
(%)					
Growth in customer loans	5.0	18.6	22.1	(10.5)	(4.6)
Total managed assets/adjusted common equity (x)	7.9	8.8	7.8	8.5	7.8
New loan loss provisions/average customer loans	1.0	1.3	1.1	0.9	4.3
Net charge-offs/average customer loans	(0.3)	1.9	2.9	3.5	0.6
Gross nonperforming assets/customer loans + other real estate owned	4.5	4.3	4.3	5.0	4.7
Loan loss reserves/gross nonperforming assets	114.9	112.0	148.2	192.4	143.4

*Data as of June 30.

Table 6

Zenith Bank PLC--Funding And Liquidity		--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017	
Core deposits/funding base	83.7	80.2	84.6	75.6	76.2	
Customer loans (net)/customer deposits	49.2	52.0	54.1	49.4	61.1	
Long term funding ratio	92.3	89.8	94.4	91.4	97.4	
Stable funding ratio	164.4	162.9	156.3	154.4	154.8	
Short-term wholesale funding/funding base	8.9	11.9	6.7	10.0	3.0	
Broad liquid assets/short-term wholesale funding (x)	6.5	5.3	8.0	5.5	17.4	

Table 6

Zenith Bank PLC--Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Net broad liquid assets/short-term customer deposits	58.8	117.1	55.1	59.9	65.1
Short-term wholesale funding/total wholesale funding	54.7	60.0	43.3	40.8	12.8
Narrow liquid assets/3-month wholesale funding (x)	14.4	9.8	46.9	15.6	18.0

*Data as of June 30.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, 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
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Nigerian Banks Face Struggles On Many Fronts, March 11, 2021
- Banking Industry Country Risk Assessment: Nigeria, Nov. 30, 2020
- Nigeria, Aug. 16, 2021

Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found at "Various Rating Actions On Nigerian Banks Following Sovereign Downgrade; Outlooks Stable," published March 31, 2020, 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 revenue: Net income on fees and commissions over operating revenue.
- 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 revenue: 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 October 25, 2021)*

Zenith Bank PLC

Issuer Credit Rating	B-/Stable/B
<i>Nigeria National Scale</i>	ngBBB/--/ngA-2
Senior Unsecured	B-
Short-Term Debt	B

Issuer Credit Ratings History

31-Mar-2020	B-/Stable/B
03-Mar-2020	B/Negative/B
22-Sep-2016	B/Stable/B
31-Mar-2020 <i>Nigeria National Scale</i>	ngBBB/--/ngA-2
03-Mar-2020	ngA/--/ngA-2
02-Jul-2018	ngA/--/ngA-1

Sovereign Rating

Nigeria	B-/Stable/B
<i>Nigeria National Scale</i>	ngBBB/--/ngA-2

*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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