

## Zenith Bank PLC

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### Table Of Contents

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Major Rating Factors

Rationale

Outlook

Related Criteria And Research

# Zenith Bank PLC

## Major Rating Factors

### Strengths:

- Leading position in the Nigerian banking sector.
- Good earnings buffer with strong net interest margins.
- Large core deposit base with strong liquidity indicators.

### Weaknesses:

- High economic and industry risks associated with operating in Nigeria.
- Limited geographic diversification outside Nigeria and high lending concentration.
- Modest loan loss reserve coverage given the bank's risk profile.

Counterparty Credit Rating
B+/Stable/B
<i>Nigeria National Scale</i>
<i>ngA/--/ngA-1</i>

## Rationale

The ratings on Zenith Bank PLC (Zenith) are constrained by the high economic and industry risks associated with operating in the Federal Republic of Nigeria (B+/Stable/B), its limited geographic diversification and lending concentration, and modest loan loss reserve coverage given the bank's risk profile. Supporting rating factors are its leading position in the Nigerian banking sector, good earnings buffer with strong net interest margins, and large core deposit base combined with strong liquidity indicators. The ratings on Zenith reflect the bank's stand-alone credit profile. Although we consider the institute to be of high systemic importance to Nigeria, we do not factor in any potential extraordinary support from the Nigerian government.

With total assets of Nigerian naira (NGN) 2.02 trillion (\$13.46 billion, \$1 = NGN150) at March 31, 2011, Zenith is one of the largest banks in Nigeria. At March 31, 2011, with over 92% of gross revenues in the corporate and retail space, Zenith has limited geographic and business diversification.

The bank's nonperforming loans have declined slightly to 5.6% at Dec. 31, 2010 from 5.8% at Dec. 31, 2009. We expect the bank's asset quality to remain at a similar level in 2011. At March 31, 2010, single-name concentration in the loan book compares favorably with peers. The top-20 loans to adjusted total equity (ATE) equated to 71.4% and the top-20 loans represented 34% of total loans. In addition, Zenith's loan book is adequately diversified across sectors.

Zenith's earnings have been bolstered by the increase in oil prices, as well as further signs of economic recovery in Nigeria. In the first quarter of 2011, net interest margins widened to 6.7% from 5.8% at year-end 2010. We believe that operating conditions should improve over the medium term, which should support Zenith's financial performance as growth in lending resumes.

Zenith continues to exhibit a solid funding profile. Customer deposits make up over 98% of Zenith's funding base at March 31, 2011. Deposits rose by 7.5% year on year and by 8.9% during the first three months of 2011. Total loans to customer deposits is 55.1% and compares favorably with peers. Zenith has a large cushion of liquid assets as cash, interbank deposits, and T-Bills accounted for more than 44% of total assets at Dec. 31, 2010.

Zenith's capital is good compared with domestic Nigerian banks, but only adequate when taking the bank's high

lending concentration and exposure to the Nigerian market into account. Standard & Poor's risk-adjusted capital model is 7.4% and 5.6% before and after diversification, respectively.

## Outlook

The stable outlook on Zenith largely reflects that on the Federal Republic of Nigeria. The stable outlook on Nigeria reflects our expectation that it will maintain its strong external and fiscal balance sheet and that its budgetary performance will gradually improve over the next few years. Any positive momentum in the ratings on Zenith would require a similar move in the sovereign ratings, alongside maintaining the currently adequate levels of capital, strong liquidity indicators, and stable asset quality. A negative rating action, although unexpected in the medium term, would follow a downturn in the financial profile of the bank. A downgrade of the sovereign rating would automatically trigger a downgrade of the bank as Zenith's creditworthiness depends on the ratings on the sovereign.

## Related Criteria And Research

- Understanding National Rating Scales, April 14, 2005
- Credit FAQ: Standard & Poor's Nigeria National Scale Ratings, Aug. 14, 2008
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Banks: Rating Methodology, Jan. 6, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

**Table 1**

<b>Zenith Bank PLC Profitability Ratios</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2011*</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net interest income/average earning assets	6.7	5.8	6.0	6.3	6.9
Net interest income/revenues	63.7	60.2	58.2	57.4	58.8
Fee income/revenues	2.9	32.0	26.6	30.7	33.2
Market-sensitive income/revenues	6.8	7.3	10.5	0.0	0.0
Personnel expense/revenues	23.7	23.0	24.1	21.9	19.3
Noninterest expenses/revenues	51.1	64.3	60.2	59.6	63.7
New loan loss provisions/revenues	8.7	2.9	21.2	4.1	2.4
Net operating income before loan loss provisions/loan loss provisions	561.6	1,249.2	188.1	986.9	1,501.3
Net operating income after loan loss provisions/revenues	40.2	32.9	18.7	36.3	33.9
Pretax profit/revenues	40.2	32.9	18.6	36.3	33.9
Tax/pretax profit	17.0	25.2	41.3	7.4	26.9
Core earnings/revenues	33.3	24.6	11.0	33.6	24.8
Core earnings/average adjusted assets	3.1	2.1	1.0	3.0	2.4
Noninterest expenses/average adjusted assets	4.7	5.5	5.3	5.3	6.1
Core earnings/average risk-weighted assets	N.M.	N.M.	N.M.	N.M.	N.M.
Core earnings/average adjusted common equity	16.2	10.8	5.1	19.6	18.7
Pretax profit/average common equity (%)	19.7	14.4	8.3	19.6	23.9

\*Data as of March 31. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 2

Zenith Bank PLC RACF [Risk-Adjusted Capital Framework] Data						
(Mil. NGN)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)	
<b>Credit risk</b>						
Government and central banks	636,619	0	0	953,386	150	
Institutions	748,254	0	0	1,063,740	142	
Corporate	796,850	0	0	2,027,303	254	
Retail	7,815	0	0	17,584	225	
Of which mortgage	0	0	0	0	0	
Securitization	0	0	0	0	0	
Other assets	107,442	0	0	362,617	338	
Total credit risk	2,296,980	0	0	4,424,629	193	
<b>Market risk</b>						
Equity in the banking book¶	9,921	0	0	101,054	1,019	
Trading book market risk	--	0	--	0	--	
Total market risk	--	0	--	101,054	--	
<b>Insurance risk</b>						
Total insurance risk	--	--	--	0	--	
<b>Operational risk</b>						
Total operational risk	--	0	--	352,946	--	
(Mil. NGN)		Basel II RWA		Standard & Poor's RWA	% of Standard & Poor's RWA	
<b>Diversification adjustments</b>						
RWA before diversification		0		4,878,630	100	
Total adjustments to RWA		--		1,484,047	30	
RWA after diversification		0		6,362,677	130	
(Mil. NGN)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)	
<b>Capital ratio</b>						
Capital ratio before adjustments		362,334	0.0	363,463	7.5	
Capital ratio after adjustments§		362,334	0.0	363,463	5.7	

\*Exposure at default. €Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. ¶Exposure and Standard & Poor's 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, 2010, Standard & Poor's.

Table 3

Zenith Bank PLC Capital Ratios					
	--Year-ended Dec. 31--				
(%)	2011*	2010	2009	2008	2007
Adjusted common equity/risk assets (%)	N.M.	N.M.	N.M.	N.M.	N.M.
Tier 1 capital ratio	N/A	N/A	N/A	N/A	N/A
Adjusted total equity/adjusted assets	18.8	19.2	19.7	17.8	11.0

**Table 3**

<b>Zenith Bank PLC Capital Ratios (cont.)</b>					
Adjusted total equity/managed assets	18.8	19.2	19.7	17.8	11.0
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	48.0	52.2	49.9	71.4	38.2
Common dividend payout ratio	0.0	0.0	55.1	55.2	49.6

\*Data as of March 31. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

**Table 4**

<b>Zenith Bank PLC Summary Balance Sheet</b>					
<b>(Mil. NGN)</b>	<b>--Year-ended Dec. 31--</b>				
	<b>2011*</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Assets</b>					
Cash and money market instruments	449,736.0	541,227.0	468,609.0	775,335.9	325,142.3
Securities	642,243.0	509,214.0	383,533.0	453,116.5	285,093.7
Trading securities (marked to market)	N/A	N/A	N/A	0.0	0.0
Nontrading securities	642,243.0	509,214.0	383,533.0	453,116.5	285,093.7
Mortgage-backed securities included above	N/A	N/A	N/A	0.0	0.0
Loans to banks (net)	N/A	N/A	N/A	0.0	0.0
Customer loans (gross)	791,532.0	759,239.0	752,971.0	464,330.3	296,679.2
Loan loss reserves	N/A	32,766.0	49,139.0	13,815.4	6,122.8
Customer loans (net)	791,532.0	726,473.0	703,832.0	450,515.0	290,556.4
Earning assets	1,767,380.0	1,667,956.0	1,478,334.0	1,453,220.6	795,860.2
Equity interests/participations (nonfinancial)	N/A	N/A	9,559.0	11,633.9	6,350.6
Investments in unconsolidated subsidiaries (financial companies)	N/A	N/A	N/A	N/A	N/A
Intangibles (nonservicing)	0.0	0.0	0.0	0.0	0.0
Interest-only strips	N/A	N/A	N/A	N/A	N/A
Fixed assets	69,251.0	67,145.0	78,619.0	50,942.6	36,799.4
Derivatives credit amount	N/A	N/A	N/A	N/A	N/A
Accrued receivables	N/A	18,936.0	13,517.0	40,326.3	24,177.4
All other assets	65,900.0	32,032.0	2,034.0	5,961.5	4,701.9
Total assets	2,018,662.0	1,895,027.0	1,659,703.0	1,787,831.7	972,822.1
Intangibles (nonservicing)	0.0	0.0	0.0	0.0	0.0
Minus insurance statutory funds	N/A	N/A	N/A	N/A	N/A
Adjusted assets	2,018,662.0	1,895,027.0	1,659,703.0	1,787,831.7	972,822.1
<b>Liabilities</b>					
Total deposits	1,435,695.0	1,318,072.0	1,225,600.0	1,251,785.6	754,589.3
Noncore deposits	N/A	N/A	N/A	0.0	0.0
Core/customer deposits	1,435,695.0	1,318,072.0	1,225,600.0	1,251,785.6	754,589.3
Acceptances	N/A	N/A	N/A	0.0	0.0
Repurchase agreements	N/A	N/A	N/A	N/A	N/A
Other borrowings	26,251.0	27,975.0	35,984.0	34,569.6	21,947.7
Other other borrowings	26,251.0	27,975.0	35,984.0	34,569.6	21,947.7
Other credit reserves	N/A	N/A	N/A	N/A	N/A
Other liabilities	176,781.0	185,419.0	60,326.0	154,858.8	79,830.4
Total liabilities	1,638,727.0	1,531,466.0	1,321,910.0	1,441,214.1	856,367.5

**Table 4**

<b>Zenith Bank PLC Summary Balance Sheet (cont.)</b>					
Total equity	379,935.0	363,561.0	337,793.0	346,617.6	116,454.7
Limited life preferred and quasi equity	N/A	N/A	N/A	0.0	0.0
Preferred stock and other capital	N/A	N/A	N/A	0.0	0.0
Mandatorily convertible securities	N/A	N/A	N/A	0.0	0.0
Enhanced trust preferred	N/A	N/A	N/A	0.0	0.0
Government-owned hybrids included in TAC without limit	N/A	N/A	N/A	N/A	N/A
Minority interest-equity	2,533.0	2,319.0	2,223.0	2,269.4	1,868.6
Common shareholders' equity	377,402.0	361,242.0	335,570.0	344,348.2	114,586.1
Share capital and surplus	270,745.0	270,745.0	267,606.0	263,419.4	73,869.8
Revaluation reserve	N/A	98.0	N/A	322.3	79.4
Retained profits	N/A	N/A	N/A	N/A	N/A
Other equity	N/A	N/A	N/A	N/A	N/A
Total liabilities and equity	2,018,662.0	1,895,027.0	1,659,703.0	1,787,831.7	972,822.1

\*Data as of March 31. NGN--Nigerian naira. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

**Table 5**

<b>(Mil. NGN)</b>	<b>--Year-ended Dec. 31--</b>				
	<b>2011*</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Common shareholders' equity	377,402.0	361,242.0	335,570.0	344,348.2	114,586.1
Plus minority interest (equity)	2,533.0	2,319.0	2,223.0	2,269.4	1,868.6
Minus dividends (not yet distributed)	N/A	N/A	(11,303.0)	(28,466.2)	(9,265.5)
Minus revaluation reserves	0.0	(98.0)	0.0	(322.3)	(79.4)
Minus nonservicing intangibles	0.0	0.0	0.0	0.0	0.0
Minus interest-only strips (net)	N/A	N/A	N/A	N/A	N/A
Minus tax loss carryforwards	0.0	0.0	0.0	0.0	0.0
Minus postretirement benefit adjustment	0.0	0.0	0.0	0.0	0.0
Minus cumulative effect of credit-spread related revaluation of liabilities	N/A	N/A	N/A	N/A	N/A
Minus other adjustments	N/A	N/A	N/A	0.0	0.0
Adjusted common equity	379,935.0	363,463.0	326,490.0	317,829.2	107,109.7
Plus admissible preferred and hybrids	0.0	0.0	0.0	0.0	0.0
Total Adjusted Capital	379,935.0	363,463.0	326,490.0	317,829.2	107,109.7
Plus general reserves	0.0	0.0	0.0	0.0	0.0
Plus unrealized gains	N/A	N/A	N/A	0.0	0.0
Minus equity in unconsolidated subsidiaries	N/A	N/A	N/A	N/A	N/A
Minus capital of insurance subsidiaries	N/A	N/A	N/A	0.0	0.0
Minus adjustment for securitized assets	0.0	0.0	0.0	0.0	0.0
Adjusted total equity	379,935.0	363,463.0	326,490.0	317,829.2	107,109.7

\*Data as of March 31. NGN--Nigerian naira. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 6

<b>Zenith Bank PLC Profit And Loss</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(Mil. NGN)</b>	<b>2011*</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net interest income	28,786.5	91,546.0	109,588.0	88,792.2	44,586.2
Interest income	36,321.0	127,265.0	193,545.0	142,390.3	63,624.9
Interest expense	7,534.5	35,719.0	83,957.0	53,598.1	19,038.7
Operating noninterest income	16,416.0	60,602.0	78,650.0	65,903.5	31,255.2
Fees and commissions	1,301.0	48,749.0	50,045.0	47,424.1	25,143.8
Net brokerage commissions	N/A	N/A	N/A	0.0	0.0
Trading gains	3,063.0	11,127.0	19,687.0	0.0	0.0
Other market-sensitive income	N/A	N/A	N/A	N/A	N/A
Net insurance income	N/A	N/A	N/A	0.0	0.0
Equity in earnings of unconsolidated subsidiaries	N/A	N/A	N/A	0.0	0.0
Other noninterest income	12,052.0	726.0	8,918.0	18,479.4	6,111.4
Operating revenues	45,202.5	152,148.0	188,238.0	154,695.7	75,841.4
Noninterest expenses	23,109.0	97,769.0	113,261.0	92,257.6	48,332.8
Personnel expenses	10,699.5	35,001.3	45,443.0	33,942.3	14,650.5
Other general and administrative expense	9,312.9	50,644.3	54,163.0	49,289.0	28,888.6
Provision operating income	22,093.5	54,379.0	74,977.0	62,438.1	27,508.6
Credit loss provisions (net new)	3,934.0	4,353.0	39,865.0	6,326.8	1,832.3
Operating income after loss provisions	18,159.5	50,026.0	35,112.0	56,111.3	25,676.3
Nonrecurring/special income	N/A	N/A	N/A	7.4	0.0
Nonrecurring/special expense	N/A	N/A	27.0	0.0	0.0
Amortization of intangibles	N/A	N/A	N/A	0.0	0.0
Impairment of intangibles	N/A	N/A	N/A	0.0	0.0
Pretax profit	18,159.5	50,026.0	35,085.0	56,118.7	25,676.3
Tax expense/credit	3,087.0	12,612.0	14,482.0	4,126.5	6,896.5
Net income (before minority interest)	15,072.5	37,414.0	20,603.0	51,992.2	18,779.8
Minority interest in consolidated subsidiaries	206.0	84.0	106.0	383.7	102.8
Net income before extraordinary	14,866.0	37,330.0	20,497.0	51,608.6	18,677.0
Net income after extraordinary	14,866.0	37,330.0	20,497.0	51,608.6	18,677.0

\*Data as of March 31. NGN--Nigerian naira. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 7

<b>Zenith Bank PLC Core Earnings Reconciliation Table</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(Mil. NGN)</b>	<b>2011*</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net income (before minority interest)	15,072.5	37,414.0	20,603.0	51,992.2	18,779.8
Minus nonrecurring/special income	0.0	0.0	0.0	(7.4)	0.0
Plus nonrecurring/special expense	N/A	N/A	27.0	0.0	0.0
Plus or minus tax impact of adjustments	N/A	N/A	(11.1)	0.5	0.0
Plus amortization/impairment of goodwill/intangibles	0.0	0.0	0.0	0.0	0.0
Minus preferred dividends	0.0	0.0	0.0	0.0	0.0
Plus or minus other earnings adjustments	N/A	N/A	N/A	0.0	0.0

Table 7

Zenith Bank PLC Core Earnings Reconciliation Table (cont.)					
Core earnings	15,072.5	37,414.0	20,618.9	51,985.4	18,779.8

\*Data as of March 31. NGN--Nigerian naira. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Ratings Detail (As Of June 28, 2011)*		
<b>Zenith Bank PLC</b>		
Counterparty Credit Rating		B+/Stable/B
<i>Nigeria National Scale</i>		ngA/--/ngA-1
Certificate Of Deposit		B+/B
<b>Counterparty Credit Ratings History</b>		
01-Jul-2010		B+/Stable/B
24-Aug-2009		B+/Negative/B
30-Mar-2009		BB-/Negative/B
16-Nov-2007		BB-/Stable/B
24-Aug-2009	<i>Nigeria National Scale</i>	ngA/--/ngA-1
30-Mar-2009		ngA+/--/ngA-1
26-Mar-2009		ngAA/--/ngA-1
<b>Sovereign Rating</b>		
Nigeria (Federal Republic of)		B+/Stable/B
<i>Nigeria National Scale</i>		ngA+/--/ngA-1

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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