

21 SEP 2021

Fitch Affirms Zenith Bank at 'B'; Outlook Stable

Fitch Ratings - London - 21 Sep 2021: Fitch Ratings has affirmed Zenith Bank Plc's Long-Term Issuer Default Rating (IDR) at 'B' with a Stable Outlook. A full list of rating actions is below.

Key Rating Drivers

IDRS AND VIABILITY RATING

The Long- and Short-Term IDRs of Zenith are driven by its standalone creditworthiness, as expressed by its Viability Rating (VR) of 'b'. The VR reflects the constraint of Nigeria's challenging operating environment and the bank's high exposure to the Nigerian sovereign (B/Stable). It also reflects the bank's strong domestic franchise and a solid financial profile by domestic standards.

The Stable Outlook reflects Fitch's view that risks to Zenith's credit profile are captured at the current rating level, with sufficient headroom, under our base case, to absorb the fallout from operating-environment pressures.

Operating conditions in Nigeria are gradually stabilising and Fitch forecasts 1.9% GDP growth in 2021, following a 1.8% decline in 2020. Our baseline scenario is that business volumes and earnings should continue to rebound in 2021, while the rally in oil prices is also a positive factor. Nevertheless, downside risks linger, given inherently volatile market conditions, with banks still exposed to foreign currency (FC) shortages, potential further currency devaluation, rising inflation and regulatory intervention by the Central Bank of Nigeria (CBN).

Zenith is the second-largest banking group in Nigeria, representing 16% of domestic banking-system assets at end-2020. It has a strong franchise in corporate banking and the centrepiece of its strategy is to deepen retail-market penetration through digital platforms.

Single-borrower concentration is moderate, with the 20-largest customer loans representing 96% of Fitch Core Capital (FCC) at end-1H21. Its oil and gas exposure is material, representing 23% of gross loans and 62% of FCC at end-1H21, and is concentrated on the upstream segment, posing a significant risk to asset quality in the event of a prolonged period of low oil prices and production cuts. Restructured loans (a high 24% of gross loans at end-1H21) are concentrated in the upstream oil and gas sector.

Loan-quality metrics have weakened as a result of the pandemic. However, net loans represent a small percentage of assets (33% at end-1H21). Its impaired loans (Stage 3 loans under IFRS 9) ratio increased to 7.9% at end-1H21 from 6.8% at end-2019. Specific loan loss allowance coverage (54% at end-1H21) of impaired loans is adequate. Stage 2 loans represented 20% of gross loans at end-1H21. Most

restructured loans are classified as Stage 2, but are sufficiently collateralised and not expected to become impaired.

Our asset-quality assessment also considers a substantial amount of non-loan assets, largely comprising government securities and cash reserves at the CBN. Sovereign exposure through government securities is high (estimated at over 150% of FCC at end-1H21) and represents a constraint on the VR.

Profitability is solid, as indicated by operating returns on risk-weighted assets that have averaged 6.3% over the past four years. It is supported by a low cost of funding, strong non-interest income and manageable loan impairment charges. Weaker profitability in recent years has been driven by a declining interest-rate environment and increased cash-reserve debits that have weighed on its net interest margin.

Capitalisation is a rating strength. Zenith's FCC ratio of 21.7% at end-1H21 reflects a balance sheet that exhibits low leverage, as indicated by a fairly high tangible leverage ratio of 13.3% at end-1H21. Pre-impairment operating profit is very strong, averaging 12% of average gross loans over the past four years, providing a large buffer to absorb loan impairment charges.

Funding is mainly in the form of a stable and inexpensive customer deposit base, comprising a high percentage of current and savings accounts (93% at end-1H21), with large volumes sourced from individuals and SMEs. Single-depositor concentration is very low, with the 20-largest depositors representing just 4% of customer deposits at end-1H21. Liquidity coverage is comfortable in both local and foreign currencies.

SENIOR UNSECURED DEBT

Senior unsecured debt is rated at the same level as Zenith's IDRs because in our view the likelihood of default on these notes reflects that of the bank. The Recovery Rating of these notes is 'RR4', indicating average recovery prospects.

SUPPORT RATING AND SUPPORT RATING FLOOR

Sovereign support to commercial banks cannot be relied on given Nigeria's weak ability to provide support, particularly in foreign currency. The Support Rating Floor of all Nigerian banks is 'No Floor' and all Support Ratings are '5'. This reflects our view that senior creditors cannot rely on receiving full and timely extraordinary support from the Nigerian sovereign if any of the banks become non-viable.

NATIONAL RATINGS

The National Ratings of Zenith reflect its creditworthiness relative to that of other issuers in Nigeria and are driven by its standalone strength. They are at the higher end of the scale, reflecting Zenith's comparatively strong domestic franchise, profitability, capitalisation, funding structure and liquidity coverage.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade of the Long-Term IDR would require a sovereign upgrade and a continued record of solid financial metrics.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A sovereign downgrade would result in a downgrade of the Long-Term IDR given that Zenith does not meet Fitch's criteria to be rated above the sovereign.

- A combination of an increase in the impaired loans ratio significantly above 10% and aggressive growth at home or abroad that results in very thin buffers over regulatory capital requirements or a sharp decline in the FCC ratio.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Zenith Bank Plc	LT IDR	B 	Affirmed	B 
	ST IDR	B	Affirmed	B
	Natl LT	AA-(nga)	Affirmed	AA-(nga)
	Natl ST	F1+(nga)	Affirmed	F1+(nga)
	Viability	b	Affirmed	b
	Support	5	Affirmed	5
	Support Floor	NF	Affirmed	NF
	• senior unsecured LT	B	Affirmed	RR4 B

ENTITY/DEBT	RATING	RECOVERY	PRIOR
• senior unsecured ST	B	Affirmed	B

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	◐	

Applicable Criteria

[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Zenith Bank Plc UK Issued, EU Endorsed

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