FitchRatings

Banks
Universal Commercial Banks
Nigeria

Zenith Bank Plc

Update

Key Rating Drivers

Zenith Bank Plc's Issuer Default Ratings (IDRs) are driven by its standalone creditworthiness, as expressed by its Viability Rating (VR). The VR is constrained by Nigeria's Long-Term IDRs of 'B-' due to the bank's high sovereign exposure relative to capital and the concentration of its operations in Nigeria. Zenith's 'b-' VR is one notch below the 'b' implied VR, reflecting the operating environment/sovereign rating constraint.

Zenith's National Ratings are driven by its standalone strength. They are at the higher end of the scale, reflecting Zenith's comparatively strong domestic franchise and financial profile.

Macroeconomic Challenges: Fitch forecasts Nigeria's real GDP to grow 3.0% in 2022 and 3.1% in 2023, but operating conditions for banks will weaken due to higher inflation, rising interest rates and intensified hard-currency shortages. The Central Bank of Nigeria's (CBN) highly burdensome cash reserve requirement continues to materially constrain the banking sector's net interest margin and profitability.

Strong Franchise: Zenith is Nigeria's second-largest banking group, representing 13% of domestic banking system assets at end-2021.The bank has a strong corporate banking franchise and a retail-focused strategy that leverages digital channels. Revenue diversification is strong, with non-interest income representing 42% of operating income in 9M22.

Moderate Credit Concentrations: Single-borrower credit concentration is moderate, with the 20 largest customer loans representing 68% of Fitch Core Capital (FCC) at end-2021. Oil and gas exposure is material, representing 22% of gross loans and 62% of FCC at end-2021. Strong loan growth (16% in 9M22) may lead to asset-quality weakening as the loan book seasons.

Pressure on Asset Quality: The impaired loans ratio increased to 4.4% at end-3Q22 (end-2021: 4.2%) despite the supportive effect of strong loan growth as borrowers contended with challenging operating conditions. Stage 2 loans (22% of gross loans at end-3Q22) remain high and are concentrated within the oil and gas sector. Asset quality remains fundamentally conditioned by high sovereign exposure through securities and cash reserves at the CBN.

Strong Profitability: Operating returns on risk-weighted assets was 4.7% in 9M22. Earnings are supported by a low cost of funding, strong non-interest income and manageable loan-impairment charges. Profitability has weakened in recent years due to the collapse of fixed-income yields and increased cash reserve requirements but we expect it to improve with rising interest rates.

Strong Capitalisation: Zenith's FCC ratio of 20.4% at end-3Q22 reflects a balance sheet with low leverage. Regulatory capital ratios show material buffers above minimum requirements and Fitch expects Zenith to comfortably comply with impending Basel III capital requirements. Fitch believes that Zenith's capitalisation would be resilient to a material naira devaluation.

Stable Funding Profile: Funding is mainly through a stable and inexpensive customer deposit base, comprising a high percentage of current and savings accounts (86% at end-3Q22), with large volumes sourced from individuals and SMEs. Single-depositor concentration is very low. Liquidity coverage in local and foreign currencies is healthy.

Ratings

Foreign Currency	
Long-Term IDR	B-
Short-Term IDR	B
Viability Rating	b-
Government Support Rating	ns
National Rating	
National Long-Term Rating	AA-(nga)
National Short-Term Rating	F1+(nga)
Sovereign Risk (Nigeria)	
Long-Term Foreign-Currency IDR	B-
Long-Term Local-Currency IDR	B-
Country Ceiling	B-
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2022)

National Scale Rating Criteria (December 2020)

Related Research

African Banks Outlook 2023 (December 2022)

Fitch Downgrades 7 Nigerian Banks to 'B-' Following Sovereign Downgrade (November 2022)

Fitch Downgrades Nigeria to 'B-'; Outlook Stable (November 2022)

Weaker Global Demand Adds to External Risks for African Sovereigns (September 2022)

Nigeria's Complex Policy Approach Hampers Inflation Fight (June 2022)

Fitch Affirms Zenith Bank at 'B'; Outlook Stable (June 2022)

Nigerian Banks Face Risks Despite Oil Boost (May 2022)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A further sovereign downgrade could result in a downgrade of the Long-Term IDR and VR if Fitch believes that the direct and indirect effects of a sovereign default would be likely to have a sufficiently large effect on capitalisation and foreign-currency liquidity to undermine the bank's viability.

Absent a further sovereign downgrade, a downgrade could result from the combination of a sharp naira depreciation and a marked increase in the impaired loans ratio, resulting in a breach of minimum capital requirements without near-term prospects for recovery. It could also result from a severe tightening of foreign-currency liquidity.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of the Long-Term IDR and VR would require a sovereign upgrade and for the bank to maintain a strong financial profile.

Other Debt and Issuer Ratings

Rating Level	Rating	Outlook
Senior Unsecured: Long Term	B-	
Senior Unsecured: Short Term	B	

Source: Fitch Ratings

Zenith's senior unsecured notes are rated in line with its Long-Term IDR because in our view the likelihood of default on these reflects that of the bank. The Recovery Rating of these notes is 'RR4', indicating average recovery prospects.

Significant Changes from Last Review

Six Largest Commercial Banks Downgraded Following Sovereign Downgrade

Fitch's downgrade of the six largest Nigerian commercial banks' Long-Term IDRs, including those of Zenith Bank, to 'B-' from 'B' on 21 November 2022 followed the downgrade of Nigeria's Long-Term IDRs to 'B-' from 'B' on 11 November. The sovereign downgrade primarily reflected continued deterioration in Nigeria's government debt-servicing costs and external liquidity despite high oil prices in 2022.

The bank downgrades were driven by the downgrade of their VRs to 'b-' from 'b', which reflects our view that the issuers' Standalone Credit Profiles are constrained by the sovereign rating due to their high sovereign exposure relative to capital and the concentration of their operations in Nigeria. The Stable Outlook on the Long-Term IDRs mirrors that on Nigeria's Long-Term IDRs.

Banks' sovereign exposure is primarily through holdings of Nigerian sovereign securities and cash reserves at the CBN, which combined we estimate to have represented between 236% and 529% of FCC at end-2021. Sovereign securities exposure is mainly naira-denominated, with the banks having only a small exposure to Federal Government of Nigeria Eurobonds. Cash reserves at the CBN are very large due to an exceptionally high cash reserve requirement, set at 32.5% of naira deposits, aimed at controlling naira liquidity and preserving exchange-rate stability. Sovereign exposure is furthered by moderate public-sector lending.

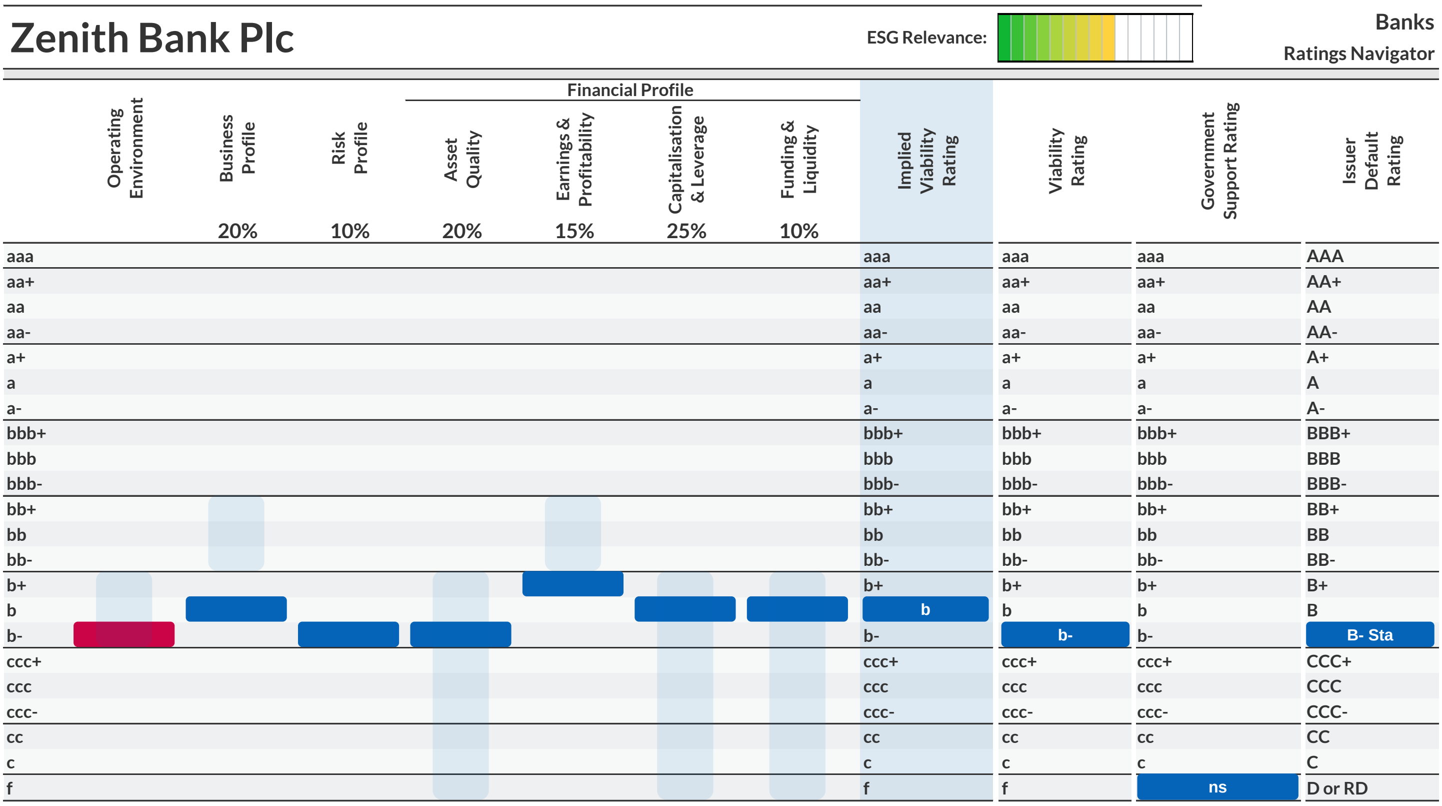
Deteriorating Sector Outlook

We expect Nigeria's real GDP growth to remain robust in 2023 but for banks' operating conditions to weaken due to higher inflation, rising interest rates and hard-currency shortages. Fitch expects impaired loans to moderately increase as borrowers contend with these operating environment risks. Banks have experienced strong loan growth in recent years as a result of on-lending to small companies in priority sectors, including manufacturing and agriculture. Fitch expects such exposures to be a source of new impaired loans as books season. Continued high oil prices will provide some support to loan quality despite production issues.

Profitability will improve slightly in the near term as a result of stronger revenues. Rising yields on government securities will widen net interest margins but Nigeria's high cash reserve requirement will remain a key constraint on profitability. The Nigerian naira is trading at a large discount on the parallel market to the official FX market, raising the possibility of a material devaluation in 2023, although banks would be fairly resilient to such a devaluation due to their net long FC positions, small FC-denominated risk-weighted assets and tighter US dollar lending standards in recent years. Nevertheless, a devaluation would still have a negative impact on capital ratios.

Banks' FC liquidity buffers will remain satisfactory, particularly given the absence of Eurobond maturities in 2023. However, banks will continue to experience difficulties sourcing US dollars from the CBN on behalf of customers with regard to trade-finance obligations. Banks will leverage relationships with correspondent banks and use their own US dollar resources to manage hard currency shortages, causing FC liquidity coverage of liabilities to decline in 2023.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The business profile score of 'b' has been assigned below the 'bb' category implied score due to the following adjustment reason: business model (negative).

The earnings and profitability score of 'b+' has been assigned below the 'bb' category implied score due to the following adjustment reasons: earnings stability (negative).

Financials

Financial Statements

	30 Sep 22		31 Dec 21	31 Dec 20	31 Dec 19
	(USDm)	(NGNbn)	(NGNbn)	(NGNbn)	(NGNbn)
Summary income statement					
Net interest and dividend income	660	285.4	323.6	301.4	269.0
Net fees and commissions	231	100.1	104.0	79.3	100.1
Other operating income	247	106.9	194.3	170.4	129.9
Total operating income	1,139	492.4	621.8	551.1	499.0
Operating costs	590	255.2	297.1	256.0	232.2
Pre-impairment operating profit	548	237.1	324.7	295.0	266.8
Loan and other impairment charges	86	37.1	44.4	40.2	23.6
Operating profit	463	200.0	280.3	254.9	243.1
Other non-operating items (net)	6	2.5	0.1	1.0	0.1
Tax	65	28.2	35.8	25.3	34.5
Net income	403	174.3	244.6	230.6	208.8
Other comprehensive income	-111	-48.0	11.9	32.9	5.8
Fitch comprehensive income	292	126.4	256.4	263.5	214.7
Summary balance sheet					
Assets					
Gross loans	9,387	4,058.7	3,501.9	2,919.3	2,462.4
- Of which impaired	413	178.7	146.8	187.6	168.0
Loan loss allowances	413	178.7	146.2	140.3	156.8
Net loans	8,974	3,880.0	3,355.7	2,779.0	2,305.6
Interbank	2,397	1,036.5	691.2	810.5	707.1
Derivatives	110	47.4	56.2	44.5	92.7
Other securities and earning assets	9,163	3,961.6	3,461.3	2,873.3	2,014.2
Total earning assets	20,643	8,925.6	7,564.4	6,507.3	5,119.6
Cash and due from banks	4,329	1,871.7	1,488.4	1,591.8	936.3
Other assets	1,260	544.7	395.1	382.2	291.0
Total assets	26,232	11,342.0	9,447.8	8,481.3	6,346.9
Liabilities					
Customer deposits	18,600	8,042.1	6,472.1	5,339.9	4,262.3
Interbank and other short-term funding	2,282	986.5	634.7	728.5	215.5
Other long-term funding	897	388.0	530.8	569.3	538.9
Trading liabilities and derivatives	18	8.0	14.7	11.1	14.8
Total funding and derivatives	21,797	9,424.6	7,652.2	6,648.8	5,031.5
Other liabilities	1,408	608.8	515.9	715.0	373.5
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	3,027	1,308.6	1,279.7	1,117.5	941.9
Total liabilities and equity	26,232	11,342.0	9,447.8	8,481.3	6,346.9
Exchange rate		USD1 = NGN432.37	USD1 = NGN412.99	USD1 = NGN381	USD1 = NGN307

Source: Fitch Ratings, Fitch Solutions, Zenith Bank Plc

Key Ratios

	30 Sep 22	31 Dec 21	31 Dec 20	31 Dec 19
Profitability				
Operating profit/risk-weighted assets	4.2	4.7	5.3	5.8
Net interest income/average earning assets	4.7	4.8	5.3	5.6
Non-interest expense/gross revenue	51.8	47.8	46.5	46.5
Net income/average equity	18.0	21.0	23.0	24.7
Asset quality				
Impaired loans ratio	4.4	4.2	6.4	6.8
Growth in gross loans	15.9	20.0	18.6	22.1
Loan loss allowances/impaired loans	100.0	99.5	74.8	93.3
Loan impairment charges/average gross loans	1.3	1.3	1.4	1.3
Capitalisation				
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	20.3	21.1	22.7	21.9
Tangible common equity/tangible assets	11.3	13.3	13.0	14.5
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	0.0	0.1	4.3	1.2
Funding and liquidity				
Gross loans/customer deposits	50.5	54.1	54.7	57.8
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	85.4	84.7	80.5	85.0
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Zenith Bank Plc

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	b-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	B-/ Stable
Size of banking system	Neutral
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Negative
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Negative
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Government support for commercial banks cannot be relied on given Nigeria's weak ability to support, particularly in foreign currency. The Government Support Rating of all commercial banks is at 'no support' (ns), reflecting our view that senior creditors cannot rely on receiving full and timely extraordinary support from the authorities should a bank become non-viable.

Environmental, Social and Governance Considerations

FitchRatings **Zenith Bank Plc**

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Credit-Relevant ESG Derivation

Zenith Bank Plc has 5 ESG potential rating drivers

- Zenith Bank Plc has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.