

RATING ACTION COMMENTARY

Fitch Affirms Zenith Bank Plc at 'B'/Stable; Upgrades National Rating to 'AA(nga)'

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Fitch Ratings - Paris - 22 May 2025: Fitch Ratings has affirmed Zenith Bank Plc's Long-Term Issuer Default Rating (IDR) at 'B'. The bank's National Long-Term Rating has been upgraded to 'AA(nga)' from 'AA-(nga)'. The Rating Outlooks are Stable. A full list of rating actions is provided below.

The upgrade of the National Long-Term Rating reflects the strengthening of the bank's capital buffers from strong internal capital generation, its NGN343 billion capital raising in 2024, and NGN440 billion revaluation gains on foreign subsidiaries' capital since early 2023 due to the successive devaluations of the naira.

Zenith is compliant with the upcoming NGN500 billion minimum regulatory requirement for banks with an international license and its capital adequacy ratio (CAR) of 25.6% at end-2024 was well over the 15% regulatory minimum.

KEY RATING DRIVERS

Zenith Bank Plc's IDRs are driven by its standalone creditworthiness, as expressed by its 'b' 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 Bank's National Ratings are at the higher end of the scale due to its comparatively strong domestic franchise and financial profile.

Improved Operating Environment: Nigeria's Long-Term IDRs were recently upgraded to 'B', the exchange rate has stabilised, profitability and foreign-currency liquidity within the banking sector have improved and capital raisings are driving a recovery in capitalisation. However, inflation remains high, regulatory intervention remains burdensome and expiring forbearance on oil and gas loans will lead to an increase in impaired loans (Stage 3 loans under IFRS 9) ratios and prudential provisions.

Strong Franchise: Zenith Bank is Nigeria's second-largest banking group, representing 14.1% of domestic banking system assets at end-2024. It has a strong corporate-banking franchise and a retail strategy that leverages on its digital channels. Revenue diversification is strong, with non-interest income representing 39% of operating income in 2024 (2023: 56%).

High Sovereign Exposure: Single-borrower concentration is moderate, with the 20 largest loans representing 32% of gross loans and 0.9x Fitch Core Capital (FCC) at end-2024, but oil and gas exposure is material (end-2024: 37% of gross loans). Strong loan growth may lead to asset-quality weakening as the loan book seasons. Sovereign exposure through securities and the Central Bank of Nigeria (CBN) cash reserves is high relative to FCC (end-1Q25: 3x).

High Stage 2 Loans: Zenith Bank's Stage 2 loans (end-1Q25: 30% of gross loans; concentrated within oil and gas and largely US dollar-denominated) remain high and represent a risk to asset quality. The impaired loans ratio (3.5% at end-1Q25) is in line with the sector average. Fitch forecasts the impaired loans ratio to increase in the near term due to some oil and gas exposures.

Strong Profitability Metrics: The bank has strong profitability, as indicated by operating returns averaging 6.5% of risk-weighted assets over 2021-2024 (2024: 8.9%). Strong profitability is supported by a wide net interest margin, strong non-interest income and typically moderate loan-impairment charges (LICs). Profitability has benefitted from a wider net interest margin (as interest rates and yields on government bonds increased) since 2023. It has also been heavily boosted by large FX revaluation gains following the naira devaluation (2024: NGN938 billion; 2023: NGN686 billion).

Strong Core Capitalisation Ratios: Zenith Bank's FCC ratio (end-1Q25: 26.3%) is supported by fairly low balance-sheet leverage. Pre-impairment operating profits provide large buffers to absorb LICs without affecting capital. Zenith Bank is compliant with the NGN500 billion minimum regulatory requirement for banks with an international license by end-1Q26. Fitch expects capital buffers over the current 15% minimum regulatory requirement to decrease slightly in the near term but to remain comfortable.

Comfortable Liquidity Coverage: Funding is mainly through a stable and inexpensive customer deposit base, comprising a high share of current and savings accounts (end-1Q25: 78%), with large volumes sourced from individuals and SMEs. Single-depositor concentration is low, with the largest 20 deposits representing 9% of customer deposits at end-2024. Liquidity coverage in local and foreign currencies is comfortable.

RATING SENSITIVITIES

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

Zenith's Long-Term IDR would be downgraded if its VR is downgraded.

The VR would be downgraded on a sovereign downgrade as Zenith Bank does not meet Fitch's criteria to be rated above the sovereign. Absent a sovereign downgrade, the VR could be downgraded on an erosion of the capital buffers either due to RWAs rapid growth or a material increase in problem loans associated high loan impairment charges. The VR could also be downgraded due to a severe tightening of foreign currency liquidity.

A downgrade of the bank's National Ratings would result from a weakening of its creditworthiness relative to other Nigerian issuers'.

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

Zenith's Long-Term IDR would be upgraded if its VR is upgraded.

An upgrade of the VR would require a sovereign upgrade, coupled with a material improvement in the operating environment, which could be underscored in more stable macroeconomic conditions and lower intervention risk, while maintaining strong financial metrics.

An upgrade of the bank's National Ratings would result from a strengthening of its creditworthiness relative to other Nigerian issuers'.

The government's ability to provide full and timely support to commercial banks is weak due to its high debt servicing metrics and constrained foreign currency resources in the context of the banking sector's large foreign currency liabilities. The Government Support Rating is therefore 'no support', reflecting our view of no reasonable assumption of support for senior creditors being forthcoming should the bank become non-viable.

An upgrade of the GSR would require an improvement in the government's ability to provide support, which would most likely be indicated by an increase in net international reserves and an improvement in debt-servicing metrics.

VR ADJUSTMENTS

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

The capitalisation and leverage score of 'b' is below the 'bb' category implied score due to the following adjustment reason: risk profile and business model (negative).

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Zenith Bank Plc	LT IDR	B	Affirmed	B
	ST IDR	B	Affirmed	B
	Natl LT	AA(nga)	Upgrade	AA-(nga)
	Natl ST	F1+(nga)	Affirmed	F1+(nga)
	Viability	b	Affirmed	b

Government Support ns Affirmed ns

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

- National Scale Rating Criteria (pub. 22 Dec 2020)
- Bank Rating Criteria (pub. 21 Mar 2025) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

- Dodd-Frank Rating Information Disclosure Form
- Solicitation Status
- Endorsement Policy

ENDORSEMENT STATUS

Zenith Bank Plc EU Issued, UK Endorsed

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