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 '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. The 'b-' VR is one notch below the 'b' implied VR due to the operating environment/sovereign rating constraint. Zenith Bank's National Long-Term Rating is one of the highest among Nigerian banks, reflecting its strong franchise and financial profile.

Fast Pace of Reforms: Recently elected President Bola Tinubu has pursued reforms faster than Fitch Ratings expected, completely removing the fuel subsidy and allowing the Nigerian naira to devalue within weeks of his inauguration. These reforms are positive for the sovereign's credit profile but pose near-term challenges including adding to inflationary pressures and risks of social unrest. The sharp naira depreciation has put negative pressure on banks' capital ratios.

Strong Franchise: Zenith Bank is Nigeria's second-largest banking group, representing 13.5% of domestic banking-system assets at end-2022. 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 59% of operating income in 9M23.

High Sovereign Exposure: Single-borrower credit concentration is moderate, with the 20-largest customer loans representing 26% of gross loans and 79% of Fitch Core Capital (FCC) at end-2022. Oil and gas exposure (end-2022: 23% of gross loans) is material but lower than at other D-SIBs. Strong loan growth (2019-2022: average 20% annually; 9M23: 48%) may lead to asset-quality weakening as the loan book seasons. Sovereign exposure through securities and Central Bank of Nigeria (CBN) cash reserves is high relative to FCC (end-2022: over 350%).

High Stage 2 Loans: Zenith Bank's impaired loans (Stage 3 loans under IFRS 9) ratio increased to 3.9% at end-3Q23 from 4.2% at end-2021, reflecting write-offs and the flattering effect of strong loan growth. Specific loan loss allowance coverage of impaired loans was 54% at end-3Q23. Stage 2 loans (end-3Q23: 22% of gross loans; concentrated within oil and gas and largely US dollar-denominated) remain high and represent a key risk to asset quality. Fitch forecasts the impaired loans ratio to increase moderately in the near term.

Strong Profitability: The bank delivers strong profitability, as indicated by operating returns on risk-weighted assets (RWAs) averaging 5.1% over the past four years. Strong profitability is supported by a wide net interest margin, strong non-interest income and typically moderate loan impairment charges (LICs). Profitability improved significantly in 9M23 due to large foreign exchange revaluation gains following the naira devaluation despite high LICs resulting from provisions against foreign-currency loans and due to the weaker macroeconomic setting.

Strong Capitalisation: Zenith Bank's FCC ratio (end-1H23: 23.5%) is supported by fairly low balance-sheet leverage. Pre-impairment operating profit is strong, providing a large buffer to absorb LICs without affecting capital. Zenith Bank's total capital adequacy ratio (bank-solo; 19% at end-3Q23 and end-2022) has been stable despite the naira devaluation and maintains a comfortable buffer over the 15% minimum regulatory requirement.

Comfortable Liquidity Coverage: Funding is mainly through a stable and inexpensive customer deposit base comprising a high percentage of current and savings accounts (end-3Q23: 87%), with large volumes sourced from individuals and SMEs. Single-depositor concentration is low, with the largest 20 deposits representing 10% of customer deposits at end-2022. Liquidity coverage in local and foreign currencies is comfortable.

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	
Long-Term Foreign-Currency IDR	B-
Long-Term Local-Currency IDR	B-
Country Ceiling	B-
Outlooks	
Long-Term Foreign-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2023)

National Scale Rating Criteria (December 2020)

Related Research

African Banks Outlook 2024 (November 2023)

Nigeria (November 2023)

Fitch Affirms Nigeria at 'B-'; Outlook Stable (November 2023)

Nigeria Banks' FX Gains Support Solvency Post-Devaluation (October 2023)

Nigerian Banks Face Near-Term Macro Risks (July 2023)

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Rating Sensitivities

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

A sovereign downgrade could result in a downgrade of Zenith Bank's VR and Long-Term IDR 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 sovereign downgrade, a downgrade of the VR and Long-Term IDR could result from the combination of sharp 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.

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

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

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

Other Debt and Issuer Ratings

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

Source: Fitch Ratings

Zenith Bank's senior unsecured notes are rated in line with its IDRs as the likelihood of default on these obligations reflects that of the bank. The Recovery Rating of these notes is 'RR4', reflecting average recovery prospects in the event of default.

Significant Changes from Last Review

Faster-than-Expected Pace of Reforms

Reform progress since Tinubu's government came to power in May 2023 has been faster than Fitch expected. In June, the government removed fuel subsidies, which cost near 2% of GDP in 2022, unified the multiple exchange rate windows and allowed the official exchange rate to depreciate by about 40%. Nigeria's Long-Term IDRs were affirmed at 'B-' with a Stable Outlook in October.

Fitch views the cabinet, particularly Finance Minister Wale Edun, and the new CBN governor, Yemi Cardoso, as supportive of reform. However, there are still sizeable socio-political challenges to implementation, including an acceleration in inflation (an 18-year high of 27.3% in October), which could account for recent backtracking of some reforms, notably a lower degree of price discovery in the FX market than in late June. Fitch forecasts real GDP growth to slow to 2.6% in 2023 from 3.3% in 2022 but increase to 3.2% in 2024, driven by the services sector and higher oil production, and for inflation to moderate to 21.1% in 2024 from 24.8% in 2023, helped by lower deficit monetisation.

FX Gains Support Banks' Solvency Post-Devaluation

Nigerian banks' balance-sheet structures have helped to ensure compliance with minimum capital requirements despite the sharp naira devaluation. Banks reported large FX revaluation gains in 9M23 due to their long net foreign-currency positions, while foreign-currency RWA inflation was limited by small foreign-currency loan books and low risk-weights on non-loan foreign-currency assets. LICs increased significantly due to the weaker macroeconomic setting and higher provisions needed for foreign-currency loans but were comfortably absorbed by the FX gains and wider net interest margins benefitting from rising interest rates, in particular the sharp increase in sovereign securities yields in 3Q23. We expect banks to continue reporting strong performance metrics in 2024 .

There has been a renewed divergence between the parallel and official exchange rates since August due to a limited supply of foreign currency, reversing some of the narrowing at June's devaluation. Fitch expects a gradual depreciation of the naira in 2024 but the divergence highlights hard-currency shortages and the challenges in sustaining exchange-rate liberalisation and raises the possibility of a further devaluation. The CBN has told banks to retain large FX gains rather than distribute them as dividends and several banks are raising core capital, which will support their resilience to a further devaluation. The vast majority of Nigerian bank ratings have Stable Outlooks, reflecting Fitch's view that the risks from a further devaluation are captured at their existing rating level.

Hard Currency Shortages to Weigh on Foreign-Currency Liquidity

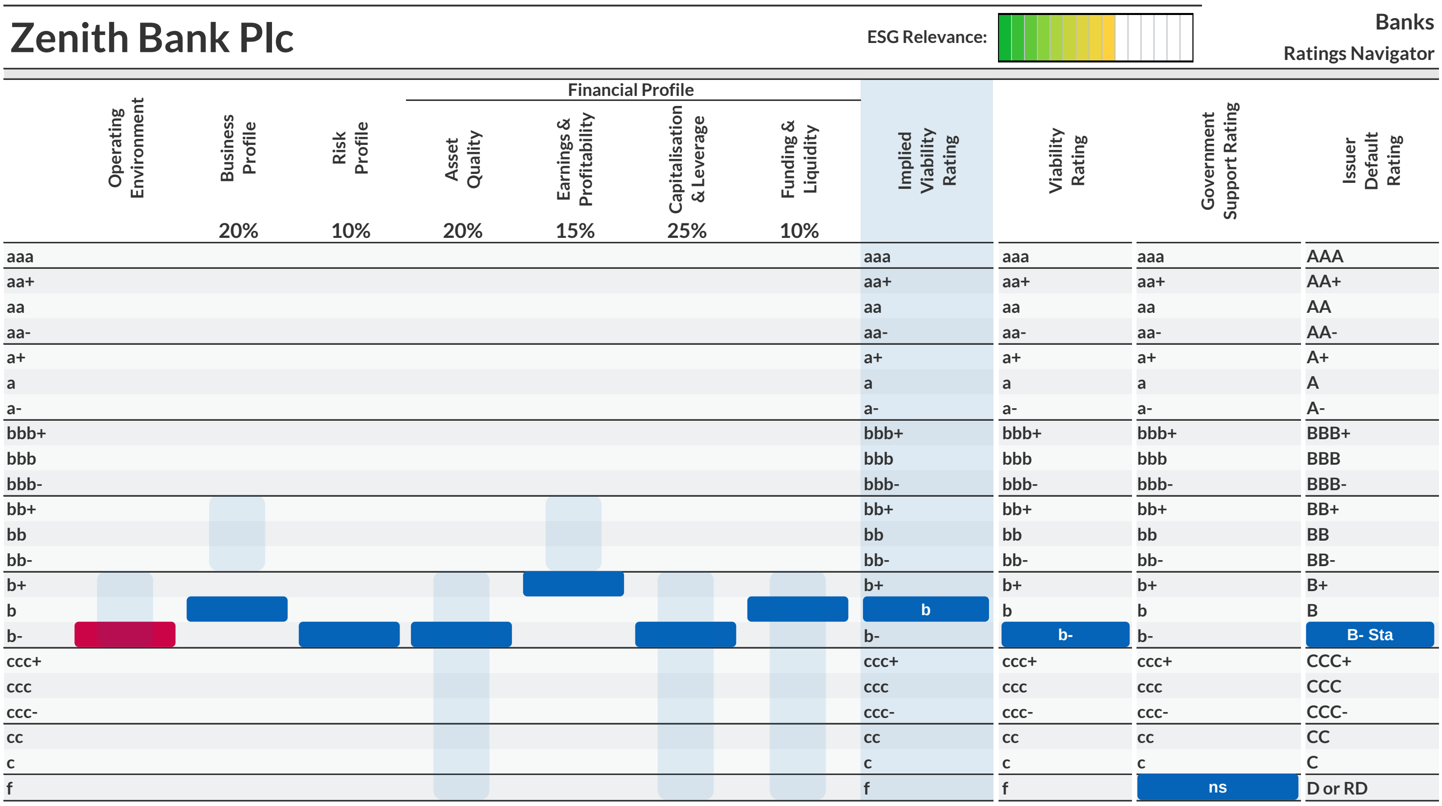
Hard currency shortages continue limiting importers' ability to source foreign currency, weighing on banks' foreign-currency liquidity as they are forced to act as a bridge for importing customers' trade finance obligations. Foreign-currency liquidity coverage should remain sufficient due to banks' large offshore nostro balances, foreign-currency customer deposit growth and manageable foreign-currency debt maturities in 2024. Fitch expects FX swaps with the CBN to be rolled over still, reflecting profit incentives for banks to participate in these transactions and their limited reliance on these swaps as a source of foreign-currency liquidity.

Rising Loan Quality Risks

Fitch expects impaired loans ratios to rise moderately as the effects of the sharp devaluation, fuel subsidy removal, higher inflation and interest rates, and continued hard-currency shortages feed through to borrowers' debt-servicing capacity. Continued strong loan growth will have a flattering effect on impaired loans ratios. Deterioration in loan quality should be less severe than that following the last major devaluation in 2016, in part due to stronger foreign-currency lending standards.

Nevertheless, the importance of weaker loan quality is diminished by banks' small loan books. Asset quality will remain more conditioned by high sovereign exposure through fixed-income securities and cash reserves at the CBN.

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

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

Financials

Financial Statements

	30 Sep 23		31 Dec 22	31 Dec 21	31 Dec 20
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end
	(USDm)	(NGNbn)	(NGNbn)	(NGNbn)	(NGNbn)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	547	420.4	368.9	323.6	301.4
Net fees and commissions	103	79.3	132.8	104.0	79.3
Other operating income	680	522.5	243.4	194.3	170.4
Total operating income	1,330	1,022.3	745.0	621.8	551.1
Operating costs	404	310.9	343.1	297.1	256.0
Pre-impairment operating profit	925	711.4	402.0	324.7	295.0
Loan and other impairment charges	269	206.5	119.9	44.4	40.2
Operating profit	657	504.9	282.1	280.3	254.9
Other non-operating items (net)	0	0.1	2.6	0.1	1.0
Tax	92	70.9	60.7	35.8	25.3
Net income	565	434.2	223.9	244.6	230.6
Other comprehensive income	278	213.6	-27.3	11.9	32.9
Fitch comprehensive income	843	647.7	196.7	256.4	263.5
Summary balance sheet					
Assets					
Gross loans	7,937	6,101.5	4,124.0	3,501.9	2,919.3
- Of which impaired	312	239.6	79.5	146.8	187.6
Loan loss allowances	417	320.5	110.3	146.2	140.3
Net loans	7,520	5,780.9	4,013.7	3,355.7	2,779.0
Interbank	3,288	2,528.0	1,302.8	691.2	810.5
Derivatives	629	483.7	49.9	56.2	44.5
Other securities and earning assets	7,137	5,486.5	4,229.5	3,461.3	2,873.3
Total earning assets	18,574	14,279.2	9,595.9	7,564.4	6,507.3
Cash and due from banks	4,087	3,141.6	2,201.7	1,488.4	1,591.8
Other assets	963	740.1	488.0	395.1	382.2
Total assets	23,624	18,160.8	12,285.6	9,447.8	8,481.3
Liabilities					
Customer deposits	17,409	13,383.6	8,975.7	6,472.1	5,339.9
Interbank and other short-term funding	901	693.0	417.3	634.7	728.5
Other long-term funding	1,895	1,456.7	857.3	530.8	569.3
Trading liabilities and derivatives	101	77.6	6.3	14.7	11.1
Total funding and derivatives	20,306	15,610.8	10,256.6	7,652.2	6,648.8
Other liabilities	820	630.1	650.1	515.9	715.0
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	2,497	1,919.9	1,378.9	1,279.7	1,117.5
Total liabilities and equity	23,624	18,160.8	12,285.6	9,447.8	8,481.3
Exchange rate		USD1 = NGN768.76	USD1 = NGN448.55	USD1 = NGN412.99	USD1 = NGN381

Source: Fitch Ratings, Fitch Solutions, Zenith Bank Plc

Key Ratios

	30 Sep 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	n.a.	4.5	4.7	5.3
Net interest income/average earning assets	4.9	4.4	4.8	5.3
Non-interest expense/gross revenue	30.4	46.1	47.8	46.5
Net income/average equity	35.6	17.0	21.0	23.0
Asset quality				
Impaired loans ratio	3.9	1.9	4.2	6.4
Growth in gross loans	48.0	17.8	20.0	18.6
Loan loss allowances/impaired loans	133.8	138.8	99.5	74.8
Loan impairment charges/average gross loans	5.6	1.0	1.3	1.4
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	n.a.	21.6	21.1	22.7
Tangible common equity/tangible assets	10.4	11.0	13.3	13.0
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier1	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	-4.3	-2.3	0.1	4.3
Funding and liquidity				
Gross loans/customer deposits	45.6	46.0	54.1	54.7
Gross loans/customer deposits + covered bonds	n.a.	n.a.	n.a.	n.a.
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	86.2	87.6	84.7	80.5
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 influences

The government's ability to provide full and timely support to commercial banks is weak due to its constrained foreign-currency resources and high debt-servicing metrics. The GSR is therefore 'ns', reflecting our view of no reasonable assumption of support for senior creditors being forthcoming should a bank become non-viable.

Environmental, Social and Governance Considerations

FitchRatings **Zenith Bank Plc**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ESG Relevance to Credit Rating

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.

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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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 relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

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. 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 www.fitchratings.com/esg.

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