Moody's
INVESTORS SERVICE

CREDIT OPINION
10 November 2016

Update

Rate this Research

RATINGS

Zenith Bank Plc

Domicile	Lagos, Nigeria
Long Term Debt	Not Assigned
Type	Not Assigned
Outlook	Not Assigned
Long Term Deposit	B2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Zenith Bank Plc

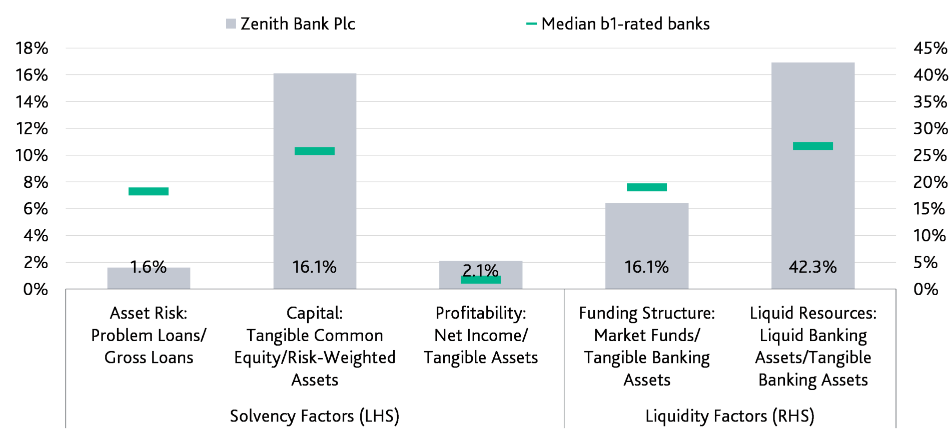
Update following assignment of National Scale Ratings

Summary Rating Rationale

We assign B1/Not Prime Local Currency Deposit Ratings; B1/Not Prime Local Currency and Foreign Currency Issuer Ratings; B2/Not Prime Foreign Currency Deposit Ratings to Zenith Bank Plc (Zenith). The Local Currency Ratings are underpinned by the bank's b1 baseline credit assessment (BCA). Furthermore, we have assigned national scale local currency deposit ratings of Aaa.ng/NG-1 and a Counterparty Risk Assessment (CR Assessment) of Ba3(cr)/Not Prime(cr) to the bank. The outlook on all the ratings is stable.

Zenith Bank's BCA of b1 reflects (1) the bank's resilient earnings generating capacity and robust capital buffers, which together provide a relatively thick cushion to withstand asset quality deterioration compared with domestic peers; (2) the bank's high liquidity buffers and a predominantly deposit funded balance sheet; and (3) the bank's robust franchise, which allows it to attract inexpensive deposits and to lend to high credit quality borrowers (relative to other Nigerian banks), resulting in relatively strong asset quality metrics and low credit costs. These strengths are balanced against (4) Nigeria's challenging operating environment which will negatively affect the bank's asset quality and revenue growth and (5) the bank's high proportion of more confidence sensitive corporate deposits versus retail deposits.

Exhibit 1
Rating Scorecard
Key Financial Ratios



Source: Moody's Investors Service

Credit Strengths

» Relatively strong asset quality

» Strong franchise which supports profitability and capital

» Predominantly deposit funded and relatively strong liquidity buffers

Credit Challenges

» Operates predominantly within Nigeria's challenging macroeconomic environment

» Higher proportion of more confidence sensitive corporate deposits over retail deposits

Rating Outlook

All long term ratings assigned to Zenith carry a stable outlook. The stable outlook reflects our expectations that credit costs associated with an expected deterioration in asset quality will be absorbed by pre-provision profits and that overall, the bank's credit fundamentals will continue to compare favourably with peers in the B rating level despite continued pressures arising from the challenging operating environment in Nigeria.

Factors that Could Lead to an Upgrade

For Zenith, given that its BCA is already at the same level as Nigeria's issuer rating of B1, stable, there is limited pressure for an upgrade of the bank's ratings in the short term. However, an upgrade of Nigeria's sovereign rating and the bank demonstrating an ability to contain non-performing loans through the down cycle while maintaining good profitability and capital generation capacity would put upward pressure on its ratings.

Factors that Could Lead to a Downgrade

Zenith's ratings could be downgraded if its asset quality deteriorates meaningfully, putting pressure on the bank's profitability and capital buffers. A substantial deterioration of the bank's liquidity buffers would also likely trigger a downgrade, as would a downgrade of the sovereign itself.

Key Indicators

Exhibit 2

Zenith Bank Plc (Consolidated Financials) [1]

	6-16[2]	12-15[2]	12-14[2]	12-13[3]	12-12[3]	Avg.
Total Assets (NGN million)	4,357,296	4,006,842	3,755,264	3,143,133	2,604,504	13.7[4]
Total Assets (USD million)	15,410.4	20,129.8	20,520.6	19,650.7	16,679.5	-2[4]
Tangible Common Equity (NGN million)	607,349	586,206	543,818	497,830	455,993	7.4[4]
Tangible Common Equity (USD million)	2,148	2,945	2,971.7	3,112.4	2,920.2	-7.4[4]
Problem Loans / Gross Loans (%)	1.6	1.2	0.7	1.1	1.4	1.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.1	17.9	17.4	19.6	20.5	17.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.7	4	2.1	2.6	3	3.5[5]
Net Interest Margin (%)	6.3	5.9	6.4	7.2	6.7	6.5[5]
PPI / Average RWA (%)	4.4	4.7	4.2	4.9	5.3	4.4[6]
Net Income / Tangible Assets (%)	2.1	2.6	2.6	3	3.9	2.8[5]
Cost / Income Ratio (%)	51.7	51.2	55.3	55.7	52.6	53.3[5]
Market Funds / Tangible Banking Assets (%)	19.5	16.1	9.7	5.9	4.6	11.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.7	42.3	45.8	46.5	45.8	43.6[5]
Gross loans / Due to customers (%)	87.1	79.5	69.3	57.7	54.3	69.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel II & IFRS reporting periods have been used for average calculation

Source: Moody's Financial Metrics

Detailed Rating Considerations

NIGERIA'S 'VERY WEAK +' MACRO PROFILE

Our methodology comprises an assessment of a bank's operating environment which, for Zenith, is based on our assessment of Nigeria's macro profile, where the bank conducts most of its business.

We assign a 'Very Weak +' macro profile score to Nigeria, reflecting the country's fiscal and economic dependence on the oil and gas sector and its high dollarization, which pose asset quality volatility and liquidity challenges, as well as Nigeria's evolving institutions and relatively high level of corruption (based on indices from the World Bank).

While the banks' operating environment is difficult, the Nigerian financial system has also shown strong resilience to shocks and it presents sizable growth opportunities given low banking penetration, especially in the profitable retail and SME space, which will allow the banking sector to expand steadily.

STRONG ASSET QUALITY METRICS UNDERPINNED BY A CONSERVATIVE APPROACH TO RISK

A key strength of Zenith Bank's credit profile is its consistently low level of adjusted NPLs. While the bank reported NPL ratio was 2.3% at half-year 2016, we adjust this metric to arrive at a ratio of 1.6%, which we view as more comparable with peers internationally (Moody's adjusted NPL ratio is defined as individually impaired loans plus loans that are overdue by more than 90 days, but not impaired, as a percentage of gross loans). Additionally, NPLs are covered by provisions that amount to 159% of doubtful credit, when measured against our adjusted NPL ratio, or 110% of reported NPLs.

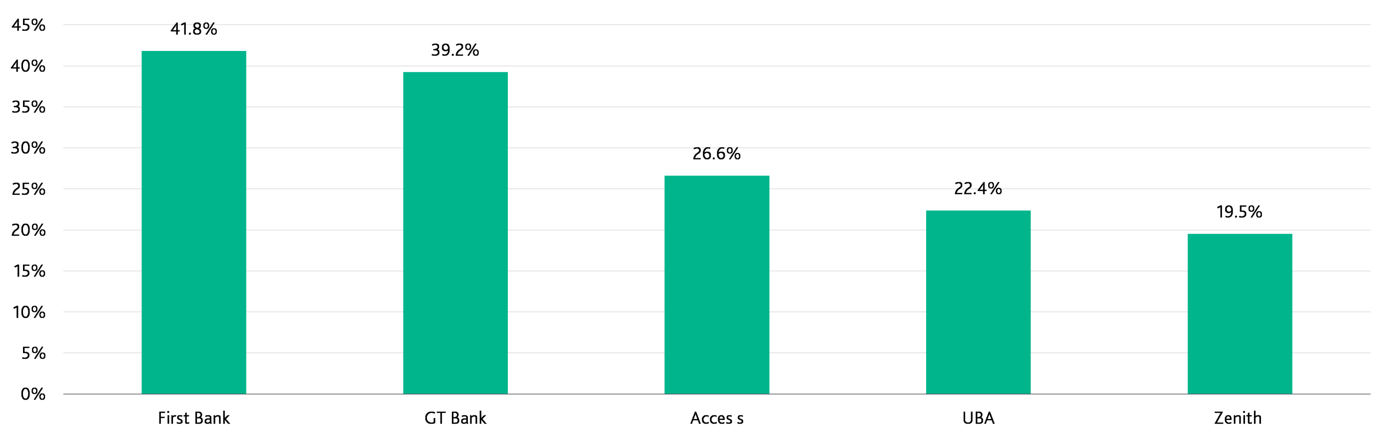
The bank's low NPLs are on account of its exposure to debtors with relatively stronger credit profiles (versus the exposures of Zenith's peers) such as large and diversified Nigerian conglomerates. The bank also adopts a prudent approach to risk management which includes conservative underwriting standards and the use of robust internal procedures. The bank's conservative stance was demonstrated in the last crisis (2009) when reported NPLs peaked at just 6.5% compared to greater than 37% for the banking system.

However, we view aspects of the bank's current loan portfolio negatively. Though lower than the banking system average of 50%, we view the bank's exposure to foreign currency denominated loans (36% of total loans as of June 2016) as a weakness. The foreign currency denominated portfolio exposes the bank's borrowers to the exchange rate volatility of the Naira, although we recognise that NPLs in foreign currency are low to date. Additionally, Zenith Bank's loan portfolio is concentrated; single name concentration risk is indicated by the bank's top 20 borrowers, which make up 98% of the bank's tangible capital, exposing capital to significant erosions if one or a few of the top obligors default. It should be noted, however, that Zenith's level of concentration risk is significantly less than that witnessed in other Nigerian banks. Lastly, though we view the bank's recent vintage oil and gas sector exposure as a weakness (19.5% of total loans) given the lower oil price environment, it is lower than the first tier bank average of 28%.

Exhibit 3

Zenith has the lowest exposure to the Oil and Gas industry

Oil and Gas Loans as Percent of Total Loans as of June 2016



Source: Banks financials statements and presentations; Moody's Investors Service

Overall, over a business cycle, we would expect Zenith's asset quality metrics to exhibit significantly lower volatility than those likely to be witnessed in the broader banking system.

SOLID CAPITAL BUFFERS REINFORCED BY ROBUST FRANCHISE WHICH SUPPORTS PROFITABILITY

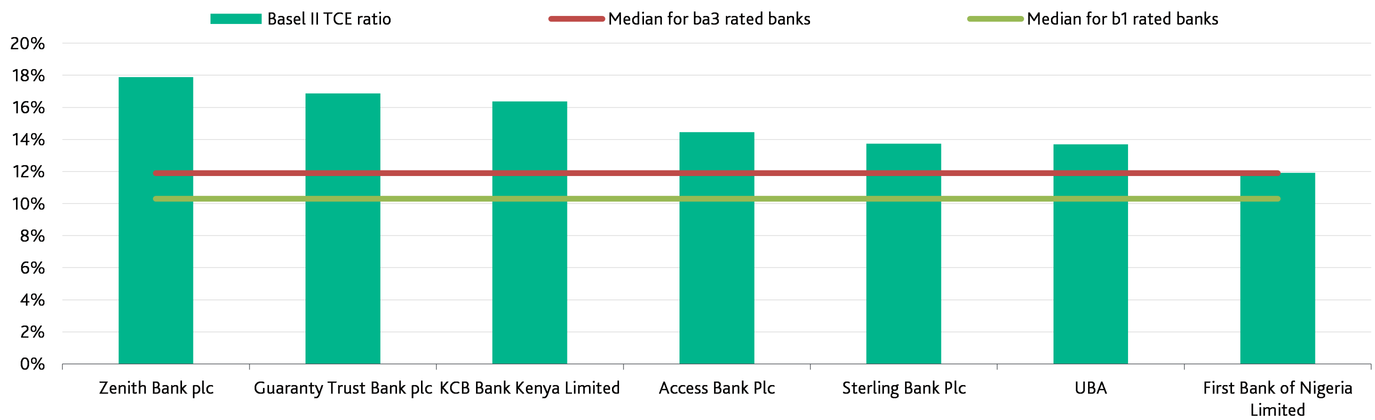
Zenith Bank's credit profile is also underpinned by robust capital buffers. As of June 2016 tangible common equity as a percentage of risk-weighted assets stood at 16.1%, although this is a reduction from 17.9% as of end of 2015. Zenith's ratio is significantly higher than the global b1 BCA peer median of 10.3%.

Going forward, we expect the bank's capitalisation to remain strong, primarily because of Zenith's resilient profitability metrics. Zenith's net income to tangible assets has remained fairly stable over the last year and was 2.9% as of June 2016, significantly better than the global b1 BCA peer median of 0.7%. Profitability is supported by the banks robust franchise which allows it to attract cheap deposits and lend to high credit quality borrowers (relative to other Nigerian banks), resulting in relatively low credit costs.

Exhibit 4

Zenith holds thicker capital buffers compared to peers

Tangible Common Equity As a Percent of Risk Weighted Assets as of December 2015



Source: Moody's Investors Service

That said, we view Zenith's reported capitalization as being moderated by the bank's exposure to foreign currency loans and to the government of Nigeria. Government securities are risk-weighted at zero under the domestic regulatory framework, as such, in order to more fully capture the risks associated with government bonds, our practice globally is to assign a risk-weight to sovereign debt holdings, as per the Basel Committee. For a sovereign rated B1, stable like Nigeria, we assign a 100% risk-weighting to government securities held by banks, resulting in a suppressed tangible common equity ratio. Regarding the bank's exposure to foreign currency loans, the bank's capital is vulnerable to a further depreciation of the Naira against foreign currencies, especially U.S. Dollars. 36% of the bank's loan book is denominated in foreign currency and should the Naira depreciate further this will inflate risk-weighted assets thus reducing capital ratios.

However, our scenario analysis shows that the bank's capital levels remain robust under a stressed scenario given the bank's relatively low exposure to both the oil and gas industry and foreign currency loans versus its high capital buffers.

LOW RELIANCE ON MARKET FUNDING YET PREDOMINANTLY CORPORATE DEPOSITS AND HIGH LIQUIDITY BUFFERS

Our BCA also reflects the bank's solid liability profile. The bank is predominantly deposit funded with a low reliance on more sensitive market funds (deposits make up 72% of the bank's funding sources). However, we note that the majority of deposits are corporate deposits (56.6%) which we consider to be more market sensitive than retail deposits.

Given the tight dollar liquidity environment on account of lower oil prices and the introduction of the Treasury Single Account (which requires federal government agencies to keep their excess earnings in a single account maintained with the Central Bank of Nigeria) Zenith Bank's foreign currency deposits fell by around 35% since the beginning of 2015, adjusting out the effect of Naira depreciation. However, this decline did not pose significant risks for the bank given the bank's significant stock of high quality liquid assets in USD.

Overall, the bank continues to maintain a high liquidity ratio which provides a thick cushion, with liquid assets to total assets of 37.7% and USD liquid assets to total USD assets of around 32% as of June 2016.

Notching Considerations

GOVERNMENT SUPPORT

Given that Zenith's BCA is at the same level as the Nigerian government's issuer rating of B1, stable, we do not incorporate any rating uplift on the bank's BCA despite Moody's assessment of a 'High' probability of support in case of financial stress given the strong market position of the bank (2nd largest bank in Nigeria with a market share of 14%, by total assets). In 2013 the CBN classified Zenith bank as a Systemically Important Bank (SIB); the designation was determined by Zenith's size (total assets), interconnectedness (interbank exposures), substitutability and complexity.

The strong willingness to support the banks by the Nigerian government (B1, stable) was demonstrated in the last crisis (2009) where no bank was allowed to fail.

We assign to Zenith Foreign Currency Deposit Ratings of B2/Not Prime, which is constrained at a lower level due to the convertibility risks associated with foreign currency.

COUNTERPARTY RISK ASSESSMENT

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than expected loss and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities. The CR Assessment takes into account the issuer's standalone strength as well as the likelihood of affiliate and government support in the event of need, reflecting the anticipated seniority of these obligations in the liabilities hierarchy. The CR Assessment also incorporates other steps authorities can take to preserve the key operations of a bank, should it enter a resolution.

The CR Assessment is positioned at Ba3(cr)/ Not-Prime(cr). The CR Assessment is positioned one notch above the Adjusted BCA of b1, reflecting our view that its probability of default is lower than that of deposits. We believe senior obligations represented by the CR Assessment will be more likely preserved in order to limit contagion, minimize losses and avoid disruption of critical functions.

NATIONAL SCALE RATING

Zenith's national scale ratings of Aaa.ng/NG-1 for local currency deposits and Aa3.ng/NG-1 for foreign currency deposits are generated from the bank's global scale ratings through maps specific to each country. NSRs are not intended to rank credits across multiple countries; instead they provide a measure of relative creditworthiness within a single country (Nigeria in the case of Zenith). Moody's NSRs are given a two-letter suffix to distinguish them from the agency's Global Scale Ratings. For example, NSRs in Nigeria have the country abbreviation "ng".

Zenith's national scale ratings capture the bank's (1) robust capital buffers, which provide a relatively thick cushion to withstand asset quality deterioration; (2) low stock of NPLs, accounting for around 1.6% of gross loans (Moody's adjusted) as of June 2016 (against a system average of around 11.7%); (3) high liquidity buffers, complimenting a predominantly deposit funded balance sheet; and (4) a strong and well-established franchise, which allows the bank to attract inexpensive deposits and to lend to high credit quality borrowers (relative to other Nigerian banks), resulting in relatively low NPLs and credit costs. These strengths are partially moderated by the bank's high proportion of more confidence sensitive corporate deposits versus retail deposits.

Rating Methodology and Scorecard Factors

Exhibit 5

Zenith Bank Plc

Macro Factors		
Weighted Macro Profile	**Very Weak +**	**100%**

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.6%	b2	↓	b2	Single name concentration	
Capital						
TCE / RWA	16.1%	b1	↓	b1	Expected trend	
Profitability						
Net Income / Tangible Assets	2.1%	ba3	←→	ba3		
Combined Solvency Score		b1		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	16.1%	b3	←→	b2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	42.3%	b1	←→	b1		
Combined Liquidity Score		b2		b2		
Financial Profile				b1		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				B1		
Scorecard Calculated BCA range				ba3-b2		
Assigned BCA				b1		
Affiliate Support notching				0		
Adjusted BCA				b1		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency rating**	**Foreign Currency rating**
Counterparty Risk Assessment	1	0	ba3 (cr)	0	Ba3 (cr)	--
Deposits	0	0	b1	0	B1	B2

Source: Moody's Financial Metrics

Ratings

Exhibit 6

Category	Moody's Rating
ZENITH BANK PLC	
Outlook	Stable
Bank Deposits -Fgn Curr	B2/NP
Bank Deposits -Dom Curr	B1/NP
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	b1
Counterparty Risk Assessment	Ba3(cr)/NP(cr)
Issuer Rating	B1
ST Issuer Rating	NP

Source: Moody's Investors Service

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