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Zenith Bank PLC

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Zenith Bank PLC

SACP	b	+	Support	0	+	Additional Factors	0

Anchor	b	
Business Position	Adequate	0
Capital and Earnings	Moderate	0
Risk Position	Adequate	0
Funding	Above Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
B-/Stable/B

Major Rating Factors

Strengths:	Weaknesses:
• A top-tier bank in Nigeria. • Historically strong earnings generation and low loss experience.	• Concentration in its Nigerian home market. • High economic and industry risk associated with operating in Nigeria. • Moderately high concentration risks.

Outlook: Stable

S&P Global Ratings' outlook on Nigeria-based Zenith Bank PLC is stable, reflecting the outlook on Nigeria (B-/Stable/B).

We would lower the ratings on the bank over the next 12 months if we observed increasing risk that Nigeria would not meet its capacity to repay commercial obligations, either due to declining external liquidity or a continued reduction in fiscal flexibility, which will likely affect banks' access to U.S.-dollar liquidity.

We would raise the ratings on the bank over the next 12 months if we were to take a positive rating action on Nigeria. This could happen if Nigeria experiences much stronger economic performance than we currently expect, or if external financing pressures prove to be temporary, all else being equal.

Rationale

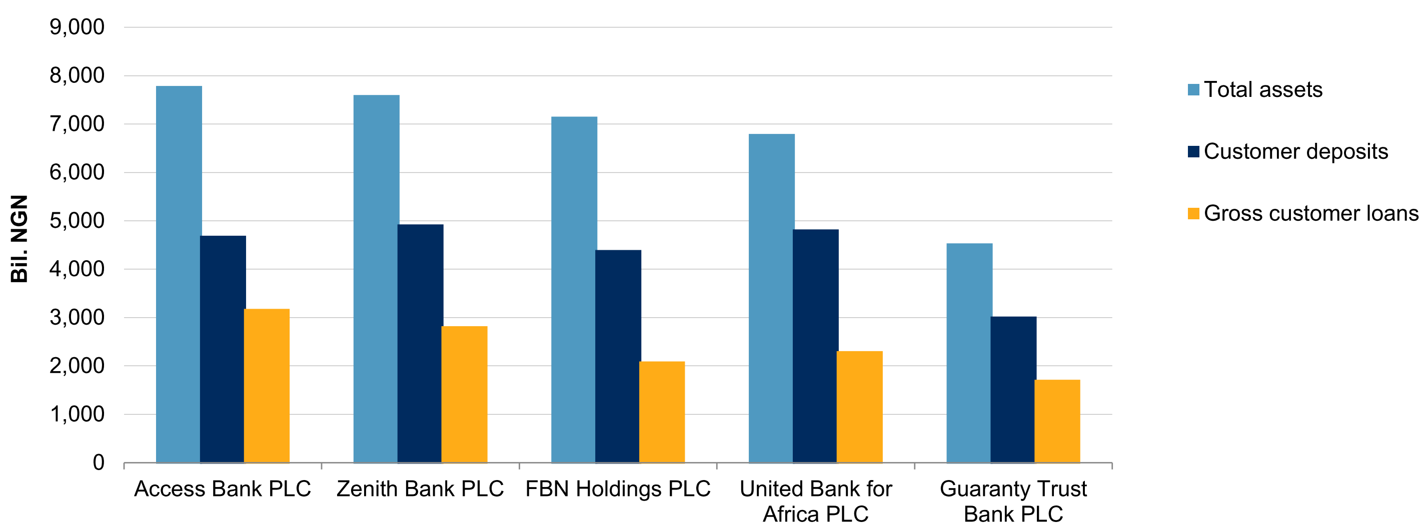
Our 'B-/B' ratings on Zenith Bank are in line with our foreign-currency sovereign credit ratings on Nigeria, while the stand-alone credit profile (SACP) reflects the 'b' anchor that we apply to commercial banks operating in Nigeria. Zenith Bank holds a leading market position in Nigeria (see chart 1), underpinned by a strong corporate franchise and a sizable branch network, which enable the group to maintain a stable and low-cost funding base. We expect the challenging operating environment, caused by low oil prices and the spread of COVID-19, to affect business growth and asset-quality metrics. We believe the group's digital strategy will be a key spur for growth of nonfunded income going forward, which in turn will improve its resilience to economic downturns.

Zenith Bank demonstrates better operating efficiency compared with that of most of its domestic peers. We expect its earnings buffer to remain adequate despite dipping toward 1.0% of risk-weighted assets (RWAs) in 2020 from 1.7% in 2019, due to adverse operating conditions. We forecast our risk-adjusted capital (RAC) ratio will be 6.25%-6.75% in 2020-2021. Cost of risk increased significantly to 1.7% by June 30, 2020, and we expect it to remain elevated in 2020 and 2021 given rising credit risks. That said, we recognize the high coverage levels of the group. We expect asset quality to remain stressed compared with historically low levels, with the nonperforming loan (NPL) ratio averaging 5.0%-5.5% through 2020-2021 amid weak economic prospects in Nigeria.

Zenith Bank is funded by stable customer deposits, which are largely short term. This is in line with domestic peers' funding profiles and results in a significant asset-liability mismatch. The net stable funding ratio was 109% at the group level, which is above the minimum regulatory requirement for year-end 2019.

Chart 1

Five Largest Nigerian Banks By Total Assets, Deposits, And Loans (June 30, 2020)



NGN--Nigerian naira. All data is in NGN Billions. Source: Company Financials.

Anchor: 'b' for banks operating only in Nigeria

We use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Nigeria is 'b', based on an economic risk score of '10' and an industry risk score of '9'.

Operating conditions for the Nigerian banking sector will remain uncertain in the aftermath of another oil price shock amid the COVID-19 pandemic and its negative implications for the global economy. The banking sector is exposed to high credit risk because of Nigeria's reliance on oil and its sensitivity to currency depreciation and high inflation. Our revised base case of a GDP contraction of 3.8% in 2020 would result in pressure on banks' asset quality and earnings because of their material exposure to the sector, almost 30% of loans in 2019. We estimate that the effect of the pandemic will be somewhat mitigated by the 2016 restructuring, which saw banks use lower break-even prices and a prefunded debt service reserve account that provides three-to-six months of payment buffers during times of stress. That said, we expect restructured loans will increase to about 20%-25% of total loans in 2020, from about 10% in 2019, given our lower oil price assumptions. We expect NPLs will rise again to 12% through 2021, compared with an estimated 6% in 2019. We forecast credit losses will hover at about 2.5% in 2020-2021.

Lower foreign-exchange (FX) inflows tied to lower oil receipts are likely to present policy challenges to the Central Bank of Nigeria (CBN) in the near term with regard to exchange–rate and foreign-exchange-reserve policy. Positively, the majority of banks have overcome their short-term liquidity challenges following the introduction of the Nigerian Autonomous Foreign Exchange Fixing Mechanism (NAFEX) window in April 2017 and external debt remains manageable at approximately 13% of total loans in 2020-2021, according to our estimates. We believe that the risk of banks breaching minimum capital adequacy ratios could re-emerge if the naira weakens by more than 20%, which is higher than our current assumption for 2020.

Overall, we expect banks' profitability will weaken in 2020-2021, with the return on assets declining to 1.5%-1.8% because of higher credit losses and lower interest margins, stemming mainly from interest rate cuts. The Asset Management Company of Nigeria's (AMCON's) levy on banks also weighs on profitability. The CBN created AMCON in 2010 to help clean up asset quality in the banking system over the 10 years following the 2009 financial crisis, but it is likely to remain for a longer period. The levy accounts for about one-fourth of banks' cost bases, and we now see it as a form of market distortion that will likely persist. Moreover, in 2019, the CBN introduced a minimum loan-to-deposit ratio of 65% to spur lending, and it penalizes banks reporting a lower ratio by withholding central bank reserves equivalent to 50% of the lending shortfall. Nevertheless, we expect subdued lending growth, averaging 5%, through 2021.

Table 1

Zenith Bank PLC--Key Figures

	--Year ended Dec. 31--				
(Mil. NGN)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	7,564,337	6,330,382	5,934,569	5,582,264	4,735,180
Customer loans (gross)	2,799,266	2,462,359	2,016,520	2,252,172	2,360,809
Adjusted common equity	927,449	813,299	696,842	715,499	625,449
Operating revenues	272,786	499,004	475,298	528,552	363,619

Table 1

Zenith Bank PLC--Key Figures (cont.)					
	--Year ended Dec. 31--				
(Mil. NGN)	2020*	2019	2018	2017	2016
Noninterest expenses	135,848	228,747	220,709	225,233	173,086
Core earnings	103,733	211,795	197,999	179,564	131,087

NGN--Nigerian naira. *Data as of June 30.

Business position: Tier-1 banking group in Nigeria with stable revenue

Zenith Bank is a leading group in the highly competitive Nigerian banking sector, with a strong corporate franchise and stable revenue base. It is the second-largest bank in Nigeria with total assets of Nigerian naira 7.6 trillion as of June 30, 2020, and about 15% of the system's total assets as of year-end 2019. Like most of its regional peers, Zenith Bank's business profile is heavily concentrated toward the corporate segment and revenue stemming from its Nigerian operations. Its rest-of-Africa business generated only 12% of its profit before tax as of June 30, 2020.

Zenith Bank reported an average return on equity of about 22% over the past five years, faring better than most domestic peers for the same period. However, we believe that the current economic downturn will lead to lower earnings in 2020. Zenith Bank's digital push, muted risk appetite, and low cost of funds will continue to support its business stability during a slow economic recovery.

Zenith Bank serves high-end corporate clients, which operate in the strategic sectors of the Nigerian economy. The group's strategy is to increase its share of low-cost retail deposits, and lend competitively to large, low-margin, but creditworthy, corporate entities. Zenith Bank is actively pursuing a retail strategy focused on increased lending to small businesses and households. It aims to generate greater transactional revenue from its electronic platform by increasing the retail client base, largely focusing on deposit-gathering capabilities. Zenith Bank demonstrates better operating efficiency than most of its domestic peers. As of June 30, 2020, the operating efficiency ratio stood at 49.8%, compared with 72.5% for Access Bank PLC and 66% for FBN Holdings PLC. We expect this trend to continue despite pressure on revenue in the current economic environment as the group reins in costs.

Table 2

Zenith Bank PLC--Business Position					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Total revenues from business line (mil. NGN)	272,888.0	499,151.0	475,557.0	528,552.0	363,619.0
Commercial & retail banking/total revenues from business line	90.8	89.9	89.2	91.4	90.8
Other revenues/total revenues from business line	9.2	10.1	10.8	8.6	9.2
Return on average common equity (%)	21.5	23.8	23.6	23.3	20.0

*Data as of June 30. NGN--Nigerian naira.

Capital and earnings: Difficult operating conditions will pressure earnings

We expect Zenith Bank will maintain a RAC ratio before adjustments of 6.25%-6.75% over the next 12-18 months, compared with about 7.5% at year-end 2019.

Our projected RAC ratio takes into account the following assumptions throughout 2020-2022:

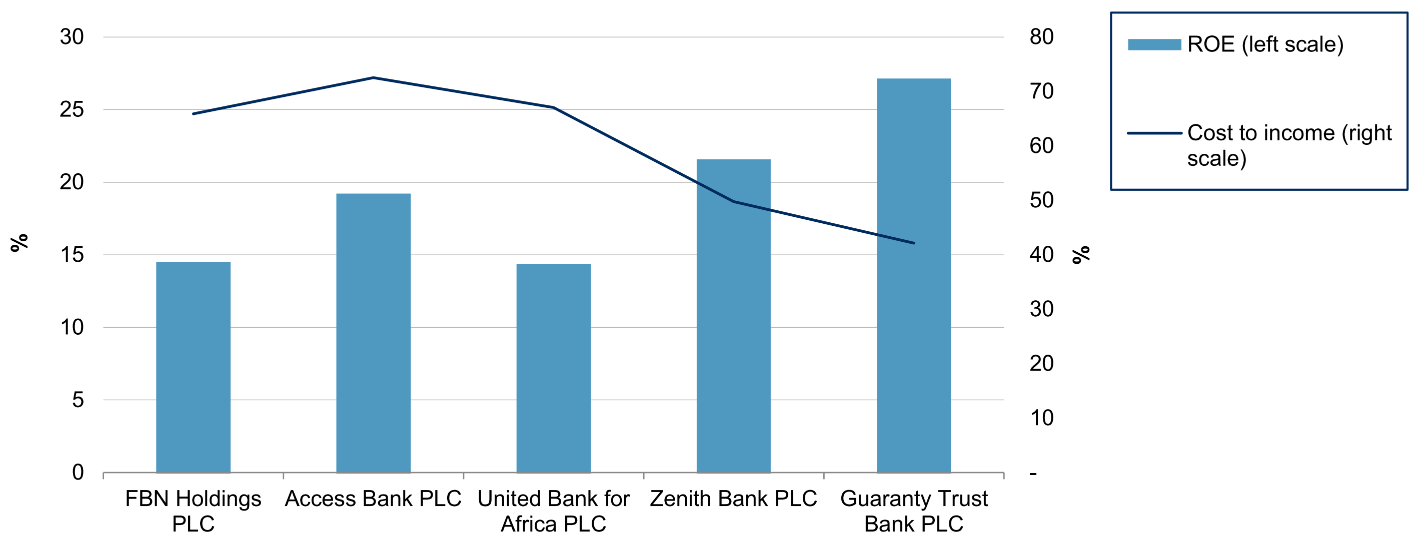
- Subdued loan growth of 10%-15% (compared with 27% in first-half 2020). This growth will come from the retail segment, given the group's focus on increasing its lending toward personal loans, car financing, and mortgages.
- A net interest margin of 6.0%, reflecting the low yields in the securities market and lower cost of funds.
- A slightly higher cost-to-income ratio of 50%-52%.
- A cost of risk of about 1.5%, reflecting higher transitions into Stage 2 and 3 loans.
- A stable dividend payout ratio of about 40% of net income.

The challenging economic conditions created due to low oil prices and the ongoing pandemic affected group earnings metrics during first-half 2020. Revenue from fees and commissions declined by 40% year on year, mainly because of lower fees from electronic products. The group increased loan-loss provisioning to 8.4% of its operating revenue as of June 30, 2020, from 4.8% at Dec. 31, 2019. We expect this metric to further increase in 2020, constraining profitability for the period.

Net interest margin improved to 6.3% as of June 30, 2020, from 5.9% at Dec. 31, 2019, supported by a low cost of funds. However, we expect there will be pressure on margins in 2020-2021, given lower interest rates.

Chart 2

Zenith Bank's Profitability Metrics



Data as at June 30, 2020. ROE--Return on equity. Source: S&P Global Ratings.

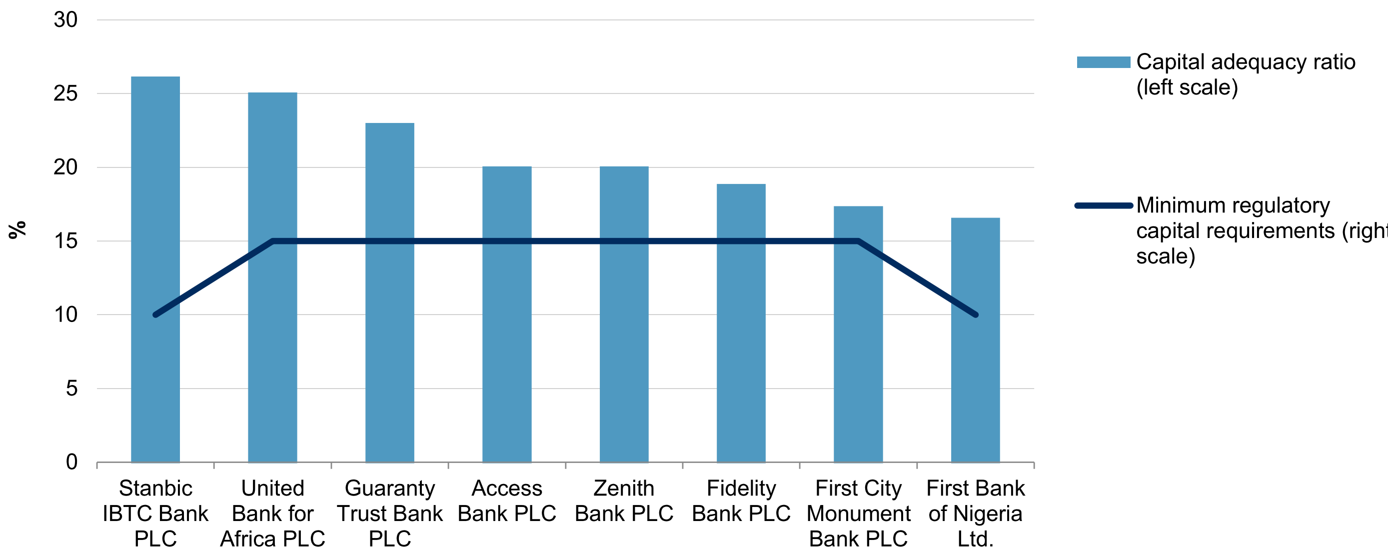
In our view, Zenith Bank will show resilient profitability compared with most peers in the country, given its ability to effectively control costs and the risk management of its portfolio.

The group operates with adequate buffers given the high risk operating environment in Nigeria. The group recorded a

Tier 1 capital ratio (under Basel II) of 18.7% as of June 30, 2020, while its total capital adequacy ratio was 20.2%. These ratios stood well above the minimum regulatory limit.

Chart 3

Rated Nigerian Banks' Capital Adequacy Ratios Meet Minimum Regulatory Requirements



Note: Except for First City Monument Bank PLC and First Bank of Nigeria Ltd. all other results are audited. First Bank of Nigeria Ltd. excludes unappropriated profits. Data as at June 30, 2020. Source: S&P Global Ratings.

We estimate the group's earnings buffer at 1.0% of our RWAs in 2020. This means that we expect earnings will largely cover normalized losses--this measure comes from our RAC framework, and captures the long-term average annualized expected credit losses. The quality of Zenith Bank's capital and earnings is good and compares adequately with that of domestic rated peers.

Table 3

Zenith Bank PLC--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	18.7	20.4	23.9	25.2	21.6
S&P RAC ratio before diversification	N/A	N/A	6.3	5.4	5.1
S&P RAC ratio after diversification	N/A	N/A	5.1	4.2	3.9
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	58.2	53.5	62.2	48.8	66.1
Fee income/operating revenues	12.3	20.1	17.2	17.1	18.8
Noninterest expenses/operating revenues	49.8	45.8	46.4	42.6	47.6
Preprovision operating income/average assets	3.9	4.4	4.4	5.9	4.4

Table 3

Zenith Bank PLC--Capital And Earnings (cont.)

	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Core earnings/average managed assets	3.0	3.4	3.4	3.5	3.0

*Data as of June 30. RAC--Risk adjusted capital. N/A--Not applicable.

Table 4

Zenith Bank PLC--Risk-Adjusted Capital Framework Data

(Mil. NGN)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	2,721,832	1,044,676	38	3,292,864	121
Of which regional governments and local authorities	--	--	--	--	--
Institutions and CCPs	737,973	1,044,676	142	1,441,402	195
Corporate	2,200,043	1,044,676	47	2,908,159	132
Retail	134,330	--	--	299,763	223
Of which mortgage	--	--	--	--	--
Securitization§	--	--	--	--	--
Other assets†	249,844	--	--	769,665	308
Total credit risk	6,044,022	3,134,029	52	8,711,852	144
Credit valuation adjustment					
Total credit valuation adjustment	--	--	--	--	--
Market Risk					
Equity in the banking book	63,680	--	--	716,400	1,125
Trading book market risk	--	170,392	--	479,228	--
Total market risk	--	170,392	--	1,195,628	--
Operational risk					
Total operational risk	--	891,735	--	991,035	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	4,196,156	--	10,898,515	100
Total Diversification/ Concentration Adjustments	--	--	--	2,758,814	25
RWA after diversification	--	4,196,156	--	13,657,328	125
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		856,297	20	813,299	7
Capital ratio after adjustments‡		856,297	20	813,299	6

Table 4

Zenith Bank PLC--Risk-Adjusted Capital Framework Data (cont.)
*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. NGN--Nigerian naira. Sources: Company data as of Dec. 31 2019, S&P Global Ratings.

Risk position: Resilient asset-quality metrics

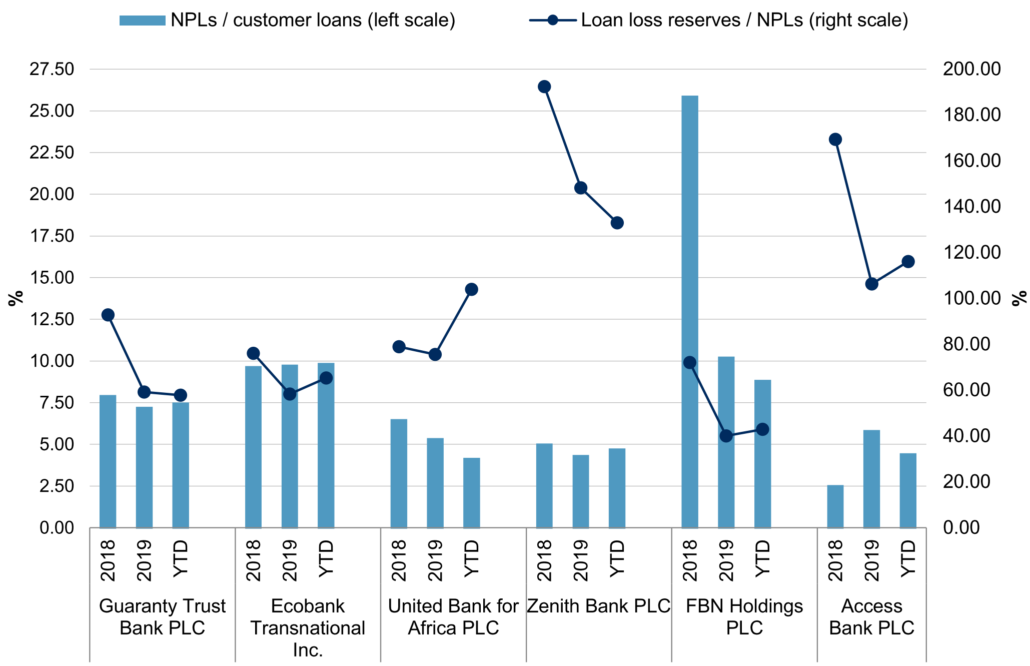
Our assessment of Zenith Bank's risk position underpins its good track record of low loan losses, supported by its conservative risk-management practice and low risk appetite.

The bank's NPL ratio increased slightly to 4.7% at June 30, 2020, from 4.3% at year-end 2019. The proportion of Stage 2 loans also increased to 19% of gross loans at June 30, 2020, from about 8% at year-end 2019. This was due to restructuring measures in oil and gas other selective sectors. We expect the bulk of transition risk in 2020, before declining back to historic averages in 2022. In our view, the NPL ratio will tick slightly higher to 5.0%-5.5% over 2020-2022. NPL coverage was 133% at June 30, 2020, and we forecast it will remain above 100% for 2020-2021.

Most of Zenith Bank's asset-quality problems stem from the oil and gas sector, which has historically been vulnerable to oil prices shocks. The group's cost of risk increased to 1.7% at June 30, 2020, from 1.1% at year-end 2019. This ratio averaged 1.8% for the past five years, below the sector average of 2.5%. We forecast it will average 1.5% over the next two years, reflecting the effects of the COVID-19 pandemic across many sectors and low oil prices.

Chart 4

Top-Tier Nigerian Banks' Asset-Quality Metrics

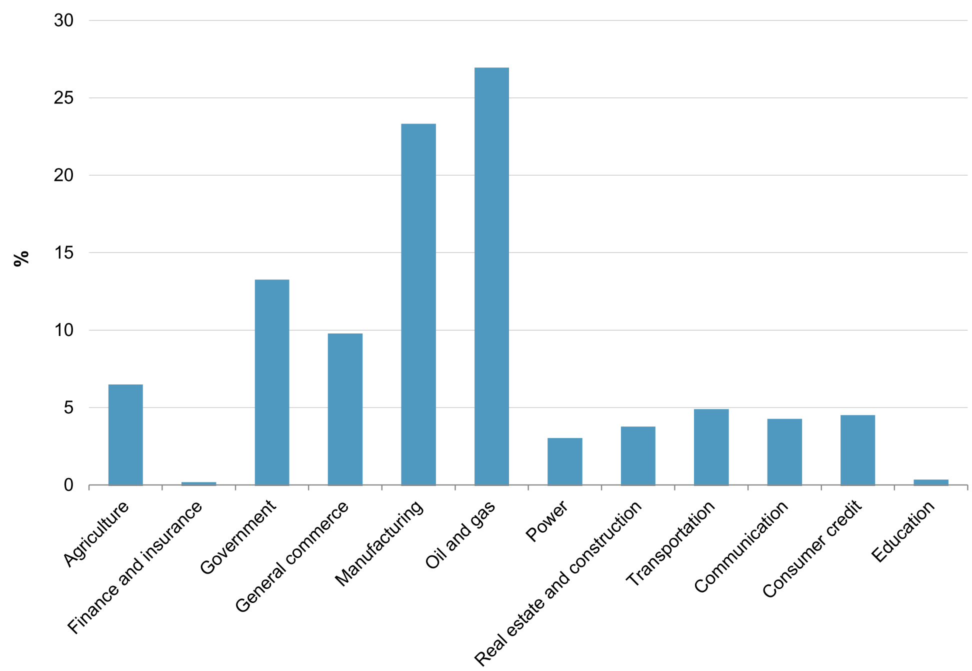


NPL--Nonperforming loans. YTD--Year to date. Guaranty Trust Bank PLC (GTBank); Ecobank Transnational Inc. (ETI); United Bank for Africa PLC (UBA); Zenith Bank PLC (Zenith); FBN Holdings PLC (FBN); Access Bank PLC (Access). Source: S&P Global Ratings.

Corporate lending comprises about 98% of the loan book and is highly diversified across different sectors. As of June 30, 2020, oil and gas exposures made up about 27% of total loans, which is broadly in line with the sector average of 30%. The top 20 loans accounted for 38% of the loan book, which is moderately high compared with other emerging market peers.

Chart 5

Zenith Bank's Customer Loan Breakdown (June 30, 2020)



Source: Company accounts.

High foreign-currency exposure is a key risk facing all Nigerian banks. On June 30, 2020, a significant 48% of total loans were denominated in foreign currency (largely U.S. dollars). However, Zenith Bank extends foreign-currency loans primarily to the oil and gas sector and firms with foreign-currency revenue or currency hedges, which mitigates these risks.

Table 5

Zenith Bank PLC--Risk Position

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	27.4	22.1	(10.5)	(4.6)	16.2
Total managed assets/adjusted common equity (x)	8.2	7.8	8.5	7.8	7.6
New loan loss provisions/average customer loans	1.7	1.1	0.9	4.3	1.5
Net charge-offs/average customer loans	0.1	2.9	3.5	0.6	0.4
Gross nonperforming assets/customer loans + other real estate owned	4.7	4.3	5.0	4.7	3.0
Loan loss reserves/gross nonperforming assets	132.9	148.2	192.4	143.4	100.1

*Data as of June 30.

Funding and liquidity: Stable funding and liquidity profile

Zenith Bank's funding relies on stable core customer deposits, which accounted for 85% of its funding base on June 30, 2020. These deposits are largely short-term which is a common feature of the Nigerian banking sector.

Retail deposits increased by 41% for the six months ended June 30, 2020, from year-end 2019. The group has been making continuous efforts to bring down its funding costs, which reduced to 2.2% for June 30, 2020, from 5.2% at year-end 2017. We believe the CBN's recent directive asking banks to keep the interest rate on savings deposits to a minimum of 10% of the Monetary Policy Rate will not materially affect Zenith Bank because savings accounts represents 13% of total deposits.

The long term funding ratio stood at 96.2% as of June 30, 2020, down from 94.4% at Dec. 31, 2019. The net stable funding ratio was 109% at the group level against the minimum regulatory requirement of 100% for year-end 2019.

Generally, the CBN has managed liquidity in the system quite aggressively by imposing a minimum cash reserve requirement of 27.5%. In December 2019 it also introduced a minimum loan-to-deposit ratio of 65%, in the hope that banks would lend to the real sectors of the economy. We believe that the group's liquidity is unlikely to be affected by this measure given its low risk appetite. Its liquidity ratios compare favorably with those of its peers. Broad liquid assets covered 13.7x of short-term wholesale funding, while its net broad liquid assets to short-term customer deposits was 66.7% at June 30, 2020.

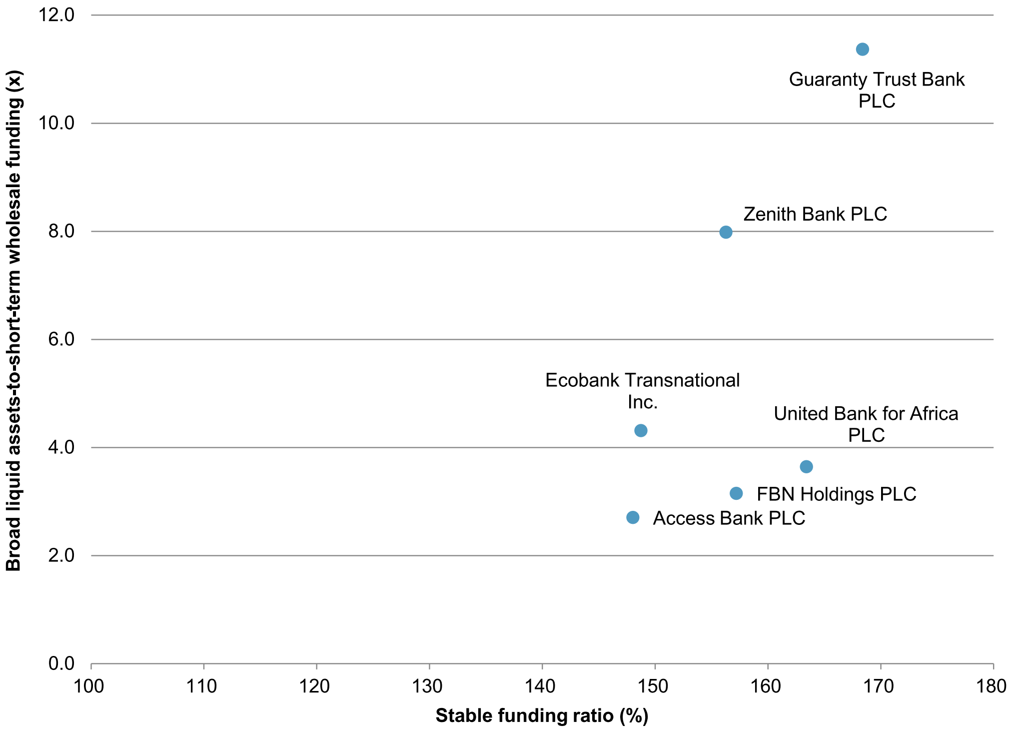
Systemwide pressures on U.S.-dollar funding and liquidity have eased since the introduction of the NAFEX window in June 2017.

The group holds a long position in U.S. dollars, stemming from domiciliary accounts and funding raised in dollars over recent years. It also keeps a sizable cash cushion in foreign currencies, covering about 37% of foreign-currency deposits as of Dec. 31, 2018.

Its $500 million Eurobond issued under a $1 billion global medium-term note program will mature in May 2022.

Chart 6

Zenith Bank: Funding And Liquidity Metrics Peer Comparison (Dec. 31, 2019)



Source: S&P Global Ratings.

Table 6

Zenith Bank PLC--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	85.0	84.6	75.6	76.2	79.5
Customer loans (net)/customer deposits	53.5	54.1	49.4	61.1	76.7
Long term funding ratio	96.2	94.4	91.4	97.4	93.1
Stable funding ratio	163.1	156.3	154.4	154.8	129.9
Short-term wholesale funding/funding base	4.5	6.7	10.0	3.0	8.2
Broad liquid assets/short-term wholesale funding (x)	4.5	5.5	17.3	5.3	13.4
Net broad liquid assets/short-term customer deposits	66.7	55.1	59.9	65.1	44.3
Short-term wholesale funding/total wholesale funding	29.7	43.3	40.8	12.8	40.0
Narrow liquid assets/3-month wholesale funding (x)	33.9	46.9	15.6	18.0	9.4

*Data as of June 30.

Environmental, Social, and Governance (ESG)

We see ESG credit factors for Zenith Bank to be broadly in line with those of industry and country peers. Governance and disclosure are in line with industry best practices.

The group has exposures to the oil and gas sector, which is key to the Nigerian economy. The group is working on reducing lending to sectors with a high climate impact. The diversification process will be slow, however, given Nigeria's reliance on hydrocarbon revenue.

Support: No notches of uplift to the SACP

We consider Zenith Bank to be of high systemic importance, reflecting its top-tier market position. We do not incorporate any uplift to the ratings on Zenith above the 'b' SACP because we consider the Nigerian government's support toward the domestic banking sector uncertain.

Additional rating factors: The sovereign ratings constrain our bank ratings

The 'b' SACP is constrained by the long term foreign currency rating on Nigeria. We do not rate Nigerian banks above the sovereign because of the likely direct and indirect influence of sovereign distress on their operations, including their ability to service foreign-currency obligations.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Banking Industry Country Risk Assessment: Nigeria, Nov. 30, 2020
- Nigeria Long-Term Rating Affirmed at 'B-'; Outlook Stable, Aug. 28, 2020
- Various Rating Actions On Nigerian Banks Following Sovereign Downgrade; Outlooks Stable, March 31, 2020
- Nigeria Long-Term Rating Lowered To 'B-' On Weakening External Position Tied To Sharp Fall In Oil Prices; Outlook Stable, March 26, 2020
- Nigeria Outlook Revised to Negative On Falling Foreign Exchange Reserves; 'B/B' Ratings Affirmed, Feb. 28, 2020

Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found at "Various Rating Actions On Nigerian Banks Following Sovereign Downgrade; Outlooks Stable," published March 31, 2020, on RatingsDirect.

Glossary

- Anchor: The starting point for assigning a bank a long-term rating, based on economic and industry risk.
- Asset-liability mismatch: Occurs when financial terms of an institution's assets and liabilities do not correspond.
- Asset quality: A key measure of the quality and performance of the assets of a bank.
- Available stable funding: Core deposits, plus deposits due to banks (net of those that mature within one year), plus other borrowings (net of maturities within one year), plus total equity, minus intangibles.
- Broad liquid assets: cash (net of restricted cash) and reserves at central bank, plus other cash and money market, plus bank loans and reverse repos that mature in less than one year, plus total liquid assets.
- Business position: A measure of the strength of a bank's business operations.
- Capital and earnings: A measure of a bank's ability to absorb losses.
- Cost of funds: Interest expense as a percentage of average interest-bearing liabilities.
- Counterparty credit rating: A form of issuer credit rating, which is a forward-looking opinion about an obligor's overall creditworthiness.
- Credit losses: Losses arising from credit risk.
- Credit risk: Risk that a borrower will default on its payment obligations.
- Customer loans (gross): Total customer loans before loan loss reserves.
- Date initial rating assigned: The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Ratings last reviewed the
- credit rating on the entity.
- Earning capacity: The capacity of a bank to generate sufficient earnings against losses and the primary way that a bank builds or maintains its capitalization.
- Fee income over operating revenues: Net income on fees and commissions over operating revenues.
- Funding and liquidity: A combined assessment of the strength and stability of a bank's funding mix and its ability to manage its liquidity needs in adverse market and economic conditions over an extended period.
- Funding base: Total deposits, plus acceptances, repurchase agreements, and other borrowings (including commercial papers, short- and long-term debt, subordinated debt, and minimal equity content hybrids).
- Government-related entity (GRE) support: An assessment of the likelihood that the government would provide extraordinary support to a bank that is a government-related entity.

- Gross nonperforming assets over customer loans plus other real estate
- owned over customer loans: Nonaccrual loans, plus restructured loans, plus repossessed assets plus loans 90-days past due; over gross customer loans plus repossessed assets.
- Loan loss reserves over gross nonperforming assets: General plus specific reserves, over adjusted nonperforming assets (nonaccrual loans plus restructured loans plus repossessed assets plus 90-day past due loans).
- Long term funding ratio: Available stable funding, over funding base plus total equity, minus intangibles.
- National scale rating: An opinion of an obligor's creditworthiness or overall capacity to meet specific financial obligations, relative to other issuers and issues in a given country or region.
- New loan loss provisions over average customer loans: Credit loss provisions (including specific loan provisions and general and other provisions) minus recoveries, over average gross customer loans of current period and last fiscal year.
- Noninterest expenses: Salaries and general administrative expenses (including depreciations and amortizations).
- Operating revenues: Net interest income, plus operating non-interest income (that mainly includes fees and commissions and trading gains).
- Return on equity: Net income before extraordinary results minus preferred dividends over average common (average between current period and last fiscal period).
- Risk position: Our view of the specific risk characteristics of a particular bank.
- Risk-adjusted capital (RAC) ratio before diversification: This is calculated according to S&P Global Ratings' methodology as total adjusted capital over risk-adjusted assets.
- Short-term wholesale funding: Debt securities that mature in less than one year (of commercial papers, debt and senior and subordinated bonds), plus bank deposits that mature in less than one year.
- Sovereign support: An assessment of the likelihood that the government would provide extraordinary support to a bank.
- Stable funding needs: Restricted cash and reserves at the central bank, plus interbank deposits, plus loans to banks (net of maturities within one year), plus reverse repurchase agreements, plus gross customer loans net of loan-loss reserves, plus securities, minus total liquid securities, plus equity participations in nonfinancial entities, plus fixed assets, plus other assets (considering foreclosed assets, tax loss carryforwards, and deferred assets).
- Stable funding ratio: Available stable funding over stable funding needs.
- Stand-alone credit profile (SACP): An interim step in assessing a bank's overall creditworthiness. It includes government support, but not extraordinary government support.
- Total adjusted capital: Adjusted common equity plus admissible preferred instruments and hybrids.

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	**10**
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	**b**
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 9, 2020)*

Zenith Bank PLC	
Issuer Credit Rating	B-/Stable/B
Nigeria National Scale	ngBBB/--/ngA-2
Senior Unsecured	B-
Short-Term Debt	B
Issuer Credit Ratings History	
31-Mar-2020	B-/Stable/B
03-Mar-2020	B/Negative/B
22-Sep-2016	B/Stable/B
24-Mar-2016	B+/Negative/B
31-Mar-2020 *Nigeria National Scale*	ngBBB/--/ngA-2
03-Mar-2020	ngA-/--/ngA-2
02-Jul-2018	ngA/--/ngA-1
22-Sep-2016	ngBBB/--/ngA-2
24-Mar-2016	ngA-/--/ngA-2
Sovereign Rating	
Nigeria	B-/Stable/B
Nigeria National Scale	ngBBB/--/ngA-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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