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CREDIT OPINION
15 December 2023

Update

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RATINGS

Zenith Bank Plc

Domicile	Lagos, Nigeria
Long Term CRR	Caa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	(P)Caa1
Type	Senior Unsecured MTN - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	Caa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

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 change in outlook to positive from stable

Summary

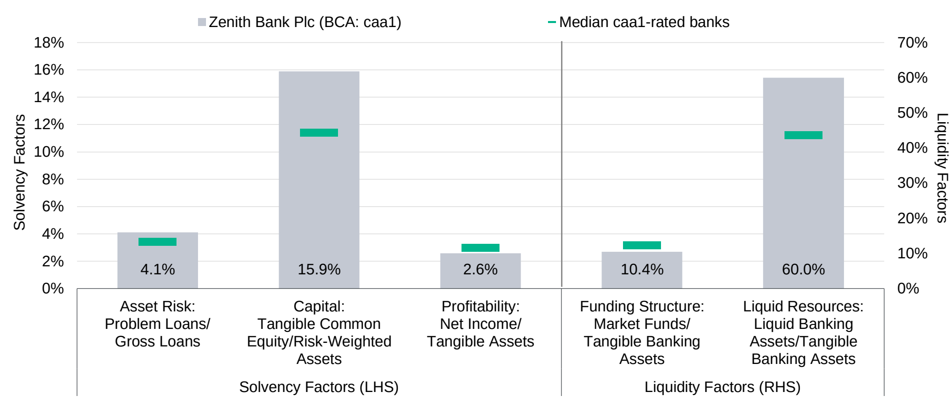
Zenith Bank Plc's (Zenith) Caa1 deposit rating is aligned with its caa1 Baseline Credit Assessment (BCA). Zenith's financial profile is b3 in our scorecard (page 8), but we constrain the bank's BCA at caa1 (in line with the Nigerian sovereign rating (Caa1 positive)) given the interlinkages between the sovereign's creditworthiness and the bank's balance sheet.

Although we believe there is a high probability that the Nigerian government would support the bank's senior liabilities in case of need, this does not benefit the ratings as the government itself is rated no higher than the bank's BCA.

Zenith's caa1 BCA primarily reflects the constraints from the weakening operating environment in Nigeria, as well as the interlinkages between the sovereign's weakened creditworthiness and the bank's balance sheet.

These challenges are partly moderated by the bank's robust risk management, strong capitalisation and long US dollar position (which would help moderate the impact of potential further currency depreciation), along with strong profitability underpinned by the bank's disciplined approach and strong ties with large corporates. The bank's credit profile also reflects is deposit-funded balance sheet, combined with solid and conservative management of foreign currency liquidity (supported by strong ties with large oil and non-oil exporting corporates).

Exhibit 1
Rating Scorecard - Key financial ratios



The problem loan and profitability ratios (in this exhibit and the scorecard on page 7) are the weaker of the average of three-year ratios and the latest reported quarterly ratio. The capital ratio is the latest reported figure. The funding and liquid assets ratios are the latest year-end figures.
Source: Moody's Investors Service

Credit strengths

» Strong capitalisation, along with long US dollar position, provide some buffer in case of a potential further currency depreciation

» Strong profitability underpinned by the bank's disciplined approach, robust franchise and strong ties with large corporate clients

» Solid and conservative management of foreign currency liquidity moderates the risk from FX shortages in Nigeria

» High probability of government support in case of need

Credit challenges

» Challenging operating environment in Nigeria

» Exposure to the sovereign (through sovereign debt securities holdings), which creates interlinkages between the sovereign's weakened creditworthiness and the bank's balance sheet

» Weakening local currency, elevated inflation, high interest rates and pose risks to the bank's solid asset quality

Outlook

The positive outlook is in line with the positive outlook on Nigeria's government rating. The positive outlook on the sovereign rating reflects the possible reversal of the deterioration in Nigeria's fiscal and external position as a result of the authorities' reform efforts.

Factors that could lead to an upgrade

The ratings could be upgraded if there was a material improvement in the sovereign's credit profile and in the local operating environment.

Factors that could lead to a downgrade

Downwards pressure on Zenith's ratings is limited given the positive outlook. A stabilisation of the outlook on the bank's long-term ratings could result from a stabilisation of the sovereign rating.

Key indicators

Exhibit 2

Zenith Bank Plc (Consolidated Financials) [1]

	09-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (NGN Million)	18,160,814.0	12,285,629.0	9,447,843.0	8,481,273.0	6,346,879.0	32.4[4]
Total Assets (USD Million)	22,743.7	26,664.4	22,834.7	21,485.2	17,488.4	7.3[4]
Tangible Common Equity (NGN Million)	1,763,427.0	1,305,896.0	1,208,044.0	1,058,155.0	900,455.0	19.6[4]
Tangible Common Equity (USD Million)	2,208.4	2,834.3	2,919.7	2,680.6	2,481.1	(3.1)[4]
Problem Loans / Gross Loans (%)	3.9	1.9	4.2	6.4	6.8	4.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	--	15.9	15.4	16.5	17.7	16.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	11.5	5.6	10.8	15.6	15.9	11.9[5]
Net Interest Margin (%)	3.8	3.5	3.8	4.1	4.6	4.0[5]
PPI / Average RWA (%)	--	5.1	4.7	5.2	6.0	5.2[6]
Net Income / Tangible Assets (%)	3.2	1.8	2.6	2.7	3.3	2.7[5]
Cost / Income Ratio (%)	30.1	45.4	46.0	46.4	46.4	42.9[5]
Market Funds / Tangible Banking Assets (%)	12.3	10.4	12.5	15.5	12.2	12.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	53.4	60.0	54.7	57.7	50.1	55.2[5]
Gross Loans / Due to Customers (%)	45.6	45.9	54.1	54.7	57.8	51.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel II; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel II periods.
Sources: Moody's Investors Service and company filings

Profile

Zenith Bank Plc (Zenith) is a Nigeria-based bank established in 1990, and is listed on the Nigeria Stock Exchange (NGX). Zenith is the second largest bank in Nigeria, with a market share of 17% of total banking assets as of June 2023. The bank had consolidated total assets of $23 billion (NGN 18.2 trillion) as of September 2023. Zenith is regulated by the Central Bank of Nigeria (CBN) and is a domestic systemically important bank in Nigeria.

Zenith operates within four main business segments: Corporates (61% of its gross revenue during the first six months of 2023), Commercial & SMEs (21%), Public (10%) and Retail (7%). Zenith has international operations with a subsidiaries across six countries (Nigeria, UK, Ghana, Sierra Leone, Gambia and UAE) and a representative office in China. Zenith's assets comprised 85% located in Nigeria, 10% in the UK, 5% in Ghana, 0.3% in Sierra Leone and 0.3% in Gambia as of June 2023.

Detailed credit considerations

Elevated inflation, high interest rates and weakening local currency pose risks to the bank's solid asset quality

We expect Zenith's asset quality to face some pressure, as the material devaluation in the local currency this year weighs on the repayment capacity of borrowers.[1] We expect unhedged foreign currency borrowers to find it more difficult to meet their financial obligations, while the repayment capacity of local currency borrowers will be under pressure from elevated inflation and the increased local currency value of imported items. In addition, similar to other banks, the proportion of foreign currency loans in Zenith's loan book mechanically increased as a result of the material devaluation to 58% of loans as of June 2023 (from 42% as of December 2022).

However, the risk from foreign currency loans at Zenith is mitigated by the fact that the majority of foreign currency borrowers in the bank's loan book have a natural hedge, given that they operate in the upstream oil and gas sector and hence have US dollar revenues from selling crude oil. The balance of foreign currency borrowers, which typically borrow US dollars for trade finance imports, are required by the bank to post sizeable collateral in foreign currency before initiation of the trade finance transaction.

We also expect the elevated inflation and interest rates in Nigeria to constrain the repayment capacity and disposable income of the bank's borrowers, particularly the more vulnerable small business and household segments, but also in the manufacturing segment of the corporate loan book. Nigeria's readiness to confront long-standing issues, such as ending the oil subsidy, is credit positive but carries risks. The principal risk from higher domestic oil prices would be the temporary increase in inflation becoming entrenched as inflation expectations adjust, subduing growth even more as the population moderates consumption.

Nonetheless, we expect Zenith's asset quality to remain solid, reflecting its disciplined and robust risk management, along with the skew of its loan book towards the more resilient large corporates. In addition, Zenith's decision during H1 2023 to allocate a portion of its large FX gains to build up its loan loan reserves provides the bank with buffer against potential asset quality deterioration. Zenith's cost of risk increased materially to 5.5% during the first nine months of 2023 from 1.0% as of full-year 2022, which led to an improvement in its problem loans coverage ratio. The bank's loan loss reserves represented 134% of problem loans as of September 2023.

Zenith's problem loans to gross loans ratio increased to 3.9% as of September 2023 (from 1.9% as of December 2022), which still compares favourably with the 4.1% systemwide average as of June 2023. Similar to other Nigerian banks, Zenith's relatively high stock of restructured loans poses some risk to asset quality. The bank's reported restructured loans stood at 19.8% of gross loans as of June 2023, primarily comprising exposures to the oil and gas sector (86% of the stock).

Sovereign exposure also poses some risk

Zenith's exposure to government debt securities poses some risk to its credit profile. In Ghana, the ongoing sovereign debt restructuring under the G20 common framework has led to substantial impairment charges for private creditors (including Zenith). While the significant impairment booked recognises a material portion of the economic loss resulting from the Domestic Debt Exchange Programme, we believe that, for most banks (including Zenith), the impairment partly underestimates the underlying economic loss on the local currency bonds because the discount rate used to calculate the fair value of the new bonds was lower than the actual interest rate on Ghana government securities.

Separately, there remains uncertainty as to whether the impairment booked for the foreign currency debt will be sufficient to cover the potential impact of the pending restructuring. In its 2022 financial statements, Zenith reported group-wide impairment charges of

NGN59 billion representing 48% of the carrying value of the group's Ghanaian sovereign bonds (and 0.5% of total assets as of year-end 2022). Ghanaian government bonds represented 1% of Zenith's total assets.

Strong capitalisation, along with long US dollar position, provide some buffer in case of a potential further currency devaluation

We expect the bank's capitalisation to remain strong and higher than local peers, reflecting its strong profitability and prudent dividend policy. Zenith's strong capitalisation and long US dollar position provides buffers against potential further material local currency devaluation and asset quality pressures in Nigeria. The naira depreciated by around 46% against the US dollar between May 2023 and October 2023.

The material devaluation in the local currency during the first half of 2023 had relatively limited implications on the capitalisation ratios of Zenith. This reflected the balance between (a) the bank's sizeable long net open position in foreign currency (which generated material FX gains), (b) the bank's noticeable exposure to foreign currency loans, which resulted in inflation in the local currency value of risk weighted assets; and (c) the bank's conservative approach in materially increasing its loan loss reserves through impairment charges funded with a portion of the material FX gains. As of June 2023, Zenith's net open position was long $1.9 billion.

Zenith's reported Tier 1 ratio was 18.3% as of June 2023, compared to 18.6% as of December 2022. The bank's reported total capital adequacy ratio stood at 22.0% as of June 2023, compared to 19.8% as of December 2022. As of December 2022, rated Nigerian banks had an average Tier 1 ratio of 17.4% and average TCE ratio of 13.6% as of December 2022. Additionally, Zenith's shareholders' equity / total assets (an unweighted measure of capital) was solid at 10.6% as of September 2023, which is higher than the 9.5% average for rated Nigerian banks.

The bank's tangible common equity to risk weighted assets declined to 13.5% as of June 2023, from 15.9% in December 2022, owing to an increase in adjusted risk weighted assets (due to higher government securities holdings and a higher risk weighting adjustment of government securities following the downgrade in Nigeria's sovereign rating in January 2023). We adjust the bank's TCE ratio for risk weighting on the bank's holding of Nigerian government securities, in line with the Basel II framework.

Strong profitability underpinned by the bank's disciplined approach, robust franchise and strong ties with large corporate clients

We expect the bank's profitability to remain strong, but face pressure amid the challenging operating environment in Nigeria. Net interest income will benefit from increasing policy rates, but the high cash reserve requirement in the country will continue to weigh on the bank's ability to generate interest income. In the addition, foreign currency rationing by the central bank will continue to constrain the access of local corporates to US dollars to conduct their businesses, and hence affect the bank's business generation. We expect operational expenses to increase further amid elevated inflation, combined with continued high regulatory costs. We expect the extent of the required increased in provisioning needs (amid currency devaluation and elevated inflation) to be limited by the already high cost of risk booked by the bank during the first nine months of 2023.

Zenith's robust profitability will reflect the bank's established and leading corporate banking franchise, supported by the bank's strong ties with large corporate clients and their supply chains. The bank's large market share in the financing of trade finance transactions, with both exporters and importers, will also support profitability. Separately, the bank's growing retail franchise (supported by its digital offerings) will also support and diversify profitability.

Zenith's net income to tangible assets ratio stood at 3.2% during the first nine months of 2023, compared to 1.8% during the full year 2022 and 2.6% during full year 2021. Zenith's net interest margins increased to 3.8% during the first nine months of 2023, compared to 3.5% during the full year 2022. The contribution of non-interest income to total revenue was 59% during the first nine months of 2023. Zenith's cost to income ratio was healthy at 30% during the first nine months of 2023. The bank's total provisioning (including loan loss provisions, provisions against investment securities and other provisions) consumed 29% of-pre provision income during the first nine months of 2023 (30% as of full-year 2022).

Solid and conservative management of foreign currency liquidity partly moderates the risk posed by foreign currency shortages in Nigeria

Foreign currency shortages faced by local Nigerian non-financial corporates pose some risk to the liquidity of Nigerian banks through their trade finance activities with those corporates. The sizeable amount of unsettled central bank forwards[2] in the country (estimated at $6.8 billion for the entire banking system), poses some risks to the foreign currency liquidity of Nigerian banks (including Zenith).

For Zenith, the risk from the unsettled forwards is moderated by the bank's solid and conservative management of its foreign currency liquidity. The bank's foreign currency liquidity is supported by its dominant position and strong ties with large oil and non-oil exporting corporates, which place their foreign currency revenues with the bank. Zenith's strong foreign currency liquidity management also reflects (a) the bank's requirement for significant US dollar cash cover before opening letter of credits for clients; (b) the bank's strict acceptance criterion for discounting to spot the US dollar forwards instruments held by its clients; as well as (c) the collection of transaction fees in US dollar (as opposed to local currency equivalent) for US dollar transactions.

Separately, the large amounts of foreign currency lent by Nigerian banks (including Zenith) to the central bank pose some roll-over risk in the context of foreign currency shortages in the country. As of June 2023, we understand that Zenith had placed $1.4 billion with the central bank through various instruments (forwards, swaps and cash instruments).

However, the roll-over risk is partly moderated by our understanding that the central bank has a strong track record of repaying its foreign-exchange derivative obligations. In addition, Zenith foreign currency liquid assets (including cash, interbank assets and investment securities) covered 54% of its total foreign currency liabilities (including debt, interbank liabilities and deposits) as of June 2023.

Separately, the fact that Zenith's foreign currency funding is primarily sourced from depositors, development financial institutions and international banks (as opposed to the more expensive eurobonds or other type of debt securities) helps materially reduce the bank's debt servicing costs in US dollars when compared to some local peers.

High levels of liquidity held on balance sheet provides buffer

We expect Zenith's local currency liquidity to remain sound. The bank's liquid banking assets to tangible banking assets ratio was sound at 53.4% as of September 2023 (60% as of December 2022). When excluding the deposits encumbered with the central bank (owing to the high cash reserve requirement in the country), the bank's liquid banking assets to tangible assets ratio declines to a still sound 39.4% as of September 2023 (46% as of December 2022). Zenith's reported liquidity ratio was 68% as of September 2023, which is well above the 30% regulatory minimum.

We expect Zenith's balance sheet to remain predominantly deposit funded, with a low reliance on market funds. Customer deposits made up 82% of the bank's liabilities as of September2023. The bank's exposure to non-retail deposits (55% of total deposits), as of June 2023 poses some risk such deposits tend to be more confidence sensitive than retail deposits. However, the historical stickiness of those deposits, as well as the deep nature of the relationship between the bank and those entities, reduces the aforementioned risk. In addition, the diversified nature of these non-retail deposits in terms of segments (including corporate deposits, commercial & SME deposits, as well as public sector deposits) also mitigates the risk. The bank's market funding ratio was 12.3% as of September 2023, compared to 10.4% as of December 2022.

ESG considerations

Zenith Bank Plc's ESG credit impact score is CIS-2

Exhibit 3
ESG credit impact score

CIS-2

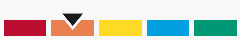
ESG considerations do not have a material impact on the current rating.

Source: Moody's Investors Service

Zenith Bank's **CIS-2** indicates that the high probability of government support in case of need mitigates the potential risk that environmental, social and governance factors pose to the bank's credit profile.

Exhibit 4
ESG issuer profile scores

ENVIRONMENTAL
E-4



SOCIAL
S-3

GOVERNANCE
G-3

Source: Moody's Investors Service

Environmental

Zenith Bank faces high environmental risks. Carbon transition risks reflect the bank's exposure to oil and gas lending, and to holdings of Nigerian government securities. Moreover, the important role played by hydrocarbons for the Nigerian economy and government revenue increases the vulnerability to carbon transition risks, potentially more broadly affecting the creditworthiness of the bank's counterparties. In line with peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. The bank also faces moderate portfolio exposure to physical climate risk, water management, and waste and pollution risks. Mitigants to environment risks include Zenith Bank's loan book diversification and exposure to the affluent portion of the population.

Social

Zenith Bank faces moderate social risks. Customer relations risk exposure is lower than the banking industry average, reflecting the fact that Nigerian banks have historically faced limited legal and regulatory actions related to mis-selling or mis-representation. High personal data risks are partly mitigated by a solid IT framework. Risks related to societal and demographic trends are also lower than those for global peers, with the bank benefitting from Nigeria's young population and an increase in digitalisation and financial inclusion.

Governance

Zenith Bank's governance risks are moderate. The bank has strong risk management practices that compare favourably with most local peers, as well as a track record of disciplined financial strategy. However, financial strategy and risk management risks for Zenith Bank are moderate, reflecting the constraints resulting from operating in a country with weak control of corruption.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support

Given that Zenith's BCA is at the same level as the Nigerian government's issuer rating of Caa1, positive. The absence of government support uplift for the bank's deposit ratings, despite Moody's assessment of a 'high' likelihood of government support in case of need, reflects the positioning of the bank's BCA at the same level as the Caa1 sovereign rating.

Our assumption of a 'high' probability of support in case of financial stress is supported by (a) the bank's D-SIB status; (b) Zenith's importance to the local financial system, as the second-largest bank in Nigeria with a market share of 16% of total assets as of December 2021; and (c) the authorities' track record of supporting troubled banks in the past.

Counterparty Risk Ratings (CRRs)

Zenith's local currency CRR is positioned at B3/Not Prime and the foreign currency CRR is positioned at Caa1/Not Prime as it is constrained by the foreign currency country ceiling.

The local currency CRRs are positioned one notch above the Adjusted BCA of caa1, and therefore above the deposit ratings, reflecting our view that its probability of default is lower than that of deposits.

Counterparty Risk (CR) Assessment

Zenith's CR Assessment is positioned at B3(cr)/Not Prime(cr)

The CR Assessment is positioned one notch above the Adjusted BCA of caa1, and therefore above the deposit ratings, 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 to limit contagion, minimise losses and avoid disruption of critical functions.

National scale rating (NSR)

Zenith's NSRs of Baa3.ng/NG-3 for local and 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). Our NSRs are given a two-letter suffix to distinguish them from our global scale ratings. For example, NSRs in Nigeria have the country abbreviation “ng.”

Zenith's NSRs capture the bank's robust capital buffers, which provide a relatively thick buffer to withstand asset-quality deterioration; its high liquidity buffers, complimenting a predominantly deposit-funded balance sheet; and 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). 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%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		4.1%	caa1	↔	caa1	Expected trend	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel II)		15.9%	b3	↔	b3	Expected trend	
Profitability							
Net Income / Tangible Assets		2.6%	ba3	↔	ba3	Expected trend	
Combined Solvency Score			b3		b3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		10.4%	caa1	↔	caa1	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		60.0%	b2	↓↓	b2	Quality of liquid assets	Asset encumbrance
Combined Liquidity Score			b3		b3		
Financial Profile					b3		
Qualitative Adjustments					Adjustment		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint					-		
BCA Scorecard-indicated Outcome - Range					b3 - caa2		
Assigned BCA					caa1		
Affiliate Support notching					0		
Adjusted BCA					caa1		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	b3	0	B3	Caa1
Counterparty Risk Assessment	1	0	b3 (cr)	0	B3(cr)	
Deposits	0	0	caa1	0	Caa1	Caa1
Senior unsecured bank debt	0	0	caa1	0	Caa1	(P)Caa1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
ZENITH BANK PLC	
Outlook	Positive
Counterparty Risk Rating -Fgn Curr	Caa1/NP
Counterparty Risk Rating -Dom Curr	B3/NP
Bank Deposits	Caa1/NP
Baseline Credit Assessment	caa1
Adjusted Baseline Credit Assessment	caa1
Counterparty Risk Assessment	B3(cr)/NP(cr)
Issuer Rating	Caa1
Senior Unsecured MTN	(P)Caa1
ST Issuer Rating	NP

Source: Moody's Investors Service

Endnotes

1 On 14 June, the Central Bank of Nigeria (CBN) announced the unification of its multiple foreign exchange windows, merging all official rates into its Investors and Exporters window, along with a more market-driven mechanism for determining the exchange rate. The moves effectively mean that the CBN has devalued the currency, which has weakened by more than 40% since then.

2 Foreign-exchange forwards (where the central bank commits to sell to a corporate client a predefine amount of foreign currency for settlement at a future date at a pre-agreed exchange rate), help the central bank smooth demand for foreign exchange by moving some of the foreign-currency demand from the spot market to a later date.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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