

ZENITH BANK PLC

PUBLIC OFFER REPORT

Report Date: December 7, 2007

EXECUTIVE SUMMARY AND INVESTMENT RATIONALE

- Zenith Bank's 3rd Public Offering (**since inception**) opened on Thursday, December 6, 2007. It is one of the foremost Banks returning to the Primary market to source for fresh equity capital as a means of augmenting and sustaining its cutting-edge competitive strategies in information technology and growing demands in real sector financing. The Bank is offering a hybrid Offer of 1.763bn Ordinary Shares of 50k at N38.90k and Rights Issue of 1.655bn Ordinary Shares of 50k at N36.90k.
- According to the Bank in its Offer prospectus, the strategic focus of the Offer is the real sector financing via project & infrastructure finance which accounts for 50 per cent of the expected Offer proceeds. The remaining proportion (50 per cent) will be channeled to expand branch network, upgrade ICT and support working capital.
- Zenith Bank has been a consistent winner of several classy laurels and awards of distinction locally and offshore in all spheres of performance benchmarks. It has continually been adjudged sound in growing earnings, healthy balance sheet with impeccable assets quality and financial soundness, excellent customer focused strategies and superb corporate social responsibility.
- The above are evidenced by the Bank's steady and first rate record of risk assets quality. Index of Non-performing Loans to Gross Loans and Advances averaged 1.3 per cent (2003-2007) far below the industry average of 6.7 per cent and 14.1 per cent for first tier and middle tier banks respectively. This feat has earned the Bank first class ratings from

both Nigerian and international rating agencies. It bagged Aaa ratings from both **Agusto & Co** (Nigeria's foremost rating agency, 1999-2007) and **Pharez Composite Rating**, AA- (2003-2004) & A+(2007) by **Fitch Rating**, all extolling its second-to-none customer service delivery, excellent financial condition and uncompromising capacity to meet maturing obligations.

- Zenith Bank has recorded major landmarks in the emerging Nigerian financial service sector. Gross Earnings grew by 51.9 per cent compounded annual growth rate (CAGR) to N63.62bn (US\$530.2mn), after tax profit soared by 43.3 per cent CAGR to N18.78bn (US\$156.5mn). It has consistently maintained a very robust and healthy balance sheet size over the years. Total Assets and Contingents stands at N1.27trn (US\$10.58bn) while Shareholders' Funds (**tier-1 Capital**) leaped significantly by 69.7 per cent CAGR to N114.44bn (US\$953.7mn) as at FYE June 30, 2007. Returns on Average Equity (ROAE) and Return on Average Assets (ROAA) for 2007 FY are 17.15 per cent and 3.23 per cent respectively (current industry avrg: 3.99 per cent and 20.18 per cent respectively).
- The Bank's forecasts look ambitious premised on the feat recorded in past years. Forecast Gross Earnings (GE) and after-tax profit (PAT) are N123.15bn (US\$1.02bn) and N28.76bn (US\$239.67mn) respectively in FYE '08, translating to 29.8 per cent and 55.8 per cent (FYE 2007 are 58.1 per cent and 56.2 per cent). **Our estimates are N118.33bn (US\$986.08mn) and N28.40bn (US\$236.67mn) i.e. 25 per cent and 54.7 per cent respectively for the FYE '08.** Zenith's Q1-2007 performance has been quite robust. GE was N28.86bn (US\$240.5bn) while PAT was N8.06bn (US\$67.17mn). Annualised GE and PAT for FYE '08 are N115.44bn (US\$962mn) and N32.24bn (US\$268.67mn) respectively. This is not at a marked variance with the Bank's forecasts and our estimates. Moreover, given the pace of sophistication and service delivery in the Nigerian financial services industry, there is a strong conviction that these forecasts are attainable and will probably be surpassed. This is further reinforced by the lofty economic projections contained in 2008 budget of the Federal Government.

- Key risks attached to our valuation are macro economic risks stemming from regulations and changes in government policies for sustainable reforms. Also prominent is the social/political risks, more specifically the escalating youth restiveness and socio-economic unrests in the Niger Delta region. All these have become a source of national worry as it directly impacts on economic fortunes of the country.
- The Discounted Cash flow (DCF) valuation is based on a cost of equity of 18.45 per cent and a terminal growth rate of 9.0 per cent. Our proxy for risk free rate is 5-yr FG Treasury bond rate of 10.75 per cent, while risk premium is set at 7.0 per cent. In arriving at our final valuation, we attached the greatest weight to the DCF valuation because dividend is a main driver of value.
- Our fair price for Zenith is N57.62. This implies a marked discount of 32.5 per cent and 20 per cent to our valuation at the Offer price of N38.90/Share and market price of N46.09/Share respectively. **We recommend the Offer a GOOD BUY for short term and long term capital appreciation.**

Challenges of the Nigerian Banking Industry Post-Consolidation: A need for Paradigm shift.

Having undergone revolutionary changes in the last 2 years, expectations are rife for banks in Nigeria to translate the core benefits of their new financial status into value-added impact on the real sector of the Nigerian economy. Regrettably, the banking sector has not lived up to its billing and one is sometimes tempted to question the wisdom in the recapitalization exercise. The intent of the apex regulatory authority (the CBN) was to correct the capital inadequacy of banks and place them on a competitive pedestal vis-a-vis their foreign counterparts. The enlargement of the capital base of banks was expected to spur multiplier effects in operational efficiency, lending capabilities particularly to the real sector of the economy. It was expected that as more funds come to the disposal of banks interest rate will fall, investment will increase and ultimately economic growth will be enhanced.

Unfolding events in the post consolidation Nigerian banking industry have disappointed keen economic observers. Small and Medium Scale Enterprises (SMEs) who are supposed to drive economic growth seem to be receiving less attention from banks. The CBN reported that as at August 2007 only about N37.4bn (approx.US\$311.67mn) was lent to **SMSEs** by consolidated banks. With an industry capitalization that far exceeds N5trn (about US\$4.16bn), one expects the banks to do better.

While bemoaning the failure of banks to meet economic expectations, one cannot but commend them for making strides in managing credit risks. Until recently, the analysis of credit risk was generally limited to reviews of individual loans, and banks kept most loans on their books to maturity. Today, credit-risk management encompasses both loan reviews and portfolio analysis. Moreover, the development of new technologies for buying and selling risks has paved way for banks to deviate from the traditional book-and-hold lending practice in favor of a more active strategy that seeks the best mix of assets in light of the prevailing credit environment, market conditions and business opportunities.

The operational efficiency and capital adequacy of banks in the near future can not be in doubt as more funds are still being sourced from the capital market on a regular basis. We expect massive expansion and growth in an industry that employs a large chunk of our labour force. But much more efforts are still required in translating the gains of expansion into measurable economic benefits. The CBN needs to evolve policies that encourage the channeling of this huge capital at the disposal of banks into real-sector financing and infrastructural development.

Zenith Bank Plc:

Emergence of a dominant player in the Nigerian Financial Services Sector

Zenith Bank was incorporated on May 30, 1990 as Zenith International Bank Ltd., a wholly indigenous private limited liability company. The Bank became a public company on May 20, 2004 and had its IPO of 800mn Ordinary Shares at N10.90/Share

(**subscription level: 554%**) and was subsequently listed on the floor of The Nigerian Stock Exchange same year. In 2006, barely two years after its IPO, Zenith came to the Primary market through a Public Offer of 3bn Ordinary Shares at N16.90k/Share.

Zenith Bank has grown its branch networks in strategic locations within and outside the country over time. Its number of branch offices across Nigeria has grown from 180 to 286 (over 90%) between February 2006 and June 2007. This is expected to grow to 346 in the next 18 months.

The Bank has evolved as a pacesetter in the Nigerian financial services sector, crafting radical strategies in products innovation and service delivery with a sole intent of adding value to all stakeholders. Zenith Bank also has a strategic alliance with highly rated United States financial services group, J.P Morgan in line with the Central Bank of Nigeria (CBN) pre-condition for the management of the nation's growing foreign reserves.

Recently, with a strategic intent of deepening sophisticated clientele base and growing its Brand globally, Zenith Bank had its foray into the European financial market through the opening of a wholly owned United Kingdom (UK) subsidiary, **Zenith Bank (UK) Ltd.** having sought and obtained approval by the **Financial Services Authority (FSA)**, UK. The Bank also has a functional representative office in Johannesburg, South Africa.

Business Structure & Model:

Zenith Bank Group is a financial services conglomerate offering an array of universal banking services, driven by first-rate modern technologies, to a robust clientele base comprising individuals, corporate and commercial customers. Its services range from loans& advances, leases, financial advisory services, investment banking, forex services amongst others. At present, the Bank's authorised share capital stands at N7.5bn (US\$62.5m) made up of 15bn Ordinary Shares of 50k each out of which N5.79bn (US\$4.83m) is issued and fully paid translating to 11.582bn Ordinary Shares. Zenith Bank's total market capitalisation currently stands at N533.81bn (US\$4.45bn).

The Group has witnessed monumental growth in component subsidiaries and associated companies in barely two years after consolidation; from a group consisting of 2 subsidiaries namely- Zenith Securities Ltd. and Zenith General Insurance Ltd as at June 30, 2005 to 10 subsidiaries and 4 associates as at date. These are Zenith Life Assurance Co. Ltd., Zenith Medicare Ltd., Zenith Trust Company Ltd., Zenith Securities Ltd (100%), Zenith Registrars Ltd (100%), Zenith Pension Custodian Ltd. (100%), Zenith Bank (UK) Ltd., (100%), Zenith Capital Limited (100%), Zenith General Insurance Co. Ltd. (80%), Zenith Bank (Ghana) Ltd.(88%), Venus Telecom Ltd. (40%), Qubit Spectrum Ltd. (40%), Cyberspace Networks Ltd. and Omatek Computers limited under the **Small and Medium Enterprises Equity Investment Scheme (SMEEIS)**.

Future Strategic Growth Spotlight:

Zenith Bank has identified key strategic drivers required to consolidate its hard earned international brand image and market leadership. Prominent amongst these are service delivery per excellence and strong brand loyalty by its teeming customers. Others are: focus on growing superior earnings, commitment to value creation, resilience and proactive approach to the emerging challenges in the business environment.

Zenith Bank promises to sustain its first class service delivery record not only within but also at international level. It intends to embark on further growth and expansion strategies locally and internationally with a strategic intent of wider market penetration and stronger business franchises.

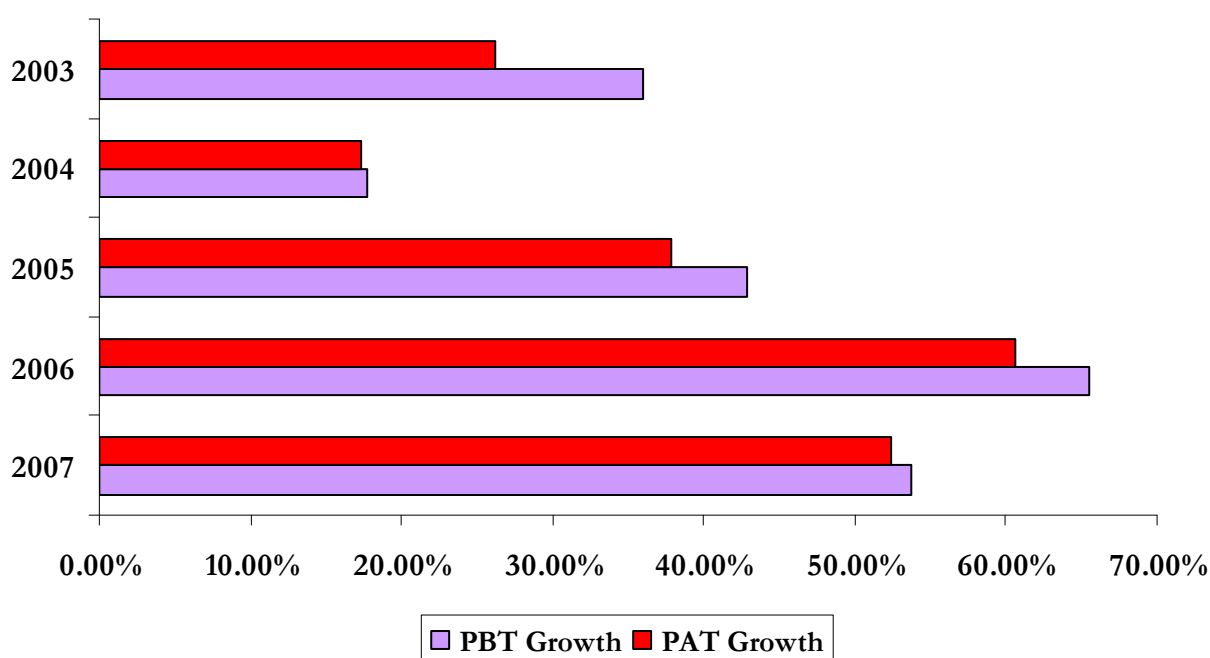
Given the realities of today's competitive banking environment where size matters and interests incomes are diminishing, Zenith Bank has the intention to grow its branch network to support the development of its existing and prospective business franchises locally and offshore as well as pursue strategic initiatives in all sectors of the economy where it plays dominant roles. Zenith Bank Group also plans to commit more resources to strengthen its component members in order to provide competitive universal banking services expected of a financial services conglomerate.

Performance Overview:

Gross Revenue and Profit After Tax

Zenith Bank recorded a 5-year CAGR of 51.9 per cent in gross earnings which increased from N17.84bn to N94.88bn between 2003 and 2007. Over the same period, after-tax profit grew at an annual compounded rate of 43.3 per cent from N4.38bn to N18.35 bn. Although the 5-year CAGR hovers around the industry averages, the Bank's most recent growth rates in gross earnings and after-tax profit of 58.1 per cent and 56.2 per cent respectively deviate favourably from its historical averages and surpass industry averages.

Growth in Pre & After Tax Profit



Earnings Performance

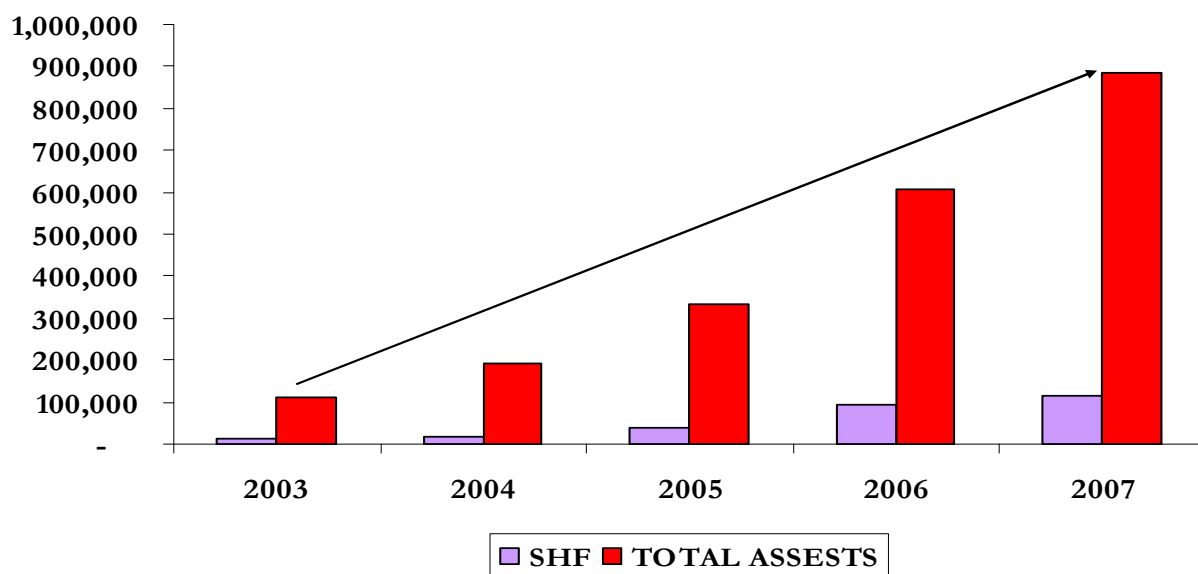
The Bank's earnings performance, as measured by the returns on average assets and returns on average equity, dwindled over the past financial years. Returns on Average Total Assets and Returns on Average Equity declined from 9.67 per cent and 63.41 per cent to 3.23 per cent and 17.15 per cent respectively between 2003 and 2007. The returns on average assets and returns on average equity now rest below 2007 FY industry averages of 3.99 per cent and 20.18 per cent respectively.

Although a reflection of industry trend, the observed downturn in returns is mainly attributable to declining interest margin and asset turnover. The Bank's yield spread which measures the difference between the interest income as a proportion of the interest earning assets and the interest expenses as a proportion of interest bearing liabilities nosedived from 31.25 per cent in 2003 to 14.14 per cent in 2007. Similarly, asset utilisation ratio dwindled as the Bank's gross earnings as a proportion of total assets dipped from 31.71 per cent to 11.92 per cent between 2003 and 2007.

Total Assets and Total Deposits

In terms of total assets and total deposits, Zenith Bank has grown tremendously over the past five years. Total assets grew with a 5-year CAGR of 71.5 per cent from N112.5bn in 2003 to N972.8bn in 2007, while total deposits grew with a 5-year CAGR of 84.1 per cent from N61.6bn to N706.7bn over the same period.

Shareholders Funds & Total Assets (N'bn)



Asset Quality, Liquidity and Capital Adequacy

Good assets quality remains one of the sterling qualities that Zenith Bank is best known for. The Bank's ratio of performing loans as a proportion of total loans has consistently remained above 98 per cent in past five financial years. Similarly, loan loss provision as

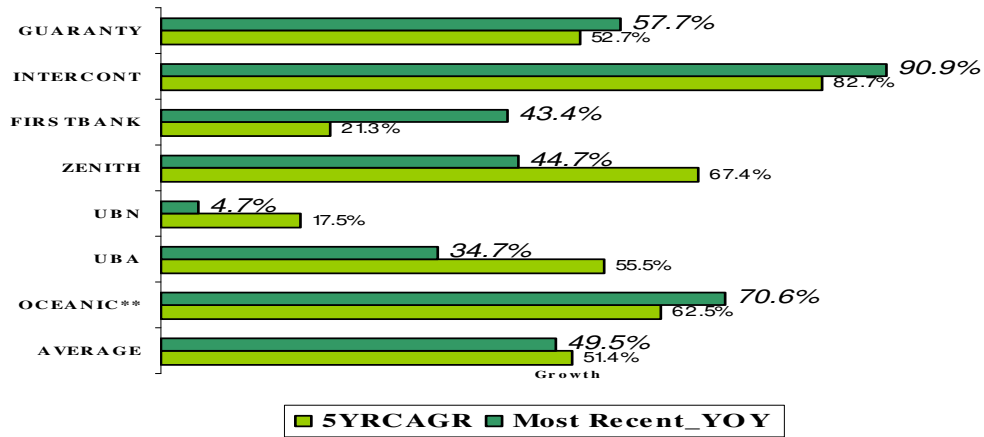
percentage of non-performing loans has remained within the bound of 2 per cent over the years, while total loan expenses as a proportion of after-tax profit declined from 27.72 per cent to 9.93 per cent between 2005 and 2007.

In addition, available evidence affirms strong liquidity position for Zenith Bank. Liquid assets as a percentage of total assets rose from 56.58 per cent in 2005 to 63.38 per cent in 2007, while liquid assets as a percentage of total deposits rose from 79.92 per cent to 87.25 per cent over similar period. Also, the proportion of total deposits given out as loans and advances declined from 52.48 per cent to 41.43 per cent between 2005 and 2007. A further investigation into the components of total deposits of the Bank revealed that the proportion of total deposits made up of demand deposits declined from 73.0 per cent to 68.8 per cent between 2005 and 2007, while the proportion made up of savings deposits and time deposits increased from 2.91 per cent and 24.1 per cent to 4.35 per cent and 26.9 per cent respectively over the same period. These trends thus imply that the Bank is having more funds to commit to longer term investments.

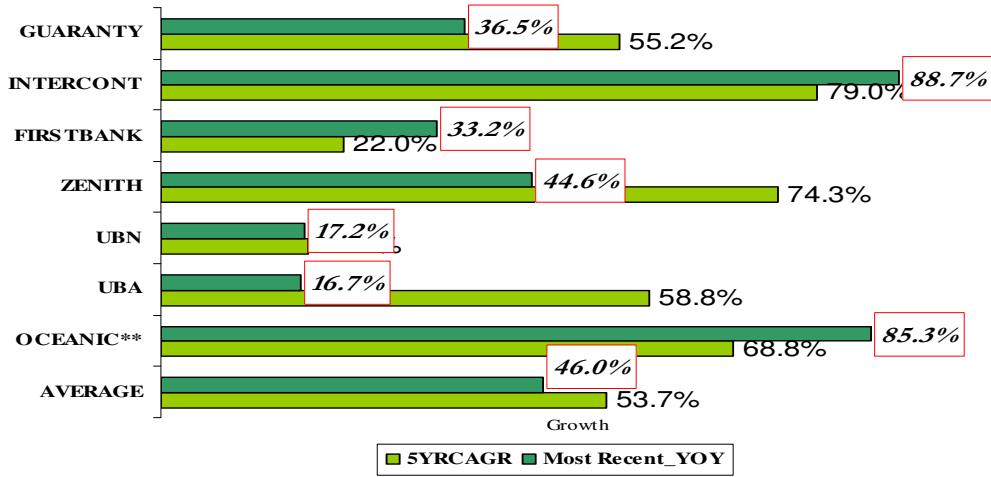
Another key strength of the Bank is its strong capital base. Its tier 1 capital as a percentage of total risk-weighted assets, otherwise known as the Capital Adequacy Ratio, currently averaged 31.2 per cent over the past five years. Although it initially declined from 37.6 per cent in 2003 to 24.31 per cent in 2004, the capital adequacy ratio rose from the level in 2004 to 28.08 per cent in 2007, which is above the current industry average of 27.68 per cent. Similarly, total equity as a percentage of total assets increased from 9.4 per cent to 11.8 per cent between 2004 and 2006, while loans and advances as a percentage of total equity declined from 295.5 per cent to 255.9 per cent over similar period.

Peer Performance Trends for first-tier Banks:

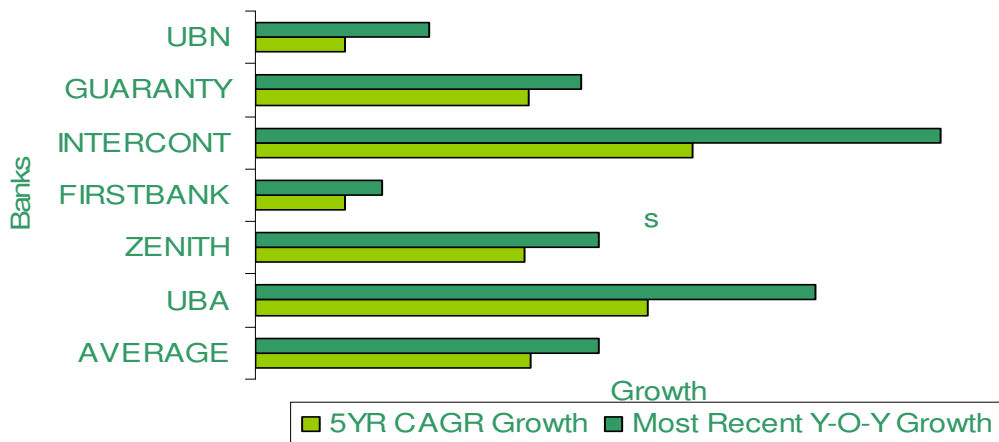
Peer Performance Trend in Total Assets



Industry Growth Trend - Total Deposits



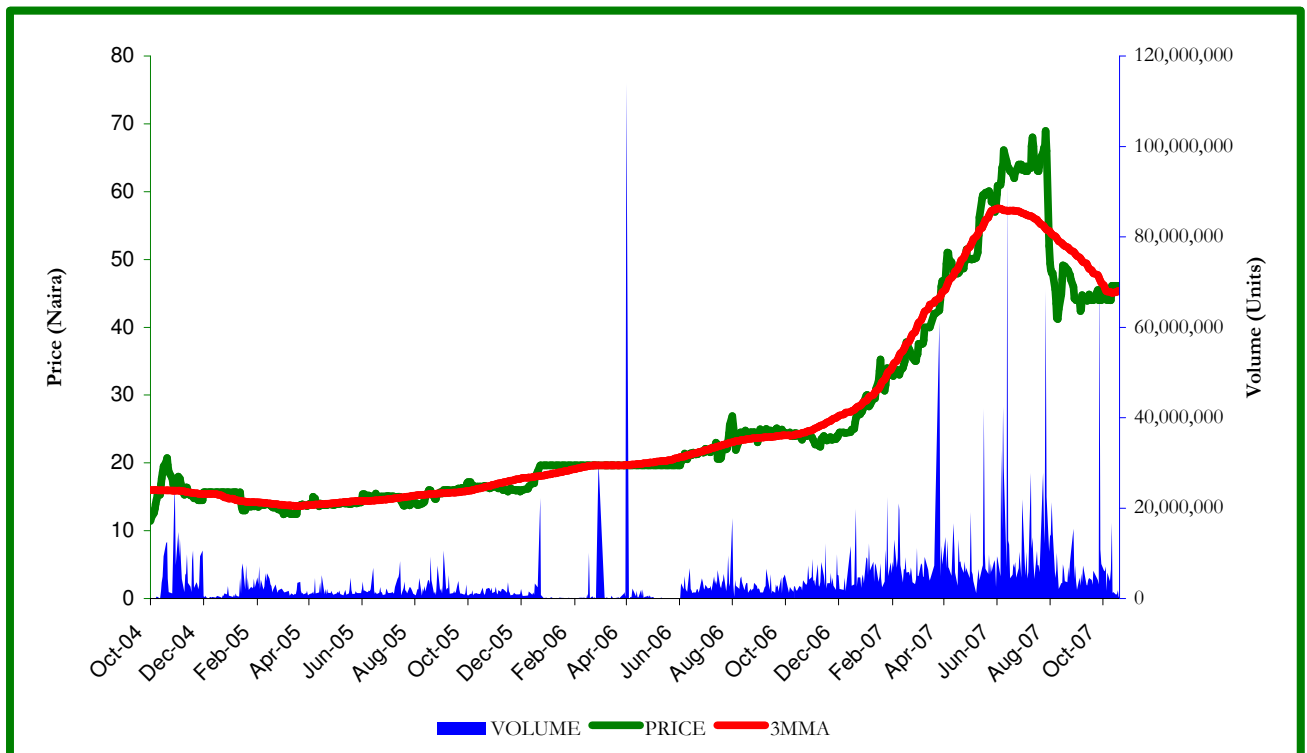
Industry Growth Trend for first tier Banks - Profit After Tax



Zenith Bank and the Nigerian Stock Market

Zenith Bank was listed on October 21, 2004 on The Nigerian Stock Exchange. The stock which closed at N11.44 on the first trading day attained the year high of N20.70. Since listing, the stock has always been a delight of long term investors and speculators. Expectedly, it has always outperformed the market over the years.

Price-Volume Chart



In 2005 financial year, the stock closed the year at a price of N15.10 and recorded a year-high of N17.10, thus achieving a capital gain of 32.0 per cent over the listing price. Over the same period, the whole market lost 5.5 per cent. Its bullish runs continued into 2006 financial year when it recorded a capital gain of 35.8 per cent against market return of 21.1 per cent, with a closing price of N20.51. The outstanding improvement in the Bank's fundamentals for the financial year ended June 30, 2007 greatly propelled the stock's price into 2007 financial year.

The upward swing in the stock price was sustained by the investors' positive expectations of the Bank's year-end results for 2007 financial year during which the stock reached an all-time high of N68.97 before it was marked down for the twin benefit of 1 for 4 bonus and N1.00 cash dividend per share. As at the end of the 2007 financial year, the stock price has returned 222.5% (excluding dividend and bonus), which largely exceeded market gain of 96.5% over same period. Prior to the commencement of the on going Public Offer, the stock price was frozen at N46.09.

Zenith Bank Stock Price Performance Table

NAIRA (NGN)	2007	2006	2005	2004
On June 30 (closing price)	66.14	20.51	15.10	11.44
Annual change in share price*	222.5%	35.8%	32.0%	
Annual change in All-Share Index*	96.5%	21.1%	-5.5%	
All time Price Range				
High	68.97	26.88	17.20	20.70
Low	24.56	16.99	12.42	11.44

***Annual change between June 30 year 1 and June 30, year 2. These changes take account of the various factors affecting the capital market**

Valuation

We used two different sets of valuation methods in arriving at a fair value for Zenith Bank. The first set of methods is based on trading multiples relative to prices of other comparable banks in the industry. The second valuation method (Discounted Cash Flow

Valuation) was based on the present value of the Bank's projected dividend payments. The table below provides summary of valuation results from the methods:

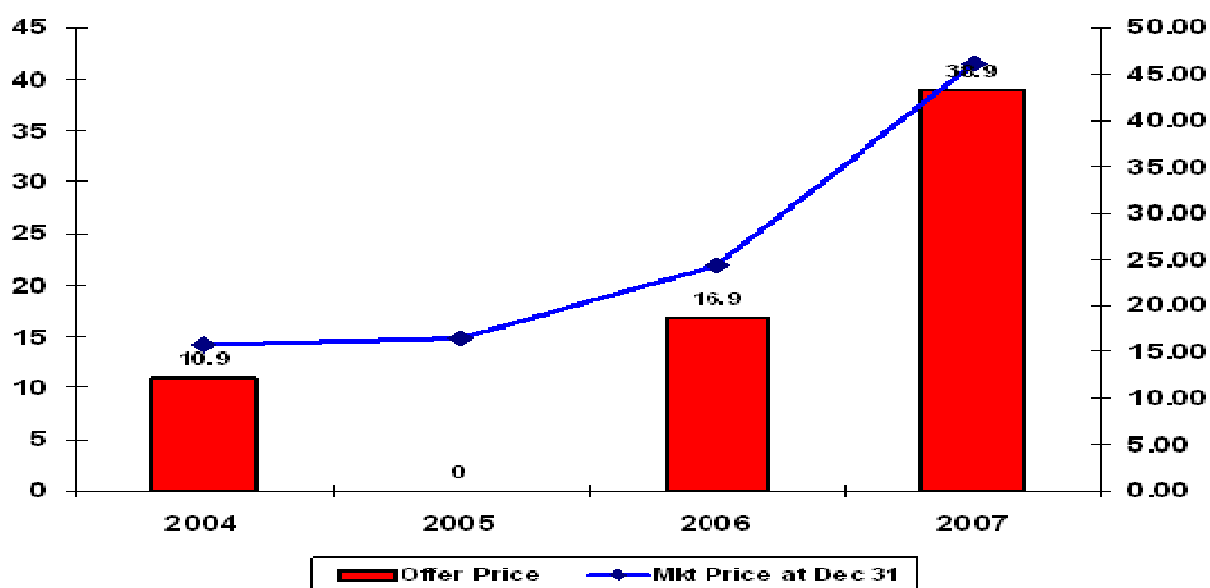
Valuation Summary Table

	Results	Weights
Price-to-Earnings	46.66	25%
Price-to-Gross Earnings	79.33	25%
Price-to-Book Value	71.27	20%
Discounted Dividend Valuation	39.55	30%

FINAL VALUATION 57.62

Our valuation for Zenith Bank shows the stock's Offer price is at a discount of 32.5 per cent to fair value. At the current market price of N46.09, the stock is trading at a discount of 20 per cent. **We recommend the stock a BUY for medium to long term investment decisions.**

Zenith Bank Plc: Offer Prices & Mkt Prices Trend 2004 - 2007



Appendix 1:

ZENITH BANK PLC: Growth in Performance ratios YoY(2003-2007)

PROFITABILITY RATIOS	2007	2006	2005	2004	2003
Opex excl. Loan Exps/Gross Earnings	50.94%	54.54%	52.00%	57.65%	56.32%
Operating Expenses /Gross Earnings	52.87%	56.72%	57.65%	59.31%	56.68%
Gross Earnings/Total Assets	9.75%	9.69%	10.59%	12.38%	15.86%
Profit Before Tax/Gross Earnings	27.06%	25.98%	26.25%	26.76%	30.49%
Gross Operating Margin	45.06%	43.33%	43.79%	50.06%	54.03%
Net Interest Margin	46.99%	45.51%	49.45%	51.72%	54.40%
Return on Assets	2.64%	2.52%	2.78%	3.31%	4.83%
Return on Equity	16.13%	11.72%	16.89%	29.59%	31.71%
Return on Average Assets	3.23%	3.29%	3.50%	4.19%	9.67%
Return on Average Equity	17.15%	16.53%	23.65%	33.55%	31.71%
LIQUIDITY RATIOS	2007	2006	2005	2004	2003
Demand Deposits/Total Deposit	68.77%	68.96%	73.00%	61.21%	86.06%
Savings Deposit/Total Deposit	4.35%	4.47%	2.91%	1.96%	2.88%
Time Deposit/Total Deposit	26.88%	26.57%	24.09%	36.83%	11.06%
Liquid Assets/Total Deposit	87.25%	95.13%	79.92%	96.36%	126.45%
Loans&Advances/Total Deposit	41.43%	51.19%	52.48%	40.73%	44.32%
Liquid Assets/Total Assets	63.38%	60.76%	56.58%	65.34%	69.19%
ASSET QUALITY RATIOS	2007	2006	2005	2004	2003
Performing Loans/Total Loans	98.63%	98.87%	98.34%	98.96%	98.53%
Loan Loss Provi/Total Non-Perf Loans	2.07%	2.13%	2.42%	1.89%	2.17%
Loan Loss Expenses/Net Interest Income	-4.11%	-4.80%	-11.44%	-3.21%	-0.67%
Loan Loss Expenses/Total Assets	-0.19%	-0.21%	-0.60%	-0.21%	-0.06%
Loan Loss Expenses/After Tax Profit	-9.93%	-11.08%	-27.72%	-7.43%	-1.49%
GROWTH RATIOS	2007	2006	2005	2004	2003
SHF Growth	13.51%	139.02%	133.48%	30.88%	

Deposit Growth	78.66%	69.47%	78.05%	112.91%	
Gross Earnings Growth	58.13%	71.86%	45.89%	34.11%	
PBT Growth	64.70%	70.11%	43.09%	17.73%	
PAT Growth	56.18%	65.89%	33.25%	22.15%	
EPS Growth	1.11%	45.41%	-21.75%	-39.08%	
DPS Growth	38.99%	2.78%	0.00%	0.00%	
CAPITAL ADEQUACY RATIOS	2007	2006	2005	2004	2003
Loans and Advances/Equity	255.86%	200.85%	290.39%	295.53%	197.69%
Equity/Total Assets	11.76%	16.28%	12.79%	9.35%	12.27%
Loan Loss Provision/ Equity	5.32%	4.32%	7.20%	5.69%	4.38%
Provision for Risk Assets/Equity	5.32%	4.32%	7.20%	5.69%	4.38%
Non Performing Loans/Equity	257.07%	202.92%	297.59%	301.22%	202.08%
Source: Bank's annual accounts, Meristem Research computations					

Appendix 2

ZENITH BANK PLC: Trends in Operational & Efficiency Ratios 2003- 2007

	2007	2006	2005	2004	2003
SPREAD	14.14%	11.44%	15.33%	26.35%	31.25%
Interest Income/Average Earning Assets	25.30%	22.66%	25.20%	37.56%	84.57%
Interest Exp/Average Interest Bearing Liabilities	11.16%	11.21%	9.87%	11.21%	53.33%
Burden Ratios	2.15%	2.19%	2.34%	3.64%	7.47%
Non Interest (Operating) Exp/Average Total Assets	6.07%	6.90%	6.94%	9.02%	17.86%
Non Interest Income/Average Total Assets	3.93%	4.70%	4.60%	5.38%	10.39%
EFFICIENCY RATIOS					
Non Interest Exp/(Net Interest Income+Non Interest Income)	63.73%	65.95%	61.97%	66.98%	64.60%
ASSET UTILISATION RATIOS	11.92%	12.64%	13.35%	15.65%	31.71%
Interest Income / Average Total Assets	7.99%	7.94%	8.75%	10.27%	21.32%
Other Income/Average Total Assets	3.93%	4.70%	4.60%	5.38%	10.39%
EXPENSE RATIO	8.69%	9.36%	9.85%	11.46%	22.04%
Interest Exp/Average Total Assets	2.39%	2.19%	2.15%	2.18%	4.07%
Other Operating Exp/Average Total Assets	6.07%	6.90%	6.94%	9.02%	17.86%
Loan Loss Exp/Average Total Assets	0.23%	0.28%	0.76%	0.26%	0.12%
PROFITABILITY RATIOS					
Return on Average Assets(ROAA)	3.23%	3.29%	3.50%	4.19%	9.67%
Return on Average Equity(ROAE)	17.15%	16.53%	23.65%	33.55%	63.41%
TAX RATIO					
Tax / Average Total Assets	0.91%	0.79%	0.78%	0.69%	1.89%
EQUITY MULTIPLIER					
Average Total Assets/Average Total Equity	739.62%	663.65%	868.13%	959.67%	815.22%
Source: Bank's annual accounts, Meristem Research computations.					

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