ZENITH BANK PLC

PILLAR 3 DISCLOSURES

31st DECEMBER 2015

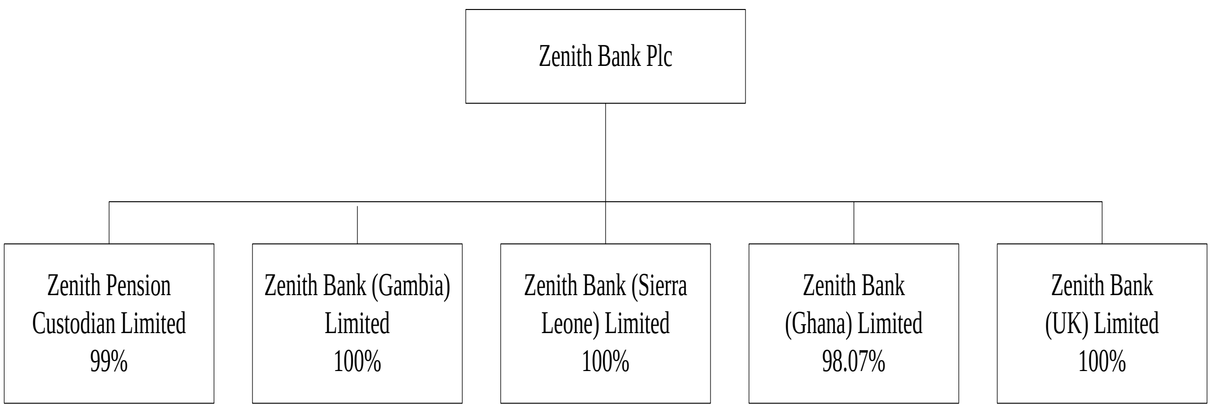
1. INTRODUCTION

1.1. Zenith Bank Plc. is a leader in financial services with headquarters in Nigeria and subsidiaries in the United Kingdom, Ghana, Sierra Leone, Gambia, and representative offices in South Africa and China. Zenith Bank Plc was incorporated as Zenith International Bank Limited (under the Companies and Allied Matters Act of 1990, as amended) on May 30, 1990 as a private company limited by shares. Zenith International Bank Ltd which was wholly owned by Nigerian citizens commenced operations on June 16 1990. In July 2004, the Bank became a public company limited by shares and changed its name to Zenith Bank Plc.

The bank's business is built on a core principle of working in customers' best interest. The Zenith brand has become synonymous with the deployment of state-of-the-art technologies in banking. Zenith bank Plc defines service standards for exceptional service delivery to its ever expanding clientele.

1.2. Corporate Structure and Business Profile

1.2.1. The bank is part of Zenith Bank Group with controlling interest in a number of banking and non-banking interests in Nigeria, Africa and Europe. The following chart shows the corporate structure of the Bank as at 31st December 2015.



Percentage indicates interest held

Zenith Bank Plc service offerings cover most aspects of banking and cater for the banking needs of customers that cut across the entire Public and Private market spectra with emphasis on the following major market segments and lines of business:

- Corporate and Investment Banking
- Commercial and Retail Banking
- Personal and Private banking
- Trade services and foreign exchange
- Treasury and Cash Management services
- Zenith Pension Custodian

1.3. Basel II Disclosure Requirement

The Basel II Capital Requirements Directive (CRD) introduced comprehensive disclosure requirements for banks operating under the new legislative framework. The disclosure requirements fall under Pillar 3 of the CRD and require that Zenith Bank Plc publishes certain information relating to its risk management and capital adequacy. The disclosure requirements compliment the two other pillars of the CRD, the minimum capital requirement (Pillar 1) and the supervisory review process (Pillar 2) which has been captured within Zenith Bank Plc Internal Capital Adequacy Assessment Process (ICAAP) report. In terms of the Pillar 1 requirements, Zenith bank Plc has adopted the Standardized Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The aim of the disclosures is to encourage market discipline and allow market participants and stakeholders to assess key pieces of information on risk exposures and the risk assessment process.

1.4. Disclosure policy

The CBN Pillar III disclosure requirements allow firms to omit one or more of the disclosures listed if the information provided by such disclosures is not regarded as material. The requirements similarly allow firms to omit items of information from being disclosure; if the information is regarded as proprietary or confidential. Zenith Bank Board of Directors will review any of such omissions as part of the overall approval process. Zenith Bank regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems, strategies which if shared with competitors, would have the potential of negatively impacting on our competitive edge. Furthermore, Zenith Bank regards information as confidential if there are obligations to customers or other counterparty relationships binding the bank. In the event that any of such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Zenith Bank's Board of Directors' will review and approve the Bank's Pillar 3 disclosures at least twice a year, unless circumstances necessitate additional disclosures. Disclosures are prepared in conjunction with the preparation of the annual statements of accounts.

1.5. Scope of Application

Zenith Bank Plc disclosures have been prepared in accordance with the CBN guidance notes on Pillar 3, which covers the qualitative and quantitative disclosure requirements therein. The disclosures should be read in conjunction with the Zenith Bank Plc Directors' Report and Financial Statements for the corresponding financial year.

1.6. Frequency/Location

The Pillar 3 Disclosures Report will be made on bi-annual basis and will be published on the bank's website at "www.zenithbank.com" together with or shortly after the Directors' Report and Financial Statements.

1.7. Key Developments in 2015

The bank strived to be efficient in its use of capital through active management of the balance sheet with respect to different asset, liability and risk categories. The Bank's goal is to enhance returns to shareholders while maintaining a prudent risk and return relationship.

This section describes the main findings in relation to areas of improvement in the field of administrative organization and internal control identified by internal reviews of the business units, audits conducted by the internal audit department and/ or the external auditor and audits by the regulator. The bank dedicated particular attention to these items of improvement in 2015.

Risk Management

The Board is committed to improve risk management and increase risk transparency. Working with external consultants, the bank overhauled its enterprise wide risk management framework including the implementation of Basel II and III guidelines. The bank is presently reporting on Basel II guidelines as stipulated by the regulator (CBN), using the standardized approaches for Credit and Market risk and Basic Indicator approach for Operational Risk capital computations; whilst building capacity to move to the more advanced approaches. The bank is also working on improving on areas such as Internal Liquidity Assessment Adequacy Process (ILAAP), Recovery and Resolution Plans.

Business Continuity Management

The bank has developed a comprehensive bank-wide business continuity plan, which covers the continuity of all key aspects of bank's operations. The plan outlines the processes, procedures and people necessary to recover and continue critical business processes in the event of a service interruption or major disaster. These plans are all tested at least once every year. ISO certifications have also been pursued and obtained in this regard.

Compliance function

Legislation and regulation in the financial sector continued to be subjected to rapid changes and increasing complexity in 2015. Compliance, Risk and Internal Audit departments have been strengthened accordingly. There has also been significant investment in systems in order to ensure the ethical business operations and controlled conduct of our business.

Information Technology

Since the business activities of the bank depend on IT through payment system (self and agency) or administration systems, a significant proportion of the operational risk concerns IT risk. IT risks can therefore indirectly pose a threat to the bank's financial position and result. To reduce this risk, a large number of control measures have been implemented in the following areas: organization and policy, security management, incident and problem management, testing, change and configuration management and continuity. Consequently, the Bank embarked on ISO certification in three areas: IT security, IT services management and business continuity. We are being recertified for version 3.1 of the Payment Card Industry Data Security Standards (PCIDSS), among others. We are also pursuing other IT Standards implementation including the Control Objectives for IT Related Technology (COBIT) Framework.

2. REGULATORY CAPITAL STRUCTURE

2.1. The bank's capital structure is made up of equity capital, share premium, statutory reserves and retained profit. These constitutes the bank's core funding source and has witnessed a continued year on year growth due to the banks dividend policy which always ensures a significant portion of profit retention. Secondary funding is derived primarily from customer deposits, term borrowings from multilateral financial institutions and the Central Bank of Nigeria (on-lending funds) and Eurobonds.

Regulatory Capital Structure as at 31st December 2015

Capital Structure	Amount (Naira Mn)
Eligible Total Tier 1 Capital	484,709
Eligible Total Tier 2 Capital	-
Total Regulatory Capital	**484,709**

3. RISK GOVERNANCE

3.1. Overview

Zenith Bank Plc risk management focuses on the major areas of credit risk, liquidity risk, market risk (including interest rate risk and foreign exchange risk) and operational risk. The management of these risks ultimately rests with the Board of Directors as the ultimate governing authority of the bank.

3.2. Board Sub-committee

The Bank's Board has five sub-committees reporting to it:

Composition & Responsibilities of Board Committees			
Committee	**Members**	**Responsibilities**	**Frequency of Meetings**
Board Risk and Audit Committee (BAC)	• 3 Non-Executive Directors • 2 Executive Director	• Meet to discuss and determine the terms of engagement of independent auditors, the scope of audit and procedures to be used. • Approves internal audit and compliance arrangements including monitoring of the operation of the internal control framework, including the Internal Capital Adequacy Assessment process (ICAAP). • Supports the Board's Corporate Governance responsibilities in relation to credit risk management. • Approves the Bank's credit risk management framework, other risk management policies and arrangements and internal control policies relating to the management of credit and related risks	Quarterly
Board Credit Committee (BCC)	• 3 Non-Executive Directors • 3 Executive Directors	• To recommend criteria by which the Board of Directors can evaluate the credit facilities presented from various customers. • To evaluate on an annual basis the components of total credit facilities as well as market competitive data and other factors as deemed appropriate.	Quarterly

Composition & Responsibilities of Board Committees			
Committee	**Members**	**Responsibilities**	**Frequency of Meetings**
Board Staff Matters, Finance and General Purpose Committee (BSF&GP)	• 3 Non-Executive Directors • 2 Executive Director	• Review of all matters relating to staff welfare and large scale procurement by the bank including review of contract awards of large expenditure. • Determines the remuneration, appointment and contractual arrangements of individual executive directors, non-executive directors and senior staff, having regard to a general policy framework for executive remuneration established by the Board.	Quarterly
Audit Committee	• 3 Representatives of the shareholders • 3 Non-Executive Directors	• Review the bank's quarterly and audited annual financial statement including any related notes. • Review the performance and results of the external and internal audit • Review the effectiveness of the bank's system of internal control.	Quarterly
Executive Committee (EXCO)	• Managing Director • All Executive Directors	• Formulates the strategy of the Bank, in compliance with the Zenith Group's strategy. • Ensures the Bank is managed in accordance with the agreed strategy; and is managed in a sound, prudent and ethical manner. • Approves on behalf of the Board the Bank's risk management framework, other risk management policies and arrangements and internal control policies.	Weekly

To support the work of these committees the management of Zenith Bank Plc has established the following Management Committees:

- **Asset and Liability Committee (ALCO)**: this committee manages a variety of risks arising from the Bank's business including market and liquidity risk management, loan to deposit ratio analysis, cost of funds analysis, establishing guidelines for pricing on deposit and credit facilities, exchange rate risks analysis, balance sheet structuring, regulatory considerations and monitoring of the status of implemented assets and liability strategies.
- **Management Committee (Manco)**: this committee is saddled with the responsibility of Identifying, analysing, and making recommendations on risks arising from day-to-day activities as well as ensuring that risk limits as contained in the Board and Regulatory

policies are complied with.

- **Risk Management Committee (RMC):** this committee is responsible for regular analysis and consideration of risks other than credit approval in the Bank. Makes contributions to the Board Risk Management Committee and also ensures that the Board Risk Committee's decisions and policies are implemented.
- **Global Credit Committee (GCC)**: This committee ensures that the Bank complies with the Credit Policy Guide as established by the Board. The Committee also makes contributions to the Board Credit Committee. They are empowered to approve credit facilities to individual obligors not exceeding in aggregate a sum as pre-determined by the Board from time to time.
- **IT Steering Committee:** this committee is responsible for amongst others, development of corporate information technology (IT) strategies and plans that ensure cost effective application and management of resources throughout the organization.

3.3. Oversight of Strategy, Policies and Procedures

The Board of directors of Zenith Bank Plc has ultimate responsibility for the level of risk taken by the Bank. Accordingly, it approves the overall business strategies and significant policies of the Bank, including those related to managing and taking risks, and also ensures that senior management is fully capable of managing the activities that the Bank conducts. The Board of Directors are responsible for understanding the nature of the risks significant to the Bank and ensuring that management is taking the steps necessary to identify, measure, monitor, and control these risks, the level of technical knowledge required of directors may vary depending on roles and responsibilities attached to members.

Using this knowledge and information, the board provides clear guidance regarding the level of exposures acceptable to the Bank and has the responsibility to ensure that senior management implements the procedures and controls necessary to comply with adopted policies. Senior management is responsible for implementing strategies in a manner that limits risks associated with each strategy and that ensures compliance with laws and regulations on both a long-term and day- to-day basis. Accordingly, Management is being fully involved in the activities of the Bank and possesses sufficient knowledge of all major business lines to ensure that appropriate policies, procedures, controls, and risk monitoring systems are in place and that accountability and lines of authority are clearly delineated.

3.4. Assurance

The assurance function is provided by the Internal Audit and External Audit. In Zenith Bank Plc, the Board and Executive Management rely on Internal Control & Audit Department for objective assurance and insight on the effectiveness and efficiency of governance processes to help the organization achieve its strategic, operational, financial, and compliance objectives.

3.4.1. Internal Audit

The Bank's internal audit programme seeks the promotion of accuracy and efficiency in Bank's accounting, administrative procedures and risk management controls. The Head of Internal Audit reports to the Chairman of the Audit Committee and prepares an annual audit programme which is presented to the Committee for review and approval.

3.4.2. External Audit

External audit is undertaken by the Bank's appointed auditors (KPMG) to approve the validity of the financial statements and valuations and to provide feedback to the Audit Committee and the Board on the operation of the internal financial controls which are reviewed as part of the annual audit.

3.4.3. Compliance

The Head of Compliance is responsible for compliance oversight. The compliance function exists to monitor and maintain the quality of the bank's business activities and to ensure that the business remains in full compliance with the regulatory requirements. The Head of Compliance reports directly to the Chief Executive Officer and ensures that all staff are aware of their regulatory and legal responsibilities.

Zenith bank Plc operates a strict and comprehensive anti-money laundering policy with all members of staff receiving regular training to industry standards and access to the bank's Customer Due Diligence, Account Opening, Customer Acceptance and Customer Classification Manuals. In accordance with the Independent and Corrupt Practices and Other Related Offences Act, 2000, the bank maintains an Anti-Money Laundry policy and supporting procedures.

4. RISK APPETITE AND RISK MANAGEMENT POLICIES

4.1. Risk Appetite of the Bank

Zenith Bank Plc has a relative modest risk appetite as the bank is well aware of the various risks associated with the business of banking globally and particularly those risks to which the bank is exposed. Typically these risks relate to the very nature of banking activities – sourcing of funds, the creation of assets, meeting operational needs and counterparty obligation. The Bank's risk appetite is reviewed by the Board of Directors periodically, at a level that minimizes erosion of earnings or capital due to avoidable losses or from frauds and operational inefficiencies. This reflects the conservative nature of Zenith Bank Plc as far as risk taking is concerned. Zenith Bank Plc employs a range of quantitative and qualitative indicators to monitor the risk profile. Specific limits are set in line with the Bank's risk appetite.

Zenith Bank Plc defines its risk appetite as the amount of risk it is willing to undertake in achieving its strategic business objectives. This appetite constitutes of quantitative and qualitative parameters. The Bank measures the risk categories and sets target levels for each, by developing targeted metrics to monitor capital, asset quality, liquidity, earnings volatility, credit rating, investments in financial instruments and foreign currency, operational losses and employee turnover. Additionally, Zenith Bank defines acceptable levels it is willing to undertake for addressing other aspects such as regulatory compliance, reputational impact and internal controls and risk governance.

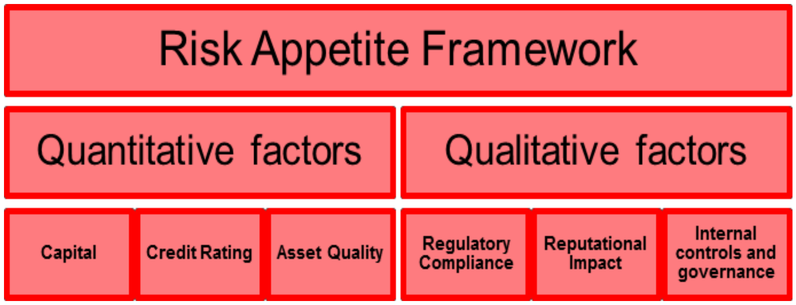
The bank therefore sets its risk appetite low, as it matches the risk in business growth and market share with appropriate returns.

4.2. Philosophy of Zenith Bank Risk Appetite.

Zenith Bank's risk management practices and philosophy encompasses around five basic principles listed below:

- The bank's risk appetite will act as a lever for better strategic and tactical decisions.
- The bank will follow the effective combination of both "top down" and "bottom up" communication of risk appetite which will assist in shaping realistic expectations, transparency and accountability for the stakeholders.
- The bank will manage risks based on subject matter expertise, experience, systems, controls and infrastructure and will use those elements to monitor its risk appetite. This implies that Zenith Bank will consider historical events including limit breaches, historical defaults, sector knowledge and data/information generated from existing IT systems in setting limits and tolerance. This will ensure that risk appetite statement is defined in line with the Bank's business goals and objectives.
- The bank's sensitivity to risk tolerance levels is through meaningful early warning indicators of risk limits\ thresholds.

- The effective embedding and communication of the Bank's risk appetite statement across the Bank shifts the view of risk from the mind set of 'loss minimizing' to one of optimizing the organization's risk-return profile.



Zenith Bank Plc considers its risk appetite framework a core instrument for the better alignment of overall business strategy, capital allocation and risk. A comprehensive risk appetite framework is the cornerstone of Zenith Bank's risk management architecture.

4.3. Risk Management Policies and Procedures

Zenith Bank manages its risks in a structured, systematic and transparent manner through a global risk policy which embeds comprehensive risk management processes into the organizational structure and risk measurement and monitoring activities. This structure ensures that the bank's overall risk exposures are within the thresholds set by the Board.

The key features of the Bank's risk management policy are:

- The Board of Directors provides overall risk management direction and oversight.
- The Bank's risk appetite is approved by the Board of Directors.
- Risk management is embedded in the Group as an intrinsic process and is a core competence of all its employees.
- The Bank manages its credit, market, operational and liquidity risks in a co-ordinated manner within the organisation.
- The Bank's risk management functions are independent of the business divisions.
- The Bank's internal audit function reports to the Board Audit Committee and provides independent validation of the business units 'compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on an enterprise-wide basis.

Risk management strategy and policies are the responsibility of the Managing Director working in conjunction with the Chief Risk Officer. They are subject to regular review (at least annually) and are authorized by the Board.

Zenith Bank will continually modify and enhance its risk management policies and systems to reflect changes in markets, products and international best practices. Training, individual responsibility and accountability, together with a disciplined and cautious culture of control, is an integral part of the bank's management of risk.

5. RISK ASSESSMENT AND CAPITAL ADEQUACY

Risk assessment and Capital Adequacy for Zenith Bank Plc has been done by considering the Pillar – I and Pillar – II risks as per CBN and Basel II guidelines.

Type	Risk Type	Methodology	Capital Allocated	Justification
Pillar 1 Risks	Credit Risk	Standardized Approach	Yes	As per regulatory requirement
	Market Risk	Standardized Approach	Yes	As per regulatory requirement
	Operational Risk	Basic Indicator Approach	Yes	As per regulatory requirement
Pillar 2 Risks	Concentration Risk	Herfindahl Hirschmann Index (HHI)	No	Moderate concentrations along sector lines
	Interest Rate Risk in Banking Book (IRRBB)	NII / EVE Approach	No	Impact within acceptable threshold
	Liquidity Risk	Liquidity Gap Approach	No	Adequate liquidity buffers available
	Strategic Risk	Qualitative Assessment	No	Minimal risk level
	Reputational Risk	Qualitative Assessment	No	Minimal risk level

5.1. Pillar 1 Risks

5.1.1. Credit Risk

Credit risk is the risk arising from the uncertainty of an obligor's ability to perform its contractual obligations. Credit risk is one of the core risks assumed in pursuit of Zenith Bank's business objectives. The principal activity of the Bank is granting credit facilities. Zenith Bank Plc is exposed to credit risk through direct lending, issuance of guarantees and investment activities. It is the most significant risk type in terms of regulatory capital requirements. Credit decisions in Zenith Bank Plc are based on an in-depth review of the obligor's creditworthiness and track record. The credit portfolio is managed at aggregate level to optimize the exposures to this risk.

5.1.1.1. Credit Risk Acceptance Criteria:

Zenith Bank Plc pursues a set of sound principles which specify the terms and conditions for extending facilities to an obligor in its target market. It defines items such as:

- Product eligibility
- Tenor and volume limits
- Security and support required for the financing
- Required documentation

Credit is extended to the bank's target market as per the above criteria for Risk acceptance.

5.1.1.2. Classification of Credit exposures as per CBN and Basel-II guidelines:

CBN in its published note titled 'CBN Guidance Notes on Credit Risk Capital Requirement – Dec 2013' clearly highlights the following types of credit exposures and classifies them into the following Asset classes;

- Central Governments and Central Bank
- Non Central Government Public Sector Enterprises
- State Government and Local Authorities.
- Multilateral Development Banks (MDB s)
- Supervised Institutions
- Corporate and Other Persons
- Regulatory Retail Portfolio
- Mortgages on Residential Property
- Mortgages on Commercial Real Estate
- Past Due Exposures
- High Risk Exposures
- Other Assets

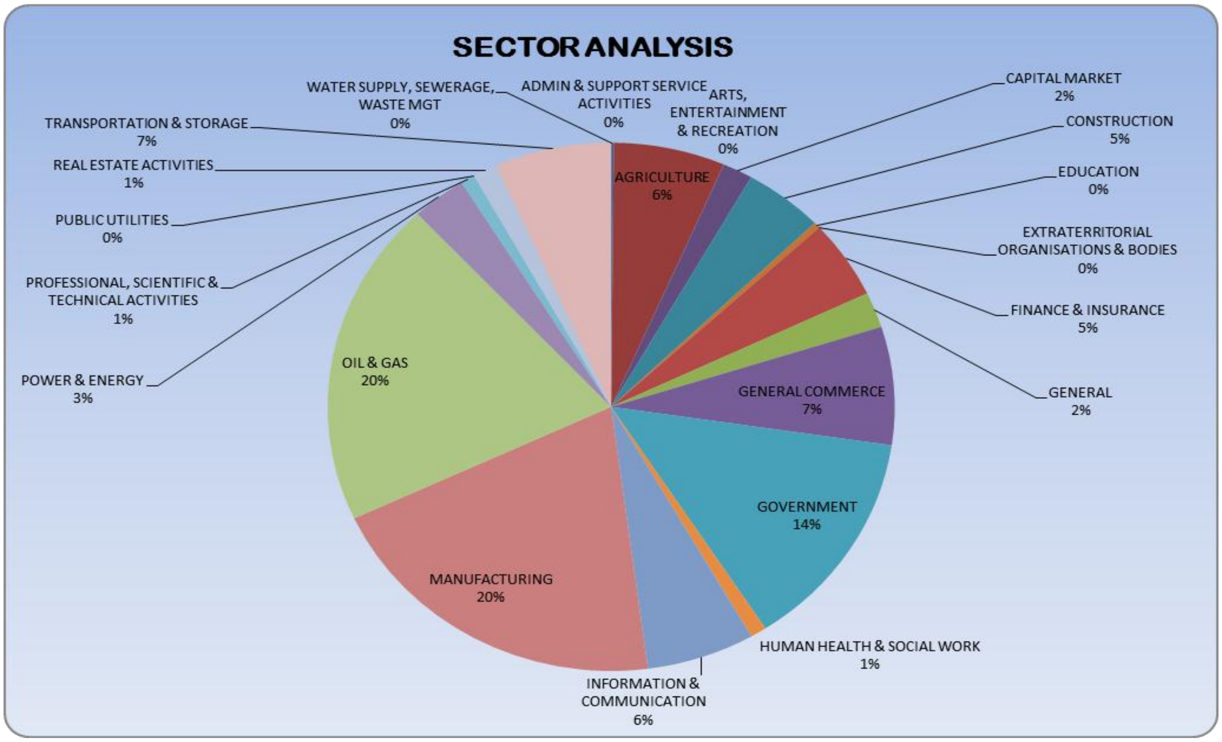
Credit Exposure by Segment as at 31st December 2015 (as per CBN Guidelines)

No.	Segment	Exposure (Naira Mn)	% of Total
1	Sovereigns	1,413,965.00	34.10
2	Public Sector Entities (PSEs)	62,514.00	1.51
3	State & Local Governments	223,378.00	5.39

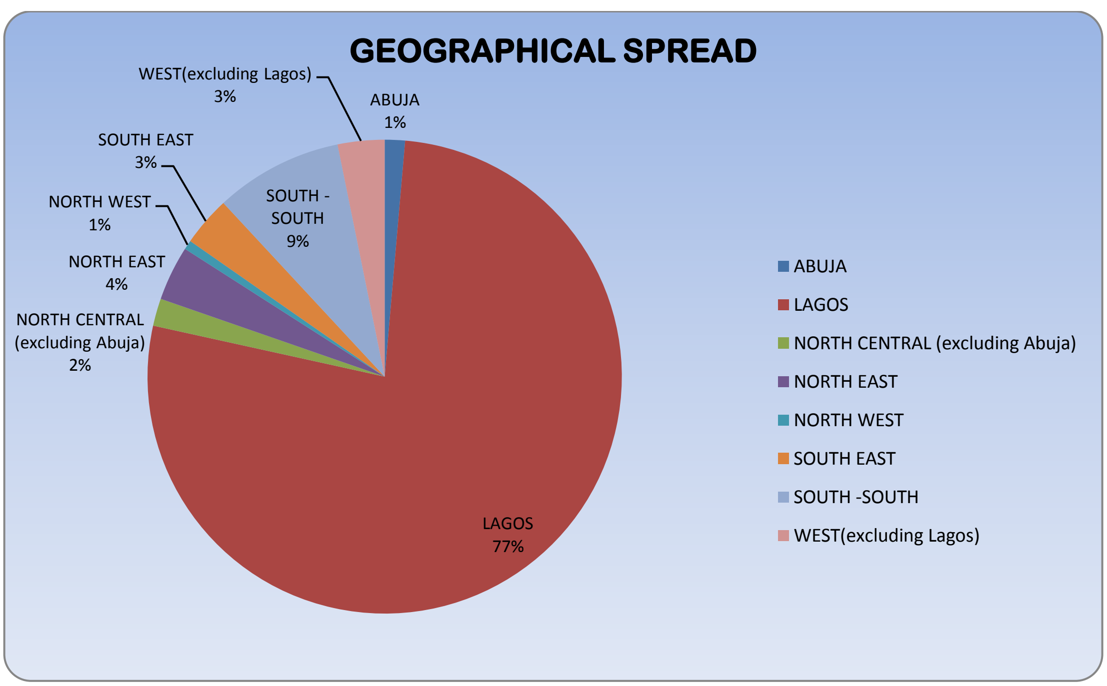
No.	Segment	Exposure (Naira Mn)	% of Total
4	Supervised Institutions (DMBs, Discount Houses, etc.)	343,148.00	8.27
5	Corporates and Other Persons	1,519,044.00	36.63
6	Regulatory Retail Portfolio	16,687.00	0.40
7	Secured by Residential Mortgages	22,557.00	0.54
8	Secured by Commercial Mortgages	33,180.00	0.80
9	Past Due Exposures	6,466.00	0.16
10	Other Balance Sheet Exposures	148,419.00	3.58
11	Off Balance Sheet Exposures	357,468.00.00	8.62
	TOTAL	**4,146,826.00**	

The segment analysis above indicates that exposures to Corporate and Other Persons command the largest proportion (34.6%) of the Credit Portfolio as at 31st December 2015

Classification as per sector/Industry



Distribution of Credit Exposure by Geographical Region



5.1.1.3. Classification as per Prudential Guidelines:

The foremost method of identification of Credit Risk adopted by the Bank is the reporting of the Credit Portfolio by the asset Quality. As at 31st December 2015, the table below gives the detailed segregation of the Credit Portfolio on basis of the Asset Quality.

Credit Portfolio by Asset Quality

	Amount (Naira Mn)	As a % of Total Credit Portfolio
Standard	1,854,069.70	98.66
Sub-standard	513.81	0.03
Doubtful & Loss	30,357.49	1.61
Total	**1,884,941**	**100.00**

5.1.1.4. Capital Computation for Credit Risk

Zenith Bank Plc has used Standardised Approach (SA) for assessment of Credit Risk Capital Charge as per the CBN's Basel-II guidelines. The classifications of the Bank's total exposures into various Asset Classes have been done as per the CBN's Basel-II guidelines. As exposure in most of the Asset classes is to obligors who are not rated by ECAIs (External Credit Assessment Institutions), risk weight applicable to an unrated obligor type is applied to the exposure. However, Credit Ratings for some of the obligors classified under 'Supervised Institutions' are available, in which cases, risk weight applicable to the credit rating of the obligor has been applied on the exposure to compute risk weighted assets.

The Bank is developing capacity to move to more advanced approaches for the assessment of Credit Risk.

5.1.1.5. Credit Portfolio Dissection using Exposure and RWA

Risk Weights (RW) have been assigned as per CBN Guidelines for Credit Risk ("CBN Guidance Notes on Credit Risk Capital Requirement - December 2013").

Credit Exposure & RWA as at 31st December 2015

Asset Class	Exposure Amount (Naira Mn)	CRM	Net Exposure (Naira Mn)	RWA (Naira Mn)

Sovereigns	1,413,965.00	0	1,413,965.00	0
Public Sector Entities (PSEs)	62,514.00	46,292	16222.00	16,222.00
State & Local Governments	223,378.00	138,700	84,618.00	79,250.00
Supervised Institutions	343,148.00	0	343,148.00	75,713.00
Corporates and Other Persons	1,519,044.00	258,131	1,260,913.00	1,260,913.00
Regulatory Retail Portfolio	16,687.00	511	16,176.00	12,132.00
Secured by Residential Mortgages	22,557.00	611	21,946.00	16,460.00
Secured by Commercial Mortgages	33,180.00	2,641	30,539.00	30,539.00
Past Due Exposures	6,466.00	2,631	3,835.00	3,924.00
Other Balance Sheet Exposures	148,419.00	0	148,419.00	112,875.00
Off Balance Sheet Exposures	357,468.00.00	62,309	295,159.00	289,702.00

The table above shows the total credit exposures along with risk weighted assets (RWA) classified according to the asset category as per CBN. The past due exposures are included in the respective categories of the asset classes. The exposures have been converted into risk weighted assets (RWA) as per guidelines of CBN under Standardised Approach and it is observed that the "Corporate and Other Persons" category has a major share in RWA.

Credit Portfolio Summary Result

Sl. No.	PART A: RISK-WEIGHTED AMOUNTS (ON-BALANCE SHEET EXPOSURES (Naira Mn.)	Exposure Amounts	RWA	Capital
1	Exposures to Sovereigns	1,413,965.00	0	-
2	Exposures to Public Sector Entities (PSEs)	62,514.00	16,222.00	2,433.30
3	Exposures to State & Local Governments	223,378.00	79,250.00	11,887.50

Sl. No.	PART A: RISK-WEIGHTED AMOUNTS (ON-BALANCE SHEET EXPOSURES (Naira Mn.)	Exposure Amounts	RWA	Capital
4	Exposures to Supervised Institutions	343,148.00	75,713.00	11,356.95
5	Exposures to Corporates and Other Persons	1,519,044.00	1,260,913.00	189,136.95
6	Exposures included in Regulatory Retail Portfolio	16,687.00	12,132.00	1,819.80
7	Exposures Secured by Residential Mortgages	22,557.00	16,460.00	2,469.00
8	Exposures Secured by Commercial Mortgages	33,180.00	30,539.00	4,580.85
9	Past Due Exposures	6,466.00	3,924.00	588.60
10	Other Balance Sheet Exposures	148,419.00	112,875.00	16,931.25
11	Off-balance sheet exposures	357,468.00.00	289,702.00	43,455.30
12	Regulatory Risk Reserve	0	-21,350.00	-3,202.50
	TOTAL	**4,146,826.00**	**1,876,380.00**	**281,457.00**

5.1.1.6. Credit Risk – Monitoring

Zenith Bank Credit exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting symptoms which could result in deterioration of credit quality. The triggers and early-warning systems are supplemented by facility utilization and collateral valuation monitoring together with a review of upcoming credit facility expiration and market intelligence to enable timely corrective action by management. The results of the monitoring process are reflected in the internal process in a quarterly review activity.

Zenith Bank Plc monitors credit risk on an ongoing basis through weekly, monthly and quarterly reporting to ensure senior management awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

The capabilities of the credit review team are continuously being improved in order to enhance monitoring activity and assure good quality Risk Asset Portfolio across the bank.

A specialized and focused loan recovery and workout team handles the management and collection of problem credit facilities complemented by outsourced agents.

5.1.1.7. Credit Risk – Control and Mitigants

Controls are essential in maintaining the quality of credit portfolio over time. Dimensions of control exercised by Zenith Bank Plc include:

- Adherence to Credit Policy and Procedures
- Adherence to Credit Approval Processes
- Timely and accurate recording of borrower information in the Bank's transaction processing systems.
- Recording and updating of facility limits and related details promptly and accurately into the computer system subsequent to credit approvals
- Monitoring the Loan to Value vis-a-vis changing valuation of the Collateral, wherever relevant and bringing in the required margin if necessary
- Monitor the repayment of loan installments for identifying any overdue amounts under loans
- Maintenance and revision of watch-list criteria for non-performing loan accounts as well as early indicators of non-repayment behavior. Zenith Bank identifies the assets which could potentially turn out to be NPLs and puts such assets in the Watch list. The Bank monitors broad spectrum of watch list indicators based upon account turnover, end use of funds, drawing power based on current assets including other qualitative factors like rating migration, changes to company management and industry trends to track slippages in account quality and generate problem loan reports. The selected problem loans are then moved to watch list category and appropriate remedial actions are undertaken.
- Termination and cancellation of credit facility contingent on inferior repayment performance observed.

5.1.1.8. Collateral Management

Zenith Bank Plc maintains a detailed collateral policy and administration in line with best practice and CBN guidelines on eligible collateral. The Policy covers but not limited to the following:

- Acceptable collateral types
- Loan to Value Ratios
- Down Payment
- Collateral verification, appraisal process, re-valuation
- Documentation, Lien registration, Insurance requirements
- On-going processes for margin maintenance, continuation of insurance etc

Coverage on Collateral

Collateral Types	Coverage
Cash, Treasury Bills, Other near cash Items	**Minimum of 120% of the facility amount**
Shares	**Minimum of 150% of the facility amount**
Other tangible collaterals	**Minimum of 130% of Forced Sales Value {FSV} of the facility amount**

5.1.2. Market Risk

Market risk is the risk of potential losses in both on and off balance-sheet positions arising from movements in market prices. Market risks can arise from adverse changes in interest rates, foreign exchange rates, equity prices, commodity prices and other relevant factors such as Market Volatilities.

Zenith Bank PLC undertakes activities which give rise to some level of market risks exposures. The objective of market risk management activities is to continually identify, manage and control market risk exposure within acceptable parameters, while optimizing the return on risks taken.

5.1.2.1. Management of market risk

Zenith Bank PLC has an independent Market Risk Management unit which assesses monitors, manages and reports on market risk taking activities across the group. We have continued to enhance our Market Risk Management Framework. The operation of the unit is guided by the mission of inculcating enduring market risk management values and culture, with a view to reducing the risk of losses associated with market risk-taking activities, and optimizing risk-reward trade-off."

The Bank's market risk objectives, policies and processes are aimed at instituting a model that objectively identifies measures and manages market risks in the bank and ensure that:

1. The individuals who take or manage risk clearly understand it.
2. The Bank's risk exposure is within established limits.
3. Risk taking decisions are in line with business strategy and objectives set by the Board of Directors.
4. The expected payoffs compensate for the risks taken.
5. Sufficient capital, as a buffer, is available to take risk.

Zenith Bank Plc proactively manages its Market risk exposures in both the trading and non-trading books within the acceptable levels.

The bank's Market Risks exposures are broadly categorised into:

I. **Trading Market Risks -** These are risks that arise primarily through trading activities and Market Making activities. These include position taking in foreign exchange and fixed income securities (Bonds and Treasury Bills).

II. **Non Trading Market Risks** -These are risks that arise from assets and liabilities that are usually on our books for a longer period of time, but where the intrinsic value is a function of the movement of financial market parameter.

5.1.2.2. Market Risk – Measurement

Zenith Bank Plc adopts mainly Non-VAR approach for quantitative measurement and control of market risks in both trading and non-trading books. The Non -VAR measurements includes: Duration; Factor Sensitivities (Pv01), Stress Testing, Aggregate Open Position etc. The measured risks are therefore monitored against the pre-set limits on a daily basis. All exceptions are investigated and reported in line with internal policies and guidelines.

Limits are sets to reflect the risk appetite that is approved by the Board of Directors. These limits are reviewed, at least, annually or at a more frequent interval. Some of the limits include; Net Open Position (NOP- for foreign exchange); Aggregate Control Limits (for Fixed income Securities); Management Action Trigger (MAT); Duration; Factor Sensitivities (Pv01); Permitted Instrument and Tenor Limits; Holding Period and Off Market Rate Tolerance limit.

Zenith Bank Plc generally does not offer very complex derivative products. However, as market dynamics change, it is expected that more sophisticated products will be introduced into the market. The bank at all times ensures that adequate capacity (both systems and training/knowledge base) are in place to handle these products as at when they are introduced. The overall size of the trading book is maintained at a very manageable size. The Bank computes the Capital charge for market risk using Maturity method under standardized approach as per CBN guidelines.

5.1.2.3. Foreign exchange risk

Fluctuations in the prevailing foreign currency exchange rates can affect the bank's financial position and cash flows - 'On' and 'Off' Balance Sheet. Zenith Bank Plc, however, manages part of the Foreign exchange risks through basic derivatives products and hedges (such as FX, fwd and swap). Mismatches between foreign currency assets and liabilities are kept to the barest minimum level. The risk is also managed by ensuring that all risk taken operates within approved limits. In addition to adherence to regulatory limits, Zenith Bank Plc established various Internal limits (such as VAR, overall Overnight and Intra-day positions), Dealer limits, as well as individual currency among others limits which are monitored by the Market Risk Department on a regular basis. These limits are set with the aim of minimizing the bank's risk exposures to exchange rates volatilities to an acceptable level. The bank's transactions are carried out mainly in seven (7) foreign currencies with a significant percentage of transactions involving US Dollars.

5.1.2.4. Interest Rate Risk

The bank is exposed to some level of interest rate risk-especially on the banking book (i.e. the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates). Interest rate was quite volatile within the period (especially in the Nigerian environment) in various geographical regions where the bank operates. The combined effect changes in the Monetary Policy Rate (MPR), Foreign Exchange Rate fluctuations, changes to the Cash Reserve Ratio (CRR) by the Central Bank of Nigeria (CBN),changes in the Global Market environments, dwindling revenue of Governments and unstable Market Liquidity, no doubt contributed to the movements in the market rates and market volatilities. These changes could have a negative impact on the Net Interest Income, if not properly managed. The Group however, has a significant portion of its liabilities in non-rate sensitive liabilities. This helps it in minimising the impact of the exposure to interest rate risks. The Group also enjoys some form of flexibility in adjusting both lending and deposits rates to reflect current realities.

The details of the trading positions, capital charge and the risk weighted assets for market risk portfolio are shown in the table below.

Position in the Trading Portfolio as at 31st December 2015

Instrument Type (Trading Book)	Value (N Mn)
FGN bonds	6.81
T-bills	100.48

Market Risk Exposure: Risk Weighted Assets by Risk Type

Risk type	Position (in N Mn)	Capital (in N Mn)	RWA (12.5x Capital)
Interest Rate (FGN Bond & T-Bills)	107,284.19	550.34	6,879.25
Foreign Exchange Risk (Net Open Position)	103.28	8.26	103.25
Total		558.60	6,982.50

The table above shows the market risk exposures along with the capital charge computed under the Standardized Approach. The capital charge for market risk is edged up a little when compared with the figure of the previous periods due to a larger size of the trading portfolio originating from Fixed Income Securities used for hedging FX Swap transactions and FX Open position as at 31st December 2015.

5.1.2.5. Market Risk – Monitoring and Reporting

The Bank classifies the exposures into the trading book as per Basel II and FIRS guidelines and monitors on a daily basis for adherence to the conditions laid down for their inclusion in the trading book. The Bank monitors the risk identification process with a view to update it to handle new products and new types of risks in line with the market conditions.

The reliability of source of data, accuracy of data and frequency of updating the data is monitored for the data which is used for performing the valuations and computing risk measures. Limits are also monitored on a daily basis which allows the Bank to identify the concentration levels of exposures and risk to a number of dimensions such as asset classes, risk factors etc.

The reporting of market risk is done in a concise, accurate, comprehensive and timely manner. The reporting covers the current position, risk exposures through time and exceptions from policy prescription.

Daily market risk reports are generated by the market risk teams on the profile of the market risk and reported to the risk taking units/departments and Senior Management.

5.1.2.6. Market Risk – Control and Mitigants

Zenith Bank's market risk exposures are monitored daily against approved risk limits. Market risk unit advises functions / divisions responsible to carry out suitable corrective actions in case of identified breaches as part of risk monitoring process. The risk control involves carrying out corrective steps for deviations found as a result of risk monitoring process relating to trading book definitions, effectiveness of risk identification process, adequacy of data for risk measurement and stress testing.

Interest rate risk in the Trading Book is shown as part of trading portfolio risk report of the Bank which is prepared by individuals who are independent of the risk-taking unit. Interest rate risk is controlled using various market risk limits including the Volume Limits, Total Position Limits, and Stop Loss Limit, etc.

Foreign exchange positions are monitored daily by Market Risk Management team. The net open positions (NOP) are compared to the approved market risk limits and are promptly addressed as per the market risk policy. Foreign exchange risk is controlled by means of market risk limits that are applied on the trading portfolios, e.g. MAT

5.1.3. Operational Risk

Operational Risk is the risk of loss resulting from inadequate and /or failed internal processes, people and systems or from external events, including legal risk and any other risks that is deemed fit on an ongoing basis but exclude reputation & strategic risk. Operational risk exists in all products and business activities.

Zenith Bank Plc has a broad Operational Risk management framework which defines the set of activities designed to proactively identify, assess and manage all operational risk by aligning the people, technology and processes with best risk management practices towards enhancing stake holder's value and sustaining industry leadership.

5.1.3.1. Operational Risk – Identification

To identify operational risks, Zenith Bank Plc has established the Risk and Control Self-Assessment (RCSA) Process. This process is in place since early 2013 in order to assess different types of operational risks, given the adequacy & effectiveness of the existing internal controls in place to manage those risks. The RCSA process is managed by the Operational Risk Management team and all business units are required to conduct self-assessments of risks and developing mitigation plans for those risks that are assessed as being significantly above the acceptable level. Furthermore, Key Risk Indicators are also identified as part of the RCSA exercise for regular tracking of key risks.

The Bank has instituted an internal loss event data collection exercise to identify operational risk events and evaluate the causes and impact thereof.

5.1.3.2. Operational Risk – Measurement

The Bank's RCSA process also aids in measuring operational risk events in terms of probability of occurrence and financial impact or severity of the event. This initiative has been recently institution and the Bank aims to achieve compliance by all business units on an annual basis. Accordingly, these results are currently not used as measures to allocate capital for operational risk exposures.

The Bank currently allocates capital for operational risks by following the Basic Indicator Approach (BIA), as prescribed by the Basel Committee and the Central Bank of Nigeria (CBN). According to this approach, the Bank's gross income is treated as a proxy for the institution's overall operational risk exposure and operational risk capital requirement is computed as 15% of the average gross income from the preceding three years. Gross income is defined as net interest income plus net non-interest income, in line with CBN guidelines for regulatory capital measurement as part of Basel II implementation.

The computation of operational risk capital requirement as of 31st December 2015 is based on the previous three (3) years gross income data as defined by the guideline.

Operational Risk Capital Computation

GROSS INCOME (Naira Mn.)	2013 Year 1	2014 Year 2	2015 Year 3
Gross income for the Three financial years under consideration	242.212	264,460	308,516
Aggregate gross income (year 1 to 3)	**815,188**		
Beta factor	15%		
gross income X beta factor	122,278		
Number of year with positive annual gross income	3		
Operational risk capital charge	**40,759**		

5.1.3.3. Operational Risk – Monitoring

Operational risk issues are monitored on a regular basis by the respective business units through periodic reviews of operations. The Internal Audit Department conducts regular audits of the Bank's operations and these reports also provide senior management with information about the effectiveness of internal controls in managing operational risks. The Bank has recently implemented processes to identify and track key risk indicators in order to establish a periodic mechanism for monitoring trends of different types of operational risk.

The Bank has a Loss Data Collection process in place whereby operational loss incidents are reported on a periodic basis to the Operational Risk Management team. This process is followed across all business activities and operational losses reported are classified under the Basel recommended business lines and loss event types. Near misses, which are operational risk incidents that have not resulted in any financial losses, are also captured and reported. This process is subject to review by the Internal Audit.

5.1.3.4. Operational Risk – Reporting

The Bank's Operational Risk Management Department collects and aggregates data about internal losses, and results of RCSAs for reporting to senior management and Board of Directors, as appropriate. The line management of the respective business units also makes periodic reports on areas of significant operational risk arising from their business processes to the senior management. The Operational Risk Management Department presents a periodic operational risk dashboard analyzing the loss events, results of the risk and control self-assessment, and progress of risk mitigation initiatives such as business continuity planning. These reports are reviewed by the Chief Risk Officer, Risk Management Committee & Board Risk Management Committee.

5.1.3.5. Operational Risk - Control and Mitigants

The overall objective for managing Operational Risk given the scope of our operation as well as the geographical spread is anchored on three critical considerations as follows:

- To ensure that effective and efficient processes and service standards are entrenched as part of doing business;
- To create a corporate culture that views ORM as a good business practice and not just as a compliance or regulatory issue.
- To leverage on the existing internal control framework in order to minimise the frequency and financial impact of operational risks in our products and processes;

5.2. Pillar 2 Risks

5.2.1. Interest Rate Risk in Banking Book (IRRBB)

IRRBB is the risk to interest income arising from a mismatch between the maturity and re-pricing dates of assets and liabilities, both on and off balance sheet, which arises in the normal course of business activities. The interest rate measurement is capable of assessing the effect of interest rate changes on both earnings as well as the capital of the Bank. Zenith Bank Plc performs NII sensitivity analysis and Economic value of equity (EVE) analysis as measures of IRRBB. The result as at 31st December 2015 shows a figure less than the outlier threshold of 20% as recommended by Basel II and hence no capital is being allocated for IRRBB.

Interest Rate Sensitive Gap Analysis

Amount in NGN Bn.	IRRBB - EVE Approach							
Particulars \ Time-Bucket	Upto 1 Month	1 - 3 Mnth	3 - 6 Mnth	6 - 12 Mnth	1 - 2 Yrs	2 - 3 Yrs	3 – 5 Yrs	> 5 Yrs
Rate Sensitive Assets (RSA)	729.18	146.21	179.01	272.92	0.14	257.93	747.14	578.52
Rate Sensitive Liabilities (RSL)	1,092.11	125.20	5.09	12.94	-	660.98	392.82	181.28
Rate Sensitive Gap (RSG)	(362.94)	21.01	173.92	259.98	0.14	(403.06)	354.33	397.24
Weighted Net RSG (200 bps)	0.29	(0.07)	(1.25)	(3.69)	-	18.14	(24.52)	(71.26)
Sum of Weighted Net RSG (200 bps)	**(82.37)**							

Tier 1 & 2 Capital (TQC)	484.71
Negative Gap as % of TQC	**(16.99)**

Sum of Net weighted gap is about 16.99% of the total capital (Tier I & Tier II capital), which is less than the outlier threshold of 20% as recommended by Basel II and hence no capital is being allocated for IRRBB.

5.2.2. Liquidity Risk

Liquidity risk is the potential loss arising from the bank's inability to meet its obligations as they fall due or to fund increases in assets without incurring unacceptable cost or losses. Liquidity risk is not viewed in isolation, because financial risks are not mutually exclusive and liquidity risk is often triggered by consequences of other bank risks such as credit, market and operational risks.

5.2.2.1. Liquidity risk management process

Zenith Bank Plc has a sound and robust liquidity risk management framework that ensures that sufficient liquidity, including a cushion of unencumbered and high quality liquid assets are maintained at all times, to enable the bank withstand a range of stress events, including those that might involve loss or impairment of funding sources.

The Bank's liquidity risk exposure is monitored and managed by the Asset and Liability Management Committee (ALCO) on a regular basis.

This process includes:

a. Projecting cash flows and considering the level of liquid assets necessary in relation thereto;
b. Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
c. Maintaining a diverse range of funding sources with adequate back-up facilities;
d. Managing the concentration and profile of debt maturities;
e. Monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix;
f. Maintaining up to date liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimizing any adverse long-term implications for the business.
g. Regular conduct of stress testing, coupled with testing of contingency funding plans from time to time.

The Maximum Cumulative Outflow has remained positive all through the short tenor maturity buckets. Assessments are carried out on Contractual and Behavioural bases. These reveal very sound and robust liquidity position of the Bank.

Zenith Bank Plc maintains adequate liquid assets and marketable securities sufficient to manage any liquidity stress situation. The liquidity ratio remains one of the best among the peer banks and is above the regulatory limits.

5.2.3. Reputational Risk

Reputation risk is defined as the risk of indirect losses arising from a decline in the bank's reputation amongst one or multiple bank stakeholders. The risk can expose the bank to litigation, financial loss or damage to its reputation. The Reputation risk management philosophy of the Bank involves anticipating, acknowledging and responding to changing values and behaviours on the part of a range of stakeholders. Accordingly, the following are the roles and responsibilities within the Bank for reputation risk management:

- Board and senior management overseeing the proper set-up and effective functioning of the Reputational risk management framework
- Enterprise Risk Management Policy/Strategy (ERSP) is responsible for supporting the Board and senior management in overseeing the implementation of reputational risk within the Bank
- Corporate Communications is responsible for managing both the internal and external communications that may impact the reputation of the Bank.

The process of reputation risk management within the bank encompasses the following steps:

- Identification: Recognizing potential reputational risk as a primary and consequential risk
- Assessment: Qualitative assessment of reputational risk based on the potential events that have been identified as reputational risk.
- Monitoring: Frequent monitoring of the reputational risk drivers
- Mitigation and Control: Preventive measures and controls for management of reputational risk and regular tracking of mitigation actions
- Independent review: The reputational risk measures and mitigation techniques shall be subject to regular independent review (Internal Auditors and or Statutory Auditors)
- Reporting: Regular, action-oriented reports for management on reputational risk.

In identifying reputational risk factors, the bank makes use of the output of the operational risk identification process, which involves a backward-looking (historical event-based) and forward-looking (risk drivers based potential future issues identification) analysis.

Reputation Risk impact score

Score	Rating
1	Insignificant
2	Minor
3	Moderate
4	High
5	Significant

Reputation Risk likelihood score

Score	Rating

1	Rare
2	Unlikely
3	Possible
4	Likely
5	Almost certain

The reputation risk grid helps the bank to align risk event with management and escalation activities. An event or risk is assigned a risk score and a risk rating by locating it on the Reputation Risk Grid that has impact and likelihood scenarios in a matrix.

Zenith Bank Plc also strives to maintain quality customer services and procedures, and business operations that enable compliance with regulatory rules and legislation in order to minimise the risk of a drop in the reputation of the bank.

Zenith Bank Plc did not record any issue with major reputational effect in the financial year.

5.2.4. Strategic risk

Strategic risk is possible source of loss that might arise from the pursuit of an unsuccessful business plan. Strategic risk examines the impact of design and implementation of business models and decisions, on earnings and capital as well as the responsiveness to industry changes.

This responsibility is taken quite seriously by the Board and Executive Management of Zenith Bank Plc and deliberate steps are taken to ensure that the right models are employed and appropriately communicated to all decision makers in the bank. The execution, processes and constant reviews ensures that strategic objectives are achieved. This has essentially driven the Bank's sound banking culture and performance record to date.

5.3. Overall Capital Requirement

Zenith Bank's total capital requirement as at 31st December 2015 is set out below:

Risks	Capital (N Mn)	RWA (N Mn)
Credit risk	281,456.98	1,876,379.87
Market risk	558.60	6,982.53
Operational risk	40,759.40	509,492.50
Pillar 1 Capital Requirement	**322,774.98**	**2,392,854.90**
Credit Concentration Risk	-	-
IRRBB	-	-
Liquidity risk	-	-
Strategic risk	-	-

Reputational risk	-	-
Pillar 2 Capital Requirement		
Economic Capital (Pillar 1 + Pillar 2)	**322,774.98**	**2,392,854.90**
Tier 1 Capital	**484,709.45**	
Tier 2 Capital	-	
Total Available Capital (Tier 1 + Tier 2)	**484,709.45**	
Regulatory Capital Adequacy ratio	**20.26%**	
Economic Capital Adequacy ratio	**20.26%**	
CBN Guidelines	15.00%**	

6. NOTICE

The disclosures herein are based on the bank's financial figures as at 31st December 2015 and should be considered in line with the Directors' Report and Financial Statements for the corresponding financial year, where more detailed information is available. The disclosures are subject to periodic review, update and internal audit. The information contained in this Pillar 3 disclosure has not been audited by the bank's external auditors.

For further information on any aspect of this report please contact the bank at www.zenithbank.com.