Pillar 3 Disclosures
For The Period Ended 31st December 2017

Zenith Bank Plc

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CONTENT OF THE PILLAR 3 DISCLOSURE REPORT

1. EXECUTIVE SUMMARY

1.1. Introduction

The Basel II framework was introduced following successive rounds of proposals and broad consultation with all interested parties between 1999 and 2003. This framework introduced comprehensive disclosure requirements for banks operating under the new legislative framework. The disclosure requirements fall under Pillar 3 of the CRD which requires Banks to publish certain information relating to their risk management and capital adequacy.

The main objective of the Basel II framework is to further strengthen the soundness and stability of the international banking system via better risk management, by bringing regulatory capital requirements in line with International best practices. The framework was subsequently updated with implementation beginning in 2007. The Basel II framework stipulates a minimum level of capital that banks must maintain to ensure that they can meet obligations, cover unexpected losses; and promote stakeholders confidence.

1.2. Pillar 3 Regulatory Framework

The Basel II Framework is structured around three pillars:

The framework laid down the new supervisory regulations governing banks and banking groups, which have been comprehensively revised following the changes that have been introduced in international regulations. The framework also takes into account developments in the risk management, methodologies adopted by banks and the new policies and criteria underpinning supervisory activity. The new supervisory framework is founded on three "pillars".

The first pillar introduces capital requirements to support the risks that characterise banking and financial activity (credit risk, counterparty risk, market risk and operational risk). To this end, the regulations provide for alternative methods for calculating capital requirements featuring different levels of complexity in the approaches taken to measuring risk and in organisational and control requirements.

The second pillar requires banks to adopt a strategy and control process for assessing current and prospective capital adequacy, embedded in its business activities and operational complexities. It charges supervisory authorities with the task of ascertaining the reliability and consistency of results and of adopting, where necessary, appropriate corrective measures.

The third pillar introduces disclosure requirements concerning capital adequacy, risk exposure and the general features of the related risk management and control systems. 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 Zenith Bank has captured within its Internal Capital Adequacy Assessment Process (ICAAP) report.

The approach provides for the precise measurement of a broader range of risks and ensures that capital requirements are linked more closely to the actual risk exposure of each intermediary. Moreover, it provides incentives for Zenith Bank to improve their management practices and risk measurement techniques, including possible reductions in the amount of capital they are required to hold. The system also ensures a more level competitive playing field, with the expanded harmonisation of activities and techniques, and enhances the role of market discipline with the introduction of specific disclosure requirements.

In terms of the Pillar 1 requirements, the bank has adopted the Standardized Approach for Credit and Market Risks measurements while using 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.

1.3. Disclosure Policy

The 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. The CBN Pillar III disclosure requirements allow banks 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 banks to omit items of information from being disclosed; if the information is regarded as proprietary or confidential. The Bank Board of Directors will review any of such omissions as part of the overall approval process. However, 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. The Board will review and approve the Bank's Pillar 3 disclosures unless circumstances necessitate additional disclosures. Disclosures are prepared in conjunction with the preparation of the annual statements of accounts.

1.4. Scope of Application

Zenith Bank Plc disclosures have been prepared in accordance with best practices and in compliance 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 bank's Directors' Report and Financial Statements for the corresponding financial year.

1.5. 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.

2 BUSINESS STRUCTURE & ACTIVITIES OF THE BANK

2.1 Organisational/Legal structure

2.1.1 Zenith Bank's Legal Entities

Zenith Bank Plc has controlling interest in banking and non-banking subsidiaries in Nigeria, Africa and Europe. Zenith Bank Pensions Custodian Limited and Zenith Nominees limited were incorporated in Nigeria while the remaining legal entities were incorporated in their respective countries. The figure below shows the Bank's legal entities (and ownership interest).

Figure *1*: Zenith Bank Plc Legal Entities

1. 

(1) **Percentage indicates interest held**

Our material legal entities based on strategic importance are Zenith Bank UK, Zenith Bank Ghana and Zenith Pension Custodian Limited. Zenith Bank Ghana controls a significant proportion of the Ghanaian market; the entity is one of the largest commercial banks in Ghana, while Zenith Bank UK Limited is the main hub for the Bank's trade finance activities. Zenith Pension Custodian Limited is considered strategically important due to the goodwill and brand value.

Zenith Bank UK and Zenith Bank Ghana, both contribute towards our expansion strategy in the African market. In terms of financial performance in the last audited accounts, all subsidiaries contributed 14.2% to the Group's operating income. Amongst the Bank's foreign subsidiaries, Zenith Bank Ghana and Zenith Bank UK contributed the largest share to the Group's operating income (7.4% and 2.1% respectively). Zenith Pension Custodian Limited, however, was the second highest contributor to the Group's profit (3.7%). In addition, Zenith Bank UK and Zenith Bank Ghana contributed the largest share to the assets (9.9% and 6.2% respectively).

2.1.2 Intra-Group Financial Linkages

As at December 2017, the amount of NGN2, 962 billion was guaranteed by the Bank for assets held by its subsidiary, Zenith Pensions Custodian Limited under the custodial business as required by the National Pensions Commission. The Bank's exposure is limited to the unutilized portion of the funds.

Table 1: Summary of Intra-group Interconnectedness and Impact Assessment

Intra – Group Interconnected Services	Business activity affected	Impact to subsidiary on sudden discontinuance	Mitigation/Control
Technology Support Services	Core Banking activities of the subsidiaries.	Medium	• Routine IT audit • Resident IT professionals from Head Office with direct reporting line to the CIO
Credit Approval	Loans and Advances	Low	• Centralized credit approval process • Global Credit Committee (Membership-Executive Management) • Standardized credit policies and procedures across the group

Intra – Group Interconnected Services	Business activity affected	Impact to subsidiary on sudden discontinuance	Mitigation/Control
Staff Secondment	Staffing	Low	● Secondment of Staff is based on skill, competence and need ● Some of the Executive Management in the Subsidiaries are seconded from Head Office.
Card Services	Card Management	Low	● Card production and distribution is centralized. ● Robust In-house card management system ● Payment Card Industry Data Security Standard (PCIDSS) compliant.
Financial Control	Financial control and reporting	Low	● Standardized financial control and reporting system across the group ● The Chief Financial Officer has oversight function across the Group ● Consolidated financial report ● Alignment of Regulatory requirements of various jurisdiction to that of the Parent
HR services	Secondment and training	Low	● Recruitment of competent resources
Compliance	Compliance with regulatory	Medium	● Recruitment of competent resources ● Compliance requirements in jurisdictions of operations eg. GDPR in Zenith UK
Legal	Contract/SLA reviews	Low	● Recruitment of competent resources Cross postings and secondment
Internal audit	Quality assurance	Low	● Documented policies and procedure ● Training to staff in subsidiaries

2.1.3 Intra-group Interconnectedness

The Bank provides various value-adding services to its international subsidiaries. We currently have a Liaison office that handles all administrative services for the various subsidiaries (e.g. organizing meetings, training, etc.). Services provided to subsidiaries by the Bank include the following:

- Technology support services: IT system hosting, maintenance support, etc. (this service is provided to all entities excluding Zenith Bank UK)
- Credit approval: we approve all credits for the various entities, including Zenith Bank UK
- HR Services: we provide key staff (Staff secondment) to various entities (excluding Zenith Bank UK) within their various divisions (e.g. IT, Financial Control, Internal Control, etc.), training and other support activities
- Card services: we produce all debit cards for our subsidiaries, and provide card management support services
- Financial Control: we provide financial control support services to our subsidiaries

- Legal services and compliance: the subsidiaries receive legal advice and guidance superior to that which is obtainable in their local region. Functions include routine legal advice, guidance on regulatory issues, review of SLAs
- Risk Management: The Bank's Risk Management framework provides risk assurance processes across the group. It provides oversight functions to its subsidiaries on an enterprise basis. The department carry out routine visit to the subsidiaries to provide support and guidance from time to time.
- Internal audit: The Bank's internal audit provides compliance and internal control oversight functions to its subsidiaries. The units visit the subsidiaries to provide internal audit support.
- Placements: The Bank places its excess funds with its related banking entities and earns interest income on these amounts. Interest rates and Commission on Turnover (COT) are charged at the prevailing market rates. The subsidiaries are also allowed to place funds with the Bank.

Fund placement is considered material to our Bank as our subsidiaries/related entities may not have immediate or easy access to the funds in the event of a major crisis within Zenith Bank Plc.

2.2 Zenith Bank's Financial Performance

The Bank's financial performance for 31 December 2017 was audited by KPMG Professional Services. Zenith Bank's financial performance and financial Position for the FY2016 and FY 2017 financial years are summarised in the following tables.

• **Table 2: Zenith Bank Plc Statement of Financial Position (SOFP)**

ZENITH BANK PLC

Consolidated and Separate Statements of Financial Position as at December 31, 2017

		Group		Bank	
In millions of Naira	**Note(s)**	**31-Dec-17**	**31-Dec-16**	**31-Dec-17**	**31-Dec-16**
Assets					
Cash and balances with central banks	15	957,663	669,058	907,265	627,385
Treasury bills	16	936,817	557,359	799,992	463,787
Assets pledged as collateral	17	468,010	328,343	468,010	325,575
Due from other banks	18	495,803	459,457	273,331	354,405
Derivative assets	19	57,219	82,860	57,219	82,860
Loans and advances	20	2,100,362	2,289,365	1,980,464	2,138,132
Investment securities	21	330,951	199,478	117,814	118,622
Investment in subsidiaries	22	-	-	34,003	33,003
Deferred tax assets	23	9,561	6,440	9,197	6,041
Other assets	24	92,494	37,536	56,052	35,410
Property and equipment	25	133,384	105,284	118,223	94,613
Intangible assets	26	12,989	4,645	12,088	3,903
Total assets		**5,595,253**	**4,739,825**	**4,833,658**	**4,283,736**
Liabilities					
Customers' deposits	27	3,437,915	2,983,621	2,744,525	2,552,963
Derivative liabilities	32	20,805	66,834	20,805	66,834
Current income tax payable	13(c)	8,915	8,953	6,069	6,927
Deferred income tax liabilities	23	18	45	-	-
Other liabilities	28	233,481	208,680	219,790	243,736
On-lending facilities	29	383,034	350,657	383,034	350,657
Borrowings	30	356,496	263,106	418,979	292,802
Debt securities issued	31	332,931	153,464	332,931	153,464
Total liabilities		**4,773,595**	**4,035,360**	**4,126,133**	**3,667,383**
Capital and reserves					
Equity attributable to Equity Holders of Parent					
Share capital	33	15,698	15,698	15,698	15,698
Share premium	34	255,047	255,047	255,047	255,047
Retained earnings	34	365,757	267,008	296,787	218,507
Other reserves	34	183,839	165,729	139,993	127,101
Attributable to equity holders of the parent		820,341	703,482	707,525	616,353
Non-controlling interest	34	1,317	983	-	-
Total shareholders' equity		**821,658**	**704,465**	**707,525**	**616,353**
Total liabilities and equity		**5,595,253**	**4,739,825**	**4,833,658**	**4,283,736**

Table 3: Zenith Bank Plc Statement of Comprehensive Income (SOCI)

In millions of Naira	Note(s)	Group 31-Dec-17	Group 31-Dec-16	Bank 31-Dec-17	Bank 31-Dec-16
Gross earnings		**745,189**	**507,997**	**673,636**	**454,808**
Interest and similar income	6	474,628	384,557	420,210	343,556
Interest and similar expense	7	(216,637)	(144,378)	(200,672)	(131,910)
Net interest income		**257,991**	**240,179**	**219,538**	**211,646**
Impairment loss on financial assets	8	(98,227)	(32,350)	(95,244)	(26,295)
Net interest income after impairment loss on financial assets		**159,764**	**207,829**	**124,294**	**185,351**
Fee and commission income	9	90,143	68,444	72,846	55,619
Trading gains	11	157,974	28,398	157,974	28,398
Other operating income	10	22,444	26,598	22,606	27,235
Depreciation of property and equipment	25	(12,428)	(9,679)	(11,059)	(8,664)
Amortisation of intangible assets	26	(1,631)	(1,435)	(1,431)	(1,375)
Personnel expenses	36	(64,459)	(59,326)	(55,672)	(52,519)
Operating expenses	12	(148,346)	(104,081)	(135,995)	(94,118)
Profit before tax		**203,461**	**156,748**	**173,563**	**139,927**
Minimum tax	13a	(4,350)	-	(4,350)	-
Income tax expense	13a	(21,178)	(27,096)	(12,068)	(20,642)
Profit for the year after tax		**177,933**	**129,652**	**157,145**	**119,285**
Other comprehensive income:					
Items that will never be reclassified to profit or loss:					
Fair value movements on equity instruments	21(b)	(2,551)	6,636	(2,551)	6,636
Items that are or may be reclassified to profit or loss:					
Foreign currency translation differences for foreign operations		5,233	30,338	-	-
Other comprehensive income/(loss) for the year		**2,682**	**36,974**	**(2,551)**	**6,636**
Total comprehensive income for the year		**180,615**	**166,626**	**154,594**	**125,921**

For the years ended December 2016 and December 2017, loans and advances to customers and cash & balances with central banks were the highest contributors to Bank and Group assets. As at December 2016, they accounted for 48.3% and 14.1% of total assets respectively; as at December 2017 they accounted for 37.5% and 17.1% of the Bank's total assets respectively.

Customer deposits for the Bank accounted for 73.9% of total liabilities as at December 2016, while borrowings contributed 10.3% to total liabilities. As at December 2017, Customer deposits increased over December 2016 period. It accounted for 72% of the Bank's total liabilities, while Borrowings contributed 14.4% (December 2017).

As December 2017, the Group's Profit after Tax (PAT) was N177.9bn an increase of N48.28bn over the PAT recorded for the year ended December 2016.

2.3 Zenith Bank Capital Structure

In 2014 financial year, we commenced capital computations in accordance with Basel II standard under the guidelines issued by the CBN. The capital requirement for the Bank has been set at 15% and an addition of 1% as a D-SIB.

The table below shows the computation of our capital adequacy ratio for December 2017 as well as FY2016 comparatives. During both years, all legal entities complied with all of the externally imposed capital requirements to which they are subject. The Bank's Capital Adequacy Ratio (CAR) based on the audited position as at December 2017 is 27%. The Bank's capital adequacy ratio is above the minimum statutory requirement.

Table 4: Zenith Bank Plc Capital

ZENITH BANK PLC

Notes to the Consolidated and Separate Financial Statements for the Year Ended December 31, 2017

3. Risk management (continued)

	Group		Bank	
In millions of Naira	**December 31, 2017 Basel II**	**December 31, 2016 Basel II**	**December 31, 2017 Basel II**	**December 31, 2016 Basel II**
Tier 1 capital				
Share capital	15,698	15,698	15,698	15,698
Share premium	255,047	255,047	255,047	255,047
Statutory reserves	135,686	112,114	127,865	104,293
SMEIES reserve	3,729	3,729	3,729	3,729
Retained earnings	365,757	267,008	296,787	218,507
Total qualifying Tier 1 capital	775,917	653,596	699,126	597,274
Deferred tax assets	(9,561)	(6,440)	(9,197)	(6,041)
Intangible assets	(12,989)	(4,645)	(12,088)	(3,903)
Investment in capital of financial subsidiaries	-	-	(25,604)	(22,053)
Adjusted Total qualifying Tier 1 capital	753,367	642,511	652,237	565,277
Tier 2 capital				
Other comprehensive income (OCI)	42,082	39,415	(8,399)	10,950
Total qualifying Tier 2 capital	42,082	39,415	(8,399)	10,950
Investment in capital and financial subsidiaries	-	-	8,399	(10,950)
Net Tier 2 Capital	42,082	39,415	-	-
Total regulatory capital	795,449	681,926	652,237	565,277
Risk-weighted assets				
Credit risk	2,306,892	2,406,800	2,066,961	2,109,275
Market risk	84,690	17,684	62,956	5,875
Operational risk	595,934	554,772	540,331	509,493
Total risk-weighted assets	2,987,516	2,979,256	2,670,248	2,624,643
Risk-weighted Capital Adequacy Ratio (CAR)	**27 %**	**23 %**	**24 %**	**22 %**

3 Zenith Bank's Business Model

3.1 Business Strategy

The overall vision of the Bank is "to build the Zenith brand into a reputable international financial institution recognized for innovation, superior performance while creating premium value for all stakeholders".

The Bank's principal strategy is aimed at promoting growth and profitability of banking activities, due to our decision to comply with CBN Banking Activities Regulation by divesting from subsidiaries that carry out non-banking activities. We are pursuing organic growth in the short to medium-term. In the longer-term period, we intend to improve (through creation and enhancement of new markets and products and services), consolidate (through superior customer services), the local and international acceptance of our brand. Our growth and marketing plans will seek to optimize strengths, maximize available opportunities and minimize identified threats while taking steps to mitigate the effects of observed weaknesses.

The strategic objectives of our Bank include:

- To deliver superior service experiences to all our customers at all times;
- Develop deeper and broader relationship with all clients and strive to understand their individual & industry peculiarities with a view to developing specific solutions for each segments of our customer base;
- Expand our operations by adding new distribution channels and entering into new markets; and
- Maintain our position as a leading service provider in Nigeria while expanding our operations internationally in West Africa and the financial capitals of the world.

In order to achieve these objectives, the Bank will implement the following key strategies:

- We will employ the best information and communication technology platform and banking innovation available to create convenient banking channels and products for our customers;
- We will Continually enhance our processes, procedures and systems platforms to deliver new capabilities and improve operational efficiencies and achieve economies of scale;
- We will strive to have more products offering in the traditional banking areas than any bank in our key markets;
- We will focus on enveloping all our markets by creating products and services that are industry-specific to serve the needs of our key customers;
- We will ensure we are bankers to all key officers of our key corporate customers;
- We will optimally expand our branches and business office in Nigeria to rank amongst the biggest players in the market whilst ensuring operational efficiency. The branch network should adequately cover every state in Nigeria and key commercial cities and town;
- We will target new markets in Africa whilst expanding our existing network in the key countries in West Africa where we already have a presence;
- Trade flows within the sub-region is currently routed through Europe; none of the big banking/financial institutions operating in the sub-region is focusing on financing the import and export trade in the sub-region and/or channeling these transactions through its operations. We will target this market as well as positioning ourselves to take advantage of other emerging opportunities in the sub-region.

Other strategies that the Bank intends to implement to achieve its growth, includes:

- Continue to seek, employ and retain the best personnel available;
- Continuous investment in training and re-training of its personnel;
- Maintain and reinforce its core customer service delivery charter;
- Sustain strong profitability and ensure adequate Return on Equity (ROE);
- Sustain strong balance sheet size with adequate Liquidity and Capital base;
- Sustain its brand and premium customer services;
- Focus on cautious and synergistic global expansion;
- Remain customer service focused;

- Retain emphasis on the use of technology as a competitive tool; and
- Maintain strong risk management and corporate governance practices.

3.2 Macroeconomic Events and the Bank's Strategy

The recession in 2016 and devaluation of naira have led to a heightened risk environment for the Nigerian banking sector. Key events occurred in 2017 which were material to the capital adequacy, liquidity, asset quality and profitability of the Bank. These events include:

1. Profits and balance sheets remained under pressure as interest income decreased due to weak credit creation and non-performing loans (NPLs). The sector struggled to maintain business growth.
2. Heightened competition for retail deposit as government bond yield have stayed elevated.
3. Price volatility of crude oil
4. Inflation fell steadily in the year under review from a peak of 18.0% y-o-y in January 2016 and averaged at approximately 16.0% in 2017.

The above developments were reviewed and analyzed through various test scenarios to know their impact on the bank's business strategy. The stress tests scenarios modelled are as follows:

- Further devaluation of the Naira,
- Change in monetary policy - Monetary Policy Rate (MPR) and Cash Reserve Ratio (CRR),
- Major regulatory infraction by the UK subsidiary leading to bail out by the Bank,
- Credit rating downgrade resulting from board crisis / corporate governance issues,
- Default by top three obligors,
- Significant loss of deposit due to Management failed strategy some major customers diverting their deposits to other high yielding investment opportunities (i.e. T-Bills),
- Cyber-attack; and
- Threatened sovereign default and Zenith Bank failed strategy.

We have created hypothetical but plausible scenarios with respect to performance as an important risk management tool for internal risk management. This alerts us on the adverse unexpected outcomes related to various risks and provides an indication of the amount of capital required to absorb loses should large shocks occur, and the effect of these shocks on liquidity and asset quality. It provides an indication on the level of capital and liquidity necessary to endure deteriorating economic and market conditions.

We have a stress and scenario-testing framework, which is used to stress our base case projections in order to assess the adequacy of our capital levels, capital buffer and capital ratios and liquidity.

3.3 Zenith Bank's Core Business Lines (CBL)

Zenith Bank Plc's service offerings covers most aspects of banking and caters to banking needs of public and private sector clients. The Bank's service offerings largely constitute its core business lines; these include – Corporate Banking, Institutional and Investment Banking, Retail Banking and Public Sector Banking. These business lines were determined based on several quantitative and qualitative factors. Quantitative factors include each business line's contribution to total bank revenue, pre-tax operating profit and contribution to total assets.

Other non-core business lines (i.e. support services) with strategic importance to the Group are Operations and IT Division, Trade Services and Foreign Exchange services and Treasury services. These business lines act as support services for the bank's key business lines.

3.3.1 Corporate Banking

The Bank's corporate banking business line, offers a wide range of services to multinationals, large-local conglomerates and corporate clients with an annual turnover in excess of N500 million. The unit is focused on providing superior banking services and customised banking products to the top tier end of the market. Within this business line, industry specific desks or sub-units exist to facilitate efficient and effective management of the relationships with the unit's corporate customers. The sub-units include Transport & Aviation, Conglomerates, Breweries & Beverages, Oil & Gas, Power & Infrastructure, and Private Banking.

3.3.2 Retail Banking

The Bank's retail banking business line focuses on small and medium enterprises (SMEs), consumer businesses and commercial businesses with annual turnover of less than N500 million. Consumer business consists of personal, current and savings account customers and all unincorporated entities (e.g. societies, clubs, churches, mosques, etc.). We extend loans and advances in the forms of overdrafts, import finance lines, term loans and leases (for customers involved in sales and distribution of Fast Moving Consumer Goods and key distributors). The primary focus of our retail banking business is 'deposit liability creation'.

3.3.3 Treasury & Investment Banking

Zenith Bank's institutional and investment banking business line manages the Group's business relationship with other banks, financial institutions, multilateral agencies, securities houses, insurance companies, asset management companies and other non-bank finance companies, private equity and venture funds.

The team, through its Treasury sub unit provides ancillary services such as market making, derivatives trading, fixed income instruments, foreign exchange, commodities and equity securities and manages the group's correspondent banking relationships. The Treasury sub-group's activities are carried out through the following four units: the Liability and Deposit Management Unit, Bonds Trading unit, foreign currency trading unit and the Treasury Naira and Fixed Income Trading Unit

3.3.4 Public Sector Banking

Zenith Bank's public sector business line provides services to all tiers of government (federal, state and local government), ministries, departments and agencies, non-profit organisation, embassies and foreign missions. Services offered to our public sector clients includes revenue collection schemes, cash management, deposit and investment, electronic payroll systems, offshore remittances and foreign exchange and project finance.

Table 5: Quantitative factors for Zenith Bank's CBL as at 31st December 2017 (audited)

N'million)	Corporates	Public	Retail	SMEs	Consolidated
Total revenue	481,571	70,993	28,317	164,308	745,189
Total expenses	(352,758)	(47,513)	(11,061)	(130,396)	(541,728)
Profit before tax	128,813	23,480	17,256	33,912	203,461
Profit after tax	112,651	20,534	15,091	29,657	177,933

Table 6: Contribution of subsidiaries to the Group as at 31st December 2017 (audited)

As at 31 December 2017 (Audited)	Total Assets NGN'm	Total Liabilities NGN'm	Profit/Loss NGN'm
Zenith Bank UK Limited	554,087	486,382	3,666
Zenith Bank Ghana Limited	344,438	289,528	13,209
Zenith Pension Custodian Limited	20,738	3,036	6,536
Zenith Bank Gambia Limited	12,782	9,225	635
Zenith Bank Sierra Leone Limited	17,887	14,627	1,136
Zenith Nominees Limited	1,000	-	-
Zenith Bank	4,833,658	4,126,133	157,145
Elimination entries	(189,337)	(186,118)	(4,394)
Zenith Group	5,595,253	4,742,813	177,933

3.4 Risk Rating for Zenith Bank Core Business Lines

We adopt an integrated approach to risk management by bringing all risks together under a limited number of oversight functions. Risk challenges are addressed through the Enterprise Risk Management (ERM) Framework supported by a governance structure consisting of board level and executive management committees.

We consider risk related issues in all business decisions and continually strive to maintain a conservative balance between risk and revenue consideration. Our risk management policies and systems reflect changes in markets, products and international best practices.

The Bank's risk appetite is the core instrument used in aligning the overall corporate strategy, capital allocation and risk. The Bank has a comprehensive risk appetite framework linked to its corporate strategy and risk culture. As part of our risk appetite framework, we conduct Risk Control Self-Assessment frequently. This assessment provides details on risk tolerance per risk category for each business/department across the entire bank. It also includes a nature of the threat, controls/mitigants, residual impact and early warning mechanisms for each risk. Appendix 4 contains a summary of our Bank's Business Risk Register.

Our Bank is conservative as far as risk taking is concerned. As a result, our risk appetite is set at a level that minimizes erosion of earnings or capital due to avoidable losses or from frauds and operational inefficiencies.

All activities in the Bank have been profiled and the key risk drivers and threats in them identified. Mitigation and control techniques have been determined in tackling each of these threats. The following is a summary of key areas of risk which affect the Bank's core business lines, categorised such risks as Low, Moderate, Above Average or High:

Table 7: Risk Rating for Zenith Bank's Core Business Lines (CBL)

Core Business Line	Major Risk Drivers/Threats	Inherent Risk	Tolerance Level	Mitigation Techniques	Risk Rating
Corporate Banking	• Lack of technical expertise / complexity of transactions • Diversion of funds by customers • Market instability • Market forces – Increasing competition • Change in government/ regulatory policies. • Possibility of default • Improper structuring of facilities • Increased production cost • Energy Crisis/Power problems • Raw materials challenges	• Credit • Operational • Market • Liquidity • Reputational • Strategic	• Medium • Low • Low • Low • Low • Low	• Proper structuring of credit & underwriting. • Sound credit selection process by the bank. • Ensure adequacy of collateral • Lending to mainly top and tested companies in the sector. • Highly experienced staffing and sound management team. • Quality customer service & relationship management • Use of Credit Bureau • Deployment of appropriate products.	Medium
Retail Banking	• Lack of Technical know-how of Bank staff • Possibility of default on loans • Misappropriation/diversion of loan by customers • Competition from other banks • Government policies • Poor succession plan of customers	• Credit • Operational • Funding Risk	• Medium • Low • Low	• Adequate staff training • Effective relationship management • Limit exposure to this group • Focus lending mainly to customers/Key Distributors of blue chip companies • Ensure adequate security coverage • Confirm Bank verification number (BVN) • Prompt monitoring of activities • Appropriate pricing	Low
Treasury and Investment Banking	• Lack of technical expertise/complexity of transactions • Improper structuring of facilities/specialized demand • Poor credit pricing • Challenges in global economic environment. • Change in government /regulatory policies	• Credit • Operational • Market • Liquidity • Reputational • Strategic	• Low • Low • Medium • Medium • Low • Low	• Highly experienced staffing and sound management team • Proper monitoring of exposures • Attract growth in domiciliary deposits at reasonable cost. • Source for multilateral funding at a reasonable cost. • Drive for a robust liquid asset base. • Take advantage of new fixed income products e.g. CP's and other derivative products.	Low
Public Sector Banking	• Unstable government policies • Competition • Macro-economic factors • Sudden call for deposit	• Operational • Interest Rate /market Risk	• Low • Low • Low • Low • Low	• Limit concentration to this group • Adequate buffer in liquidity assessments is provided for because of volatilities	Medium

Core Business Line	Major Risk Drivers/Threats	Inherent Risk	Tolerance Level	Mitigation Techniques	Risk Rating
		• Liquidity • Credit • Regulatory		• Investment of funds in liquid/ near assets • Ensure domiciliation of proceeds	

4 Risk Management

4.1 Enterprise Risk Management

The bank adopts an integrated approach to risk management by bringing all risks together under a limited number of oversight functions. The bank addresses the challenge of risks comprehensively through the Enterprise Risk Management (ERM) Framework by applying practices that are supported by a governance structure consisting of board level and executive management committees.

As part of its risk management policy, the bank segregates duties between market facing business units and risk management functions while management is governed by well-defined policies which are clearly communicated across the Group.

Risk related issues are taken into consideration in all business decisions and the Group continually strives to maintain a conservative balance between risk and revenue consideration. Risk culture and education is always on the ascendancy across the group.

4.2 Risk Management Philosophy/Strategy

In the course of conducting our business operations, we are exposed to a variety of risks including Market, Credit, Liquidity, Operational and other risks that are material and require comprehensive controls and ongoing oversight. These risks are monitored by our core business management as well as our independent risk control groups.

- The group considers sound risk management practice to be the foundation of a long lasting financial institution.
- The group continues to adopt a holistic and integrated approach to risk management and therefore, brings all risks together under one or a limited number of oversight functions.
- Risk management is a shared responsibility. Therefore the Group aims to build a shared perspective on risks that is grounded in consensus. Decisions are mainly driven by a collective action at defined committee meetings.
- There is clear segregation of duties between market facing business units and risk management functions.
- Risk Management is governed by well-defined policies which are clearly communicated across the Group.
- Risk related issues are taken into consideration in all business decisions. The Group shall continually strive to maintain a conservative balance between risk and revenue consideration.

4.3 Risk Appetite

Zenith Bank Plc has a relatively 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 annually, 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 Group as far as risk taking is concerned.

The risk appetite describes the quantum of risk that it would assume in pursuit of its business objectives at any point in time. For the Group, it is the core instrument used in aligning its overall corporate strategy, its capital allocation and risks.

The bank sets tolerance limits for identified key risk indicators (“KRIs”), which serve as proxies for the risk appetite for each risk area and business/support unit. Tolerance levels for KRIs are jointly defined and agreed upon by the business/support units and are subject to annual reviews.

4.4 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 coordinated 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.

4.5 Risk Management Approach

The bank addresses the challenge of risks comprehensively through an enterprise-wide risk management framework and a risk governance policy by applying leading practices that are supported by a robust governance structure consisting of board level and executive management committees. The Board drives the risk governance and compliance process through its committees. The audit committee provides oversight on the systems of internal control, financial reporting and compliance. The Board credit committee reviews the credit policies and approves all loans above the defined limits for Executive Management.

The Board Risk Committee sets the risk philosophy, policies and strategies as well as provides guidance on the various risk elements and their management. The Board Risk Control Functions are supported by various management committees and sub committees (Global Credit committee, Management Risk committee and Assets and Liabilities Committee, ALCO) that help it develop and implement various risk strategies. The Global Credit committee is responsible for credit evaluation, approval and documentation activities. It ensures that the credit policies and procedures are aligned with the Group's business objectives and strategies. The Management Risk committee and ALCO drives the management of the financial risks (Market, Liquidity and Credit Risk), operational risks as well as strategic and reputational risks.

The Group continually modifies and enhances 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 Group's management of risk.

4.6 Methodology for Risk Assessments

The risk management strategy is to develop an integrated approach to risk assessments, measurement, monitoring and control that captures all risks in all aspects of the bank's activities.

All activities in the bank have been profiled and the key risk drivers and threats in them identified. Mitigation and control techniques are then determined in tackling each of these threats. These techniques are implemented as risk policies and procedures that drive the strategic direction and risk appetite as specified by the board. Techniques employed in meeting these objectives culminate in the following roles for the risk control functions of the bank:

4.7 Credit Risk

Credit risk is the risk of a financial loss if an obligor does not fully honour its contractual commitments to the bank. Obligors may be borrowers, issuers, counterparties or guarantors. Credit risk is the most significant risk facing the Bank in the normal course of business. The Bank is exposed to credit risk not only through its direct lending activities and transactions but also through commitments to extend credit, letters of guarantee, letters of credit, securities purchased under reverse repurchase agreements, deposits with financial institutions, brokerage activities, and transactions carrying a settlement risk for the Bank such as irrevocable fund transfers to third parties via electronic payment systems.

The bank has robust credit standards, policies and procedures to monitor and control all types of risks envisaged in the normal course of business including concentration risks. This is done by instituting controls in selection, underwriting, administration and management of all credits. Some of these include:

- **I.** Credit is only extended to suitable and well identified customers and never where there is any doubt as to the ethical standards and record of the intending borrower.
- **II.** Exposures to any industry or customer will be determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines.
- **III.** Credit is not extended to customers where the source of repayment is unknown or speculative, and also where the destination of funds is unknown. There must be clear and verifiable purpose for the use of the funds.
- **IV.** Credit is not given to a customer where the ability of the customer to meet obligations is based on the most optimistic forecast of events. Risk considerations will always have priority over business and profit considerations
- **V.** The primary source of repayment for all credits must be from an identifiable cash flow from the counterparty's normal business operations or other financial arrangements. The realization of security remains a fall back option.
- **VI.** A pricing model that reflects variations in the risk profile of various credits to ensure that higher risks are compensated by higher returns is adopted.
- **VII.** All insiders' related credits are limited to regulatory and strict internal limits.

4.7.1 Credit Metrics and Measurement Tools

Zenith Bank and its subsidiaries have devoted resources and harnessed data from different sources in order to develop models to improve the determination of economic and financial threats due to credit risk. Before a sound and prudent credit decision can be taken, the credit risk associated with the borrower or counterparty must be accurately assessed. This is the first step in processing credit applications. As a result some key factors are considered in credit risk assessment and measurement:

(a) Adherence to the strict credit selection criteria which includes defined target market, credit history, the capacity and character of customers.

(b) Credit rating of obligor

(c) The likelihood of failure to pay over the period stipulated in the contract.

(d) The size of the facility in case default occurs.

(e) Estimated Rate of Recovery which is a measure of the portion of the debt that can be regained through freezing of assets and collateral should default occur.

4.7.2 Credit Rating Tools

The principal objective of the credit risk rating system is to produce a reliable assessment of the credit risk to which the Group is exposed. As such, all loans and indirect credits such as guarantees and bonds as well as treasury investments undergo a formal credit analysis process that would ensure the proper appraisal of the facility.

4.7.3 Credit Risk Management

Zenith Bank's dynamic and proactive approach in managing credit risk is a key element in achieving its strategic objective of maintaining and further enhancing its asset quality and credit portfolio risk profile. The conservative, prudent and well- established credit standards, policies and procedures, risk methodologies and framework, solid structure and infrastructure, risk monitoring and control activities enable the bank to deal with the emerging risks and challenges with a high level of confidence and determination.

Our rigorous credit processes are supplemented by sectoral portfolio reviews focused on countries, regions or specific industries as well as multiple stress testing scenarios. These are intended to identify any inherent risks in the portfolios resulting from changes in market conditions and are supplemented by independent reviews from the bank's Internal Audit.

Additionally, the bank continues to upgrade and fine-tune its credit management processes in line with the developments in the financial services industry environment and technology.

4.8 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.

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.

4.8.1 Management of Market Risk

The Bank has an independent Market Risk Management unit which assesses, monitors, manages and reports on market risk taking activities across the Group. The bank has continued to enhance its Market Risk Management Framework. The operations 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 Group and ensure that:

(a) The individuals who take or manage risk clearly understand it.

(b) The Group's risk exposure is within established limits.

(c) Risk taking decisions are in line with business strategy and objectives set by the Board of Directors.

(d) The expected payoffs compensate for the risks taken.

(e) Sufficient capital, as a buffer, is available to minimise the impact of the risk.

The bank proactively manages its market risk exposures in both the trading and non-trading books within the acceptable levels.

4.8.2 Foreign Exchange Risk

Fluctuations in the prevailing foreign currency exchange rates can affect the Groups financial position and cash flows - 'On' and 'Off' Balance Sheet. The bank manages part of the foreign exchange risks through basic derivatives products and hedges (such as forward and swap). It is also managed by ensuring that all risk taken by the Group are within approved limits. In addition to adherence to regulatory limits, Zenith bank established various internal limits (such as the banks non-VAR models, overall overnight and Intra-day positions), Dealer limits, as well as individual currency limits, etc which are monitored on a regular basis. These limits are set with the aim of minimizing the Group's exposures to exchange rate volatilities and keep same within acceptable level.

4.8.3 Interest Rate Risk

The bank is exposed to a considerable 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

These changes could have a negative impact on the net interest income, if not properly managed. The bank 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 bank also enjoys some form of flexibility in adjusting both lending and deposits rates to reflect current realities.

4.9 Liquidity Risk

Liquidity risk is the potential loss arising from the bank's inability to meet its obligations as at and when 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.

4.9.1 Liquidity Risk Management Process

The bank 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 Group 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 Treasury Group while the Asset and Liability Management Committee (ALCO) has a very tight oversight function on the activities of the Group on a regular basis. The committee meets on a weekly basis and ensures that the bank maintains adequate liquid assets and marketable securities sufficient to manage any liquidity stress situation. The liquidity ratio of the bank remains one of the best among its' peers and is far above the regulatory limits.

4.10 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.

The bank 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.

Operational risk objectives include the following:

(a) To provide clear and consistent direction in all operations of the bank

(b) To provide a standardized framework and appropriate guidelines for creating and managing all operational risk exposures

(c) To enable the group identify and analyze events (both internal and external) that impact its business.

The Operational Risk units constantly carry-out reviews to identify and assess the operational risk inherent in all material products, activities, processes and systems. It also ensures that all business units within the Bank monitor their operational risk using set standards and indicators. Significant issues and exceptions are reported to Risk Management and are also picked up by the independent risk function for discussion at the risk management committee.

Disaster recovery procedures, business continuity planning, self-compliance assurance and internal audit also form an integral part of our operational risk management process.

4.11 Strategic Risk

Strategic risk refers to possible loss(es) 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 our responsiveness to industry changes.

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

4.12 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:

(a) Board and senior management overseeing the proper set-up and effective functioning of the reputational risk management framework

(b) Enterprise Risk Management Policy/Strategy (ERSP) is responsible for supporting the Board and senior management in overseeing the implementation of reputational risk management framework.

(c) 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:

(a) Identification: Recognizing potential reputational risk as a primary and consequential risk

(b) Assessment: Qualitative assessment of reputational risk based on the potential events that have been identified as reputational risk.

(c) Monitoring: Frequent monitoring of the reputational risk drivers

(d) Mitigation and Control: Preventive measures and controls for management of reputational risk and regular tracking of mitigation actions

(e) Independent review: The reputational risk measures and mitigation techniques shall be subject to regular independent review by the Internal Auditors and/or Statutory Auditors.

(f) Reporting: Regular, action-oriented reports for management on reputational risk.

4.13 Legal Risk

Legal risk is defined as the risk of loss due to defective contractual arrangements; legal liability (both criminal and civil) incurred during operations by the inability of the organization to enforce its rights, or by failure to address identified concerns to the appropriate authorities where changes in the law are proposed. The bank manages this risk by monitoring new legislation, creation of awareness of legislation amongst employees, identification of significant legal risks as well as assessing the potential impact of these.

Legal risks management in the bank is also being enhanced by appropriate product risk review and management of contractual obligations via well documented Service Level Agreements and other contractual documents.

5 Capital Management

The strategy for assessing and managing the impact of our business plans on present and future regulatory capital forms an integral part of the bank’s strategic plan. Specifically, the Group considers how the present and future capital requirements will be managed and met against projected capital requirements. This is based on the bank's assessment and against the supervisory/regulatory capital requirements taking account of the bank business strategy and value creation to all its stakeholders.

The bank prides itself in maintaining very healthy capital adequacy ratio in all its areas of operations. Capital levels are determined either based on internal assessments or regulatory requirements. The Group maintained impressive capital levels above the regulatory minimum prescribed in all its operating jurisdictions.

The Capital Adequacy of the bank is reviewed regularly to meet our internal guidance limits, regulatory requirements and standard of international best practices in order to adopt and implement the decisions necessary to maintain the capital at a level that ensures the realisation of the business plan with a certain safety margin.

The bank undertakes a regular monitoring of capital adequacy and the application of regulatory capital by deploying internal systems based on the guidelines provided by the Central Bank of Nigeria (CBN) and the regulatory authorities of the subsidiaries for supervisory purposes.

It has consistently met and surpassed the minimum capital adequacy requirements applicable in all areas of operations. Most of the bank's capital is Tier 1 (Core Capital) which consists of essentially share capital, and reserves created by appropriations of retained earnings.

Banking subsidiaries in the Group, not incorporated in Nigeria, are directly regulated and supervised by their local banking supervisor and are required to meet the capital requirement directive of the local regulatory jurisdiction. Parental support and guidance are given at the Group level where the risk level in the Group in relation to capital level and adequacy is closely monitored. The Group supports and meets all capital requests from these regulatory jurisdictions and determines the adequacy based on its expansion strategies and internal capital assessments.

The bank’s capital plan is linked to its business expansion strategy which anticipates the need for growth and expansion in its branch network and IT infrastructure. The capital plan sufficiently meets regulatory requirements as well as providing adequate cover for the Group's risk profile. The bank capital adequacy remains strong and the capacity to generate and retain reserves continues to grow.

The bank will only seek additional capital where it finds compelling business need for it and with the expectation that the returns would adequately match the efforts and risks undertaken.

The following sources of funds are available to the bank to meet its capital growth requirements:

- **(a)** Profit from Operations: The bank has consistently reported good profit which can easily be retained to support the capital base.
- **(b)** Issue of Shares: The bank can successfully access the capital market (Local and/or International) to raise desired funds for its operations and needs.
- **(c)** Bank Loans (long term/short term).
- **(d)** Global Depository Receipts (GDR) and Eurobond

In 2014 financial year, Zenith Bank commenced capital computations in accordance with Basel II standard under the guidelines issued by the Central Bank of Nigeria. The guidelines require capital adequacy computations based on the Standardized Measurement Approach for Credit Risk and Market Risk while Basic Indicator Measurement Approach was advised for Operational Risk. The capital requirement for the Bank has been set at 15% and an addition of 1% as a Systemically Important Bank (SIB) in accordance with the guidelines.

5.1 Capital Structure

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 30th June 2017

Capital Structure	Amount(NairaMn)
Eligible Total Tier 1 Capital	**652,237**
Eligible Total Tier 2 Capital	**-**
Total Regulatory Capital	**652,237**

5.2 Overall Capital Requirement

Zenith Bank's total capital requirement as at 31st December, 2017 is set out below:

Risks	Capital (N Mn)	RWA (N Mn)
Credit risk	310,044.15	2,066,961
Market risk	5,036	62,956
Operational risk	43,226	540,331
Pillar 1 Capital Requirement(See Annexure 1)**	**358,306.15**	**2,670,248.00**
Credit Concentration Risk	47,017	313,447
IRRBB	8,830	58,867
IT Risk	6,736	44,909
Liquidity risk		
Strategic risk		
Reputational risk		
Pillar 2 Capital Requirement	**62,583**	**417,222**
Economic Capital (Pillar 1 + Pillar 2)	**420,889**	**3,087,470**
Tier 1 Capital	652,237	
Tier 2 Capital	-	
Total Available Capital (Tier 1 + Tier 2)	652,237	
Regulatory Capital Adequacy ratio	**24.43%**	
Economic Capital Adequacy ratio	**21.13%**	
CBN Guidelines	15.00%**	

The Risk Assessment carried out has the following highlights:

- Credit Risk Capital computation as per Standardised Approach comprises about 77.40% of the total capital requirement for Pillar 1.
- The Maturity Method (under Standardized Approach as per CBN guidelines) has been adopted for Market Risk Capital Computation. The capital requirement for market risk as of 31st Dec 2017 is ₦ 5,036M which is less than 1% of the total capital requirement.
- The bank performed Net Interest Income (NII) analyses (IRRBB) to measure the impact of changes in interest rate on NII. The impact of 200Basis Point Shift in Interest Rates as a result of Repricing Risk amounted to ₦ 8.83Bn. Consequently, we made a capital allocation of ₦ 8.83Bn under Pillar 2 Risks.
- The capital requirement for operational risk as of 31st Dec 2017 is ₦43,226 M, which is about 12.06% of the total capital requirement.
- Based on the stress test carried out on Government, Manufacturing and Oil & Gas sectors (constituting over 60% of the total loan portfolio) which caused a dip in the capital adequacy ratio and NPL's ratio, the bank calculated a HHI based Risk Weighted Asset that requires a further capital charge of N47B as a buffer for the concentration risk identified.
- The bank also takes into cognizance the significance of IT to its banking activities which comes with some attendant risk elements in form of system down time, rollback plans on different systems implementation. A buffer of ₦ 6.74Bn was allocated which is about 1% of the bank's gross earnings.
- Stress testing has been carried out for Credit Risk, Market Risk, Interest Rate Risk in Banking Book, and Liquidity Risk. The stress scenarios have been selected taking into consideration the nature and complexity of Bank's operations.
- Detailed risk control measures have been described for some additional risks arising from some aspects of our business and we have tried to estimate and quantify capital needs as much as possible.
- The Bank has a regulatory capital adequacy ratio of 24.43% with a margin of 9.43% over regulatory requirement for commercial banks.

It can be seen that the Bank's capital is adequate to meet both anticipated regulatory requirements and its own capital assessment. Looking forward and taking account of future projected business, there is headroom above the Bank's own internal assessment of capital requirements. We will also focus more attention on how to improve our systems to enable us move into more advanced approaches(in the key risk areas-Credit, Market and Operational Risk) in order to take advantage of lower capital requirements.

6. RISK GOVERNANCE

6.1. Overview

Board Sub-committees

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

Composition & Responsibilities of Board Committees			
Committee	**Members**	**Responsibilities**	**Meetings**
Board Audit and Compliance Committee (BACC)	• 3 Representatives of Shareholders • 3 Non-Executive Directors	• 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).	Quarterly
Board Risk Committee (BRC)	• Chief Executive Officer • 3 Non-Executive Directors • 1 Executive Director	• ensure that sound policies, procedures and practices are in place for the risk-wide management of the Bank's material risks and to report the results of the Committee's activities to the Board of Directors • 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)	• Chief Executive Officer • 4 Non-Executive Directors • 4 Executive Directors	• To establish and periodically review the Bank's credit policy and portfolio in order to align organizational strategies, goals and performance • 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
Board Finance and General Purpose Committee	• 3 Non-Executive Directors • 3 Executive Directors	• 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
Board Governance, Nominations and Remuneration Committee (BGN&RC)	• Chief Executive Officer • 5 Non-Executive Directors • 1 Executive Director	• Determine a fair, reasonable and competitive compensation practice for executive and Non-executive officers and other key employees of the Bank which are consistent with the Bank's objective. • Review and continuous assessment of the size and composition of the Board and Board Committees, and recommend the appropriate Board structure requirements in line with needs of the Group and diversity required	Quarterly
Executive Committee (EXCO)	• Chief Executive Officer • 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	Twice Weekly

Composition & Responsibilities of Board Committees			
Committee	**Members**	**Responsibilities**	**Meetings**
		strategy; and is managed in a sound, prudent and ethical manner. • provide leadership to the Management team and ensure efficient deployment and management of the Bank's resources	

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, analyzing, 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.
- **Management Global Credit Committee (MGCC)**: 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.

6.2. 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.

6.3. Assurance

The assurance function is provided by the Internal Audit, External Audit and The Board of Directors. 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.

6.3.1. 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.

6.3.2. External Audit

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

6.3.3. 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 business activities are always compliant with regulatory requirements. The Head of Compliance Group reports directly to the Executive Compliance 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 as applicable in the industry. This involves training on customer on-boarding activities like: Customer due Diligence, Account Opening, Customer Acceptance including Customer Classification modules, and always 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.

6.3.4. The Board of Directors

The board provides independent assurance to all the stakeholders that the institution is run in a professional manner and in line with Global best practice. It also provides comfort that all applicable regulatory/supervisory guidelines are being adhered to in the running of the bank's affairs.

7. 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)	Yes	Concentrations along Geographical lines
	Interest Rate Risk in Banking Book (IRRBB)	NII / EVE Approach	Yes	Impact within acceptable threshold- But Capital is allocated in recognition of the implication of the Risk to the Bank.
	Liquidity Risk	Liquidity Gap Approach	No	Adequate liquidity buffers available
	Strategic Risk	Qualitative Assessment	No	Minimal risk level. Available Controls are sufficient to mitigate Risk.
	Reputational Risk	Qualitative Assessment	No	Minimal risk level. Available Controls are sufficient to mitigate Risk.
	Regulatory/ Compliance Risk	Qualitative Assessment	No	Minimal risk level. Available Controls are sufficient to mitigate Risk.
	Physical Security	Qualitative Assessment	No	Minimal risk level. Available Controls are sufficient to

				mitigate Risk.
	Technology Risk	Qualitative Assessment	Yes	Adequate Controls are in place. But Capital is allocated in recognition of the implication of the Risk to the Bank.
	Legal Risk	Qualitative Assessment	No	Minimal risk level. Available Controls are sufficient to mitigate Risk.
	Political Risk	Qualitative Assessment	No	Minimal risk level. Available Controls are sufficient to mitigate Risk.

7.1 Pillar 1 Risks

7.1.1. 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 the Bank's business objectives. The Bank is involved in several business activities. The principal activity of the Bank is granting credit facilities. The Bank is exposed to credit risk not only through its direct lending activities and transactions but also through commitments to extend credit, letters of guarantee, letters of credit, securities purchased under reverse repurchase agreements, deposits with financial institutions, brokerage activities, and transactions carrying a settlement risk for the Bank such as irrevocable fund transfers to third parties via electronic payment systems. It is the most significant risk type in terms of regulatory capital requirements.

7.1.1.1. Credit Risk – Identification

Credit risk is one of the core risks assumed in pursuit of the Bank's business objectives and is the most significant risk type in the context of regulatory capital requirements. With a sizeable loan portfolio, Zenith Bank is exposed to credit risk through direct lending, issuance of financial and performance guarantees and investment activities. Credit decisions at the Bank are based on review of the obligor's creditworthiness and track record. The credit portfolio is managed at aggregate level to optimise the risk exposure.

7.1.1.2. Credit Approval Process

The Zenith bank approval process is designed in a way that ensures that credit is approved by a Global Credit Committee (GCC) at the Head Office. This committee comprises of the GMD/CEO, all Executive Directors, The Chief Credit Officer, The Chief Risk Officer, The Loan Review and Recovery team, the legal team and other key risk control officers. The Group/Zonal Heads are also members of the committee and they present and defend their credits at the GCC. Decisions are reached unanimously and any dissenting opinion is reviewed and defended before any credit is approved. No single individual can approve any credit in the bank. All credits above the current threshold of N1, 000, 000, 000:00 (One Billion Naira) are approved by the Board Credit Committee and ratified by the Board.

7.1.1.3. Target Market Definition

In order to control the quality of credit acquired, the Bank uses a **Target Market Definition**. The target market definition articulates clearly the acceptable and desirable profile of customers for various credit products and service offerings in the Bank and gets periodically reviewed in line with the Bank's business objectives. Key dimensions that help define the Target Market Definition are:

- Industry or business segment
- Geography, location or branch wise distribution
- Customer or borrower segment based on their demographic, turnover size, business volume and annual income
- Credit risk rating: Obligor and Facility risk rating wise distribution – wherever rating is available and used
    -

The following sectors /industries will be targeted to develop these group of customers:

- Telecommunications
- Fast Moving Consumer Goods (FMCG)
- Power and Energy
- Oil and Gas
- Agriculture
- Consumer Products, Healthcare, Pharmaceutical
- Transport
- Manufacturing
- Infrastructure Development, Civil Engineering, Real Estate etc.

In addition to the above the Bank maintains and periodically updates a negative list of industries and obligor groups which are ineligible for any credit / related facilities.

a. <u>Risk Acceptance Criteria</u>:

Apart from the Target Market Definition, the Bank pursues a set of sound principles which specify the terms and conditions for extending facilities to an obligor in the 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 as per the Target Market Definition and the above criteria for Risk acceptance.

As part of the ICAAP assessment, Credit Exposures are classified by the Bank into Basel-II asset classes as per CBN guidelines. In addition to this type of classification, the Bank also classifies the Credit Portfolio using its internal Credit Risk Rating grades. However, for ICAAP assessment, the Bank's internal ratings have not been used in any manner but have been merely shown for expository purposes in the section on Credit Risk Reporting.

b. <u>Classification of Exposures as per CBN and Basel-II guidelines</u>:

CBN in its published note titled 'CBN Guidance Notes on Credit Risk Capital Requirement - Dec 2013' clearly highlights the following types of credit exposures

Exposures are classified into 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

c. **Classification as per Prudential Guidelines:**

The foremost method of identification of Credit Risk pursued by the Bank is a reporting of the Credit Portfolio by the Asset Quality. As on 31st Dec 2017, following table gives the detailed segregation of the Credit Portfolio on basis of the Asset Quality.

Table 8: CREDIT PORTFOLIO BY ASSET QUALITY

	Amount (Naira Mn)	As a % of Total Credit Portfolio
Standard	2,025,330	95.67
Sub-standard	20,711	0.98
Doubtful & Loss	71,028	3.36
Total	**2,117,069**	**100.00**

For the purposes of ICAAP, the Credit Portfolio is segregated as per exposure categories outlined by CBN and Basel – II guidelines above in Section (c):

Table 9: CREDIT EXPOSURE BY SEGMENT (as per CBN Guidelines)

No.	Segment	Exposure (Naira Mn)	% of Total
1	Sovereigns	2,117,186	41.58
2	State & Local Governments	208,598	4.10
3	Public Sector Entities (PSEs)	134,184	2.64
4	Supervised Institutions (DMBs, Discount Houses, etc.)	264,598	5.20
5	Corporates and Other Persons	1,575,212	30.93
6	Regulatory Retail Portfolio	20,837	0.41
7	Secured by Residential Mortgages	7,365	0.14
8	Secured by Commercial Mortgages	18,361	0.36
9	Past Due Exposures	49,724	0.98
10	Other Balance Sheet Exposures	325,087	6.38
11	Off Balance Sheet Exposures	370,988	7.29
	TOTAL	**5,092,140**	

The segment analysis above indicates that the exposure to Sovereigns has the largest share of the Credit Portfolio as on 31 Dec 2017 with a share of 41.58%.

7.1.1.4. Credit Risk – Measurement

Once credit exposures are classified as per above schema, measurement of Credit Risk starts through the computation of Risk Weighted Assets corresponding to each category of exposure. The following sections explain in detail about Credit Risk Measurement:

a. **Capital Computation for Credit Risk**

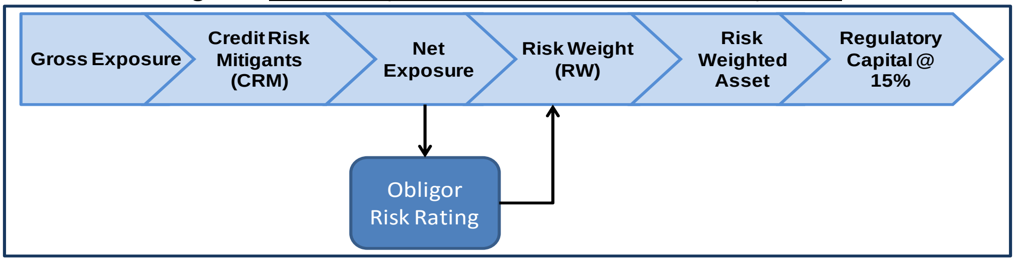
The Bank has used Standardised Approach (SA) for assessment of Credit Risk Capital Charge as per the CBN's Basel-II guidelines. The classifications of the Bank's total exposures into various Asset Classes have been done as per the CBN's Basel-II guidelines. As exposure in most of the Asset classes are to obligors who are not rated by External Credit Assessment Institutions (ECAIs), 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.

b. RWA Measurement Process Flow Chart:

Following flow chart illustrates the essential components of the above process.

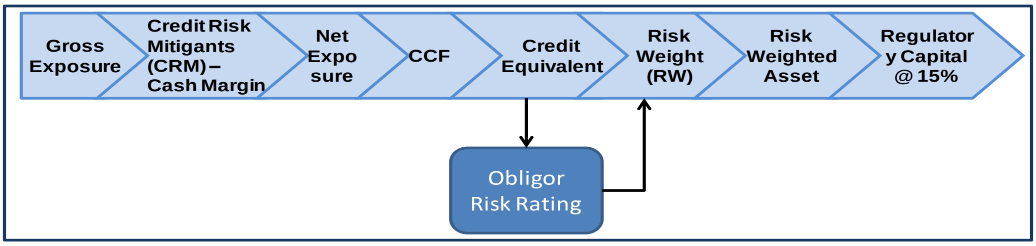
RWA and Regulatory Capital Computation Flow – **On Balance Sheet Credit Exposures:**

Figure 1: RWA Computation for On-Balance Sheet Exposures



RWA and Regulatory Capital Computation Flow – **Off Balance Sheet Credit Exposures:**

Figure 2: RWA Computation for Off-Balance Sheet Exposures



a. Credit Portfolio Dissection using Exposure and RWA

Risk Weights (RW) have been assigned as per CBN Guidelines from Credit Risk ("CBN Guidance Notes on Credit Risk Capital Requirement - December 2014")

Table 10: Credit Exposure & RWA

Asset Class	Exposure Amount (Naira Mn)	CRM	Net Exposure After CRM (Naira Mn)	RWA (Naira Mn)
Sovereigns	2,117,186	-	2,117,186	-
State & Local Governments	208,598	140,789	67,809	62,689
Public Sector Entities (PSEs)	134,184	116,972	17,213	17,213
Supervised Institutions	264,598	-	264,598	98,868
Corporates and Other Persons	1,575,212	138,303	1,334,355	1,334,355
Regulatory Retail Portfolio	20,837	453	20,384	15,288
Secured by Residential Mortgages	7,365	307	7,058	5,293
Secured by Commercial Mortgages	18,361	8,197	10,164	10,164
Past Due Exposures	49,724	4,506	54,638	75,650
Other Balance Sheet Exposures	325,087	-	325,087	188,376
Off Balance Sheet Exposures	370,988	72,633	259,065	259,065

The above table shows the total credit exposures along with risk weighted assets (RWA) classified according to the asset category as per CBN. 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.

c. Credit Portfolio Dissection using Internal Rating Grades

1) Dimensions considered in Assigning Ratings:

The Credit Analyst carries out risk analysis of the obligor based upon, Business, Financial, Management and Industry factors that determine the obligor's future financial performance. While carrying out industry analysis the credit analyst considers the industry structure, competition and performance of the industry, both current & future expectations and its impact on obligor's financial performance.

Credit Risk Analyst inputs all the requisite financial (factors derived from audited financial statements) and non-financial (qualitative factors) parameters in the risk rating model to arrive at the risk rating score and grade of the client.

2) Internal Rating Grades and Derivation:

Zenith Bank uses a set of internal rating values. These ratings are integer values starting from 1-10.
Each risk grade in the Bank's master scale is defined by a rating. The grading is assigned on a scale of 1 to 10 as:

- 1 – Superior financial condition and profitability
- 2 – Strong financial condition and profitability
- 3 – Good without significant risk
- 4 – Satisfactory without significant risk
- 5 – Acceptable: meets minimum underwriting standards
- 6 – Bankable with care
- 7 – Sub-Standard; Potential weakness that deserve close attention
- 8 – Doubtful; well defined weakness
- 9 & 10 – Loss; Pronounced weakness

The assignment of a risk grading is not a prediction that there will be an actual loss on a specific obligor or facility, but an assessment that an obligor or facility displays characteristics similar to others that, based on experience, are expected to generate a present-value loss that falls within a range of loss norms. To the best possible extent every borrower/guarantor/co-borrower would be assigned a risk grade. Other risk mitigating considerations on a facility to a customer, such as collateral and product risk are to be taken into account into recovery rate & not the risk grade of the customer.

These 10 rating values are further combined into 4 rating categories designated as follows:

- Investment Grade: rating 1 to 4
- Acceptable: rating 5
- Banking with care: rating 6
- Classified: rating 7 to 10

3) **Credit Portfolio Distribution by Internal Rating Grades:**

The entire credit portfolio of the Bank has been partitioned on basis of their internal ratings grades as of two points in time – 31st Dec 2016 and 31st Dec 2017. Following tables show the details. Following table describes the Internal Rating-Wise distributions of Credit Portfolio compared between Dec 2016 and Dec 2017:

Table 11: Credit Exposure by Internal Rating – (YoY Comparisons)

Internal ratings		Loan Amount (N million)		% of total loans	
Rating	**Rating**	**Dec-2017**	**Dec-2016**	Dec-2017	**Dec-2016**
AAA	**1**	241,701	232,541	11.42	10.60
AA	**2**	961,734	340,930	45.43	15.54
A	**3**	480,648	199,218	22.70	9.08
BBB	**4**	179,061	793,662	8.46	36.19
BB	**5**	166,519	119,000	7.87	5.43
B	**6**	-	-	-	-
CCC	**7**	87,032	447,875	4.11	20.42
CC	**8**	-	-	-	-
C	**9 & 10**	-	-	-	-
UNRATED		374	59,998	0.02	2.74
Total		2,117,069	2,193,224	100	100

From the preceeding table, following are some of the insights that emerge:

- Overall decline observed in the top-end rating grades i.e. AAA-AA
- Migration of Credit Portfolio to the intermediate grade i.e. BBB

7.1.1.5. Credit Risk – Monitoring

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 risk quality. The triggers and early-warning systems are supplemented by facility utilisation 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 rating process in a quarterly review activity.

Credit risk is monitored on an ongoing basis with formal weekly, monthly and quarterly reporting to ensure senior management's 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 is continously being improved in order to improve the facility monitoring activity and assure good quality Risk Assets Portfolio accross the Group.

A specialised and focused loan recovery and workout team handles the management and collection of problem credit facilities.

7.1.1.6. Credit Risk - Reporting

Reporting for Credit Risk is being done primarily in two ways; Business & Regulatory Reporting. These types of reporting aim at helping business prioritize and take appropriate decisions to control credit quality. Reporting provides:

- Meaningful information on external and internal drivers, key portfolio highlights, performance and trends
- Aids the maintenance of a statistical base for formulating/modifying lending policies and procedures, and advises business direction towards loan portfolio management.

All indicators are compared and reviewed with historical performance, expected results and competitive benchmarks where available. Forecasts for future periods are updated based on actual performance and revised expectations

7.1.1.7. Credit Risk – Control and Mitigations

Controls are essential in maintaining the quality of credit portfolio over time. Dimensions of control exercised by the Bank 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 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 instalments for identifying any overdue amounts under loans
- Maintenance and revision of watch-list criteria for non-performing loan accounts / early indicators of non-repayment behaviour. 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.

Table 11: 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	2,117,186	-	-
2	Exposures to State & Local Governments	208,598	62,689	9,403
3	Exposures to Public Sector Entities (PSEs)	134,184	17,213	2,582
4	Exposures to Supervised Institutions	264,598	98,868	14,830
5	Exposures to Corporates and Other Persons	1,575,212	1,334,355	200,153
6	Exposures included in Regulatory Retail Portfolio	20,837	15,288	2,293
7	Exposures Secured by Residential Mortgages	7,365	5,293	794
8	Exposures Secured by Commercial Mortgages	18,361	10,164	1,525
9	Past Due Exposures	49,724	75,650	11,348
10	Other Balance Sheet Exposures	325,087	188,376	28,256
11	Off-balance sheet exposures	370,988	259,065	38,860
12	Regulatory Risk Reserve	-	-	-

Sl. No.	PART A: RISK-WEIGHTED AMOUNTS (ON-BALANCE SHEET EXPOSURES (Naira Mn.)	Exposure Amounts	RWA	Capital
	TOTAL	5,092,140	2,066,961	310,044

7.1.2. 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.

The Bank 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.

7.1.2.1. Market Risk – Identification

Traded market risk arises from positions in Federal Government of Nigeria (FGN) bonds, treasury bills in Bank's trading portfolios and foreign currency positions in trading as well as banking book.

Table 12: Position in the Trading Portfolio as on 31st Dec 2017

Instrument Type (Trading Book)	Value (N Mn)
FGN bonds	32,194.05
T-bills	684,094.30

Table 13: Position in the Foreign Exchange as on 31st Dec 2017

FOREX	Value (N Mn)
USD	4,154.45
GBP	-2.74
EUR	65.98
CHF	5.86
JPY	0.13
ZAR	22.03
SEK	0.00

Foreign exchange risk, also referred to as structural foreign exchange risk, arises primarily from lending foreign currency loans and accepting foreign currency deposits. Above table shows the currency-wise foreign currency trading positions of the Bank as on 31st December, 2017.

7.1.2.2. Market Risk – Measurement

The Bank computes the Capital charge for market risk using Maturity method under standardized approach as per CBN guidelines.

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

Table 14: 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)	716,288	4,696.60	58,707.49
Foreign Exchange Risk (Net Open Position)	4,248	339.88	4,248.45
Total	**720,536**	**5,036.48**	**62,955.94**

The above table shows the market risk exposures along with the capital charge computed under the Standardized Approach. The capital charge for market risk is fairly low in comparism with the other risk types due to the size of the trading portfolio.

7.1.2.3. Market Risk – Monitoring and Reporting

The Bank classifies the exposures into the trading book as per Basel II 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 Treasury group and the Senior Management.

7.1.2.4. Market Risk – Control and Mitigations

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 it identifies any breaches during the 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, Duration , Sensitivities 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.

7.1.3. 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.

7.1.3.1. Operational Risk – Identification

To identify operational risks, the Bank has established the Risk and Control Self Assessment (RCSA) Process. This process has been in place since early 2013 to enable us 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 also implemented an internal loss event data collection exercise to identify operational risk events and evaluate the causes and impact thereof.

7.1.3.2. Operational Risk – Measurement

The Group 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.

Operational risk objectives include the following:

(a) To provide clear and consistent direction in all operations of the group

(b) To provide a standardised framework and appropriate guidelines for creating and managing all operational risk exposures

(c) To enable the group identify and analyse events (both internal and external) that impact on its business.

Risk Acceptance Criteria

These are the preconditions upon which the decision to accept the likelihood and impact of a particular risk is evaluated. Risk acceptance criteria are used as a basis for decisions about acceptable risk. Risk acceptance depends on risk criteria and the risk appetite of executive management. Zenith Bank accepts risks that are within it comfort level (risk appetite).

Risk Assessment/Measurement Criteria

Risk assessment is all about measuring and prioritizing risks so that risk levels are managed within defined tolerance thresholds without being over controlled or forgoing desirable opportunities. Assessing risks consists of assigning values to each risk and opportunity using the defined criteria. The The Bank uses Probability and Impact matrix to determine which risks need detailed risk response plans.

- Probability determination is based on historical event data and the effectiveness of existing control, while
- Impact determination is based on the effect on Finance, Reputation, Human live and Disruption in Operations

This initiative has been instituted and the Bank aims to achieve compliance by all busines units on an annual basis.

Calculation of Risk Level

Risk level calculation is a combination of the probability of an event occurring and the consequences if that event does occur. This gives a simple formula to measure the level of risk in any situation. (Prob x Impact = Risk Level)

The risk level is assessed and evaluated in 3 steps namely

- inherent risk assessment,

- control assessment and
- Residual risk assessment.

The risk assessment is based on the probability and impact represented on a five (5) point scale, as indicated below. The qualitative and quantitative definitions provides guidance for selection of probability and impact.

Probability	Description	Rating
Very High	Occurs Daily	5
High	Occurs Weekly	4
Medium	Occurs Monthly	3
Low	Occurs Quarterly	2
Very Low	Occurs once in two years or more	1

Impact	Description	Rating	Value in =N=
Catastrophic	Impact is considered catastrophic when the event threatens the existence of bank	5	Greater than 20M
Critical	Impact is considered critical when the event could prevent the bank from achieving all, or a major part, of its objectives for a period greater than 6 months	4	Up to 20 M
Moderate	Impact is considered Moderate when event could stop the bank achieving its objectives for a period of six to three months	3	Up to 1M
Minor	Impact is considered Minor when the event could stop the bank achieving its objectives for a limited period of Three to one month	2	Up to 100,000
Negligible	Impact is considered Insignificant when the event could cause minor inconvenience but will not affect the achievement of the objectives	1	Below 20,000

7.1.3.3. Operational Risk - Control and Mitigations

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;

The "Control" is defined as any measure taken by management, which either reduces the likelihood (Frequency) of an event occurring or reduces the potential damage (Severity) arising from that event. Control includes measures to ensure adherence to management's directives, policies and procedures as well as conformity to local laws and regulations.

The control assessment evaluate the controls against relative risks to determine appropriateness, effectiveness and efficiency. Each control is rated on a five point scale of 1-5 as shown below:

Control Rating		Assessment Area
Sr.No	Level	% of sample size passing the test
1	Very Weak	0 - 20 %
2	Weak	20 - 40 %
3	Medium	40 - 60 %
4	Strong	60 - 80%
5	Very Strong	80 - 100 %

Control Effectiveness	Description
Very Strong	Occurs DailyInternal controls are considered very effective and efficient
Strong	Internal controls are considered appropriate in the circumstances may require action
Medium	Some weakness noted, minimal action required
Weak	Significant weakness have been identified and major action required
Very Weak	No controls are in place, significant and immediate action required

Prioritize risks.

Risk prioritization is the process of determining risk management priorities by comparing the level of risk against predetermined target risk levels and tolerance thresholds. Risk is viewed not just in terms of financial impact and probability, but also subjective criteria such as health and safety impact, reputational impact, vulnerability, and speed of onset. The Bank prioritize it risks from the highest to the lowest and treatment is be applied accordingly.

Risk Treatment

Risk treatment involves developing a range of options for mitigating the risk, assessing those options, and then preparing and implementing action plans. The highest rated risks is addressed as a matter of urgency.

Selecting the most appropriate risk treatment means balancing the costs of implementing each activity against the benefits derived. In general, the cost of managing the risks needs to be commensurate with the benefits obtained. When making cost versus benefit judgments the wider context is taken into account.

Depending on the type and nature of the risk, the the bank uses the following options to treat its risk:

- Avoid (Terminate) - deciding not to proceed with the activity that introduced the unacceptable risk, choosing an alternative more acceptable activity that meets business objectives, or choosing an alternative less risky approach or process.
- Reduce (Treat) - implementing a strategy that is designed to reduce the likelihood or consequence of the risk to an acceptable level, where elimination is considered to be excessive in terms of time or expense.
- Share/Transfer (Transfer) - implementing a strategy that shares or transfers the risk to another party or parties, such as outsourcing the management of physical assets, developing contracts with service providers or insuring against the risk. The third-party accepting the risk is aware of and agree to accept this obligation.
- Accept (Tolerate) - making an informed decision that the risk rating is at an acceptable level or that the cost of the treatment outweighs the benefit. This option may also be relevant in situations where a residual risk remains after other treatment options have been put in place. No further action is taken to treat the risk, however, ongoing monitoring is recommended.

A range of treatments may be available for each risk and these options are not necessarily mutually exclusive or appropriate in all circumstances. Selection of the most appropriate risk treatment approach is developed in consultation with relevant stakeholders and process owners.

7.1.3.4. 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 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.

7.1.3.5. 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 make 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 busines continuity planning. These reports are reviewed by the Chief Risk Officer, Operational Risk SubCommittee & Board Risk Management Committee.

7.1.3.6. Operational Risk – Capital Measurement

The Bank currently allocates capital for operational risks by following the Basic Indicator Approach (BIA), as recommended by the Basel Committee and the Central Bank of Nigeria (CBN). Based on 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 preceeding 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 Bank has been compiling internal loss data and developing capacity to move to more advance and risk sensitive approach. However, the BCBS after its several consultations has finally withdraw all existing approaches and replacing them with a new Standardized Measurement Approach (SMA.) this revised the Business Indicator (BI) and combines it with some recognition of a bank's internal loss data (for medium and large sized banks), thereby introducing a degree of risk-sensitivity and providing some incentive for banks to improve their operational risk management. The bank will continue to adopt the BIA Approach till such time a decision is taken on adopting the Standardize Measurement Approach. It is intended that operational risk practices are followed that would support transition to and adoption of the SMA.

Internal loss gathering process is in place and being implemented. The bank will continue to review and fine turn the process to capture all operational risk events including near misses and potential losses

The computation of operational risk capital requirement as of 31 December 2017 is based on the average of the following quarterly gross income data:

Table 15: OPERATIONAL RISK CAPITAL COMPUTATION

GROSS INCOME (Naira Mn.)	2014 Year 1	2015 Year 2	2016 Year 3
Gross income for the Three financial years under consideration	264,190	278,012	322,327
Aggregate gross income (year 1 to 3)	864,529		
Beta factor	15%		
gross income X beta factor	129,679		
Number of year with positive annual gross income	3		
Operational risk capital charge	**43,226**		

Capital requirement as cushion for Operational Risk, as determined using the Basic Indicator Approach for Operational Risk under Basel II, amounts to NGN 43,226 billion, which represents 6.62% of total capital of NGN 652,237 million.

Pillar 2 Risks

7.2.1 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. The Bank performs NII sensitivity analysis and Economic value of equity (EVE) analysis as measures of IRRBB.

7.2.1.1 Standardized Approach for IRRBB Capital Assessment

The Bank follows the following procedure for computation of capital for Interest rate risk in the Banking book:

a. Step 1: Offset of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL)

- For each significant currency for which the Bank has an exposure to the Bank shall identify the RSA and RSL and slot them under the relevant time band
- RSA and RSLs in each time band shall be offset to obtain a single RSA and RSL for each time band

b. Step 2: Computation of Weights for RSA and RSLs

Each RSA and RSL is weighted by a factor to reflect the sensitivity of the positions in the different time bands to an assumed change in Interest rates. Basel prescribes a parallel shift of 200 bps in the form of an Interest rate shock to be applied to all the time bands. The table below describes the weights with which the RSA and RSL in each time band are to be multiplied.

- The first step is to offset the longs and shorts in each time band, resulting in a single short or long position in each time band
- The second step is to weight these resulting short and long positions by a factor that is designed to reflect the sensitivity of the positions in the different time bands to an assumed change in interest rates. The set of weighting factors for each time band is set out in Table below. These factors are based on an assumed parallel shift of 200 basis points throughout the time spectrum, and on a proxy of modified duration of positions situated at the middle of each time band and yielding 5 %
- The third step is to sum these resulting weighted positions, offsetting longs and shorts, leading to the net short or long weighted position of the banking book in the given currency

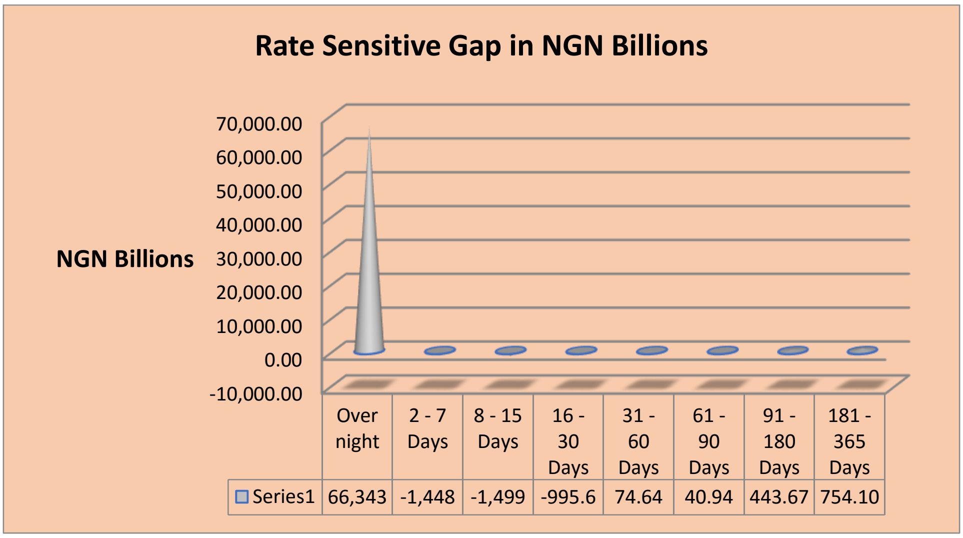
- The fourth step is to calculate the weighted position of the whole banking book by summing the net short and long weighted positions calculated for different currencies
- The fifth step is to relate the weighted position of the whole banking book to capital
- If the computed weighted net gap for the banking book is negative then it has to be compared with the Sum of Tier 1 and Tier 2 capital.
- The Bank takes steps to improve the position as and when the computed weighted net gap for the banking book as a percentage with Sum of Tier 1 and Tier 2 capital exceeds 15%.

Table 14: INTEREST RATE SENSITIVITY 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)	816.52	211.96	227.23	768.83	0.00	160.19	1,036.81	605.29
Rate Sensitive Liabilities (RSL)	805.98	189.60	8.43	14.73	-	1,371.33	758.28	237.02
Rate Sensitive Gap (RSG)	10.54	22.36	218.80	754.10	0.00	(1,211.14)	278.53	368.27
Weighted Net RSG (200 bps)	(0.01)	(0.07)	(1.58)	(10.71)	-	54.50	(19.27)	(66.07)
Sum of Weighted Net RSG (200 bps)	**(43.20)**							
Tier 1 & 2 Capital (TQC)	652.24							
Negative Gap as % of TQC	**(6.62)**							

Sum of Net weighted gap is about 6.62% of the total capital (Tier I & Tier II capital), which is less than the outlier/Materiality Tests threshold of 15% for defining an Outlier Bank in the revised Basel II IRRBB Guideline issued in April 2016. However, given the nature of the IRRBB and the size of the Bank, we will still allocate capital based on 200bp Stress Test.

Figure 3: Rate Sensitive Gap on Balance Sheet



Interest rate risk from earning perspective (changes in NII)

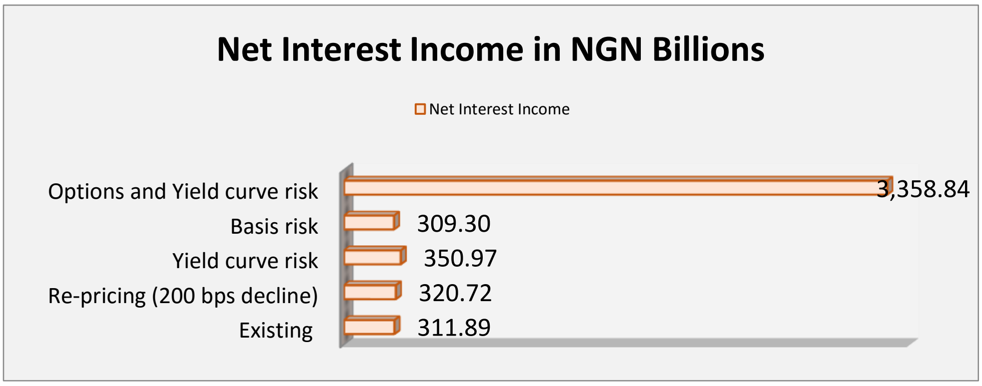
Net interest income (NII) sensitivity analysis also known as Earnings approach involves the use of rate sensitive gap to compute the impact of interest rate changes on projected NII. Number of scenario of changes in interest rates are applied on rate sensitive gap to assess their impact on stressed NII to estimate the interest rate risk.

From the Earnings approach, the focus of analysis is the impact of changes in interest rates on accrual or reported earnings. Variation in NII is an important focal point since reduced interest earnings will threaten the financial performance of the Bank.

The scenarios considered are on the basis of components of interest rate risk, these are as follows:

- Parallel downward/Upward shift in interest rates (say 200 basis points)
- Yield curve shift (taking into account change in market rates of T-Bills & FGN Bonds)
- Basis risk shift (taking the difference in market rates of yields and market cost of funds i.e. interbank deposits)

Figure 5: NII Sensitivity as on 31st December 2017



The above graphs show the impact on net interest income (NII) due to standardized interest rate shock methodology. The impact on net interest income due to 200 basis points downward shift in interest rates is moderate for positions in Naira which is **N8.83Billion (i.e. an increase in NII from N311.89BN to N320.72BN)**

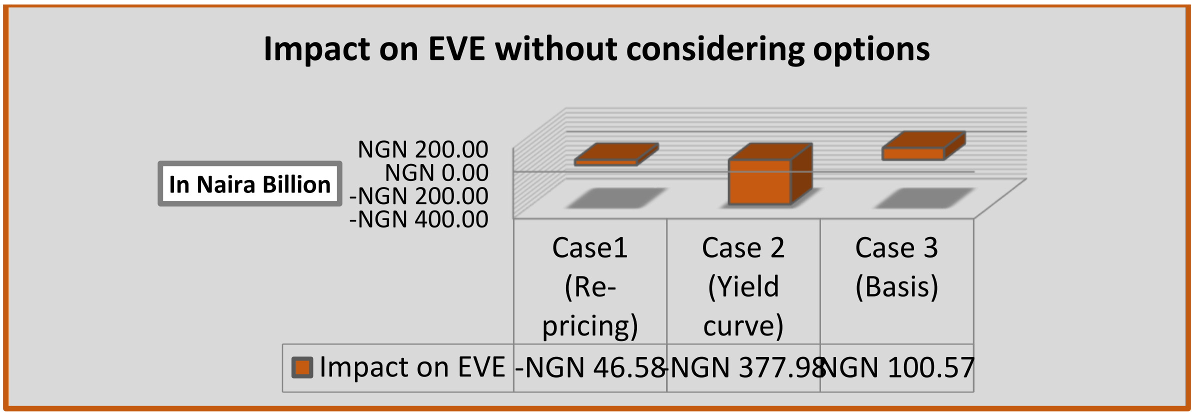
On the other hand, the highest impact in NII is under the Yield Curve Risk Approach (about N39.08BN).

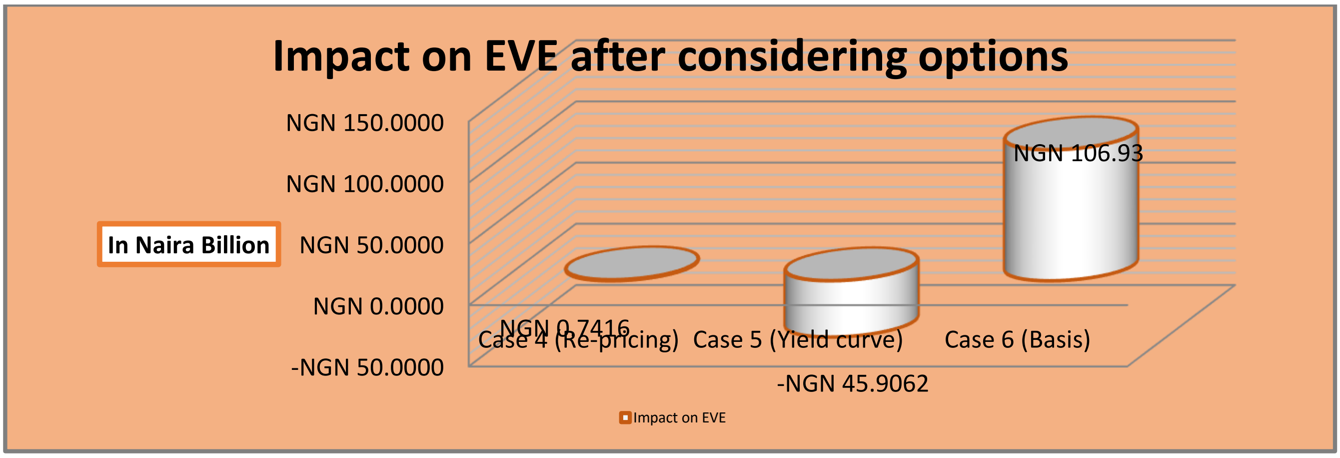
Economic Value of Equity (EVE)

Earnings or the NII approach of interest rate risk has a short-term focus and covers only an initial part of the life of assets and liabilities in the balance sheet. It does not cover the long-term impact of the exposure to the changes in interest rates. EVE Approach considers the long-term impact of interest rate changes by covering the entire life of all the assets and liabilities.

Variation in market interest rates can also affect the economic value of the Bank's assets, liabilities, and off-balance sheet positions. Since the EVE approach considers the potential impact of interest rate changes on the present value of all future cash flows, it provides a more comprehensive view of the potential long-term effects of changes in interest rates than is offered by the NII approach.

Impact on EVE





Impact on EVE as of 31st Dec. 2017

The cases used in EVE analysis on LCY balance sheet include the following:

- Parallel downward shift in interest rates (200 basis points)
- Yield curve shift (taking into account change in market rates of T-Bills & FGN Bonds)
- Basis risk shift (taking the difference in market rates of yields and market cost of funds i.e. interbank deposits)
  -

The above graphs represent the impact on EVE due to 200 basis points upward parallel shift in interest rates on the banks book. The total impact on EVE for positions in Naira is a decline of N46.58Billion in case of parallel shifts in yield curve of 31st December 2017.

7.2.1.2 IRRBB - Monitoring and Reporting

Risk reporting is essential to facilitate communication of risk information to relevant recipients to enable effective oversight on various components of IRRBB. In this sense, risk reports are concise, accurate, comprehensible and timely. Reporting covers current position, dynamics of risk exposure through time and exceptions from policy prescriptions. The market risk management unit prepares various reports on IRRBB at regular intervals for reporting to the ALCO and BRMC

7.2.1.3 IRRBB - Controls and Mitigations

Risk control is a critical part of the overall ALM process. It involves reducing the risks within manageable levels. Market Risk Management function, Treasury and ALCO are responsible for controlling the mismatch in both assets and liabilities. Risk controlling is part of the overall risk management process that follows the monitoring of risks, aiming at reducing the risks to a level, which according to the stipulations from the risk strategy, is manageable for the Bank.

7.2.2 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.

7.2.2.1 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 Treasury Group, under strict oversight and guidance by Asset and Liability Management Committee (ALCO) of the Bank.

This process includes:

1. Projecting cash flows and considering the level of liquid assets necessary in relation thereto;
2. Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
3. Maintaining a diverse range of funding sources with adequate back-up facilities;
4. Managing the concentration and profile of debt maturities;
5. Monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix;
6. 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.
7. Regular conduct of stress testing, coupled with testing of contingency funding plans from time to time.

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

9. 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.

7.2.3 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 behaviors 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.
- 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 minimize 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.

7.2.4 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.

7.2.5 Concentration risk

Concentration risk can be defined as any single (direct and/or indirect) exposure or group of exposures with the potential to produce losses large enough to threaten the bank’s health or its ability to maintain its core business.

Concentration risk arises from:

1. Large (possibly connected) individual exposures - the definition of connected for these purposes needs to be sufficiently broad to capture exposures which are connected through, for example, common ownership/management/ guarantors.
2. Significant exposures to groups of counterparts whose likelihood of default is driven by common underlying factors, for example:

- economic sector,
- geographical location,
- currency
- Credit risk mitigation measures (including, for example, risks associated with large indirect credit exposures to a single collateral issuer).

In order to monitor concentration risk in the credit portfolio, risk appetite limits are set for individual or related groups of obligors, sector/industry and for products. These limits are reviewed annually and reported to the Global Credit Committee and the Board for approval.

The Bank carries out analyses of the credit portfolio, including estimates of trends, and the results of these analyses is used in setting and verifying the adequacy of procedures and limits, thresholds or similar concepts for credit risk management.

The following sets some of the expression of limits and thresholds

Concentration Risk	**Limits**
Single Obligor	Largest exposure to a single or connected customer must not exceed 20% of Share Holder's Funds
Large Exposure	Large Exposure shall not exceed the CBN required maximum of 10% of Shareholders Fund. Internal guidance is set at 5% of Total Loan Portfolio for the purpose of monitoring.
Top 20 Borrowers	Exposure to top 20 borrowers will not exceed 40% of Gross Lending Portfolio
Aggregate Large exposures	Total Exposures of clients with exposures exceeding 10% of capital base not to exceed 800% of Bank’s Share Holders Fund.
Foreign Currency Exposure	Foreign Currency portion of the loan book must not exceed 35% of Total Loan Portfolio (in ordinary course of business).
Sector Concentration	Sector growth shall not exceed 20% of Total Loan Portfolio as stipulated in the CBN prudential guidance
Collateral coverage	The bank will require 100% insurance bond coverage as support for weak collateral (where there is uncertainty in the recoverability of the collateral.)Where the value of the collateral drops after revaluation, a margin call will be required to ensure proper coverage of exposure.

If issues of concern are identified in the monitoring activity, the Bank’s management will consider those issues and provide appropriate responses. Management responses include but are not limited to:

- Requesting for a more detailed review of the risk environment (the intrinsic risk) in the particular sector,
- Applying additional stress tests and scenario analyses,
- Reviewing with greater intensity the economic performance of existing borrowers,
- Reviewing approval levels for new business, or
- Regularly reviewing risk mitigation techniques, their value and their legal enforceability.

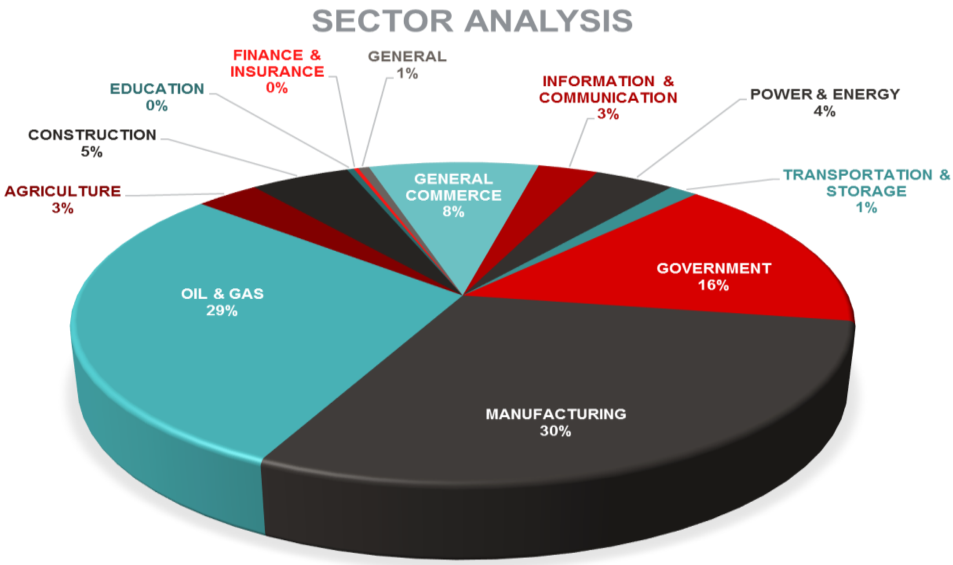
Having assessed an issue, the bank’s management may conclude that it is appropriate to take mitigating action. For example, one or more of the following might be considered appropriate:

- Reducing limits or thresholds on risk concentrations,
- Adjusting new business acquisition to address undue concentrations,
- Transferring credit risk to other parties, buying protection from other parties (examples include collateral, guarantees, sub-participation or syndication) or selling down.
- Allocating additional internal capital

The bank is moderately diversified amongst the active sectors of the economy, with moderate concentrations in Oil& Gas, Manufacturing and Government sectors. The bank applies Herfindahl Hirschman Index (**HHI**) which is an indicator used to determine concentration risk in the sector distribution. The HHI is derived from the summation of the sectors' squared relative shares of the credit portfolio. The formula of the index may be drawn as follows:

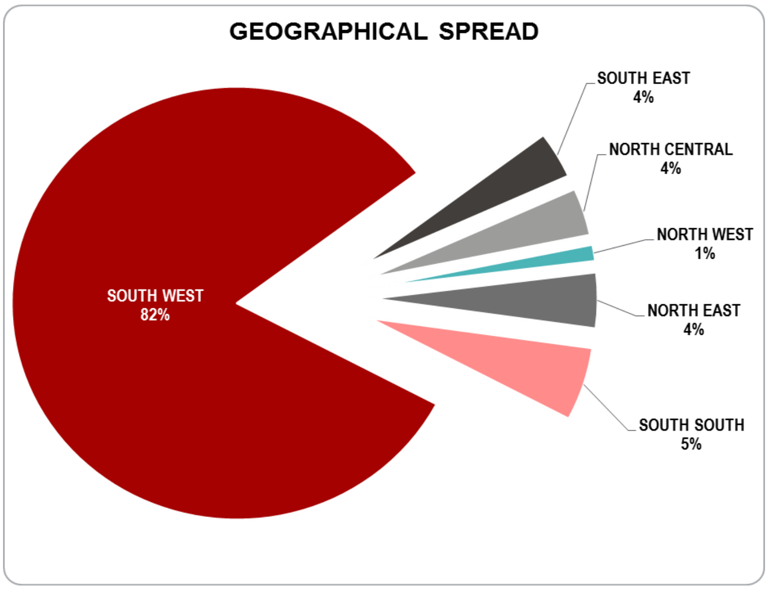
HHI = $(\%S_1)^2 + (\%S_2)^2 + (\%S_3)^2 + \ldots + (\%S_i)^2 + \ldots + (\%S_n)^2$,

Where **%S** = percentage share per sector of the loan portfolio. The HHI for sector distribution as at 31st December 2017 was **0.21,** which clearly shows that the portfolio is well diversified.



In the geographical segment however, the Bank is significantly concentrated with a share of 82% in in the South West region most of which is situated in Lagos. This is expected as Lagos is the commercial nerve center of the country and most of the companies registered offices are in Lagos. All critical loans are also deliberately managed in Head Office where the control and expertise is abundant and assured.

The Bank actively monitors this risk while ensuring the deepening of the real economy through lending to the real sector and lending for infrastructural development. The Bank proactively waits for new opportunities to spring up in other regions due to Government initiatives by having a branch network that spans the whole of Nigeria. The Bank has presence in all the geographical regions as can be seen below:



8 Stress Testing

Stress Testing refers to the creation of hypothetical scenarios, with respect to the performance/ standards of the Bank's portfolio, which might cause a sharp fall in asset quality. Stress testing is an important risk management tool used by the Bank as part of internal risk management. It alerts the Bank management on the adverse unexpected outcomes related to various risks and provides an indication of the amount of capital required to absorb loses should large shocks occur. It provides an indication on the level of capital necessary to endure deteriorating economic and market conditions.

The Board and the Senior Management of the Bank are involved to ensure that stress testing is appropriately used in risk governance and capital planning. The ultimate responsibility of stress testing programme lies with the Board while the Senior Management is responsible for implementation, management and oversight functions of stress testing.

The Bank ensures that the stress testing methodologies include all relevant risk factors that can affect the corporate, treasury and retail portfolio as a whole or specific sub-segment(s) of the portfolio. The risk factors will be determined by an analysis of the composition and nature of the respective portfolio as well as external environmental factors. A comprehensive list of risk factors will be prepared by combining product-specific, environment-related and regulator-defined risk factors. The Bank will, at the minimum, consider the following direct risk factors:

- Default rates or Non-Performing Loans (or Assets) rates
- Recovery rates for defaulted loans
- Utilization rates or drawdown rates
- Time taken for recovery or closing the open positions in the market
- Expenses involved in recovery process or closing the positions
- Collateral values, other acceptable securities valuation
- Credit grades or any other credit quality indicator
- Banking Book/Trading Book volume (# of positions)
- Interest rates
- Equity prices and stock index
- Exchange rates
- Inflation rate

In addition, zenith bank identifies and select a set of risk factors based on macroeconomic indicators and external environmental factors that will impact the portfolio indirectly by influencing the above-mentioned direct risk factors. The Bank also build statistical or expert judgment based models that would link these risk factors to the above direct risk factors.

Stress tests have been conducted for the following types of risks:

Pillar – I

- Credit Risk
- Market Risk
- Operational Risk

Pillar – II

- Liquidity Risk
- Interest Rate Risk
- Credit Concentration Risk

8.1.1 Integrated Stress Testing

There are four phases in the Bank's stress test methodology:
(1) Choice of scenario;
(2) Translation of scenario;
(3) Stress test calculations; and
(4) Evaluation of results

The Bank evaluates the main scenarios and their relevance on an ongoing basis. The most relevant scenarios in terms of the current economic situation and related risks are analysed at least once a year. New scenarios may be added when necessary. The scenarios are an essential part of the bank's capital planning process.

8.1.2 Fixed Income Instruments – FGN Bond & T-Bills

Stress Scenario on Fixed Income Exposure:

Since Market Risk Capital Charges are computed based on '***Residual Maturity Bucke***t' under the ***Maturity Approach***, the Stress Scenario assumes **double(100bp) the change in yield** in Maturity Approach to calculate the Stressed Market Risk Capital.

Foreign Exchange Exposure
Under the Standardized Approach, Market Risk Capital is computed based on 'Net Open Position (NOP)' and 8% risk weight on the highest of the Net Long & Net Short position.

8.1.3 Stress Testing -Interest Rate Sensitivities (IRBB)

Interest rate sensitivities were carried out using Net Interest Income (NII) and Economic Value of Equity approaches. We assess the impact of parallel shift (of 200bp and 500bp) in interest rate on Net Interest Income and Economic Value of Equity (EVE).

8.1.4 Stress Testing - Operational Risk

The bank currently compute Operational Risk Capital Charge based on '***Basic indicator Approach***. With this approach, Operational Risk stress test is empirically difficult to achieve. However, we have made an assumption in stressing the operational risk capital charge position.

The Stress Scenario assumes certain percentages increases in the Net Gross incomes over a period of three (3) years to calculate the stressed Operational Risk Capital. The results show that the Bank is sufficiently capitalized to withstand all the scenarios in use. In an extreme scenario, the Bank would remain capitalized, but gradual management interventions would be required.

9 Key Developments in 2017

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 2017.

Risk Management

The Board is committed to improving risk management and increase risk transparency. 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 recently reported on its Recovery and Resolution Plan; however, work on the Recovery and Resolution Plan Framework is being finalized.

The bank is also working on improving on some areas such as Internal Liquidity Assessment Adequacy Process (ILAAP), Recovery and Resolution Plans.

General Internal Control Environment

The overall attitude, awareness and actions of directors and management regarding the internal control system and its importance to the bank is appreciable. The Management style, corporate culture, values, philosophy and operating style, the organisational structure, and human resources, policies and procedures are well aligned and fitted for our size and purpose.

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 2017. Compliance, Risk and Internal Audit departments have been strengthened accordingly. There has 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 a re-certification in three areas: IT security, IT services management and business continuity. We have been recertified for version 3.1 of the Payment Card Industry Data Security Standards (PCIDSS), among others. We are also implementing other IT Standards including the Control Objectives for IT Related Technology (COBIT) Framework.

9 NOTICE

The disclosures herein are based on the bank's financial figures as at 31st December 2017 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.