

# PILLAR 3 DISCLOSURES

FOR THE PERIOD ENDED 30<sup>TH</sup> DECEMBER 2018



# ZENITH BANK PLC

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## 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 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 considers developments in the risk management process, methodologies adopted by banks and the new policies and criteria underpinning supervisory activity.

The Basel II Framework is structured around 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.

**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 its 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 line with regulatory requirements for Pillar 1, the bank has adopted the Standardized Approach for Credit and Market Risks measurements while using the Basic Indicator Approach for Operational Risk. However, we carried out capital charge assessments using Internal Ratings Based (IRB) approach, Internal Models Approach and Standardised Measurement Approach (SMA) for credit risk, market risk and operational risk respectively as part of our economic capital assessment. In arriving at our Internal Capital Adequacy Assessment Process (ICAAP) ratios, the bank selected the higher of regulatory capital charge or internal/advanced measurement assessment in conformance with our prudence principle.

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. We have not omitted any material disclosures in this documents.

### **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**

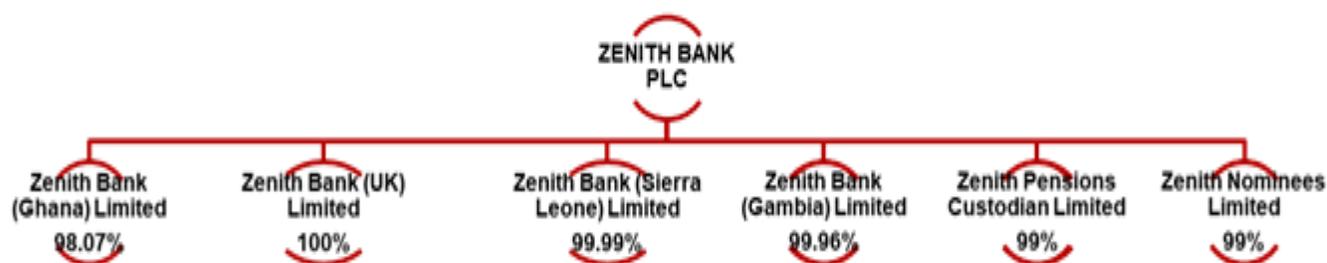
The Pillar 3 Disclosures Report will be made on bi-annual basis in congruence with financial statement disclosures of the bank and will be published on the bank's website at [www.zenithbank.com](http://www.zenithbank.com) together with or shortly after the Directors' Report and Financial Statements.

## 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**



<sup>(1)</sup> Percentages indicate 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 14.7% 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 (10.1% and 3.1% respectively). Zenith Pension Custodian Limited was the next highest contributor to the Group's profit (1.6%).

## 2.1.2 Intra-Group Financial Linkages

As at December 31, 2018, the amount of NGN3,425 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	<ul style="list-style-type: none"> <li>● Routine IT audit</li> <li>● Resident IT professionals from Head Office with direct reporting line to the CIO</li> </ul>
Credit Approval	Loans and Advances	Low	<ul style="list-style-type: none"> <li>● Centralized credit approval process</li> <li>● Global Credit Committee (Membership-Executive Management)</li> <li>● Standardized credit policies and procedures across the group</li> </ul>
Staff Secondment	Staffing	Low	<ul style="list-style-type: none"> <li>● Secondment of Staff is based on skill, competence and need</li> <li>● Some of the Executive Management in the Subsidiaries are seconded from Head Office.</li> </ul>
Card Services	Card Management	Low	<ul style="list-style-type: none"> <li>● Card production and distribution is centralized.</li> <li>● Robust In-house card management system</li> <li>● Payment Card Industry Data Security Standard (PCIDSS) compliant.</li> </ul>
Financial Control	Financial control and reporting	Low	<ul style="list-style-type: none"> <li>● Standardized financial control and reporting system across the group</li> <li>● The Chief Financial Officer has oversight function across the Group</li> <li>● Consolidated financial report</li> <li>● Alignment of Regulatory requirements of various jurisdiction to that of the Parent</li> </ul>
HR services	Secondment and training	Low	<ul style="list-style-type: none"> <li>● Recruitment of competent resources</li> </ul>
Compliance	Compliance with regulatory	Medium	<ul style="list-style-type: none"> <li>● Recruitment of competent resources</li> <li>● Compliance requirements in jurisdictions of operations e.g. GDPR in Zenith UK</li> </ul>
Legal	Contract/SLA reviews	Low	<ul style="list-style-type: none"> <li>● Recruitment of competent resources Cross postings and secondment</li> </ul>
Internal audit	Quality assurance	Low	<ul style="list-style-type: none"> <li>● Documented policies and procedure</li> <li>● Training to staff in subsidiaries</li> </ul>

### 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 2018 was audited by KPMG Professional Services. Zenith Bank's financial performance and financial Position for the FY ended December 31 2017 and December 31 2018 financial years are summarised in the following tables.

**Table 2: Zenith Bank Plc Statement of Financial Position (SOPF)**  
**ZENITH BANK PLC**  
**Consolidated and Separate Statements of Financial Position as at 31 December, 2018**

In millions of Naira	Note(s)	Group			Bank		
		31-Dec-18	31-Dec-17 Restated*	01-Jan-17 Restated*	31-Dec-18	31-Dec-17 Restated*	01-Jan-17 Restated*
<b>Assets</b>							
Cash and balances with central banks	15	954,416	957,663	669,058	902,073	907,265	627,385
Treasury bills	16	1,000,560	936,817	557,359	817,043	799,992	463,787
Assets pledged as collateral	17	592,935	468,010	328,343	592,935	468,010	325,575
Due from other banks	18	674,274	495,803	459,457	393,466	273,331	354,405
Derivative assets	19	88,826	57,219	82,860	88,826	57,219	82,860
Loans and advances	20	1,823,111	2,100,362	2,289,365	1,736,066	1,980,464	2,138,132
Investment securities	21	565,312	330,951	199,478	156,673	117,814	118,622
Investment in subsidiaries	22	-	-	-	34,003	34,003	33,003
Deferred tax asset	23	9,513	9,561	6,440	9,197	9,197	6,041
Other assets	24	80,948	92,494	37,536	75,910	56,052	35,410
Property and equipment	25	149,137	133,384	105,284	133,854	118,223	94,613
Intangible assets	26	16,678	12,989	4,645	15,399	12,088	3,903
<b>Total assets</b>		<b>5,955,710</b>	<b>5,595,253</b>	<b>4,739,825</b>	<b>4,955,445</b>	<b>4,833,658</b>	<b>4,283,736</b>
<b>Liabilities</b>							
Customers' deposits	27	3,690,295	3,437,915	2,983,621	2,821,066	2,744,525	2,552,963
Derivative liabilities	32	16,995	20,805	66,834	16,995	20,805	66,834
Current income tax payable	13	9,154	8,915	8,953	5,954	6,069	6,927
Deferred tax liabilities	23	67	18	45	-	-	-
Other liabilities	28	231,716	243,023	214,080	223,463	229,332	249,136
On-lending facilities	29	393,295	383,034	350,657	393,295	383,034	350,657
Borrowings	30	437,260	356,496	263,106	458,463	418,979	292,802
Debt securities issued	31	361,177	332,931	153,464	361,177	332,931	153,464
<b>Total liabilities</b>		<b>5,139,959</b>	<b>4,783,137</b>	<b>4,040,760</b>	<b>4,280,413</b>	<b>4,135,675</b>	<b>3,672,783</b>
<b>Capital and reserves</b>							
Share capital	33	15,698	15,698	15,698	15,698	15,698	15,698
Share premium	34	255,047	255,047	255,047	255,047	255,047	255,047
Retained earnings	34	322,237	356,837	261,608	238,635	287,867	213,107
Other reserves	34	221,231	183,217	165,729	165,652	139,371	127,101
Attributable to equity holders of the parent		814,213	810,799	698,082	675,032	697,983	610,953
Non-controlling interest	34	1,538	1,317	983	-	-	-
<b>Total shareholders' equity</b>		<b>815,751</b>	<b>812,116</b>	<b>699,065</b>	<b>675,032</b>	<b>697,983</b>	<b>610,953</b>
<b>Total liabilities and equity</b>		<b>5,955,710</b>	<b>5,595,253</b>	<b>4,739,825</b>	<b>4,955,445</b>	<b>4,833,658</b>	<b>4,283,736</b>

**Table 3: Zenith Bank Plc Statement of Comprehensive Income (SOI)  
Consolidated and Separate Statements of Profit or Loss and other  
Comprehensive Income for the Year Ended 31 December, 2018**

In millions of Naira	Note(s)	Group		Bank	
		31-Dec-18	31-Dec-17 Restated*	31-Dec-18	31-Dec-17 Restated*
<b>Gross earnings</b>		<b>630,344</b>	<b>745,189</b>	<b>538,004</b>	<b>673,636</b>
Interest and similar income	6	440,052	474,628	367,816	420,210
Interest and similar expense	7	(144,458)	(216,637)	(124,156)	(200,672)
<b>Net interest income</b>		<b>295,594</b>	<b>257,991</b>	<b>243,660</b>	<b>219,538</b>
Impairment loss on financial and non-financial instruments	8	(18,372)	(98,227)	(15,313)	(95,244)
<b>Net interest income after impairment loss on financial and non-financial instruments</b>		<b>277,222</b>	<b>159,764</b>	<b>228,347</b>	<b>124,294</b>
Net income on fees and commission	9	81,814	82,548	64,124	65,561
Trading gains	11	80,202	157,974	80,202	157,974
Other operating income	10	17,947	22,444	17,479	22,606
Depreciation of property and equipment	25	(16,648)	(12,428)	(14,625)	(11,059)
Amortisation of intangible assets	26	(2,399)	(1,631)	(2,187)	(1,431)
Personnel expenses	36	(68,556)	(64,459)	(56,657)	(55,672)
Operating expenses	12	(137,897)	(144,893)	(124,576)	(132,852)
<b>Profit before tax</b>		<b>231,685</b>	<b>199,319</b>	<b>192,107</b>	<b>169,421</b>
Minimum tax	13a	(4,052)	(4,350)	(4,052)	(4,350)
Income tax expense	13a	(34,209)	(21,178)	(22,575)	(12,068)
<b>Profit for the year after tax</b>		<b>193,424</b>	<b>173,791</b>	<b>165,480</b>	<b>153,003</b>
<b>Other comprehensive income:</b>					
<b>Items that will never be reclassified to profit or loss:</b>					
Fair value movements on equity instruments at FVOCI 21(b)		1,459	(2,551)	1,459	(2,551)
<b>Items that are or may be reclassified to profit or loss:</b>					
Foreign currency translation differences for foreign operations		4,828	5,233	-	-
<b>Other comprehensive income/(loss) for the year</b>		<b>6,287</b>	<b>2,682</b>	<b>1,459</b>	<b>(2,551)</b>
<b>Total comprehensive income for the year</b>		<b>199,711</b>	<b>176,473</b>	<b>166,939</b>	<b>150,452</b>
<b>Profit attributable to:</b>					
Equity holders of the parent		193,147	173,472	165,480	153,003
Non controlling interest		277	319	-	-
<b>Total comprehensive income attributable to:</b>					
Equity holders of the parent		199,437	176,139	166,939	150,452
Non-controlling interest		274	334	-	-
<b>Earnings per share</b>					
Basic and diluted (Naira)	14	6.15	5.53	5.27	4.87

For the year ended 31 December 2018, loans and advances to customers and Treasury Bills were the highest contributors to Group assets while it was loans and advances to customers and cash & balances with central banks for the Bank. As at 31 December 2018, loans and advances to customers and Treasury Bills were 30.6% and 16.8% of the Group's total assets respectively. For the same period, loans and advances to customers and cash & balances with central banks accounted for 35.0% and 18.2% of the Bank's total assets respectively.

Customers' deposits for the Group accounted for 71.9% of total liabilities as at December 2017, while borrowings contributed 14.4% to total liabilities. For the bank, Customers' deposits and borrowings contributed 66.4% and 18.2% respectively to its total liabilities as at December 31, 2017. As at December 2018, Customer deposits decreased slightly to 71.8% of the Group's total liabilities, while Borrowings contributed 15.5% (December 2018). For the same period, Customers' deposits and borrowings accounted for 65.9% and 19.1% respectively of the bank's total assets.

As at December 2018, the Group's Profit after Tax (PAT) was N193.4bn an increase of N27.9bn over the PAT recorded for the year ended December 2017.

## 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 2018 as well as FY2017 comparatives. During both periods, all legal entities complied with all 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, 2018 was 24% (December 2017 was 25%). The Bank's capital adequacy ratio is above the minimum statutory requirement.

**Table 4: Zenith Bank Plc Capital**

In millions of Naira	Group				Bank			
	31-Dec-18	Adjusted impact of IFRS 9 transition on 31-Dec-18	Adjusted Day-one impact of IFRS 9 transition on 01-Jan-18	31-Dec-17	31-Dec-18	Adjusted impact of IFRS 9 transition on 31-Dec-18	Adjusted Day-one impact of IFRS 9 transition on 01-Jan-18	31-Dec-17
	Basel II	Basel II	Basel II	Basel II	Basel II	Basel II	Basel II	Basel II
<b>Tier 1 capital</b>								
Share capital	15,698	15,698	15,698	15,698	15,698	15,698	15,698	15,698
Share premium	255,047	255,047	255,047	255,047	255,047	255,047	255,047	255,047
Statutory reserves	143,320	143,320	135,686	135,686	127,865	127,865	127,865	127,865
SMEIES reserve	3,729	3,729	3,729	3,729	3,729	3,729	3,729	3,729
Retained earnings	346,215	346,215	257,642	365,757	263,781	263,781	193,237	296,787
IFRS 9 Transitional Adjustment	-	64,901	86,493	-	-	62,129	82,840	-
<b>Total qualifying Tier 1 capital</b>	<b>764,009</b>	<b>828,910</b>	<b>754,295</b>	<b>775,917</b>	<b>666,120</b>	<b>728,249</b>	<b>678,416</b>	<b>699,126</b>
Deferred tax assets	(9,513)	(9,513)	(9,561)	(9,561)	(9,197)	(9,197)	(9,197)	(9,197)
Intangible assets	(16,678)	(16,678)	(12,989)	(12,989)	(15,399)	(15,399)	(12,088)	(12,088)
<b>Adjusted Total qualifying Tier 1 capital</b>	<b>737,818</b>	<b>802,719</b>	<b>731,745</b>	<b>753,367</b>	<b>641,524</b>	<b>703,653</b>	<b>657,131</b>	<b>677,841</b>
<b>Tier 2 capital</b>								
Other comprehensive income (OCI)	48,354	48,354	42,082	42,082	(9,858)	(9,858)	(8,399)	(8,399)
<b>Total qualifying Tier 2 capital</b>	<b>48,354</b>	<b>48,354</b>	<b>42,082</b>	<b>42,082</b>	<b>(9,858)</b>	<b>(9,858)</b>	<b>(8,399)</b>	<b>(8,399)</b>
<b>Net Tier 2 Capital</b>	<b>48,354</b>	<b>48,354</b>	<b>42,082</b>	<b>42,082</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total regulatory capital</b>	<b>786,172</b>	<b>851,073</b>	<b>773,827</b>	<b>795,449</b>	<b>641,524</b>	<b>703,653</b>	<b>657,131</b>	<b>677,841</b>
<b>Risk-weighted assets</b>								
Credit risk	2,050,298	2,050,298	2,306,892	2,306,892	1,755,076	1,755,076	2,066,961	2,066,961
Market risk	88,914	88,914	84,690	84,690	53,562	53,562	62,956	62,956
Operational risk	945,361	945,361	595,934	595,934	881,691	881,691	540,331	540,331
<b>Total risk-weighted assets</b>	<b>3,084,573</b>	<b>3,084,573</b>	<b>2,987,516</b>	<b>2,987,516</b>	<b>2,690,329</b>	<b>2,690,329</b>	<b>2,670,248</b>	<b>2,670,248</b>
<b>Risk-weighted Capital Adequacy Ratio (CAR)</b>	<b>25 %</b>	<b>28 %</b>	<b>26 %</b>	<b>27 %</b>	<b>24 %</b>	<b>26 %</b>	<b>25 %</b>	<b>25 %</b>

## 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.

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 9% growth in the daily crude oil production for 2018 compared to 2017 (2.09 million barrels compared to 1.86 million barrels) aided the government in the supply of foreign exchange to support business needs. In addition, tension in the Middle East and friction between the US and North Korea had a positive impact on oil price from the perspective of an oil producing country. However, the uncertainty about the outcome of the 2019 elections resulted in sustained profit-taking by foreign investors while repatriating FX to their respective countries. Key events occurred in 2018 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).
2. Heightened competition for retail deposit as government bond yield have stayed elevated.
3. Price volatility of crude oil
4. Late passage and implementation of the 2018 budget.

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:

- 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 losses 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 for the period ended 31<sup>ST</sup> December 2018 (audited)**

(N'million)	Corporates	Public	Retail	Commercial/SMEs	Consolidated
Total revenue	384,583	66,197	49,359	130,204	630,344
Total expenses	(249,371)	(39,866)	(25,822)	(83,601)	(398,659)
Profit before tax	135,213	26,332	23,537	46,603	231,685
Profit after tax	112,883	21,983	19,650	38,907	193,424

**Table 6: Contribution of subsidiaries to the Group as at 31<sup>st</sup> December 2018 (audited)**

As at 31 December 2018 (Audited)	Total Assets NGN'm	Total Liabilities NGN'm	Profit/Loss NGN'm
Zenith Bank UK Limited	681,443	601,501	10,035
Zenith Bank Ghana Limited	417,011	352,086	13,436
Zenith Pension Custodian Limited	23,042	2,309	7,029
Zenith Bank Gambia Limited	16,114	12,129	406
Zenith Bank Sierra Leone Limited	21,249	17,292	858
Zenith Nominees Limited	1,398	218	180
Zenith Bank	4,955,445	4,280,413	165,480
<i>Elimination entries</i>	(159,992)	(125,989)	(4,000)
Zenith Group	5,955,710	5,139,959	193,424

### 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 management. 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.

Zenith Bank adopts a conservative approach to risk taking. As a result, our risk appetite is set at a level that minimizes the chance of earnings or capital erosion 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	<ul style="list-style-type: none"> <li>Lack of technical expertise / complexity of transactions</li> <li>Diversion of funds by customers</li> <li>Market instability</li> <li>Market forces – Increasing competition</li> <li>Change in government/regulatory policies.</li> <li>Possibility of default</li> <li>Improper structuring of facilities</li> <li>Increased production cost</li> <li>Energy Crisis/Power problems</li> <li>Raw materials challenges</li> </ul>	<ul style="list-style-type: none"> <li>Credit</li> <li>Operational</li> <li>Market</li> <li>Liquidity</li> <li>Reputational</li> <li>Strategic</li> </ul>	<ul style="list-style-type: none"> <li>Medium</li> <li>Low</li> <li>Low</li> <li>Low</li> <li>Low</li> <li>Low</li> </ul>	<ul style="list-style-type: none"> <li>Proper structuring of credit &amp; underwriting.</li> <li>Sound credit selection process by the bank.</li> <li>Ensure adequacy of collateral</li> <li>Lending to mainly top and tested companies in the sector.</li> <li>Highly experienced staffing and sound management team.</li> <li>Quality customer service &amp; relationship management</li> <li>Use of Credit Bureau</li> <li>Deployment of appropriate products.</li> </ul>	Medium
Retail Banking	<ul style="list-style-type: none"> <li>Lack of Technical know-how of Bank staff</li> <li>Possibility of default on loans</li> <li>Misappropriation/diversion of loan by customers</li> <li>Competition from other banks</li> <li>Government policies</li> <li>Poor succession plan of customers</li> </ul>	<ul style="list-style-type: none"> <li>Credit</li> <li>Operational</li> <li>Funding Risk</li> <li>Reputational</li> <li>Strategic</li> </ul>	<ul style="list-style-type: none"> <li>Medium</li> <li>Low</li> <li>Low</li> <li>Low</li> <li>Low</li> </ul>	<ul style="list-style-type: none"> <li>Adequate staff training</li> <li>Effective relationship management</li> <li>Limit exposure to this group</li> <li>Focus lending mainly to customers/Key Distributors of blue chip companies</li> <li>Ensure adequate security coverage</li> <li>Confirm Bank verification number (BVN)</li> <li>Prompt monitoring of activities</li> <li>Appropriate pricing</li> </ul>	Low
Treasury and Investment Banking	<ul style="list-style-type: none"> <li>Lack of technical expertise/complexity of transactions</li> <li>Improper structuring of facilities/specialized demand</li> <li>Poor credit pricing</li> <li>Challenges in global economic environment.</li> <li>Change in government /regulatory policies</li> </ul>	<ul style="list-style-type: none"> <li>Credit</li> <li>Operational</li> <li>Market</li> <li>Liquidity</li> <li>Reputational</li> <li>Strategic</li> </ul>	<ul style="list-style-type: none"> <li>Low</li> <li>Low</li> <li>Medium</li> <li>Medium</li> <li>Low</li> <li>Low</li> </ul>	<ul style="list-style-type: none"> <li>Highly experienced staffing and sound management team</li> <li>Proper monitoring of exposures</li> <li>Attract growth in domiciliary deposits at reasonable cost.</li> <li>Source for multilateral funding at a reasonable cost.</li> <li>Drive for a robust liquid asset base.</li> <li>Take advantage of new fixed income products e.g. CP's and other derivative products.</li> </ul>	Low
Public Sector Banking	<ul style="list-style-type: none"> <li>Unstable government policies</li> <li>Competition</li> <li>Macro-economic factors</li> <li>Sudden call for deposit</li> </ul>	<ul style="list-style-type: none"> <li>Operational</li> <li>Interest Rate /market Risk</li> <li>Liquidity</li> <li>Credit</li> <li>Regulatory</li> </ul>	<ul style="list-style-type: none"> <li>Low</li> <li>Low</li> <li>Low</li> <li>Low</li> <li>Low</li> </ul>	<ul style="list-style-type: none"> <li>Limit concentration to this group</li> <li>Adequate buffer in liquidity assessments is provided for because of volatilities</li> <li>Investment of funds in liquid/near assets</li> <li>Ensure domiciliation of proceeds</li> </ul>	Medium

## 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 the Bank will 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 sectorial 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 VAR and 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.

## **4.8.4 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.

### **4.8.4.1 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 Risk Management and the ALM Team in 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.

## 4.9 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.

## 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 31<sup>st</sup> December 2018

Capital Structure	Amount(NairaMn)
Eligible Total Tier 1 Capital	679,329
Eligible Total Tier 2 Capital	-
<b>Total Regulatory Capital</b>	<b>679,329</b>

## 5.2 Overall Capital Requirement

Zenith Bank's total capital requirement as at 31<sup>st</sup> December, 2018 is set out below:

Risks	Capital (N Mn)	RWA (N Mn)
Credit risk	263,261	1,755,076
Market risk	4,285	53,562
Operational risk	70,535	881,691
<b>Capital Requirement</b>	<b>338,081</b>	<b>2,690,329</b>
<b>Tier 1 Capital</b>	679,329	
<b>Tier 2 Capital</b>	-	
<b>Total Available Capital (Tier 1 + Tier 2)</b>	679,329	
<b>Regulatory Capital Adequacy ratio</b>	<b>25.26%</b>	
CBN Guidelines	15.00%**	

The Risk Assessment carried out has the following highlights:

- Credit Risk Capital computation as per Standardised Approach comprises about 65.23% 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 December 2018 is ₦ 4,285M which is about 1% of the total capital requirement.
- The capital requirement for operational risk as of 31st December 2018 is ₦70,535M, which is about 20.86% of the total capital requirement.
- 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 25.26% with a margin of 10.26 percentage points 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
<b>Board Audit and Compliance Committee (BACC)</b>	<ul style="list-style-type: none"> <li>4 Non-Executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>Ascertain whether the accounting and reporting policies of the Bank are in accordance with legal requirements and acceptable ethical practices;</li> <li>Review the scope and planning of audit requirements;</li> <li>Review the findings on management matters (Management Letter) in conjunction with the external auditors and</li> <li>Management's responses thereon</li> </ul>	Quarterly
<b>Board Risk Committee (BRC)</b>	<ul style="list-style-type: none"> <li>Chief Executive Officer</li> <li>3 Non-Executive Directors</li> <li>2 Executive Director</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>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.</li> </ul>	Quarterly
<b>Board Credit Committee (BCC)</b>	<ul style="list-style-type: none"> <li>4 Non-Executive Directors</li> <li>4 Executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>To establish and periodically review the Bank's credit policy and portfolio in order to align organizational strategies, goals and performance</li> <li>To evaluate on an annual basis the components of total credit facilities as well as market competitive data and other factors as deemed appropriate.</li> </ul>	Quarterly
<b>Staff Welfare, Finance and General Purpose Committee</b>	<ul style="list-style-type: none"> <li>3 Non-Executive Directors</li> <li>3 Executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>Review of all matters relating to staff welfare and large scale procurement by the bank including review of contract awards of large expenditure.</li> <li>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.</li> </ul>	Quarterly
<b>Board Governance, Nominations and Remuneration Committee (BGN&amp;RC)</b>	<ul style="list-style-type: none"> <li>5 Non-Executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>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</li> </ul>	Quarterly
<b>Executive Committee (EXCO)</b>	<ul style="list-style-type: none"> <li>Chief Executive Officer</li> <li>All Executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>Formulates the strategy of the Bank, in compliance with the Zenith Group's strategy.</li> <li>Ensures the Bank is managed in accordance with the agreed strategy; and is managed in a sound, prudent and ethical manner.</li> <li>provide leadership to the Management team and ensure efficient deployment and management of the Bank's resources</li> </ul>	Weekly

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

- **Asset and Liability Committee (ALCO):** This committee manages a variety of risks arising from the Bank's business including market and liquidity risk management, loan to deposit ratio analysis, cost of funds analysis, establishing guidelines for pricing on deposit and credit facilities, exchange rate risks analysis, balance sheet structuring, regulatory considerations and monitoring of the status of implemented assets and liability strategies.
- **Management Committee (MANCO):** This committee is saddled with the responsibility of Identifying, 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.
- **Sustainability Steering Committee (SSC).** This Committee is responsible for regular analysis and review of sustainable banking policies and practices within the bank to ensure compliance with globally acceptable economic, environmental and social norms

## 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 carried out by considering the Pillar – I and Pillar – II risks as per CBN and Basel II guidelines.

Risk Name	Capital Charge					
	N' Million		N' Million		N' Million	
Pillar 1 Risks	Regulatory Approach (Standardised/BIA)	RWA	Economic Capital Computation (Internal Ratings Based)	RWA	ICAAP Computation	RWA
Credit Risk	263,261.37	1,755,075.80	210,364	1,402,426.67	263,261.37	1,755,075.80
Market Risk	4,285	53,563	4,446.85	55,586	4,446.85	55,586
Operational Risk	70,535.25	881,691	55,317	691,463	70,535.25	881,691
<b>Total Pillar 1 Risks</b>	<b>338,081.62</b>	<b>2,690,328.93</b>	<b>270,128</b>	<b>2,149,474.79</b>	<b>338,243</b>	<b>2,692,352.05</b>
<b>Pillar 2 Risks</b>						
Credit Concentration Risk	44,499.75	296,665.00	44,499.75	296,665.00	44,499.75	296,665.00
Interest Rate Risk in the Banking Book	16,830.68	112,204.53	16,830.68	112,204.53	16,830.68	112,204.53
Strategic Risk	3,885.09	25,900.60	3,885.09	25,900.60	3,885.09	25,900.60
Liquidity Risk	-	0	-	0	-	0
Ratings Downgrade Risk	928.48	6,189.87	928.48	6,189.87	928.48	6,189.87
Group Risk	1,728.35	11,522.33	1,728.35	11,522.33	1,728.35	11,522.33
Regulatory Compliance Risk	26.51	176.73	26.51	176.73	26.51	176.73
Fraud Risk	724.15	4,827.67	724.15	4,827.67	724.15	4,827.67
Reputational Risk	1,809.22	12,061.47	1,809.22	12,061.47	1,809.22	12,061.47
Cybersecurity Risk	701.71	4,678.07	701.71	4,678.07	701.71	4,678.07
Business Risk	974.85	6,499.00	974.85	6,499.00	974.85	6,499.00
Political Risk	1,903.94	12,692.93	1,903.94	12,692.93	1,903.94	12,692.93
Legal Risk	268.78	1,791.87	268.78	1,791.87	268.78	1,791.87
Physical Security Risk	3,619.80	24,132.00	3,619.80	24,132.00	3,619.80	24,132.00
IT Risk	2,695.20	17,968.00	2,695.20	17,968.00	2,695.20	17,968.00
<b>Total Pillar 2 Risks</b>	<b>80,596.51</b>	<b>537,310.07</b>	<b>80,596.51</b>	<b>537,310.07</b>	<b>80,596.51</b>	<b>537,310.07</b>
<b>Overall Capital Charge (Pillar 1 + Pillar 2)</b>	<b>418,678.13</b>	<b>3,227,638.99</b>	<b>350,724.36</b>	<b>2,686,784.86</b>	<b>418,839.98</b>	<b>3,229,662.12</b>
Tier 1 Capital	679,508.00		679,508.00		679,508.00	
Tier 2 Capital	-		-		-	
<b>Total Available Capital (Tier 1 + Tier 2)</b>	<b>679,508.00</b>		<b>679,508.00</b>		<b>679,508.00</b>	
<b>Pillar 1 Capital Adequacy ratio</b>	<b>25.26%</b>		<b>31.61%</b>		<b>25.24%</b>	
<b>Overall Capital Adequacy ratio</b>	<b>21.05%</b>		<b>25.29%</b>		<b>21.04%</b>	
<b>CBN Guidelines</b>					<b>15.00%**</b>	

In our assessments, we have also considered internal/advanced measurement approaches in the computation of our Economic Capital.

## 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. Risk Acceptance Criteria:**

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. Classification of Exposures as per CBN and Basel-II guidelines:**

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

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 IFRS 9 (ECL Impairment Methodology):**

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 31<sup>st</sup> December 2018, following table gives the detailed segregation of the Credit Portfolio on basis of Asset Quality using the Expected Credit Loss approach. This approach classifies credit exposures into three (3) stages.

1. Stage 1: 12-month ECL: where there is no significant increase in credit losses.

2. Stage 2: Lifetime ECL: where there is significant increase in credit losses but not impaired.
3. Stage 3: Lifetime ECL: where there is significant increase in credit losses and impaired.

**Table 8: CREDIT PORTFOLIO BY ASSET QUALITY**

	Amount (Naira Mn)	As a % of Total Loans & Advances
Stage 1	1,387,174	72.21
Stage 2	352,120	18.33
Stage 3	181,770	9.46
<b>Total</b>	<b>1,921,064</b>	<b>100.00</b>

**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**

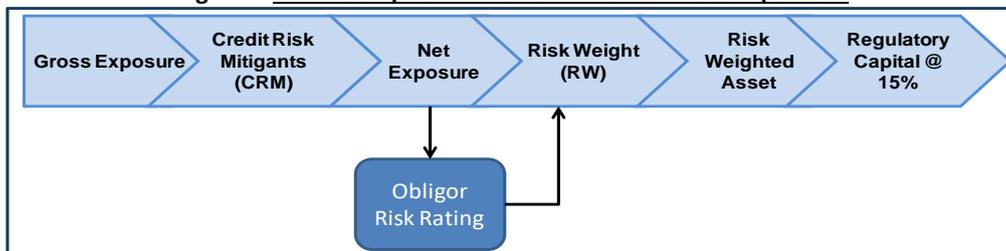
The Bank has used Standardised Approach (SA) for assessment of Credit Risk Capital Charge as per the CBN’s Basel-II guidelines. The classifications of the Bank’s total exposures into various Asset Classes have been done as per the CBN’s Basel-II guidelines. As exposure in most of the Asset classes are 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.

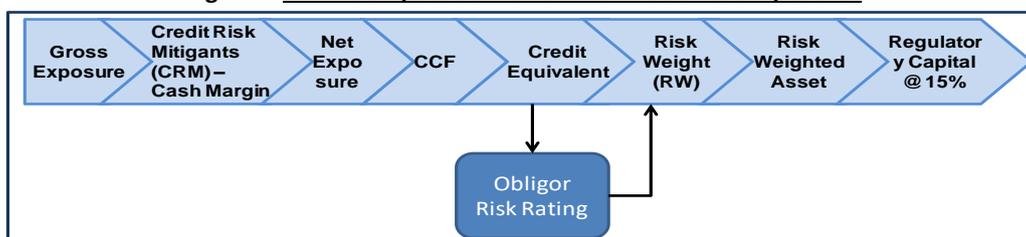
RWA and Regulatory Capital Computation Flow – **On Balance Sheet Credit Exposures:**

**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**



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

No.	Segment	Exposure (Naira Mn)	% of Total
1	Sovereigns	2,456,019	48.41
2	State & Local Governments	326,357	6.43
3	Public Sector Entities (PSEs)	4,614	0.09
4	Supervised Institutions (DMBs, Discount Houses, etc.)	196,384	3.87
5	Corporates and Other Persons	1,303,800	25.70
6	Regulatory Retail Portfolio	33,612	0.66
7	Secured by Residential Mortgages	6,052	0.12
8	Secured by Commercial Mortgages	42,545	0.84
9	Past Due Exposures	44,390	0.87
10	Other Balance Sheet Exposures	394,248	7.77
11	Off Balance Sheet Exposures	265,504	5.23
	<b>TOTAL</b>	<b>5,073,525</b>	

The segment analysis above indicates that the exposure to Sovereigns has the largest share of the Credit Portfolio as on 31<sup>st</sup> December 2018 with a share of 48.41%.

**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	2,456,019	-	2,456,019	-
State & Local Governments	326,357	246,201	80,156	74,738
Public Sector Entities (PSEs)	4,614	-	4,614	4,614
Supervised Institutions	196,384	-	196,384	56,569
Corporates and Other Persons	1,303,800	227,288	1,076,512	1,076,512
Regulatory Retail Portfolio	33,612	246	33,366	25,024
Secured by Residential Mortgages	6,052	364	5,688	4,266
Secured by Commercial Mortgages	42,545	58	42,487	42,487
Past Due Exposures	44,390	201	44,190	44,800
Other Balance Sheet Exposures	394,248	-	394,248	263,565
Off Balance Sheet Exposures	265,504	71,394	194,110	162,501

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.

#### **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 continuously being improved in order to improve the facility monitoring activity and assure good quality Risk Assets Portfolio across 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 & OFF BALANCE SHEET EXPOSURES (Naira Mn.))	Exposure Amounts	RWA	Capital
1	Exposures to Sovereigns	2,456,019	-	-
2	Exposures to State & Local Governments	326,357	74,738	11,210.70
3	Exposures to Public Sector Entities (PSEs)	4,614	4,614	692.10
4	Exposures to Supervised Institutions	196,384	56,569	8,485.35
5	Exposures to Corporates and Other Persons	1,303,800	1,076,512	161,476.80
6	Exposures included in Regulatory Retail Portfolio	33,612	25,024	3,753.60
7	Exposures Secured by Residential Mortgages	6,052	4,266	639.90
8	Exposures Secured by Commercial Mortgages	42,545	42,487	6,373.05
9	Past Due Exposures	44,390	44,800	6,720
10	Other Balance Sheet Exposures	394,248	263,565	39,534.75
11	Off-balance sheet exposures	265,504	162,501	24,375.15
12	Regulatory Risk Reserve	-	-	-
	<b>TOTAL</b>	<b>5,073,525</b>	<b>1,755,076</b>	<b>263,261.37</b>

### 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 31<sup>st</sup> Dec. 2018**

Instrument Type (Trading Book)	Value (N Mn)
FGN bonds	26,220.17
Corporate Bonds	2,038.00
T-bills	698,183.45
<b>TOTAL</b>	<b>726,441.62</b>

Table 13: Position in the Foreign Exchange as on 31<sup>st</sup> Dec 2018

FOREX	Value (N Mn)
USD	2,220.78
GBP	0.87
EUR	0.25
CHF	22.03
JPY	0.15
ZAR	0.67
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 31<sup>st</sup> December, 2018.

#### 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	Capital	RWA
	(in N Mn)	(in N Mn)	(12.5x Capital)
Interest Rate (Bond & T-Bills)	726,442	4,105	51,312
Foreign Exchange Risk (Net Open Position)	2,245	180	2,250
<b>Total</b>	<b>726,649</b>	<b>4,285</b>	<b>53,562</b>

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 comparison 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.

##### **7.1.3.3. 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 its comfort level (risk appetite).

#### 7.1.3.4. 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 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 life and Disruption in Operations

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

#### 7.1.3.5. 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 in the following table. The qualitative and quantitative definitions provide 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 a year 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 1% of Shareholders Fund
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	Between 0.51% to 1% of Shareholders Fund
Moderate	Impact is considered Moderate when event could stop the bank achieving its objectives for a period of six to three months	3	Between 0.31% to 0.5% of Shareholders Fund
Minor	Impact is considered Minor when the event could stop the bank achieving	2	Between 0.2% to 0.3%

	its objectives for a limited period of Three to one month		of Shareholders Fund
Negligible	Impact is considered Insignificant when the event could cause minor inconvenience but will not affect the achievement of the objectives	1	Below 0.2% of Shareholders Fund

### 7.1.3.6. 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
S/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 Daily Internal 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.

### 7.1.3.7. 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.

### 7.1.3.8. 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 business continuity planning. These reports are reviewed by the Chief Risk Officer, Operational Risk Subcommittee & Board Risk Management Committee.

#### **7.1.3.9. 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 preceding three years. Gross income is defined as net interest income plus net non-interest income, in line with CBN guidelines for regulatory capital measurement as part of Basel II implementation.

The 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 in regulatory reporting. We however adopted the SMA for the first time in the evaluation of Economic Capital as part of ICAAP process. We will however continue to finetune this procees with a view to adopting it for Pillar reporting after due approval from the regulator.

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 2018 is based on the average of the following quarterly gross income data:

**Table 15: OPERATIONAL RISK CAPITAL COMPUTATION**

<b>GROSS INCOME (Naira Mn.)</b>	<b>2016 Year 1</b>	<b>2017 Year 2</b>	<b>2018 Year 3</b>
Gross income for the Three financial years under consideration	321,302	576,415	512,988
Aggregate gross income (year 1 to 3)	1,410,705		
Beta factor	15%		
gross income X beta factor	211,606		
Number of year with positive annual gross income	3		
<b>Operational risk capital charge</b>	<b>70,535</b>		

Capital requirement as cushion for Operational Risk, as determined using the Basic Indicator Approach for Operational Risk under Basel II, amounts to NGN 70,535 billion, which represents 15.66% of the total capital requirement for Pillar 1.

## PILLAR 2 RISKS

### 7.2.1. Credit Concentration Risk

This is the risk of loss due to inadequate diversification of the loan book, creating volatile returns under a wide range of economic conditions. It refers to any single exposure or group of exposures with the potential to produce losses large enough (relative to a bank's capital, total assets, or overall risk level) to threaten the Bank's financial health.

#### 7.2.1.1. Sources of risk

It arises from significant exposure to a counterparty or group of related counterparties in the same economic sector. The credit exposure could be by region, sector and product type.

<b>Definition</b>	<b>Sources of Risk</b>	<b>Assessment Basis/Metrics</b>	<b>Risk Exposure (N Million)</b>	<b>Controls in place</b>	<b>Residual Risk Likelihood Assessment (%)</b>	<b>Capital Charge (N Million)</b>
<p>This is the risk of loss due to inadequate diversification of the loan book, creating volatile returns under a wide range of economic conditions.</p> <p>It refers to any single or group of exposures with the potential to produce losses large enough to threaten the Bank's financial health</p>	<p>Significant exposure to a counterparty or group of related counterparties in the same economic sector. The credit exposure could be by region, sector and product type.</p>	<ul style="list-style-type: none"> <li>The Herfindahl-Hirschman Index (HHI) based on excess concentration over average benchmark.</li> <li>See below for concentration risk computation</li> </ul>	<b>177,999</b>	<p>Regular monitoring of credit concentration risk by geographical location and by industry sector. Implementation of a systematic credit limits management process. Use of portfolio concentration limits (which are subject to periodic review) and has defined maximum amount that the individual or counterparty can obtain as loan. Close monitoring and reporting of limits to appropriate levels of authority.</p> <p>Clearly defined internal policies, debt service capability and balance sheet management guidelines.</p>	25%	<b>44,499.75</b>

### HHI Capital Charge Computation

Distributions	Value N° Million
Sectoral	1931.23
Geographical	6619.81
Single name	91.88
Sectoral concentration HHI	1,931.23
Geographical concentration HHI	6,619.81
Single name concentration HHI	91.88
Average HHI	<b>2,880.97</b>
Scale down of average HHI	53.7%
HHI concentration benchmark (average)	<b>2,000.00</b>
Scale down of HHI benchmark	44.7%
Excess concentration over average benchmark	9.0%
Loan Balance	1,921,063
<b>Capital Charge for Concentration Risk</b>	<b>171,999</b>
Risk Exposure	177,999
Likelihood of occurrence	25%
Capital Charge	44,499.75

#### 7.2.1.2. Mitigation

Zenith Bank monitors concentrations of credit risk by geographical location and by industry sector. It has in place various portfolio concentration limits (which are subject to periodic review) and has defined maximum amount that the individual or counterparty can obtain as loan. These limits are closely monitored and reported to appropriate levels of authority on a regular basis.

Our 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.

We maintain a ratings grade, which is applicable to both new and existing customers in order to allow for a meaningful distribution of exposures across grades with no excessive concentrations on the borrower-rating and its facility-rating scale.

Also, we have implemented a systematic credit limits management process to enable the Bank monitor its credit exposure on daily basis at country, borrower, industry, credit risk rating and credit facility type levels.

#### 7.2.2. Interest Rate Risk in the Banking Book

This is the risk of loss resulting from the exposure of the Bank's financial condition within a specified period to adverse movements in interest rates which are likely to affect the Bank's earnings and capital base.

##### 7.2.2.1. Sources of risk

The Bank is exposed to a considerable level of interest rate risk especially on the banking book which may lead to a decline in the net interest income, depending on whether the repricing gap is negative or positive as a result of fluctuations in the future cash flows of financial instruments.

Risk Definition	Sources of Risk	Assessment Basis /Metrics	Risk Exposure ( N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge ( N Million)
<p>This is the risk of loss resulting from the exposure of the Bank's financial condition within a specified period to adverse movements in interest rates which are likely to affect the Bank's earnings and capital base.</p>	<ul style="list-style-type: none"> <li>Repricing/Matching risk: mismatches in interest rate fixation periods</li> <li>Yield curve risk: which is caused by changes in the slope and shape of the yield curve</li> <li>Basis risk: imperfect correlation in the adjustment of the rates earned and paid on different products with otherwise similar repricing characteristics,</li> <li>Option risk: primarily from options (gamma and vega effect) that are embedded in banking book positions (e.g. early redemption rights in the case of loans)</li> </ul>	<ul style="list-style-type: none"> <li>The capital charge figure is derived from the Repricing Gap Schedule as at Dec 2018 and it reflects the cumulative decline in Net Interest Income in the various time buckets by 200bps. <ul style="list-style-type: none"> <li>See belows for interest rate risk computation.</li> </ul> </li> </ul>	<p><b>16,830.68</b></p>	<ul style="list-style-type: none"> <li>Significant portion of non-rate sensitive liabilities to minimise the impact of the exposure to interest rate risks.</li> <li>Flexibility in adjustment of lending and deposits rates to reflect market realities.</li> <li>ALCO, treasury and market risk management function are jointly responsible for controlling the mismatch in assets and liabilities.</li> <li>The management of interest risk against interest rate gap limits is supplemented by monitoring of the sensitivity of the Bank's financial assets and liabilities to various scenarios.</li> </ul>	<p>Not Applicable</p>	<p><b>16,830.68</b></p>

<b>Interest Rate Repricing Schedule as at 31 December 2018</b>						
<i>Figures in millions of Naira</i>	Carrying amount	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year
<b>Financial assets</b>						
Cash and balances with central banks	7,500.00	7,500.00				
Treasury Bills	817,042.00	182,137.00	195,199.00	155,676.00	284,030.00	
Assets pledged as collateral	592,935.00	3,000.00	123,929.00	27,475.00	187,419.00	251,112.00
Due from other banks	393,465.00	387,596.00	241.00		915.00	4,713.00
Derivative assets	88,826.00	4,944.00	27,920.00	14,097.00	41,865.00	
Loans and advances to customers	1,921,064.00	127,791.00	79,607.00	83,120.00	296,620.00	1,333,926.00
Investment securities	106,913.00		659.00	11,032.00	48,150.00	47,072.00
<b>Total Rate Sensitive Assets</b>	<b>3,927,745.00</b>	<b>712,968.00</b>	<b>427,555.00</b>	<b>291,400.00</b>	<b>858,999.00</b>	<b>1,636,823.00</b>
<b>Financial liabilities</b>						
Customers deposits	2,352,561.00	831,197.00	74,685.00	2,354.00	216.00	1,444,109.00
Derivative assets	16,997.00	6,907.00	6,682.00	3,268.00	140.00	
on lending facilities	393,295.00	44,655.00	3,277.00	47,712.00	10,368.00	287,283.00
Borrowings	458,463.00				5,490.00	452,973.00
Debt Securities	361,177.00			180,588.00	1,251.00	179,338.00
<b>Total Rate Sensitive Liabilities</b>	<b>3,582,493.00</b>	<b>882,759.00</b>	<b>84,644.00</b>	<b>233,922.00</b>	<b>17,465.00</b>	<b>2,363,703.00</b>
<b>Interest Rate Gap (asset - liabilities)</b>	<b>345,252.00</b>	<b>(169,791.00)</b>	<b>342,911.00</b>	<b>57,478.00</b>	<b>841,534.00</b>	<b>(726,880.00)</b>

Rates Movements (BPs)	Carrying amount	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year
Effect on NII 100	3,452.52	(1,697.91)	3,429.11	574.78	8,415.34	(7,268.80)
Effect on NII 200	6,905.04	(3,395.82)	6,858.22	1,149.56	16,830.68	(14,537.60)
Effect on NII 300	10,357.56	(5,093.73)	10,287.33	1,724.34	25,246.02	(21,806.40)
Effect on NII 400	13,810.08	(6,791.64)	13,716.44	2,299.12	33,661.36	(29,075.20)
Effect on NII 500	17,262.60	(8,489.55)	17,145.55	2,873.90	42,076.70	(36,344.00)
Effect on NII -100	(3,452.52)	1,697.91	(3,429.11)	(574.78)	(8,415.34)	7,268.80
Effect on NII -200	(6,905.04)	3,395.82	(6,858.22)	(1,149.56)	<b>(16,830.68)</b>	14,537.60
Effect on NII -300	(10,357.56)	5,093.73	(10,287.33)	(1,724.34)	(25,246.02)	21,806.40
Effect on NII -400	(13,810.08)	6,791.64	(13,716.44)	(2,299.12)	(33,661.36)	29,075.20
Effect on NII -500	(17,262.60)	8,489.55	(17,145.55)	(2,873.90)	(42,076.70)	36,344.00
<b>Capital Charge</b>	<b>(16,830.68)</b>					

The capital charge from the earning approach perspective is derived from the Repricing Gap Schedule as at 31, December 2018 and it reflects the maximum cumulative decline in Net Interest Income in the various time buckets assuming interest rate decreases by 200bps

#### **7.2.2.2. 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.

#### **7.2.2.3. IRRBB - Mitigation**

Zenith Bank has a significant portion of non-rate sensitive liabilities to minimise the impact of the exposure to interest rate risks. Also, we employ flexibility in adjustment of our lending and deposits rates to reflect market realities.

The ALCO, treasury and market risk management function are jointly responsible for controlling the mismatch in assets and liabilities.

The management of interest risk against interest rate gap limits is supplemented by monitoring of the sensitivity of the Bank's financial assets and liabilities to various scenarios.

### **7.2.3. Strategic Risk**

Strategic risk is the risk of current or prospective impact on the Bank's earnings, capital, reputation or standing arising from the changes in the operating environment and from adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to industry, economic or technological changes.

#### **7.2.3.1. Sources of risk**

The Bank is exposed to strategic risks in its business planning activities and to strategic execution risk in all key operations impacted by the Bank's strategy. The manifestation of this risk would arise from two main sources, namely external and internal sources. The key strategic risks affecting the Bank could be as a result of poorly planned and executed decisions, inadequate corporate strategy, improper analysis that can impact the implementation of key decisions, inability to respond promptly to business opportunities and changes in customer profile, lack of responsiveness to technological, regulatory and industry changes, improper communication of the Bank's strategic objectives, inability to recruit personnel with skills and experience required to execute strategy and lack of complete and accurate information.

Definition	Sources of Risk	Assessment basis/Metrics	Risk exposure (N' Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N' Million)
Strategic risk is the risk of current or prospective impact on the Bank's earnings, capital, reputation or standing arising from the changes in the operating environment and from adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to industry, economic or technological changes.	Result of poorly planned and executed decisions. Inability to respond promptly to business opportunities and changes in customer profiles. Lack of responsiveness to technological, regulatory and industry changes Inability to recruit personnel with skills and experience required to execute strategy.	The capital charge figure is derived from analysis of the cost of the Bank's strategic initiative to increase annual Gross earnings in the last three years.  See below for strategic risk computation	<b>38,850.85</b>	Processes and procedures are in place to ensure that the right models are employed and appropriately communicated to all decision makers on issues relating to strategic risk management. Performance is measured against strategic plans and budgets and closely monitored on a regular basis. The Strategy Management and Risk Management Groups conduct periodic review to take account of changing circumstances, new management strategies and potential risks. Defined limits for lending activities	10%	<b>3,885.09</b>

#### 7.2.3.2. Mitigation

Zenith Bank has put in place processes and procedures to ensure that the right models are employed and appropriately communicated to all decision makers on issues relating to strategic risk management. The Strategy Management and Risk Management Groups periodically review and update the Strategic Risk Universe to take account of changing circumstances, new management strategies and potential risks.

Our performance is measured against strategic plans and budgets and closely monitored on a regular basis. A financial review is presented to the Board at each Board Meeting. Also, we have set limits for our lending activities to ensure that an acceptable ratio is maintained between customer deposits and lending. The lending limits are further broken down into business sector limits to ensure the Bank is not over-exposed in any single business sector.

### 7.2.3 Liquidity Risk

Liquidity risk is defined as the risk to earnings and capital arising from the Bank's inability to meet its obligations when they become due, without incurring unacceptable losses.

#### 7.2.3.1 Sources of risk

Liquidity risk can arise from funding concentration, where a significant depositor or class of depositors withdraw their funds from the Bank without sufficient notice. The deterioration in the quality of the credit portfolio, or the inability of the Bank to sell out of a position or dispose of an asset without incurring significant losses can all create liquidity risk

Definition	Sources of Risk	Assessment Basis/Metrics	Risk exposure (N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N Million)
Liquidity risk is defined as the risk to earnings and capital arising from the Bank's inability to meet its obligations when they become due, without incurring unacceptable losses.	Funding concentration, where a significant depositor or class of depositors withdraw their funds from the Bank without sufficient notice. Deterioration in the quality of the deposit portfolio. Inability of the Bank to sell out of a position or dispose of an asset without incurring significant losses.	The capital charge figure is derived from the minimum loss/interest cost incurred in closing the Bank's highest liquidity gap as at 31 December 2018.  See below for the Liquidity Gap Schedule and liquidity risk computation	<b>72,436</b>	<ul style="list-style-type: none"> <li>ALCO is charged with monitoring and management of liquidity risk exposures on a regular basis.</li> <li>As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets which can be readily sold to meet liquidity requirements.</li> <li>Performing liquidity gap analysis.</li> <li>Adequately diversification of funding structure and access to funding sources.</li> <li>Committed credit lines that can be drawn in case of liquidity crises.</li> </ul>	<b>0%</b>	<b>Nil</b>

<i>Figures in millions of Naira</i>	Carrying Amount	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year
<b>Assets</b>						
Cash and balances with central banks	902,073.00	196,602.00	-	-	705,471.00	-
Treasury and other eligible bills (Amortized cost)	817,042.56	182,136.99	195,199.00	155,676.16	284,030.41	-
Assets pledged as collateral	592,935.00	3,000.00	123,929.00	27,475.00	187,418.70	251,112.30
Due from other banks	393,466.00	387,596.50	241.12	-	915.11	4,713.28
Derivative assets	88,826.00	4,943.80	27,919.78	14,097.50	41,864.93	-
Loans and advances to customers (gross)	1,921,064.00	312,789.10	79,606.99	83,119.67	111,621.89	1,333,926.34
Investment securities (Amortized cost and Fair value through OCI)	156,672.94	-	659.18	11,031.70	48,150.07	96,832.00
Investments in Subsidiaries	34,003.00	-	-	-	-	34,003.00
Deferred Tax Assets	9,196.55	-	-	-	-	9,196.55
Other Assets	75,910.44	6,671.17	-	-	69,239.27	-
Property and Equipment	133,854.00	(387.98)	-	-	46,471.67	87,770.32
Intangible Assets	15,399.00	-	-	-	-	15,399.00
<b>Total Assets</b>	<b>5,140,442.49</b>	<b>1,093,351.58</b>	<b>427,555.06</b>	<b>291,400.02</b>	<b>1,495,183.04</b>	<b>1,832,952.79</b>

<i>Figures in millions of Naira</i>	Carrying Amount	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year
<b>Liabilities</b>						
Customer deposits	2,821,066.00	2,743,811.65	74,684.86	2,353.70	215.78	-
Derivative liabilities	16,995.00	6,906.91	6,681.63	3,267.80	138.66	-
Current income tax liabilities	5,954.00	-	-	-	5,954.00	-
Deferred income tax liabilities	-	-	-	-	-	-
Other Liabilities(Including Allowances for Impairment)	408,461.00	108,896.78	-	-	114,566.22	184,998.00
On-lending facilities	393,295.00	44,655.08	3,276.53	47,712.10	10,368.16	287,283.13
Borrowings	458,463.00	0.00	-	-	5,490.40	452,972.60
Debt securities issued	361,176.99	-	-	180,588.49	1,250.78	179,337.72
<b>Total Liabilities</b>	<b>4,465,410.99</b>	<b>2,904,270.41</b>	<b>84,643.02</b>	<b>233,922.10</b>	<b>137,984.00</b>	<b>1,104,591.45</b>
<b>Net Liquidity Gap</b>	<b>675,031.50</b>	<b>(1,810,918.83)</b>	<b>342,912.04</b>	<b>57,477.92</b>	<b>1,357,199.03</b>	<b>728,361.34</b>
<b>Cumulative Net Liquidity Gap</b>		<b>(1,810,918.83)</b>	<b>(1,468,006.79)</b>	<b>(1,410,528.87)</b>	<b>(53,329.83)</b>	<b>675,031.50</b>

**Note: 16% is the average inter-bank call rate over the past three years**

Liquid assets that can be disposed quickly				
	1 - 3 months	3 - 6 months	6 - 12 months	Total
Treasury and other eligible bills (Amortized cost)	195,199.00	155,676.16	284,030.41	634,905.57
Investment securities (Amortized cost and Fair value through OCI)	659.18	11,031.70	48,150.07	59,840.94
Due from other banks	241.12	-	915.11	1,156.22
<b>Source of funding 1 (Selling liquid assets and interbank)</b>		<b>% Haircuts</b>	<b>N'Million</b>	
Liquidity gap as at 31st December, 2018			1,810,918.83	
Add saleable liquid assets to close gaps such as t bills and bonds:				
Fair value of T/bills in 91 – 181 and 181 - 365 days maturity buckets as at 31st December,2018 @ 5% haircut		5%	603,160.29	
Fair value of bonds in the 91 – 181 and 181 - 365 days bucket as at 31st December,2018 @ 10% haircut		10%	53,856.85	
Due from other banks			1,156.22	
<b>Net gap to be closed by interbank borrowing</b>			<b>1,152,745.47</b>	
<b>Loss</b>		<b>% Interbank Rates</b>	<b>N'Million</b>	
Interest cost on interbank borrowing for 90 days		16%	46,109.82	
Loss as result of haircuts applied in selling liquid assets			37,729.37	
<b>Total Losses/capital charge</b>			<b>83,839.19</b>	

Source of funding 2 (interbank)	% Interbank Rates	N'Million
Liquidity gap as at 31st December, 2018		(1,810,918.83)
Interest cost on interbank borrowing for 90 days)	16%	(72,436.75)
<b>Total Losses</b>		<b>72,436.75</b>
% Likelihood of Occurrence		0%
Capital Charge		Nil

### 7.2.3.2 Mitigation

Zenith Bank has implemented a comprehensive liquidity risk management framework that ensures that adequate liquidity, including a cushion of unencumbered and high quality liquid assets is maintained at all times. ALCO is charged with monitoring and management of our liquidity risk exposures on a regular basis.

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, and debt securities issued by sovereigns, which can be readily sold to meet liquidity requirements. In addition, we have adequately diversified our funding structure and access to funding sources. We also continue to maintain committed credit lines that can be drawn in case of liquidity crises.

## 7.2.4 Group Risk

This is the risk of loss from activities or operating performance of a subsidiary company that may impact negatively on the capital of Zenith Bank.

### 7.2.4.1 Sources of risk

This risk could arise from change in regulatory or political environment and requirements of subsidiaries that may lead to loss of operations or greatly reduce the operating performances of the subsidiaries.

Definition	Sources of Risk	Assessment Basis/Metrics	Risk exposure (N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N Million)
This is the risk of loss from activities or operating performance of local and foreign subsidiary entities may impact negatively on the capital of Zenith Bank.	Changes in regulatory or political environment and requirements of subsidiaries that may lead to loss of operations or greatly reduce the operating performances of the subsidiaries.	The capital charge figure is derived from the actual amount invested in the subsidiary companies and the likelihood of loss of investment. See next slides for the computation of the capital charge.	<b>1,728</b>	<ul style="list-style-type: none"> <li>On a regular basis, Zenith Bank carries out risk analysis process to assess the risk associated with its subsidiaries.</li> <li>Appointment of senior management staff of Zenith Bank as Executive Directors of each subsidiary to ensure that the core values and principles of the brand are seamlessly instilled across subsidiaries.</li> <li>On a regular basis, subsidiaries provide monthly and quarterly reports on their business and operational activities to the Bank.</li> </ul>	Not Applicable	<b>1,728</b>

### 7.2.4.2 Mitigation

On a regular basis, Zenith Bank carries out risk analysis process to assess the risk associated with its subsidiaries. We have also appointed senior management staff to act as the Executive Director of each subsidiary while other key staff are seconded to assist in the supervision of critical departments of the subsidiaries. The objective of this management structure is to ensure that the core values and principles of the Zenith Bank brand are seamlessly instilled across subsidiaries.

On a regular basis, Zenith's subsidiaries provide monthly and quarterly reports on their business and operational activities. The reports covers the subsidiaries' financial performance, risk assessment, regulatory and compliance matters amongst others.

### 7.2.5 Regulatory Compliance Risk

This is the risk that the Zenith Bank will either deliberately or otherwise, provide inaccurate response or fail to comply with regulatory pronouncements, laws and/or regulations, thereby resulting in adverse consequences for the Bank.

#### 7.2.5.1 Sources of risk

This risk arises from failure to meet regulatory requirements, inaccurate rendition of regulatory returns, failure to meet regulatory deadlines and other relevant compliance obligations.

Definition	Sources of Risk	Assessment Basis/Metrics	Risk exposure (N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N Million)
This is the risk that the Zenith Bank will either deliberately or otherwise, provide inaccurate response or fail to comply with regulatory pronouncements, laws and/or regulations, thereby resulting in adverse consequences for the Bank.	Failure to meet regulatory requirements Inaccurate rendition of regulatory returns Failure to meet regulatory deadlines and other relevant compliance obligations.	<ul style="list-style-type: none"> <li>The Capital charge figure is based on the following considerations:</li> <li>Total value paid by the Bank for regulatory infractions in the last 3 years.</li> <li>The Bank's total number of relevant returns to be filed and the corresponding fines attracted due to infractions.</li> </ul>	26.51	<ul style="list-style-type: none"> <li>Designation of the role of chief compliance officer at the management level</li> <li>Centralized compliance department to ensure seamless handling of information gathering, disclosure and exchange of information.</li> <li>Regular monitoring of compliance with all applicable regulatory requirements and pronouncements.</li> <li>At all times, the Bank's compliance universe is up to date and all parties are aware of their responsibilities.</li> </ul>	Not Applicable	26.51

### 7.2.5.2 Mitigation

In order to ensure that this risk does not crystallise, the Bank's compliance unit monitors compliance with all applicable regulatory requirements and pronouncements. At all times, we ensure that the Bank's compliance universe is up to date and all parties are aware of their responsibilities.

### 7.2.6 Fraud Risk

This is the risk that the management and employees of Zenith Bank (individually or in collusion) or external parties may commit fraud or illegal acts which could cause damage to the Bank's reputation and erode earnings.

#### 7.2.6.1 Sources of risk

Due to the size and complexities of our operations and activities, Zenith Bank is exposed to fraud risk, both from external and internal parties. Employees of the Bank could perpetuate unauthorized acts such as theft, deliberate suppression of transactions, intentional mismatching the Bank's assets or liabilities, use of wrong market indices to create false impression of a gain and profits in the Bank's books.

Additionally, the external sources of fraud include the falsification of documents by customers and other relevant third parties

Definition	Sources of Risk	Assessment Basis/Metrics	Risk exposure (N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N Million)
This is the risk that the management and employees of Zenith Bank (individually or in collusion) or external parties may commit fraud or illegal acts which could cause damage to the Bank's reputation and erode earnings.	<p>Internal sources:</p> <ul style="list-style-type: none"> <li>• Theft</li> <li>• deliberate suppression of transactions</li> <li>• intentional mismatching the Bank's assets or liabilities</li> <li>• Use of wrong market indices to create false impression of a gain and profits in the Bank's books.</li> </ul> <p>External sources include:</p> <ul style="list-style-type: none"> <li>• falsification of documents by customers and other relevant third parties</li> </ul>	<ul style="list-style-type: none"> <li>• The Capital charge figure is derived from the number and amount of successful fraud and forgery attempts (excluding IT related incidences) in the past 3 years.</li> <li>• Due to the increased frequency and magnitude of these incidences over the past 3 years, the Bank has taken prudent measures to apportion sufficient capital.</li> <li>• See below for the computation of the capital charge.</li> </ul>	<b>1,114.08</b>	<ul style="list-style-type: none"> <li>• Prompt reporting and monitoring of fraud and forgery incidences.</li> <li>• Segregation of duties in assigning tasks and responsibilities</li> <li>• Different levels of approval within individual business units.</li> </ul>	65%	<b>724.15</b>

#### 7.2.6.2 Mitigation

We closely monitor and promptly report fraud and forgery incidences. Also, we ensure segregation of duties in assigning tasks and responsibilities, such that there are instances where a single person starts and ends any process are limited and curtailed. There are different levels of approval with individual business units.

## 7.2.7 Reputational Risk

Reputational risk arises when situations, occurrences, business practices or events have the potential to materially and negatively influence stakeholders' perceived trust and confidence in the Bank.

### 7.2.7.1 Sources of risk

The sources of reputational risk to the Bank include wrong perception by stakeholders of instances of impropriety or fraud, not living up to stakeholder expectations with regard to acting as a responsible corporate citizen, accountability and sustainability.

In addition, unfair treatment of customers by bank officials and non-compliance with trading standards, codes of practice and local laws will have a detrimental effect on the Bank's reputation.

Definition	Sources of Risk	Assessment Basis/Metrics	Risk exposure (N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N Million)
Reputational risk arises when situations, occurrences, business practices or events have the potential to materially and negatively influence stakeholders' perceived trust and confidence in the Bank.	Wrong perception by stakeholders as a result of impropriety or fraud. Not living up to stakeholder expectations with regard to acting as a responsible corporate citizen, accountability and sustainability. Unfair treatment of customers by bank officials Detrimental effect as a result of non-compliance with trading standards, codes of practice and local laws.	<ul style="list-style-type: none"> <li>The Capital charge figure is derived from using Zenith's Bank market capitalization as a proxy for its brand value and the likelihood of erosion of the brand equity</li> <li>See below for the computation of the capital charge.</li> </ul>	723,689	Board and management set the right tone for ethical values. All staff are aware of the Bank's ethical practices and are mandatorily required to sign the code of conduct form. Strict compliance with regulatory standards Training and capacity building of staff in the risk and compliance functions Ensuring implementation of the Bank's corporate responsibilities.	5%	1,809

### 7.2.7.2 Mitigation

The Board and management of the Bank ensures strict compliance with regulatory standards by investing in the training and capacity building of staff in the risk and compliance functions and ensuring that the Bank is on top of its corporate responsibilities.

Most importantly, the Board and management set the right tone for ethical values. All staff are aware of the Bank's ethical practices and are mandatorily required to sign the code of conduct form

## 7.2.8 Information Technology

This is the probability that a given threat will exploit vulnerabilities of an IT asset and thereby causing harm to the Bank's operations and activities.

### 7.2.8.1 Sources of risk

The sources of this risk include uncoordinated IT strategy and failure of the Bank's IT projects to deliver the desired change. The failure of the IT assets to prevent and/or detect breaches in data protection and information privacy, poor performance as well as obsolesce and emergence of more updated versions of information systems are key sources of IT risk to Zenith Bank.

Definition	Sources of Risk	Assessment Basis/Metrics	Risk exposure (N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N Million)
This is the probability that a given threat will exploit vulnerabilities of an IT asset and thereby causing harm to the Bank's operations and activities.	<ul style="list-style-type: none"> <li>Uncoordinated IT strategy and failure of the Bank's IT projects to deliver the desired change</li> <li>Failure of the IT assets to prevent and/or detect breaches in data protection and information privacy</li> <li>Poor performance of information systems</li> <li>Obsolesce and emergence of more updated versions of information systems</li> </ul>	<ul style="list-style-type: none"> <li>The Capital charge figure is based on the average of the cost of IT related costs and initiatives over the last 3 years</li> <li>See below for the computation of the capital charge.</li> </ul>	<b>8,984</b>	<ul style="list-style-type: none"> <li>The Board and executives oversight on cyber risks and activities.</li> <li>Establishment of information Technology (IT) Steering Committee responsible for development and oversight of corporate information technology (IT) strategies and plans.</li> <li>Measures such as conduct of independent IT audits to guard against potential failures and to protect the Bank's network.</li> <li>Regular data back up and replication systems</li> <li>Use of disaster recovery servers.</li> </ul>	30%	<b>2,695.20</b>

### 7.2.8.2 Mitigation

The Board and Executives have adequate oversight on Information Technology (IT). The IT Steering 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 Bank.

The Bank has put in place measures such as conduct of independent IT audits to guard against potential failures and to protect the Bank's network. Also, processes are in place to ensure that data is adequately backed up and replicated to disaster recovery servers.

Our internal auditors are charged with monitoring of the effectiveness of systems and controls. The risk management function ensures frequent review of risk controls in order to ensure safety of our data and privacy.

## 7.2.9 Cyber Security Risk

Cyber risk is defined as likelihood of financial loss, disruption or damage to the reputation of the Bank as a result premeditated attacks leading to failure of its information technology systems.

### 7.2.9.1 Sources of risk

The attacks on the Bank's digital banking platforms by hackers are also a major source of this risk. Furthermore, unrestricted access and the breach in data protection and privacy of information of the Bank and its customers are key sources of Cyber risks.

Definition	Sources of Risk	Assessment Basis/Metrics	Risk exposure (N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N Million)
Cybersecurity risk is defined as likelihood of financial loss, disruption or damage to the reputation of the Bank as a result premeditated attacks leading to failure of its information technology systems.	<ul style="list-style-type: none"> <li>Failure of the IT assets to prevent and/or detect breaches in data protection and information privacy.</li> <li>Poor performance of IT and information systems.</li> <li>Attacks on the Bank's digital banking platforms by hackers.</li> <li>Unrestricted access and the breach in data protection and privacy of information</li> </ul>	<ul style="list-style-type: none"> <li>The Capital charge figure is derived from using information on                             <ul style="list-style-type: none"> <li>✓ Total amount invested in cyber related systems and security</li> <li>✓ Successful IT and cyber security attempts in the last 3 years.</li> </ul> </li> <li>See below for computation of the capital charge</li> </ul>	<b>2,001.71</b>	<ul style="list-style-type: none"> <li>The Board and executives oversight on cyber risks and activities</li> <li>Oversight on cyber vulnerabilities across their banking groups</li> <li>Measures in place for effective bank-wide responses to them.</li> <li>Installation of malwares to protect its network and guide against security threats from hackers and unwarranted intruders etc.</li> <li>Frequent review of risk controls in order to ensure safety of data and privacy.</li> </ul>	35%	<b>701.71</b>

### 7.2.9.2 Mitigation

The Board and executives charged with responsibilities for cyber and IT in banks clearly understand the cyber vulnerabilities across their banking groups and have put in place effective bank-wide responses to them.

The Bank has installed malwares to protect its network and guide against security threats from hackers and unwarranted intruders etc. Also, processes are in place to ensure that data is adequately protected and backed up.

Our internal auditors are charged with monitoring of the effectiveness of systems and controls. The risk management function ensures frequent review of risk controls in order to ensure safety of our data and privacy.

## 7.2.10 Business Risk

This is the probability that value will be lost through the selection of specific business directions or through changes to Zenith Bank's overall business model.

It is the risk that the Bank will fail to meet its performance target, or produce sufficient cash flow to maintain its operations resulting in a negative impact on the Bank's operating results and financial conditions.

### 7.2.10.1 Sources of risk

The Bank is exposed to business risk in all of its operations. The risk could manifest as a result of ineffective or inadequate corporate strategy, types of customers/sources of business (market segments), types of products, adverse impact of external factors including interest rate, inflation, regulations, government policies, adverse regulatory directives, wars and natural disasters that could adversely affect the Bank's ability to meet its financial target and performance metrics.

Definition	Sources of Risk	Assessment Basis/Metrics	Risk exposure (N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N Million)
<p>This is the probability that value will be lost through the selection of specific business directions or through changes to Zenith Bank's overall business model.</p> <p>It is the risk that the Bank will fail to meet its performance target, or produce sufficient cash flow to maintain its operations resulting in a negative impact on the Bank's operating results and financial conditions.</p>	<p>Ineffective or inadequate corporate strategy, types of customers, products and sources of business (market segments)</p> <p>Adverse impact of external factors i.e. inflation, regulations, government policies, adverse regulatory directives etc. that could adversely affect the Bank's ability to meet its financial target and performance metrics.</p>	<p>The Capital charge figure is derived from using information from the probability that the bank will not meet its performance targets (Profit before tax)</p> <p>The % variance and estimated risk exposure were derived by comparing the bank's actual and target financial performance for the last 3 years</p> <p>See below for business risk computation</p>	<p><b>9,748.50</b></p>	<p>On a regular basis, the Managing Director and senior management team participate in performance &amp; strategy review and Budget session to analyse performances and identify gaps in achievement of initiatives of the Bank and its subsidiaries.</p> <p>In addition, valuable recommendations are proffered towards achieving continuous improvement in financial, social and environmental performance.</p>	<p><b>10%</b></p>	<p><b>974.85</b></p>

### 7.2.10.2 Mitigation

On a regular basis, the Managing Director and senior management team participate in performance & strategy review and Budget session to analyse the performances and identify gaps in achievement of initiatives of the Bank and its subsidiaries. In addition, valuable recommendations are proffered towards achieving continuous improvement in financial, social and environmental performance.

## 7.2.11 Political Risk

This is the risk that Zenith's investment and returns could suffer as a result of political changes or instability in a country.

### 7.2.11.1 Sources and Manifestation of Risk

The sources of political risk includes change in the legal system/ constitution, political disruptions such as terrorism, riots, coups, civil wars, international wars and political elections that may change the ruling government and can have an effect on Zenith Bank's ability to recover its debts and carry on its operations.

Definition	Sources of Risk	Assessment Basis/Metrics	Risk exposure (N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N Million)
This is the risk that Zenith's investment and returns could suffer as a result of political changes or instability in its countries of operation.	<ul style="list-style-type: none"> <li>Change in the legal system/ constitution, political disruptions such as riots and political elections that may change the ruling government and can have an effect on Zenith Bank's ability to recover its debts and carry on its operations.</li> </ul>	<ul style="list-style-type: none"> <li>The Capital charge figure is derived from using information from loan and advances risk exposure across the regions in Nigeria and the probability of political crisis. The assumption is that bank will not be able to recoup its investment in these regions if the risk crystallises.</li> <li>See below for political risk computation</li> </ul>	<b>19,039.41</b>	<ul style="list-style-type: none"> <li>Zenith has implemented a political risk management strategy that include review of economic and political development and proper assessment of its impact on its businesses.</li> <li>Proper implementation of recommendations to close the identified gaps.</li> <li>Measures are in place to ensure that the Bank is seen as an independent and non-partisan organisation.</li> </ul>	10%	<b>1,903.94</b>

### 7.2.11.2 Mitigation

Zenith has implemented a political risk management strategy that includes review of economic and political development and proper assessment of its impact on our business. We ensure that recommendations to close the identified are gaps are properly implemented. Furthermore, we have put in place measures to ensure that we are independent and run a non-partisan organisation.

## 7.2.12 Legal Risk

Legal risk is defined as the risk of loss due to defective contractual arrangements, legal liability (both criminal and civil) incurred during business activities and operations.

This is the risk that legal action will be taken on the Zenith Bank because of the Bank or its representative i.e. Board, Management and employees' actions and inactions, products, services or other events.

### 7.2.12.1 Sources of risk

The Bank is exposed to legal risk as a result unenforceable contract rights, recovering debts or obligations owed to the Bank, foreclosing on property in which the Bank holds an ownership interest, recovering damages caused by employees or third parties, allegations of errors, omissions, violations of law, damages and personal injury caused by the Bank, its management or staff.

Other sources of legal risk to the Bank includes employee liabilities and non-compliance with environmental laws etc.

Definition	Sources of Risk	Assessment Basis/Metrics	Risk exposure (N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N Million)
<p>Legal risk is defined as the risk of loss due to defective contractual arrangements, legal liability (both criminal and civil) incurred during business activities and operations.</p> <p>This is the risk that legal action will be taken on the Zenith Bank because of the Bank or its representative i.e. Board, Management and employees' actions and inactions, products, services or other events.</p>	<p>Unenforceable contractual rights or obligations owed to the Bank. Foreclosure of property in which the Bank holds an ownership interest</p> <p>Damages, allegations of errors, omissions, violations and personal injury caused by Management and/ or staff in which the Bank is liable to.</p> <p>Non-compliance with environmental laws etc.</p>	<p>The Capital charge figure is derived from using information from the maximum amount for settlement of legal proceedings in the last 3 years and likelihood of settlement of its ongoing proceedings. See below for legal risk computation</p>	<p><b>1,343.91</b></p>	<p>Zenith Bank manages legal risk by monitoring new legislation, creating awareness of legislation among employees</p> <p>Timely identification of significant legal risks as well as assessing the potential impact of these risks.</p> <p>Management of contractual obligations via well documented Service Level Agreements and other contractual documents.</p>	<p>20%</p>	<p><b>268.78</b></p>

### 7.2.12.2 Mitigation

Zenith Bank manages legal risk by monitoring new legislation, creating awareness of legislation among employees, identifying significant legal risks as well as assessing the potential impact of these risks.

Furthermore, the conduct of appropriate product risk review and management of contractual obligations via well documented Service Level Agreements and other contractual documents has enhanced the Bank's capabilities to effectively manage this risk.

### 7.2.13 Ratings Downgrade Risk

This is the risk of financial loss triggered by a downgrade to the Bank's credit rating or its debt securities' ratings and thereby resulting in increased cost of funding. This risk also include the possibility of downgrade of credit rating downgrade of the Bank's customer/customers.

#### 7.2.13.1 Sources of risk

The sources of downgrade risk to the Bank include a downgrade of the Bank's own credit rating resulting in the Bank paying more for wholesale funding. Changes in the Bank's ratings will characteristically have an effect on entities who have a significant amount of funds in the Bank e.g. corporate customers. A downgrade may cause customers to demand for higher interest rates leading to tight margins for the Bank and subsequently, less profit. Furthermore, downgrade of credit rating downgrade of a customer/customers for which Pillar 1 credit risk capital charge is based would lead to increase provisions, there reducing interest income of the Bank

Definition	Sources of Risk	Assessment Basis/Metrics	Risk exposure (N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N Million)
This is the risk of financial loss triggered by a downgrade to the Bank's credit rating or its debt securities' ratings and thereby resulting in increased cost of funding. This risk also include the possibility of downgrade of credit rating downgrade of the Bank's customers.	<ul style="list-style-type: none"> <li>Downgrade of the Bank's own credit rating resulting in the Bank paying more for wholesale funding.</li> <li>Downgrade of credit rating downgrade of a customer/customers for which Pillar 1 credit risk capital charge is based.</li> </ul>	<ul style="list-style-type: none"> <li>The Capital charge figure is derived by assuming interest cost for top deposits increases by 100bps. (This is due to the assumption that a downgrade in the Bank's ratings would cause a demand for significantly higher interest rates by depositors.</li> <li>Also, increase in provisioning due to downgrade of top 10 customers' ratings by 150bps, leading to lower net income.</li> <li>See below for the risk computation</li> </ul>	<b>18,569.51</b>	Strategies are in place to continuously build Zenith's brand as a reputable international financial institution recognized for innovation, superior performance while creating premium value for all stakeholders. Regular tracking of external rating agencies and internal watch list. Monitoring of customers' performance.	5%	<b>928.48</b>

#### 7.2.13.2 Mitigation

Zenith Bank continues to put in place strategies aimed at building its brand as a reputable international financial institution recognized for innovation, superior performance while creating premium value for all stakeholders. Furthermore, we also keeps track of the rating agencies watch list, monitors the customers' performance and creates an internal watch list.

## 7.2.14 Physical Security Risk

This is the risk of financial loss and damages to the asset of the Bank as a result of breach of physical securities and barriers. Model risk are the likelihood of losses resulting from using insufficiently accurate models Any tool or process that involves a series of steps to conduct calculations or transform certain inputs into certain outputs, where the results are used for internal decision-making or for external reporting purposes

### 7.2.14.1 Sources of risk

The sources of physical security risk to the Bank include theft of cash holdings, documents and equipment etc. Also, the harm to staff and persons within the banking environment, vandalization properties and equipment of the Banks a result of unwarranted access are sources of this risk.

Definition	Sources of Risk	Assessment Basis/Metrics	Risk exposure (N Million)	Controls in place	Residual Risk Likelihood Assessment (%)	Capital Charge (N Million)
This is the risk of financial loss and damages to the asset of the Bank as a result of breach of physical securities and barriers.	Theft of cash holdings, documents and equipment etc. Harm to staff and persons within the banking environment, Vandalization of properties and equipment of the Bank a result of breach of physical security.	The Capital charge figure is derived from the excess of the Bank's cash holding exposure above the vault insurance limit in the last 3 years See below for physical security risk capital computation	<b>72,396.07</b>	Trainings and awareness session to keep staff aware of security procedures. Cash holdings are kept to a minimum. Comprehensive insurance on properties and assets. Adequate security measures and security operatives at business offices and facilities.	5%	<b>3,619.80</b>

### 7.2.14.2 Mitigation

Zenith Bank continues to put in place trainings and awareness session to keep staff aware of security procedures. We ensure that cash holdings are kept to a minimum and that all properties and assets are adequately insured. Also, the Bank has invested in putting in place adequate security measures and security operatives at business offices and facilities.

## 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 losses 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 Bucket*' 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 2019

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 2018.

### **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. However, Internal Measurement approaches were used in determining the economic capital in the 2018 ICAAP report. 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 during the year. 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**

As expedient for an international bank of the size of Zenith, the bank has set up an independent Information Security Department headed by a Chief Information Security Officer (CISO) and in compliance with the regulatory requirements of the Central Bank of Nigeria (CBN). Zenith Bank has also commenced the process of establishing of a Security Operating Centre (SOC).

The 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.

## NOTICE

The disclosures herein are based on the bank's financial figures as at 31<sup>st</sup> December 2018 and should be considered in line with the Directors' Report and Financial Statements for the corresponding period, 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](http://www.zenithbank.com).