IMPORTANT NOTICE

THE BASE PROSPECTUS FOLLOWING THIS NOTICE (THE "BASE PROSPECTUS") IS AVAILABLE ONLY TO: (1) QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED BELOW); (2) INSTITUTIONAL ACCREDITED INVESTORS (AS DEFINED BELOW); OR (3) CERTAIN PERSONS OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the Base Prospectus, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Bank, the Arrangers and Dealers (each as defined in the Base Prospectus) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE BASE PROSPECTUS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTIONS OF THE U.S. AND MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

The Base Prospectus does not constitute an offer of the securities to the public in the United Kingdom. No prospectus has been or will be approved in the United Kingdom in respect of the securities. The Base Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"); (iii) high net worth entities falling within Article 49(2)(a) to (d) of the Order; or (iv) other persons to whom it may lawfully be communicated (all such persons in (i), (ii), (iii) and (iv) above together being referred to as "relevant persons"). The securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on the Base Prospectus or any of its contents.

The attached document is only addressed to and directed at persons in member states of the European Economic Area that have implemented Directive 2003/71/EC, as amended (the "Prospectus Directive") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors") and must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which the attached document relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons.

Confirmation of your representation: In order to be eligible to view the Base Prospectus or make an investment decision with respect to the securities, investors must be either: (1) Qualified Institutional Buyers ("QIBs") (within the meaning of Rule 144A under the Securities Act); (2) persons who are "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions ("Institutional Accredited Investors") who execute and deliver an IAI Investment Letter (as defined in the Base Prospectus) in which they agree to purchase the Notes for their own account and not with a view to the distribution thereof; or (3) non-U.S. persons within the meaning of Regulation S outside the United States. The Base Prospectus is being sent at your request and by accepting the email and accessing the Base Prospectus, you shall be deemed to have represented to us that (1) you and any

customers you represent are either: (a) QIBs; (b) Institutional Accredited Investors; or (c) non-U.S. persons within the meaning of Regulation S outside the U.S., (2) unless you are a QIB or an Institutional Accredited Investor, the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the U.S., (3) you are a person who is permitted under applicable law and regulation to receive the Base Prospectus and (4) you consent to delivery of the Base Prospectus by electronic transmission.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus to any other person.

This Base Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any jurisdiction where offers or solicitations are not permitted by law. If a jurisdiction requires that an offering of securities described herein be made by a licensed broker or dealer and the Arrangers and Dealers or any affiliate of the Arrangers or applicable Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Arrangers or such Dealer or such affiliate on behalf of the Issuer or holders of the applicable securities in such jurisdiction.

The attached document has not been and will not be registered with the Nigerian Securities and Exchange Commission pursuant to the Nigerian Investment and Securities Act, No. 29 of 2007. The attached document is not an offering circular or an invitation to the public within the meaning of the Nigerian Investment and Securities Act and may not be utilised in connection with any offering to the public within Nigeria. Accordingly, the attached document is not directed to any persons within Nigeria.

The Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Bank, the Arrangers and Dealers nor any person who controls them nor any director, officer, employee nor agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Bank, the Arrangers and Dealers.

Please ensure that your copy is complete. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk, and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

BASE PROSPECTUS

ZENITH BANK PLC

(incorporated with limited liability in the Federal Republic of Nigeria)

U.S.$1,000,000,000

Global Medium Term Note Programme

Under this U.S.$1,000,000,000 Global Medium Term Note Programme (the "**Programme**"), Zenith Bank Plc (the "**Bank**" or the "**Issuer**") may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below), subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Notes may be issued in bearer or registered form (respectively "**Bearer Notes**" and "**Registered Notes**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$1,000,000,000 (or its equivalent in other currencies calculated as provided for in the Programme Agreement described herein), subject to increase as described herein.

In respect of Bearer Notes, interests in a temporary global note will be exchangeable, in whole or in part, for interests in a global note on or after the date 40 days after the later of the commencement of the offering and the relevant issue date, upon certification as to non U.S. beneficial ownership. Until the expiration of 40 days after the later of the commencement of the offering of a tranche of Regulation S Registered Notes (as defined below) and the issue date thereof, beneficial interests in a global note may be held only through Euroclear Bank SA/NV ("**Euroclear**") or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**").

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*" beginning on page 6.

This Base Prospectus has been approved by the Central Bank of Ireland as competent authority under Directive 2003/71/EC as amended (including the amendments made by Directive 2010/73/EU) (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Such approval relates only to Notes that are to be admitted to trading on the regulated market (the "**Main Securities Market**") of the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") or on another regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**") and/or that are to be offered to the public in any member state of the European Economic Area ("**EEA**") in circumstances that require the publication of a prospectus. Application has been made to the Irish Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to its official list (the "**Official List**") and to trading on the Main Securities Market. References in this Base Prospectus to the Notes being "listed" (and all related references) shall mean that, unless otherwise specified in the relevant Final Terms (as defined below) or the relevant Drawdown Prospectus (as defined below), the Notes have been admitted to the Official List and to trading on the Main Securities Market. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

For each issue of Notes under the Programme, the information required to complete this Base Prospectus for the relevant issue will be set out in a final terms document (the "**Final Terms**") or in a separate prospectus specific to such Tranche (the ''**Drawdown Prospectus**'') as described under "*Final Terms and Drawdown Prospectuses*" which, with respect to Notes to be listed on the Irish Stock Exchange, will be filed with the Central Bank of Ireland. Copies of such Final Terms and Drawdown Prospectus will also be published on the Central Bank of Ireland's website at www.centralbank.ie and on the Irish Stock Exchange's website at www.ise.ie.

Notes issued under the Programme may be rated by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") or Fitch Ratings Ltd. ("**Fitch**"), or may be unrated. Where a Series of Notes is rated, such rating will be disclosed in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be). The Bank's current long term rating by S&P is BB- and its current long-term rating by Fitch is B+. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. As of the date of this Base Prospectus, each of S&P and Fitch is established in the EEA and is registered under Regulation (EU) No 1060/2009 (as amended) (the "**CRA Regulation**"). Whether or not a rating in relation to any Series of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (i) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (ii) the rating is provided by a credit rating agency established in the EEA which is certified under the CRA Regulation.

The Notes have not been, nor will they be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and any Notes issued in bearer form will be subject to U.S. tax law requirements. The Notes may not be offered or sold or, in the case of Bearer Notes, delivered in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) , except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. See "*Form of the Notes*" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see "*Subscription and Sale and Transfer and Selling Restrictions*".

The Bank may agree with any Dealer and Citibank, N.A., London Branch (the "**Trustee**") that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Base Prospectus or a Drawdown Prospectus, as the case may be, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arrangers and Dealers

Citigroup **Goldman Sachs International**

The date of this Base Prospectus is 1 April 2014

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive.

The Bank accepts responsibility for the information contained in this Base Prospectus, including the Final Terms or Drawdown Prospectus (as applicable) relating to each Tranche of Notes issued under the Programme. To the best of the knowledge of the Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus has been filed with and approved by the Central Bank of Ireland as required by the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (the "Prospectus Regulations"). None of the Dealers and the Trustee nor any of their directors, affiliates, advisers or agents has made an independent verification of the information contained in this Base Prospectus in connection with the issue or offering of any Notes and no representation or warranty, express or implied, is made by the Dealers, the Trustee or any of their respective directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Base Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Dealers, the Trustee or any of their respective directors, affiliates, advisers or agents in any respect. The contents of this Base Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

Copies of the Final Terms and any Drawdown Prospectus will be available from the registered office of the Issuer and the specified office set out below of each of the Paying Agents (as defined below).

Certain information under the heading "*Exchange Rates and Exchange Controls*", "*Overview of the Group*", "*Risk Factors*", "*Description of the Group*", "*Asset, Liability and Risk Management*", "*Management's Discussion and Analysis of Result of Operations and Financial Condition*", "*Directors and Senior Management*", "*Nigeria*", and "*The Nigerian Banking Sector*" has been extracted from information provided by the clearing systems, certain Government and other third-party sources, referred to therein. Where such third-party information appears in this Base Prospectus, it has been cited as such. The Bank confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Bank has relied on the accuracy of this information without independent verification.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained in this Base Prospectus or any other information provided by the Bank in connection with the Programme. None of the Dealers or the Trustee accepts any liability in relation to the information contained in this Base Prospectus or any other information provided by the Bank in connection with the Programme.

Subject as provided in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), the only persons authorised to use this Base Prospectus in connection with an offer of Notes are the persons named in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) as the relevant Dealer or the Managers, as the case may be.

No person is or has been authorised by the Bank, any of the Dealers or the Trustee to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank, any of the Dealers or the Trustee.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Bank, any of the Dealers or the Trustee that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank. Neither this Base

Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Bank, any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve an adverse change, in the prospects or financial or trading position of the Bank since the date hereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Bank throughout the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 (the "Code") and the U.S. Treasury regulations promulgated thereunder.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Bank, the Dealers and the Trustee do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank, the Dealers or the Trustee which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom) and Nigeria. See "*Subscription and Sale and Transfer and Selling Restrictions*".

In particular, this Base Prospectus and any Notes issued under the Programme have not been and will not be registered with the Nigerian Securities and Exchange Commission (the "Nigerian SEC") under the Nigerian Investment and Securities Act, No. 29 of 2007 (the "Nigerian ISA") and the Nigerian SEC has not approved or recommended an investment in the Notes. This Base Prospectus may not be utilised in connection with any offering to the public within Nigeria. Accordingly, this Base Prospectus is not directed to, and the Notes are not available for subscription by, any persons within Nigeria.

In making an investment decision, investors must rely on their own independent examination of the Bank and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Base Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Base Prospectus. Any representation to the contrary is unlawful.

None of the Dealers, the Bank or the Trustee makes any representation to any investor regarding the legality of its investment under any applicable laws. Any investor should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

U.S. INFORMATION

Registered Notes may be offered or sold within the United States only to "qualified institutional buyers" ("QIBs") within the meaning of Rule 144A ("Rule 144A") of the Securities Act or to "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions ("Institutional Accredited Investors"), in either case in transactions exempt from registration under the Securities Act). Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Purchasers of Definitive IAI Registered Notes (as defined in "*Form of the Notes – Registered Notes*") will be required to execute and deliver an IAI Investment Letter (as defined under "*Terms and Conditions of the Notes – Transfers of Registered Notes*"). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note (as defined in "*Form of the Notes – Registered Notes*") or any Notes issued in registered form in exchange or substitution therefor (together, "Legended Notes") will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale and Transfer and Selling Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of the Notes*".

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS BASE PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY PROSPECTIVE INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

There are two regimes for the enforcement of foreign judgments in Nigeria: the Reciprocal Enforcement of Judgment Ordinance Cap 175, Laws of the Federation of Nigeria and Lagos, 1958 (the "Reciprocal Enforcement Ordinance") and part 1 of the Foreign Judgments (Reciprocal Enforcement) Act, Cap F35 Laws of the Federation of Nigeria 2004 (the "Reciprocal Enforcement Act").

The Reciprocal Enforcement Ordinance applies to judgments obtained in the High Court in England or Ireland, or in the Court Session in Scotland or in any territory under Her Majesty's protection to which the Reciprocal Enforcement Ordinance is extended by proclamation, while the Reciprocal Enforcement Act applies to judgments from any superior court of any foreign country. Subject to certain exceptions, judgments obtained in these jurisdictions are enforceable by registration under the Reciprocal Enforcement Ordinance and by virtue of section 10(a) of the Reciprocal Enforcement Act. To be enforceable, such judgments must be registered within 12 months after the date of the judgment or such longer period as may be allowed by the courts. The judgment must (i) derive from civil proceedings; (ii) be final and capable of execution in the country of delivery; (iii) must not have been wholly satisfied; and (iv) not suffer from want of jurisdiction, lack of fair hearing or fraud, be contrary to public policy or have been discontinued because the issue had already been decided by another competent court before its determination by the foreign court.

Accordingly, under the first regime, foreign judgments relating to the Notes are registrable and enforceable in Nigeria if such judgments are obtained in the (a) High Courts of England or Ireland or in the Court of Session in Scotland or in other parts of Her Majesty's control to which the Reciprocal Enforcement Ordinance is extended by proclamation; or (b) the superior court of any other country with competent jurisdiction to hear the matter. However, such judgments obtained are not registrable or enforceable in Nigeria where (i) the foreign court acted without jurisdiction; (ii) the judgment debtor, being a person who was neither carrying on business nor ordinarily resident within the jurisdiction of the foreign court, did not voluntarily appear or otherwise submit or agree to submit to the jurisdiction of that court; (iii) the judgment debtor was not duly served with the process of the foreign court; (iv) the judgment was obtained by fraud; (v) the judgment debtor satisfies the registering court that an appeal is pending against the judgment or that he is entitled to and intends to appeal against the judgment; (vi) the judgment was in respect of a cause of action which could not have been entertained by the registering court for reasons of public policy or for some other similar reason; or (vii) such judgment is not registered within 12 months after the date of the judgment or such longer period as may be allowed by a superior court in Nigeria. In this regard, notwithstanding that a judgment emanates from a jurisdiction to which the Reciprocal Enforcement Ordinance or the Reciprocal Enforcement Act applies, such judgment will not be registrable or enforceable in Nigeria if the judgment falls within any of the exceptions enumerated in (i) to (vii) above.

Furthermore, in the event that in the future the Minister of Justice of Nigeria (the "Minister of Justice") changes the Reciprocal Enforcement Act (discussed below) to apply to judgments from the High Court in England or Ireland, or in the Court of Session in Scotland or to other parts of Her Majesty's control, or from the superior court of any foreign country, then enforcement of such judgments will need to be in accordance with part 1 of the Reciprocal Enforcement Act.

The second regime for the enforcement of foreign judgments in Nigeria, part 1 of the Reciprocal Enforcement Act, applies to judgments obtained in the superior courts of any country (other than Nigeria) and registered within six years after the date of the judgment without an extension of time by a court for such registration, subject to the satisfaction of the following two conditions: (i) Nigerian judgments must be accorded substantial reciprocity of treatment in courts of the relevant foreign jurisdiction, and (ii) the Minister of Justice must have made an order extending the applicability of part 1 of the Reciprocal Enforcement Act to judgments obtained in such foreign jurisdiction.

Where the above two conditions are satisfied in respect of any jurisdiction (whether or not covered by the Reciprocal Enforcement Ordinance), the Reciprocal Enforcement Act shall apply to the registration and enforcement in Nigeria of judgments of superior courts of those jurisdictions. To be enforceable, judgments from such jurisdictions must be registered within six years after the date of the judgment, or where the proceedings have been by way of appeal, within six years after the date of the last judgment given in those proceedings. Such judgments are only registrable where the judgment would have been enforceable by execution in the jurisdiction of the original court.

Subject to the exceptions already discussed above, all judgments are now enforceable by registration in Nigeria by virtue of section 10(a) of the Reciprocal Enforcement Act, provided that such judgments are registered within 12 months after the date of the judgment or such longer periods as may be allowed by the courts.

There is no treaty between the United States and Nigeria providing for reciprocal enforcement of judgments and the Minister of Justice has not directed the application of the Reciprocal Enforcement Act to judgments derived from US courts. Thus, as of the date hereof, judgments from courts in the United States can only be enforced in Nigeria by registration under section 10(a) of the Reciprocal Enforcement Act if such judgments are registered within 12 months after the date of the judgment or such longer period as may be allowed by a superior court in Nigeria.

Based on the provisions of the Reciprocal Enforcement Ordinance, foreign judgments can be enforced and recovered in foreign currency. In contrast, part 1 of the Reciprocal Enforcement Act provides that a foreign judgment to which part 1 of the Reciprocal Enforcement Act applies may only be enforceable in Nigeria in the local currency. However, the relevant provision of the Reciprocal Enforcement Act will only become effective if the Minister of Justice declares that part 1 of the Reciprocal Enforcement Act shall apply to judgments of superior courts of a particular country that accords reciprocal treatment to judgments of superior courts of Nigeria. In that event, judgments of superior courts of that country (whether or not previously covered by the Reciprocal Enforcement Ordinance), when registered and enforced in Nigeria, will be enforced only in Naira. One challenge presented by this is that the judgment creditor may be faced with significant exchange rate losses given that the judgment sum will be converted into the local currency on the basis of the rate of exchange on the date the judgment is sought to be enforced and is obtained. To date, the Minister of Justice has not issued any order extending the application of part 1 of the Reciprocal Enforcement Act to judgments of superior courts of any country, and until such order is made, there is no restriction on Nigerian courts to register and enforce foreign judgments which come under the purview of the Reciprocal Enforcement Ordinance and/or section 10(a) of the Reciprocal Enforcement Act.

STABILISATION

In connection with the issue of any Tranche of Notes, one or more relevant Dealers named as the Stabilising Manager(s) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial statements

The Bank maintains its books of accounts in Naira in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.

Unless otherwise indicated, financial information set forth herein related to the Bank and its consolidated subsidiaries (the "**Group**") has been extracted from the Group's consolidated financial statements as at and for the year ended 31 December 2013, including comparative information as at and for the year ended 31 December 2012 (the "**2013 Financial Statements**"), the Group's consolidated financial statements as at and for the year ended 31 December 2012, including comparative information as at and for the year ended 31 December 2011 (the "**2012 Financial Statements**") and the Group's consolidated financial statements as at and for the year ended 31 December 2011, including comparative information as at and for the year ended 31 December 2010 (the "**2011 Financial Statements**" and together with the 2012 Financial Statements and the 2013 Financial Statements, the "**Financial Statements**"), each of which was prepared in accordance with IFRS.

The Financial Statements were also prepared in accordance with the provisions of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004 ("**CAMA**"), Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004 ("**BOFIA**"), the Financial Reporting Council Act No. 6, 2011 and relevant Central Bank of Nigeria ("**CBN**") circulars and guidelines, which requirements are in addition to, and do not conflict with the requirements under IFRS.

Investors should note that certain selected statistical data and other financial information presented in the sections "*Selected Consolidated Financial Information*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" and "*Selected Statistical and Other Information*" of this Base Prospectus were prepared using monthly averages of the Group and the Bank.

The 2013 Financial Statements, the 2012 Financial Statements and the 2011 Financial Statements, all including the respective audit reports of KPMG Professional Services ("**KPMG**") thereon, are set forth elsewhere in this Base Prospectus. The 2013 Financial Statements, the 2012 Financial Statements and the 2011 Financial Statements were audited by KPMG, located at KPMG Towers, Aboyade Cole Street, Victoria Island, Lagos, Nigeria, in each case in accordance with International Standards on Auditing ("**ISA**"). KPMG is an independent auditor in accordance with ISA.

Third-party information

The Bank obtained certain statistical and market information that is presented in this Base Prospectus in respect of the Nigerian banking sector, the Nigerian economy and the Nigerian political landscape in general from certain Government and other third-party sources (including annual reports) as identified where it appears herein. This third-party information is presented in the following sections of the Base Prospectus: "*Exchange Rates and Exchange Controls*", "*Overview of the Group*", "*Risk Factors*", "*Description of the Group*", "*Asset, Liability and Risk Management*", "*Management's Discussion and Analysis of Result of Operations and Financial Condition*", "*Directors and Senior Management*", "*Nigeria*" and "*The Nigerian Banking Sector*". Where such third-party information appears in this Base Prospectus, it has been cited as such. The Bank has accurately reproduced such information and, so far as the Bank is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Neither the Bank nor any of the Dealers have independently verified the figures, market data or other information on which third parties have based their studies.

Certain statistical information reported herein has been reproduced from official publications of, and information supplied by, a number of Government agencies and ministries, and other governmental and intergovernmental organizations, including:

- the Central Bank of Nigeria ("**CBN**");
- the International Monetary Fund ("**IMF**");
- the Nigerian Debt Management Office ("**DMO**");

- the National Bureau for Statistics of Nigeria ("**NBS**");
- the Nigerian Federal Ministry of Finance ("**FMF**"); and
- the U.S. Central Intelligence Agency ("**CIA**").

Official data published by the Nigerian government may be substantially less complete or researched than those of more developed countries. Nigeria faces a number of challenges in gathering statistical data such as inadequate data coverage, inadequate information on sub-national public finances, lack of regularly available data on economic activity and significant errors and omissions in the balance of payment data, all of which hinder compilation of timely and consistent data. Nigeria has attempted to address some inadequacies in its national statistics through the adoption of the Statistics Act of 2007, which established the National Statistical System ("**NSS**") and created the NBS (which came into existence as a result of the merger of the Federal Office of Statistics and the National Data Bank) as its co-ordinator but there is no assurance that such inadequacies have been resolved.

Information under the heading "*Book-Entry Clearance Systems*" has been extracted from information provided by the clearing systems referred to therein. The Bank confirms that such information has been accurately reproduced and that, so far as each of them is aware, and is able to ascertain from information published by the relevant clearing systems, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Most Nigerian banks have historically prepared their financial statements in accordance with Nigerian Generally Accepted Accounting Principles ("**Nigerian GAAP**") prior to 2012. Therefore, information included in this Base Prospectus on the business, financial condition and operating results of other banks in Nigeria may not be directly comparable to the business, financial condition and operating results of the Group when presented in accordance with IFRS.

Rounding

Certain figures included in this Base Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Certain defined terms

In this Base Prospectus:

- "**CAMA**" refers to Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004;
- "**CBN**" refers to the Central Bank of Nigeria;
- "**euro**" or "**€**" refers to the currency introduced at the start of the third stage of the European Economic and Monetary Union and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended;
- "**GBP**" or "**£**" refers to the lawful currency of the United Kingdom;
- **"LFN"** means the Laws of the Federation of Nigeria, 2004;
- "**Naira**" or "**₦**" refers to the Nigerian Naira, the official currency of Nigeria;
- "**NDIC**" refers to the Nigeria Deposit Insurance Corporation;
- "**Nigeria**" or the "**Government**" refers to the Federal Republic of Nigeria;
- "**SEC**" or "**Nigerian SEC**" refers to the Nigerian Securities and Exchange Commission;
- "**United States**" or the "**U.S.**" refers to the United States of America; and
- "**U.S. dollar**" or "**U.S.$**" refers to the lawful currency of the United States of America.

Certain foreign language terms

The language of the Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

FORWARD LOOKING STATEMENTS

Certain statements included herein may constitute forward looking statements that involve a number of risks and uncertainties. They may also constitute "forward looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the United States Securities Act of 1934, as amended (the "**Exchange Act**"); however, this Base Prospectus is not entitled to the benefit of the safe harbour created thereby. Certain such forward looking statements can be identified by the use of forward looking terminology such as "believes," "expects," "may," "are expected to," "intends," "will," "will continue," "should," "would be," "seeks," or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology. These forward looking statements include all matters that are not historical facts. They appear in a number of places throughout this Base Prospectus and include statements regarding the Group's intentions, beliefs or current expectations concerning, amongst other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which it operates. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

Prospective investors should be aware that forward looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition and liquidity, and the development of the industry in which it operates may differ materially from those made in or suggested by the forward looking statements contained in this Base Prospectus. In addition, even if the Group's results of operations, financial condition and liquidity and the development of the industry in which it operates are consistent with the forward looking statements contained in this Base Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

- anticipated growth of the Group's institutional, commercial, public sector, retail and investment banking businesses and anticipated growth of its cross-selling activities among client segments and products;
- expectations as to the Group's expansion in Sub-Saharan Africa; and
- estimates as to the impact of investments in information technology to improve cost efficiencies.

Factors that could cause actual results to differ materially from the Group's expectations are contained in cautionary statements in this Base Prospectus and include, among other things, the following:

- overall political, economic and business conditions in Nigeria, including oil prices;
- the demand for the Group's services;
- competitive factors in the industries in which the Group and its customers compete;
- changes in government regulations;
- interest rate fluctuations and other capital market conditions;
- exchange rate fluctuations;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- effects of the global financial crisis;
- economic and political conditions in international markets, including governmental changes;
- hostilities and restrictions on the ability to transfer capital across borders; and
- the timing, impact and other uncertainties of future actions.

The sections of this Base Prospectus entitled "*Risk Factors*," "*Management's Discussion and Analysis of Results of Operations and Financial Condition*," "*Description of the Group*" and "*Selected Statistical and Other Information*" contain a more complete discussion of the factors that could affect the Group's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward looking events described in this Base Prospectus may not occur.

These forward-looking statements speak only as at the date of this Base Prospectus. Save as required by the Central Bank of Ireland, the Bank does not undertake any obligation to update or revise any forward looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward looking statements attributable to the Bank or the Group or to persons acting on their behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Base Prospectus.

EXCHANGE RATES AND EXCHANGE CONTROLS

Exchange rates

The currency of Nigeria is the Naira, which was introduced in January 1973. The three exchange rates which operate in the Nigerian economy are:

- the Dutch Auction System ("**DAS**") rate, which is managed by the CBN and consists of the Wholesale Dutch Auction System ("**WDAS**") rate or the Retail Dutch Auction System ("**RDAS**") rate. The WDAS and RDAS are alternate regimes which do not operate at the same time. The current DAS rate in operation in Nigeria is the RDAS (the "**Official Exchange Rate**");
- the interbank exchange rate which is a rate determined by a two-way quote system of banks trading among themselves with funds obtained from other official sources of foreign exchange outside of the CBN, such as the interbank market, oil companies, non-oil export proceeds and customer inflows. The CBN may at times intervene in the interbank market in a bid to stabilise the exchange rate; and
- the bureaux de change ("**BDC**") rate, which rate was introduced in 2009 when the CBN issued licences to BDC operators as one of the measures to stabilise the exchange rate.

The following table sets forth information on the Official Exchange Rate between the Naira and the U.S. dollar for each of the periods specified. The average rate for each period means the average of the exchange rates for each day during that period, as applicable.

	Average[(1)]	**High**	**Low**	**Period End**
		(Naira per U.S. dollar)		
March 2014 (through 21 March 2014)	155.74	155.75	155.74	155.74
February 2014	155.75	155.75	155.75	155.75
January 2014	155.73	155.75	155.70	155.75
2013	155.75	156.07	155.70	155.70
2012	155.94	157.05	155.65	155.77
2011	152.27	157.26	149.50	156.70
2010	148.91	150.00	148.25	149.16

(1) The average of the exchange rates for each day during the year or period, as applicable.
Sources: CBN Statistical Bulletin, CBN Financial Markets Department and CBN Exchange Rates

As of 21 March 2014, the Official Exchange Rate was ₦ 155.74: U.S.$1.00.

U.S. dollar translation

Solely for the convenience of the reader, this Base Prospectus presents unaudited translations of certain Naira amounts into U.S. dollars. The Group has translated the summary income statement and balance sheet information as of and for the year ended 31 December 2013 and certain other financial information into U.S. dollars at the rates of U.S.$1.00 = ₦155.70. This rate represents the Official Exchange Rate on 31 December 2013.

No representation is made that the Naira or U.S. dollar amounts in this Base Prospectus could have been converted in U.S. dollars or Naira, as the case may be, at any particular rate or at all. In addition, fluctuations in the exchange rate between the Naira and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

Exchange controls

The Exchange Control (Repeal) Act No. 8 of 1995 and the Foreign Exchange (Monitoring and Miscellaneous) Provisions Act, Cap F34 LFN 2004 (the "**Forex Act**"), which repealed various pieces of legislation, substantially liberalised exchange controls in Nigeria which had been in place since 1982. The Forex Act introduced regulatory monitoring provisions on foreign exchange in Nigeria in place of exchange control provisions. The Forex Act allows any person to invest foreign currency or capital imported into Nigeria through an authorised dealer in any enterprise or security in Nigeria (except enterprises expressly prohibited by relevant provisions of Nigerian law). Following importation of the investment capital, the authorised dealer shall, within a period of 24 hours, issue to the investor, a Certificate of Capital Importation ("**CCI**") which permits unconditional repatriation and/or transferability of funds in freely convertible currency.

The Issuer intends to use the net proceeds from the issue of the Notes for general banking purposes. See "*Use of Proceeds*".

The Bank may import the proceeds from the issue of the Notes into Nigeria. Where the proceeds are imported into Nigeria, they will be paid into the Issuer's foreign currency domiciliary account and may be converted into Naira or retained in foreign currency.

The Bank will not obtain a CCI in respect of the proceeds of the Notes that are not converted into Naira as a CCI is only issued in respect of capital imported into Nigeria and converted into Naira. In those circumstances, the Bank will make principal repayment and interest payment on the Notes from its foreign currency reserves. However, in the event that the Bank does not have sufficient foreign currency reserves to meet principal and interest payments due in respect of the Notes, the Bank would be required to obtain the approval of the CBN to enable it to access the Nigerian foreign exchange market.

In relation to proceeds of Notes that are in-flowed into Nigeria and converted into Naira, the Bank will obtain a CCI evincing the inflow of the proceeds of the Notes into Nigeria. The CCI will be issued in the name of the trustee who will use the obtained CCI to repatriate the principal and interest payments due to the Noteholders from the Bank through the Nigerian Foreign Exchange Market. The CCI guarantees the unconditional repatriation and/or transferability of the interest payable on the Notes and the principal amount of the Notes in freely convertible currency.

CONTENTS

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be).

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in "*Form of the Notes*" and "*Terms and Conditions of the Notes*" shall have the same meanings in this Overview.

Issuer:	Zenith Bank Plc
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These factors are set out under "*Risk Factors*". In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are also set out under "*Risk Factors*" and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
Description:	Global Medium Term Note Programme
Arrangers:	Citigroup Global Markets Limited and Goldman Sachs International
Dealers:	Citigroup Global Markets Limited, Goldman Sachs International and any other Dealers appointed in accordance with the Programme Agreement.
Trustee:	Citibank, N.A., London Branch
Certain Restrictions and Approvals:	The establishment of the Programme was duly authorised by a resolution of the Board of Directors of the Bank dated 12 December 2013. All necessary corporate and regulatory approvals will be obtained by the Bank prior to each issuance of Notes under the Programme. Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*") including the following restrictions applicable at the date of this Base Prospectus: **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See "*Subscription and Sale and Transfer and Selling Restrictions*". **Bearer Notes** The Notes in bearer form are subject to certain restrictions on transfer. See "*Subscription and Sale and Transfer and Selling Restrictions*".

Exchange Agent:	Citibank, N.A., London Branch
Principal Paying and Transfer Agent for the Registered Notes:	Citibank, N.A., London Branch
Registrar:	Citibank, N.A., London Branch
Programme Size:	Up to U.S.$1,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) aggregate principal amount of Notes outstanding at any time. The Bank may increase the size of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Notes may be denominated in any currency agreed between the Issuer and the relevant Dealer, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued at an issue price which is at par or at a discount to, or premium over, par.
Final Terms or Drawdown Prospectus:	Each Tranche will be the subject of a Final Terms or a Drawdown Prospectus which, for the purpose of that Tranche only, completes (in the case of Final Terms) or supplements, amends and/or replaces (in the case of a Drawdown Prospectus) the Conditions and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes are the Conditions as completed by the relevant Final Terms or as supplemented, amended and/or replaced by the relevant Drawdown Prospectus.
Form of Notes:	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.
Clearing Systems:	Euroclear and Clearstream, Luxembourg for Bearer Notes. Euroclear, Clearstream, Luxembourg and/or the Depository Trust Company ("**DTC**") for Registered Notes or as may be specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be).
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer. Interest on Fixed Rate Notes in bearer form will only be payable outside the United States and its possessions, subject to Condition 6(e) (*Payments – General provisions applicable to payments*).
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency

governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as of the Issue Date of the first Tranche of the Notes of the relevant Series); or

(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes. Interest on Floating Rate Notes in bearer form will only be payable outside the United States and its possessions, subject to Condition 6(e) (*Payments – General provisions applicable to payments*).

Other provisions in relation to Floating Rate Notes: . . . . Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s).

Zero Coupon Notes: . . . . Zero Coupon Notes will be offered and sold at a discount to their nominal amount and redeemed at their nominal amount, or offered and sold at their nominal amount and redeemed at a premium to their nominal amount, as may be specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), and will not bear interest.

Redemption: . . . . The relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders or upon a Put Event. The terms of any such redemption, including notice periods and the relevant redemption dates and prices will be indicated in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), and in the case of any relevant conditions to be satisfied, will be specified in the Conditions or the relevant Drawdown Prospectus.

If the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) so specifies, Noteholders shall have the option, in the event of a Put Event, to require the Issuer to redeem or purchase the relevant Notes at par plus accrued interest, as further described in Condition 8(e) (*Taxation – Redemption or Purchase at the option of Noteholders on a Put Event (Change of Control Put)*).

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution. See "*Certain Restrictions and Approvals: Notes having a maturity of less than one year*" above.

Denomination of Notes: . . . . The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions and Approvals: Notes having a*

	maturity of less than one year" above, and save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency). Unless otherwise stated in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), the minimum denomination of each Definitive IAI Registered Note will be U.S.$500,000 or its approximate equivalent in other Specified Currencies.
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Relevant Jurisdiction as provided in Condition 8 (*Taxation*). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Notes will contain a negative pledge provision as further described in Condition 4(a) (*Covenants – Negative Pledge*).
Certain Other Covenants:	The Notes will also contain covenants relating to certain capital adequacy requirements and, among other things, a limited restriction on dividends and similar payments, and restrictions on certain consolidations or mergers, disposals and transactions with affiliates. See Condition 4 (*Covenants*).
Cross Default:	The terms of the Notes will contain a cross default provision as further described in Condition 10 (*Events of Default and Enforcement*).
Status of the Notes:	The Notes and any related Coupons are direct, general, unconditional, unsubordinated and (subject to the provisions of Condition 4(a) (*Covenants – Negative Pledge*)) unsecured obligations of the Issuer and rank and will at all times rank *pari passu,* without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' and depositors' rights.
Rating:	The Bank's current long term rating by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") is BB- and its current long-term rating by Fitch Ratings Ltd (''**Fitch**'') is B+. Notes issued under the Programme may be rated by S&P or Fitch, or may be unrated. Where a Series of Notes is rated, such rating will be disclosed in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.
Listing and admission to trading:	Application has been made to the Central Bank of Ireland for Notes issued under the Programme to be admitted to the Official List and to the Irish Stock Exchange for such Notes to be admitted to trading on the Irish Stock Exchange's regulated market. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Unlisted Notes and/or Notes not admitted to trading on any market may also be issued.

	The relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) will state on which stock exchanges and/or markets the relevant Notes are to be listed and/or admitted to trading.
Governing Law:	The Notes will be governed by, and construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, Nigeria and South Africa and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale and Transfer and Selling Restrictions*".
United States Selling Restrictions:	Regulation S (Category 2), Rule 144A and Section 4(a)(2). Bearer Notes will be issued in compliance with rules identical to those provided in: (a) U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) ("**TEFRA D**") or (b) U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) ("**TEFRA C**") such that the Bearer Notes will not constitute "registration required obligations" under section 4701(b) of the Code, as specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be). Such rules impose certain additional restrictions on transfers of the Bearer Notes. See "*Subscription and Sale and Transfer and Selling Restrictions*".

RISK FACTORS

The Bank believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

If the risks described below materialise, the Bank's business, results of operations, financial condition and/or prospects could be materially adversely affected, which could cause the trading price of the Notes to decline and investors to lose all or part of their investment. Furthermore, Notes issued under the Programme will have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily, or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

The Bank believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Bank to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Bank based on information currently available to them or which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Risks Related to the Group's Business

The Group faces increased levels of competition in the Nigerian banking industry

The Nigerian banking and financial services market is highly competitive and the Group faces competition from different banks in each of the segments and regions where it operates. The Group may be unable to maintain or improve its market position, especially as the market becomes more concentrated due to the entry of more global players. See "*– Risks relating to the Nigerian Banking Sector – The increasingly competitive environment in the Nigerian banking industry may negatively affect the Group's prospects*".

The Nigerian banking sector is undergoing a transformation which is expected to continue over the next few years. In the aftermath of the global economic and financial crisis, sector consolidation, aided by the CBN and the Asset Management Corporation of Nigeria ("**AMCON**"), an organisation created by the Nigerian government on 19 July 2010, has reduced the number of existing banks. The concentration of capital among the non-Intervened Banks (as defined below) has increased, thus increasing the share of the commercial banking market in the hands of the strongest banks.

The Group believes that to successfully compete in a more concentrated Nigerian banking industry, it will be critical for the Group to achieve economies of scale and be able to offer its greater reach and financial capacity effectively. The Group's growth depends on its ability to retain and grow its market share, extend its distribution network, manage its cost base, access low cost deposits and grow quality risk assets, so that it can maintain strong levels of profitability and returns despite being required to hold higher levels of capital by the CBN as well as internal policies that are more rigorous than required by regulation. If the Bank is not able to generate the profitability, economies of scale and financial capacity to enable it to compete with the largest Nigerian banks, the Group's business, results of operations and financial condition may be materially and adversely affected.

Substantially all of the Group's operations and assets are based in Nigeria; a slowdown in economic growth in Nigeria could materially adversely affect the Group's businesses

Substantially all of the Group's business operations and assets are based in Nigeria. As a result, the Group's income, results of operations and the quality and growth of its assets depends, to a large extent, on the performance of the Nigerian economy. See "*– Risks Relating to Nigeria and the West African sub-region in which the Group Operates*." In the past, Nigeria has experienced periods of slow or negative real growth, high inflation, significant devaluation of the Naira and the imposition of exchange controls.

Any deterioration in economic conditions in Nigeria as a result of these or other factors, including a significant depreciation of the Naira or increase in interest rates, could materially and adversely affect the Group's borrowers and contractual counterparties. This, in turn, could materially and adversely affect the Group's business, results of operations and financial condition, including the Group's ability to grow its loan portfolio, the quality of its assets and its ability to implement its business strategy.

The Group may be unable to adequately assess the credit risk of borrowers

The Group is exposed to credit risk related to its borrowers. The Group's business, results of operations, and financial condition depend on an accurate assessment of the creditworthiness of its clients, the adequacy of its provisioning levels and the continued management and monitoring of the risks of its loan portfolio.

The financial performance of Nigerian companies is generally more variable and their credit risk is, on average, less predictable than those of similar companies doing business in more mature markets and economies, which makes assessment more difficult. In addition, the retail lending market in Nigeria is relatively under-developed and good quality financial and credit information may not be available, therefore, notwithstanding the Group's credit risk evaluation procedures, the Group may be unable to accurately assess the current financial condition of existing or potential borrowers and to accurately determine the ability of such borrowers to repay the relevant loan or other type of credit. See also *"– Risks relating to the Nigerian Banking Sector – The high credit risk of Nigerian borrowers and the lack of a fully-developed central credit bureau in Nigeria may adversely affect the Group's retail loan portfolio*."

The Group plans to continue targeting companies in the middle-tier market. These companies may have a higher credit risk and there may exist less information on these companies compared to more established and larger companies in Nigeria. Failure to accurately assess the credit risk of potential borrowers or acceptance of a higher degree of credit risk in the course of current lending operations or future lending operations may result in a deterioration of the loan portfolio and a corresponding increase in loan impairments which may have a material adverse effect on the Group's business, results of operations and financial condition.

The Group operates in an uncertain regulatory environment and recent changes by the CBN may have a material adverse effect on the Group

The CBN recently implemented new rules that are negatively affecting the Group's results of operations. The Revised Guide to Bank Charges, which took effect 1 April 2013, provides a standard for the application of charges in the banking industry. The Revised Guide to Bank Charges provides that Nigerian savings accounts must earn interest at a minimum rate of 30 per cent. of the MPR per annum. At the current MPR of 12.0 per cent., this translates to a minimum of 3.6 per cent. per annum. For the years ended 31 December 2013, 2012 and 2011, the average interest rate paid by the Group on its average balance of customer deposits was 3.10 per cent., 3.18 per cent. and 2.18 per cent., respectively. An increase in interest paid on customer deposits has led to an increase in the Group's cost of funds in 2013 and the Group's cost of funds may continue to increase in the future.

The Revised Guide to Bank Charges also phases out the Commission on Turnover (the "**COT**") charged by banks over a three year period from 2013 to 2016, after which customers will no longer be charged for transactions on current accounts. The Group's reliance on COT is higher than that of certain of its peer banks in the Nigerian banking sector, making the Group more susceptible to the impact of this change. As at 1 April 2013, the maximum COT that banks are permitted to charge is ₦3 per ₦1,000, as compared with ₦5 per ₦1,000 prior to 1 April 2013. This reduction in COT chargeable is expected to reduce the Group's fee and commission income. For the year ended 31 December 2013, 51.4 per cent. of the Group's fee and commission income was comprised of income from COT, compared to 55.3 per cent. and 56.9 per cent. for the years ended 31 December 2012 and 31 December 2011, respectively. For the year ended 31 December 2013, 24.4 per cent. of the Group's profit before income tax was comprised of income from COT, compared to 27.4 per cent. for the year ended 31 December 2012 and 35.6 per cent. for the year ended 31 December 2011.

On 24-25 March 2014, the CBN's Cash Reserve Requirement (the "**CRR**") for non-public sector deposits was increased to 15 per cent. from 12 per cent., whilst the CRR for public sector deposits (i.e., deposits of all tiers of government, including ministries, departments, agencies and government-owned enterprises) was increased to 75 per cent. from 50 per cent. The CBN may further increase the CRR for public sector deposits to 100 per cent. during 2014. The Group expects that such an increase would likely result in a reduction to its net interest margin, as public sector deposits would no longer be available to invest in higher interest-earning assets. As of 31 December 2013, 13 per cent. of the Group's deposits were from public sector sources. The immediate impact of the increase in the CRR for public sector deposits was reduced liquidity in the Nigerian banking sector generally. In the long term, the Group expects the change in the CRR to result in a higher interest rate environment. The CBN has also begun implementing a policy of a treasury single account, in which all bank accounts of the federal government are held centrally with the CBN, rather than in commercial banks as was the case previously.

These factors, and any future regulatory changes introduced by the CBN (including any changes implemented by the current CBN governor's successor), could materially and adversely affect the Nigerian banking industry as a whole and have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and liquidity. See "*– Risks related to the Nigerian banking sector – The bank regulatory system in Nigeria is still developing and may change in a manner that is adverse to the Group*".

The Group relies on short-term and demand deposits as its primary source of funding, which may result in liquidity gaps and expose the Group to liquidity risks due to maturity mismatches

The Group, like other commercial banks in Nigeria, is exposed to liquidity risk due to maturity mismatches between its assets and liabilities. The Group has historically funded its risk assets with deposits and shareholders' funds, as access to other funding sources, including the capital markets, has been limited. The Group has historically maintained a liquidity ratio well above the relevant CBN regulatory requirement, which is 30 per cent. as at the date of this Base Prospectus, of liquid assets (cash and cash equivalents, treasury bills, trading assets and government bonds) to total deposits. As at 31 December 2013, the Group's liquidity ratio was 64 per cent., as compared to 61 per cent. and 59 per cent. as at 31 December 2012 and 2011, respectively. While the Group's net liquidity gap was positive for the year ended 31 December 2013, it relies on short-term and demand deposits from customers as its primary source of funding long-term assets, such as loans and advances to customers and investment securities. As at 31 December 2013, 92.70 per cent. of the Group's interest-bearing liabilities (comprising deposits, on-lending facilities and other borrowings) were due within three months and 48.25 per cent. of the Group's interest-earning assets (comprising cash and balance with central banks, treasury and other eligible bills, loans and advances to customers and banks and investment securities) had maturities in excess of three months**.** The Group could face difficulties in meeting its liabilities as they fall due if it does not have sufficient liquid assets to meet these maturities/withdrawals or if it fails to attract additional medium to long-term financing or if the Group were to suffer a sudden increase in withdrawal of deposits, which currently form a significant portion of the Group's funding.

Nigerian companies and individuals usually withdraw their deposits on a frequent basis and are not typically in a position to place significant funds within the banking sector on a long-term basis. If a substantial portion of the Group's depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, the Group may need to seek more expensive sources of funding to meet its funding requirements, and no assurance can be made that the Group will be able to obtain additional funding on commercially reasonable terms or at all. In addition, there are limited opportunities in the Nigerian market for banks to sell or factor assets other than those that are highly liquid, such as government securities. Decreases in corporate deposits and/or unexpected withdrawals of retail deposits may result in liquidity gaps that the Group will need to cover. A deterioration of the Nigerian economy, an inability to access alternative sources of funds in the international capital, syndicated loan and interbank markets, significant withdrawals of corporate and retail deposits and/or continued mismatches between the Group's assets and liabilities may, together or separately, have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's net interest margin may come under pressure due to government monetary policies and the Nigerian banking sector environment

The banking industry in Nigeria has become increasingly competitive, which has resulted in increasing pressure on the loan rate chargeable by the Group, particularly in its key corporate banking business as it competes for business. Cost of funds has increased over the past year due to both an increase in competition for deposits and as a result of tighter fiscal policy. In addition, the increase in yields on sovereign notes and treasury bills is also impacting the loan rate chargeable by the Group. The Group's net interest margin (defined as net interest income divided by average interest earning assets of the Group) was 8.30 per cent. in the year ended 31 December 2013, 7.66 per cent. in the year ended 31 December 2012 and 6.87 per cent. in the year ended 31 December 2011. The Group must continually monitor the level at which it prices its products in order to remain competitive, as a result of changes to government monetary policies and developments in the Nigerian banking sector environment. Because of the highly competitive nature of the Nigerian banking industry, the Group may be unable to adjust its loan rate to reflect increased costs or changes to government policies, which could lead to a decrease in the Group's net interest margin. Failure to properly respond to such changes and developments may negatively affect the Group's business, results of operations and financial condition.

The Nigerian government has enacted several policies that have caused a decrease in interest income of Nigerian banks. The CBN's Monetary Policy Rate (the "**MPR**") serves as an indicative rate for transactions in the inter-bank money market as well as other market rates. Increases in the MPR cause increases in the cost of borrowing and therefore may have a negative impact on the net interest rate margin. The MPR was held constant for most of

2010 at 6.0 per cent., but was raised to 6.3 per cent. in September 2010, and then raised six times in 2011, resulting in a rate of 12.0 per cent. in October 2011, which was the rate it remained through 2012 and 2013**.** The MPR was increased to tighten monetary policy further in response to increasing inflationary pressures and to support the Naira. In March 2014, the CBN's monetary policy committee (the "**MPC**") voted to maintain the MPR at 12.0 per cent.

See "*– Risks relating to the Nigerian Banking Sector – Lack of confidence in the Nigerian banking system resulting from the global financial crisis may affect the Group's performance*". Future monetary policy and changes to the banking environment could materially and adversely affect the Nigerian banking industry as a whole and have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's investment and loan portfolios are highly concentrated in Government bonds and treasury bills

The Group's investment portfolio, which constituted 28 per cent. of total assets, or ₦889.6 billion as at 31 December 2013, compared to 37 per cent. of total assets or ₦968.5 billion as at 31 December 2012, and 35 per cent. of total assets or ₦818.9 billion as at 31 December 2011, is highly concentrated in Federal Government of Nigeria bonds (the "**FGN Bonds**"), AMCON bonds and treasury bills (together with the FGN Bonds, the "**Government Bonds**")**.** Furthermore, if the Group's deposits grow at a faster pace than its loan portfolio, it may need to increase its investments in Nigerian treasury bills and federal and state government bonds, which are subject to the risk of declining yields and/or default. In the event that the Nigerian government defaults on its obligations or suffers a ratings downgrade, the value of Government Bonds decline or if there is some other interruption in the market for Government Bonds, there could be a significant adverse impact on the Group. As at 31 December 2013, ₦586.4 billion, or 65.9 per cent. of the Group's investment portfolio, consisted of investments in Nigerian treasury bills, ₦106.6 billion, or 12 per cent., consisted of investments in FGN Bonds and ₦57.9 billion or 6.5 per cent. consisted of investments in AMCON bonds. The continued strengthening of the Nigerian economy could lead to less risk aversion and lower demand for Government Bonds, resulting in lower prices for Government Bonds, which could have an adverse impact on the Group.

As at 31 December 2013 and 2012, the Group's top 20 borrowers comprised 33.5 per cent. and 30.5 per cent. of its gross loan portfolio, respectively. Whilst this in part reflects the limited number of high quality corporate credits in Nigeria, continued emphasis on credit quality and development of credit management and credit control systems to monitor this exposure is necessary. In addition, if the Group fails to conduct periodic stress tests of its major credit risk concentrations in compliance with the CBN Prudential Guidelines, which are a set of prudential regulations for Deposit Money Banks in Nigeria issued by the Central Bank of Nigeria to ensure a stable, safe and sound banking sector and the financial system as a whole ("**CBN Prudential Guidelines**"), it may not be able to identify and respond to potential changes in market conditions in a timely manner, which could adversely affect the Group's business, results of operations and financial condition.

The Group may not be able to sustain the current level of growth in its loan book, and may have difficulty in maintaining credit quality, which could impact its profitability

The Group's gross loan portfolio has increased in recent years, growing to ₦1,276 billion as at 31 December 2013 from ₦1,015 billion as at 31 December 2012 and ₦921 billion as at 31 December 2011. These increases resulted from the Group's lending policy as well as emerging lending opportunities in the real sector (non-financial sector) of the economy, particularly the oil and gas, power, manufacturing, and telecommunications sectors, in the corporate and retail banking business segment.

If the overall level of lending continues to increase at the same or higher levels, the credit risk of the Group could increase. In particular, retail and small commercial banking customers typically have less financial strength than large companies and negative developments in the Nigerian economy could affect these borrowers more than large companies. This could result in higher levels of classified loans (loans classified by the Group as substandard, doubtful or lost) for which an impairment is or needs to be made, also known as non-performing loans ("**NPLs**"), and as a result, higher levels of provisioning. Furthermore, recovery rates on NPLs in Nigeria are low relative to recovery rates on NPLs in other countries.

The Group's NPLs as at 31 December 2013 stood at ₦30.92 billion, representing 2.91 per cent. of total gross loans and advances, compared to ₦31.93 billion or 3.15 per cent. of total gross loans and advances as at 31 December 2012 and ₦59.8 billion or 6.49 per cent. of total gross loans and advances as at 31 December 2011**.** Despite the decrease in overall NPLs, NPLs have increased in several of the major industry sectors in the Group's loan portfolio, including the Real Estate and Construction, Finance and Insurance and Power sectors. Although the Group continues to actively manage and monitor its loan portfolio, there can be no assurance that the Group will be able to maintain the NPL ratio recorded in December 2013. Factors which may contribute to an increase in the amount of the Group's NPLs include an increased loan portfolio, or generally any slowdown in the Nigerian economy.

Changes to capital adequacy requirements by the CBN or by the regulators of the Group's foreign banking subsidiaries may adversely affect the Group

In 2004, the Basel Committee on Banking Supervision (the "**Basel Committee**") issued a revised capital adequacy framework ("**Basel II**") to replace the previous Capital Accord issued in 1988 ("**Basel I**"). In December 2010 and January 2011, the Basel Committee issued its final guidance on a new capital adequacy framework ("**Basel III**").

On 10 December 2013, the CBN issued a circular to all banks and discount houses regarding the implementation of Basel II/III in Nigeria. The circular contains guidance notes on the Regulatory Capital Measurement and Management Framework for the Implementation of Basel II/III for the Nigerian Banking Sector (the "**Basel II/III Framework**") published by the CBN. The guidance notes specify approaches for quantifying the risk weighted assets for credit risk, market risk and operational risk for the purpose of determining regulatory capital. Under the Basel II/III Framework, the minimum capital requirement is retained at 10 per cent. and 15 per cent. for local and international banks, respectively. The Basel II/III Framework further provides for the timeframe for the implementation of Basel II. The timeframe states that banks are expected to commence a parallel run of both Basel I and II minimum capital adequacy computations based on the requirements of Basel I and II beginning in January 2014. The minimum capital adequacy computation under Basel II rules will commence in June 2014, which means that all banks are expected to have fully adopted Basel II rules by June 2014 and will no longer use Basel I rules at that time.

With regards to implementation of Basel III, the circular provides that the guidance notes will remain in force during the period of the parallel run of Basel I and II until full adoption of Basel II in June 2014. After that time, the CBN will release additional notes on other approaches for determining regulatory capital and Basel III rules.

Whilst the Group currently has capital levels in excess of the capital adequacy requirements imposed by the CBN, the CBN may amend these requirements, which could require the Group to increase its capital levels. For instance the CBN could further change the risk weighting of a particular class of assets or investment held by the Group, which could require the Group to increase the level of regulatory capital it holds in respect of any such class assets by seeking additional capital or alternative sources of financing, which may not be available or may only be available at commercially unsustainable prices.

If the Basel III guidelines are implemented in Nigeria in their current form, they could significantly increase the minimum quantity and quality of capital that the Group is obliged to maintain. Increased capital costs may adversely affect the Group's ability to implement its strategic plans and may ultimately have a material adverse effect on the Group's business, results of operations and financial condition. See "*– Risks relating to the Nigerian Banking Sector – Capital adequacy requirements in Nigeria differ from international standards and the Group may face difficulties meeting capital adequacy requirements*."

Furthermore, regulators of the Group's foreign subsidiaries may also amend their capital adequacy requirements, resulting in the Group having to increase the capital held by each foreign subsidiary. On 18 May 2012, the CBN released a circular which, among other things, restricts the use of capital of Nigerian banks to augment the capital needs of foreign subsidiaries. Subsequently, in March 2013, the CBN clarified its stance through an additional circular, in which it stated that it will consider applications for recapitalisation in situations where the capital of the foreign subsidiary is impaired in the ordinary course of business due to operational losses or where the increase in capital is demonstrated to be proportionate to normal banking operations and not solely driven by profit maximisation. Applications for recapitalisation will also be considered where the CBN determines the host country's capital requirements to be reasonable, and/or where the host country regulators require an increase in capital that is reasonable and consistent with the overall economic environment. This restriction may therefore result in the Group's foreign subsidiaries losing their local banking licences and regulatory approvals if they were required to increase their capital levels and were unable to do so on their own, which could have a material adverse effect on the Group's business, results of operations and financial condition and its ability to implement its strategic plans.

The Group is subject to risks relating to its information technology systems and its ability to remain competitive depends on its ability to upgrade such systems

The Group depends on its information technology ("**IT**") systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Group's business and operating data.

The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems (such as its electronic fraud monitoring and surveillance systems and customer insurance programmes), as well as the communication networks between its branches and main data processing centres, are critical to the Group's business and ability to compete effectively. In addition, the CBN's cashless policy, which aims to reduce cash-based transactions by increasing electronic-based transactions, further increases the Group's dependence on its information technology systems and exposes it to additional risks as a result of more financial transactions being processed by its information technology systems. Therefore, the Group will be required to continually upgrade its information technology systems in order to remain competitive. The Group has successfully implemented an ETHIX IT system as part of its mission to continue to provide quality financial services with exceptional customer services.

Unlike banks in many countries, the Group is unable to rely on state or utility providers for power and telecommunication services and has to make its own arrangements to secure these services. The Group's business activities would be materially disrupted if there is a partial or complete failure of any of the Group's material information technology systems or communications networks. Such failures can be caused by a variety of factors, including natural disasters, extended power outages and computer viruses. In addition, limited national fibre optic coverage makes reliance on technology used to transmit narrowband data, such as the Very Small Aperture Terminal, mandatory in certain remote areas, which may also be affected by occurrences of similar events. The proper functioning of the Group's information technology systems also depends on accurate and reliable data and other system inputs, which are subject to human errors. Any failure or delay in recording or processing the Group's transaction data could subject it to claims for losses and regulatory fines and penalties.

In particular, the secure transmission of confidential information is a critical element of the Group's operations. The Group's networks and systems may be vulnerable to unauthorised access and other security problems. No assurance can be given that the Group's existing security measures will prevent security breaches, including break-ins and viruses, or other disruptions such as those caused by defects in hardware or software and errors or misconduct of operators. Persons who circumvent the Group's security measures could use the Group's or the Group's clients' confidential information wrongfully. Whilst the Group has not experienced any material disruptions or security breaches in the past, any material security breach or other disruptions could expose the Group to risk of loss and regulatory actions and harm its reputation.

The primary and secondary data centres for the Group are both located in Lagos, on Lagos Island, and the disaster recovery centre is also located in Lagos, although on mainland Lagos. The Group's disaster recovery centre may be in need of replacement in the future due to deterioration and outdated infrastructure. Any natural disaster, power outages or other events affecting the Lagos region may cause disruptions or damages to the data and/or disaster recovery centres, which may adversely affect the Group's operations.

Any substantial failure to improve or upgrade the Group's information technology systems effectively or on a timely basis or failure to implement more efficient process automation could materially and adversely affect the Group's business, results of operations and financial condition.

There is uncertainty regarding sales of NPLs to AMCON

In 2010 and 2011, the Group sold some of its NPLs to AMCON. The NPL sales were made in exchange for Federal Government of Nigeria guaranteed zero coupon bonds issued by AMCON. As at 31 December 2011, the Bank had sold NPLs with a total gross value of ₦82.2 billion in exchange for AMCON bonds with a face value of ₦96.99 billion. The Bank sold no NPLs to AMCON in 2012 or 2013.

The NPL sales to AMCON were made pursuant to agreements which preserved for AMCON the right, for a reasonable period after the date of the purchase of the relevant NPLs (which, according to the guidelines published by AMCON in November 2010, is likely to be a period of 12 months), to conduct an independent verification and review of the valuation assigned to the relevant collateral backing the NPLs. To the extent that such independent review assigns a lower value to the collateral and consequently the NPLs or ownership of such collateral cannot be assumed by AMCON free and clear of encumbrances or liens, then the selling bank is obligated to make up the difference to AMCON or repurchase the relevant NPLs (expected to be undertaken by a return or cancellation of AMCON bonds). See also "*The Nigerian Banking Sector – The Asset Management Corporation of Nigeria*" and "*Additional Information – Material Contracts*". Additionally, the loan sale agreements provide that AMCON can require the Group to repurchase some or all of the loans sold in the event of certain circumstances, including a breach of any of the representations or warranties made by the Bank in its agreements with AMCON. In the event that AMCON finds that a material portion of the NPLs sold by the Group were overvalued, or alleges any breach of representation or warranty by the Group or other event requiring a repurchase of all or part of any loans sold to AMCON, AMCON could require the Bank to repay any such excess amount or repurchase such loans, possibly through the returning or redemption of AMCON bonds, which could, in turn, have an adverse effect on the Group's business, results of operations and financial condition.

A decline in value or the illiquidity of the collateral securing the Group's loans may adversely affect its loan portfolio

Whilst there are limitations on securing effective collateral over certain assets, including land, a substantial portion of the Group's loans to corporate customers and individuals is secured by collateral such as real property, land leasing rights, production equipment, vehicles and securities. Downturns in the relevant markets, a lack of an existing market for the collateral within Nigeria or a general deterioration of economic conditions may result in declines in the value of collateral securing a number of loans to levels below the amounts of the outstanding principal and accrued interest on those loans.

The value of the Group's collateral decreased from ₦728,474 million as at 31 December 2012 to ₦487,982 million as at 31 December 2013, largely as a result of an increase in the Group's syndicated loans and facilities to large corporate customers (in particular to existing clients), which are not collateralised but may be guaranteed. See "*Asset, Liability and Risk Management – Collateral*." If collateral values decline further, they may not be sufficient to cover irrevocable amounts on the Group's secured loans (including any NPLs), which may require the Group to reclassify the relevant loans, establish additional loan loss expenses and increase reserve requirements. A failure to recover the expected value of collateral may expose the Group to losses, which may materially adversely affect the Group's business, results of operations and financial condition.

The Group is subject to interest rate risk

The Group is exposed to interest rate risk through the interest bearing assets and liabilities in its trading and banking books. Fluctuations in interest rates could adversely affect the Group's operations and financial condition in a number of different ways. An increase in interest rates generally may decrease the value of the Group's fixed rate loans and raise the Group's funding costs. Such an increase could also generally decrease the value of fixed rate debt securities in the Group's securities portfolio (primarily comprised of FGN Bonds and Nigerian government treasury bills). In addition, an increase in interest rates may reduce overall demand for new loans and increase the risk of customer default, while general volatility in interest rates may result in a gap between the Group's interest rate sensitive assets and liabilities, particularly given the Group's reliance on short-term and demand deposits to fund longer-term assets. This risk could be heightened in the event of sudden large fluctuations or changes in interest rates in response to economic or other conditions, such as the 275 basis points increase in the MPR in October 2011 (following an extraordinary meeting of the MPC) from 9.25 per cent. in September 2011. Interest rates are sensitive to many factors beyond the Group's control, including the policies of central banks, such as the CBN, domestic and international economic conditions and political factors. There can be no assurance that the Group will be able to protect itself from the adverse effects of future interest rate fluctuations. Any fluctuations in market interest rates, and the Group's inability to monitor such fluctuations so as to respond in a timely and cost effective manner, could lead to a reduction in net interest income and adversely affect the Group's business, results of operations and financial condition.

The Group's objective for management of interest rate risk is to ensure a higher degree of interest rate margin stability and lower interest rate risk over an interest rate cycle. The Group tries to achieve this by proactively managing the interest rates on its assets and liabilities. However, the Group's operations remain subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or in differing amounts. These risks impact both the earnings and the economic value of the Group which, if material, could have a material adverse effect on the Group's financial condition, liquidity and results of operations.

The Group is subject to foreign exchange risk and is affected by changes in the value of the Naira against other currencies

The Group is exposed to foreign exchange risk, as a result of adverse movements in exchange rates, primarily through its assets and foreign subsidiaries, managing customers' deposits and through acting as an intermediary in foreign exchange transactions between central and commercial banks. Such risk, if material, would have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and liquidity.

The Group's presentation currency and its functional currency is the Naira. As at 31 December 2013 and 2012, 24.31 per cent. and 17.16 per cent. of the Group's total assets, respectively, and 26.62 per cent. and 18.71 per cent. of the Group's total liabilities, respectively, were denominated in foreign currencies, principally the U.S. dollar. Monetary assets and liabilities originally denominated in foreign currencies are translated into Naira at the relevant balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Group's income statement. As a result, the Group's reported income is affected by changes in the value of the Naira with respect to foreign currencies (primarily the U.S. dollar).

In addition, the Group's customers may be subject to substantial foreign exchange risk, which indirectly affects the Group's credit risk profile. As at 31 December 2013, 27.78 per cent. of the Group's loans and advances to customers, respectively, were denominated in foreign currencies, mainly U.S. dollars, primarily due to its lending to companies in the oil and gas and power sectors and in connection with its trade finance business. Any significant decline in the value of the Naira may result in its borrowers being unable to repay foreign–currency denominated loans, and other fluctuations in the value of the Naira against foreign currencies may have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's risk management and internal control policies and procedures may leave it exposed to unidentified or unanticipated risks

The Group has devoted resources to developing its risk management policies and procedures, particularly in connection with credit, market, foreign exchange, liquidity, interest rate and operational risks, and expects to continue to do so in the future in accordance with its Enterprise Risk Management Framework ("**ERM Framework**"). The Group's risk management techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of the Group's methods of managing risk are based upon observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be significantly greater than historical measures indicate. Other risk management methods depend upon evaluation of information regarding the markets which the Group operates in, its clients or other matters that are publicly available or otherwise accessible by the Group. This information may not be accurate, complete, up-to-date or properly evaluated in all instances. Any failure in the Group's risk management techniques may have a material adverse effect on its business, results of operations and financial condition.

Notwithstanding the Group's current monitoring process, certain risks are unidentifiable or unforeseeable, and could be greater than the Group's empirical data would otherwise indicate. Furthermore, the Group cannot guarantee that all of its staff will adhere to its policies and procedures. The Group's risk management and internal control capabilities are also limited by the information, tools and technologies available to the Group. Any material deficiency in the Group's risk management or internal control policies or procedures may therefore expose the Group to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's reputation and its ability to do business may be impaired by corrupt behaviour by any of its employees or agents or those of its subsidiaries

The Group operates in countries and sectors known to experience corruption. While the Group is committed to conducting business in a legal and ethical manner, there is a risk that its employees or agents may take actions that would be prohibited by the U.S. Foreign Corrupt Practices Act or the United Kingdom Bribery Act 2011 or legislation promulgated pursuant to the 1997 Organisation for Economic Co-operation and Development ("**OECD**") Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, the Corrupt Practices and Other Related Offences Act No 5 of 2000, the Nigerian Economic and Financial Crimes Commission (Establishment) Act 2004 or other applicable anti-corruption rules or regulations. These actions could result in monetary penalties against the Group and could damage the Group's reputation and, therefore, its ability to attract and do business.

The Group may not be successful in its expansion plans

According to its strategy, the Group plans to continue expanding its operations both within Nigeria and internationally as its customers expand their activities and businesses domestically and abroad. The expansion of the Group's business activities exposes it to the following risks:

- new business activities may experience less growth and/or generate smaller profits than anticipated, and there can be no assurance that new business activities will become profitable at the level currently expected to be achieved by the management of the Group or at all;

- the Group may fail to identify and offer attractive new products and services in a timely fashion, putting it at a disadvantage as regards its competitors;
- the Group may have limited or no experience in certain new business activities or regions and may not compete effectively in these areas;
- new business activities may require greater marketing costs than are currently required;
- the Group will need to hire or retrain personnel who are able to conduct new business activities;
- the Group must continually add to the capability of its risk management and information technology systems to support a broader range of activities and locations; and
- new business activities may require the attention of managers and officers, which could adversely affect the management of existing business activities.

If the Group is not able to achieve the intended results in these new business areas or products, its business, results of operations and financial condition may be materially adversely affected. In addition, if the Group fails to promptly identify and expand into new areas of business to meet the increasing demand for certain products and services, the Group may fail to maintain its market share or lose some of its existing customers to its competitors.

The Group may not be able to fully comply with anti-money laundering regulations, which could result in governmental fines and reputational damage

Corruption and money laundering have been and continue to be identified by external analysts as significant issues in Nigeria. In common with other banks in Nigeria, the Group continues to face ongoing risks relating to corruption and potential money laundering schemes perpetrated by individuals and companies in Nigeria. As a result, the Nigerian government, has over the years, sought to implement various measures to prevent and fight these issues, including enactment of the Money Laundering (Prohibition) Act of 2011, as amended by the Money Laundering (Prohibition) (Amendment) Act of 2012, as well as the Terrorism (Prevention) Act of 2012 as amended by the Terrorism (Prevention) (Amendment) Act of 2013, which requires financial institutions to monitor certain financial transactions of their customers more closely for evidence of money laundering and increases the reporting requirements of financial transactions by financial institutions. In addition, the CBN now requires banks to ensure that any customers who are "designated non financial businesses and professions" (which include dealers in jewellery, cars and luxury goods, supermarkets, hotels and casinos) are registered with the Special Control Unit on Money Laundering of the Federal Ministry of Trade and Investments prior to establishing a business relationship with them.

The Nigerian government also established the Economic and Financial Crimes Commission (the "**EFCC**"), whose purpose is to investigate all financial crimes including, among others, advance fee fraud, money laundering, counterfeiting and futures market fraud.

The Group is required to comply with a variety of anti-money laundering, anti-terrorism laws and other regulations in Nigeria as well as in other jurisdictions in which it has operations. The Group's policies and procedures aimed at detecting and preventing the use of its banking network for money laundering and terrorist activities require almost continuous updating in light of legislative and other developments. In common with other banks in Nigeria, the Group continues to face on going risks relating to corruption and potential money laundering schemes perpetrated by individuals and companies in Nigeria. Existing policies and procedures may, therefore, not eliminate instances where other parties use the Group to engage in money laundering and other illegal or improper activities. To the extent the Group fails to fully comply with applicable laws and regulations, the relevant government agencies to which it reports have the power and authority to impose fines and other penalties on the Group, including the suspension or removal of its banking licence. In addition, regulators on a global level are becoming more aggressive in imposing fines and other penalties resulting in increased compliance costs for banks. The Group's business and reputation could suffer as a result of the imposition of any such penalties or any allegations relating thereto, which could, in turn, have a material adverse effect on the Group's financial condition and results of operations.

The Group has significant off-balance sheet credit-related commitments that may lead to potential losses

The Group conducts business involving contingent liabilities and commitments including acceptances, endorsements, performance bonds, indemnities, guarantees and letters of credit. All such credit-related commitments are classified as off-balance sheet items in the Group's consolidated financial statements. As at 31 December 2013, the Group had ₦2,457 billion (U.S.$15.78 billion) in off-balance sheet assets, compared to ₦1,878 billion (U.S.$12.06 billion) as at 31 December 2012 and ₦1,203 billion (U.S.$7.73 billion) as at 31 December 2011. The Group's largest category of off-balance sheet credit-related commitment represents the Bank's guarantee for the assets held by its subsidiary, Zenith Pensions Custodian Limited under the subsidiary's custodial business. As at 31 December 2013, 2012 and 2011 the contractual amount of this category was ₦1,469,865 million, ₦1,106,373 million and ₦837,287 million, respectively.

Although the Group has established allowances for its off-balance sheet credit-related commitments as it does for its on-balance sheet credits, there can be no assurance that these allowances will be sufficient to protect the Group from the actual losses that the Group may potentially incur on its credit-related commitments. The Group does not create provisions for off-balance sheet liabilities so long as they are performing. However in the event that an off-balance sheet liability becomes non-performing the Group will take it on balance sheet and create a provision. See "*Operating and Financial Review*".

The Group may be subject to operational risk and fraud and may not have adequate insurance to cover losses suffered as a result of a breakdown in its internal control policies and procedures

There is a risk that the Group's internal control policies and procedures will not protect it from fraud or other criminal acts committed by its employees. Misconduct by employees could include binding the Group to transactions that exceed authorised limits or concealing unauthorised or unsuccessful activities, which in either case may result in unknown and unmanaged risks or losses. The Group maintains a system of controls designed to keep operational risk at appropriate levels. However, there can be no assurance that the Group will not suffer losses from failure of any of these controls to detect or contain operational risk in the future, and the inadequacy or a failure of the Group's internal processes or systems may result in unauthorised transactions and errors which may not be detected. The Group also manages its operational risk by obtaining insurance from external providers. Nevertheless, there can be no assurance that the Group's insurance will be sufficient to cover the Group's losses from all such transactions or errors which, in turn, may have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's inability to recruit and retain qualified personnel could have an adverse effect on its business

The Group's success will depend, in part, on its ability to retain, motivate and attract qualified and experienced banking and management personnel. If the Group continues to grow at its current pace, it may need to hire more employees and may face challenges in recruiting qualified personnel. Further, the Group's international growth will depend on recruiting in markets where its brand is not as strong as it is in Nigeria.

Whilst the Group believes that it has effective staff recruitment, training and incentive programmes in place, there can be no assurance that these will be sufficient to recruit, train and retain sufficient numbers of qualified personnel. The Group's failure to recruit, train and/or retain necessary personnel could have a material adverse effect on its business, reputation, results of operations and financial condition. In addition, the departure of key personnel may negatively affect customer loyalty which in turn may adversely affect the Group.

The Group is dependent on members of its Board of Directors (the "**Board**") and other key members of the management team for the development and implementation of its strategy. Should members of the current management team opt to leave the Group the operational efficiency of the management team may be compromised, which in turn may have an adverse effect on the Group's efficiency.

In February 2014, President Goodluck Jonathan suspended CBN Governor Sanusi Lamido Sanusi and appointed the Deputy Governor of Economic Policy of the CBN, Dr. Sarah Alade, as Acting CBN Governor. Governor Sanusi's 5 year term was already due to expire on 3 June 2014 and President Jonathan subsequently nominated the Group's Managing Director/Chief Executive Officer, Mr. Godwin Emefiele, as the next CBN Governor, effective from 3 June 2014. Mr. Emefiele's nomination was confirmed by the Senate of the National Assembly on 26 March 2014. On 31 March 2014, the Board announced the appointment of Mr. Peter Amangbo, who is currently an executive director and member of the Board, as Mr. Emefiele's successor, subject to approval by the CBN. The Group has succession plans in place across top staff levels, and transitioned smoothly when the Group's previous Managing Director/Chief Executive Officer, Mr. Jim Ovia, stepped down in 2010 and was replaced by Mr. Emefiele. However, such plans may not be carried out as expected or the transition may decrease the Group's operational efficiency, which may have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is bound by certain covenants in its various financing documents

The Group, in its ordinary course of business, has entered into various loan agreements. The Group's loan agreements contain covenants that, among other things, require the Group to maintain a minimum capital adequacy ratio; a maximum NPL ratio; a maximum related party lending ratio; a minimum liquidity ratio; and minimum provisions for NPLs. In addition, the Group's loan agreements contain certain customary representations and warranties, affirmative covenants and events of default. If an event of default occurs, the lenders under the loan agreements will be entitled to take various actions, including the acceleration of amounts due under the loan agreements and all actions permitted to be taken by a secured creditor which would have a material adverse effect on the Bank's business, results of operations and financial condition.

Risks relating to the Nigerian Banking Sector

The banking sector is affected by changes in the Nigerian economy

The financial results and condition of Nigerian banks depend to a significant extent on the performance of the Nigerian economy. In the recent past, Nigeria has experienced periods of slow or negative growth, high inflation and fluctuations in the value of the Naira, including instances of devaluation.

The global financial crisis has impacted Nigeria, particularly because of the fluctuations in oil prices and limited availability of capital. According to the National Bureau of Statistics of Nigeria (the "**NBS**"), Nigeria's real Gross Domestic Product ("**GDP**") grew 7.67 per cent. in the fourth quarter of 2013, following growth of 6.81 per cent., 6.18 per cent. and 6.56 per cent. in the third, second and first quarters of the year, respectively. Nigeria's real GDP grew 6.58 per cent. in 2012, 7.43 per cent. in 2011, 7.98 per cent. in 2010, 6.96 per cent. in 2009 and 5.98 per cent. in 2008. Nigerian banks are subject to the risk of deterioration in global financial conditions, as well as the soundness and perceived soundness of financial institutions outside of Nigeria, primarily as it affects the availability of international financing and access to capital markets for Nigerian banks, which may have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and liquidity.

The Nigerian economy is highly influenced by oil prices and by the country's level of oil and gas production. According to the NBS, the oil and gas sector contributed approximately 12.50 per cent. to real GDP in the third quarter of 2013, a decrease from 12.90 per cent. in the second quarter of 2013 and 13.42 per cent. in the third quarter of 2012. Supply disruptions (theft and sabotages) continue to hamper output in the oil sector and is largely the reason for the decline in the oil and gas sector's contribution to GDP.

Spot price for Nigeria's reference crude (Bonny Light) declined from an average of U.S.$101.15 per barrel in 2008 to U.S.$62.08 in 2009, increasing to an average of U.S.$78.80 per barrel and U.S.$110.10 per barrel in 2010 and 2011; and then marginally easing to an average of U.S.$113.72 per barrel and U.S.$110.99 for 2012 and 2013 respectively. The substantial decline in international oil prices and the exchange rate in the last half of 2008 and the first quarter of 2009 had a significant impact on the import contracts of importers, most of which were unhedged, particularly in the downstream oil and gas sector and the banks, including the Group, which had extended credit to them.

Nigeria's oil production in 2009 and 2008 averaged 2.1 million barrels per day, compared to 2.5 million barrels per day in 2005. However, in 2010, oil production levels increased to an average of 2.3 million barrels per day as a result of the amnesty programme extended to the militants in the Niger Delta region of the country. Since then, oil production levels have picked (albeit marginally) to an average of 2.31 million barrels and 2.35 million barrels per day for 2011 and 2012 despite temporary facility shutdowns and sabotage leakages. The average daily production of crude oil in the third quarter of 2013 was 2.26 million barrels per day, an increase from 2.11 million barrels per day in the second quarter of 2013. As at January 2013, Nigeria's crude oil reserves, as estimated by the U.S Energy Information Administration (EIA), stood at 37.2 billion barrels.

Nigeria's annual inflation rate for 2012 as measured by the consumer price index (the "**CPI**") was 12.0 per cent., compared to 10.3 per cent. in 2011 and 11.8 per cent. in 2010. In December 2013, the CPI rose to 8.0 per cent compared to 7.9 per cent in November 2013. The percentage change in the average composite CPI for the twelve month period ending 31 December 2013 over the average of the CPI for the previous twelve month period was 8.5 per cent. The inflation rate in Nigeria was recorded at 7.70 per cent. in February 2014.

The upward trend in the CPI in 2012 was largely due to the partial removal of fuel subsidies early in the year, the devastating flood that occurred in the third and fourth quarters of 2012 and seasonal effects.

A significant portion of Nigeria's food is imported. Although Nigeria has recently experienced growth in the agricultural sector and improved harvests, it continues to rely heavily on food imports. The Nigerian government has launched two comprehensive initiatives aimed at stimulating growth in the agricultural sector. The Agricultural Transformation Action Plan is intended to reduce Nigeria's dependency on food imports and industrialise food production, particularly in poorer regions in rural Nigeria, whilst the Agricultural Transformation Agenda is intended to stimulate private sector investment in agriculture throughout Nigeria. The Nigerian government expects that these two programmes can increase Nigeria's agricultural output to 20 million tonnes of food per year and create 3.5 million jobs. In addition, the Nigerian government has banned the importation of certain food that can be produced locally. Although tighter monetary policies may help to curb inflation, the impact on inflation of higher food, fuel and other import prices is beyond Nigeria's control, particularly since most of these products are imported.

Changes in monetary and/or fiscal policy may also result in higher rates of inflation. There can be no assurance that the inflation rate will not rise in the future. Significant inflation could have a material adverse effect on Nigeria's economy and, as a result, on the Group's business, results of operations, financial condition, cash flows, and liquidity.

Any deterioration in economic conditions in Nigeria as a result of these or other factors, or any significant fluctuation in GDP, inflation, the value of the Naira or interest rates could adversely affect Nigerian banks, including the Group.

Lack of confidence in the Nigerian banking system resulting from the global financial crisis and subsequent Nigerian regulations and developments may affect the Group's performance

The global financial crisis and the resulting decline in the Nigerian equities market in 2009 resulted in significant provisions at a number of Nigerian banks and the CBN decided in 2009 to intervene and examine all the banks in Nigeria.

Following a special examination and investigation conducted by the CBN (the "**CBN Special Examination**"), together with the Nigeria Deposit Insurance Corporation (the "**NDIC**") in 2009, of the 24 banks that comprised the Nigerian banking system at the time, the CBN found significant irregularities (including, in certain cases, weaknesses in corporate governance) and capital adequacy and liquidity deficiencies at 10 of the 24 banks.

Out of these 10 banks, two banks (being Wema Bank Plc and Unity Bank Plc) were required to undertake (and successfully undertook) a recapitalisation exercise, while the other eight banks (the "**Intervened Banks**") (among which the Bank was not included) were ultimately subject to intervention by the CBN and required to recapitalise before 30 September 2011. AMCON was established as a key stabilising and re-vitalising tool to revive the financial system by purchasing the NPLs of banks operating in Nigeria. The EFCC is also prosecuting some of the senior management teams of the Intervened Banks who are alleged to have committed financial improprieties.

The Group is required to contribute to a sinking fund to cover any net deficits incurred by AMCON. On this basis, beginning in January 2011, each Nigerian bank was required to contribute to the sinking fund an amount equal to 0.30 per cent. of its total assets as of 31 December each year, in respect of the immediately preceding financial year. Starting from 1 January 2013, the contribution percentage was raised to 0.50 per cent. of total assets. It has also been proposed to impose an additional charge of 0.50 per cent of one-third of the amount of each bank's off balance sheet liabilities. Any increase in such charge would have a negative impact on the Group's profitability.

Although the Bank is not one of the Intervened Banks, it is nonetheless affected by these developments in the Nigerian banking sector, including increased counterparty risk and the deterioration of the commercial soundness and/or perceived soundness of the sector. Additionally, if a bank is required to make up the difference in the value of collateral and the sale price of NPLs or repurchase NPLs from AMCON, this could lead to uncertainty in the Nigerian banking sector, which could adversely affect the Group's business, results of operations and financial condition. See "*The Nigerian Banking Sector – The Asset Management Corporation of Nigeria*".

The ability of AMCON to service and repay its existing debt is dependent on many factors, including the availability of cash from the sinking fund, recovery on AMCON's NPL portfolio and/or the availability of refinancing. Although AMCON was successful in completing the redemption and refinancing plan of its existing bonds maturing in 2013 and 2014, no assurance can be given that AMCON's performance will continue to be positive or that it will be able to repay or refinance all of its outstanding debt.

If contributions to the sinking fund are insufficient to meet AMCON's shortfalls or if AMCON and other initiatives introduced by the CBN fail to achieve the desired results, the continued weakness in the banking sector may have an adverse effect on investment and confidence in, and the performance of, the Nigerian economy and, as a result, may have a material adverse effect on the Group's business, results of operations and financial condition.

The bank regulatory system in Nigeria is still developing and may change in a manner that is adverse to the Group

The Nigerian banking sector is at a relatively early stage of development compared to more developed countries. Nigeria's banking industry has historically been characterised as highly fragmented, poorly capitalised and with weak banking regulations, and it is unclear how legal and regulatory developments may affect the competitive banking landscape in Nigeria. In addition, the Nigerian banking sector has experienced rapid credit growth over the past few years without necessarily having the appropriate regulatory structure, risk management practices and controls in place to protect asset quality. There may also be an increased risk of smaller banks failing to adapt to regulatory changes and the new, more competitive environment.

Weaknesses in the Nigerian financial system and banking sector prompted the CBN, in 2010, to implement additional initiatives to reform the Nigerian financial system and, in particular, the banking sector, through the "Project Alpha Initiative", predicated on a four-pillar policy framework of enhancing the quality of banks, establishing financial stability, allowing for a healthy financial sector evolution and ensuring that the financial sector contributes to the real economy. The CBN has announced and has begun to implement a number of changes to banking regulations, including:

- a requirement for banks to adopt the basic approaches for the computation of Capital requirements under Basel II & III rules for Credit, Market and Operational Risks by June 2014.
- a new requirement for banks to carry out an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis.
- a requirement for banks to adopt and implement the Nigeria Sustainability Banking Principles (set of principles aimed at introducing good practice for banks to consider and mitigate the environmental and social risks associated with their business operation; and deliver positive impacts to the society, while protecting the communities and environments in which the they operate) by March 2014.
- a requirement for banks to use a uniform 31 December financial year end by 31 December 2009;
- a requirement for banks to prepare annual IFRS financial statements from 1 January 2012;
- the termination in 2009 of the CBN's policy limiting aggregate foreign investment in any Nigerian bank to 10 per cent. of the bank's total capital;
- limits on the tenures of a bank's chief executive officer to ten years, effective as of January 2010, which required the resignation of Mr. Jim Ovia from the Board in July 2010, as well as similar resignations at Skye Bank Plc and United Bank for Africa Plc ("**UBA**"). The Group's current Managing Director and CEO Mr. Godwin Emefiele was scheduled to retire by 31 July 2020. However, Mr. Emefiele's appointment as the CBN Governor was confirmed by the Senate on 26 March 2014, and he will have to vacate his position as the Managing Director and CEO by June 2014. See "*The Nigerian Banking Sector – Prudential Guidelines*";
- a requirement for banks to rotate their external auditors every ten years and not re-appoint them until after a period of ten years. The Group is in compliance with this requirement, and plans to change its auditor, KPMG, effective from 1 January 2020. See "*The Nigerian Banking Sector – Prudential Guidelines*";
- repeal of the universal banking regime pursuant to the Regulation on Banking Activities and Ancillary Matters No. 3 of 2010 issued by the CBN (the "**CBN Regulations**") and a requirement for Nigerian banks to divest certain non-banking businesses or restructure their non-banking and banking groups under a holding company structure. In compliance with this directive, the Bank has applied to the CBN for approval as an international commercial bank, and submitted a compliance plan for the divestiture of its non-banking subsidiaries. The Group expects to receive final approval and its new licence upon completion of the divestitures which is currently expected in 2014. See "*Business Description – Compliance Plan with the CBN's Banking Activities Regulation*";
- the signing by the CBN of multilateral agreements with cross border regulators, in order to enhance the regulation of Nigerian banks that have an international presence;

- a mandatory requirement for all deposit money banks to perform annual appraisals of their board members to ensure that the Board is informed of the latest trends and information in the banking industry so as to make effective decisions on behalf of the shareholders;
- the introduction by the CBN of electronic banking, generally referred to as "cashless policy", in Nigeria with a pilot commencement in the commercial centre, Lagos State, with the intention that the policy would eventually be rolled out to other regions across the country. Pursuant to the cashless policy, daily cash withdrawals and deposits of individual and corporate customers are capped at ₦500,000 and ₦3 million respectively, with penalties for carrying out cash transactions beyond the set limits. Cash in transit lodgment services rendered by Nigerian banks to merchant-customers was also discontinued;
- additional "know your customers" requirement by the CBN that banks ensure their customers who are "designated non-financial businesses and professions" (which include dealers in jewelry, cars and luxury goods, supermarkets, hotels and casinos) are registered with the Special Control Unit on Money Laundering of the Federal Ministry of Trade and Investments prior to establishing a business relationship with them.

The CBN intends to pursue the enactment of several bills by the National Assembly to tighten financial sector regulations. The Electronic Transaction Bill 2011 (the "**2011 Bill**") would give effect to the admission in evidence of all electronically generated statements of account. The 2011 Bill to establish the Office of the Nigerian Financial Ombudsman aims to facilitate faster resolution of financial disputes and contemplates that the Office will be partly funded by the private sector which may include the Bank. Furthermore, the Alternative Dispute Resolution ("**ADR**") Regulatory Commission Bill proposes to create an ADR Commission to promote and regulate the practice and use of ADR in Nigeria.

The CBN also issued a circular in May 2012 which, amongst other things, restricts the use of capital of Nigerian banks to augment the capital of foreign subsidiaries. Subsequently, in March 2013, the CBN clarified its stance through an additional circular, in which it stated that it will consider applications for recapitalisation in situations where the capital of the foreign subsidiary is impaired in the ordinary course of business due to operational losses, or where the increase in capital is demonstrated to be proportionate to normal banking operations and not solely driven by profit maximisation. Application for recapitalisation will also be considered where the CBN determines the host country's capital requirements to be reasonable, and/or where the host country regulators require an increase in capital that is reasonable and consistent with overall economic environment.

The CBN may, in its discretion, impose additional requirements which could materially adversely affect the Group's business, financial condition and results of operations.

No assurance can be given that the regulatory environment in which the Group operates in Nigeria will not change in the future and in a manner that will have a material adverse effect on the Group's ability to compete and thus on its business, results of operations and financial condition. On 20 February 2014, President Goodluck Jonathan announced the suspension of the CBN Governor Mallam Sanusi Lamido Sanusi over the allegation that the CBN Governor's tenure had been characterised by various acts of financial misconduct, and appointed the Deputy Governor of Economic Policy of the CBN, Dr. Sarah Alade, as Acting CBN Governor. Governor Sanusi's 5 year term was already due to expire on 3 June 2014 and the President subsequently nominated Mr. Godwin Emefiele, the Managing Director/Chief Executive Officer of the Group, as the new CBN Governor, subject to confirmation by the Senate in accordance with the Central Bank of Nigeria Act, No. 7 of 2007. Mr. Emefiele's appointment as CBN Governor was confirmed by the Senate on 26 March 2014 and will take effect beginning on 3 June 2014.

Notwithstanding regulatory standards in Nigeria, prospective investors should understand that regulatory standards applicable to banks in Nigeria and the oversight and enforcement thereof by regulators may differ from those applicable to banking operations in countries with highly developed regulatory regimes. As a result, investors may not have the benefit of all of the protections available in such other countries.

Capital adequacy requirements in Nigeria differ from international standards and the Group may face difficulties meeting capital adequacy requirements

The capital adequacy requirements in Nigeria differ from those in more developed regulatory jurisdictions and the requirements are not as stringent as the guidelines from the Bank for International Settlements. See "*The Nigerian Banking Sector – Prudential Guidelines*". All banks are required to apply Basel II measurements and the capital requirement is set at 15 per cent. for banks with an international licence (including the Bank). In November 2013, the CBN issued a draft report where it designated certain Nigerian institutions including the Bank as systemically important financial institutions ("**SIFIs**"). The new SIFI guideline specifies that SIFIs would be required to provide an additional one per cent. of capital as a Higher Loss Absorbency (HLA) charge, in addition to the prescribed minimum capital adequacy ratio ("**CAR**") and hold more liquid assets and meet a liquidity ratio of five per cent. above the minimum requirement currently set at 30 per cent.

Following the appointment of Sanusi Lamido Sanusi as Governor of the CBN in July 2009, the universal banking guidelines were revoked in October 2010. As a replacement, the CBN released the following guideline, "CBN Scope, Conditions & Minimum Standards for Commercial Banks Regulations", which introduced significant reforms to the minimum paid up capital requirement. The implementation of new banking guidelines was to ensure the goal of a sound financial banking system in Nigeria with the aim of providing clarity to the market on the terms on which commercial banking business may be conducted. See "*The Nigerian Banking Sector – Other Policy and Regulatory Considerations*".

Under the new CBN guidelines, key regulations were passed such as the separation of non-core business lines from money-deposit commercial banking, and maintenance of a minimum paid-up share capital of ₦25 billion for institutions granted a national banking licence and ₦50 billion for institutions granted an international banking licence.

There can be no assurance that the CBN will not raise the capital requirements applicable to the Group in the future and if the Group requires additional capital, there can be no assurance that it will be able to obtain this capital on favourable terms, in a timely manner or at all. Accordingly, although the Group currently meets the applicable capital adequacy requirements, the Group may face difficulties in meeting these requirements in the future. In addition, the CBN has recently prohibited Nigerian banks from using their capital to recapitalise foreign subsidiaries, meaning that the Group risks having to raise external capital to recapitalise its foreign subsidiaries, should the need arise. As at 31 December 2013, the Group's total capital to risk-weighted assets ratio was 26 per cent., which is above the 15 per cent. CBN minimum requirement. The current core capital of the Group is ₦506.7 billion**.** However, the Group expects that under the Basel II and Basel III capital adequacy guidelines, its capital to risk-weighted assets ratio is likely to decline because of the additional capital required for market, operational and Pillar II risks. If the Group fails to meet the capital adequacy requirements, the CBN may take certain actions, including restricting its asset growth, suspending all but its low risk activities and imposing restrictions on the payment of dividends. Failure of the Group to comply with capital adequacy or other ratios may also result in the revocation of the Group's licence and breach of loan covenants. These actions could materially adversely affect the Group's business, results of operations and financial condition.

The increasingly competitive environment in the Nigerian banking industry may negatively affect the Group's prospects

The Nigerian market for financial services is highly competitive in the sphere of standard commercial banking activities. The Group principally competes with a number of other nationwide banks, some of which have a broader geographic reach and greater capital resources than the Group. As at the date of this Base Prospectus, there are a total of 22 commercial banks registered in Nigeria. The Group's most significant competitors include First Bank of Nigeria Plc, UBA, Access Bank Plc and Guaranty Trust Bank Plc. AMCON's divestment from its three wholly owned Bridge Banks, which it expects to complete by September 2014, may also lead to further consolidation which would further increase competition among these banks and in the retail banking business. Additionally, international banks, including Ecobank Nigeria Limited (a subsidiary of Ecobank Transnational Incorporated, which recently acquired one of the Intervened Banks, Oceanic Bank Plc), Standard Chartered Nigeria (a wholly-owned subsidiary of Standard Chartered Bank U.K.), Stanbic IBTC Bank Plc (a subsidiary of The Standard Bank of South Africa) and Citibank Nigeria (a subsidiary of Citigroup) are increasing their presence in Nigeria and compete with the Group for its high net worth and corporate clients. This may further increase competition in the Nigerian banking industry. The CBN also recently issued a merchant bank licence to Rand Merchant Bank, a division of FirstRand Bank Limited, which is South Africa's second largest banking group.

Furthermore, Société Générale Bank, which regained its operating license approximately three years ago, re commenced business under the new name Heritage Bank Limited in March 2013 and may further increase competition in the Nigerian banking industry.

Some of the banks with which the Group competes in Nigeria, in particular with respect to corporate lending activities, are international banks which have the support of foreign parents and have greater capital resources available to them. In many of the jurisdictions in which the Group operates outside of Nigeria, the Group faces competition from larger, more established, and in some cases, better-capitalised local financial institutions. The

Bank expects the Nigerian corporate and commercial banking market to become even more competitive, which is likely to result in a further narrowing of spreads between deposit and loan rates and have an adverse impact on the Group's profitability. Additionally, the restriction on loan exposure to any single borrower to 20.0 per cent. of shareholders' funds, may potentially make it difficult for the Group to make future loans or investments in Nigeria. In addition, commercial banks such as the Bank are now restricted to only those equity investments permitted under the Banks and Other Financial Institutions Act, Cap B3 LFN 2004 (the "**BOFIA**") and the CBN Regulations. Against this background, the Group's growth depends on its ability to gain market share, extend its distribution network, manage its cost base, access low cost deposits and grow quality risk assets, in order to allow it to maintain strong levels of profitability and returns despite being required to hold higher levels of capital by the CBN. If the Group is not able to generate the profitability, economies of scale and financial capacity to enable it to compete with the largest Nigerian banks, the Group's business, results of operations and financial condition, may be materially and adversely affected.

The high credit risk of Nigerian borrowers and the lack of a fully-developed central credit bureau in Nigeria may adversely affect the Group's loan portfolio

As the bulk of its activities and services are conducted in Nigeria, the Group, like most Nigerian banks, is subject to the credit risk that Nigerian borrowers may not make payments of principal and interest on loans in a timely manner, if at all, and that upon any such failure to pay, the Group may not be able to enforce any security interest or guarantee that it may have against such borrowers. The credit risk of Nigerian borrowers is relatively high when compared to borrowers from developed markets due to the stage of maturity of the Nigerian market and uncertainties present in the political, economic, legal and regulatory environment and the higher risk of fraud. Additionally, the current legal and administrative framework for ownership and transfer of land in Nigeria makes it difficult and expensive for landowners to register land rights and therefore it is difficult for them to pledge their land ownership rights as collateral for a mortgage or other loan. See "*– Risks related to the Group's business – The Group may be unable to adequately assess the credit risk of borrowers*."

The CBN has established a Credit Risk Management System ("**CRMS**"), which operates as a public credit registry. The bulk of the Group's activities and services are conducted in Nigeria and the risk inherent to Nigerian borrowers negatively affects the Group as it exposes the Group to higher risks and creates higher potential losses through its loan portfolio, which banks in more developed countries may be immune to.

The CBN has also licensed some private credit bureaux to provide credit information to banks. The bureaux are, however, facing the challenges of a dearth of information on individuals and poor data gathering techniques. In addition, international rating agencies do not have sufficiently wide coverage of Nigerian borrowers. Furthermore, Nigeria's system for gathering and publishing statistical information relating to the Nigerian economy generally, or specific economic sectors and companies within it, is not as comprehensive as those of many countries with established market economies. Thus, the statistical, corporate and financial information available to the Group relating to some of its prospective borrowers, particularly middle tier companies, makes the assessment of credit risk, including the valuation of collateral provided by such prospective borrowers, more challenging. Although the Group ordinarily makes provisions for loans and advances in line with the CBN Prudential Guidelines, the absence of additional statistical, corporate and financial information may decrease the accuracy of the Group's assessments of credit risk. This may increase the risk of borrower default and decrease the likelihood that the Group will be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it. This could, in turn, have an adverse effect on the Group's business, results of operations, financial condition, cash flows and liquidity.

Delay or failure by the Nigerian government to effectively implement sectoral reforms may adversely affect the growth prospects of Nigerian banks, including the Group

The Nigerian government is in the process of implementing reforms in the oil and gas, power and shipping sectors, amongst others. Legislative initiatives behind these reforms include the Nigerian Oil and Gas Industry Content Development Act 2010 (the "**Nigerian Content Act**"), the proposed Petroleum Industry Bill (the "**PIB**"), and the Coastal and Inland Shipping (Cabotage) Act No 5 of 2003 Cap C51 LFN 2004 ("**Cabotage Act**"). A bill which seeks to amend the Cabotage Act is currently before the House of Representatives. Amongst other things, this bill seeks to expand the jurisdiction of the Cabotage Act to all off-shore operators in the Nigerian coastal and inland waters. Certain of these reforms focus on the use of domestic banks for financing, and the retention of profits in Nigerian banks. The Bank believes that such reforms will generate new business opportunities (including increased lending opportunities) for Nigerian banks. However, there is a risk that the PIB may not be enacted into law or that the Nigerian Content Act, the Cabotage Act (including the proposed bill if enacted), the PIB (if enacted) and other expected reforms may not be implemented, or, if implemented, may not provide the expected benefits to the banking sector. Further, any uncertainty or turbulence caused as a result of the implementation (or the lack of implementation) of these reforms could have a material impact on the banking sector as it did in the first quarter of 2012, when the Government partially removed petroleum subsidies. See "– *Risks Relating to Nigeria and the West African sub-region in which the Group Operates – Certain proposed legal and regulatory reforms in Nigeria may not be successfully implemented*" below.

Risks Relating to Nigeria and the West African sub-region in which the Group Operates

Most of the Group's operations are conducted, and substantially all of its customers are located, in Nigeria. Accordingly, the Group's financial position, results of operations and ability to make recoveries on its loans are substantially dependent on the economic and political conditions prevailing in Nigeria.

Emerging markets such as Nigeria are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt the Group's business

Investments in securities of issuers in emerging markets, such as Nigeria, generally involves a higher degree of risk than investments in securities of corporate or sovereign issuers from more developed countries and carries risks that are not typically associated with investing in more mature markets. These risks may cause higher volatility and more limited liquidity in respect of the Notes. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in securities of issuers in emerging markets, such as Nigeria, is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult their own legal and financial advisers before making an investment in the Notes. Investors should also note that emerging markets such as Nigeria are subject to rapid change and that the information set forth in this Base Prospectus may become outdated relatively quickly.

Financial turmoil in any emerging market country tends to adversely affect prices in equity markets of other emerging market countries, as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Nigeria and adversely affect the Nigerian economy. See "– *Impact of the global economic crisis on the Nigerian economy*." In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding is withdrawn. Thus, even if the Nigerian economy remains relatively stable, financial turmoil in any emerging market country could adversely affect the Group's business and price noticeably and liquidity of the Notes.

The anxieties over the U.S tapering experienced recently in the international capital markets have also led to reduced liquidity and increased credit risk premiums for certain market participants and could result in financing being unavailable for certain entities. Companies located in emerging markets countries may be particularly susceptible to disruptions in the capital markets and the reduced availability of credit or the increased cost of debt, which could result in them experiencing financial difficulty. In addition, the availability of credit to entities operating within emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention) could affect the price or availability of funding for entities within any of these markets.

There are risks relating to other countries in which the Group operates or intends to operate that could adversely affect the Group's future business, operating results, cash flows and/or financial condition

Currently, the Group operates subsidiaries in Ghana, the UK, Sierra Leone and Gambia and has two representative offices in South Africa and China. Specific country and regional risks that may have a material impact on the Group's business, results of operations and financial condition include, but are not limited to, the following:

- higher volatility and less liquidity in respect of Notes issued under this Programme;
- political and economic instability;
- civil strife, acts of war, terrorism and insurrection;
- competition from existing market participants that may have a longer history in or greater familiarity with the foreign markets it enters;
- government interventions;

- potential adverse changes in laws and regulatory practices, including import and export licence requirements and restrictions, tariffs, legal structures and tax laws;
- cancellation of contractual rights;
- trade barriers;
- difficulties in staffing and managing operations;
- lack of well developed legal systems which could make it difficult for the Group to enforce its intellectual property and contractual rights;
- security and safety of employees;
- restrictions on the right to convert or repatriate currency or export assets;
- greater risk of uncollectible accounts and longer collection cycles;
- currency fluctuations;
- logistical and communications challenges; and
- changes in labour conditions.

Many of these countries and regions are in various stages of developing institutions and legal and regulatory systems that are characteristic of democracies. However, institutions in these countries and regions may not yet be as firmly established as they are in developed countries. Many of these countries and regions are also in the process of transitioning to a market economy and, as a result, are experiencing changes in their economies and government policies that can affect the Group's investments in these countries and regions. Moreover, the procedural safeguards of the new legal and regulatory regimes in these countries and regions are still being developed and, therefore, existing laws and regulations may be applied inconsistently. In some circumstances, it may not be possible to obtain the legal remedies provided under those laws and regulations in a timely manner or at all.

As the political, economic and legal environments remain subject to continuous development, investors in these countries and regions face uncertainty as to the security of their investments. Any unexpected changes in the political or economic conditions in these or neighbouring countries or others in the region may have a material adverse effect on the international investments that the Group has made or may make in the future, which may in turn have a material adverse effect on its business, results of operations and financial condition.

General elections may result in political instability or changes in policies in Nigeria

Increases in political tensions and incidences have been seen around the time of, or leading up to, previous elections held in Nigeria, and there can be no assurance that similar incidents will not take place in relation to future elections. For example, prior to the April 2011 elections, two bombs exploded in the capital city of Abuja resulting in some casualties. The next general elections are due to be held in 2015.

Results of elections in Nigeria have in the past, been subject to criticism or led to civil unrest. For example, some losing candidates in the April 2011 general elections criticised the decision of the polls, and post-election violence by supporters of an opposition party initially spread in northern Nigeria as a result of the dissatisfaction. Although such unrest and violence subsequently subsided, there can be no assurance that results of the 2015 elections will not be subject to challenge or result in further outbreaks of violence and discontent, nor how long such outbreaks may last.

The outcome of elections may have a significant impact on Nigeria's political stability and may adversely affect its economy and no assurance can be given that the reforms and policies that are proposed or taking place at the relevant time will continue. Any post-election administration may pursue different policies and priorities than the previous administration, alter or reverse certain reforms or take actions that make domestic and foreign investment in Nigeria less attractive. Further, if there are allegations of fraud or other irregularities in connection with the presidential elections and such allegations are not properly handled in an orderly manner, such allegations may undermine the legitimacy of the new administration or lead to protests, violence or other unrest. Any significant changes in the political climate in Nigeria, including changes affecting the stability of the Nigerian government or involving a rejection, reversal or significant modification of policies, favouring the privatisation of state-owned enterprises, reforms in the power, banking and oil and gas sectors or other reforms, may have negative effects on the economy, government revenues or foreign reserves and, as a result, a material adverse effect on the Group's business, results of operations and financial condition.

There are risks related to political instability, religious differences, ethnicity and regionalism in Nigeria

Apart from the People's Democratic Party, many of Nigeria's political parties continue to be largely based upon ethnic allegiance. At the same time, these divisions are reinforced by religious differences, particularly between the mainly Muslim north and broadly Christian south. Certain northern states have adopted Sharia law since the return to civilian rule in 1999, which resulted in further alienation of their Christian minorities.

In early 2010, hundreds of lives were lost around the central city of Jos, Plateau State, due to conflicts relating to issues of land ownership. On 24 December 2010, a series of bomb attacks were carried out in Jos, in which about 80 people died and an Islamist group subsequently claimed responsibility for the bomb attacks. Post-election violence also spread in northern Nigeria, reportedly as a result of opposition party supporters' dissatisfaction with the results of the elections. Additionally, there is resentment in the oil rich Niger Delta towards the expenditure of oil revenue in other parts of the country and the allocation of oil revenue expenditure has provoked political debates, with the oil producing areas claiming that they deserve to achieve some additional benefit in the form of jobs and compensation for environmental degradation. In reaction, the Nigerian government increased the amount of government oil revenue returned to the oil-producing states from 3 per cent. to 13 per cent. in 2000. Opposition from some other states to this revenue-sharing formula resulted in the restriction of the application of the formula with regard to offshore resources, to the littoral boundaries of the coastal states that comprise the prolific Niger Delta region, from 200 nautical miles down to 24 nautical miles. In an attempt to resolve this conflict, the Nigerian government enacted the Allocation of Revenue Act (Abolition of Dichotomy in the Application of the Principle of Derivation Act) in 2004. However, Niger Delta states still frequently question the existing policies.

On 16 June 2011, there was a bomb blast at the national headquarters of Nigerian Police Force ("**NPF**") in Abuja. Boko Haram, an Islamic militia group, claimed responsibility for the attack, which aimed to target the Inspector General of Police, who was due to arrive at the NPF headquarters at the time of the explosion. Following the attack, on 26 June 2011, a second attack believed to have been carried out by the same group caused 25 fatalities in the city of Maiduguri, Borno State. A further bomb attack, claimed to have been carried out by the same group, took place on 26 August 2011, targeting the United Nations headquarters in Abuja. Subsequent attacks, also believed to have been carried out by the same group, took place throughout 2011, 2012 and 2013, and are still ongoing. In February 2014, Boko Haram fighters killed more than 140 people in attacks in two north-east Nigerian towns.

In April 2013, the Nigerian government set up a committee to explore the possibility of amnesty for Boko Haram in return for an end of the four-year uprising. However, on 14 May 2013, the federal government declared a state of emergency in the three states affected by the Boko Haram conflict (Adamawa, Borno and Yobe states) and deployed troops to the states. On 16 May 2013, an offensive was launched in those states against Boko Haram. On 19 August 2013, the Nigerian government set up a new army division, the 7th Infantry Division, to take over control of the federal government's drive against Boko Haram in the three states of Borno, Yobe and Adamawa. Notwithstanding this development by the federal government, the Boko Haram militants have continued to launch attacks in the northern parts of Nigeria.

Unless resolved by the Nigerian government, these conflicts may adversely affect Nigeria's political stability which may, in turn, affect the Group's business, results of operations and financial condition.

Failure to adequately address actual and perceived risks of corruption may adversely affect Nigeria's economy and ability to attract foreign direct investment

Although Nigeria has implemented and is pursuing major initiatives to prevent and fight corruption and unlawful enrichment, corruption remains a significant issue in Nigeria as it is in many other emerging markets. Nigeria is ranked 144 out of 177 countries in Transparency International's 2013 Corruption Perceptions Index and placed 147 out of 189 in the World Bank's Doing Business 2013 report, which is benchmarked to June 2013. Since 2000, Nigeria has implemented various measures to prevent and fight corruption and unlawful enrichment. In particular, Nigeria created the Independent Corrupt Practices Commission in 2000 to receive complaints, investigate and prosecute offenders. In 2002, Nigeria also created the EFCC, which is mandated to combat economic and financial crimes (including powers of investigation and prosecution) and to enforce the provisions of certain laws and regulations relating to economic and financial crimes. See "*Risk Factors – The Group may not be able to fully comply with anti-money laundering regulations, which could result in governmental fines and reputational damage*".

Despite various reform efforts, corruption continues to be a serious problem affecting Nigeria. There have been a number of high profile convictions for corruption, including that of a former Inspector General of the Police and two former state governors. A number of ministers and judges have been dismissed and a number of ex-state governors are facing corruption charges. Failure to address these issues, continued corruption in the public sector and any future allegations of or perceived risk of corruption in Nigeria could have an adverse effect on the Nigerian economy and may have a negative effect on Nigeria's ability to attract foreign investment and, as a result, may have a material adverse effect on the Group's business, results of operations and financial condition.

Nigeria is subject to risks to its economic stability

Despite many efforts to move it forward, the Nigerian economy still faces significant challenges. During the years of military rule, national infrastructure and services were neglected. The agricultural sector, which had been thriving at the time Nigeria achieved independence, was allowed to fall into a deep malaise. Nigeria went from being a net food exporter to a food importer as military heads of state neglected all but the lucrative oil sector. Manufacturing and industry, both burgeoning in the 1960s, received no government support. Despite being a major oil producer, Nigeria frequently suffers from fuel shortages and currently only about 40 per cent. of Nigeria's total population has access to public electricity supply due to inadequate transmission and distribution networks. See "– *Nigeria suffers from chronic electricity shortages*." Manufacturers, businesses and retail consumers that need to maintain a reliable power supply therefore rely on private generators that can be expensive to operate and are susceptible to fuel shortages.

As at the beginning of 2011, Nigeria's total installed generation capacity was around 9,500MW but available capacity was 4,150MW. The available capacity however grew to 5,550MW by the end of 2011, mainly due to increased capacity at the Power Holding Company of Nigeria (the "**PHCN**") thermal plants. In 2012, total power generated reached an all year peak of 4,517MW due to improved level of hydro-power generation to the seasonal higher water inflows, improvements in the critical maintenance at the generating plants, as well as the rise in gas supply to the power plants; but declined to 3,600MW at the end of November 2013 as the newly privatized successor companies of the PHCN took charge of their assets. In 2013, the maximum installed electricity generation capacity was approximately 6,965MW, an increase of 4.3 per cent. compared to 2012. According to the Federal Ministry of Power, the average generation capacity reached 7,021.6MW as at 10 February 2014, while the installed generation capacity was 7,202.6MW as at 24 February 2014.

In July 2010, the Nigerian government launched Vision 20:2020, a long-term strategic plan for Nigeria to become one of the 20 largest economies in the world by 2020. In May 2010, the Nigerian government adopted the First National Implementation Plan (the "**First NIP**") for the years 2010-2013, a medium-term plan for implementing Vision 20:2020 and the first of three expected national implementation plans. According to the National Planning Commission, the second NIP, which was proposed to take effect between 1 January 2014 to 2017 (the "**Second NIP**"), will focus on sectors that promote growth, create jobs, and bring about development to the general population based on a careful review and analysis of the success of the First NIP.

In 2011, the Government announced the introduction of the Transformation Agenda, a blueprint of key policies and projects to be implemented between 2011 and 2015 (the "**Transformation Agenda**"). The Transformation Agenda prioritises the key projects and programmes in the Vision 20:2020 and the First NIP which can be delivered with the four year tenure of the current administration. The Government also introduced the Subsidy Re investment and Empowerment Programme in 2012 as a means of utilising the savings from the reduction in fuel subsidy.

The quantum of funding required for these plans may be difficult or impossible to meet, and the funding requirements for these initiatives may lead to an increase in Nigeria's outstanding debt. If fiscal resources prove to be insufficient, it may not be possible to adequately pursue all of the public capital projects set forth in the Vision 20:2020 and the Second NIP and the Transformation Agenda. Continued pursuit of long-term objectives such as those set forth in Vision 20:2020 and the Second NIP will depend on a number of factors, including continued political support across all levels of Nigerian society and across multiple government administrations, adequate funding and positive coordination. See also "– *Failure to adequately address Nigeria's significant infrastructure deficiencies could adversely affect Nigeria's economy and growth prospects*."

Moreover, some planned reforms may disadvantage certain existing stakeholders, who may seek to curtail such reforms. For example, planned privatisations of state-owned enterprises have in some cases been met with strikes or threats of strikes in anticipation of job losses and price increases.

The Nigerian economy is highly dependent on oil production in Nigeria and global prices of oil

In the first, second and third quarters of 2013, the oil sector contributed an estimated 14.75 per cent., 12.90 per cent. and 12.50 per cent. respectively to real GDP and 13.76 per cent. in 2012. Reductions in oil revenues could have a material adverse effect on the Nigerian economy and the performance of the Bank, given the number of customers the Group has in the oil sector. Nigeria's oil revenues are a function of the level of oil production in the country and prevailing world oil prices. Oil prices are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, oil, market uncertainty and a variety of additional factors that are beyond Nigeria's control. These factors include, but are not limited to, political conditions in the Middle East and other regions, internal and political decisions of the Organization of the Petroleum Exporting Countries ("**OPEC**") and other oil producing nations as to whether to decrease or increase production of crude oil, domestic and foreign supplies of oil, consumer demand, weather conditions, domestic and foreign government regulations, transport costs, the price and availability of alternative fuels and overall economic conditions.

These factors have led to significant fluctuations in world oil prices in recent years. For example, the average spot price of crude oil (Bonny Light) was U.S.$74.96 per barrel in 2007, U.S.$101.02 per barrel in 2008, U.S.$63.90 per barrel in 2009, U.S.$80.90 per barrel in 2010, U.S.$113.77 per barrel in 2011, U.S.$113.72 per barrel in 2012 and U.S.$110.99 per barrel for the year ended 31 December 2013. Oil production in Nigeria has also fluctuated significantly in recent years, primarily as a result of violence in the Niger Delta region. Militant activity in the Niger Delta has led to significant disruptions in the production of oil, and although such activity has decreased and oil production has increased in the wake of the amnesty programme and other government initiatives to address the needs of the Niger Delta region, no assurance can be given that militant activity will not increase from current levels or that violence in the Niger Delta region will not lead to significant disruptions in oil production in future periods. See "*– Militant activities in the Niger Delta could destabilise oil production in Nigeria and adversely affect Nigeria's economy*" below. The level of oil production by Nigeria may also be adversely affected by other factors, including changes in oil production quotas by OPEC or the response of international oil companies to changes in the regulatory framework for oil production in Nigeria. There may also be loss of revenue arising from the interruption of production operations and theft of crude oil from pipelines and tank farms. In addition, there may be a high incidence of abandoned projects by oil companies in communities where activities are disrupted by militants, which may lead to slower growth in oil and gas production. Many developed economies are actively seeking to develop alternative sources of energy and reduce their dependence on oil as a source of energy. Any long-term shift away from fossil fuels could adversely affect oil prices and demand and the resulting oil revenue of Nigeria and the Nigerian economy in general, and as a result, have a material adverse effect on the Group's business, results of operations and financial conditions.

The continuing depletion of the Excess Crude Account and the uncertainties surrounding the newly established National Sovereign Wealth Fund could have adverse impacts on the Nigerian economy

The Excess Crude Account is an account set up to assist in stabilising the Nigerian government's finances to address volatility in crude oil prices and production (the "**Excess Crude Account**"). The Excess Crude Account is funded with the positive difference, if any, between the revenue generated by the price of oil per barrel included in the budget for the year and the actual revenue received in that year. The Excess Crude Account has historically funded government subsidies of refined oil products as well as other purposes, including disbursements of approximately U.S.$8 billion to fund the National Integrated Power Project of Nigeria ("**NIPP**") and U.S.$1 billion as seed capital for the proposed National Sovereign Wealth Fund ("**NSWF**") (which have been ring fenced and are not included in the balance of the Excess Crude Account). In 2009 and 2010, such funding increased in response to the global economic crisis and the resulting higher deficits at the federal, state and local levels. The balance of the Excess Crude Account was U.S.$19.1 billion as at 31 December 2008, U.S.$6.9 billion at 31 December 2009, U.S.$2.6 billion at 31 December 2010, U.S.$4.6 billion at 31 December 2011, U.S.$8.7 billion at 31 December 2012, U.S.$2.3 billion at 31 December 2013 and U.S.$2.5 billion at 17 January 2014. The balance in the Excess Crude Account is shared between the federal government, state governments and local governments in Nigeria according to a specified formula. Depletion of the Excess Crude Account in recent times has been cited with concern by rating agencies and other third parties who view the Excess Crude Account as an important factor in ensuring the stability of the Nigerian economy. For the year ended 31 December 2013, a total of ₦802.9 billion (U.S.$5.16 billion) was drawn from the Excess Crude Account to account for shortfalls in monthly revenue collection and to settle arrears. No assurance can be given that the Excess Crude Account will not continue to be depleted at a rate that rating agencies and third parties find to be of concern or that the Nigerian government will be able to stabilise its finances from the impact of volatility in oil prices and production.

The National Economic Council (which includes the 36 State Governors) and the Federal Executive Council approved the establishment of the NSWF and the bill was submitted to the National Assembly in December 2010 and was publicly considered by the National Assembly in March 2011. On 27 May 2011, the President signed the Nigeria Sovereign Investment Authority (Establishment etc.) bill into law, creating the NSWF. The board and management of the Nigerian Sovereign Investment Authority were unveiled by the Nigerian government on 28 August 2012. The purpose of the NSWF is to build a savings base for future generations of Nigerian citizens, enhance development of the infrastructure sector and provide stabilisation support in times of economic stress. In addition, the NSWF will support and/or replace the Excess Crude Account as a secondary stabilisation account in the event of changes in oil prices and production. Pursuant to the Nigeria Sovereign Investment Authority Act and the decision of the National Economic Council, the initial funding of U.S.$1 billion was provided by the federal, state, federal capital territory, and local governments and area councils of Nigeria. In February 2014, the Ministry of Finance transferred U.S.$550 million from the proceeds of the Government's Eurobond issuance in 2014 to the NSWF, increasing the total balance of the fund to U.S.$1.55 billion. The Ministry of Finance plans to grow the fund to U.S.$5 billion by 2015.

Future funding for the NSWF will be derived from identified funds from the Federation Account of Nigeria (the "**Federation Account**"), being those over the amount needed to fund Nigeria's national budget. The initial funding and all subsequent allocations to the NSWF will then be allocated to three special funds – the Nigerian Infrastructure Fund, the Future Generations Fund and the Stabilisation Fund – for the purpose of making investments to support the aims and purpose of the NSWF, as described above. Whilst the creation of the NSWF is an improvement to the management of Nigeria's inflow from oil exploration funds, it is still in its infancy stage and there can be no assurance as to whether it will have the necessary safeguards in place to shield it from misappropriation and political pressures, whether it will continue to have sufficient funding (as this is dependent on the price of oil), whether it will make profitable investments or achieve its strategic objectives or how it will be perceived by ratings agencies or other parties. Further, there is still a pending suit before the Supreme Court instituted by the State Governors challenging the constitutionality of the NSWF with regard to its funding from proceeds in the Excess Crude Account (the legality of which the State Governors are also challenging). Those State Governors are of the view that the funds in the Excess Crude Account ought to be transferred to the Federation Account and distributed amongst the three tiers of government in accordance with the provisions of the Constitution of Nigeria (the "**Constitution**"). The suit which was commenced by all State Governors under the aegis of the Nigeria Governors' Forum is still ongoing. Parties have failed to reach an out of court settlement and the matter has been adjourned until 23 September 2014.

The continuing depletion of the Excess Crude Account and the uncertainties surrounding the newly established NSWF may negatively affect the Nigerian economy in general and, as a result, have a material adverse effect on the Group's business, results of operations and financial condition.

The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change

Nigeria is pursuing a number of new policies with the aim of restructuring its upstream and deregulating its downstream oil and gas sectors, but the final form that these measures will take is subject to significant uncertainty and political and economic influences. The National Assembly of Nigeria is currently considering the PIB, which would, if enacted, significantly change the way in which the oil and gas industry is structured and regulated in Nigeria and have a significant impact on Nigeria's oil and gas business and the Nigerian economy.

The risks associated with the PIB and related efforts to reform the Nigerian oil and gas industry are:

- lack of certainty as to when it will be enacted or whether it will be enacted at all, or that the final form of any bill ultimately enacted will not differ significantly from the current proposal;
- the uncertainty created by the PIB and the necessary implementing regulations may lead international oil companies to defer further major investment in Nigeria until the new regulations have been enacted and the new legal framework for the industry has been more clearly defined, or may decide to reduce their investments in Nigeria and/or decline to pursue certain investments as a result of the new framework;
- the proposed changes in the tax structure for oil and gas companies operating in Nigeria may lead certain companies to curtail their operations or future investment;
- the proposed deregulation of the petroleum products market and the removal of fuel subsidies (as a further step in the deregulation of the downstream petroleum sector) may adversely affect the segments of the economy most affected by the resulting increase in prices and could lead to protests from the public who

currently benefit from subsidised prices. This could also lead to inflationary pressures in the economy. The new framework may generate less new capacity than anticipated and any new capacity may take longer than anticipated to begin operations;

- the initiatives designed to promote gas production may prove ineffective;
- the PIB may fail to adequately address the concerns of communities in the Niger Delta region or create new grounds for further conflict;
- initiatives proposed in the PIB may further polarise the Northern and other political regions of Nigeria; and
- the proposed national oil company, which is part of the oil and gas sector reforms, may not be successful.

Similarly, the Nigerian Content Act, which was enacted in April 2010, introduced reforms in the Nigerian oil and gas industry, which include providing for preferential treatment to Nigerian companies and promoting the awarding of contracts to Nigerian companies for services provided and goods manufactured in Nigeria. Prior to the enactment of the Nigerian Content Act, local content promotion and development in the Nigerian oil and gas industry was loosely regulated. The Nigerian Content Act is widely expected to provide business and growth opportunities for Nigerian businesses. However, if the Nigerian Content Act and the other abovementioned reforms are not implemented appropriately, the Nigerian economy and Nigerian banking sector, which includes the Group, may not achieve the growth prospects that have been expected.

Certain proposed legal and regulatory reforms in Nigeria may not be successfully implemented

Several Nigerian government reforms are underway to improve Nigeria's electricity generation, transmission and distribution infrastructure. In August 2010, the Nigerian government launched the "Roadmap for Power Sector Reform" which seeks to remove obstacles to private sector investment in the power sector, permit the privatisation of generation and distribution companies, facilitate the construction of new transmission networks and reform the fuel-to-power sector. As at end of 2013, private buyers for five generation companies and 10 distribution firms have collected their share certificates and operating licenses and taken control of the assets.

Nigerian government reforms in the sea transportation sector aim to shorten the turnaround time of cargo ships in Nigerian ports, reduce administrative charges, increase competition, improve safety and security and dredge the Lagos and Bonny harbours to accommodate large ocean liners. The Nigerian government is also encouraging the establishment of indigenous shipping lines through the enactment of the Cabotage Act to restrict the use of foreign vessels in domestic coastal trade in Nigeria and promote domestic shipping companies. The Cabotage Act also provides for the establishment of the Cabotage Vessel Financing Fund to promote the development of ship acquisition capacity by providing financial assistance to Nigerian operators.

There are certain provisions in each of the abovementioned regulations which, if effectively implemented, are expected to result in the growth and development of the Nigerian banking industry and also in increased levels of business and returns for the Group. For example, the Nigerian Content Act provides that all operators, contractors and other entities engaged in any operation, business or transaction in the Nigerian oil and gas industry requiring financial services shall retain only the services of Nigerian financial institutions or organisations, except where this is impracticable. The Nigerian Content Act also requires all operators, contractors and sub-contractors to maintain a minimum of 10 per cent. of the total revenue accruing from their Nigerian operations in bank accounts domiciled in Nigeria. The Cabotage Act contains local content provisions in connection with domestic coastal carriage of cargo and passengers, which are also expected to increase Nigerian entities' requirements for finance and financial services from Nigerian banks, including the Group.

There is however the risk that the Nigerian Content Act, the "Roadmap for Power Sector Reform", and the Cabotage Act may not be implemented. If the reforms are not implemented as intended, the Nigerian economy and Nigerian banking sector may not achieve the growth prospects that have been linked to the several ongoing government reforms, which could have a material adverse effect on the Group's business, results of operation and financial condition.

The statistical information published by Nigeria may differ from that produced by other sources and may be unreliable

The NBS and CBN, as well as a range of ministries, including the Ministry of Finance, Ministry of Petroleum, Ministry of Commerce and Industry and Ministry of Environment produce statistics relating to Nigeria and its economy. Although there have been significant efforts to improve the compilation of Nigeria's data in recent years including through technical assistance provided by the IMF, there can be no assurance that these statistics are as accurate or as reliable as similar statistics published by more developed countries.

High inflation could have a material adverse effect on Nigeria's economy

Nigeria is exposed to the risk of high inflation. The inflation rate in Nigeria has averaged 10.41 per cent. from 2006 until 2013, reaching an all time high of 15.60 per cent. in February of 2010 and a record low of 3 per cent. in July of 2006. In recent years, the annual inflation rate has ranged from a level of 6.6 per cent. as at 31 December 2007 to a peak of 15.1 per cent. as at 31 December 2008. Inflationary pressure moderated in 2009, as the inflation rate assumed a downward trend. However, it increased from 10.4 per cent. at 30 September 2009 to 13.9 per cent. by 31 December 2009, reflecting an increase in demand pressure due to fuel shortages. In 2010 inflationary pressure remained high, with a slight decrease from December 2009 to 11.8 per cent. at 31 December 2010. Inflation decreased to 10.3 per cent. as at 31 December 2011 but rose to 12.0 per cent. in December 2012 as result in the reduction in the Nigerian government's subsidy on petrol products. The inflation rate eased to 8.5 per cent. as at 31 December 2013 due a combination of a tight monetary policy, stable exchange rate, stable fuel prices and improvements in production capacity of the economy. As at February 2014, the inflation rate was recorded at 7.70 per cent. Although tighter monetary policies may help to curb inflation, the impact on inflation of higher food, fuel and other import prices is beyond Nigeria's control particularly since most of these products are imported. Changes in monetary and/or fiscal policy may also result in higher rates of inflation. There can be no assurance that the inflation rate will not rise in the future. Significant inflation could have a material adverse effect on Nigeria's economy and, as a result, on the Group's business, results of operations and financial condition.

Impact of the global economic crisis on the Nigerian economy

The global recession and financial crisis in 2008 and 2009 affected Nigeria particularly due to the resulting fluctuations in oil prices and increased investor aversion to risk, which resulted in a withdrawal of portfolio capital and reduced access of private sector borrowers to external credit lines.

The impact of the global recession has been felt mainly through a reduction in external reserves, the weakening of the Naira towards the end of 2008 and the collapse of the Nigerian equity markets, falling commodity prices, reduced net capital inflows and the bad debt exposure of Nigerian banks. As the global economy began to improve, the real GDP growth of the country rose from 5.98 per cent. in 2008 to 6.96 per cent. in 2009, 7.98 per cent. for 2010, 7.43 per cent. for 2011, 6.58 per cent. for 2012 6.81 per cent. in the third quarter of 2013 and 7.67 per cent. in the fourth quarter of 2013, according to the NBS. Nonetheless, if the global economy further weakens, this may have an adverse effect on the Nigerian economy and, as a result, have a material adverse effect on the Group's business, results of operations and financial condition.

CBN may intervene in the currency markets by drawing on external reserves and the Nigerian currency is subject to volatility

The CBN has historically favoured maintaining the Naira within a narrow band with periodic adjustments. In late 2008 and early 2009, the Naira/U.S. dollar exchange rate experienced some instability, and declined from a high of ₦116.64 in 2008 to a low of ₦151.37 in 2009. In the last quarter of 2008, the CBN took measures to address the instability, including drawing from Nigeria's external reserves and intervening in the currency markets. The exchange rate stood at ₦150.66 at 31 December 2010. During the period, the external reserves were reduced from U.S.$53 billion in 2008 to U.S.$42.4 billion as at 31 December 2009, to U.S.$32.3 billion as at 31 December 2010 and to U.S.$32.6 billion as at 31 December 2011, but increased to U.S.$43.8 billion as at 31 December 2012. As at 31 December 2013 and as at 17 January 2014, the external reserves stood at U.S.$43.8 and U.S.$43.2 billion, respectively.

Given the fluctuations in Nigeria's external reserves, its high dependence on oil exports and the fact that Nigeria pays for its key imports, such as refined oil, in U.S. dollars, the Naira will remain vulnerable to external shocks which could lead to a sharp decline in its value, as occurred in 2008, and this may prompt the CBN to again intervene in the currency markets in an attempt to stabilise the Naira.

Although the CBN expects to continue to gear exchange rate policy towards maintaining price stability, no assurance can be given that the exchange rate will remain stable or that the CBN will not draw on the external reserves to stabilise the exchange rate. Any further currency fluctuations and/or fluctuations in Nigeria's external reserves may negatively affect the Nigerian economy in general and, as a result, have a material adverse effect on the Group's business, results of operations and financial condition.

The lack or slow pace of growth in the non-oil and gas sectors of its economy may constrain Nigeria's economic growth

Over the last 10 years, Nigeria has attempted to develop the non-oil sectors of its economy by encouraging agriculture, trade, construction, telecommunications, financial services, mining and manufacturing activities. The non-oil sector grew an average of 8.96 per cent. per year between 2005 and 2009. The non-oil sector continued to be a major driver of growth for the economy, in the third quarter of 2013, the non-oil sector recorded 7.95 per cent. growth in real terms compared with 7.55 per cent. at the corresponding period in 2012, and 7.36 per cent. in the second quarter of 2013. According to the CBN, the non-oil sector remained the major driver of growth in the country in the fourth quarter of 2013, recording 8.73 per cent. growth in real terms. The growth in this sector has largely been driven by improved activities in the agriculture, telecommunications, manufacturing, building and construction, hospitality and business services sectors.

However, the lack of infrastructure including inadequate power supply and transportation systems, reduced credit availability and consumer demand, local shortages of skilled managers and workers and inconsistent government policies may constrain development in these sectors and the current rate of growth may decline in future periods. A failure to continue to grow the non-oil sectors of its economy may constrain Nigeria's economic growth and, as a result, have an adverse effect on the Group's business, results of operations and financial condition.

Militant activities in the Niger Delta could destabilise oil production in Nigeria and adversely affect Nigeria's economy

Over the past few years, there has been an increase in violence and civil unrest in the Niger Delta, Nigeria's southern oil producing region, mainly from militant groups who oppose, among other things, the activities of the oil companies in the area. This violence has mainly focused on oil interests in the region and oil production from onshore fields has slowed as a result of several kidnappings and bombings of oil installations and facilities. The outcome of such actions has had continued significant impact on Nigerian government revenues from oil production, given that most of Nigeria's oil revenues come from oil produced in the Niger Delta region.

Since early 2006, more than 200 foreign oil workers and members of their families have been kidnapped in the Niger Delta. During this period, militant attacks have also been carried out on numerous oil facilities and platforms, often focused on cutting oil production by sabotaging pipelines and forcing oil companies to halt onshore production and/or to reduce the output of oil from the region. In January 2010, Chevron announced it had been forced to decrease oil production in Nigeria by 20,000 barrels per day, after gunmen attacked its Makaraba-Utonana pipeline in Delta State. At least one international oil company present in Nigeria has raised the possibility that it might cease operations in Nigeria if conditions continue to worsen. However, to date, no such action has actually been carried out by any major international oil company present in Nigeria. Nonetheless, several international oil companies have divested assets in Nigeria in recent years, although it is not clear if the divestments were a direct result of the situation in the Niger Delta.

In 2009, the Nigerian government offered amnesty to militants who surrendered their weapons by October 2009, in the hope that about 10,000 rebels would exchange their weapons for a pardon and retraining. Over 20,000 militants surrendered their arms and ammunition pursuant to the amnesty offer, which expired on 4 October 2009. The amnesty programme has significantly reduced but not eliminated tensions in the region. In December 2009, the Movement for the Emancipation of the Niger Delta ("**MEND**") claimed responsibility for an attack on an oil pipeline in the Niger Delta, breaching the ceasefire agreement with the Nigerian government. After another attack on an oil pipeline in the Niger Delta in January 2010, during late President Umaru Musa Yar' Adua's absence from office, MEND announced that it would end the indefinite ceasefire it offered in 2009, threatening further hostility in the region. Following the accession to office by Goodluck Ebele Jonathan as President of Nigeria on 6 May 2010, militants in the Niger Delta region resumed their talks with the Nigerian government and other amnesty committees. However, on 1 October 2010, during Nigeria's celebration of the 50th anniversary of its independence, two bomb blasts were carried out in the capital city of Abuja. MEND claimed responsibility for the attack, and four individuals were arraigned before a Nigerian court in December 2011. One of the four has been sentenced to life imprisonment, another died in prison and the remaining two are currently being tried by a Nigerian court. Further attacks on oil pipelines and kidnappings have taken place in November and December 2010 when two bombs exploded during a political rally in Yenagoa, Bayelsa State, causing injury to several people. More recently, the scale of attacks has reduced, although small scale attacks to siphon off oil still occur from time to time.

In spite of the Nigerian government's efforts, militant acts in the Niger Delta continue to be directed at oil industry participants and in relation to the presence of foreign oil interests in the region, and there is no assurance that militant acts will not occur in the future. The increased spate of divestment by international oil majors (the largest multinational oil and gas companies) in Nigeria may generate a new crisis between the host communities and the acquirer of the assets. The Isoko Community in Delta State had shut down all oil exploration in their land. The shutdown was as a result of unsuccessful discussions between the oil producing communities and officials of Shoreline Natural Resources Ltd and First Hydro Carbon Ltd, represented by Nigeria Petroleum Development Company ("**NPDC**"), which bought a 45 per cent. equity stake of the Shell, Total and Agip Joint Venture which holds Oil Mining Lease ("**OML**") 30 and OML 26 and comprised of Ogini and Isoko deep water wells. Oil production has resumed in the Ogini and Isoki fields, however, continued or further unrest in the Niger Delta region may lead to lower oil production, deter foreign direct investment, lead international oil companies to curtail their operations in Nigeria or lead to increased political instability and unrest and could have a material adverse effect on Nigeria's economy and, as a result, on the Group's business, results of operations and financial condition.

A significant portion of the Nigerian economy is not recorded

A significant portion of the Nigerian economy, which the Government recently estimated to be anywhere between 40 per cent. and 75 per cent., is comprised of the informal, or shadow, economy. The informal economy is not recorded and is only partially taxed, resulting in not only lost revenue for the Government but also ineffective regulation, unreliability of statistical information (including the understatement of GDP and the contribution to GDP of various sectors) and inability to monitor or otherwise regulate a large portion of the economy. Lack of effective regulation and enforcement in this shadow economy also gives rise to other issues including health and safety concerns. Although the Government is attempting to address the informal economy by streamlining certain regulations, particularly tax laws, there can be no assurances that such reforms will adequately address the issues and scale back the informal economy.

Foreign direct investment in Nigeria may not increase

Foreign direct investment ("**FDI**"), which comprises equity capital, re-invested earnings and other capital inflows, has steadily increased from U.S.$3.6 billion in 2005 to a peak of U.S.$8.7 billion in 2009, which then declined to U.S.$6.09 billion in 2010, with a subsequent increase to U.S.$8.9 billion in 2011, according to reports by the United Nations Conference on Trade and Development Global Investment Trends Monitor. The decline in 2010 can be attributed to the global financial downturn in 2008 and 2009, as greenfield projects, which are the major basis for FDI in Africa, suffered a value decline of about 10 per cent. in 2010. Similarly, peer economies within Africa also suffered declines in FDI in 2010, such as South Africa, which recorded a decrease in FDI of 77.9 per cent. Africa as a whole recorded an average decrease in FDI of 14.4 per cent. in 2010 and an estimated increase of 16.2 per cent. in 2013.

Despite the slight increase in FDI in 2011, the future prospect for FDI in Nigeria to surpass its previous inflows is uncertain. In addition, if there is no decrease in the perceived risks associated with investing in Nigeria, including those described herein, there may not be any appreciable increase in FDI, which could adversely affect the Nigerian economy and limit sources of funding for infrastructure and other projects requiring significant investment by the private sector, which, in turn, may have a material adverse effect on the Group's business, results of operations and financial condition.

Failure to adequately address Nigeria's significant infrastructure deficiencies could adversely affect Nigeria's economy and growth prospects

Decades of under-investment have resulted in significant deterioration of Nigeria's public infrastructure, and the prolonged absence of basic infrastructure to support and sustain growth and economic development. Persistent problems with power generation, transmission and distribution, a deteriorating road network, congested ports and obsolete rail infrastructure have severely constrained socio-economic development in Nigeria. Although significant advances have been made in the area of telecommunications and internet facilities in recent years, the state of development in those sectors cannot be considered on par with that in more developed economies. The Nigerian government has identified Nigeria's decaying infrastructure as a major impediment to economic growth and the Transformation Agenda includes ambitious targets for infrastructure improvements and investments towards achieving the Vision 20:2020 strategy. Failure to significantly improve Nigeria's infrastructure could adversely affect Nigeria's economy and growth prospects, including its ability to meet GDP growth targets which, in turn, may have an adverse effect on the Group's business, results of operations and financial condition.

Nigeria suffers from chronic electricity shortages

In spite of the abundant energy resources in the country and significant Nigerian government reform efforts and investments in the power sector in recent years, lack of sufficient and reliable electricity supply remains a serious impediment to Nigeria's economic growth and development. Insufficient power generation, aging infrastructure, weak distribution networks and overloaded transformers result in frequent power outages, high transmission and distribution losses and poor voltage output. Moreover, only about 49 per cent. of the Nigeria's current total population has access to a public electricity supply due to inadequate transmission and distribution networks. The Nigerian government has identified improvements in electricity generation, transmission and distribution infrastructure as a critical element required to enable the country to meet its economic growth and development objectives.

To address these issues, the Nigerian government is pursuing a number of significant policy initiatives including those set forth in the First NIP and the "Roadmap for Power Sector Reform". Failure to adequately address the significant deficiencies in Nigeria's power generation, transmission and distribution infrastructure and related concerns within the power sector could lead to lower GDP growth and hamper the development of the economy which, in turn, may have an adverse effect on the Group's business, results of operations and financial condition. See – "*Risk Factors – Nigeria is subject to risks to its economic stability*".

The taxation and customs systems in Nigeria may be subject to changes and inconsistencies

As an emerging market economy, the Nigerian government's policies and regulations on taxation, customs and excise duties may change from time to time as considered necessary for the development of the economy. In addition, the Nigerian government has indicated that taxes, customs and excise duties may be the next major sources of revenue in view of the fluctuation in revenue derived from oil. A bill to repeal the current Customs and Excise Management Act ("**CEMA**") and reform the administration and management of customs and excise in Nigeria is currently before the National Assembly. The CEMA Re-enactment bill was passed by the upper legislative house in June 2013. It is yet to be passed by the House of Representatives.

Further, the Nigerian Federal Inland Revenue Service's (the "**Nigerian FIRS**") interpretation of, or decision with respect to, certain sections of tax laws may differ on a case by case basis. Changes in Nigerian policies on taxation, customs and excise duties, as well as inconsistencies in interpretation of and decisions relating to tax laws, may have an adverse effect on the Group's business, results of operations and/or financial condition, and on the tax liability of Noteholders.

Inefficiencies in the judicial system may create an uncertain environment for investment and business activity

Nigerian law is predicated on the common law system, with its roots being derived from the English legal system. Still in its growing phase, the Nigerian legal system continues to undergo development and faces a number of challenges including delays in the judicial process as most cases take a considerable period of time to be concluded. Similarly, the enforcement of security in Nigeria is affected by the inefficiencies in the judicial system and can result in uncertain positions. Also, security pledged for most lending in Nigeria is in the form of real estate, which may be prone to adverse price movements. The slow judicial process may sometimes affect the enforceability of judgments obtained, including the ability to recover the assessed value of collateral on defaulting borrowers. Those and other factors that have an impact on Nigeria's legal system make investments in the Notes subject to greater risks and uncertainties than investments in a country with a more mature legal system.

There are risks associated with weak corporate governance standards

The CBN released a "Code of Corporate Governance for Banks in Nigeria Post Consolidation" (the "**CBN Code**") which became effective in April 2006 and is mandatory for all banks in Nigeria. While this document reflects the increasing importance that the CBN places on improved corporate governance to improve the perception and performance of the Nigerian banking industry, the CBN has already relaxed some of its recommendations regarding corporate governance as a result of pressure from various banks regarding the tenure of service of non-executive directors. The CBN's provisions regarding corporate governance are underdeveloped and not as stringent as international standards, especially the corporate governance standards set forth in the UK Corporate Governance Code. Corporate governance provisions are in their infancy and there is a lack of tangible enforcement of corporate governance standards in Nigeria. In January 2011, the SEC approved the implementation of a new code of corporate governance for public companies. The regulation took effect in April

2011 and is expected to bring about more stringent standards of transparency and accountability. The SEC code of corporate governance applies only to public companies in Nigeria, and provides that whenever the SEC determines that a public company is in breach, the SEC shall notify the company concerned and specify the areas of non-compliance or non-observance and the specific action or actions needed to remedy such areas. Public companies are encouraged to comply with the code having regard to international best practices or explain the reason for non-compliance. Further to the provisions of the amended new code, any company in violation of its provisions will be liable for a fine and/ or any other sanction that the SEC may prescribe. However, no assumption can be made that these standards will be equivalent to those required in the United States or Western Europe or how quickly these standards will be adopted by companies. Although the Group has adopted corporate governance standards beyond those required by the CBN and the SEC, it is possible that violations of disclosure and reporting requirements or breaches of fiduciary duties by the directors of the Board (the "**Directors**") could significantly affect the Group's receipt of information material to the Group's operations or result in inappropriate management decisions, materially adversely affecting the value of an investment in the Notes.

Risks related to the Notes

The Notes may not be a suitable investment for all investors.

Investors must determine the suitability of an investment in the Notes in light of their own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's home currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The Notes may be redeemed prior to maturity following a change in the tax laws of Nigeria

In the event that the Issuer is obliged to pay additional amounts on account of any Nigerian taxes in respect of payments under any Notes coming into effect after the date of the relevant Notes issue, the Issuer may redeem all outstanding Notes of the relevant Series in accordance with the Conditions. See "*Terms and Conditions of the Notes* – Condition 7(b) (*Redemption and Purchase – Redemption for tax reasons*)" and "*Terms and Conditions of the Notes* – Condition 8 (*Taxation*)" and "*Taxation*".

Payments under the Notes may be subject to withholding tax pursuant to the U.S. Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as "**FATCA**") may impose a 30 per cent. withholding tax on all or a portion of payments made in respect of the Notes if (i) the Issuer is or becomes a foreign financial institution ("**FFI**") (as defined in FATCA) that enters into an agreement with the U.S. Internal Revenue Service (the "**IRS**") to provide certain information on its account holders (making the Issuer a "**Participating FFI**"), and (ii) (a) a Noteholder does not provide information sufficient for the Issuer or any intermediary financial institution (including any paying agent) to determine whether the holder is a U.S. person or should otherwise be treated as holding a "United States Account" of the Issuer, (b) a Noteholder does not consent, where necessary, to have its information disclosed to the IRS (such Noteholder, a "**Recalcitrant Holder**") or (c) any Noteholder, or person through which payment on the Notes is made, is not able to receive payments free of withholding under FATCA a Participating FFI.

The Issuer or any intermediary or agent may be required to deduct a withholding tax of up to 30 per cent. on payments (including gross proceeds and redemptions) made on or after 1 January 2017. This withholding generally will not apply to payments in respect of the Notes unless the Notes are issued (or significantly modified) on or after the "grandfathering date," which is the date that is six months after the date on which final U.S. Treasury Regulations defining the term "foreign passthru payments" are filed with the U.S. Federal Register.

Further guidance may affect the application of FATCA to the Notes, including the potential future release of an intergovernmental agreement between the United States and Nigeria to implement the provisions of FATCA.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on the Notes, none of the Issuer, any intermediary or agent would, pursuant to the Terms and Conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax.

Risks related to the structure of a particular issue of Notes.

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common of such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the Notes' market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

Risks related to the Notes generally.

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to: (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes; and (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such.

EU Savings Directive

Under the EU Council Directive on taxation of savings income (the "**EU Savings Directive**"), EU Member States are required to provide to the tax authorities of other EU Member States, details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident or certain limited types of entity established in that other EU Member State. However, for a transitional period, Luxembourg and Austria will instead (unless during that period they elect otherwise) apply a withholding system in relation to such payments (the end of such transitional period being dependent upon the conclusion of certain agreements relating to information exchange within certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

If a payment to an individual were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to, the EU Savings Directive, neither the Bank, nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive or any law implementing or complying with or introduced in order to conform to, the EU Savings Directive.

The European Commission has proposed certain amendments to the EU Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

Bearer Notes where denominations involve integral multiples: definitive Bearer Notes

In relation to any issue of Bearer Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in its account with the relevant clearing system at the relevant time may not receive a definitive Bearer Note in respect of such holding (should definitive Bearer Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the market generally.

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes issued under the Programme may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to depreciation or devaluation of the Specified Currency or, conversely, appreciation or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. In addition, such risks generally depend on economic and political events over which the Bank has no control. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payment of principal or interest on a Note. As a result, investors may receive less principal or interest than expected, or no principal or interest. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note not denominated in U.S. dollars would not be available at such Note's maturity.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

The Bank's credit ratings are an assessment by the relevant rating agencies of its ability to pay its debts when due. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of the Notes. One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this Base Prospectus, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Bank operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for notes issued by or on behalf of Nigeria as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Bank's results of operations, prospects or financial condition. Factors including increased competition, fluctuations in the Group's operating results, the regulatory environment, availability of reserves, general market conditions, natural disasters and armed conflict may have an adverse effect on the market price of the Notes.

It may be difficult to effect service of legal process and enforce judgments obtained in Nigeria against the Group and its management

The Bank is a company incorporated under the laws of Nigeria and substantially all of its businesses, assets and operations are located in Nigeria. In addition, a substantial majority of its directors and executive officers reside in Nigeria and substantially all of their assets are located in Nigeria. As a result, it may not be possible to effect service of process in the United States or elsewhere outside Nigeria upon the Bank or such directors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, Nigeria does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States and many other countries. As a result, recognition and enforcement in Nigeria of judgments of a court in the United States or in any of such other countries in relation to any matter may be difficult. See "*Service of Process and Enforcement of Civil Liabilities*".

Investors are relying solely on the creditworthiness of the Bank

Notes issued under the Programme will constitute direct, general, unconditional, unsubordinated and, subject to the provisions of Condition 4(a) (*Covenants – Negative Pledge*), unsecured obligations of the Issuer and will rank at all times *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' and depositors' rights. If a prospective investor purchases such Notes, it is relying on the creditworthiness of the Bank and no other person. In addition, an investment in such Notes involves the risk that subsequent changes in the actual or perceived creditworthiness of the Bank may adversely affect the market value of such Notes.

Return on an investment in Notes will be affected by charges incurred by investors

An investor's total return on an investment in any Notes will be affected by the level of fees charged by an agent, nominee service provider and/or clearing system used by the investor. Such a person or institution may charge fees for the opening and operation of an investment account, transfers of Notes, custody services and on payments of interest and principal. Potential investors are, therefore, advised to investigate the basis on which any such fees will be charged on the relevant Notes.

Tax consequences of holding the Notes

Potential investors should consider the tax consequences of investing in the Notes and consult their tax advisors about their own tax situation.

Nigerian bankruptcy laws

Although Nigerian bankruptcy laws generally apply to individuals and not corporate entities, CAMA makes provision for these laws to apply in the winding-up of an insolvent company with regards to the rights of secured and unsecured creditors.

The Nigerian bankruptcy laws are otherwise very similar to pre-1900 English law. Under Nigerian law, when a bank is unable to meet its obligations or suspends payment, the assets of the bank shall be available to meet all of the bank's deposit liabilities prior to the payment of any other liabilities of the bank. In the event of insolvency of a company, statutory preferred creditors (for example, tax, provident funds, salaries and other staff remuneration), as well as secured creditors rank in priority to unsecured creditors. Unsecured creditors, for the purposes of distributions upon insolvency, rank *pari passu* with each other. Additionally, the liquidator of an insolvent company has the powers to disclaim onerous contracts. In accordance with general common law bankruptcy rules, any transaction embarked upon by a company within three months prior to the winding up of the company will be deemed fraudulent and invalid, if such transaction is entered into with the purpose of giving the counterparty to the transaction a preference over other creditors of the company.

Although the jurisprudence of Nigerian courts is relatively clear on how the Bank's assets would be applied to its liabilities in the event of it being wound up for reasons other than insolvency, there is little precedent to predict how claims against the Bank under the agreements entered into for the purposes of the Programme would be resolved in the event of insolvency. Generally, the winding up or liquidation of banks in Nigeria entails the active intervention and supervision by the CBN and the NDIC, under enabling statutory provisions. Additionally, with a view to ensuring that all creditors and depositors of insolvent banks are adequately protected, there are special provisions of banking statutes which make banking insolvency a highly regulated matter. Banks are required to maintain deposit insurance with the NDIC, which is empowered to administer the deposit insurance system in Nigeria. The NDIC is also responsible for liquidating the assets of banks. In the event of the insolvency of the Issuer, the claims of holders of the Notes shall rank *pari passu* with the claims of the Issuer's other unsecured creditors, after the Issuer's depositors, statutorily recognised preferential creditors and secured creditors have been paid.

Enforcement of the obligations of the Bank under the Trust Deed may be subject to the payment of Nigerian stamp duty

The Programme Agreement, the Trust Deed, the Agency Agreement and the documents for the issue of any series of Notes are intended to be executed and held outside of Nigeria and are therefore not required to be stamped in Nigeria. However, if it becomes necessary to bring any such documentation into Nigeria for the purpose of admission in evidence before a Nigerian court and enforcement by such courts, the documents will be required to be stamped and will be subject to the payment of the relevant rate of stamp duty, assessed by the Nigerian Commissioner for Stamp Duties, as prescribed by the Stamp Duties Act Cap S8 LFN 2004 (the "**Stamp Duties Act**"). Arrangements will need to be made for the payment of stamp duty within 30 days from when the documents are brought into Nigeria. See "*Taxation – Nigeria – Stamp Duties*".

Stamp duty is payable in Nigeria either on a flat rate or an *ad valorem* basis. Based on the schedule to the Stamp Duties Act, the maximum rate of stamp duty payable in Nigeria in respect of security documents securing payment or repayment of money (where the security is not a marketable security transferable by delivery), is 0.375 per cent. levied on an *ad valorem* basis on the sum secured. Based on current practice in Nigeria, it is unclear whether stamp duty will be assessed on the Trust Deed on an *ad valorem* basis.

Under Condition 10 (*Events of Default and Enforcement*), the Trustee is not bound to take any proceedings for the enforcement of the Trust Deed, the Notes or the Coupons unless, among other things, it shall have been indemnified and/or secured to its satisfaction, which may include the prior payment of such stamp duty to the Trustee, which if levied on an *ad valorem* basis, could be a substantial amount.

Adverse tax consequences of a substitution of the Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. Holder (as defined in *Taxation – United States*) in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. Holder could be required to recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. Holder's tax basis in the Notes. Adverse tax consequences for holders in other jurisdictions may result in the event of a change in the obligor with respect to the Notes. Holders should consult their tax advisers concerning the tax consequences to them of a change in obligor with respect to the Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk based capital or similar rules.

The on-going uncertainty and volatility in the financial markets and the state of the global economic recovery may adversely affect the Group's business, results of operations, financial condition and/or prospects.

Global financial markets continue to experience disruptions, including increased volatility, and diminished liquidity and credit availability. Concerns about credit risk (including that of sovereigns) and the Eurozone crisis have increased recently, especially with the presence of significant sovereign debts and/or fiscal deficits in a number of European countries and the United States. This has raised concerns regarding the financial condition of financial institutions and other corporates located in these countries, having direct or indirect exposure to these countries, and/or whose banks, customers, service providers, sources of funding and/or suppliers have direct or indirect exposure to these countries. The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system generally and could adversely affect the markets in which the Group operates and the businesses and economic condition and prospects of the Group's counterparties or customers, directly or indirectly, in ways which it is difficult to predict.

The impact of these conditions could be detrimental to the Group and could adversely affect its business, results of operations, financial condition and/or prospects; its solvency and the solvency of its counterparties and customers; the value and liquidity of its assets and liabilities; the value and liquidity of the Notes and/or the ability of the Bank to meet its obligations under the Notes and under its debt obligations more generally.

The Notes may be negatively affected by events in other emerging markets, including those in sub-Saharan Africa.

Economic distress in any emerging market country may adversely affect prices of securities and the level of investment in other emerging market issuers as investors move their money to more stable, developed markets. The market price of the Notes is influenced by economic and market conditions in Nigeria and, to a varying degree, economic and market conditions in other African and emerging markets generally. Financial problems or an increase in the perceived risks associated with investing in emerging market economies could dampen foreign investment in Nigeria, adversely affect the Nigerian economy or adversely affect the trading price of the Notes. Even if the Nigerian economy remains relatively stable and currently relies less on external debt financing than some emerging market issuers, economic distress in other emerging market countries could adversely affect the trading price of the Notes and the availability of foreign funding sources for the government or private sector borrowers.

Adverse developments in other countries in sub-Saharan Africa, in particular, may have a negative impact on Nigeria if investors perceive risk that such developments will adversely affect Nigeria or that similar adverse developments may occur in Nigeria. Risks associated with sub-Saharan Africa include political uncertainty, civil unrest and conflict, corruption, the outbreak of disease and poor infrastructure. Investors' perceptions of certain risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Nigeria, including elements of the information provided in this Base Prospectus.

Because the Global Notes are held by or on behalf of DTC, Euroclear and/or Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with (i) (in the case of Bearer Notes) a common depositary for Euroclear and Clearstream, Luxembourg or (ii) (in the case of Registered Notes) either (a) a custodian for, and registered in the name of a nominee of, DTC or (b) a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive notes. DTC, Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through DTC, Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system to receive payments under the relevant Notes. The Issuer shall have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system to appoint appropriate proxies.

OVERVIEW OF THE GROUP

This section contains an overview of the detailed information and financial information included elsewhere in this Base Prospectus. This overview may not contain all of the information that may be material to prospective investors and, therefore, should be read in conjunction with this entire Base Prospectus, including the more detailed information regarding the Group's business and financial information and related notes included elsewhere in this Base Prospectus or referenced herein. Prospective investors should also carefully consider the information set forth in the section "Risk Factors".

The Group is the second largest bank in Nigeria by total assets as at 31 December 2012. The Group provides banking and other financial services in Nigeria, other countries in Africa and Europe with a customer account base of over two million accounts from 340 branches in Nigeria and 29 branches across Africa and Europe as at 31 December 2013. It had total assets of ₦3,143.1 billion (U.S.$20.19 billion) and a Tier 1 capital of ₦506.8 billion (U.S.$3.25 billion) as at that date. The Group offers a wide range of financial products and services including granting of loans and advances, equipment leasing, corporate and trade finance operations, treasury and investment services, current and savings accounts, credit cards, ATM services, electronic banking, money market activities, private banking/wealth management services, foreign exchange services, funds transfer services, bullion/cash services and bank guarantees through various business operational groups in its banking and non-banking subsidiaries.

The Group's business activities have in the past been conducted using four business segments: corporate and retail banking; investment management and securities trading; general, health and life insurance; and other non-banking financial services. As a result of the CBN implementing the CBN Banking Activities Regulation in 2012 (the "**CBN Banking Regulation**"), the Bank is in the process of divesting all of its subsidiaries in its investment management and securities trading, general, health and life insurance and other non-bank financial services segments, save for its pension custodial subsidiary and is expected to conclude the divestments in 2014. The Group's operations as at the date of this Base Prospectus are therefore divided between its core and non-core operations. The Group's core operations are made up of its:

- *corporate and retail banking business* – which, through its corporate banking, retail banking institutional and investment banking and public sector units in its Nigerian and overseas subsidiary offices, provides a broad range of banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals; and
- *pension custodial services business* – which provides pension management and custodial services to pension funds.

The Group's non-core operations are made up of its insurance, investment banking and other non-banking financial services businesses which are in the process of being divested. For further information please refer to "*Description of the Group – Compliance Plan with Central Bank of Nigeria's Regulation on the Scope of Banking Activities*" below.

The Group's consolidated gross earnings for the year ended 31 December 2013, 2012 and 2011 were ₦351,470 million, ₦307,082 million and ₦243,948 million, respectively. The Group's consolidated assets as at 31 December 2013, 2012 and 2011 were ₦3,143,133 million, ₦2,604,504 million and ₦2,326,695 million, respectively.

The Bank was originally incorporated as a private limited liability company under the name Zenith International Bank Limited on 30 May 1990 with registration number RC 150224. The Bank received its commercial banking licence on 20 June 1990 and commenced operations on 16 July 1990. The Bank was issued a universal banking licence by the CBN in 1999 which allowed it to operate as a commercial (including mortgage lending) and investment bank and, in accordance with the CBN Banking Activities Regulation, has applied for an international commercial banking licence under the new CBN licensing regime (as described below). The Bank received approval in principle for its new license from the CBN on 7 June 2011, and expects to receive final approval once it has completed the process of divesting its non-banking subsidiaries.

The Bank was converted to a public limited liability company on 20 May 2004 and its shares were listed on the NSE on 21 October 2004. The Bank raised ₦20.4 billion through an initial public offering of its shares, the proceeds of which were used by the Bank to fund its branch expansion, invest in working capital, upgrade its information technology systems and invest in new business initiatives.

In February 2006 and November 2007, the Bank undertook capital raisings and recapitalisation processes aimed at meeting the then minimum capital requirements of ₦25 billion set by the CBN (included as part of the CBN's recapitalisation and consolidation plan for the Nigerian banking industry in 2004), raising approximately ₦241.0 billion in aggregate.

The Bank's registered office is located at Plot 84, Ajose Adeogun Street, Victoria Island, Lagos, Nigeria and its telephone number is +234 1 2787000.

The Group believes that the following strengths differentiate it from other Nigerian banks:

- well recognised and trusted brand;
- stable funding and capital base;
- strong internal controls and risk management policies that allow the Group to identify and respond to relevant risks;
- experienced management team with a strategic vision for the growth of the Group; and
- functional and scalable information technology systems and products that provide a platform to support growth.

The Group plans to continue growing organically in the short- to medium-term and it intends to improve (through creation and enhancement of new products and services in new markets) and consolidate (through superior customer service) local and international awareness of its brand in the long-term. Its growth and marketing plans will seek to optimise its strengths, maximise available opportunities and minimise identified threats while taking steps to mitigate the effects of observed weaknesses.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The following tables set forth certain historical consolidated financial information extracted or derived from the Financial Statements. The Financial Statements have been prepared in accordance with IFRS and are presented in Naira.

Prospective investors should read the following selected consolidated financial and other information in conjunction with the information contained in "Man*agement's Discussion and Analysis of Results of Operations and Financial Condition*", "*Selected Statistical and Other Information*" and the Financial Statements and the related notes thereto.

Consolidated statement of financial position of the Group

	As at 31 December		
	2013	**2012**	**2011**
		(₦ millions)	
Assets			
Cash and balances with central banks	603,851	332,515	223,187
Treasury bills	586,441	669,164	510,738
Due from other banks	256,729	182,020	234,521
Derivative assets held for risk management	2,681	—	—
Loans and advances	1,251,355	989,814	893,834
Investment securities	303,125	299,343	308,231
Investment in subsidiaries	—	—	—
Investment associates	165	420	1,756
Deferred tax assets	749	432	186
Other assets	36,238	28,665	25,510
Assets classified as held for sale	30,454	31,943	52,482
Investment property	—	—	7,114
Property and equipment	69,410	68,782	68,366
Intangible assets	1,935	1,406	770
Total assets	**3,143,133**	**2,604,504**	**2,326,695**
Liabilities			
Customer deposits	2,276,755	1,929,244	1,655,458
Current income tax	7,017	6,577	13,348
Deferred income tax liabilities	678	5,584	10,742
Other liabilities	215,643	117,335	152,836
On-lending facilities	59,528	56,066	49,370
Borrowings	60,150	15,138	21,070
Liabilities classified as held for sale	14,111	11,584	29,603
Total liabilities	**2,633,882**	**2,141,548**	**1,932,427**
Capital and reserves			
Share capital	15,698	15,698	15,698
Share premium	255,047	255,047	255,047
Retained earnings	161,144	130,153	75,072
Other reserves	73,347	58,786	45,765
Attributable to equity holders of the parent	505,236	459,684	391,582
Non-controlling interest	4,015	3,272	2,686
Total shareholder's equity	**509,251**	**462,956**	**394,268**
Total liabilities and equity	**3,143,133**	**2,604,504**	**2,326,695**

Consolidated statement of comprehensive income of the Group

	For the year ended 31 December		
	2013	2012	2011
		(₦ millions)	
Gross Earnings	**351,470**	**307,082**	**243,948**
Continuing Operations:			
Interest and similar income	260,059	221,318	163,192
Interest and similar expense	(70,796)	(64,561)	(34,906)
Net interest income	**189,263**	**156,757**	**128,286**
Impairment charge for credit losses	(11,067)	(9,099)	(16,514)
Net interest income after impairment charge for credit losses	178,196	147,658	111,772
Fee and commission income	52,550	50,480	42,197
Net gains on financial instruments measured at fair value through profit or loss	21,787	19,012	18,524
Other income	754	1,038	6,803
Share of profit of associates	118	23	45
Amortisation of intangible assets	(951)	(1,059)	(310)
Depreciation of property and equipment	(9,776)	(10,307)	(12,175)
Personnel expenses	(59,952)	(52,427)	(47,387)
Operating expenses	(76,527)	(55,826)	(56,356)
Profit before minimum tax and income tax from continuing operations	**106,209**	**98,592**	**63,113**
Minimum tax	(2,663)	(2,469)	—
Income tax expense from continuing operations	(11,958)	2,007	(17,261)
Profit after tax from continuing operations	91,588	98,130	45,852
Discontinued Operations:			
Gross income from discontinued operations	16,320	15,234	13,232
Gross expenses from discontinued operations	(11,932)	(11,726)	(8,905)
Profit before tax from discontinued operations	4,388	3,508	4,327
Income tax expense from discontinued operations	(658)	(957)	(1,475)
Profit after tax from discontinued operations	3,730	2,551	2,852
Continued and Discontinued Operations:			
Profit for the year before minimum tax and income tax	110,597	102,100	67,440
Minimum tax	(2,663)	(2,469)	—
Income tax expense	(12,616)	1,050	(18,736)
Profit for the year after tax	**95,318**	**100,681**	**48,704**
Other comprehensive income			
Fair value movements on equity instruments	549	15	705
Related tax credit/(expense)	890	(5)	(211)
Fair value movements on equity instruments – discontinued operations	(225)	196	—
Foreign currency translation differences	(2,070)	(2,424)	(421)
Effective portion of changes in fair value of cash flow hedges	2,771	—	—
Related tax expense	(760)	—	—
Other comprehensive income for the year, net of tax	**1,155**	**(2,218)**	**73**
Total comprehensive income for the year	**96,473**	**98,463**	**48,777**
Profit attributable to:			
Equity holders of the parent	94,576	100,147	48,423
Non controlling interests	742	534	281
Total comprehensive income attributable to:			
Equity holders of the parent	95,746	97,971	48,527
Non controlling interests	727	492	250
Profit from continuing operations attributable to:			
Equity holders of the parent	91,411	98,044	45,780
Non controlling interests	177	86	72
Earnings per share for profit from total operations attributable to equity holders of parent			
Basic (kobo)	301	319	154
Earnings per share for profit from continuing operations attributable to equity holders of parent			
Basic (kobo)	291	312	146

Selected ratios

	As at 31 December		
	2013	2012	2011
		(%)	
Profitability ratios:			
Return on average equity[(1)]	19.6	23.5	12.7
Return on average assets[(2)]	3.3	4.1	2.3
Net interest margin[(3)]	8.3	7.7	6.9
Net interest income/operating income	73.4	70.7	69.9
Cost to income ratio[(4)]	57.1	53.9	63.3
Operating expenses/average total assets[(5)]	5.1	4.9	5.5
Effective tax rate[(6)]	13.8	1.4	27.8
Balance sheet ratios:			
Loans to customers, net/total assets	39.8	38.0	38.4
Loans to customers, net/customer deposits[(7)]	54.9	51.3	54.0
Deposits from customers/total assets	72.4	74.1	71.2
Total equity/total assets	16.2	17.8	16.9
Liquid assets[(8)]/total assets	46.0	45.4	41.6
Liquid assets[(8)]/total deposits	63.6	61.4	58.5
Liquid assets[(8)]/total customer deposits	63.6	61.4	58.5
Liquid assets[(8)]/liabilities of up to three months	64.0	63.2	130.6
Capital adequacy ratios:[(9)]			
Total capital	509,251	462,956	394,268
Tier 1 capital	506,779	462,500	392,746
Credit quality ratios:			
Non-performing loans[(10)]/gross loans[(11)]	2.9	3.2	6.5
Allowances for impairment losses[(12)]/non-performing loans[(10)]	95.5	109.5	61.9
Allowances for impairment losses[(12)]/total gross loans to customers	2.8	3.5	4.0
Impairment charges/average net loans[(13)]	0.9	0.9	2.0

(1) Return on average equity is calculated as the Group's net profit for the year attributable to equity holders of the Bank divided by the average of opening and closing balances of equity attributable to equity holders of the Bank.

(2) Return on average assets is calculated as the Group's net profit for the year attributable to equity holders of the Bank divided by the average of opening and closing balances of its total assets for the relevant year.

(3) Net interest margin is calculated as net interest income divided by the average balance of interest bearing assets during the applicable period.

(4) Cost to income ratio is calculated as operating expenses divided by operating income for the applicable period.

(5) Operating expenses to average total assets is calculated as operating expenses divided by the average of opening and closing balances of its total assets.

(6) Effective tax rate is calculated as the ratio of tax expense to profit before tax.

(7) Determined in accordance with the CBN Prudential Guidelines.

(8) Liquid assets include cash and cash equivalents, treasury bills, trading assets and government bonds.

(9) See "*Management's Discussion and Analysis of Results of Operations and Financial Condition – Capital Adequacy*."

(10) NPLs are loans to customers that are more than 90 days overdue, with the exception of specialised loans (in project finance, asset finance, real estate finance and small and medium enterprises ("SME") finance), which are considered NPLs after being 180 days overdue.

(11) Non-performing loans to gross loans ratio is calculated as NPLs divided by gross loans to customers.

(12) Allowances for impairment losses include allowances for specific impairment that relates to individually significant exposures, and allowances for collective loans, established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

(13) Impairment charges to average net loans and advances to customers ratio is calculated as impairment charges for the period divided by the average opening and closing balances of net loans and advances to customers for the period.

FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression "necessary information" means, in relation to any Tranche of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme the Issuer has included in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Notes.

Any information relating to the Notes which is not known at the date of this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Notes will be contained either in the relevant Final Terms or in the Drawdown Prospectus.

For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purpose of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms are the Conditions described in this Base Prospectus as completed to the extent described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus.

SUPPLEMENTS

Following the publication of this Base Prospectus a supplement may be prepared by the Bank and approved by the Central Bank of Ireland in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

The Bank will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The relevant Final Terms (or the relevant provisions thereof) or the relevant Drawdown Prospectus (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Final Terms" for a description of the content of the Final Terms.

This Note is one of a Series (as defined below) of Notes issued by Zenith Bank Plc (the "**Issuer**") constituted by a trust deed (as modified and/or supplemented and/or restated from time to time, the "**Trust Deed**") dated 1 April 2014 made between the Issuer and Citibank N.A., London Branch as trustee (the "**Trustee**", which expression shall include any successor trustee).

References herein to the "**Notes**" shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note (a "**Global Note**"), units of the lowest Specified Denomination in the Specified Currency;

(ii) any Global Note;

(iii) any definitive Notes in bearer form ("**Bearer Notes**") issued in exchange for a Global Note in bearer form; and

(iv) any definitive Notes in registered form ("**Registered Notes**") (whether or not issued in exchange for a Global Note in registered form).

The Notes and the Coupons (as defined below) have the benefit of an agency agreement (as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 1 April 2014 and made between the Issuer, the Trustee, Citibank N.A., London Branch as issuing and principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents), Citibank N.A., London Branch as exchange agent (the "**Exchange Agent**", which expression shall include any successor exchange agent) and Citibank, N.A., London Branch as registrar (the "**Registrar**" and which expression shall include any successor registrar) and a transfer agent, together with the other transfer agents named therein and together with the Registrar, the "**Transfer Agents**", which expression shall include any additional or successor transfer agents).

Interest-bearing definitive Bearer Notes have interest coupons ("**Coupons**") and, if indicated in the relevant Final Terms or the relevant Drawdown Prospectus, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Notes and Global Notes do not have Coupons or Talons attached on issue.

Each Tranche of Notes is the subject either of a final terms (the "**Final Terms**") which complete these Terms and Conditions (the "**Conditions**") or a drawdown prospectus (the "**Drawdown Prospectus**") which supplements, amends and/or replaces these Conditions for the purpose of that Tranche of Notes only. References to: (i) the "**relevant Final Terms**" are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note; and (ii) the "**relevant Drawdown Prospectus**" are to the Drawdown Prospectus (or the relevant provisions thereof) attached or endorsed on this Note.

The Trustee acts for the benefit of the Noteholders (which expression shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the several persons whose names are entered in the register of holders of the Registered Notes as the holders thereof and shall, in relation to any Notes represented by a Global Note, be construed as provided in Condition 1 (*Form, Denomination and Title*)), and the holders of the Coupons (the "**Couponholders**", which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, "**Tranche**" means Notes which are identical in all respects (including as to listing and admission to trading) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of each of the Principal Paying Agent, the Registrar and the other Paying Agents and Transfer Agents (such Agents and the Registrar being together referred to as the "**Agents**"). Copies of the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) are available for viewing at the registered office of the Issuer and of the Principal Paying Agent. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) which is/are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed, the Agency Agreement or used in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and *provided that*, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form or in registered form as specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be).

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Bearer Notes and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Trustee and any Agent will (except as otherwise required by law and the Trust Deed) deem and treat the bearer of any Bearer Note or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the immediately succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

For so long as the Depository Trust Company ("**DTC**") or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Trust Deed and the Agency Agreement and the Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Registered Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be. References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Trustee.

2. TRANSFERS OF REGISTERED NOTES

(a) *Transfers of interests in Registered Global Notes*

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Registered Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

(b) *Transfers of Registered Notes in definitive form*

Subject as provided in paragraphs (e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be)). In order to effect any such transfer (i) the holder or holders must (A) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or its or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (ii) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 5 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor. The transfer of part of a Registered Note is not permitted if the principal amount of the balance of the Registered Note is not a Specified Denomination. No holder may require the transfer of a Registered Note in definitive form to be registered during the period of 15 calendar days ending on the due date for any payment of principal or interest in respect of such Note.

(c) *Registration of transfer upon partial redemption*

In the event of a partial redemption of Notes under Condition 7 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(d) *Costs of registration*

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) *Transfers of interests in Regulation S Global Notes*

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

(i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a "**Transfer Certificate**"), copies of which are available from the specified office of any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:

(A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

(B) to a person who is an Institutional Accredited Investor,

together with, in the case of (B), a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an "**IAI Investment Letter**"); or

(ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (A) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (B) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (i) beneficial interests in Regulation S Global Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

(f) *Transfers of interests in Legended Notes*

Transfers of Legended Notes or beneficial interests therein may be made:

(i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

(ii) to a transferee who takes delivery of such interest through a Legended Note:

(A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or

(iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non U.S. investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the legend, the Registrar shall deliver only Legended Notes or refuse to remove the legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(g) *Exchanges and transfers of Registered Notes generally*

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

(h) *Definitions*

In this Condition, the following expressions shall have the following meanings:

"**Distribution Compliance Period**" means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non syndicated issue) or the relevant Lead Manager(s) (in the case of a syndicated issue);

"**Institutional Accredited Investor**" means 'accredited investors' (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions;

"**Legended Note**" means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A;

"**QIB**" means a qualified institutional buyer within the meaning of Rule 144A;

"**Regulation S**" means Regulation S under the Securities Act;

"**Regulation S Global Note**" means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

"**Rule 144A**" means Rule 144A under the Securities Act;

"**Rule 144A Global Note**" means a Registered Global Note representing Notes sold in the United States or to QIBs; and

"**Securities Act**" means the U.S. Securities Act of 1933, as amended.

3. STATUS OF THE NOTES

The Notes and any related Coupons are direct, general, unconditional, unsubordinated and (subject to the provisions of Condition 4(a) (*Negative Pledge*)) unsecured obligations of the Issuer and (subject as stated above) rank and will at all times rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' and depositors' rights.

4. **COVENANTS**

For so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer undertakes to comply with each of the following covenants.

(a) *Negative Pledge*

The Issuer will not, and the Issuer will not permit any of its Material Subsidiaries to, directly or indirectly create or have outstanding any mortgage, charge, lien, pledge, encumbrance or other security interest (each a "**Security Interest**"), other than Permitted Security Interests (as defined below), upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Indebtedness (as defined below), unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed (a) are secured by the Security Interest equally and rateably with the Indebtedness to the satisfaction of the Trustee or (b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided either (i) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) as is approved by an Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three fourths of the votes cast thereon) of the Noteholders.

(b) *Restricted Payments*

The Issuer shall not, and shall ensure that each of its Subsidiaries shall not, directly or indirectly:

(i) declare or pay any dividend, in cash or otherwise, or make any other distribution (whether by way of redemption, acquisition or otherwise) in respect of its share capital (other than a dividend or other distribution payable to the Issuer or a Subsidiary of the Issuer); or

(ii) voluntarily purchase, redeem or otherwise retire for value any debt (including any form of capital instrument) of the Issuer subordinated by its terms to the obligations of the Issuer under the Notes,

(any such action, a "**Restricted Payment**") if such Restricted Payments when aggregated with all other Restricted Payments previously made in respect of the relevant financial year of the Issuer exceed 75.0 per cent. of the Group's consolidated profit after tax and extraordinary activities for such financial year, determined by reference to the Group's audited consolidated financial statements prepared under IFRS for such financial year.

(c) *Capital Adequacy*

The Issuer shall:

(i) not permit its total capital adequacy ratio to fall below the minimum total capital adequacy ratio required by the Central Bank of Nigeria ("**CBN**") (or any successor body or entity thereto having primary responsibility for regulatory supervision of the Issuer) and the ratio of its Capital to its Risk Weighted Assets to fall below 10.0 per cent., as calculated in accordance with the BIS Guidelines; and

(ii) at all times comply with all rules, regulations and prudential supervision ratios of the CBN applicable to banks in Nigeria except where failure to so comply would not have a Material Adverse Effect.

(d) *No Consolidation or Merger*

The Issuer shall not consolidate with or merge into any other Person (or enter into any transaction whose effect would be similar to that of a merger) or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets to any Person by one or more transactions or series of transactions (whether related or not) (any such consolidation or merger (or transaction whose effect would be similar to that of a merger) and any such transaction or series of transactions, a "**consolidation**" or "**merger**") if such consolidation or merger would have a Material Adverse Effect, unless:

(i) the Issuer shall be the continuing Person or the successor Person (as a result of such consolidation or merger) shall be a corporation organised and validly existing under the laws of Nigeria, and shall expressly assume by a supplemental trust deed to the Trust Deed in form and substance satisfactory to the Trustee, all of the obligations of the Issuer under the Notes and the Trust Deed;

(ii) immediately before and after giving effect to such consolidation or merger, no Potential Event of Default (as defined in the Trust Deed) or Event of Default shall have occurred and be continuing; and

(iii) the Issuer or such successor Person, as the case may be, shall have delivered to the Trustee (A) an opinion of independent legal advisers of recognised standing stating that the consolidation or merger complies with the provisions of subparagraph (i) above and (B) a certificate signed by two of its directors stating that the consolidation or merger complies with the provisions of subparagraphs (i) and (ii) above.

(e) *Disposals*

(i) Without prejudice to the provisions of Conditions 4(d) (*No Consolidation or Merger*) or 4(f) (*Transactions with Affiliates*), the Issuer shall not, and shall ensure that none of its Material Subsidiaries will, (in each case disregarding any sale, lease, transfer or disposal made in the ordinary course of Banking Business of the Issuer or in the case of a Material Subsidiary, the ordinary course of business of the relevant Material Subsidiary) sell, lease, transfer or otherwise dispose of, to a Person other than the Issuer or a Subsidiary of the Issuer, by one or more transactions or series of transactions (whether related or not), the whole or any Material Part of its revenues or its assets, unless such transaction(s) is/are (A) for Fair Market Value and (B) has/have been approved by a resolution of the appropriate decision making body of the Issuer or the relevant Material Subsidiary, as the case may be, resolving that the transaction complies with the requirements of this Condition 4(e); *provided that* this Condition does not apply to any Permitted Disposal.

For the purpose of determining whether or not one or more disposals is of a Material Part, (i) in determining the book value of the revenues or assets being disposed of, reference shall be had to the most recent published audited consolidated IFRS financial statements of the Issuer or non-consolidated IFRS financial statements of the Material Subsidiary, as the case may be, at the time the disposal is completed and (ii) in determining the book value of the total revenues or total assets of the Group, reference shall be had to the most recent published audited consolidated IFRS financial statements of the Issuer at the time the determination is made.

(ii) Condition 4(e)(i) shall not apply to any revenues or assets (or any part thereof) which are the subject of a Securitisation Transaction (as defined below), provided that the aggregate value of the assets or revenues sold, leased, transferred or otherwise disposed of in Securitisation Transactions not in compliance with Condition 4(e)(i) does not at any time exceed 10.0 per cent. of the total loans and advances of the Group (less provisions for bad and doubtful loans), as determined at any such time by reference to the most recent IFRS audited consolidated annual financial statements of the Group. The aggregate value of the assets or revenues sold, leased, transferred or otherwise disposed of in Securitisation Transactions under the proviso set out in the preceding sentence of this Condition 4(e)(ii), when added to the aggregate value of any revenues or assets the subject of any Security Interest permitted pursuant to sub-paragraph (I) of the definition of "Permitted Security Interest" in Condition 4(h)(xv), shall not at any time exceed 20.0 per cent. of the total loans and advances of the Group (less provisions for bad and doubtful loans), as determined at any such time by reference to the most recent IFRS audited consolidated annual financial statements of the Group.

(f) *Transactions with Affiliates*

The Issuer shall not, and shall ensure that each of its Subsidiaries shall not, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**"), including, without limitation, inter -company loans, unless the terms of such Affiliate Transaction are no less favourable to the Issuer or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's length transaction for Fair Market Value with a Person that is not an Affiliate of the Issuer or such Subsidiary.

This Condition does not apply to (i) compensation or employee benefit arrangements with any officer or director of the Issuer or any of its Subsidiaries arising as a result of the employment contract of such officer or director, or (ii) any Affiliate Transaction between the Issuer and any of its Subsidiaries or between any Subsidiaries of the Issuer.

(g) *Interpretation*

In these Conditions:

(i) "**Affiliate**" of any specified Person means (A) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or who has as a director a Person who is also a director of such specified Person; or (B) any other Person who is a director or officer of such specified Person, of any Subsidiary of such specified Person or of any Person described in (B) above;

(ii) "**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of any national, regional or local government of, any state or, as applicable, of any supra national body;

(iii) "**Banking Business**" means, in relation to the Issuer or any of its Subsidiaries, any type of banking business (including, without limitation, any short term inter bank operations with maturities of one year or less, factoring, consumer credit, mortgages, issuance of banking guarantees and letters of credit (and related cash cover provision), bills of exchange, promissory notes and certificates of deposit and payments under such guarantees, letters of credit, trading of securities, fund management and professional securities market participation business) or other financial services which it conducts or may conduct pursuant to any licence issued by the appropriate authorities for that purpose and any applicable law;

(iv) "**BIS Guidelines**" means at any time, the capital adequacy standards and guidelines published by the Basel Committee on Banking Supervision as implemented by the CBN from time to time;

(v) "**Capital**" means the Issuer's capital as such term is defined in the BIS Guidelines;

(vi) "**Fair Market Value**" means the value that would be obtained in an arm's length commercial transaction between an informed and willing seller or equivalent participant in such transaction (under no undue pressure or compulsion to sell or otherwise participate in the transaction) and an informed and willing buyer or equivalent participant in such transaction (under no undue pressure or compulsion to buy or otherwise participate in the transaction). A report of the auditors of the Issuer or of an Independent Appraiser on the Fair Market Value of a transaction may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee shall be conclusive and binding on all parties;

(vii) "**Group**" means the Issuer and its Subsidiaries, from time to time, taken as a whole;

(viii) "**IFRS**" means the International Financial Reporting Standards as promulgated by the International Accounting Standards Board;

(ix) "**Indebtedness**" means, with respect to any Person at any date of determination (without duplication), any present or future indebtedness of such Person for, or in respect of, money borrowed or any amount raised including, without limitation, (a) any amount raised by way of acceptance under any acceptance credit facility, (b) any amount raised pursuant to any note purchase facility or the issue of notes, bonds, debentures, debenture stock, loan stock or any other security or similar instrument, (c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with IFRS, be treated as finance or capital leases (each a "**Finance Lease**"), (d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service and (e) any amount raised under any other transaction (including, without limitation, any forward sale or purchase agreement and the sale of receivables or other assets on a "with recourse" basis) having the economic or commercial effect of a borrowing (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business), and the amount of any liability in respect of any guarantee or indemnity for any of the above;

(x) "**Independent Appraiser**" means any affiliate entities of PricewaterhouseCoopers LLC, KPMG LLC, Deloitte & Touche LLP, Ernst & Young LLP or such other reputable financial institution, accountancy or appraisal firm of international standing appointed at its expense by the competent management body of the Issuer, provided it is not an Affiliate of the Issuer or any Subsidiary of the Issuer, and if a report of an Independent Appraiser is provided to the Trustee, the Issuer shall also provide the Trustee with a certificate signed by two of its directors confirming that the entity which has prepared the report meets the requirements in this definition of Independent Appraiser;

(xi) "**Material Adverse Effect**" means a material adverse effect on (A) the business, financial condition or results of operations of the Issuer or the Group, or (B) the Issuer's ability to perform its obligations under the Notes and/or the Trust Deed;

(xii) "**Material Part**" means in respect of any one or more transactions or series of transactions (whether related or not) (a) completed since the Issue Date of the first Tranche of Notes in the relevant Series, revenues or assets the book value of which is 10.0 per cent. or more of the book value of the total revenues (with respect to a disposal of revenues) or total assets (with respect to a disposal of assets) of the Group and (b) completed in any 12-month period, *provided that* no such period shall commence earlier than the issue date of the first issue of Notes under the Programme, revenues or assets the book value of which is 5.0 per cent. or more of the book value of the total revenues (with respect to a disposal of revenues) or total assets (with respect to a disposal of assets) of the Group;

(xiii) "**Material Subsidiary**" means at any time a Subsidiary of the Issuer which:

(A) has gross revenues representing 10.0 per cent. or more of the consolidated gross revenues of the Group; or

(B) has total assets representing 7.5 per cent. or more of the consolidated total assets of the Group,

in each case calculated on a consolidated basis in accordance with the then most recent audited consolidated financial statements of the Issuer, as more particularly defined in the Trust Deed.

For the purpose of this definition, a report by two directors of the Issuer whether or not addressed to the Trustee that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties.

(xiv) "**Permitted Disposal**" means the sale, disposal or divestment by the Bank of the following subsidiary companies:

- Zenith General Insurance Company Limited
- Zenith Medicare Limited
- Zenith Life Assurance Company Limited
- Zenith Capital Limited

- Zenith Securities Limited
- Zenith Trustees Limited

(xv) "**Permitted Security Interests**" means:

(A) Security Interests in existence on the Issue Date of the first Tranche of Notes in the relevant Series;

(B) Security Interests arising in the ordinary course of Banking Business (including netting or set off arrangements for the purposes of netting debit and credit balances);

(C) Security Interests granted in favour of the Issuer by any of its Subsidiaries;

(D) Security Interests on assets or property acquired (or deemed to be acquired) under a Finance Lease, or claims arising from the use or loss of or damage to such assets or property, *provided that* any such Security Interest secures only Indebtedness under such Finance Lease, including, without limitation to the generality of the foregoing, any Security Interest created pursuant to any Repo transaction;

(E) Security Interests arising pursuant to any agreement (or other applicable terms and conditions) which are standard or customary in the relevant market and in the ordinary course of business (and not for the purposes of raising credit or funds for the operation of the Issuer and/or any Material Subsidiary of the Issuer, as the case may be, other than on a short term basis as part of the Issuer's or such Material Subsidiary's liquidity management activities), in connection with (i) contracts entered into substantially simultaneously for sales and purchases at market prices of foreign exchange or securities (including, but not limited to, Repos and "**Lombard**" credits extended by the CBN), (ii) insurance deposits placed by the Issuer or such Material Subsidiary as security for guarantees issued in respect of the export import operations of the Issuer's or such Material Subsidiary's customers, (iii) the establishment of margin deposits and similar collateral in connection with any trading transaction, (iv) proprietary trading activities generally or (v) any derivative transaction entered into by the Issuer or such Material Subsidiary in connection with taking protection against or benefiting from a fluctuation in any rate or price;

(F) Security Interests on the assets or property of a Person existing at the time that such Person is acquired as a Subsidiary by the Issuer, *provided that* such Security Interests: (i) were not created in contemplation of such acquisition; and (ii) do not extend to any other assets or property of the Issuer or any Subsidiary of the Issuer (other than those of the Person acquired and its Subsidiaries (if any));

(G) Security Interests already existing on assets or property acquired or to be acquired by the Issuer or a Subsidiary of the Issuer, *provided that* such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than the proceeds of such acquired assets or property);

(H) Security Interests on any assets or property acquired by any member of the Group after the Issue Date of the first Tranche of Notes in the relevant Series to secure the purchase price of such assets or property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such assets or property and transactional expenses related to such acquisition or expenses related to the repair or refurbishment of such assets or property, *provided that* the maximum amount of Indebtedness secured by such Security Interest does not exceed the purchase price of such assets or property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition, repair or refurbishment of such assets or property;

(I) any Security Interests on, or with respect to, any present or future revenues or assets of the Issuer or any of its Subsidiaries or any part of such revenues or assets that is created pursuant to any Securitisation Transaction, provided the aggregate value of the revenues or assets subject to such Security Interests when added to the aggregate value of the revenues or assets the subject of any Securitisation Transaction permitted pursuant to Condition 4(e) (*Disposals*), does not at any time exceed 20.0 per cent. of the total loans and advances of the Group (less provisions for bad and doubtful loans), as determined at any such time by reference to the most recent audited consolidated annual financial statements of the Group;

(J) any Security Interests arising by operation of law;

(K) Security Interests arising in connection with any court proceedings which do not constitute an Event of Default;

(L) any Security Interests not otherwise permitted by the preceding subparagraphs (A) to (K) (inclusive), *provided that* the aggregate principal amount of the Indebtedness secured by such Security Interests does not at any time exceed 20.0 per cent. in aggregate of the total assets of the Group shown on the most recent audited consolidated annual financial statements or, as the case may be, audited consolidated interim financial statements of the Issuer; and

(M) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the above exceptions, *provided that* the Indebtedness secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any assets or property not previously subject to such Security Interest;

(xvi) "**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, agency or other entity, whether or not having separate legal personality;

(xvii) "**Programme**" means the U.S.$1,000,000,000 Global Medium Term Note Programme of Zenith Bank Plc;

(xviii) "**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing, and, for purposes of this definition, the term securities means any capital stock, share, debenture or other debt or equity instrument, or any derivative thereof, whether issued by any private or public company, any government or agency or instrumentality thereof or any supranational, international or multilateral organisation;

(xix) "**Risk Weighted Assets**" means the aggregate of the Group's consolidated balance sheet assets and off balance sheet engagements, weighted for credit and market risk in accordance with the BIS Guidelines;

(xx) "**Securitisation Transaction**" means any securitisation of receivables, asset backed financing, or comparable secured loan financing or similar arrangement by which an entity acquires or provides finance against the security of certain assets or revenues and that entity funds such acquisition or financing from external funding sources (including, but not limited to, debt securities or banking facilities) on terms that such funding will be repaid primarily from such assets or revenues; and

(xxi) "**Subsidiary**" means, in relation to any Person at any time, any other Person (whether or not now existing) which is controlled directly or indirectly, or more than 50 per cent. of whose issued equity share capital (or equivalent) is then beneficially owned by the first Person and/or any one or more of the first Persons' Subsidiaries, and "**control**" means the power (whether directly or indirectly) and whether by the ownership of share capital, the possession of voting power, contract or otherwise to appoint the majority of the members of the governing body of management or otherwise to control the affairs and policies, of that other Person.

(h) *Determination of Material Adverse Effect*

To the extent that the Trustee is instructed to take any action pursuant to (i) a request in writing by the holders of at least one fifth in principal amount of the Notes then outstanding or (ii) an

Extraordinary Resolution of Noteholders, and any such action requires the determination of whether an event or occurrence has had a Material Adverse Effect, the Trustee shall have no duty to enquire or satisfy itself as to the existence of an event or occurrence having a Material Adverse Effect and shall be entitled to rely conclusively upon such request in writing by, or Extraordinary Resolution of, the Noteholders regarding the same, and shall bear no liability of any nature whatsoever to the Issuer for acting upon such request in writing or Extraordinary Resolution of the Noteholders.

(i) *Trustee Not Obliged to Monitor Compliance*

The Trust Deed does not oblige the Trustee to monitor compliance by the Issuer with the Conditions (including Conditions 4(a), 4(b), 4(c), 4(d), 4(e) and 4(f)) but it does oblige the Issuer to furnish the Trustee, annually, with a certificate, on which the Trustee may rely, as to such compliance.

5. **INTEREST**

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), amount to the Broken Amount so specified.

As used in the Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub unit of the relevant Specified Currency, half of any such sub unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest, in accordance with this Condition 5(a):

(i) if "**Actual/Actual (ICMA)**" is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be):

(a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be)) that would occur in one calendar year; or

(b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if "**30/360**" is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

In these Terms and Conditions:

"**Determination Period**" means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"**sub unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

(b) *Interest on Floating Rate Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) in each year specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be); or

(B) if no Specified Interest Payment Date(s) is/are specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls within the number of months or other period specified as the Specified Period in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately

preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, "**Business Day**" means a day which is both:

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be); and

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET2) System (the "**TARGET2 System**") which was launched on 19 November 2007 or any successor thereto is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be).

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be)) the Margin (if any). For the purposes of this subparagraph (A), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as of the Issue Date of the first Tranche of the Notes (the "**ISDA Definitions**") and under which:

(1) the Floating Rate Option is as specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be);

(2) the Designated Maturity is a period specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be); and

(3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London interbank offered rate ("**LIBOR**"), on the Euro zone

interbank offered rate ("**EURIBOR**") or (ii) in any other case, as specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be).

For the purposes of this subparagraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) the Minimum Rate of Interest shall be deemed to be zero.

(B) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at the Specified Time on the Interest Determination Date in question plus or minus (as indicated in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be)) the margin (if any), all as determined by the Calculation Agent. If five or more offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one highest quotation, one only of those quotations) and the lowest (or, if there is more than one lowest quotation, one only of those quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of the offered quotations.

If the Relevant Screen Page is not available or if, in the case of (1) above, no offered quotation appears or if, in the case of (2) above, fewer than three offered quotations appear, in each case as at the Specified Time, the Calculation Agent shall request each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the margin (if any), all as determined by the Calculation Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Calculation Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Calculation Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR), the Euro zone inter-bank market (if the Reference Rate is EURIBOR) or the Nigerian inter-bank market (if the Reference Rate is NIBOR) plus or minus (as appropriate) the margin (if any) or, if fewer than two of the Reference Banks provide the Calculation Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Calculation Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR), the Euro zone inter-bank market (if the Reference Rate is EURIBOR) or the Nigerian inter-bank market (if the Reference Rate is NIBOR) plus or minus (as appropriate) the margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Condition 5(b)(ii)(B), the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the margin relating to the relevant Interest Period in place of the margin relating to that last preceding Interest Period).

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) as being other than LIBOR, EURIBOR or NIBOR, the Rate of Interest in respect of the Notes will be determined as provided in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be).

If the Floating Rate Notes of any Series become immediately due and repayable under Condition 10 (*Events of Default and Enforcement*), the rate and/or amount of interest payable in respect of them will be calculated by the Calculation Agent at the same intervals as if such Notes had not become due and repayable, the first of which will commence on the expiry of the Interest Period during which the Notes of the relevant Series become so due and repayable mutatis mutandis in accordance with the provisions of this Condition 5 (*Interest*) except that the rates of interest need not be published.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of subparagraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of subparagraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Calculation Agent, in the case of Floating Rate Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Calculation Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or

(B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub unit of the relevant Specified Currency, half of any such sub unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 5(b):

(i) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), the actual number of days in the Interest Period divided by 365;

(iii) if "**Actual/360**" is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), the actual number of days in the Interest Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\textit{Day Count Fraction} = \frac{[360X(Y_2 - Y_1)] + [30X(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(v) if "**30E/360**" or "**Eurobond Basis**" is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\textit{Day Count Fraction} = \frac{[360X(Y_2 - Y_1)] + [30X(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30;

(vi) if "**30E/360 (ISDA)**" is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\textit{Day Count Fraction} = \frac{[360X(Y_2-Y_1)] + [30X(M_2-M_1)] + (D_2-D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

(v) *Notification of Rate of Interest and Interest Amounts*

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, each other Paying Agent and any stock exchange on which the relevant Floating Rate Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 (*Notices*) as soon as possible after their determination but in no event later than the third London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 14 (*Notices*). For the purposes of this subparagraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith and manifest error) be binding on the Issuer, the Calculation Agent, the other Agents and all Noteholders and Couponholders and (in the absence of wilful default and bad faith) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(A) the date on which all amounts due in respect of such Note have been paid by the Issuer; and

(B) as provided in Clauses 2.2(b) and (c) of the Trust Deed.

6. PAYMENTS

(a) *Method of payment*

Subject as provided below:

(i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively); and

(ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Save as provided in Condition 8 (*Taxation*), payments will be subject in all cases to any other applicable fiscal or other laws and regulations in the place of payment or other laws and regulations to which the Issuer or the Agent agree to be subject and neither the Issuer nor the Agent will be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(b) *Presentation of definitive Bearer Notes and Coupons*

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case only at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Fixed Rate Notes in definitive bearer form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum of principal due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon *provided that* such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

(c) *Payments in respect of Bearer Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note only at the specified office of any Paying Agent outside the United States or its possessions. A record of each payment made against presentation or surrender of any Global Note in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be prima facie evidence that the payment in question has been made.

(d) *Payments in respect of Registered Notes*

Payments of principal in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "**Register**") at the close of business on the Record Date (as defined below). Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "**Record Date**") at its address shown in the Register on the Record Date and at its risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer, the Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) *General provisions applicable to payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for its share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(iii) the Issuer delivers to the Trustee a legal opinion (in a form and substance satisfactory to the Trustee) to the effect that such payment is then permitted under United States law and will not result in adverse tax consequences to the Issuer or holders of such Notes (such opinion the Trustee will be able to rely upon absolutely).

(f) *Payment Day*

If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 9 (*Prescription*)) is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(A) in the case of Notes in definitive form only, the relevant place of presentation;

(B) each Additional Financial Centre specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be);

(ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and

(iii) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(g) *Interpretation of principal and interest*

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(i) any additional amounts which may be payable with respect to principal under Condition 8 (*Taxation*) or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes;

(v) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7(f) (*Early Redemption Amounts*)); and

(vi) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 (*Taxation*) or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

7. **REDEMPTION AND PURCHASE**

(a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for tax reasons*

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

(i) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 8 (*Taxation*)), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after the Issue Date of the first Tranche of Notes in the relevant Series, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 8 (*Taxation*); and

(ii) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their Early Redemption Amount together with interest accrued to but excluding the date of redemption, *provided that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts, were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the requirement referred to in (i) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders.

(c) *Redemption at the option of the Issuer (Issuer Call)*

If the Issuer Call is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), the Issuer may, having given:

(i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14 (*Notices*); and

(ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Trustee and the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be). In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Bearer Notes or, in respect of definitive Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate nominal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date bears to the aggregate nominal amount of outstanding Notes on such date and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 (*Notices*) not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*) at least five days prior to the Selection Date.

(d) *Redemption at the option of the Noteholders (Investor Put)*

If the Investor Put is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), upon the holder of any Note giving to the Issuer, in accordance with Condition 14 (*Notices*), not less than 30 nor more than 60 days' notice, the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 7(d) in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of a particular Note, the holder of such Note must, if the Note is in definitive form and held outside Euroclear, Clearstream, Luxembourg and DTC, deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes), at any time during normal business hours of such Paying Agent, or as the case may be, the Registrar in accordance with the notice period specified in the paragraph immediately above, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent, or as the case may be, the Registrar (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of a partial redemption of Registered Notes, the nominal amount thereof to be redeemed and an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2(b) (*Transfers of Registered Notes in definitive form*). If the relevant Note is in definitive bearer form the Put Notice must be accompanied by this Note together with all unmatured Coupons relating thereto. If this Note is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg or DTC, to exercise the right to require redemption of this Note, the holder of this Note must, within the notice period, give notice to any Paying Agent and the Registrar (in the case of Registered Notes) of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC (which may include notice being given on his instruction by Euroclear, Clearstream, Luxembourg, DTC or any common depositary, as the case may be, for any of them to any such Paying Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg and DTC from time to time and, if the relevant Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to such Paying Agent for notation accordingly.

Any Put Notice or other notice in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC given by a holder of any Note pursuant to this Condition 7(d) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7(d).

(e) *Redemption or Purchase at the option of the Noteholders on a Put Event (Change of Control Put)*

If the Change of Control Put is specified as applicable in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), and if at any time while any Note remains outstanding:

(i) a Change of Control occurs; and

(ii) within the Change of Control Period (A) if the Notes are rated, a Rating Downgrade in respect of that Change of Control occurs, or (B) if the Notes are not rated, a Negative Rating Event in respect of that Change of Control occurs (in either case, a "**Put Event**"),

each holder of the Notes shall have the option (unless, before the giving of the Put Event Notice (as defined below), the Issuer shall have given notice under Condition 7(b) (*Redemption for tax reasons*) to redeem the Notes) to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) any of its Notes at their principal amount together with (or, where purchased, together with an amount equal to) interest accrued to but excluding the Put Date (as defined below). Registered Notes may be redeemed under this Condition 7(e) in any multiple of their lowest Specified Denomination. Such option (the "**Put Option**") shall operate as set out below.

If a Put Event occurs then, within 14 days of the occurrence of the Put Event, the Issuer shall, and upon the Trustee becoming so aware (and the Issuer having failed to do so) the Trustee may, and, if so requested by the holders of at least one fifth in principal amount of the Notes then outstanding, shall, give notice (a "**Put Event Notice**") to the Noteholders in accordance with Condition 14 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Put Option.

To exercise the Put Option, a holder of a Note must, if the Note is in definitive form and held outside Euroclear, Clearstream Luxembourg and/or DTC, deliver at the specified office of any Paying Agent (in the case of a Bearer Note) or the Registrar (in the case of a Registered Note) on any Business Day (as defined in Condition 5 (*Interest*)) falling within the period commencing on the occurrence of a Put Event and ending 60 days after such occurrence or, if later, 60 days after the date on which the Put Event Notice is given to Noteholders as required by this Condition 7(e) (the "**Put Period**"), a Put Notice in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 7(e) and, in the case of a partial redemption of a Registered Note, the nominal amount thereof to be redeemed and an address to which a new Registered Note in respect of the balance of such Registered Note is to be sent subject to and in accordance with the provisions of Condition 2(b) (*Transfers of Registered Notes in definitive form*). If the Note is in definitive bearer form, the Put Notice must be accompanied by this Note and all unmatured Coupons relating thereto. If the Note is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream Luxembourg or DTC, to exercise the right to require redemption of the Note the holder of the Note must, within the Put Period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream Luxembourg and/or DTC, as applicable (which may include notice being given on his instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary or common depositary, as the case may be, for any of them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg and/or DTC, as applicable from time to time and, if the Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly.

The Issuer shall at its option redeem or purchase (or procure the purchase of) the Notes the subject of each Put Event Notice given under this Condition 7(e) on the date (the "**Put Date**") which is seven days after the expiration of the Put Period unless previously redeemed or purchased and cancelled. A Put Event Notice given by a holder of any Note pursuant to this Condition 7(e) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7(e).

The Trustee shall not be required to take any steps to ascertain whether a Put Event or any event which could lead to the occurrence of a Put Event has occurred and will not be responsible or liable to Noteholders for any loss arising from any failure by it to do so.

For the purposes of this Condition 7(e):

"**Change of Control**" shall be deemed to have occurred if any person or any persons acting in concert, or any person or persons acting on behalf of any such persons, (the "**Relevant Person**") at any time directly or indirectly owns or acquires (i) more than 50.0 per cent. of the issued or allotted ordinary share capital of the Issuer or (ii) shares in the capital of the Issuer carrying more than 50.0 per cent. of the voting rights normally exercisable at a general meeting of the Issuer, *provided that* a Change of Control shall be deemed not to have occurred if all or substantially all of the shareholders of the Relevant Person are, or immediately prior to the event which would otherwise have constituted a Change of Control were, the shareholders of the Issuer with the same (or substantially the same) *pro rata* interests in the share capital of the Relevant Person as such shareholders have, or as the case may be, had, in the share capital of the Issuer.

"**Change of Control Period**" means the period commencing on the earlier of (i) the date of the relevant Change of Control and (ii) the date of the earliest Relevant Potential Change of Control Announcement (if any) and ending 180 days after the public announcement of the Change of Control having occurred.

"**Investment Grade Rating**" means a rating of at least BBB- (or equivalent thereof) in the case of S&P and Fitch (as defined below) or a rating of at least Baa3 (or equivalent thereof) in the case of Moody's (as defined below) or the equivalent rating in the case of any other Rating Agency.

"**Negative Rating Event**" shall be deemed to have occurred if (i) the Issuer does not within the Change of Control Period seek, and thereafter use all reasonable endeavours, to obtain from a Rating Agency, a rating in respect of the Notes or (ii) it does so seek a rating and use such endeavours and it has not at the expiry of the Change of Control Period and as a result of such Change of Control obtained a rating in respect of the Notes, *provided that* the Rating Agency publicly announces or publicly confirms in writing that its declining to assign a rating in respect of the Notes was the result of the applicable Change of Control.

"**Rating Agency**" means Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), Moody's Investors Services Limited ("**Moody's**") and Fitch Ratings Ltd. ("**Fitch**") or any of their affiliates or respective successors or any other rating agency of equivalent international standing specified from time to time by the Issuer, *provided that* references herein to a Rating Agency shall only be to such Rating Agency as shall have been appointed by or on behalf of the Issuer to maintain ratings for its senior unsecured debt (regardless of whether the appointment of the relevant Rating Agency continues at the time the relevant Rating Downgrade or Negative Rating Event, as applicable, has occurred) and shall not extend to any such Rating Agency providing ratings on an unsolicited basis.

"**Rating Downgrade**" shall be deemed to have occurred in respect of a Change of Control if within the Change of Control Period the rating previously assigned to the Notes by any Rating Agency is (i) withdrawn and not subsequently reinstated within the Change of Control Period or (ii) lowered one full rating category (for example, from BB+ to BB by S&P or such similar lower or equivalent rating) and not subsequently upgraded within the Change of Control Period or (iii) (if the rating assigned to the Notes by any Rating Agency shall be an Investment Grade Rating) changed from an Investment Grade Rating to a non-Investment Grade Rating (for example, from BBB- to BB+ by S&P, or its equivalent for the time being, or worse) and not subsequently upgraded to an Investment Grade Rating within the Change of Control Period, *provided that* a Rating Downgrade otherwise arising by virtue of a particular change in rating shall be deemed not to have occurred in respect of a particular Change of Control if the Rating Agency making the change in rating to which this definition would otherwise apply does not publicly announce or publicly confirm that the withdrawal or reduction was the result of the applicable Change of Control.

"**Relevant Potential Change of Control Announcement**" means any public announcement or statement by or on behalf of the Issuer, or any actual or potential bidder or any advisor thereto relating to any potential Change of Control where, within 180 days of the date of such announcement or statement, a Change of Control occurs.

(f) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 10 (*Events of Default and Enforcement*), each Note will be redeemed at its Early Redemption Amount calculated as follows:

(i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(ii) in the case of a Note (other than a Zero Coupon Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified

Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) or, if no such amount or manner is so specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), at its nominal amount; or

(iii) in the case of a Zero Coupon Note, at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

Early Redemption Amount = $RP\ X\ (1 + AY)^y$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a Day Count Fraction the numerator of which is equal to the number of days (calculated on the basis of a 360 day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360, or on such other calculation basis as may be specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be).

(g) *Purchases*

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (*provided that*, in the case of definitive Bearer Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

(h) *Cancellation*

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes surrendered pursuant to paragraph (g) above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

(i) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c), (d) or (e) above or upon its becoming due and repayable as provided in Condition 10 (*Events of Default and Enforcement*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in subparagraph (f)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid by the Issuer; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Registrar or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 14 (*Notices*).

8. TAXATION

All payments in respect of the Notes and Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of or within any Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders or Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect to any Note or Coupon:

(a) presented or surrendered for payment (where presentation or surrender is required) in Nigeria; or

(b) held by or on behalf of a holder who is liable to the Taxes in respect of the Note or Coupon by reason of its having some connection with any Relevant Jurisdiction other than the mere holding of the Note or Coupon; or

(c) presented or surrendered for payment (where presentation or surrender is required) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder would have been entitled to additional amounts on presenting or surrendering the same for payment on the last day of the period of 30 days assuming (whether or not such is in fact the case) that day to have been a Business Day (as defined in Condition 5 (*Interest*)); or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) held by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting or surrendering the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

(i) "**Relevant Date**" means the date on which the payment first becomes due, but if the full amount of the money payable has not been received by the Trustee or the Principal Paying Agent or the Registrar, as the case may be, on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 14 (*Notices*); and

(ii) "**Relevant Jurisdiction**" means Nigeria or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes or Coupons.

Notwithstanding any other provisions contained herein, each of the Issuer or any other person making payments on behalf of the Issuer shall be entitled to deduct and withhold as required, and shall not be required to pay any additional amounts with respect to any such withholding or deduction imposed on or in respect of any Note, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (commonly referred to as "**FATCA**"), any treaty, law, regulation or other official guidance enacted by any jurisdiction implementing FATCA, any agreement between the Issuer or any other person and the United States or any jurisdiction implementing FATCA, or any law of any jurisdiction implementing an intergovernmental approach to FATCA.

9. PRESCRIPTION

The Notes (whether in bearer or registered form) and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8 (*Taxation*)) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) (*Presentation of definitive Bearer Notes and Coupons*) or any Talon which would be void pursuant to Condition 6(b) (*Presentation of definitive Bearer Notes and Coupons*).

10. EVENTS OF DEFAULT AND ENFORCEMENT

(a) *Events of Default*

The Trustee at its discretion may, and if so requested in writing by the holders of at least one fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), (but, in the case of the occurrence of any of the events described in paragraphs (ii) to (v) (other than the winding-up or dissolution of the Issuer) and, (vi) to (viii) inclusive and (xi) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders) give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, if any of the following events shall occur and be continuing ("**Events of Default**"):

(i) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and, in the case of any default in the payment of interest, the default continues for a period of 5 Business Days; or

(ii) if the Issuer fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(iii) if (a) any Indebtedness of the Issuer or any Material Subsidiary becomes due and repayable prematurely by reason of an event of default (however described); (b) the Issuer or any Material Subsidiary fails to make any payment in respect of any Indebtedness on the due date for payment as extended by any originally applicable grace period; (c) any security given by the Issuer or any Material Subsidiary for any Indebtedness becomes enforceable and steps are taken to enforce the same; or (d) default is made by the Issuer or any Material Subsidiary in making any payment due under any Indebtedness consisting of any guarantee and/or indemnity given by it in relation to any Indebtedness of any other person, unless the aggregate amount of indebtedness relating to all the above events is less than U.S.$10,000,000 (or its equivalent in any other currency); or

(iv) if the aggregate amount of final non-appealable unsatisfied judgments, orders or arbitration awards against the Issuer and the Material Subsidiaries exceeds U.S.$10,000,000 (or its equivalent in any other currency) and such judgments, orders and/or arbitration awards are not discharged, satisfied and/or stayed within 30 days or, if later, the date therein specified for payment; or

(v) if any order is made by any competent court or resolution is passed for the winding-up or dissolution of the Issuer or any Material Subsidiary, save (i) for the purposes of reorganisation on terms approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders, or (ii) for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent, or (iii) the Trustee is satisfied that the Issuer or Material Subsidiary, as the case may be, is contesting such order or resolution in good faith; or

(vi) if the Issuer or any Material Subsidiary ceases or threatens to cease to carry on the whole or a substantial part of its business, save, in the case of the Issuer, for a consolidation or merger (as defined in Condition 4(d) (*No Consolidation or Merger*)) permitted under Condition 4(d) (*No Consolidation or Merger*) or, in any case, for the purposes of reorganisation on terms approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders, or the Issuer or any of the Issuer's Material Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(vii) if (A) proceedings are initiated against the Issuer or any Material Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any Material Subsidiary or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them, and (B) in any such case (other than the appointment of an administrator) unless initiated by the relevant company, is not discharged within 30 days, save, in each case, or for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent or where the Trustee is satisfied that the Issuer or Material Subsidiary, as the case may be, is contesting such proceedings, application, appointment, taking of possession or process in good faith; or

(viii) if the Issuer or any Material Subsidiary (or their respective directors) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(ix) (A) if the banking licence of the Issuer issued by the CBN is terminated, revoked or suspended and is not replaced or (B) any licence from any governmental authority which the Issuer or a Material Subsidiary holds and which is necessary for the Issuer or such Material Subsidiary to carry on its business, is terminated, revoked or suspended and in any such case is not replaced; or

(x) (A) if all or a substantial part in the opinion of the Trustee, of the undertaking, assets and/or revenues of the Issuer or any Material Subsidiary is condemned, seized, nationalised or otherwise appropriated by any Person acting under the authority of any national, regional or local government or (B) the Issuer or any Material Subsidiary is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets and/or revenues (including where any government, Agency or court takes any action to the effect that the management of the Issuer or any Material Subsidiary is wholly or partially displaced or the authority of any such member of the Group in the conduct of its business is wholly or partially curtailed); or

(xi) if any event occurs which, under the laws of any Relevant Jurisdiction, has or may have, in the Trustee's opinion, an analogous effect to any of the events referred to in paragraphs (iv) to (viii) above.

(b) *Enforcement*

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer to enforce the provisions of the Trust Deed unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing, in which case the Noteholder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise.

11. REPLACEMENT OF NOTES, COUPONS AND TALONS

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer, Registrar and/or Principal Paying Agent may require (*provided that* the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

12. AGENTS

The names of the initial Agents and their initial specified offices are set out in the Agency Agreement.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, *provided that*:

(a) there will at all times be a Principal Paying Agent and a Registrar;

(b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;

(c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City; and

(d) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(e) (*General provisions applicable to payments*). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9 (*Prescription*).

14. NOTICES

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London (which is expected to be the *Financial Times*) and, if the Bearer Notes are admitted to the Official List of the Irish Stock Exchange and/or admitted to trading on the regulated market of the Irish Stock Exchange, if filed within the Companies Announcement Office of the Irish Stock Exchange or published in a leading English language daily newspaper of general circulation in Ireland and approved by the Irish Stock Exchange (which is expected to be the *Irish Times*). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any other stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail (or its equivalent) or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, and, if the Registered Notes are admitted to the Official List of the Irish Stock Exchange and/or admitted to trading on the regulated market of the Irish Stock Exchange, if filed within the Companies Announcement Office of the Irish Stock Exchange or published in a leading English language daily newspaper of general circulation in Ireland and approved by the Irish Stock Exchange (which is expected to be the Irish Times). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any other stock exchange or other relevant authority on which the Registered Notes are for the time being listed or by which they have been admitted to trading.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) or such delivery by mail or airmail the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a manner which complies with those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the second business day (being, for the purposes of this paragraph of Condition 14, a day on which Euroclear, Clearstream, Luxembourg and DTC are open for business) after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

15. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matters relating to the Notes including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee or Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in aggregate nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the aggregate nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or the Coupons or the Trust Deed (including, without limitation, modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the quorum shall be one or more persons holding or representing not less than two thirds in aggregate nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one third in aggregate nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error. Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking or covenant given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

16. SUBSTITUTION

The Trustee may at any time and without further notice or formality, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed of any of the Issuer's Subsidiaries or the Issuer's successor in business subject to (a) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution and (b) certain other conditions set out in clause 20 (*Substitution*) of the Trust Deed being complied with.

17. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

18. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes; *provided that*, if any Notes of the relevant Series are represented in whole or in part by a Rule 144A Global Note, further notes of such Series that are not issued pursuant to a "qualified reopening" for U.S. federal income tax purposes shall be issued under a separate ISIN or CUSIP number.

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) *Governing law*

The Trust Deed, the Agency Agreement, the Notes and the Coupons, and any non-contractual obligations arising out of or in connection with any of them, are governed by, and shall be construed in accordance with, English law.

(b) *Submission to jurisdiction*

The Issuer has irrevocably agreed, for the benefit of the Trustee, the Noteholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes and/or the Coupons or any non-contractual obligation arising out of or in connection with them and accordingly submits to the exclusive jurisdiction of the English courts.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee, the Noteholders and the Couponholders may take any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with the Trust Deed, the Notes and the Coupons against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions if and to the extent permitted by law.

(c) *Appointment of process agent*

The Issuer appoints Zenith Bank (UK) Limited at 39 Cornhill Street, London, EC3V 3ND as its agent for service of process, and undertakes that, in the event of such agent ceasing so to act, it will appoint another person approved by the Trustee as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

(d) *Other documents*

The Issuer has in the Trust Deed and the Agency Agreement submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or Regulation D under the Securities Act.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of a temporary global note (a "**Temporary Bearer Global Note**") or, if so specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), a permanent global note (a "**Permanent Bearer Global Note**") which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the "**Common Depositary**") for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**").

Bearer Notes will only be delivered outside the United States and its possessions.

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will only be made (against presentation of the Temporary Bearer Global Note) outside the United States and its possessions and only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury Regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the "**Exchange Date**") which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be)), in each case against certification of beneficial ownership as described above unless such certification has already been given. Notes in Bearer Form will only be delivered outside the United States. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made only outside the United States and its possessions through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Bearer Global Note) without any requirement for certification.

The relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 10 (*Events of Default and Enforcement*)) has occurred and is continuing or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form and a certificate to that effect signed by two Directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days (including unilateral roll-overs and extensions) and on all interest coupons or Talons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE".

The sections of the Code referred to in the legend above provide that U.S. Holders (as defined in "*Taxation – United States*"), with certain limited exceptions, will not be entitled to deduct any loss on Bearer Notes or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non U.S. persons outside the United States, will initially be represented by a global note in registered form (a "**Regulation S Global Note**"). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 (*Transfers of Registered Notes*) and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to QIBs or (ii) to Institutional Accredited Investors who agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a "**Rule 144A Global Note**" and, together with a Regulation S Global Note, the "**Registered Global Notes**").

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, DTC or (ii) be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be). Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof ("**Definitive IAI Registered Notes**"). Unless otherwise set forth in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be), Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.$500,000 and integral multiples of U.S.$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under "*Subscription and Sale and Transfer and Selling Restrictions*". Institutional Accredited Investors that hold Definitive IAI Registered Notes may elect to hold such Notes through DTC, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144 under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under "*Subscription and Sale and Transfer and Selling Restrictions*". The Rule 144A Global Note and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6(d) (*Payments – Payments in respect of Registered Notes*)) as the registered holder of the Registered Global Notes. None of the Bank, any Paying Agent, the Trustee or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6(d) (*Payments – Payments in respect of Registered Notes*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system satisfactory to the Trustee is available or DTC has ceased to constitute a clearing agency registered under the Securities Exchange Act of 1934 (as amended) ("**Exchange Act**"), (iii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form and a certificate to that effect signed by two Directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) or the Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see "*Subscription and Sale and Transfer and Selling Restrictions*"**.

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a temporary common code and ISIN and, where applicable, a temporary CUSIP number which are different from the common code, ISIN and CUSIP assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) or as may otherwise be approved by the Issuer, the Agent and the Trustee.

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

The following Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes:

"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]."

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

ZENITH BANK PLC

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$1,000,000,000
Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 1 April 2014 [and the supplemental Prospectus dated [●]] ([together,] the "**Base Prospectus**") which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) and amendments thereto, including Directive 2010/73/EU (the "**Prospectus Directive**"). [This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5(4) of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus][5]. [This document does not constitute the Final Terms of the Notes described herein for the purposes of Article 5(4) of the Prospectus Directive, as these Notes are not being issued pursuant to the Prospectus Directive. This document must be read in conjunction with the Base Prospectus][6]. The Base Prospectus and Final Terms have been published on[the website of the Irish Stock Exchange (www.ise.ie) and] the website of the Central Bank of Ireland (www.centralbank.ie).]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

1.	Issuer:		Zenith Bank Plc
2.	(a)	Series Number:	[●]
	(b)	Tranche Number:	[●]
	[(c)	Date on which the Notes become fungible:	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [*insert description of the Series*] on [[*insert date*]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 below [which is expected to occur on or about [*insert date*]].]
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount:		
	(a)	Series:	[●]
	(b)	Tranche:	[●]

5 Include this wording where the Notes are to be issued pursuant to the Prospectus Directive.
6 Include this wording where the Notes are not to be issued pursuant to the Prospectus Directive.

5.	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] *(if applicable)*]
6.	(a) Specified Denominations: (*in the case of Registered Notes, this means the minimum integral amount in which transfers can be made*)	[●] *(N.B. Where Bearer Notes with multiple denominations above [€100,000] or equivalent are being used the following language should be used:* *"[€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]")*
	(b) Calculation Amount:	[●] *(If there is only one Specified Denomination, insert that Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor. N.B. there must be a common factor in the case of two or more Specified Denominations)*
7.	(a) Issue Date:	[●]
	(b) Interest Commencement Date	[[*specify*]/Issue Date/Not Applicable] *(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8.	Maturity Date:	[*Fixed rate – specify date/Floating rate –* Interest Payment Date falling in or nearest to [*specify month and year*]]
9.	Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR/NIBOR] +/- [●] per cent. Floating Rate] [Zero Coupon] (further particulars specified below)
10.	Redemption Basis:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [●] per cent. of their nominal amount
11.	Change of Interest Basis or Redemption/Payment Basis:	[For the period from (and including) the Interest Commencement Date, up to (but excluding) [●], paragraph [*14/15*] below applies, and, for the period from (and including) [●] up to (and including) the Maturity Date, paragraph [*14/15*] below applies]/[Not Applicable]/[*specify other*]

12.	Put/Call Options:	[Not Applicable] [Investor Put] [Change of Control Put] [Issuer Call] [(further particulars specified below)]
13.	(a) Status of the Notes:	Senior, unsecured
	(b) Date Board approval for issuance of Notes obtained:	[●]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a) Rate(s) of Interest:	[●] per cent. per annum [payable [[annually/ semi annually/quarterly/*specify other*] in arrear]]
	(b) Interest Payment Date(s):	[[●][, [●]] [and [●]] in each year, commencing on [●], up to and including the Maturity Date]/ [adjusted in accordance with [*specify Business Day Convention*]] *(N.B. This will need to be amended in the case of long or short coupons)*
	(c) Fixed Coupon Amount(s): (*Applicable to Notes in definitive form.*)	[●] per Calculation Amount
	(d) Broken Amount(s): (*Applicable to Notes in definitive form.*)	[[●] per Calculation Amount payable on the Interest Payment Date falling in/on [●]][Not Applicable]
	(e) Day Count Fraction:	[30/360]/[Actual/Actual (ICMA)]
	(f) Determination Date(s):	[[●] in each year][Not Applicable] (*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon* *N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration* *N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]

15.	Floating Rate Note Provisions:	[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
(a)	Specified Period:	[●]/[Not Applicable] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"*)
(b)	Specified Interest Payment Dates:	[[●][, [●]. [●]] [and [●]] in each year, commencing on [●], up to and including the [Maturity Date/[●]]]/[adjusted in accordance with [*specify Business Day Convention*]]/[Not Applicable] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"*)
(c)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(d)	Additional Business Centre(s):	[●]
(e)	Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
(f)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[●]
(g)	Screen Rate Determination:	
	• Reference Rate:	[[●] month][LIBOR/EURIBOR/NIBOR]
	• Interest Determination Date(s):	[Second London business day prior to the start of each Interest Period]/[First day of each Interest Period] [Second day on which the TARGET2 System is open prior to the start of each Interest Period] [Second Lagos business day prior to the start of each Interest Period]/[First day of each Interest Period] *(Second London business day prior to the start of each Interest Period if LIBOR (other than*

	Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second if EURIBOR or euro LIBOR, and second Lagos business day prior to the start of each Interest Period if NIBOR)
	[●]
• Relevant Screen Page:	[●]
	(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
(h) ISDA Determination:	
• Floating Rate Option:	[●]
• Designated Maturity:	[●]
• Reset Date:	[●]
(i) Margin(s):	[+/-] [●] per cent. per annum
(j) Minimum Rate of Interest:	[[●] per cent. per annum][Not Applicable]
(k) Maximum Rate of Interest:	[[●] per cent. per annum][Not Applicable]
(l) Day Count Fraction:	[Actual/Actual]/[Actual/Actual (ISDA)]/[Actual/365 (Fixed)]/[Actual/360]/[30/360]/[360/360]/ [Bond Basis]/[30E/360]/[Eurobond Basis]/ [30E/360 (ISDA)]
16. Zero Coupon Note Provisions:	[Applicable/Not Applicable]
	(If not applicable, delete the remaining subparagraphs of this paragraph)
(a) Accrual Yield:	[●] per cent. per annum
(b) Reference Price:	[●]
(c) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 7(f) (*Redemption and Purchase – Early Redemption Amounts*) and 7(i) (*Redemption and Purchase – Late payment on Zero Coupon Notes*) apply]
	[30/360]
	[Actual/360]
	[Actual/365]

PROVISIONS RELATING TO REDEMPTION

17. Notice Periods for Condition 7(b) (*Redemption and Purchase – Redemption for tax reasons*):	[Minimum period: [30]/[●] days
	Maximum period: [60]/[●] days]
	[[●] days]
	(*N.B. If setting notice periods which are different to those provided in the Conditions,*

	the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)
18. Issuer Call:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(a) Optional Redemption Date(s):	[●]
(b) Optional Redemption Amount(s):	[[●] per Calculation Amount]
(c) If redeemable in part:	[Not Applicable]/[Applicable]
(i) Minimum Redemption Amount:	[[●] per Calculation Amount]/[Not Applicable]
(ii) Maximum Redemption Amount:	[[●] per Calculation Amount]/[Not Applicable]
(d) Notice periods :	[Minimum period: [15]/[●] days Maximum period: [30]/[●] days] [[●] days] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)*
19. Investor Put:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(a) Optional Redemption Date(s):	[●]
(b) Optional Redemption Amount(s):	[[●] per Calculation Amount]
(c) Notice periods:	[Minimum period: [15]/[●] days Maximum period: [30]/[●] days] [[●] days] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other*

		notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)
20.	Final Redemption Amount:	[[●] per Calculation Amount]
21.	Early Redemption Amount payable on redemption for taxation reasons or on event of default:	[As set out in Condition 7(f) (*Redemption and Purchase – Early Redemption Amounts*)]/[[●] per Calculation Amount]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22.	Form of Notes:	[Bearer Notes: [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes only upon an Exchange Event] [Temporary Bearer Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date] [Permanent Bearer Global Note exchangeable for Definitive Bearer Notes only upon an Exchange Event] *(N.B. The following Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by Temporary Global Note exchangeable for Definitive Notes:* *"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]".)* [Registered Notes: [Regulation S Global Note ([U.S.$][●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg] which is exchangeable for Definitive Registered Notes only upon an Exchange Event] [Rule 144A Global Note (U.S.$[●] nominal amount) registered in the name of a nominee for [DTC which is exchangeable for Definitive Registered Notes only upon an Exchange Event]] [Definitive IAI Registered Notes (*specify nominal amounts*)]]
23.	Additional Financial Centre(s):	[Not Applicable/*give details*] *(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub paragraph 15(c) relates)*

24.	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, [a] Talon[s] may be required, if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the Irish Stock Exchange's regulated market and listing on the Official List of the Central Bank of Ireland of the Notes described herein pursuant to the U.S.$1,000,000,000 Global Medium Term Note Programme of Zenith Bank Plc.

[THIRD-PARTY INFORMATION

[*Relevant third-party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Zenith Bank Plc:

By: ………………………………………

Duly authorised

PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING**

(i) Listing:	[Irish Stock Exchange][*Specify other*][Not applicable.]
(ii) Admission to trading:	[Application [has been made/is expected to be made] [by the Issuer/on behalf of the Issuer] for the Notes to be admitted to trading on the Irish Stock Exchange's regulated market with effect from [●].][*Specify other*][Not applicable.]
(iii) Estimate of total expenses related to admission to trading:	[●]

2. **RATINGS**

Ratings:

[The Notes to be issued have not been rated.]

[The Notes to be issued [have been rated/are expected to be rated]:

[Standard & Poor's Credit Market Services Europe Limited: [●]]

[Fitch Ratings Ltd.: [●]]]

[[Other]: [●]]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating)

[[*Insert credit rating agency*] is established in the EEA and is registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").]

[[*Insert credit rating agency*] is not established in the EEA and has not applied for registration under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").]

[[*Insert credit rating agency*] is established in the EEA and has applied for registration under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[*Insert credit rating agency*] is not established in the EEA and has not applied for registration under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**") but the rating issued by it is endorsed by [insert endorsing credit rating agency] which is established in the EEA and [is registered under the CRA Regulation] [has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority].]

	[[*Insert credit rating agency*] is not established in the EEA and has not applied for registration under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**") but is certified in accordance with the CRA Regulation.]

3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save [for any fees payable to the [Managers/Dealers]][as discussed in "Subscription and Sale"], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.]/[Not Applicable]/[●]

[*(When adding any other description consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*]

4. **YIELD** (Fixed Rate Notes only)

[Indication of yield:	[●]
[Not Applicable]	The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

5. **OPERATIONAL INFORMATION**

(i)	ISIN Code(s):	[●]
(ii)	Common Code(s):	[●]
(iii)	CUSIP:	[●]/[Not Applicable]
(iv)	CINS:	[●]/[Not Applicable]
(v)	Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, *société anonyme*/The Depository Trust Company and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[●]
(viii)	Name and address of Registrar	Citibank, N.A., London Branch

6. **DISTRIBUTION**

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/give names]
(iii)	Date of [Subscription] Agreement:	[ ]
(iv)	Stabilising Manager(s) (if any):	[Not Applicable/give name]
(v)	If non-syndicated, name of relevant Dealer:	[Not Applicable/give name]
(vi)	U.S. Selling Restrictions:	[Reg. S Compliance Category 2][Rule 144A][Section 4(a)(2)][Rules identical to those provided in TEFRA C/TEFRA D/TEFRA not applicable]

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used by the Bank for its general banking purposes.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Group's capitalisation and indebtedness as at 31 December 2013.

	As at 31 December 2013	
	(U.S.$ millions)	*(₦ millions)*
Liabilities:		
Customer' deposits	14,623	2,276,755
Current income tax	45	7,017
Deferred income tax liabilities	4	678
Other liabilities	1,385	215,643
On-lending facilities	382	59,528
Borrowings	386	60,150
Liabilities classified as held for sale	91	14,111
Total liabilities	**16,916**	**2,633,882**
Equity attributable to equity holders of the parent:		
Share capital	101	15,698
Share premium	1,638	255,047
Retained earnings	1,035	161,144
Other reserves	471	73,347
Total equity	**3,271**	**509,251**
Total capitalisation	**20,187**	**3,143,133**

Except as set forth above, there has been no material change in the capitalisation and indebtedness of the Bank since 31 December 2013.

DESCRIPTION OF THE GROUP

Overview

The Group is the second largest bank in Nigeria by total assets as at 31 December 2012. The Group provides banking and other financial services in Nigeria, other countries in Africa and Europe with a customer account base of over two million accounts from 340 branches in Nigeria and 29 branches across Africa and Europe as at 31 December 2013. It had total assets of ₦3,143.1 billion (U.S.$20.19) billion and a Tier 1 capital of ₦506.8 billion (U.S.$3.25 billion) as at that date. The Group offers a wide range of financial products and services including granting of loans and advances, equipment leasing, corporate and trade finance operations, treasury and investment services, current and savings accounts, credit cards, ATM services, electronic banking, money market activities, private banking/wealth management services, foreign exchange services, funds transfer services, bullion/cash services and bank guarantees through various business operational groups in its banking and non-banking subsidiaries.

The Group's business activities have in the past been conducted using four business segments: corporate and retail banking; investment management and securities trading; general, health and life insurance; and other non-banking financial services. As a result of the CBN implementing the CBN Banking Activities Regulation, the Bank is in the process of divesting all of its subsidiaries in its investment management and securities trading, general, health and life insurance and other non-bank financial services segments, save for its pension custodial subsidiary and is expected to conclude the divestments in 2014. The Group's operations as at the date of this Base Prospectus are therefore divided between its core and non-core operations. The Group's core operations are made up of its:

- *corporate and retail banking business* – which, through its corporate banking, retail banking institutional and investment banking and public sector units in its Nigerian and overseas subsidiary offices, provides a broad range of banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals; and
- *pension custodial services business* – which provides pension management and custodial services to pension funds.

The Group's non-core operations are made up of its insurance, investment banking and other non-banking financial services businesses which are in the process of being divested. For further information please refer to "*– Compliance Plan with Central Bank of Nigeria's Regulation on the Scope of Banking Activities*" below.

The Group's consolidated gross earnings for the year ended 31 December 2013, 2012 and 2011 were ₦351,470 million, ₦307,082 million and ₦243,948 million, respectively. The Group's consolidated assets as at 31 December 2013, 2012 and 2011 were ₦3,143,133 million, ₦2,604,504 million and ₦2,326,695 million, respectively.

The Bank's registered office is located at Plot 84, Ajose Adeogun Street, Victoria Island, Lagos, Nigeria and its telephone number is +234 1 2787000.

History

The Bank was originally incorporated as a private limited liability company under the name Zenith International Bank Limited on 30 May 1990 with registration number RC 150224. The Bank received its commercial banking licence on 20 June 1990 and commenced operations on 16 July 1990. The Bank was issued a universal banking licence by the CBN in 1999 which allowed it to operate as a commercial (including mortgage lending) and investment bank and, in accordance with the CBN Banking Activities Regulation, has applied for an international commercial banking licence under the new CBN licensing regime (as described below). The Bank received approval in principle for its new license from the CBN on 7 June 2011, and expects to receive final approval once it has completed the process of divesting its non-banking subsidiaries.

The Bank was converted to a public limited liability company on 20 May 2004 and its shares were listed on the NSE on 21 October 2004. The Bank raised ₦20.4 billion through an initial public offering of its shares, the proceeds of which were used by the Bank to fund its branch expansion, invest in working capital, upgrade its information technology systems and invest in new business initiatives.

In February 2006 and November 2007, the Bank undertook capital raisings and recapitalisation processes aimed at meeting the then minimum capital requirements of ₦25 billion set by the CBN (included as part of the CBN's recapitalisation and consolidation plan for the Nigerian banking industry in 2004), raising ₦241.0 billion in aggregate.

As at the date of this Base Prospectus, the Bank has four banking subsidiaries and four non-banking subsidiaries. However, the Group is currently in the process of divesting its non-banking subsidiaries. See *"– Recent Regulatory Developments – Divestment of non-banking subsidiaries"*.

Key Strengths

The Group believes that the following strengths differentiate it from other Nigerian banks:

Well recognised and trusted brand

The Group believes that "Zenith Bank" is a well recognised and trusted brand in Nigeria, built on the Group's values of customer service, professionalism, ethics and quality of products. The Group's wide network of branches provides the platform for the Group to deliver a high level of service to its customers. Additionally, due to the Group's focus on high net worth customers and large corporate customers, the Group's brand is associated with prestige.

Stable funding and capital base

The Group has historically maintained a strong liquidity and capital position. The Group's capital and liquidity ratios are well above industry requirements. Additionally, the Group's capital base is the largest in the Nigerian banking industry and predominantly made up of Tier 1 (core) capital, which consists of mainly share capital and reserves created by appropriations of retained earnings. The Group believes that its strong capital levels and cheap sources of funding as a result of its access to demand deposits enable the Group to support its customers at competitive pricing.

Strong internal controls and risk management policies that allow the Group to identify and respond to relevant risks

The Group believes that its strong risk management policies and their coherent application have contributed to the Bank's growth during the recent global economic crisis. The Group has adopted a complete and integrated approach to risk management that is driven from the Board level to the operational activities of the Bank. The Group's risk management process is governed by well defined policies and procedures that are subjected to continuous review and are clearly communicated across the Group. The Group believes that knowledge and awareness of its risk management policies and procedures is part of its risk culture, which is entrenched through appropriate and continuous employee training.

Experienced management team with a strategic vision for the growth of the Group

The Group's senior management team has extensive experience within the financial services sector and strong knowledge of the Nigerian economy. The senior management team has a proven record of strong risk management and corporate governance practices and guiding the Group to focus on best business practices and customer service. A number of the Group's senior management have been with the Group since the Bank's inception and therefore thoroughly understand the Bank's operations and strategy. Under the current senior management, the Group has improved its profitability and balance sheet in recent years.

Functional and scalable information technology systems and products that provide a platform to support growth

The Group believes that it has one of the most efficient information technology platforms among Nigerian banks. For example, all branches and business centres are connected online in real time, which ensures consistent and coordinated customer information and speed and efficiency with respect to all customer transactions. The Group intends to continue to strengthen its information technology systems to provide for greater efficiency and to continue to service customer demands for efficient and convenient products, such as Internet and mobile banking.

Key Strategies

As a result of the Group's decision to comply with the CBN Banking Activities Regulation by divesting the majority of its subsidiaries that carry out non-banking activities, the Group's principal strategy is aimed at promoting the growth and profitability of its banking activities. For further information on the Group's compliance with the CBN Banking Activities Regulation please refer to "*– Compliance Plan with Central Bank of Nigeria's Regulation on the Scope of Banking Activities*".

The Group plans to continue growing organically in the short- to medium-term and it intends to improve (through creation and enhancement of new products and services in new markets) and consolidate (through superior customer service) local and international awareness of its brand in the long-term. Its growth and marketing plans will seek to optimise its strengths, maximise available opportunities and minimise identified threats while taking steps to mitigate the effects of observed weaknesses.

The strategic objectives of the Group in the short- to medium-term include:

- improving its capacity to meet its customers' changing and increasing banking needs as well as sustaining high quality growth despite the volatile business environment;
- remaining one of the top tier banks in Africa in terms of profitability, balance sheet size, risk assets quality, financial stability and operational efficiency;
- channelling its efforts and resources into deploying more electronic banking products to meet the changing banking and transaction environments; and
- strengthening its corporate solutions such as collections, salary solutions as well as micro credits to employees of large corporates who are customers of the Bank.

In order to achieve these objectives, the Group intends to implement the following strategies:

Enhancing customer service and offering a diverse range of products

The Group aims to enhance customer service experiences by implementing high quality information and communication technology ("**ICT**") platforms in order to create convenient banking channels and products for its customers. The Group currently operates the ETHIX banking software, which allows it to continue to develop and upgrade e-banking products, such as mobile banking and mobile payment platforms for corporate clients.

In addition, the Group will look to offer a diverse selection of products in each of the markets in which it operates so as to provide greater choice to its customers whilst also distinguishing itself from its competitors. The Group will also continue tailoring its products to the needs of its clients in order to enhance the level of customer service it offers.

Developing deeper relationships with corporate customers

The Group intends to forge deeper relationships with its corporate clients and will continue to leverage its relationships with its corporate customers, by providing vendor and distributorship finance and personal banking services to key employees to build rapport at all levels of a customer's organisation. For example, the Group provides on-site banking services and teller points at the offices or premises of some of its key customers to foster the relationship between the Group and the customer. Furthermore, the Group plans to cater to retail employees of large corporate clients through services such as personal loans and salary services, which will allow the Group to expand its position in the Nigerian retail banking market, while maintaining its conservative risk profile. The Group will also aim to ensure that it is frequently in contact with key decision makers within each of its existing corporate clients in order to strengthen relationships with such clients at the management level. By leveraging relationships at all levels of its existing corporate customers, the Group hopes to take advantage of new business opportunities through cross-selling initiatives and referrals.

Targeting mid-tier high-growth corporate customers

The Group plans to continue targeting companies in the middle-tier market with good growth prospects in order to develop new business relationships in previously untargeted sectors. The following sectors/industries will be focused on to develop these new business relationships:

- telecommunication and information communication technology;
- consumer products, healthcare and pharmaceuticals;
- manufacturing;
- fast moving consumer goods;
- infrastructure development, civil construction, housing and real estate development;
- power and energy;

- oil and gas;
- transport and aviation; and
- agriculture.

By focusing on new customers in these areas, the Group anticipates forming long-lasting relationships with them as they look to grow their businesses. The Group anticipates that a number of mid-tier companies will grow into large multinational corporations as the Nigerian economy develops, with the Group acting as their banker of choice.

Capitalising on Nigerian economic reforms

Recent and ongoing macroeconomic reform in Nigeria has resulted in privatisation and deregulation of key commercial sectors of the economy such as shipping, oil and gas, power and infrastructure. In addition, various government reforms, including the proposed PIB, the Nigerian Content Act and the Cabotage Act, are intended to encourage economic participation by Nigerian companies, resulting in new opportunities and the strengthening of certain sectors of the Nigerian economy that historically have experienced lower growth. The Bank believes that such reforms will generate new business opportunities (including increased lending opportunities) for Nigerian banks. The Group believes that its well recognised relationships with its corporate clients will place it in a strong position to take advantage of the aforementioned growth opportunities.

Furthermore, the Nigerian government has put in place various funding schemes to boost the Nigerian agricultural sector. The Group believes that it will continue to play a role in this sector to support the various government projects aimed at strengthening the agricultural sector by disbursing and monitoring agricultural intervention funds.

Expanding the Group’s operations within Nigeria

The Group believes that strategic development and deployment of e-banking products and platforms will be a key competitive factor in the banking industry in Nigeria as these products are expected to enable the Group to reach out to existing and potential customers even in areas where the Group may not have a physical presence. The Group also anticipates using its e-banking products to gain customers who did not previously use banking services, the so-called “un-banked” population, by providing easy access to banking services through their mobile telephones. The Group therefore sees its deployment of e-banking services as a key driver to expanding the Group’s operations within Nigeria.

The Group is also planning to expand its network of branches and business offices throughout Nigeria to maintain its position amongst the top five banks in terms of branches in Nigeria. The key factors in deciding the location of future branches are:

- extending the Group’s reach in order to bring its banking products and services to potential customers, such as the un-banked population, who are located in areas where the Group previously had no presence;
- targeting deposits from retail customers and small businesses in order to provide funding to the Group’s corporate customers;
- selecting locations in order to develop a comprehensive network for the benefit of the Group’s customers;
- selecting locations which allow the Group to be in be closer proximity with both existing and potential customers; and
- the volume of commercial activity within the area.

Expanding the Group’s overseas and regional operations

The Group expects to enter into new markets overseas as its customers expand their activities and businesses abroad. It anticipates increasing its presence in other key countries within West Africa, in addition to those where it already operates. The Group also believes that its presence in the world’s major financial markets will enable it to provide multinational customers with cross-border financial solutions which meet their international requirements. The Group therefore aims to continue expanding its European operations and will look to develop its representative offices in South Africa and China.

In addition, the Group plans to target the financing of trade flows within the West African sub-region, which is currently routed through Europe. By continuing to develop and expand its network of foreign subsidiaries, the Group expects to be able to offer correspondent banking services to West African banks who in the past would have used international banks based in Europe or the United States. The Group believes that the continued expansion of its overseas operations will help promote the Group's reputation as a top-tier banking institution both within Nigeria and overseas.

Enhancing the Group's internal operating systems to reduce costs

The Bank expects to continue deploying the latest innovations in banking technology in order to maintain its position at the forefront of the changing banking landscape in Nigeria. In addition, the Bank will aim to enhance its internal operating systems and internal procedures, in order to be able to improve its levels of customer service by delivering improved operational capabilities and efficiencies, whilst at the same time achieving economies of scale.

From an internal operating perspective, the Group has automated most of its operational activities, such as cheque confirmation and clearing processes, account opening processes, credit administration process and internal audit processes. These automated processes have started yielding results in the form of low turnaround times in all operational activities as well as a reduction in operating costs.

Market Position and Competition

Nigeria

In July 2004, the CBN embarked on a recapitalisation and consolidation plan for the Nigerian banking sector, increasing the minimum capital requirement from ₦2 billion to ₦25 billion, which led to several capital raising exercises and consolidations within the industry, ultimately reducing the number of banks operating in Nigeria from 89 in July 2004 to 24 in September 2007. The subsequent global financial and economic crisis and the resulting decline in the Nigerian equities market in 2009 resulted in significant provisions and high volumes of NPLs at a number of Nigerian banks, and coupled with the declining oil price in the international markets, led to a number of Nigerian banks experiencing liquidity issues. The CBN Special Examination of the banking sector in 2009 led to the identification of the Intervened Banks as having suffered from significant asset quality, capital adequacy, liquidity and corporate governance deficiencies. The CBN and AMCON intervened by providing bail-out funds to enable the Intervened Banks to meet their minimum capital adequacy ratios and continue operations. At that time, opportunities arose for further sector consolidation, including the acquisition of some of the Intervened Banks by stronger banks. The most recent strategic transactions, that were concluded in 2012, include the acquisition of a majority shareholding in Finbank Plc by First City Monument Bank Plc and the subsequent merger of both banks, the acquisition of a majority shareholding in Oceanic Bank International Plc ("**Oceanic Bank**") by Ecobank Transnational Incorporated and the subsequent merger of Oceanic Bank and Ecobank Nigeria Plc (the Nigerian subsidiary of Ecobank Transnational Incorporated), the merger of Equitorial Trust Bank Plc and Sterling Bank Plc ("**Sterling Bank**") (following which Sterling Bank emerged the majority shareholder of the combined group), the acquisition and subsequent merger of Intercontinental Bank Plc by Access Bank Plc and the acquisition of a majority shareholding in Union Bank of Nigeria Plc by the African Capital Alliance Consortium. Currently, there are 22 commercial banks in Nigeria.

Following the CBN Special Examination and the resultant consolidation exercise, the Nigerian banking landscape can be broadly categorised into three distinct groups defined in terms of profitability, market capitalisation, balance sheet size and performance ratios. The Tier 1 banks have over five per cent. each of market share by total assets. The Tier 2 banks are mid-sized banks with market share by total assets of between three per cent. to five per cent. each. The Tier 3 banks each have less than three per cent. of market share by total assets.

The structure of the Nigerian banking industry has changed significantly since the beginning of 2011. Consolidation activities in the sector resulted in the number of Tier 1 banks increasing from five to seven. Changes to the industry are expected following discussions with respect to the sale of the AMCON acquired banks to interested foreign and local investors. The sales process is ongoing.

Over the last ten years, the Group has remained a Tier 1 bank despite the prevailing economic and operational circumstances. The Group has efficiently deployed its competitive advantages of excellent customer services, size, brand name, branch network and customer reach, stable management and well motivated workforce and strong capital and liquidity base in order to effectively compete in the Nigerian banking landscape. In The Banker's ranking of the top 1,000 banks worldwide (by Tier 1 Capital) based on 2012 financial statements and released in July 2013, the Group was ranked first in Nigeria and 287 (up from the 322 ranking in 2011) in the world. The Group ranked second in terms of total assets size and second with respect to customer deposits amongst the Nigerian banks in 2012.

Foreign markets

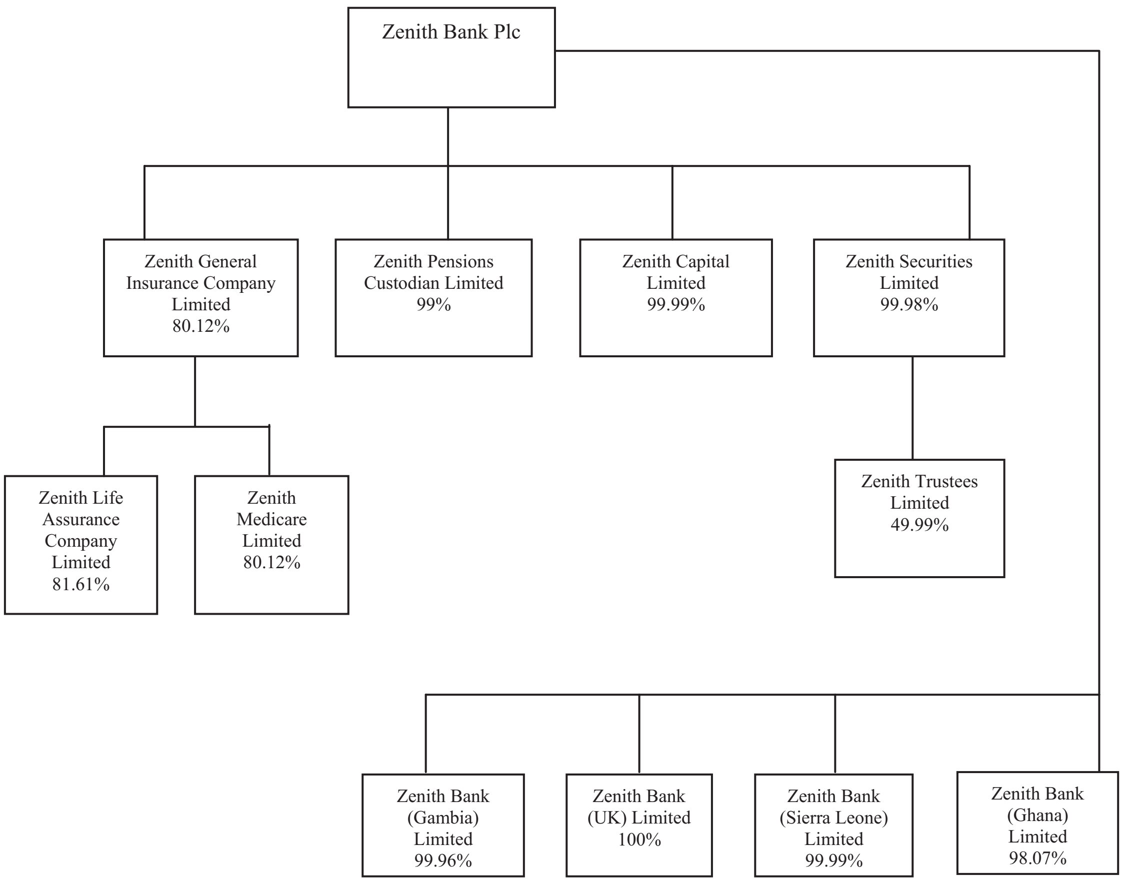
The commercial banking sector in the Gambia is very competitive, with foreign banks (Nigerian banks in particular) entering the market. Banks in the Gambia are investing in research and development in order to differentiate their products and services from those of their competitors. Additionally, staff attrition due to "poaching" and headhunting is a cause for major concern in the banking industry.

The commercial banking industry in the Sierra Leone is currently made up of 13 banks, with the Sierra Leone Commercial Bank being the largest in terms of total deposits as at 31 December 2013. Most of the commercial banking business is provided by the Sierra Leone government and the mining sector. However, the cost of doing business in Sierra Leone is relatively high because of the unstable power supply and high overhead.

The commercial banking sector in Ghana has grown significantly, with total assets of the Ghanaian banking sector increasing by 32.8 per cent. for the year ended December 2013, as compared with 23.4 per cent. growth for the year ended December 2012. This growth was largely driven by increases in foreign assets, which increased by 31.5 per cent. for the year ended December 2013 as compared with 8.9 per cent. for the year ended December 2012.

Corporate Structure

The following chart shows the corporate structure of the Group as at 31 December 2013.



Recent Regulatory Developments

Compliance plan with the CBN's Banking Activities Regulation

In October 2010, the CBN issued the CBN Banking Activities Regulation which took effect beginning May 2012. Pursuant to the CBN Banking Activities Regulation, the former universal banking guidelines were repealed and banking activities were segregated into commercial banking, merchant banking and specialised banking (including non-interest banks, microfinance banks, development banks and mortgage banks).

The CBN Banking Activities Regulation prohibits Nigerian banks from holding any interests in any subsidiary, associated company or enterprise unless such entity is a custodian, a banking institution incorporated outside Nigeria with the permission of the CBN or a company jointly established by two or more banks with the approval of the CBN for the purpose of promoting the development of the money market or improving the delivery of banking services in Nigeria. The CBN Banking Activities Regulation also prohibits Nigerian banks from acquiring real estate or immovable property (except where such property is for its own use), granting any loan to any person to invest in the primary issues of any stock of any bank, granting a loan or any form of financial accommodation to any person to facilitate the acquisition of any of its subsidiaries or granting any loan, donation, gift or other form of financial accommodation to a political party or for political purposes. It requires every bank currently operating under a universal banking licence to submit for CBN approval a compliance plan duly approved by the bank's board of directors.

The CBN Banking Activities Regulation also requires Nigerian banks to divest all non-banking businesses and apply for a new type of banking licence or to adopt a non-operating holding company structure in compliance with the regime if they wish to engage in non-core banking activities, in each case as determined by the relevant bank's board of directors, by 14 May 2012. The Bank has opted to take the former of these options. For further information, please see "*The Nigerian Banking Sector – Banking Sector Reform – 2009 to present*" below.

The Bank's compliance plan was duly approved by the Board on 4 February 2011 and submitted to the CBN on 9 February 2011. On 7 June 2011, the CBN approved the compliance plan in principle and authorised the Bank to commence a re-organisation of its activities. The main features of the Bank's compliance plan are described below:

Proposed type of banking licence

The Bank has chosen to operate under a commercial banking licence with international authorisation, thereby allowing it to continue operating subsidiaries overseas.

Under the terms of the licence, the Bank is permitted to accept deposits, maintain current and savings accounts for its depositors, provide retail banking services such as mortgage products, provide finance and credit facilities, deal in foreign exchange and provide foreign exchange services, act as a settlement bank (subject to CBN approval), provide treasury management services, provide custodial services, provide financial advisory services incidental to commercial banking (which do not require regulatory filing with the Securities and Exchange Commission (Nigeria) ("**Nigerian SEC**")), invest in non-convertible debt instruments (subject to CBN approval), enter into derivative transactions, undertake fixed income trading and provide non-interest banking services (subject to CBN approval).

Also, under the terms of the international commercial banking licence, the Bank is prohibited from engaging in the following lines of business: insurance underwriting, loss adjusting services, re-insurance services, asset management services, issuing house activities, underwriting services, investing in equity or hybrid equity instruments (save for investments permitted by the BOFIA), proprietary trading and financial advisory services not incidental to commercial banking (which require regulatory filing with the Nigerian SEC). The Group has submitted its application for its international commercial banking licence and received approval in principle from the CBN on 7 June 2011. The Bank expects to receive formal approval once the divestment process of its non-banking subsidiaries (as described below) has been completed.

Divestment of non-banking subsidiaries

The Group's business activities have in the past been conducted using the following four segments:

- *Corporate and retail banking*, which provides a broad range of banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals.
- *Investment management and securities trading*, which provides investment advisory, financial planning services and investment products (primarily through separately managed accounts such as mutual funds and private investment funds) to a diverse group of institutions and individuals. This segment also includes brokerage services, financing services and securities lending services to institutional clients, including mutual funds and pension funds, and to high-net-worth individuals.
- *General, health and life insurance*, which provides lines of insurance other than title insurance, including a broad line of individual and group life, annuity, accident and health policies.
- *Other non-banking financial services*, which provide share services, pension custodial and funds trusteeship services.

For the year ended 31 December 2013, these non-banking subsidiaries contributed 7.76 per cent. to the Group's profit before tax and, as at 31 December 2013, comprised 1.35 per cent. of the Group's total assets.

In order to comply with the CBN Banking Activities Regulation and meet the requirements under the commercial banking licence, the Bank is in the process of divesting the majority of its non-banking subsidiaries. Accordingly, non-core banking subsidiaries that have not yet been disposed of have been accounted for as discontinued operations in line with IFRS 5. The CBN initially set 14 May 2012 as the deadline for such divestment of non-banking subsidiaries by Nigerian banks and subsequently extended it to 14 November 2012 and again to 31 March 2014. The Bank is in the process of divesting its non-banking subsidiaries and expects the process to be completed in 2014. The only non-banking subsidiary which the Bank intends to retain is Zenith Pension Custodians Limited, which it is permitted to retain under the terms of its commercial banking licence.

The following subsidiaries are in the process of being divested by the Group but the divestment remains subject to regulatory approval by the CBN:

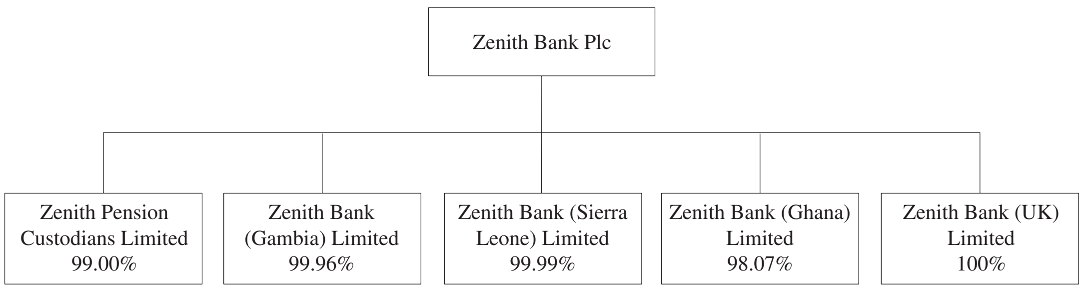
- Zenith General Insurance Company Limited, which provides marine, motor, accident, fire and other non-life insurance services;
- Zenith Medicare Limited, which provides health insurance and managed care services;
- Zenith Life Assurance Company Limited, which provides group life and individual life policy cover and has an authorised share; and
- Zenith Trustees Limited, which provides trustee services.

For the insurance operations in which the Group held an 80 per cent. stake, discussions with potential buyers are in advanced stages. Sales agreements and shareholders agreements with two different investors have already been signed and one investor has paid for a 45 per cent. stake in the insurance sub-group, made up of Zenith General Insurance Company Limited, Zenith Medicare Limited and Zenith Life Assurance Company Limited. The sale of the remaining 35 per cent. of the insurance sub-group is expected to be concluded by the second half of 2014.

In December 2013, Zenith Securities Limited and Zenith Capital Limited underwent a financial restructuring. The restructuring resulted in a reduction in the share capital of Zenith Securities Limited and Zenith Capital Limited by ₦2.9 billion and ₦2.7 billion, respectively, amounting to a total reduction of investments in subsidiaries by ₦5.6 billion. In March 2014, Zenith Capital Limited, which provided investment banking services, including corporate finance and advisory, project finance, capital markets, syndication, asset management and principal investment, was divested. In addition, Zenith Securities Limited, which provided securities trading and asset management services, was also divested in March 2014.

During the first six months of 2012, the Group disposed of its investment in Zenith Registrars Limited, which provided registration and share transfer agency services, through a private placement.

At the end of the divestment exercise, which is expected to be concluded in the second half of 2014, the new group structure is expected to be as shown below:



Description of the Business

The business of the Group is currently divided between its core operations made up of its corporate and retail banking and pension custodial services businesses, and its non-core operations, made up of its non-banking businesses which have been or are in the process of being divested as outlined above in "– *Recent Regulatory Developments – Divestment of non-banking subsidiaries*".

For the year ended 31 December 2013, the Group's core operations in Nigeria generated total revenues of ₦315,758 million, whilst non-core operations in Nigeria generated ₦16,198 million. The distribution of total revenues amongst the Group's core and discontinued operations was as follows:

Core and discontinued operations	Total revenue for the year ended 31 December		
	2013	2012	2011
		(₦ Millions)	
Corporate and retail banking services	346,986	303,794	241,759
Corporate banking	163,209	176,386	141,008
Retail banking	85,204	13,542	13,295
Institutional and investment banking	54,399	56,350	43,276
Public sector	44,174	57,516	44,179
Discontinued operations	16,320	10,873	12,572
Pension custodial services	4,484	3,288	2,189
Total	**351,470**	**307,082**	**243,948**

For the year ended 31 December 2013, the geographical distribution of the Group's total revenues generated from core and discontinued operations was as follows:

Business Geographical Locations	Total revenue for the year ended 31 December		
	2013	2012	2011
		(₦ Millions)	
Federal Republic of Nigeria	323,868	288,210	226,716
Rest of Africa(1)	19,124	13,591	13,306
Europe(2)	8,478	5,281	3,926

(1) The Gambia, Sierra Leone and Ghana.
(2) United Kingdom.

Core operations

Corporate and retail banking services

The corporate and retail banking services business provides a broad range of banking products and services to a diverse group of corporations, financial institutions, investment funds, governments and individuals. These business activities are conducted by the Bank through the following business units:

- Corporate banking;
- Retail banking;
- Institutional and investment banking; and
- Public sector banking.

Corporate banking

The Group's Corporate Banking Strategic Business Unit (the "**SBU**") offers a wide range of services to multinationals, large local conglomerates and corporate clients with an annual turnover of ₦500 million and above. The unit is focused on providing superior banking services and customised banking products to the top tier of the Nigerian corporate market. The SBU is primarily focused on attracting, building and sustaining strong enduring relationships with its target market through the provision of innovative solutions to meet clients' banking needs such as the corporate i-bank products and the XPATH third-party application program. Some of these relationships include: Cadbury, Guinness, ExxonMobil, MTN, Texaco, Chevron, PZ, Unilever and Nestle, as well as local conglomerates such as Dangote Group, Nigerian Breweries and Flour Mills.

The SBU also looks to promote the businesses of its corporate customers through the provision of services to various stakeholders within the value chain of these corporate customers. This is aimed at building long-term relationships and partnerships with the Group's customers.

Within the SBU, industry-specific desks or sub-units exist to manage the relationships with the unit's corporate customers. These sub-units include;

- Transport and aviation;
- Conglomerates;
- Breweries and beverages;
- Oil and gas;
- Power and infrastructure;
- Construction; and
- Agriculture.

Lending

The Group's lending activities are primarily targeted at the SBU's corporate customers because of their relatively low counterparty credit risk profile. As at 31 December 2013, ₦1,135 billion, or 89 per cent. of the Group's total gross loans, were loans to corporate customers. As at 31 December 2013, the Group's top 20 borrowers as a percentage of total lending were all corporate or government customers, with a combined total loan exposure of ₦427.5 billion, or 37 per cent. of the Group's total gross loans. Of the Group's total loan exposure to its top 20 borrowers, ₦106 billion, or 33.5 per cent., was denominated in currency other than the Naira. The Group extends facilities in the form of:

- working capital financing such as overdraft lines, check purchase lines, receivable finance and invoice discounting;
- trade financing facilities such as letters of credit and usance lines;
- long term financing options such as leases, project finance, syndicated loans and note issuance lines; and
- bonds and guarantees, which include advance payment guarantee, bid bonds, and performance bonds.

Within the SBU, loans and other credit risk exposures are spread across the various industries and segments covered by each sub-group and are between 500 to 700 basis points above the Bank's prime lending rate ("**PLR**"). Local currency exposures, except for syndicated loans, are priced at fixed rates although such rates are subject to reviews in line with changes in money market conditions which are tied to the MPR. Syndicated loans are priced at a rate agreed by syndicated members, which, in the majority of cases, is referenced to the NIBOR or the MPR. Foreign currency exposures are charged at margins over the applicable LIBOR. In addition, facility processing and management fees are charged on all loans.

Deposits generation and cash management services

Demand and term deposits are the primary deposit products offered by the SBU to corporate banking customers of the Group. As at 31 December 2013, 49.25 per cent. of the Group's deposit base was composed of corporate and commercial customers, with the top 10 corporate depositors contributing ₦211.5 billion, or 9 per cent. of total deposits. A corporate demand deposit account gives corporate customers access to the Group's various products, services, schemes and its corporate i-bank (internet banking) applications. Such services include payroll solution, the issuance of local drafts, local fund transfers between accounts, cash in transit and draft in transit services, batch payments, bill payments, third-party transfers, safe custody services, duty payments and government tax remittances.

With its cash management solutions, the Group aims to provide its corporate customers with customised solutions, aimed at facilitating the management of their trade receipts and payments processes. The Group also aims to develop an in-depth understanding of the customers' business operations and identification of areas in which it can add value. A solution is subsequently tailored to optimise customers' process efficiency aiming to help them better control their cash flow positions.

Retail banking

The Retail Banking Unit (the "**RBU**") focuses on small and medium enterprises and commercial businesses with an annual turnover of less than ₦500 million, and consumer businesses which comprise personal, current, and savings accounts customers and all unincorporated entities (such as societies, clubs, churches, mosques, etc.). The RBU's deposit liability creation efforts aim to win and retain a collection of retail businesses.

Although deposit liability creation is a primary focus of the RBU, loans and advances in the forms of overdrafts, import finance lines, term loans and leases are extended to the RBU's customers, especially those involved in the sales and distributions of fast moving consumer good items and key distributors to major manufacturing companies. Credit facilities offered by the RBU to its customers are priced at rates well above the Group's PLR and cost of funds, and are in line with the Bank's risk management policies. Although deposit accounts are available to all retail customers, credit facilities and loans in the RBU are limited to employees of the Group's corporate clients.

Generally, the Group's retail banking business is conducted through its extensive branch network and organised by geographical zones within Nigeria. They are structured along three broad customer segments:

- *Commercial entities comprising of all small and medium scale enterprises and incorporated companies with annual turnover of less than ₦500 million.* This segment focuses on middle-market entities such as manufacturers, suppliers, distributors, transporters, contractors and other small- and medium-sized corporate organisations with an annual turnover of less than ₦500 million as well as schools and hospitality businesses. These customers are usually less complex in structure and do not require the same level of sophisticated banking services as the corporate end of the market;

  The Group offers a wide range of generic banking services and products to meet the needs of the customers in this sub-sector. These include various lending and deposit products such as working capital lines (e.g., overdraft, invoice discounting, invoice/contract financing and stock financing), lease finance lines, bond guarantee lines, current accounts, domiciliary accounts and fixed deposit accounts. Ancillary services offered to customers in this sub-sector include local drafts issuance, local inter/intra bank funds transfers payroll services, bill payments, safe custody, duty/tax payments and remittances. The Group aims to build a value chain synergy between this sub-sector and the SBU's clients, thereby promoting businesses across the Group's various business sub-units;

- *Retail businesses and individuals*. This segment focuses on personal banking, which is structured to develop and promote the retail banking industry generally and provide banking services to individuals through traditional branches, as well as electronic banking channels. Attracting, winning and retaining this segment of customers is principally achieved through the mass marketing medium. Recent increased deployment of ATMs and POS terminals across the Group's network has been required in order to effectively service this segment of the market;

  The personal banking products and services range from standard to specialised savings, current domiciliary and investment accounts modified to suit the different requirements of individuals depending on their personal circumstances. Examples of such specialised products include Zenith Children Accounts and the Zenith Mutual Funds Account. The sub-group also offers credit products including personal loans, advances, mortgages, asset finance, small business loans, and credit cards. E-business products offered include internet banking and mobile banking services; and

- *Other entities*. This segment includes all unincorporated entities such as partnerships, societies, clubs and mosques.

Institutional and investment banking

The Institutional and Investment Banking Unit (the "**IIBU**") manages the Group's business relationships with other banks, financial institutions, multilateral agencies, securities houses, insurance companies, asset management companies and other non-bank finance companies and private equity and venture funds. The IIBU also assists individuals, corporations and governments in raising capital by underwriting and/or acting as the client's agent in the issuance of securities as well as assisting companies in mergers and acquisitions processes.

The IIBU, through its Treasury Sub-Unit (the "**TSU**"), 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 TSU also works closely with branches and various business focus groups within the Group's network as well as corporate customers and pension funds to deliver currency and fixed income solutions tailored specifically for their requirements. The TSU focuses on creating wealth while mitigating interest rate and foreign exchange risks for the Group and its customers. It offers the Group's customers a broad selection of money market and foreign exchange services that enable them to carry out their business operations locally and internationally. The TSU's activities are carried out through four groups: the liability and deposit management group, the bonds trading group, the foreign currency trading group and the correspondent banking unit.

Public sector banking

The Public Sector Unit (the "**PSU**") provides services to meet the banking needs of all tiers of government (federal, state and local governments), ministries, departments and agencies, not-for-profit organisations, embassies and foreign missions. The focus of the PSU is on institutions operating within the Nigerian government, including within its executive, legislative and judiciary branches, and at federal, state and local government levels. Some of the products and services offered by the PSU include revenue collection schemes, cash management, deposit and investment, electronic payroll systems, offshore remittances and foreign exchange and project finance. As a result of the CBN's increased CRR on public sector deposits, the Group expects to reduce public sector deposits in favour of additional retail deposits.

Overseas subsidiaries

The Group's overseas subsidiaries carry out banking operations, providing traditional banking products and services tailored to meet the needs of those customers who are either located in countries where the subsidiaries are based or who have a business presence in such locations. Each of the Group's overseas subsidiaries offers a wide range of products and services to attract deposits and extend loans and advances. The results for the Group's overseas subsidiaries are reported separately and are not included in the consolidated financial statements. The following are the Group's overseas subsidiaries:

Zenith Bank (UK) Limited

Zenith Bank (UK) Limited ("**Zenith UK**") was incorporated in 2006 and leverages on trade and investment flows between Nigeria and Europe to provide intermediary banking services, which include post-shipment finance, back-to-back letters of credit, standby letters of credit and contract guarantees. Zenith UK also provides facilities for working capital and capital expenditure directly to Nigerian borrowers through participation in syndicated loans.

The operational mandate of Zenith UK also enables it to source deposits from institutions such as parastatals, corporate and institutional counterparties to support its funding needs. Zenith UK trades in fixed income instruments which include government and institutional bonds and certificates of deposit. Zenith UK also has a wealth management unit which is dedicated to offering long term investment advisory and wealth management solutions to the unit's customers. Zenith UK's total assets and profit for the year ended 31 December 2013 amounted to ₦225.1 billion and ₦2.3 billion, respectively.

Zenith Bank Ghana Limited, Zenith Bank Sierra Leone Limited and Zenith Bank Gambia Limited

Zenith Bank (Ghana) Limited, Zenith Bank (Sierra Leone) Limited and Zenith Bank (Gambia) Limited (together the "**West African Subsidiaries**") were incorporated in 2005, 2008 and 2008, respectively, and are the Group's banking subsidiaries which provide comprehensive trade services to major corporations and medium-sized enterprises operating in the West African sub-region. With the support of the Bank, other members of the Group, such as Zenith UK, and by operating an account with Citigroup, which operates in over 150 countries across the world, the West African Subsidiaries have both a global reach and local market knowledge which allow them to provide importing and exporting intermediary services to their respective customers. Solutions are customised to each subsidiary's customers' needs, integrating letters of credit and other trade finance alternatives or products for an end-to-end trade proposition.

The West African Subsidiaries source deposits from retail, corporate and institutional customers to support their funding needs. Each subsidiary also lends to customers in different sectors of their respective economies, through term loans, short term overdrafts, trade finance facilities as well as by issuing bonds and guarantees on behalf of customers. The West African Subsidiaries invest in fixed income instruments such as treasury bills and government and corporate bonds. Zenith Bank (Ghana) Limited's total assets and profit net of intercompany eliminations for the year ended 31 December 2013 amounted to ₦127.6 billion and ₦4.3 billion, respectively. Zenith Bank (Sierra Leone) Limited's total assets and profit net of intercompany eliminations for the year ended 31 December 2013 amounted to ₦9.0 billion and ₦86 million, respectively. Zenith Bank (Gambia) Limited's total assets and profit net of intercompany eliminations for the year ended 31 December 2013 amounted to ₦4.4 billion and ₦8 million, respectively.

Pension custodial services

The Group's pension custodial services business is conducted through Zenith Pension Custodians Limited ("**Zenith Pensions**") which offers pension management and custodial services to pension funds in Nigeria. As at

31 December 2013, Zenith Pensions had ₦1,469 billion of funds under its custody of which ₦1,312 billion of funds were shared among the 61 open pension fund administrators and ₦157 billion of funds were shared among the eight closed pension funds administrators.

The main service offerings provided by Zenith Pensions include collecting pension contributions, paying beneficiaries from their retirement saving accounts, safekeeping of pension assets, managing real estate assets of the funds under its custody and the settlement of transactions to pension fund administrators in financial investments such as equities, bonds and treasury bills. Zenith Pensions also provides administrative and record-keeping services to the funds under its custody on a day-to-day basis.

Non-Core operations

Investment management and securities trading

This segment of the Group's business is made up of financial and investment advisory, stockbroking and margin trading services. The investment management and securities trading business provides investment advice, financial planning services and investment products (primarily through separately managed accounts such as mutual funds and private investment funds) to a diverse group of institutions and individuals. These activities were carried out through Zenith Securities Limited and Zenith Capital Limited, both of which are in the process of being divested. The divestment process is expected to be completed by the end of 2014. See *"– Recent Regulatory Developments – Divestment of non-banking subsidiaries"*.

Financial and investment advisory business

The financial and investment advisory business was established to deliver investment banking and capital market services to the Group's clients, advise start-up companies and provide business and financial advisory services to the Group's wide range of institutional clients, including governments, parastatals and corporations.

The main services provided by the financial and investment advisory business include advising with respect to the following: loan syndication, joint ventures, mergers and acquisitions, corporate finance, fund raisings, corporation reorganisation and restructurings, asset securitisations, corporate restructuring, privatisation and commercialisations and fund and asset management.

Stockbroking business

The Group's stockbroking business provides stockbroking services with respect to securities which are quoted on the NSE or traded over the counter. The main services provided by the stockbroking business include the execution of trade mandates of customers on the floor of the NSE, the nominal transfer of securities, verification of share certificates, revalidation of dividend warrants and the reconciliation of shareholdings with registrars.

General, health and life insurance business

The general, health and life insurance business provides a range of corporate, commercial and individual insurance products across various business lines. These activities are carried out through Zenith Life Assurance Company Limited, Zenith General Insurance Company Limited and Zenith Medicare Limited, all of which are in the process of being divested. The divestment process is expected to be completed by the end of 2014. See *"– Recent Regulatory Developments – Divestment of non-banking subsidiaries"*.

Zenith Life Assurance Company Limited focuses on group life and individual life policy cover, offering a range of traditional life insurance products, investment linked products, retirement and death benefit policies.

Zenith General Insurance Company Limited specialises in providing general non-life insurance products and services. These non-life products and services include aviation insurance, bonds, burglary and housebreaking insurance, computer coverage policies, contractors' all risks policies, building all risks insurance, fidelity guarantee, fire and special perils insurance, goods-in-transit policies, machinery breakdown coverage, marine hull insurance, marine cargo insurance, motor insurance, money insurance, plant all risks policies, group personal accident policies, public/general third-party liability insurance, householders' comprehensive insurance, professional indemnity insurance and personal accident insurance.

Zenith Medicare Limited operates as a health maintenance organisation that provides healthcare services for corporate and individual customers, through healthcare providers.

Other non-bank financial services

The Group also offers trustee services together with certain financial advisory services through Zenith Trustees Limited, which is in the process of being divested. The divestment process is expected to be completed in 2014.

For further information on how the Group is carrying out its divestment from the subsidiaries mentioned above, see "*Recent Regulatory Developments – Compliance Plan with Central Bank of Nigeria's Regulation on the Scope of Banking Activities – Divestment of non-banking subsidiaries*".

Administration and operations services division

The Group's operations are supported by its administration and operations services division which provides transaction processing services and technical support and infrastructure for the rest of the Group's divisions. Services provided include, amongst other things, payment and collections services, trade finance services, corporate services, due diligence and legal services.

Associates

The Group has a number of interests in companies which do not form part of the Group (the "**Associates**"). The interests in each Associate are not consolidated into the Group's financial statements due to the fact that the size of each interest is considered immaterial. The Group acquired these interests as a result of a CBN initiative designed to promote investment in small businesses. As at 31 December 2013, the Group held interests in Interswitch Limited and Accion Microfinance Limited. The aggregate cost of these investments was ₦107 million as at 31 December 2013.

As at 31 December 2013, the Group held 5 per cent. of shares in Interswitch Limited and 10 per cent. of shares in Accion Microfinance Limited.

Distribution Channels

As at 31 December 2013, the Group had a total of 340 branches in Nigeria. The Group's branch network is spread across Nigeria, other countries in Africa where it operates (Sierra Leone, the Gambia and Ghana) as well as one branch in the United Kingdom. The Group also has a representative office in South Africa and China. All branches are linked to the Group's IT system through V-SAT. Both wide area networks (WAN) and local area networks (LAN) are used to connect and integrate all of the Group's branches and business centres.

As at 31 December 2013, the geographical spread of the Group's branch network was as follows:

Business Geographical Locations	Number of Branches / Business Premises
Federal Republic of Nigeria – Banking operations	340
Lagos	129
Southern Zone	115
Abuja and Northern Zone	96
Federal Republic of Nigeria – Non-banking operations	4
Republic of Ghana	22
United Kingdom	1
Sierra Leone	4
The Gambia	2
South Africa Representative Office	1
China Representative Office	1

As at 31 December 2013, the Group had 18 Zonal Heads in Lagos, 16 Zonal Heads in Abuja and the Northern Zone and 10 Zonal Heads in the Southern Zone. The branches report to these Zonal Heads.

As at 31 December 2013, the Group also had approximately 75 off-site locations, strategically located in various commercial centres around Nigeria, in addition to its network of branches. These off-site locations comprise small business offices, such as kiosks, and are located in airports, university campuses, large shopping malls or the premises of core corporate customers of the Group. These off-site locations only offer deposit-taking services and the Group plans to undertake a transition from off-site locations to electronic channels for cash deposits and cash transfers in the coming years as restrictions on the use of cash are implemented throughout Nigeria as part of the CBN's cashless policy. The policy is principally aimed at improving electronic banking and stipulates limits for cash transactions completed within the banking system. The policy was implemented in phases across

Nigeria in 2013. In general, the Group conducts a thorough need-based analysis before opening a branch in a strategic location. The Group also continues to introduce new electronic products to meet the specific needs of customers who demand electronic banking.

ATM network

As at 31 December 2013, the Group had a total of 905 ATM machines with 855 in Nigeria, 47 in Ghana and 3 in Sierra Leone. The ATM machines are mounted in branches and strategic locations such as airports, university campuses, large shopping malls and premises of manufacturing firms employing large numbers of workers. Due to collaboration and shared services arrangements which the Bank has with other banks, ATM cards issued by the Bank are accepted by the ATM machines of other institutions.

The Group also collaborates with other card issuing agencies to offer internationally recognised cards, such as MasterCard and Visa, in different currencies to its customers.

Other distribution channels

Other distribution channels which the Group uses include electronic and online banking products and services, such as electronic fund transfers at points of sale, telephone banking, internet banking, mobile banking and the Group's call centres. In addition to being able to use its branches, ATMs and the network of third-party ATMs available throughout Nigeria under arrangements between the Bank and third-party vendors, the Group's customers are currently entitled to use the Bank's card products to pay for goods or services at sales outlets throughout Nigeria.

The Group has invested significantly in software which enables electronic product platforms to interface with core banking applications, hardware to enable data storage and improve processing speed and training its IT staff. The Group has also developed electronic delivery systems in order to implement multiple delivery channels, including its ATM networks, to its customers on mobile devices and over the internet. The Group's range of internet and mobile banking products and services offered to customers include collections and remittances of bills (including utility bills), real-time internet banking, purchase of mobile phone airtime, funds transfers, cheque requisitions and confirmations, balance enquiries and statement services. Specific electronic products offered by the Group include:

- *Corporate i-Bank* – a secure online solution that allows corporate customers to carry out banking transactions on the internet;
- *Zenith Payroll (Branch i-Bank)* – automates the end-to-end payroll process of the Group's customers, which eliminates the manual processes involved in the generation of monthly payroll, while also remitting funds electronically to staff accounts. The platform provides database backup, payroll reports, customisation option, secure payment authorisation and salary payments;
- *Xpath (Customised Branch Collections)* – allows customers to collect or receive remittance from their key distributors and customers through any branch of the Group. The platform also enables customers to capture specific information relating to their account. Other features of the product include the provision of electronic receipts, PIN vending and direct integration;
- *Internet Banking* – a real-time solution that provides customers with access to their account 24 hours a day, 7 days a week via the internet. Customers can check their balance, transfer funds, download applications for debit and credit cards, pay bills and request cheque books;
- *EazyMoney* – a mobile banking service which enables customers to carry out various banking transactions using their mobile phones. Some of the banking transactions that can be performed via the mobile banking platform include card balance enquiry, card-to-card transfers, mobile phone airtime purchase, bill payments, funds transfers to both other accounts held with the Group as well as those with other banks and local money transfers; and
- *Global Pay* – a convenient, flexible and secure platform for receiving payments through the internet. This platform accepts multi-currency transactions and also provides online transaction monitoring capabilities.

Anti-Money Laundering

The Group has implemented an anti-money laundering framework ("**AMLF**") in compliance with the Money Laundering (Prohibition) Act 2011, as amended, and Terrorism (Prevention) Act 2011, as amended, the CBN's guidelines and directives on know your customer ("**KYC**") checks and other anti-money laundering procedures. The AMLF is reviewed by the Group on a regular basis so as to ensure compliance with applicable laws and regulations as well as consistency with global best practices.

The objective of the AMLF is to establish the policies and procedures required to prevent the use of the Group's products or services for the purposes of money laundering activities, terrorism financing and other financial crime activities. Adherence to the AMLF policies is mandatory for all Group branches, head office business units and the Group's other local and overseas subsidiaries.

The Group Compliance Department, headed by the Group's Chief Compliance Officer, is responsible for monitoring the AMLF as well as ensuring that it is complied with across the Group. The Chief Compliance Officer is supported by staff at the Head Office and regional compliance officers. The key anti-money laundering policies, guidelines and practices of the Group are:

- verifying the identity of customers before commencing a business relationship with them;
- updating relevant information in relation to customers to ensure that information held by the Group is up-to-date and valid;
- establishing beneficial ownership or ultimate beneficiaries of all financial transactions;
- establishing the purpose of an account which is to be opened and the sources of funds that will be used to fund the account;
- monitoring and investigating suspicious transactions and, where required by law or regulation, reporting such transactions to relevant law enforcement agencies or regulators;
- complying with disclosure and/or reporting requirements in relation to customers' transactions;
- complying with documentation and record preservation requirements;
- co-operating with relevant law enforcement and regulatory agencies;
- training staff in respect of the anti-money laundering and counter terrorism financing policies and procedures of the Group; and
- disciplining staff that are found to have violated anti-money laundering policies and procedures.

Anti-Corruption Procedures

The Group has in place anti-corruption policies and procedures which help to reduce the risk of funds from corrupt activities being channelled through the Group's products and services. The key anti-corruption policies, guidelines and practices of the Group are:

- requiring top level management approval to open accounts or carry out transactions with public officers and/or politically exposed persons;
- reporting transactions by public officers and/or politically exposed persons;
- ensuring strict compliance with regulations guiding the conduct of banking transactions with governments, government agencies and parastatals;
- monitoring customers' accounts based on their transaction history, investigating any transactions beyond their established trends and reporting to relevant authorities, where necessary;
- complying with disclosure and/or reporting requirements in relation to customers' transactions;
- complying with documentation and record preservation requirements;
- co-operating with relevant law enforcement and regulatory agencies;
- training staff in respect of to the anti-corruption policies and procedures of the Group;
- disciplining staff that are found to have violated anti-corruption policies and procedures;
- implementing a limit on transactions that go through a staff account, followed by a prompt review of large and unusual transactions in staff accounts that have been triggered by the established limit, and where necessary, investigating the source and destination of such funds and taking appropriate disciplinary action against an employee, if required;
- reviewing activities on staff accounts at least once a month. For each level of staff in the Bank, there is a limit of turnover that is considered acceptable in relation to the staff's income levels; and
- investigating large and unusual transactions in staff accounts and, where necessary, taking appropriate action against a staff member.

Information and Communication Technology

The Bank recognises that the information and communication technology ("**ICT**") of the Group is critical to its business operations and success.

Over the years, the Group has made a substantial investment in ICT and such investment has enabled it to position itself as a technologically advanced banking provider in Nigeria. In the past five years, the Group has made a capital expenditure of ₦16.22 billion on ICT.

The Group manages its ICT through an Information Technology Steering Committee which is responsible for identifying projects and implementing information system plans and priorities. The Information Technology Steering Committee also monitors the performance of all technology deployed across the Group. For further information on the Information Technology Steering Committee see *"Management and Corporate Governance – Management Committees – Information Technology Steering Committee"*.

The principal components of the Group's ICT infrastructure, which includes servers, channels, communication equipment, software system, data centre, router, printers, network and security devices, are as follows:

- *Hardware Systems* – the Group uses high-end multiprocessor enterprise servers, with enterprise storage systems and tape backup facilities.
- *Network Architecture* – the communication channel of the head office is a LAN network that follows a hierarchical design based on Cisco's architecture for voice, video and integrated data. Access to the internet is protected using a combination of Cisco PIX firewalls, IDS/IPS, McAfee anti-virus and hardened web servers.
- *Software System* – the banking software that is used by the Group is Phoenix Banking System – Middle East and Africa (MEA) version ("**Phoenix**"). This software was chosen based on its rich functionalities, reliability, scalability, resilience and stability. Phoenix integrates with other software such as SWIFT and is "Straight Through Process" enabled. Additionally, the Group has built significant in-house expertise in relation to Phoenix over the years.

All branches and business centres are connected on-line in real time to Phoenix through various communication links, fibre, microwave and V-SAT link. Various electronic payment card products offered by the Group are linked on-line in real time to Phoenix through intermediary applications such as "POSTILION" and "ISO BRIDGE". POSTILION is a front end processor which interacts with all electronic products through the web, ATM, POS or other channels, while ISO BRIDGE verifies and validates all transactions processed by POSTILION before forwarding such transactions to Phoenix.

The Group aims to process information in accordance with principles of effective security controls and practices. These principles are implemented at all levels of the organisation within the ICT infrastructure. Specific examples of security measures include technical measures such as network firewalls or other security devices, training staff in general good practices such as ethics, use of the Internet and knowing who may access the information at the Group's disposal.

Business Continuity

The Group has a robust ICT Business Continuity Plan (the "**ICT BCP**") that enables it to manage operational risk and reduce the impact of a disaster. This helps to reduce the time needed in order to restore the Group's operations should a disaster occur. The ICT BCP is regularly tested in the form of scheduled "BCP Drills" to ensure that it can be quickly implemented in the event of disaster.

The Group's overall business continuity plan, which includes the ICT BCP described above, is a collection of processes designed to avoid or mitigate risks, reduce the impact of a disaster and reduce the time to restore the Group's operations following a disruption. Disaster recovery and contingency planning are integral parts of the Group's business continuity plan, which in turn is an integral part of the overall business plan of the Group. The Group has in place a six-pronged business continuity plan comprised of business impact analysis, disaster prevention, disaster recovery planning, business continuity, contingency operations and testing and an overall disaster recovery checklist. The business continuity plan aims to ensure that the Group is able to operate on an on-going basis and that it is able to limit losses in the event of an operational disruption caused by internal and external threats such as fire, earthquakes, system failures or malicious damage. The Group's business continuity plan is initiated if an event is determined to be a disaster which will interrupt the Group's operations by more than the allowed maximum downtime as set out in the plan.

The operational effectiveness of the Group's information technology systems as well as the communication networks between its branches and main data processing centres are critical to the success of its business and continued competitiveness in the market place. The Group's Operational Risk Unit in conjunction with its IT department coordinates bank-wide preparedness for business disruptions and takes steps to mitigate business continuity risks by reviewing and testing recovery procedures to try to ensure that recovery time objectives and recovery point objectives are achieved. The Group also has a modern data recovery centre where it backs up its information.

Insurance

The Group's insurance coverage is administered and maintained in accordance with certain insurance guidelines established as part of the Group's administrative policy. Categories of insurance outlined by this policy and maintained by the Group include:

- life assurance (to provide for the payment of capital sum (sum assured) to the dependants of an employee who dies while in the service of the Group);
- fidelity guarantee insurance (protecting against fraudulent acts or omissions by the Group's employees);
- money insurance (covering money, local and foreign currency, in transit, cash held in the Bank's safes/ vaults and money in the custody of cashiers);
- workmen's compensation insurance (indemnifying the Group against losses arising from compensation paid to its employees as a consequence of personal injury, accident or disease incurred in the course of or arising from their employment with the Group);
- public liability insurance (covering against any third-party liability arising from damages as a result of the acts or omissions of the Group); and
- fire and special peril insurance (to provide indemnity for losses or damages sustained by the Group resulting from fire, lightening, explosion, flood, riot and strike, on assets such as buildings, office fixtures, fittings, furniture and plant and equipment).

Additional insurance policies cover loss or damage to motor vehicles (including a self insurance scheme maintained by the Group), computer and communication equipment, burglary and house break and comprehensive householder insurance in respect of all goods and personal effects. Like other peer banks, the Group does not maintain insurance on directors or key personnel, other than the insurance policies described above applicable to all employees.

The insurance portfolio of the Group is reviewed and renewed annually, in consultation with a qualified insurance practitioner in accordance with the administrative policy guidelines. The Bank believes that the level of the Group's insurance is consistent with the Nigerian industry market practice and complies with all regulatory requirements.

Employees

The following table sets out the number of employees as at the dates below:

	As at 31 December		
Employees	**2013**	**2012**	**2011**
Directors	8	13	15
Management staff	468	435	476
Non-management staff	6,825	7,431	8,321
Total staff	**7,301**	**7,879**	**8,812**

All employees of the Bank belong to either of two voluntary associations. The senior staff and professional staff belong to the Association of Senior Staff of Bank, Insurance and Financial Institutions and the junior staff members belong to the National Union of Banks, Insurance and Financial Institutions Employees. Membership of either of the associations is not mandatory. There are no collective agreements between the Bank and either of the associations. By law, the associations do not have the power to compel the Bank's staff to undertake industrial action and there have been no such industrial action in the past.

As at 31 December 2013 geographical distribution of staff was as follows:

Business Geographical Locations	Total staff	Directors	Management	Non-Management
Nigeria – Banking operations	6,615	4	455	6,156
Nigeria – Non-banking operations	82	—	2	80
Ghana	440	1	4	435
United Kingdom	41	1	3	37
Sierra Leone	56	1	2	53
The Gambia	67	1	2	64

Corporate Responsibility Strategy

The Group's Corporate Social Responsibility ("**CSR**") policy focuses on research-based identification of the most pressing needs of the communities in which the Group operates. The Group's CSR strategy emphasises sustainability and continuity of projects, which at times necessitates the engagement of specialised NGOs, experts and interest groups. The Group believes this emphasis has helped to improve the impact of the Group's projects and has made the Group's CSR policies stand out in its business environment. The Group's CSR projects also aim to complement the socio-economic policies pursued by the Nigerian government such as the Millennium Development Goals and Vision 20:2020.

Focus of CSR

"Zenith Philanthropy" was set up in 2002 to help meet the socio-economic needs of the communities in which the Group operates. Up to 3 per cent. of the Group's annual profit is used to meet these needs every year, and the Group uses follow up and impact analysis to achieve each project's objectives as well as to monitor its sustainability.

The Group's major areas of focus include:

- *Health* – children receive sponsored medical treatment either locally or abroad. Adults with special medical needs may also benefit from this programme.
- *Education* – the Group offers scholarships and training to high achieving students in primary, secondary and tertiary institutions whose lack of access to funds means that their education would otherwise be discontinued. The Group also offers a full scholarship scheme for children who have lost one or both parents so that they may continue to attend primary through tertiary level education. For university students, the Group offers cash awards and offers of employment to the best performing students in certain departments of Nigerian universities.
- *Youth empowerment* – the Group's focus is mainly on the ICT development of Nigerian youth. The Group has donated fully equipped, modern ICT centres to several universities in Nigeria. The objective of this scheme is to help enable Nigerian students to compete with their counterparts in more developed countries. The Group also donates laptops, personal digital assistants and other ICT tools to students, public schools and youths on an annual basis.
- *Public infrastructure development* – the Group supports the Nigerian government in developing public infrastructure such as roads, hospitals, medical facilities and public schools.

The Group believes it benefits from goodwill, brand recognition and brand loyalty as a result of its commitment to the communities in which it operates.

Property

As at 31 December 2013, the Group held property in the form of freehold and leasehold land and buildings with a book value of ₦15,118 million. The Group leases approximately 48 per cent. of its branches and business centres from third parties pursuant to long-term renewable leases and owns the remainder including the Group head office. As at 31 December 2013, the Group's lease rental expense was approximately ₦2.5 billion. All the property owned by the Group is recorded at its depreciated amount and there is no revaluation reserve relating to property in the books of the Group.

Legal Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the past 12 months a significant effect on the Bank and/or the Group's financial position or profitability.

Related Party Transactions

The Bank and other entities within the Group have entered into a number of banking transactions with Directors, related entities and other persons that fall within the scope of the Group's definition of related parties. These transactions include provision of credit facilities, taking deposits and foreign currency transactions. As at 31 December 2013, total credit facilities granted to related parties amounted to ₦10.6 billion compared to ₦7.8 billion as at 31 December 2012 and ₦20.5 billion as at 31 December 2011. Off balance sheet transactions with related parties outstanding as at 31 December 2013 amounted to ₦9.8 billion compared to ₦13.47 billion and ₦17.78 billion as at 31 December 2012 and 2011, respectively, and related party deposits amounted to ₦103 million compared to ₦349 million and ₦3,809 million as at 31 December 2012 and 2011, respectively. Transactions with related parties are entered into on terms that are comparable to transaction terms and conditions made in the normal course of business. For further information on related party transaction involving the Group please see note 38 of the 2013 and 2012 Financial Statements, and note 39 of the 2011 Financial Statements.

Recent Developments

On 20 February 2014, President Goodluck Jonathan announced the suspension of the CBN Governor Mallam Sanusi Lamido Sanusi over the allegation that the CBN Governor's tenure had been characterised by various acts of financial misconduct, and appointed the Deputy Governor of Economic policy of the CBN, Dr. Sarah Alade, as Acting CBN Governor. Governor Sanusi's 5 year term was already due to expire on 3 June 2014, and the President subsequently nominated Mr. Godwin Emefiele, the Managing Director/Chief Executive Officer of the Group, as the new CBN Governor, subject to confirmation by the Senate in accordance with the Central Bank of Nigeria Act, No. 7 of 2007. Mr. Emefiele's appointment as CBN Governor was confirmed by the Senate on 26 March 2014 and will take effect beginning on 3 June 2014. On 31 March 2014, the Board announced the appointment of Mr. Peter Amangbo, who is currently an executive director and member of the Board, as Mr. Emefiele's successor, subject to approval by the CBN.

ASSET, LIABILITY AND RISK MANAGEMENT

General

Following is a summary of the Group's asset, liability and risk management policies. Further details of the Group's financial risk management policies are contained in Note 3 of the 2013 Financial Statements. The principal risks associated with the business of the Group include financial risks, namely, credit risk, liquidity risk and market risk (which includes interest rate risk, foreign exchange rate risk and other price risks) as well as other risks such as operational risk, strategic risk, legal risk, reputational risk, taxation risk, compliance risk and insurance risk.

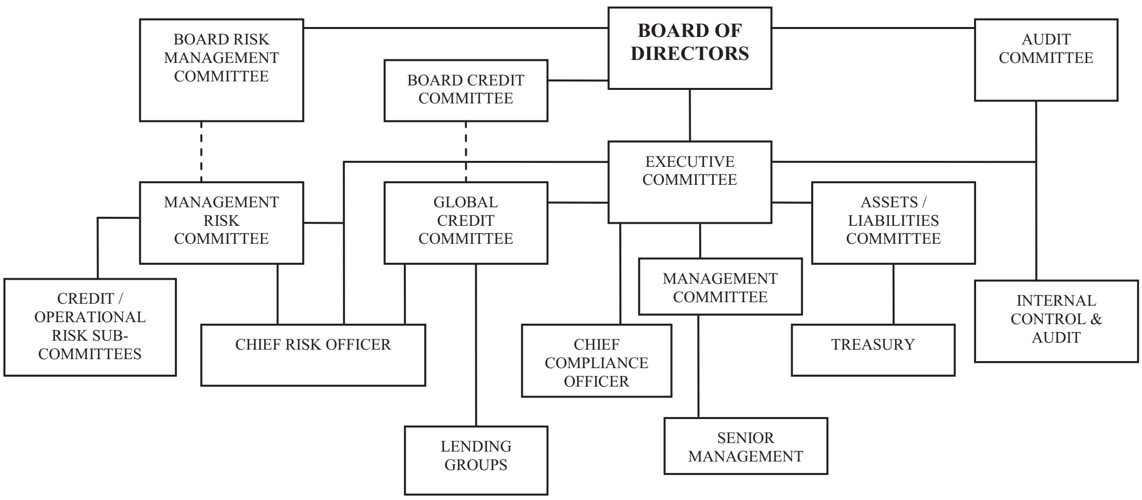
Although the ultimate responsibility for risk management lies with the Board, which in turn delegates to senior management, the Group seeks to instil awareness of risk and risk management across the Group and promote a responsible approach to risk.

Risk Management

The Group adopts an integrated approach to risk management by bringing all risks together under a limited number of oversight functions. As part of its risk management policy, the Group segregates 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.

The Group addresses the challenge of risks comprehensively through the ERM Framework by applying practices that are supported by a governance structure consisting of board level and executive management committees. 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.

The Group's risk management governance structure is depicted below:



The Board monitors 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 Management Committee (the "**BRC**") sets the Group's risk philosophy, policies and strategies and provides guidance on the various risks faced by the Group and how they can be managed.

The Board's risk control functions are supported by the Global Credit Committee (the "**GCC**") and the Management Risk Committee (the "**MRC**") which help the Board develop and implement various risk strategies. The GCC manages the credit approval and documentation activities and helps to ensure that credit policies and procedures are aligned with the Group's business objectives and strategies. The MRC manages financial risks (market, liquidity and credit risks), operational risks, as well as strategic and reputational risks.

The MRC, which reports to the BRC, is responsible for risk management within the Group and branches and subsidiaries provide information to the BRC on a regular basis for risk review. The Group manages its risks through the ERM Framework which implements comprehensive risk management processes throughout the Group's organisational structure and risk measurement and monitoring activities. The Group has also implemented specific risk management policies with respect to each of credit, market and operational risk. All of the Group's activities are profiled and risk trends are monitored for each activity on a monthly basis. The Group regularly modifies and enhances its risk management policies and systems to reflect changes in markets, products and international best practices. All risk management policies are reviewed on at least an annual basis and details of the Group's risk management policies are contained in the ERM Framework.

The key features of the ERM Framework are:

- the Board provides overall risk management direction and oversight;
- risk management is embedded in the Group as an intrinsic process and is a core competency of all its employees; and
- the Group's risk management function is independent from business divisions.

The CBN's risk management guidelines prescribe quantitative and qualitative criteria for the identification of significant risk taking activities and sets applicable thresholds for determining significant risk taking activities within the Group.

Risk management structures and processes are reviewed on an annual basis to ensure their adequacy and appropriateness for the Group's risk and opportunities profile as well as bringing them up-to-date with changes in strategy, business environment and trends in risk management.

Risk Appetite

The Group's risk appetite describes the quantum of risk that it would assume in pursuit of its business objectives at any point in time. For the Group, it is the core instrument used in aligning its overall corporate strategy, its capital allocation and risks. The Group's risk appetite is defined at quantitative and qualitative levels. The quantitative approach is based on earnings at risk methodology, which reflects credit risk, market risk and operational risk.

The Group defines its risk appetite quantitatively at two levels: enterprise level and business/support unit level. To define the relevant risk levels, the Board sets target key performance indicators ("**KPIs**") at both enterprise and business/support unit levels based on recommendations from the Management Risk Committee. The Group 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.

The criteria used in estimating the materiality of each activity is based on the following:

- the strategic importance of the activity and business unit;
- the contribution of the activity/sector to the total assets of the Group, sub-group or segment within the Group;
- the net income of the activity or business unit; and
- the risk inherent in the activity or business unit.

The Group defines its risk appetite qualitatively by considering the non-measurable risks (risks that are difficult to quantify).

In order to achieve its overall strategy, the Group has defined risk appetite limits and thresholds, including its non-performing loan ("**NPL**") ratio (3.0 per cent.), treasury trading limit (between U.S.$7.5 million and U.S.$14.0 million for foreign exchange trading and between ₦15 billion and ₦18 billion for bond and Treasury bills trading, depending on the traders experience levels), cost to income ratio (57.10 per cent. in 2013 and 53.95 per cent. in 2012).

Credit Risk

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet its contractual financial obligations, resulting in a default situation and/or financial loss. Credit exposures arise principally in credit related risk that is embedded in loans, advances and investments. There is also credit risk in off-balance sheet financial instruments, such as letters of credit, guarantees and loan commitments.

The Group has dedicated credit standards, policies and procedures, which are set out in the Group's credit risk policy manual (the "**Credit Risk Policy Manual**"). Substantive procedural manuals and policies in respect of credit risk are held by the Group's Credit Assessment and Documentation department which govern the Group's credit selection, underwriting and operational processes. The Group's Credit Portfolio function is guided by a credit portfolio plan to control and monitor intrinsic and concentration risks through all credit levels of selection, underwriting, administration and control. Some of these policies include:

- credit is only extended to suitable and well identified customers and not when there is any doubt as to the ethical standards and record of the prospective borrower;
- exposures to any industry or customer will be determined by the applicable regulatory guidelines, internal policies, debt service capability and balance sheet management guidelines;
- credit is not extended to customers where the source of repayment is unknown or speculative and where the destination of funds is unknown;
- there must be a clear and verifiable purpose for the use of the funds;
- 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;
- the primary source of repayment for all credit must be from an identifiable cash flow from the counterparty's normal business operations or other financial arrangements and enforcement of security is viewed as a fall back option;
- the use of a pricing model that reflects variations in the risk profile of various credits in order to help ensure that higher risks are compensated by higher returns; and
- loans to related parties are subject to regulatory and internal limits and are disclosed as required.

The consequences for non-compliance with the Credit Risk Policy Manual and credit indiscipline are communicated to all staff.

The key factors considered in credit risk management are the credit selection criteria (such as the credit history and the capacity of customers), the possibility of default, the size of the facility if default occurs and estimated rate of recovery. All loans and indirect credits, such as guarantees and bonds as well as treasury investments undergo a formal credit analysis and rating process in order to assess their credit risk to the Group.

The Group operates a centralised credit approval and disbursement process with all credit approval handled by the Bank's head office through the GCC. Credits are originated from the branches/business groups and subjected to reviews at various levels before presentation to the GCC for approval. All credits presented for approval are required to be in conformity with the documented and communicated risk acceptance criteria. None of the branches or business groups have been delegated the authority to make credit decisions.

The Group's internal credit approval limits for the GCC is for amounts up to ₦7 billion and for the Board Credit Committee is for amounts above ₦7 billion, but not exceeding 20 per cent. of total shareholders' funds. Credit approvals that exceed the Board Credit Committee's threshold are reviewed and determined by the full Board.

These internal approval limits are set and approved by the Board and are reviewed annually or as the state of affairs of the Group and the wider financial environment demands.

The Group's exposures are monitored through a system of triggers and early warning signals aimed at detecting adverse 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 the Group's management. The results of the monitoring process are reflected in the internal rating process in a quarterly review, which is supervised by senior management. Credit risk is monitored on an ongoing basis with formal weekly, monthly and quarterly reporting to ensure that the Group's senior management are aware of shifts in credit quality and portfolio performance and to take into account changing external factors such as economic and business cycles.

The Group's credit review team, an independent and central credit risk assurance unit, is responsible for monitoring and reviewing all transactions on loan accounts and reports directly to the LRC, which in turn reports to a committee comprising all Executive Directors (the "**Executive Committee**"). A specialised and focused loan recovery and workout team, which functions as an independent loan remediation unit, is responsible for salvaging delinquent loans or any other loan account referred to it by the LRC and handles the management and collection of challenged credit facilities. The loan review and workout department reports to the Executive Committee through an Executive Director.

Portfolio diversification is a key part of the Group's credit risk mitigation strategy which is implemented through an analysis of the Group's customer, industry and geographical credit concentrations. Concentration limits are set by industry/sector, geographical region and customer/group of connected persons. These concentration limits help the Group to diversify its portfolio and to avoid excessive exposure to a particular geographical region, industry segment or connected entity or person. In addition, the Group uses a variety of techniques to help limit the credit risk arising from its lending activities such as taking collateral, security or other credit enhancements from borrowers, assigning internal credit ratings to all borrowers, monitoring loan accounts for early warning signals in order to identify those that may go into default and following a selective approach in its lending activities.

Collateral

The Group secures its loans and advances by demanding collateral as alternative sources of repayment during adverse conditions. All major credit facilities of the Group's customers are secured, and the security instruments and documentation must be perfected with all conditions precedent met before drawdown or disbursement is permitted. The Group analyses the collateral based on a definition of the collateral, its value, how the value was arrived at and when the valuation was made, as well as any potential adverse changes in the value of the security in the foreseeable future.

Collateral securities that are pledged must be in negotiable form and usually fall under one of the following categories:

- real estate, plant and equipment collateral (e.g., asset or mortgage debenture or charge), which must be registered and enforceable under Nigerian law;
- inventory, accounts receivable, machinery equipment, patents, trademarks, farm products and general intangibles, which require a security agreement (e.g., floating debenture) and must be registered and enforceable under Nigerian law;
- stocks and shares of publicly quoted companies;
- domiciliation of proceeds from contracts;
- cash;
- documents of title to goods; and
- letters of lien.

Collateral is usually valued and inspected prior to disbursement and on a regular basis until full repayment of the exposure at least once a year. The Group conducts a annual review of all collateral documentation and specific gaps in such documentation are submitted to the appropriate lending group or branch for further action and follow-up.

The type and size of collateral held as security for financial assets other than loans and advances is typically a function of the nature of the instrument. The Group's debt securities, treasury and other eligible bills are normally unsecured.

As a result of an increase in the Group's syndicated loans and facilities to large corporate customers (in particular to existing clients), which are not collateralized but may be guaranteed, the value of the Group's collateral decreased in 2013 from 2012. The following table sets forth the collateral held by the Group and their carrying amounts as at 31 December 2013:

	Total exposure of the Group	Total value of collateral of the Group
	(₦ millions)	
Secured against real estate	177,379	137,292
Secured by shares of quoted companies	32,482	10,652
Cash collateral, lien over fixed and floating assets	860,299	340,038
Unsecured	105,962	—
Total	**1,276,122**	**487,982**

The following table sets forth the collateral held by the Group and their carrying amounts as at 31 December 2012:

	Total exposure of the Group	Total value of collateral of the Group
	(₦ millions)	
Secured against real estate	164,620	185,137
Secured by shares of quoted companies	11,217	7,507
Cash collateral, lien over fixed and floating assets	788,155	535,830
Unsecured	50,534	—
Total	**1,014,526**	**728,474**

Internal credit ratings

Each borrower of the Group is rated based on an internally developed debt rating model, devised by the credit administration department in collaboration with the Group's IT division, that evaluates risk based on financial, qualitative and industry specific inputs. The Group uses a credit risk rating system to ensure that the rating criteria and procedures are appropriate given both the Group's current portfolio and external conditions. The associated loss estimate norms for each grade have been developed based on the experience of the Group. All models materially impacting the risk rating process are reviewed in accordance with the Group's credit risk policy. The Group has engaged the services of risk consultants to assist in the migration to Basel II standards. The migration process is projected to be completed within the next 12 months and the Group continues to progress this workstream. See "*– Basel II Implementation*" for further information.

The Group reviews each borrower's rating annually in order to incorporate new financial information which has become available as well as any experience gained in the development of the banking relationship with the relevant borrower. The frequency of the reviews increases for clients who reach certain levels in the automatic warning systems.

The Group has deployed a robust internal rating model for some business units with a view to improving the identification of economic and financial threats due to credit risk. This rating model incorporates the outcomes of the review being carried out by the external consultants engaged for Basel II migration in addition to the existing capabilities of the internally developed debt rating model that was developed in 2010. For loans, advances and amounts due from banks, each individual borrower is rated a grade from AAA (extremely low risk) to D and Unrated. The credit rating system seeks to achieve the foundation level of the internal ratings based approach under Pillar 1 of Basel II.

Zenith group rating	Description of the rating	Equivalent external rating
AAA	Investment risk (extremely low risk)	AAA
AA	Investment risk (very low risk)	AA
A	Investment risk (low risk)	A
BBB	Upper standard grade (acceptable risk)	BBB
BB	Lower standard grade (moderate high risk	BB
B	Non investment grade (high risk)	B
CCC	Non investment grade (very high risk)	CCC
CC	Non investment grade (extremely high risk)	CC
C	Non investment grade (high likelihood of default)	C
D	Non investment grade (lost)	D
Unrated	Unrated	Unrated

These equivalent external ratings are based on equivalent ratings by Agusto & Co., a Nigerian lending rating agency. These ratings are not equivalent to ratings by international ratings agencies, such as S&P, Fitch or Moody's. As a result of uncertainties present in the Nigerian political, economic, legal and regulatory environment and higher risk of fraud, the credit risk of Nigerian borrowers is relatively high, and the assessment of credit risk may be more challenging than for borrowers in more developed markets. See "*Risk Factors—Risks relating to the Nigerian banking sector—The high credit risk of Nigerian borrowers and the lack of a fully-developed central credit bureau in Nigeria may adversely affect the Group's loan portfolio*" and "*Selected Statistical and Other Information—Credit Quality of Loans*".

Debt instruments

With respect to debt instruments which include financial instruments such as government securities (treasury bills and bonds), the Group takes the following into consideration in the management of the credit risk associated with such instruments:

- external ratings of such instruments/institutions by rating agencies, e.g., Fitch, Standard & Poor's, Agusto & Co.;
- internal and external research and market intelligence reports; and
- regulatory agencies' reports.

In addition to the above, the Group has put in place a conservative limits structure, which is monitored at least annually, to limit the Group's risk exposure on these types of securities. The structure covers both long and short positions in the Group's trading book.

Stressed Asset Management

The Loan Review and Recovery Group ("**LRRG**") coordinates and controls the management of all stressed assets to minimise risks, prevent losses, maximise recoveries and restore profits through restructuring or work-out strategies, direct recovery and/or legal action. LLRG monitors payment delays, coordinates with respective business units in the Group about collecting payments, prepares a recovery strategy for delinquent accounts and executes the strategy, calculates any provisioning and recommends write-offs when appropriate.

Restructuring policy

The Group's Board Credit Committee may, from time to time, grant approval for restructuring of certain facilities, in order to maximise collection opportunities and minimise the risk of default. When deciding whether to grant approval, the Board Credit Committee considers the existing conditions of the borrower, such as its present and future cash flows. The revised terms of restructured facilities usually include extended maturity, changed timing of interest payments and amendments to the terms of the loan agreement. When loans are restructured, the loan is deemed performing.

Write-off policy

The Group writes off a loan balance when the Group's credit department determines that the loan is uncollectable and had been declared delinquent and classified as lost. Such determination is made after considering information such as the continuous deterioration of the customer's financial position, such that the customer can no longer pay the obligation or that proceeds from the collateral will not be sufficient to pay back the entire exposure.

Board approval is required for any write-off and the loan recovery department continues with recovery efforts. The Group keeps records of any write-offs for review, and follows up with any borrowers in the event of positive developments which would allow the collection of any amounts written-off. Any loan subsequently recovered is treated as other income.

Market Risk

The Group undertakes trading and investment activities in fixed income securities such as bonds, treasury bills, inter-bank takings and placements, as well as foreign exchange trading, all of which give rise to market risk exposure (i.e., the risk that the fair value or future cash flows of the Group's trading and investment positions or other financial instruments may fluctuate because of changes 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 volatility.

Market risk exposure can be broadly categorised into:

- trading market risks that arise primarily through trading activities and market making activities and include taking positions in foreign exchange and fixed income securities (bonds and treasury bills) and
- non-trading market risks that arise from assets and liabilities that are usually held by the Group for a longer period of time, but where the intrinsic value is a function of the movement of financial market parameters.

The Group has an independent Market Risk Management Unit ("**MRMU**") which assesses, monitors, manages and reports on market risk taking activities across the Group. The MRMU's activities are guided by its detailed policy and procedures contained in the Group's market risk management policy. The MRMU, the Group's Treasury group (the "**Treasury Group**"), the Internal Control and Audit group and other risk management groups work closely in tandem in managing the market risk exposures of the Group. The MRMU liaises with the Treasury Group on a daily basis and is responsible for the independent pricing and revaluation of positions held by traders on treasury bills, bonds and foreign exchange trading positions as well as other similar assets held by the Group. In addition, the MRMU measures and monitors risk parameters and metrics associated with both trading and trading strategies. The Internal Control and Audit group reviews the activities of other groups in addition to those of the MRMU. The Internal Control and Audit group and the Group's Compliance department ensure that the Treasury Group complies with established controls as well as internal and external regulations.

The Group currently adopts both a Value at Risk ("**VaR**") and a Non-Value at Risk ("**Non-VaR**") approach for quantitative measurement and control of market risks in both trading and non trading activities. VaR, in general, is a quantitative measure of market risk that applies recent historic market conditions to estimate the maximum potential future loss in market value in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses/units and products over time and can be set against actual trading profit and loss outcome. The VaR measurement cover: interest rate, currency and residual risk elements. The Non-VaR measurement cover: duration, factor sensitivities (Pv01), stress testing and aggregate open position. The measured risks are monitored against the pre-set limits established by the Group on a daily basis and discrepancies are investigated and reported in line with the Group's internal policies and guidelines. The limits are reviewed by the MRMU and approved by the Board at least annually and reflect the risk appetite approved by the Board.

The Group has implemented Reuters Kondor, a treasury risk management software program which will further enhance its market risk measurement capabilities. The software is currently managed by MISYS and it is an end-to-end system with suites for front office, middle office/risk management and back office. The module used for measurement is called Kondor Value at Risk. This module will be used for measurement, stress testing and back-testing.

Foreign exchange risk

The Group is exposed to fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group manages part of its foreign exchange risks through derivatives and hedging instruments. These are mainly managed by the Treasury Group which operates within approved intra-day and overnight Net Open Position ("**NOP**") internal limits for overall overnight and intra-day positions to minimise the Group's risk exposure to exchange rate volatility. The NOP limit set by the CBN is currently 1 per cent. of shareholders' funds. However, the Group adopts a more conservative limit of 75 per cent. of the overall limit assigned by the CBN. In addition, the Group adopts individual currency NOP limits agreed for each currency pair (subject to the overall NOP limit and factor sensitivity to recognise cash-flow risk) which are approved by the Board. There are also other limits that are utilised in managing foreign exchange risks, such as tenor limits, management action triggers, permitted currencies, off-market rate and dealer limits.

For the year ended 31 December 2013, the Group operated primarily in seven foreign currencies with a significant percentage of transactions involving U.S. dollars. A six month analysis (between July to December 2013) shows that 92.30 per cent of trading activities were done in U.S. dollars with the remainder spread across the following currencies: Euros (6.21 per cent.), Pounds Sterling (1.35 per cent.), Swiss Francs (0.09 per cent.), the South African Rand (0.03 per cent.), Japanese Yen (0.00 per cent.) and the Swedish Kroner (0.01 per cent.).

The following tables set out the Group's exposure to foreign currency exchange rate risk as at 31 December 2013, 2012 and 2011.

	As at 31 December 2013					
	Naira	Dollar	GBP	Euro	Others	Total
	(₦ millions)					
Assets						
Cash and balances with central banks	426,581	119,433	38,064	19,750	23	603,851
Treasury bills	572,598	—	13,789	—	54	586,441
Due from other banks	152,267	81,201	128	2,011	21,122	256,729
Loans and advances to customers (gross)	921,643	296,435	578	—	57,466	1,276,122
Investment securities	212,523	40,259	—	49,729	624	303,125
Other assets (gross)	36,052	—	3,071	—	1,752	40,875
	2,321,664	**537,318**	**55,630**	**71,490**	**81,041**	**3,067,143**
Liabilities						
Deposits from customers	1,831,245	424,241	5,852	13,300	2,117	2,276,755
Other liabilities	25,937	168,695	2,423	16,034	2,554	215,643
On-lending facilities	59,528	—	—	—	—	59,528
Borrowings	—	60,150	—	—	—	60,150
	1,916,710	**653,086**	**8,275**	**29,334**	**4,671**	**2,612,076**
Net on-balance sheet position	404,954	(115,768)	47,355	42,156	76,370	455,067

	As at 31 December 2012					
	Naira	Dollar	GBP	Euro	Others	Total
	(₦ millions)					
Assets						
Cash and balances with central banks	321,907	660	6,786	58	3,104	332,515
Treasury bills	647,475	—	—	—	21,689	669,164
Due from other banks	12,359	149,924	4,046	—	15,691	182,020
Loans and advances to customers (gross)	836,219	165,184	712	—	12,411	1,014,526
Investment securities	256,905	33,546	6,604	1,019	1,269	299,343
Other assets (gross)	21,770	—	—	—	11,532	33,302
	2,096,635	**349,314**	**18,148**	**1,077**	**65,696**	**2,530,870**
Liabilities						
Deposits from customers	1,653,908	190,330	5,259	8,027	71,720	1,929,244
Other liabilities	11,608	88,221	1,954	14,228	1,344	117,355
On-lending facilities	56,066	—	—	—	—	56,066
Borrowings	—	15,138	—	—	—	15,138
	1,721,582	**293,689**	**7,213**	**22,255**	**73,064**	**2,117,803**
Net on-balance sheet position	375,053	55,625	10,935	(21,178)	(7,368)	413,067

	As at 31 December 2011					
	Naira	Dollar	GBP	Euro	Others	Total
	(₦ millions)					
Assets						
Cash and balances with central banks	218,549	363	4,215	48	12	223,187
Treasury bills	510,675	—	—	—	63	510,738
Due from other banks	7,395	179,940	30,931	16,192	63	234,521
Loans and advances to customers (gross)	800,421	70,946	45,901	3,295	58	920,621
Reinsurance assets and insurance receivables	—	—	—	—	—	—
Investment securities	283,767	—	21,682	—	2,782	308,231
Other assets (gross)	22,972	476	5,419	—	—	28,867
	1,843,779	251,725	108,149	19,535	2,978	2,226,165
Liabilities						
Deposits from customers	1,465,256	135,474	46,866	7,862	—	1,655,458
Other liabilities	—	21,070	—	—	—	21,070
On-lending facilities	4,173	66,426	69,783	12,321	133	152,836
Borrowings	49,370	—	—	—	—	49,370
	1,518,799	222,971	116,648	20,182	133	1,878,734
Net on-balance sheet position	324,980	28,754	(8,500)	(647)	2,845	347,431

Interest rate risk

The Group is exposed to a considerable level of interest rate risk. Interest rate changes are quite frequent in the Group's areas of operations, for example the Monetary Policy Rate of Nigeria was raised six times in 2011. There were no changes in 2012 and 2013 and the MPR is currently 12 per cent. Changes in MPR, if not managed properly, tend to impact negatively on net interest income of a bank, due to the fact that the MPR is the benchmark rate for lending and borrowing, especially from the CBN. A movement in this benchmark rate also affects deposit and lending rates to individuals and businesses. If deposit rates increase in response to an increase in the MPR and there is no corresponding increase in a bank's lending rate, the net interest margin will shrink and vice-versa. In January 2014, the CBN's Cash Reserve Requirement (the "**CRR**") for public sector deposits (i.e. deposits of all tiers of government, including ministries, departments, agencies and government-owned enterprises) was increased to 75 per cent. from 50 per cent. In the long term, the Group expects the change in the CRR to result in a higher interest rate environment. The Group has 52 per cent. of its deposit liabilities in non-rate sensitive liabilities as at 31 December 2013, a factor that makes the Group less vulnerable to interest rate risk exposures. The Group also has some flexibility in adjusting both lending and deposit rates to help deal with various scenarios.

The following table sets out a sensitivity analysis of the Group's interest rate risk. The sensitivity analysis applied to the profit before tax as a result of potential changes in the market interest rates is for the twelve months ended 31 December 2013 and 2012. The numbers reflect the immediate effect on the income statement of each scenario for the Group's interest rate positions on variable rate instruments.

Effect of 100 basis points movement on profit before tax	**For the twelve months ended 31 December**	
	2013	**2012**
	(₦ millions)	
Increased interest rates	7,122	5,991
Decreased interest rates	(7,122)	(5,991)

The following table summarises the Group's interest rate gap position.

	As at 31 December 2013					
	Up to 1 month	**1-3 months**	**3-6 months**	**6-12 months**	**Over 1 year**	**Total rate sensitive**
	(₦ millions)					
Financial assets						
Cash and balance with central banks	150,400	—	—	104,758	—	255,158
Treasury and other eligible bills (Amortized cost)	120,740	234,094	233,661	7,946	—	586,441
Due from other banks	256,729	—	—	—	—	256,729
Derivative assets held for risk management	2,681	—	—	—	—	2,681
Loans and advances to customers (gross)	496,418	69,133	52,286	74,612	583,673	1,276,122
Investment Securities (Amortized cost and Fair value through OCI)	—	39,384	151	70,755	192,835	303,125
Total assets	1,026,968	342,611	276,098	258,071	776,508	2,680,256
Financial liabilities						
Customer deposits	977,400	94,192	5,282	12,138	—	1,089,012
On-lending facilities	1,309	31,804	2,000	1,560	22,855	59,528
Borrowing	—	—	—	—	60,150	60,150
Total liabilities	978,709	125,996	7,282	13,698	83,005	1,208,690
Total interest repricing gap	48,259	216,615	268,816	244,373	693,503	1,471,566

	As at 31 December 2012					
	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Total rate sensitive
			(₦ millions)			
Financial assets						
Cash and balance with central banks	129,969	—	—	22,410	—	152,379
Treasury and other eligible bills (Amortized cost)	118,642	161,776	357,465	30,586	695	669,164
Due from other banks	179,920	—	2,100	—	—	182,020
Loans and advances to customers (gross)	409,039	95,370	31,099	64,611	414,407	1,014,526
Investment Securities (Amortized cost and Fair value through OCI)	18,400	50,545	1,958	45,283	183,157	299,343
Total assets	855,970	307,691	392,622	162,890	598,259	2,317,432
Financial liabilities						
Customer deposits	952,766	110,548	34,596	4,944	16,198	1,119,051
On-lending facilities	1,142	—	270	—	54,654	56,066
Borrowing	318	—	—	697	14,123	15,138
Total liabilities	954,226	110,548	34,866	5,641	84,975	1,190,255
Total interest repricing gap	(98,256)	197,143	357,756	157,249	513,284	1,127,777

	As at 31 December 2011					
	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Total rate sensitive
			(₦ millions)			
Financial assets						
Cash and balance with central banks	36,560	—	—	7,010	—	43,570
Treasury and other eligible bills (FVTPL)	—	—	—	—	—	—
Treasury and other eligible bills (Amortized cost)	7,329	170,000	191,977	141,432	—	—
Due from other banks	34,121	200,400	—	—	—	234,521
Loans and advances to customers (Gross)	45,542	345,120	5,888	43,300	480,771	920,621
Investment securities (FVTPL)						—
Investment Securities (Amortized cost and Fair)	16,906	—	23,001	11,988	256,336	308,231
Total assets	140,458	715,520	220,866	203,730	737,107	2,017,681
Financial liabilities						
Customer deposits	929,416	540	344	750	14,207	945,257
On-lending facilities	—	—	270	—	49,100	49,370
Borrowing	—	—	—	—	21,070	21,070
Total liabilities	929,416	540	614	750	84,377	1,015,697
Total interest repricing gap	(788,958)	714,980	220,252	202,980	652,730	475,538

Equity price risk

The Group is exposed to equity price risk in its investments quoted on the NSE and other non-quoted investments. Equity securities quoted on the NSE are affected by the general movement of the all share index.

Unquoted equity security held by the Group includes a five per cent. equity holding in African Finance Corporation (the "**AFC**"), which is valued at ₦9.95 billion as at 31 December 2013. The AFC is a private sector-led investment bank and development finance institution, which has the CBN as its single major shareholder (42.5 per cent.) and other African financial institutions and investors as the remaining shareholders. The AFC operates a U.S. dollar denominated balance sheet and provides financing in U.S. dollars.

Commodity price risk

The Group does not deal in commodities and is therefore not exposed to any commodity price risk

Liquidity Risk

Liquidity risk is the potential loss arising from the Group's inability to meet its obligations as they fall due or to fund increases in assets without incurring unacceptable costs or losses. Liquidity risk also arises from the failure to recognise or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value. Liquidity risk is not viewed in isolation, as financial risks are not mutually exclusive and it is often triggered by consequences of other risks such as credit, market and operational risks.

The Group has a robust asset and liquidity risk management policy framework manual that details the policies, processes and procedures adopted by the Group to ensure that sufficient liquidity is maintained at all times to enable the Group to withstand a range of stress events, including those that might involve loss or impairment of funding sources.

The Group's liquidity risk exposure is monitored and managed by the Asset and Liability Management Committee which meets on a weekly basis. This monitoring and managing process includes:

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios based on internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back up facilities;
- managing the concentration and profile of debt maturities;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix;
- maintaining liquidity and funding contingency plans (the plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while helping to reduce any adverse long term implications for the business); and
- conducting regular stress tests and reviewing stress test outcomes on a daily basis while interest rate stress testing is carried out on a monthly basis.

The Group maintains adequate liquid assets and marketable securities to manage foreseeable liquidity stress situations (i.e., liquidity buffers must at least equal gaps identified in the liquidity stress test.) The Group's liquidity ratio remains above the regulatory limits of 30 per cent. The Group's funding strategy is geared toward ensuring effective diversification in the sources and tenor of funding. The Group also places greater emphasis on demand deposits as against purchased funds in order to minimise the cost of funding.

The following table sets out the Group's ratio of liquid assets (defined as cash and cash equivalents and marketable securities) to deposits from customers (calculated on the basis of IFRS) as at the dates indicated.

	As at 31 December		
	2013	2012	2011
		(%)	
At end of period	63.6	61.4	58.5
Average for the period	63.5	61.3	60.8
Maximum for the period	64.0	62.4	63.0
Minimum for the period	63.0	60.5	60.0

Liquidity gap analysis

The tables below set out the cash flows payable by the Group under financial liabilities, insurance liabilities and other liabilities by remaining contractual maturities at each balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

	As at 31 December 2013					
	Up to 1 month	**1-3 months**	**3-6 months**	**6-12 months**	**Over 1 year**	**Total**
			(₦ millions)			
Assets						
Cash and balances with central banks	279,040	—	—	324,811	—	603,851
Treasury bills	120,740	234,094	223,661	7,946	—	586,441
Due from other banks	256,729	—	—	—	—	256,729
Derivative assets held for risk management	2,681	—	—	—	—	2,681
Loans and advances to customers (gross)	496,418	69,133	52,286	74,612	583,673	1,276,122
Investment securities	—	39,384	151	70,755	192,835	303,125
Investments in associates	—	—	—	—	165	165
Deferred tax assets	—	—	—	—	749	749
Other assets	6,354	—	34,521	—	—	40,875
Assets classified as held for sale	—	—	30,454	—	—	30,454
Property and equipment	—	—	—	23,312	46,098	69,410
Intangible assets	—	—	—	—	1,935	1,935
Total assets	**1,161,962**	**342,611**	**341,073**	**501,436**	**825,455**	**3,172,537**
Liabilities						
Deposits from customers	2,165,143	94,192	5,282	12,138	—	2,276,755
Current income tax	—	—	—	7,017	—	7,017
Deferred tax	—	—	—	—	678	678
Other liabilities	149,256	—	—	45,256	21,131	215,643
On-lending facilities	1,309	31,804	2,000	1,560	22,855	59,528
Borrowings	—	—	—	—	60,150	60,150
Liabilities classified as held for sale	—	—	14,111	—	—	14,111
	2,315,708	125,996	21,393	65,971	104,814	2,633,882
Net liquidity gap	**(1,153,746)**	**216,615**	**319,680**	**435,466**	**720,640**	**538,655**
Cumulative gap	**(1,153,746)**	**(937,131)**	**(617,451)**	**(181,985)**	**538,655**	

	As at 31 December 2012					
	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Total
	(₦ millions)					
Assets						
Cash and balances with central banks	129,969	—	—	202,546	—	332,515
Treasury bills	118,642	161,776	357,465	30,586	695	669,164
Due from other banks	179,920	—	2,100	—	—	182,020
Loans and advances to customers (gross)	409,039	95,370	31,099	64,611	414,407	1,014,526
Investment securities	18,400	50,545	1,958	45,283	183,157	299,343
Investments in associates	—	—	—	—	420	420
Deferred tax assets	—	—	—	—	432	432
Other assets (gross)	15,394	10,106	14	7,773	15	33,302
Assets classified as held for sale	—	—	31,943	—	—	31,943
Property and equipment	—	—	—	18,093	50,689	68,782
Intangible assets	—	—	—	—	1,406	1,406
Total assets	**871,364**	**317,797**	**424,579**	**368,892**	**651,221**	**2,633,853**
Liabilities						
Deposits from customers	1,762,958	110,548	34,596	4,944	16,198	1,929,244
Current income tax	—	—	—	6,577	—	6,577
Deferred tax	—	—	—	—	5,584	5,584
Other liabilities	56,518	21	—	37,460	23,356	117,355
On-lending facilities	11,088	13,276	—	1,787	29,915	56,066
Borrowings	2,994	3,584	—	483	8,077	15,138
Liabilities classified as held for sale	—	—	11,584	—	—	11,584
	1,833,558	127,429	46,180	51,251	83,130	2,141,548
Net liquidity gap	**(962,194)**	**190,368**	**378,399**	**317,641**	**568,091**	**492,305**
Cumulative gap	**(962,194)**	**(771,826)**	**(369,691)**	**(75,786)**	**492,305**	

	As at 31 December 2011					
	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Total
	(₦ millions)					
Cash and balances with central banks	93,623	—	—	129,564	—	223,187
Treasury bills	166,834	179,777	158,368	5,229	530	510,738
Due from other banks	232,314	—	2,208	—	—	234,521
Loans and advances to customers (gross)	370,317	86,678	28,265	58,723	376,638	920,621
Investment securities	20,022	55,002	2,130	49,275	236,040	362,469
Investment in subsidiaries	—	—	—	—	—	—
Investments in associates	—	—	—	—	—	—
Deferred tax assets	—	—	—	—	186	186
Other assets (gross)	7,940	6,655	9	10,897	10	25,510
Assets classified as held for sale	—	—	—	52,482	—	52,482
Investment property	—	—	—	—	7,114	7,114
Property and equipment	—	—	—	17,977	50,389	68,366
Intangible assets	—	—	—	—	770	770
Total assets	**891,050**	**328,112**	**190,979**	**324,146**	**671,678**	**2,405,965**
Liabilities						
Deposits from customers	1,511,763	95,529	29,896	4,273	13,997	1,655,458
Current income tax	—	—	—	13,348	—	13,348
Deferred tax	11	—	—	—	10,731	10,742
Other liabilities	88,353	21	—	39,705	24,756	152,836
Borrowings	13,931	16,678	—	2,246	37,585	70,440
Liabilities classified as held for sale	—	—	—	29,603	—	29,603
	1,614,058	112,229	29,896	89,174	87,069	1,932,427
Net liquidity gap	**(723,008)**	**215,883**	**161,083**	**234,972**	**584,609**	**473,538**
Cumulative gap	**(723,008)**	**(507,125)**	**(346,042)**	**(111,070)**	**473,538**	

Capital Management

The Group maintains a capital adequacy ratio of at least 26 per cent. in all of its areas of operations. Capital levels are determined either based on internal assessments or regulatory requirements. The Group reviews its capital adequacy on a daily basis, to ensure it meets regulatory requirements and standards of international best practices such as the Basel frameworks. The Group monitors the application of regulatory capital by deploying the internal systems of subsidiaries created according to the guidelines provided by the CBN and the regulatory authorities. The Group has consistently met and surpassed the minimum capital adequacy requirements set by the CBN. Most of the Group's capital is Tier 1 (core capital), which mainly consists of share capital and reserves created by appropriations of retained earnings. Tier 1 capital of the Group is made up of fully paid share capital, share premium and retained earnings which together constitute 84.7 per cent. of total capital as at 31 December 2013. Within the Tier 1 capital, share capital and share premium constituted 53.1 per cent. while retained earnings represented 31.6 per cent. Tier 2 capital of the Group is made up of reserves for investment revaluation, reserves for translation and collective impairment.

The Group's overseas banking subsidiaries are directly regulated and supervised by their local banking regulator and are required to meet the capital adequacy requirements of the relevant local jurisdiction. The Group monitors the risk level in relation to capital adequacy and provides guidance to the subsidiaries. Whilst seeking to comply with capital requests from those local regulatory authorities where the Group has subsidiaries, the Group takes into account its expansion strategies and internal capital assessments.

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

- *profit from operations* – since its inception in 1990, the Group has maintained a profit retention rate of between 40 to 50 per cent.;
- *issue of shares* – the Group has access to the Nigerian capital markets to raise desired funds for its operations and needs;
- *bank loans* – the Group can access long-term and short-term borrowing from other banks and multilateral institutions; and
- *issuance of local or foreign bonds*.

Operational Risk

Operational risk is the current and prospective risk to earnings and capital arising from inadequate and/or failed internal processes, staff and systems or from external events, including legal risk and any other risks that are deemed relevant on an ongoing basis (excluding reputation and strategic risk). Operational risk exists in all products and business activities of the Group and is considered by the Board as a critical risk faced by the Group.

The Group identifies, assesses and manages all operational risks by aligning its people, technology and processes with best risk management practices. The Operational Risk Unit ("**ORU**") is responsible for operational risk issues and is accountable to the Operational Risk Sub-Committee of the Risk Management Committee.

Operational risk objectives which are approved by the Board are to provide clear and consistent direction in all operations of the Group, to provide a standardised framework and appropriate guidelines for creating and managing operational risk exposure and to enable the Group to identify and analyse events (both internal and external) that impact its business.

The basic principles that guide the operational risk activities include:

- identify operational risks through assessment procedures which cover risks faced by each of the Group's business units and risks inherent in processes, activities and products;
- incorporate a monthly review of risks identified into risk assessment procedure to monitor significant changes; and
- implement risk mitigation measures such as insurance, where it is cost-effective.

The ORU is responsible for identifying and assessing the operational risks inherent in material products, activities, processes and systems. It also ensures that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is clearly identified and subjected to adequate assessment procedures. The ORU's scope of activities includes the following:

- participating in the establishment of a framework and guidelines for operational risk management;
- conducting risk assessments and making recommendations on risk control and mitigation;
- escalating early warning signals when there are indications of a possible increase in operational risk;
- monitoring and assessing operational risk management processes;
- disseminating group-wide knowledge of operational risk to create awareness and understanding among all levels of staff within the Group; and
- communicating risk management policy to various business units and support groups.

A key component of operational risk management is assessing the size and scope of the Group's risk exposures. The techniques employed by the Group in its measurements include:

- conducting a risk control self assessment questionnaire, which helps the Group to assess residual risk i.e. the effectiveness of its risk management and control processes;
- monitoring KRIs which highlights the inherent risk of a particular activity; and
- maintaining a risk register (which acts as a risk log of all of the profiled risk of the Group).

These techniques and procedures are reviewed and updated on an annual basis by the Group.

The Group organises a series of training programmes that are led by the ORU with support from other risk management units as required and the Group has engaged consulting firms to conduct training in operational risks and other aspects of risk management for its staff. These programmes are part of the training process for operational risk coordinators in the Group's branches and strategic business units and are led by the ORU/Risk Management Group and by consultants.

Strategic Risk

Strategic risk examines the impact of design and implementation of business models and decisions on earnings and capital as well as the responsiveness to industry changes. The Board has drawn up a short-to medium-term development plan to ensure that the right models are employed and appropriately communicated to all decision makers in the Group and detailed review of the development plan is ongoing.

Legal Risk

Legal risk is defined as the risk of loss due to defective contractual arrangements, legal liability (both criminal and civil) incurred during operations through the inability of an organisation to enforce its rights, or by failing to address identified concerns to the appropriate authorities where changes in the law are proposed. The Group manages this risk by monitoring new legislation, creating awareness of legislation amongst employees through quarterly compliance and policy awareness programmes, identifying significant legal risks as well as assessing their potential impact. Legal risk management in the Group is also enhanced by appropriate product risk review and management of contractual obligations via documented service level agreements and other contractual documents. The Group has a team of in-house counsel and legal professionals who make up the legal division and examine legal issues across the Group.

Reputational Risk

The Group's reputation may suffer adversely due to bad publicity and non-compliance with regulatory rules and legislation, which may lead to a significant drop in new business and/or a significant increase in the number of internal compliance lapses and/or withdrawals. The Group promotes sound business ethics among its employees by implementing an ethics and code of conduct policy and strives to maintain quality customer service, procedures and business operations that enable compliance with regulatory rules and legislation in order to reduce the risk of the Group's reputation being damaged.

Taxation Risk

Taxation risk refers to the risk that new taxation laws will adversely affect the Group and/or cause the Group a loss as a result of non-compliance with tax laws. Taxation risk is managed by monitoring applicable tax laws, maintaining operational policies which help enable the Group to comply with taxation laws and, where required, seeking the advice of external tax specialists.

Compliance Risk

Compliance risk is the risk of damage to the Group's integrity as a result of failure, or perceived failure, to comply with relevant laws, regulations, internal policies and procedures or ethical standards.

The Group manages its compliance risk by monitoring new regulatory rules and applicable laws, and the identification of significant regulatory risks. The Group strives to maintain appropriate procedures, processes and policies that are monitored and reviewed by the Group's Compliance division which liaises with regulatory authorities and files mandatory returns in addition to ad-hoc reports with the Group's regulators. The strengthening of the Compliance function through training, increased staffing, management support, and by direct reporting to the Group's executive management has further enhanced regulatory risk management processes across the Group.

Insurance Risk

The Bank is currently in the process of divesting Zenith General Insurance Company Limited, Zenith Medicare Limited and Zenith Life Assurance Company Limited and expects these insurance subsidiaries to be divested in 2014. Currently, through these entities, the Group sells insurance products and is therefore exposed to insurance risk.

Insurance risk is the risk that future claims and expenses will exceed the value placed on insurance liabilities. It occurs due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, persistency and expenses about which assumptions are made in order to place a value on the liabilities. Deviations from assumptions will result in actual cash flows differing from those projected in the policyholders' liability calculations and as such, the assumptions represent a source of uncertainty. These risks are managed through co-insurance and reinsurance arrangements as well as through limit setting.

Insurance risk encompasses mortality and morbidity risks, claims experience risk, persistency risk, expense risk, business volume risk, capital adequacy risk, asset liability matching risk, assumption risk, data risk and model risk. For more information, see Note 3.12 of the Financial Statements.

Basel II and III Implementation

The Group incorporated the Basel II framework in the implementation of its ERM Framework in 2008. The Bank has engaged the services of external risk consultants to fast track its migration to Basel II standards.

The Group expects that more modifications will need to be made to the ERM Framework based on the guidelines of the Basel II Capital Accord, including:

- designing a risk sensitive capital model to evaluate risks;
- implementation of relevant analytical tools to actively drive risk decisions such as risk software;
- introduction of robust stress tests to measure the potential impact to the Group of significant changes in various shocks/risk factors involving variables such as interest rates, inflation and oil prices. Multi-shock capabilities (combining one or more risk factors within a scenario context) are also expected to be modelled into the ERM Framework; and
- increased independence, higher expertise and greater authority for risk managers to make decisions.

The Basel Committee has issued its latest guidance on Basel III. The reforms under Basel III include increasing the minimum common equity (or equivalent) requirement and applying stricter regulatory adjustments. In addition, banks will be required to maintain, in the form of common equity (or equivalent), a capital conservation buffer in addition to stricter liquidity measurements such as the liquidity coverage ratio and net stable funding ratio both of which as a minimum must not be lower than 100 per cent. Furthermore, buffers may also be implemented if there is excess credit growth in any given country.

The CBN released its guidance on Basel II & III implementation in December 2013, with January 2014 as the commencement date for parallel run until 30 June 2014, when it becomes effective. The CBN requires that banks commence a parallel run of both Basel I and II minimum capital adequacy computations based on the requirements of Basel I and II beginning in January 2014. The minimum capital adequacy computation under Basel II rules will commence in June 2014, which means that all banks are expected to have fully adopted Basel II rules by June 2014 and will no longer use Basel I rules at that time. Banks are expected to adopt a basic indicator approach for operational risk capital computation and a standardised approach for both credit and market risk, however, banks are encouraged to build capacity for more advanced approaches. The first Internal Capital Adequacy Assessment Process ("**ICAAP**") reporting is expected in Nigeria by 30 April 2014 and the Group is already working with a consultant in order to meet this requirement. This new guidance may cost the Nigerian banking industry additional capital.

The Group continues to review on a continuous basis risk trends in its operating and business environment to ensure that it continues to take on risk in a manner that is consistent with its risk appetite. The Chief Risk Officer apprises the Board and executive management of these potential changes and risk trends in relation to the Group's exposure, strategy and proposed actions.

Systems Risk

Information technology and the impact of potential systems failures have become increasingly significant with the growth in the volume of transactions involving computers and telecommunications networks and the importance of on line management information systems. Accordingly, the Group has devoted resources toward the development and reliability of its computer and related systems.

The Group's IT system is segmented, with an external firewall, which prevents outsiders from accessing the Group's IT system, and an internal firewall, which segments the servers into different zones. The Group also employs systems such as Active Directory, Vasco Token Identity Key and Web Application Firewall to prevent unauthorised access to its IT infrastructure. In addition, the Group employs Log Monitoring, File Integrity Monitoring and Database Activity Monitoring to send alerts when sensitive information has been accessed.

The IT security unit, which is responsible for the Group's IT security, carries out a monthly vulnerability assessment of the Group's IT infrastructure and an annual penetration testing in conjunction with Trustwave SpiderLabs.

The Group's physical servers are located in strategic locations, and at high elevations to protect against damage or disruption caused by flooding.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in the Group's results of operations and financial condition. Historical results may not indicate future performance. Some of the information in this section, including information in respect of the Group's plans and strategies for its business and expected sources of financing, contains forward-looking statements that involve risk and uncertainties and is based on assumptions about the Group's future business. Actual results could differ materially from those contained in such forward-looking statements as a result of a variety of factors, including the risks discussed in "Risk Factors" included elsewhere in this Base Prospectus. Potential investors should read "Forward-Looking Statements" for a discussion of the risks and uncertainties related to those statements and should also read "Risk Factors" for a discussion of certain factors that may affect the business, results of operations or financial condition of the Group.

The following discussion should be read in conjunction with the section entitled "Selected Statistical and other Information" and the Consolidated Financial Statements, including accompanying notes, appearing elsewhere in this Base Prospectus. The financial information set out below and referred to this in section has been extracted without material adjustment from the Consolidated Financial Statements or has been extracted without material adjustment from the Bank's accounting records, which formed the underlying basis of the financial information included in the Consolidated Financial Statements.

Overview

The Group is the second largest bank in Nigeria by total assets as at 31 December 2012. The Group provides banking and other financial services in Nigeria, other countries in Africa and Europe with a customer account base of over two million accounts from 340 branches in Nigeria and 29 branches across Africa and Europe as at 31 December 2013. It had total assets of ₦3,143.1 billion (U.S.$20.19 billion) and a Tier 1 capital of ₦506.8 billion (U.S.$3.25 billion) as at that date. The Group offers a wide range of financial products and services including granting of loans and advances, equipment leasing, corporate and trade finance operations, treasury and investment services, current and savings accounts, credit cards, ATM services, electronic banking, money market activities, private banking/wealth management services, foreign exchange services, funds transfer services, bullion/cash services and bank guarantees through various business operational groups in its banking and non-banking subsidiaries.

The Group's business activities have in the past been conducted using four business segments: corporate and retail banking; investment management and securities trading; general, health and life insurance; and other non-banking financial services. As a result of the CBN implementing the CBN Banking Activities Regulation, the Bank is in the process of divesting all of its subsidiaries in its investment management and securities trading, general, health and life insurance and other non-bank financial services segments, save for its pension custodial subsidiary and is expected to conclude the divestments in 2014. The Group's operations as at the date of this Base Prospectus are therefore divided between its core and non-core operations. The Group's core operations are made up of its:

- *corporate and retail banking business* – which, through its corporate banking, retail banking institutional and investment banking and public sector units in its Nigerian and overseas subsidiary offices, provides a broad range of banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals; and

- *pension custodial services business* – which provides pension management and custodial services to pension funds.

The Group's non-core operations are made up of its insurance, investment banking and other non-banking financial services businesses which are in the process of being divested. For further information please refer to "*Description of the Group – Compliance Plan with Central Bank of Nigeria's Regulation on the Scope of Banking Activities*" below.

The Group's consolidated gross earnings for the year ended 31 December 2013, 2012 and 2011 were ₦351,470 million, ₦307,082 million and ₦243,948 million, respectively. The Group's consolidated assets as at 31 December 2013, 2012 and 2011 were ₦3,143,133 million, ₦2,604,504 million and ₦2,326,695 million, respectively.

Significant factors affecting results of operations

The Group's performance and results of operations have been, and continue to be, affected by a number of external factors. There are also various specific factors the Group believes have affected the Group's results of operations in the past and that the Group expects will continue to affect its results in the future. In this section, the Group sets out those material factors that have had, or may have had, an effect on its results.

Nigeria's economic condition and political stability

The majority of the Group's assets and customers are located in, or have businesses related to, Nigeria. As a result, the Group is substantially affected by Nigerian economic conditions. In addition, the Group is substantially affected by regulatory developments in the banking sector, as well as political stability in Nigeria as it affects economic growth generally. For more information on the economic and political conditions of Nigeria, see "*Nigeria*" and "*The Nigerian Banking Sector*". See also "*Risk Factors – Risks relating to the Nigerian Banking Sector – The banking sector is affected by changes in the Nigerian economy"* and *"Risk Factors – Risks Relating to Nigeria and the West African sub-region in which the Group Operates – There are risks related to political instability, religious differences, ethnicity and regionalism in Nigeria*".

The following table sets forth certain Nigerian economic indicators as at and for the periods indicated.

	As at or for the years ended 31 December					
	2013[(1)]	2012	2011	2010	2009	2008
GDP at market exchange rates (U.S.$ billions)	292.03	270.21	243.99	228.64	168.59	207.12
Real GDP growth (%)	6.87	6.58	7.43	7.98	6.96	5.98
GDP per capita (U.S.$ at purchasing power parity ("PPP") market exchange rates)	2,826.79	2,697.08	2,555.41	2,398.68	2,255.28	2,149.96
Inflation (all items, year on year change, as at December in each year) (%)	8.0	12.0	10.3	11.8	13.9	15.1
Population (million)	169.28	164.75	160.34	156.05	151.97	147.81
Total external debt (U.S.$ billions)	8.82	6.53	5.66	4.58	3.95	3.72
Total external debt (% of GDP)	3.02	2.42	2.32	2.0	2.34	1.80
Exchange rate ₦/U.S.$ (average)	157.32	157.50	153.86	150.30	148.89	118.53

Sources: NBS, CBN, DMO, IMF

(1) Data as at or for the year ended 31 December 2013 is provisional.

The state of the Nigerian economy improved steadily during the 2008 to 2010 period, although real GDP growth dropped slightly to 7.73 per cent. in 2011 and decreased further to 6.58 per cent. in 2012. In the first, second, third and fourth quarters of 2013, real GDP growth in Nigeria was estimated at 6.56 per cent., 6.18 per cent., 6.81 per cent. and 7.67 per cent. respectively, and was 6.87 per cent. for the year.

The Nigerian economy is highly influenced by oil prices and by the country's level of oil and gas production. In 2009, GDP growth was not as robust as initially expected due to a crisis in the Niger Delta region which adversely affected oil production thereby reducing the petroleum industry's contribution to GDP. The oil and gas sector accounted for 16.3 per cent. of GDP and 69.4 per cent. of total gross federally collectible revenue in 2009 *(source: NBS).* For the year ended 31 December 2012, according to the NBS, the oil and gas sector accounted for 13.76 per cent. of GDP, a decrease from the 14.78 per cent. contribution in the year ended 31 December 2011 and 15.88 per cent. for the year ended 31 December 2010. In the third quarter of 2013, the oil and gas sector contributed 12.5 per cent. to real GDP. The decline in international oil prices between 2008 and 2009 had a significant impact on the Group which had extended credit to several companies in the downstream oil and gas sector. Crude oil prices declined from an average of U.S.$101.15 per barrel in 2008 to U.S.$62.08 in 2009, increasing in 2010 to an average of U.S.$78.80 per barrel and increasing in 2011 to an average of U.S.$110.10 per barrel. The average spot price of crude oil (Bonny Light) was U.S.$113.72 per barrel for the year ended 31 December 2012 and U.S.$110.99 per barrel for the year ended 31 December 2013. As at 31 December 2013, 15.2 per cent. of the Group's total gross loans were extended to companies in the oil and gas sector, compared to 16.8 per cent. as at 31 December 2012 and 16.7 per cent. as at 31 December 2011.

The global financial crisis at the end of 2008 and in 2009 had a significant impact on the Nigerian economy. The reduction of external reserves which triggered speculative currency trading, coupled with the reduction in oil prices, led to a devaluation of the Naira against the U.S. dollar from an average exchange rate of ₦118.53 in

2008 to an average of ₦157.50 for 2012. However, exchange rate stability has been restored due to the CBN's resolve to maintain some level of external equilibrium. As at 21 March 2014, the Official Exchange Rate was ₦155.74:U.S.$1.00. Any deterioration in economic conditions in Nigeria has affected, and may in the future affect, the Nigerian banking sector and the Group's results of operations.

Interest rate environment and funding

One of the most significant factors affecting the Group's profitability is the level of, and fluctuations in, interest rates in Nigeria over time, which in turn (along with the volume of loans and deposits) influence the interest income generated by the Group's assets (primarily loans and advances to customers and investment securities) and the interest expense associated with its liabilities (primarily deposits). Increases in interest rates have tended to increase net interest income as the Group's assets have tended to reprice more quickly than liabilities, particularly due to the high proportion of on-demand deposits with near-zero interest rates held by the Group. Movements in short and long-term interest rates have also affected the Group's level of gains and losses on its investment and trading portfolio.

Interest rates in Nigeria have been substantially affected by the financial crisis. In September 2008, the CBN began to gradually decrease the MPR, initially from 10.25 per cent. to 9.75 per cent. Further decreases in April and July 2009 brought the rate to 6.0 per cent. The MPR was held constant for most of 2010 but at the beginning of September 2010, the CBN began to increase the MPR and, through a series of increases, raised the MPR to 12.0 per cent. on 10 October 2011. On 23 and 24 July 2012, the MPC voted to maintain MPR at 12.0 per cent. with a symmetric band of +/- 200 basis points. At the Monetary Policy Committee (MPC) meeting held 24-25 March 2014, the MPR was retained at 12.0 per cent., maintaining the +/- 200 basis points.

Notwithstanding the trend in the MPR, lending rates in Nigeria increased in 2008 and remained high in 2009 as a result of the financial crisis, although inter-bank lending rates declined significantly in 2009 when the CBN announced that it would guarantee inter-bank lending. In addition, in 2008 and 2009, in advance of the Special Examination, interest rates on deposits were relatively high, as banks sought to attract funding. Interest rates on deposits declined in early 2010, and average interest rates for 2010 were lower than in 2009, as concerns over liquidity in the banking sector eased. Interest rates on loans also decreased across the Nigerian banking sector in 2010 as a result of CBN intervention, which put an end to distressed borrowing by intervened banks, which had been driving up the average interest rate on loans. Though inter-bank lending stabilised in 2011 and the first six months of 2012, increases in the MPR in 2011 and cash reserve requirements by the CBN in 2012 resulted in interest rates remaining volatile. The prime lending rate and deposit rates in 2012 were 16.54 per cent. and 9.70 per cent., respectively, while for 2013, the rates closed at 17.01 per cent. and 7.96 per cent., respectively.

The Group generates the majority of its interest income from loans and advances to customers and investment securities. The average interest rate on the Group's loans and advances to customers was 12.76 per cent. in the year ended 31 December 2013, 12.02 per cent. in the year ended 31 December 2012 and 10.71 per cent. in the year ended 31 December 2011. The average interest rate on the Bank's investment securities was 13.60 per cent. in the year ended 31 December 2013, 9.53 per cent. in the year ended 31 December 2012 and 8.20 per cent. in the year ended 31 December 2011.

Demand for the Group's products

Demand for the Group's loans and other products, and the Group's ability to continue to create loans, affect the size of the Group's loan portfolio and, in turn, the Group's results of operations. The Group's loans and advances to customers and investment securities are the main drivers of the Group's interest income. In addition, a significant portion of the Group's fee and commission income, which consists of fees arising from transaction and banking activity, facility fees and administrative fees, is associated with the volume of loans extended by the Group. Demand for the Group's loans and other products depend on several factors, which include economic and political conditions in Nigeria and elsewhere in Africa, conditions prevailing in the Nigerian banking sector, the Group's competitive environment and the Group's ability to take advantage of growth opportunities.

Gross loans and advances to customers increased to ₦1,276,122 million as at 31 December 2013 from ₦1,014,526 million as at 31 December 2012 and ₦920,621 million as at 31 December 2011. The increase in loans and advances to customers during the relevant periods was primarily due to the Group's capacity to grow its loan portfolio on account of its relatively low loan to deposit ratio during this period and the emergence of more lending opportunities, which together allowed the Group to make more loans to new and existing customers. The Group targets a cost-to-income ratio of less than 55 per cent. for the next three years. For the past three years, the Group's average cost-to-income ratio was 58.11 per cent. For each of the years ended 31 December 2013, 2012 and 2011, the cost-to-income ratio was 57.10 per cent., 53.95 per cent. and 63.28 per cent., respectively.

Loans and advances to corporate entities and other organisations constituted 98.15 per cent., 98.12 per cent. and 98.88 per cent. of the Group's loan portfolio as at 31 December 2013, 2012 and 2011, respectively, due to the Group's continued focus on lending to the top tier of the market. In response to the growing prospects of the middle class in Nigeria, the Group has made some progress in retail lending though this lending is restricted to cooperative groups or staff welfare schemes of its large borrowing corporate customers. The Group adopts this measure as a risk mitigant and to secure depositors' funds.

Banking regulatory environment

On 27 March 2013, the CBN released the Revised Guide to Bank Charges, which took effect from 1 April 2013 and provides a standard for the application of charges in the banking industry. The Revised Guide Guide to Bank Charges phases out the COT charged by banks from 2013 to 2016, at which time customers will no longer be charged for transactions on current accounts. As at 1 April 2013, the maximum COT that banks are permitted to charge is ₦3 per ₦1,000, as compared with ₦5 per ₦1,000 prior to 1 April 2013, and it will be further reduced to ₦2 in 2014, ₦1 in 2015 and nil in 2016. This reduction in COT chargeable is expected to reduce the Group's fee and commission income. For the year ended 31 December 2013, 51.4 per cent. of the Group's fee and commission income was comprised of income from COT, compared to 55.3 per cent. and 56.9 per cent. for the years ended 31 December 2012 and 2011, respectively. For the year ended 31 December 2013, 28.7 per cent. of the Group's profit before income tax was comprised of income from COT, compared to 29.7 per cent. for the year ended 31 December 2012 and 42.0 per cent. for the year ended 31 December 2011.

See "*Risk Factors – Risks related to the Group's Business – The Group operates in an uncertain regulatory environment and recent changes by the CBN are having a material adverse effect on the Group*".

CBN measures to stimulate the Nigerian economy

The global financial crisis and the resulting decline in the Nigerian equities market resulted in significant provisions and high volumes of NPLs at a number of Nigerian banks. In 2009, the CBN undertook a number of measures designed to stimulate growth and improve liquidity within the Nigerian banking sector, including removing interest rate caps, reducing the MPR, reducing mandatory reserve levels from 4 per cent. to 1 per cent., and providing guarantees of all inter-bank lending (which expired in September 2011, except for banks negotiating merger and acquisition transactions within the Nigerian banking industry, whose guarantees expired in December 2011). The CBN subsequently increased its cash reserve requirements for Nigerian banks from 1 per cent. to 2 per cent. in January 2011, then to 4 per cent.in May 2011, then to 8 per cent. in October 2011 and to 12 per cent. in July 2012. The current CBN cash reserve requirement was retained at 12 per cent. by the Monetary Policy Committee at their meeting 24-25 March 2014.

In July 2010, AMCON was established to assist banks in Nigeria to improve their capital and liquidity positions, with the aim of fuelling a recovery in the Nigerian banking sector and capital markets. Among its functions, AMCON is mandated to provide liquidity to banks by buying their NPLs (including margin loans). As at 31 December 2011, the Bank sold NPLs with a total gross value of ₦82.2 billion in exchange for AMCON bonds with a face value of ₦96.99 billion. The Bank sold no NPLs to AMCON in 2012 or 2013.

AMCON's consideration bonds are three year zero coupon bonds with a yield to maturity of 10.125 per cent. and are fully guaranteed by the Nigerian government. The Group may sell more NPLs to AMCON in the future as AMCON seeks to reduce concentration risk at Nigerian banks. A sale of NPLs to AMCON reduces the Group's NPL ratio and reduces the size of the Group's loan portfolio.

In addition, the Bank is required to contribute to a sinking fund to cover any net deficits incurred by AMCON. Beginning 1 January 2011, each Nigerian bank has been required to contribute to the sinking fund in an amount equal to 0.30 per cent. of its total assets as at 31 December each year in respect of the immediately preceding financial year. As at year ended 31 December 2013, the Bank has provided a total of ₦29.4 billion to the sinking fund.

In late 2009 and early 2010, the CBN introduced an aggregate of ₦500 billion of stimulus measures administered through the Bank of Industry (the "**BOI**") to stimulate the economy. Of the total amount, ₦300 billion was intended for power projects and ₦200 billion was intended for the refinancing/restructuring of banks' existing loan portfolios to the small and medium-sized enterprises ("**SME**") and manufacturing sectors. The CBN also established a ₦200 billion Small and Medium Enterprise Credit Guarantee Scheme ("**SMECGS**") for promoting access to credit by SMEs in Nigeria. Other sector-specific measures were also introduced, particularly in agriculture. As part of these measures, the CBN established, in collaboration with the Federal Ministry of Agriculture and Water Resources, the Commercial Agriculture Credit Scheme for promoting commercial agriculture in Nigeria. The scheme was financed from the proceeds of a ₦200 billion seven-year bond raised by the Nigerian Debt Management Office ("**DMO**") and proceeds were made available to participating banks for state governments to borrow for on-lending to farmers cooperatives in their states. The table below sets out the credit which the Group has access to in accordance with these two schemes.

Scheme	**Amount made available to the Group**
	(₦ millions)
Central Bank of Nigeria (CBN) Commercial Agriculture Credit Scheme Loan	29,905
Central Bank of Nigeria (CBN) / Bank of Industry (BOI) – Power & Aviation Intervention Fund	15,206
Central Bank of Nigeria (CBN) / Bank of Industry (BOI) – SME/Manufacturing Intervention Fund	14,417
Total	**59,528**

As at December 31, 2013, a total of ₦52,693 million was outstanding from these on-lending facilities and distributed to borrowers by the Group. All on-lending facilities were disbursed in full in 2013, compared to 2012, when ₦1.9 billion were in funds received but not disbursed.

The funds received under the Central Bank of Nigeria (CBN) Commercial Agriculture Credit Scheme represents a credit line granted to the Bank for the purpose of providing concessionary funding to the agricultural sector. The facility is secured by Nigerian government securities and has a tenor of seven years. The facility attracts an interest of 1 per cent. per annum and the Bank is under an obligation to on-lend to customers at an all-in interest rate of not more than 9 per cent. per annum. Based on the structure of the facility, the Bank assumes the default risk of all amounts which it on-lends.

The Central Bank of Nigeria (CBN) / Bank of Industry (BOI) – Power & Aviation Intervention Fund represents a credit line for the purpose of refinancing and restructuring existing loans to companies in the power and aviation industries. The facility is secured by Nigerian government securities and has a tenor of 10 years. The facility attracts an interest of 1 per cent. per annum and the Bank is under an obligation to on-lend to customers at an all-in interest rate of 7 per cent. per annum. The Bank is the primary obligor to CBN and BOI and therefore assumes the risk of default by any of the borrowers to whom funds are lent.

For more information on the banking sector in Nigeria and the special measures taken by the CBN in response to the global financial crisis, see "*The Nigerian Banking Sector*".

Level of deposits

Similar to other banks in Nigeria, the Group has historically relied almost exclusively on corporate and retail depositors to meet its funding needs as access to other funding sources, including the capital markets, has been limited. Nigerian companies usually prefer operating demand deposit accounts on a rolling basis (rolling the accounts forward rather than withdrawing funds or placing the funds in long term accounts) due to their less stringent terms of operation and are not typically in a position to place significant funds in deposits on a long-term basis. The CBN requires Nigerian banks to maintain a 30.0 per cent. liquidity ratio to meet short term liquidity needs (though Zenith Bank and other Systemically Important Financial Institutions (SIFIs) are expected to maintain a 35.0 per cent. liquidity ratio). Decreases in corporate deposits and/or unexpected withdrawals of retail deposits can increase the Group's costs of funding when other sources of funding are not available on commercially reasonable terms or in time to meet the Group's funding requirements.

Competition

The banking industry in Nigeria has become increasingly competitive which has resulted in increasing pressure on the loan rates chargeable by the Group, particularly in the corporate and retail banking units. As a result the

Group has focused on efficiently managing interest on its deposits to maintain its net interest margin level. The Group's net interest margin (defined as net interest income divided by average interest earning assets) was 8.30 per cent. in the year ended 31 December 2013, 7.66 per cent. in the year ended 31 December 2012 and 6.87 per cent. in the year ended 31 December 2011.

The Nigerian banking industry encountered significant difficulties during the recent global economic and financial crisis primarily related to high loan growth prior to and at the early stage of the crisis and consequent risk management and credit quality related issues. The CBN has undertaken a number of initiatives to stabilise and improve conditions in the industry which have had a significant positive impact. As a result, the Nigerian banking industry has improved and the Bank believes that this improvement will result in continuing and increasing competition in the future. Further, the Bank believes that consolidation in the industry may further increase competition, as larger banks seek to take advantage of economies of scale and greater capacity to undertake larger loans and other operations. Though this increased competition is likely to result in a further narrowing of spreads between deposit and loan rates, it also provides opportunities for efficient banks such as the Group to compete effectively through low costs of funds and excellent service delivery.

Non-banking subsidiaries

In October 2010, the CBN issued regulations on the scope of banking activities, which took effect from May 2012. The former universal banking guidelines were repealed and banking activities were segregated into commercial banking, merchant banking and specialised banking (including non-interest banks, microfinance banks, development banks and mortgage banks). Accordingly, the Group is currently in the process of divesting its non-banking subsidiaries. See "*Business Description – Compliance Plan with CBN's Banking Activities Regulation – Divestment of non-banking subsidiaries*". During the first six months of 2012, the Bank disposed of its investments in Zenith Registrars Limited through a private placement. For further information, please see note 25 of the 2012 Financial Statements.

The Group also reported the revenue generated by its non-banking subsidiaries separately on the statements of comprehensive income as profit for the year from discontinued operations in its Financial Statements. For the year ended 31 December 2013, profit for the year before tax on discontinued operations was ₦4,388 million, compared to ₦3,508 million in the year ended 31 December 2012 and ₦4,327 million in the year ended 31 December 2011.

For the year ended 31 December 2013, these non-banking subsidiaries contributed 7.76 per cent. to the Group profit before tax and, as at 31 December 2013, comprised 1.35 per cent. of the Group's assets on its consolidated balance sheet. The Group therefore reported the assets and liabilities of its non-banking subsidiaries as assets or liabilities classified as held for sale on its statements of financial position in its Consolidated Financial Statements.

Significant accounting policies

The Group's consolidated financial position and results of operations presented in the Consolidated Financial Statements and the notes thereto, as well as selected statistical and other information appearing elsewhere in this Base Prospectus are prepared in accordance with IFRS and depend upon the Group's accounting policies, which in some cases involve a significant amount of management judgment. The Bank has identified accounting policies that it believes are the most important in order to understand the consolidated results of operations and financial condition of the Group.

The Group's significant accounting policies are described in Note 2(ii) to the 2013 Audited Financial Statements. Such significant accounting policies include basis of consolidation, foreign currency, interest, fees and commission, net trading income, net income from other financial instruments at fair value through profit or loss, dividends, lease payments, income tax expense, financial assets and liabilities, cash and cash equivalents, trading assets and liabilities, loans and advances, investment securities, derivatives held for risk management purposes, investment properties, property and equipment, intangible assets, leased assets – lessee, impairment of non-financial assets, assets held for sale or distribution, deposits and debt securities issued, provisions, financial guarantees, employee benefits, share capital and reserves, earnings per share and operating segment. These critical accounting policies require management's subjective and complex judgment about matters that are inherently uncertain.

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recognised, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The specific component of total allowance for impairment applies to credits evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgment about a customer's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimates of cash flows considered recoverable are independently reviewed and approved.

Collectively assessed impairment allowances cover credit losses inherent in portfolios with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot be identified. In assessing the need for collective loan assessment, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In estimating the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameter, based on historical experience and current economic conditions. The accuracy of allowance depends on how well future cash flows and the model assumptions and parameters are estimated.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market prices requires the use valuation techniques as described in note 3.3.6(c) to the 2013 Audited Financial Statements. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

(i) Level 1: Quoted market price(unadjusted) in an active market for an identical instrument.

(ii) Level 2: Valuation techniques based on observable inputs, either directly – i.e., as prices – or indirectly – i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data

(iii) Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instrument that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the group-wide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recent Developments

On 20 February 2014, President Goodluck Jonathan announced the suspension of the CBN Governor Mallam Sanusi Lamido Sanusi over the allegation that the CBN Governor's tenure had been characterised by various acts of financial misconduct, and appointed the Deputy Governor of Economic Policy of the CBN, Dr. Sarah Alade, as Acting CBN Governor. Governor Sanusi's 5 year term was already due to expire on 3 June 2014 and the President subsequently nominated Mr. Godwin Emefiele, the Managing Director/Chief Executive Officer of the Group, as the new CBN Governor, subject to confirmation by the Senate in accordance with the Central Bank of Nigeria Act, No. 7 of 2007. Mr. Emefiele's appointment as CBN Governor was confirmed by the Senate on 26 March 2014 and will take effect beginning on 3 June 2014. On 31 March 2014, the Board announced the appointment of Mr. Peter Amangbo, who is currently an executive director and member of the Board, as Mr. Emefiele's successor, subject to approval by the CBN.

Results of operations

The following table sets forth the Group's results of operations for the years ended 31 December 2013, 2012 and 2011.

	For the year ended 31 December		
	2013	**2012**	**2011**
		(₦ millions)	
Gross Earnings	**351,470**	**307,082**	**243,948**
Interest and similar income	260,059	221,318	163,192
Interest and similar expense	(70,796)	(64,561)	(34,906)
Net interest income	**189,263**	**156,757**	**128,286**
Impairment charge for credit losses	(11,067)	(9,099)	(16,514)
Net interest income after impairment charge for credit losses	178,196	147,658	111,772
Fee and commission income	52,550	50,480	42,197
Net gains on financial instruments measured at fair value through profit or loss	21,787	19,012	18,524
Other income	754	1,038	6,803
Share of profit of associates	118	23	45
Amortisation of intangible assets	(951)	(1,059)	(310)
Operating expenses	(146,245)	(118,560)	(115,918)
Profit before minimum tax and income tax from operations	**106,209**	**98,592**	**63,113**
Minimum tax	(2,663)	(2,469)	—
Income tax expense	(11,958)	2,007	(17,261)
Profit after tax from continuing operations	**91,588**	**98,130**	**45,852**
Discontinued operations			
Gross income from discontinued operations	16,230	15,234	13,232
Gross expenses from discontinued operations	(11,932)	(11,726)	(8,905)
Profit before tax from discontinued operations	**4,388**	**3,508**	**4,327**
Income tax expenses from discontinued operations	(658)	(957)	(1,475)
Profit after tax from discontinued operations	**3,730**	**2,551**	**2,852**
Profit for the year before minimum tax and income tax	**110,597**	**102,100**	**67,440**
Minimum tax	(2,663)	(2,469)	—
Income tax expense	(12,616)	1,050	(18,736)
Profit for the year after tax	**95,318**	**100,681**	**48,704**

Year ended 31 December 2013 compared to year ended 31 December 2012

Net interest income

The following table sets out certain information relating to the Group's net interest income for the periods indicated.

	Year ended 31 December		Variation
	2013	2012	2013/2012
	(₦ millions, except %)		(%)
Interest and similar income	260,059	221,318	17.5
Interest and similar expense	(70,796)	(64,561)	9.7
Net interest income	**189,263**	**156,757**	**20.7**

Net interest income was ₦189,263 million for the year ended 31 December 2013, compared to ₦156,757 million for the year ended 31 December 2012, an increase of ₦32,506 million, or 20.7 per cent. The increase in net interest income was due primarily to increases in both the volume of the Group's interest bearing assets as well as the respective rates. In 2013, rates increased as a result of the introduction of a 50 per cent. cash reserve requirement (CRR) on government funds by the CBN in the second half of 2013 resulting in a liquidity squeeze in the economy. For the year ended 31 December 2013, the Group's net interest margin (based on average interest earning assets) was 8.30 per cent., compared to 7.66 per cent. in the year ended 31 December 2012.

Interest income

The following table sets out details of the Group's interest and similar income for the periods indicated.

	Year ended 31 December				Variation
	2013	% of total	2012	% of total	2013/2012
	(₦ millions, except %)				(%)
Inter-bank placements	4,655	1.8	5,031	2.3	(7.5)
Treasury bills	77,728	29.9	74,364	33.6	4.5
Government and other bonds	35,947	13.8	27,274	12.3	31.8
Loans and advances to customers	141,729	54.5	114,649	51.8	23.6
Total interest income	**260,059**	**100**	**221,318**	**100**	**17.5**

Total interest and similar income increased to ₦260,059 million for the year ended 31 December 2013 from ₦221,318 million for the year ended 31 December 2012, an increase of ₦38,741 million, or 17.5 per cent., primarily due to growth in the size of the Group's loan portfolio, particularly in corporate, retail banking and pension custodial services, as well as the higher interest rate environment. Interest income from loans and advances was the largest contributor to the overall increase in interest income, while interest income from treasury bills, government and other bonds and inter-bank placements also increased.

The Group's interest income from inter-bank placements for the year ended 31 December 2013 was ₦4,655 million, a decrease of ₦376 million, or 7.5 per cent., compared to ₦5,031 million in the year ended 31 December 2012. This was principally as a result of the decreased activity in the inter-bank market in 2013, compared to prior years, due to the improved strength of the industry and the stable position of most banks in the sector.

The Group's interest income from treasury bills for the year ended 31 December 2013 was ₦77,728 million, an increase of ₦3,364 million, or 4.5 per cent., compared to ₦74,364 million in the year ended 31 December 2012. This increase was principally due to increased investment in treasury bills in 2013 compared to 2012.

The Group's interest income from government and other bonds for the year ended 31 December 2013 was ₦35,947 million, an increase of ₦8,673 million, or 31.8 per cent., compared to ₦27,274 million in the year ended 31 December 2012. This was primarily as a result of higher rates and increased volume of investment in government and other bonds in 2013 by the Group's banking subsidiaries due to attractive yields on such investments as compared to other investment options.

The Group's interest income from loans and advances to customers for the year ended 31 December 2013 were ₦141,729 million, an increase of ₦27,080 million, or 23.6 per cent., compared to ₦114,649 million in the year ended 31 December 2012. This was principally as a result of 16.5 per cent. increase in average balances on loans and advances to customers in 2013 compared to 2012. Interest rates on loans also increased in 2013 as a result of the increase in interest rates.

Interest expense

The following table sets out details of the Group's interest expense for the periods indicated.

	Year ended 31 December				Variation
	2013	**% of total**	**2012**	**% of total**	**2013/2012**
		(₦ millions, except %)			*(%)*
Current accounts	4,223	6.0	3,828	5.9	10.3
Savings accounts	3,825	5.4	1,507	2.3	153.8
Time deposits	58,812	83.1	57,533	89.1	2.2
Inter-bank takings	2,478	3.5	504	0.8	391.7
Borrowed funds	1,458	2.1	1,189	1.9	22.6
Total interest expense	**70,796**	**100**	**64,561**	**100**	**9.7**

Total interest expense incurred by the Group increased to ₦70,796 million for the year ended 31 December 2013 from ₦64,561 million for the year ended 31 December 2012, an increase of ₦6,235 million, or 9.7 per cent. The increase in total interest expense was primarily due to an increase in the Group's average deposit balances across all classes of deposits in 2013 compared to 2012. Interest rates on deposits also increased in the second half of 2013 due to the new CRR introduced by the CBN and resulting liquidity squeeze in the economy.

The Group's interest expense on current accounts for the year ended 31 December 2013 was ₦4,223 million, an increase of ₦395 million, or 10.3 per cent., compared to ₦3,828 million in the year ended 31 December 2012. This was principally as a result of the 5 per cent. growth in the average volume of current account deposit balances between 2012 and 2013, along with the attendant increase in the number of current accounts.

The Group's interest expense on savings accounts for the year ended 31 December 2013 was ₦3,825 million, an increase of ₦2,318 million, or 153.8 per cent., compared to ₦1,507 million in the year ended 31 December 2012. The increase was primarily due to the 15 per cent. increase in the average volume of saving account balances as well as the increase in minimum interest rate on savings accounts to 30 per cent. of MPR fixed by the CBN.

The Group's interest expense on time deposits for the year ended 31 December 2013 was ₦58,812 million, an increase of ₦1,279 million, or 2.2 per cent., compared to ₦57,533 million in the year ended 31 December 2012. This was principally as a result of higher rates, particularly in light of the pressure on liquidity exerted by the withdrawal of 50 per cent. of public sector funds from banks as part of government's monetary policy.

The Group's interest expense on inter-bank takings for the year ended 31 December 2013 was ₦2,478 million, an increase of ₦1,974 million, or 391.7 per cent., compared to ₦504 million in the year ended 31 December 2012. This was largely due to increased borrowings by the Group's foreign banking subsidiaries from their local inter-bank markets in the ordinary course of business.

The Group's interest expense on borrowed funds for the year ended 31 December 2013 was ₦1,458 million, an increase of ₦269 million, or 22.6 per cent., compared to ₦1,189 million in the year ended 31 December 2012. This was principally as a result of an increase in multilateral loans of ₦15,794 million and ₦15,876 million from Citibank and Standard Chartered Bank (SCB), respectively to meet the funding demands of some of the Group's large corporate customers.

Net impairment charge for credit losses

The following table sets out certain information relating to the Group's impairment charges on loans and advances for the periods indicated.

	Year ended 31 December		Variation
	2013	2012	2013/2012
	(₦ millions, except %)		(%)
Overdrafts	8,059	8,172	(1.4)
Term loans	2,774	369	651.8
On-lending facilities	179	525	(65.9)
Advances under finance lease	55	33	66.7
Total impairment charge for credit losses	**11,067**	**9,099**	**21.6**

Total impairment charge for credit losses for the year ended 31 December 2013 was ₦11,067 million, as compared with a total impairment charge for credit losses of ₦9,099 million for the year ended 31 December 2012, an increase of ₦1,968 million, or 21.6 per cent. This increase was primarily due to the increase in the Group's loan portfolio in 2013 and to a lesser extent due to some deterioration of credit quality.

The Group's NPLs as at 31 December 2013 decreased to ₦30,917 million, representing 2.91 per cent. of gross loans and advances, from ₦31,930 million or 3.15 per cent. of gross loans and advances as at 31 December 2012. The decrease in the Group's NPLs was principally due to more effective loan review and management practices resulting in improved performance on various loans and recoveries from some NPLs.

Fee and commission income

The following table shows the composition of fee and commission income for the periods indicated.

	Year ended 31 December		Variation
	2013	2012	2013/2012
	(₦ millions, except %)		(%)
Credit related fees	11,206	9,892	13.3
Commission on turnover	27,033	27,938	(3.2)
Income from financial guarantee contracts issued	2,525	2,431	3.9
Fees on electronic products	2,509	3,637	(31.0)
Foreign currency transaction fees and commissions	1,329	1,092	21.7
Other fees and commissions	7,948	5,490	32.2
Total fee and commission income	**52,550**	**50,480**	**4.1**

Total fee and commission income increased to ₦52,550 million for the year ended 31 December 2013 from ₦50,480 million for the year ended 31 December 2012, an increase of ₦2,070 million, or 4.1 per cent., primarily due to increases in total loans advanced to customers and the fees charged thereon. The Group was also able to increase its collections function such as tax collections on behalf of the government, school fee collections especially for tertiary institutions and other collections thereby increasing the fees and commissions charged on them. The Group recorded a marginal decline in electronic product fees mainly due to the suspension on fees charged on long-distance transfers.

The Group's credit related fees for the year ended 31 December 2013 was ₦11,206 million, an increase of ₦1,314 million, or 13.3 per cent., compared to ₦9,892 million in the year ended 31 December 2012. This was principally as a result of an increase in fees associated with the Group's loan portfolio and the ordinary course renewal of certain facilities which expired during the period.

The Group's commission on turnover (COT) for the year ended 31 December 2013 was ₦27,033 million, a decrease of ₦905 million, or 3.2 per cent., compared to ₦27,938 million in the year ended 31 December 2012. This decrease was a result of a CBN directive to gradually phase out commission on turnover by 2016. In accordance with this directive the maximum COT was reduced to ₦3 per mille in 2013, from a maximum of ₦5 per mille in 2012. See "*Risk Factors – The Group operates in an uncertain regulatory environment and recent changes by the CBN may have a material adverse effect on the Group*". Commission on turnover is charged to customers in certain cases where payments are made from such customers' accounts to third parties. For the year ended 31 December 2013, 28.7 per cent. of the Group's profit before income tax was comprised of income from COT, compared to 29.7 per cent. and 42.0 per cent. for the year ended 31 December 2012 and 2011, respectively.

The Group's income from financial guarantee contracts issued for the year ended 31 December 2013 was ₦2,525 million, an increase of ₦94 million, or 3.9 per cent., compared to ₦2,431 million in the year ended 31 December 2012. This was principally as a result of a volume increase in performance bonds and guarantee.

The Group's fees on electronic products for the year ended 31 December 2013 was ₦2,509 million, a decrease of ₦1,128 million, or 31.0 per cent., compared to ₦3,637 million in the year ended 31 December 2012, as a result of the CBN's suspension of fees charged to customers on long-distance transfers (transfers to recipients outside of the state where a customer's account is domiciled) and a reduction in card issuance fees.

The Group's foreign currency transaction fees and commissions for the year ended 31 December 2013 was ₦1,329 million, an increase of ₦237 million, or 21.7 per cent., compared to ₦1,092 million in the year ended 31 December 2012. The increase was principally due to greater exchange rate volatility in 2013 coupled with an increase in the volume of foreign currency transactions carried out by the Group in line with the continued expansion of its business.

The Group's other fees and commissions for the year ended 31 December 2013 was ₦7,948 million, an increase of ₦2,458 million, or 44.8 per cent., compared to ₦5,490 million in the year ended 31 December 2012. This was principally as a result of an increase in the volume of letters of credit and other trade finance transactions carried out by the Group's customers during the year ended 31 December 2013.

Net gains on financial instruments measured at fair value through profit or loss

The following table sets out certain information relating to the Group's net gains on financial instruments measured at fair value through profit or loss for the periods indicated.

	Year ended 31 December		Variation
	2013	**2012**	**2013/2012**
	(₦ millions, except %)		*(%)*
Foreign exchange trading income	20,945	18,186	15.2
Treasury bill trading income	778	415	87.5
Bond trading income	64	411	(84.4)
Total	**21,787**	**19,012**	**14.6**

The Group's total net gains on financial instruments for the year ended 31 December 2013 was ₦21,787 million, an increase of ₦2,775 million, or 14.6 per cent., compared to ₦19,012 million in the year ended 31 December 2012. This was principally as a result of more profitable trading in a higher volume of U.S. dollars, as well as a high volume of letters of credit and other trade finance transactions.

Other income

The Group's other income for the year ended 31 December 2013 was ₦754 million, a decrease of ₦284 million, or 27.4 per cent., compared to ₦1,038 million in the year ended 31 December 2012. This was principally as a result of the introduction of the CBN cashless policy in major capital cities of Nigeria, which led to a reduction in income earned on cash handling by the Bank.

Share of profit of associates

The Group's share of profit of associates for the year ended 31 December 2013 was ₦118 million, an increase of ₦95 million, or 413 per cent., compared to ₦23 million in the year ended 31 December 2012. This was principally due to profit from the Group's equity investment in Africa Finance Corporation.

Operating expenses

The following table sets out the principal components of the Group's operating expenses for the periods indicated.

	Year ended 31 December				Variation
	2013	% of total	2012	% of total	2013/2012
	(₦ millions, except %)				*(%)*
Staff costs	59,952	41.0	52,427	44.2	14.4
Depreciation of property and equipment	9,766	6.7	10,307	8.7	(5.2)
Auditors' remuneration	420	0.3	320	0.3	31.3
Directors' emoluments	675	0.4	726	0.6	(7.0)
Deposit insurance premium	8,279	5.7	7,588	6.4	9.1
Professional fees	1,891	1.3	1,419	1.2	33.3
Training and development	1,421	1.0	849	0.7	67.4
Information technology	3,389	2.3	1,770	1.5	91.5
Operating leases	2,496	1.7	2,200	1.9	13.5
Advertisement	3,370	2.3	6,709	5.7	(49.8)
Bank charges	1,166	0.8	833	0.7	40.0
Fuel and maintenance	9,472	6.5	8,476	7.1	11.8
Insurances	1,335	0.9	1,590	1.3	(16.0)
Security and cash handing	12,609	8.6	9,374	7.9	34.5
AMCON premium(1)	17,553	12.0	6,507	5.5	169.8
Other expenses(2)	12,451	8.5	7,465	6.3	66.8
Total operating expenses	**146,245**	**100**	**118,560**	**100**	**23.4**

(1) The AMCON premium represents the Group's provisional contribution to AMCON's sinking fund for the year ended 31 December 2013. Effective 1 January 2011, each Nigerian bank is required to contribute 0.3 per cent. of its total assets (based on the latest available audited accounts which were based on Nigerian GAAP for financial years ending before 2012 and on IFRS since the beginning of 2012) as at the preceding year end to AMCON's sinking fund in line with existing guidelines. The rate was later raised to 0.5% of total assets.

(2) Other operating expenses includes licence, registration and subscription fees, travelling, printing and stationery, expenses on electronic products and general administrative expenses.

Operating expenses increased to ₦146,245 million for the year ended 31 December 2013 compared to ₦118,560 million for the year ended 31 December 2012, an increase of ₦27,685 million, or 23.4 per cent. This increase in operating expenses was driven by an increase in AMCON premium and staff costs, as well as an increase in other expenses as a result of the Group's expansion strategy.

Training and development

The Group's training and development expenses for the year ended 31 December 2013 were ₦1,421 million, an increase of ₦572 million, or 67.4 per cent., compared to ₦849 million in the year ended 31 December 2012. This was principally a result of a 45 per cent. increase in the cost of strategic offshore training organised for top management of the Group.

Information technology

The Group's information technology expenses for the year ended 31 December 2013 were ₦3,389 million, an increase of ₦1,619 million, or 91.5 per cent., compared to ₦1,770 million in the year ended 31 December 2012. This was principally as a result of reclassifying ₦1,641 million for computer consumables from "*– Other Expenses*" to "*Information Technology*" in year 2013.

AMCON premium

The Group's AMCON premium for the year ended 31 December 2013 was ₦17,553 million, an increase of ₦11,046 million, or 169.8 per cent., compared to ₦6,507 million in the year ended 31 December 2012. This was principally due to three broad factors: payment of the premium for the year ended 31 December 2010 in 2013 (as a result of the CBN's decision to require contributions for the 2010 financial year); an increase in the rate applied to the Group's total assets from 0.3 per cent. in 2012 to 0.5 per cent. in 2013; and a 20.7 per cent. growth in the Group's total assets.

Other expenses

The Group's other expenses for the year ended 31 December 2013 were ₦12,451 million, an increase of ₦4,986 million, or 66.8 per cent., compared to ₦7,465 million in the year ended 31 December 2012. This was principally as a result of increase in the cost of light and power supply due to the declining power resources in the country.

Income tax expense

The Group's income tax expense for the year ended 31 December 2013 increased to ₦12,616 million from an income tax credit of ₦1,050 million for the year ended 31 December 2012. For both of the financial years ended 31 December 2013 and 2012, respectively, the Bank was assessed based on the minimum tax legislation in 2012 as a result of the tax exempt status of income from bonds and other short term securities held by the Bank. However, the Bank subsequently paid dividends in excess of the tax provision and was liable to pay tax based on the 2012 dividend which was later approved by shareholders. This led to the increase in income tax expenses for the year ended 31 December 2013.

Year ended 31 December 2012 compared to year ended 31 December 2011

Net interest income

The following table sets out certain information relating to the Group's net interest income for the periods indicated.

	Year ended 31 December		Variation
	2012	2011	2012/2011
	(₦ millions, except %)		*(%)*
Interest and similar income	221,318	163,192	35.6
Interest and similar expense	(64,561)	(34,906)	85.0
Net interest income	**156,757**	**128,286**	**22.2**

Net interest income increased to ₦156,757 million for the year ended 31 December 2012 from ₦128,286 million for the year ended 31 December 2011. The increase in net interest income was due primarily to increase in the volume of interest bearing assets increased lending rates in 2012. The Group's increase in deposits has enabled it to create additional loans to new and existing customers. This increase in loans was funded through mobilisation of competitively priced deposits even though these deposits were sourced at higher rates in 2012 due to the higher but stable MPR of 12 per cent. compared to graduated MPR (from 7.5 per cent. in January to 9.25 per cent. in September and 12 per cent. in October) in 2011. For the year ended 31 December 2012, the Group's net interest margin (based on average interest earning assets) was 7.66 per cent., compared to 6.87 per cent. in the year ended 31 December 2011.

Interest and similar income

The following table sets out details of the Group's interest and similar income for the periods indicated.

	Year ended 31 December				Variation
	2012	% of total	2011	% of total	2012/2011
		(₦ millions, except %)			*(%)*
Inter-bank placements	5,031	2.3	10,276	6.3	(51.0)
Treasury bills	74,364	33.6	39,590	24.3	87.8
Government and other bonds	27,274	12.3	20,040	12.3	36.1
Loans and advances to customers	114,649	51.8	93,286	57.2	22.9
Total interest and similar income	**221,318**	**100**	**163,192**	**100**	**35.6**

Total interest and similar income for the year ended 31 December 2012 was ₦221,318 million, an increase of ₦58,126 million, or 35.6 per cent., compared to ₦163,192 million in the year ended 31 December 2011. This was principally due to the higher level of rates on various money market and debt instruments held by the Group, which was driven by a high but stable MPR in 2012 as compared to the lower but more volatile MPR in 2011. In 2011, the MPR was 6 per cent. in January, which increased to 7.5 per cent. in March, then to 8 per cent. in May, 8.75 per cent. in July, 9.25 per cent. in September and finally to 12 per cent. in October, where it remained until June 2012. As a result of this high MPR, yields on money market instruments, government bonds and loans to customers were, on average, higher in 2012 than in 2011.

Interest income from inter-bank placements decreased to ₦5,031 million for the year ended 31 December 2012 from ₦10,276 million for the year ended 31 December 2011. The decrease was primarily due to decreased inter-bank borrowing within the Nigerian banking sector following the successful sale and subsequent merger of each of Spring Bank Plc, Bank PHB Plc and Afribank Plc, also referred to as the "Nationalised Banks", who were major inter-bank borrowers.

Interest income from treasury bills increased to ₦74,364 million for the year ended 31 December 2012 from ₦39,590 million for the year ended 31 December 2011. This increase was primarily due to the increase in treasury bills yields in 2012 due to the high interest rate environment in Nigeria, coupled with the increase in the volume of treasury bills held by the Group.

Interest income from government and other bonds increased to ₦27,274 million for the year ended 31 December 2012 from ₦20,040 million for the year ended 31 December 2011. The increase was primarily due to an increase in the yield on government bonds from 8 per cent. for the year ended December 31, 2011 to 10 per cent. for the year ended 31 December 2012 as well as the increase in the volume of government and other bonds held by the Group.

Interest income from loans and advances to customers increased to ₦114,649 million for the year ended 31 December 2012 from ₦93,286 million for the year ended 31 December 2011. The increase was primarily due to an increase in lending rates as a result of the increase in MPR and a 9.49 per cent. increase in the Group's average balances of loans and advances to customers.

Interest and similar expense

The following table sets out details of the Group's interest and similar expense for the periods indicated.

	Year ended 31 December				Variation
	2012	**% of total**	**2011**	**% of total**	**2012/2011**
		(₦ millions, except %)			*(%)*
Current accounts	3,828	5.9	2,383	6.8	60.6
Savings accounts	1,507	2.3	1,334	3.8	13.0
Time deposits	57,533	89.1	30,198	86.5	90.5
Inter-bank takings	504	0.8	177	0.5	184.7
Borrowed funds	1,189	1.9	814	2.3	46.1
Total interest and similar expense	**64,561**	**100**	**34,906**	**100**	**85.0**

The Group recorded ₦64,561 million in interest and similar expense for the year ended 31 December 2012, a ₦29,655 million, or 85.0 per cent. increase, as compared to ₦34,906 million in the year ended 31 December 2011. The increase in total interest expense was primarily due to an increase in the Group's average deposit base and an increase in the Group's deposit rate from 2.18 per cent. for the year ended 31 December 2011 to 3.18 per cent. for the year ended 31 December 2012. The attractive rates offered by the government on treasury bills and the increase in the number of individuals and other corporate entities taking advantage of the change allowing them to invest in such securities, led some deposit customers to demand higher rates on their deposits.

Interest and similar expense on current accounts increased to ₦3,828 million for the year ended 31 December 2012 from ₦2,383 million for the year ended 31 December 2011. The increase was primarily due to the increase in the average volume of current account deposits held by the Group as well as an increase in the amount of demand deposits qualifying for interest payments.

Interest and similar expense on savings accounts increased to ₦1,507 million for the year ended 31 December 2012 from ₦1,334 million for the year ended 31 December 2011. The increase was primarily due to a marginal increase in the Group's applicable deposit rates.

Interest and similar expense on time deposits increased to ₦57,533 million for the year ended 31 December 2012 from ₦30,198 million for the year ended 31 December 2011. The increase was primarily due to time deposit customers' demand for higher interest rates in line with those of treasury bills, which are alternative investments for such customers. In addition, the average volume of time deposits held by the Group increased by 77.6 per cent.

Interest and similar expense on inter-bank takings increased to ₦504 million for the year ended 31 December 2012 from ₦177 million for the year ended 31 December 2011. The increase was primarily due to certain of the Group's overseas banking subsidiaries based in Africa borrowing from their respective inter-bank markets and the Group's UK based subsidiary increasing its borrowings in the first half of 2012.

Interest and similar expense on borrowed funds decreased to ₦1,189 million for the year ended 31 December 2012 from ₦814 million for the year ended 31 December 2011, primarily due to some long term borrowing held by the Group reaching maturity during the year ended 31 December 2011 and therefore being paid down and not being renewed.

Net impairment charge for credit losses

Net impairment charge for credit losses for the year ended 31 December 2012 was ₦9,099 million as compared with the net impairment charge for credit losses for the year ended 31 December 2011 of ₦16,514 million. This decrease was primarily due to the Group's efforts to refocus on the quality of its risk assets, which had suffered a marginal decline in 2011 and thus, meet or surpass the maximum non performing loan ratio (5 per cent.) set by the CBN.

The Group's NPLs as at 31 December 2012 decreased to ₦31,930 million or 3.15 per cent. of gross loans and advances, from ₦59,768 million or 6.49 per cent. of gross loans and advances as at 31 December 2011. The Group's NPLs decreased in 2012 primarily as a result of recoveries and improved performance of some loans.

	Year ended 31 December		**Variation**
	2012	**2011**	**2012/2011**
	(₦ millions, except %)		*(%)*
Overdrafts	8,172	16,472	(50.4)
Term loans	369	295	25.1
On-lending facilities	525	193	172.0
Advances under finance lease	33	(357)	109.2
Other assets	—	(89)	(100)
Total impairment charge for credit losses	**9,099**	**16,514**	**(44.9)**

Impairment charges on overdrafts decreased to ₦8,172 million as at 31 December 2012 from ₦16,472 million as at 31 December 2011. The decrease was the result of significant recoveries which were made and reversal of certain impairment charges on overdrafts which were no longer considered impaired in 2012.

Impairment charges on term loans increased in the year ended 31 December 2012 to ₦369 million from ₦295 million as at 31 December 2011, primarily due to the growth in term loans during the period which necessitated additional impairment charges. Total term loans as at 31 December 2012 stood at ₦672,931 million, compared to ₦595,005 million as at the end of 2011.

Impairment charges on on-lending facilities increased to ₦525 million as at 31 December 2012 from ₦193 million as at 31 December 2011. This increase was primarily due to a substantial increase in new and existing on-lending facilities due to customer demand, which necessitated additional impairment charges as a result of assessing the Group's loan portfolio as a whole.

Impairment charges on advances under finance leases increased to ₦33 million as at 31 December 2012 from ₦(357) million as at 31 December 2011, principally due to some of the loans that exhibited signs of default eventually had to be provided for in the year ended 31 December 2012.

Fee and commission income

The following table shows the composition of fee and commission income for the periods indicated.

	Year ended 31 December 2012	2011	Variation 2012/2011
	(₦ millions, except %)		*(%)*
Credit related fees	9,892	8,189	20.8
Commission on turnover	27,938	24,009	16.4
Fees on electronic products	3,637	3,293	10.4
Foreign currency transaction fees and commissions	1,092	1,269	(13.9)
Other fees and commissions	5,490	5,437	1.0
Income from financial guarantee contracts issued	2,431	—	—
Total fee and commission income	**50,480**	**42,197**	**19.6**

The Group's total fee and commission income for the year ended 31 December 2012 was ₦50,480 million, an increase of ₦8,283 million, or 19.6 per cent., compared to ₦42,197 million in the year ended 31 December 2011. This was principally due to an increase in the volume of customer transactions, resulting in higher commission on turnover due to income from financial guarantee contracts.

The Group' credit related fee income was ₦9,892 million for the year ended 31 December 2012, compared to ₦8,189 million for the year ended 31 December 2011, as a result of the increase in fees associated with the increased average volume of loans and advances in 2012.

The increase in commission on turnover from ₦24,009 million for the year ended 31 December 2011 to ₦27,938 million for the year ended 31 December 2012 was primarily due to an increase in the volume of transactions in 2012.

Fees on electronic products increased to ₦3,637 million for the year ended 31 December 2012 from ₦3,293 million for the year ended 31 December 2011. The increase is attributable to the introduction of various new electronic products, as well as expansion of existing products in 2012.

Foreign currency transaction fees and commissions decreased to ₦1,092 million for the year ended 31 December 2012, from ₦1,269 million for the year ended 31 December 2011. The decrease was due to competitive pressure leading to reduced pricing of bills for collection transactions which affected the income charged on such bills in 2012.

The increase in other fees and commissions to ₦5,490 million for the year ended 31 December 2012 from ₦5,437 million for the year ended 31 December 2011, was primarily driven by a growth in the volume of transactions due to a larger customer base.

Net gains on financial instruments measured at fair value through profit or loss

The following table sets out certain information relating to the Group's net gains on financial instruments measured at fair value through profit or loss for the periods indicated.

	Year ended 31 December 2012	2011	Variation 2012/2011
	(₦ millions, except %)		*(%)*
Foreign exchange trading income	18,186	18,033	0.8
Treasury bill trading income	415	286	45.1
Bond trading income	411	205	100.5
Total	**19,012**	**18,524**	**2.6**

The Group's net gains on financial instruments measured at fair value through profit or loss for the year ended 31 December 2012 was ₦19,012 million, an increase of ₦488 million, or 2.6 per cent., compared to ₦18,524 million in the year ended 31 December 2011. This was principally as a result of a marginal increase in the U.S$/Naira exchange rate during 2012 which had an impact on the financial instruments held by the Bank's foreign subsidiaries.

Other income

The Group's other income for the year ended 31 December 2012 was ₦1,038 million, a decrease of ₦5,765 million, or 84.7 per cent., compared to ₦6,803 million in the year ended 31 December 2011. This was principally as a result of a reduction in rental income (following the disposal of an investment property) and dividends from equity investments.

Share of profit of associates

The Group' share of profit of associates was ₦23 million for the year ended 31 December 2012, as compared with ₦45 million for the year ended 31 December 2011, due to the declining performance and lower profits posted by associates in 2012 compared to 2011.

Operating expenses

The following table sets out the principal components of the Group's operating expenses for the periods indicated.

	Year ended 31 December				Variation
	2012	**% of total**	**2011**	**% of total**	**2012/2011**
		(₦ millions, except %)			*(%)*
Staff costs	52,427	44.2	47,387	40.9	10.6
Depreciation of property and equipment	10,307	8.7	12,175	10.5	(15.3)
Auditors' remuneration	320	0.3	254	0.2	26.0
Directors' emoluments	726	0.6	742	0.6	(2.2)
Deposit insurance premium	7,588	6.4	6,130	5.3	23.8
Professional fees	1,419	1.2	864	0.7	64.2
Training and development	849	0.7	755	0.6	12.5
Information technology	1,770	1.5	4,082	3.5	(56.6)
Operating leases	2,200	1.9	2,154	1.9	2.1
Advertisement	6,709	5.7	4,002	3.5	67.6
Bank charges	833	0.7	780	0.7	6.8
Fuel and maintenance	8,476	7.1	9,943	8.6	(14.8)
Insurances	1,590	1.3	1,284	1.1	23.8
Security and cash handling	9,374	7.9	11,591	10.0	(19.1)
AMCON premium[(1)]	6,507	5.5	5,368	4.6	21.2
Other expenses[(2)]	7,465	6.3	8,407	7.3	15.8
Total operating expenses	**118,560**	**100**	**115,918**	**(100)**	**2.3**

(1) The AMCON premium represents the Group's provisional contribution to AMCON's sinking fund for the year ended 31 December 2012. Effective 1 January 2011, each Nigerian bank is required to contribute 0.3% of its total assets (based on the latest available audited accounts which were based on Nigerian GAAP for financial years ending before 2012 and on IFRS since the beginning of 2012) as at the preceding year end to AMCON's sinking fund in line with existing guidelines. The rate was further raised to 0.5% of total assets.

(2) Other operating expenses includes licenses, registrations and subscriptions, travel and hotel expenses, printing and stationery, expenses on electronic products and general administrative expenses.

The Group recorded ₦118,560 million in operating expenses for the year ended 31 December 2012, a ₦2,642 million, or 2.3 per cent. increase, as compared to ₦115,918 million in the year ended 31 December 2011. The increase was largely driven by the higher AMCON premium paid in 2012 as a result of an increase in the Bank's total assets in the previous year.

Staff costs

The following table sets out details of the Group's staff costs for the periods indicated

	Year ended 31 December 2012	2011	Variation 2012/2011
	(₦ millions except %)		*(%)*
Salaries and wages	44,840	39,104	14.7
Other staff costs	4,551	5,761	(21.0)
Pension contribution	3,036	2,522	20.4
Total staff costs	**52,427**	**47,387**	**10.6**

Total staff costs increased to ₦52,427 million for the year ended 31 December 2012 from ₦47,387 million for the year ended 31 December 2011. The increase in staff costs was largely due to staff promotions during the year and salary review across various levels..

Training and development

Costs related to training and development increased to ₦849 million for the year ended 31 December 2012 from ₦755 million for the year ended 31 December 2011. This was largely due to more training programmes being organised for staff members in 2012 compared to 2011.

Depreciation and amortisation

Depreciation and amortisation decreased to ₦10,307 million for the year ended 31 December 2012 from ₦12,175 million for the year ended 31 December 2011. The decrease is primarily due to a reduction in depreciation charges on computer equipment and furniture equipment. Some of these categories of assets in use in 2011 were fully depreciated before 2012.

Deposit insurance premium

The deposit insurance premium increased to ₦7,588 million for the year ended 31 December 2012 from ₦6,130 million for the year ended 31 December 2011. This increase is principally attributable to growth in the Group's deposits during the year.

Auditors' remuneration

Auditors' remuneration increased to ₦320 million for the year ended 31 December 2012 from ₦254 million for the year ended 31 December 2011. The increase in auditors' remuneration was primarily due to renegotiation of fees and broadening of the scope of audit in 2012 to take into account new auditing standards.

Professional fees

Professional fees increased to ₦1,419 million for the year ended 31 December 2012 from ₦864 million for the year ended 31 December 2011.This was principally due to renegotiation of fees and the scope of consulting services commissioned by the Group in 2012 compared to 2011.

Information technology

Costs related to information technology decreased to ₦1,770 million for the year ended 31 December 2012 from ₦4,082 million for the year ended 31 December 2011. The reduction is partly attributable to the Group's adoption of cost reduction techniques which led to a decline in IT expenses and partly attributable to a correction in amortisation of certain software costs.

AMCON premium

AMCON premium expense increased to ₦6,507 million for the year ended 31 December 2012 from a net credit of ₦5,368 million for the year ended 31 December 2011 The AMCON premium for 2011 was unpaid due to ambiguities surrounding the exact premium payable by the Bank.

Other expenses

Other expenses decreased to ₦7,465 million for the year ended 31 December 2012 from ₦8,407 million for the year ended 31 December 2011. Other expenses include licences, registrations and subscriptions, travel and hotel expenses, printing and stationery expenses, expenses on electronic products and general administrative expenses. The decrease in other expenses was as a result of the Group's adoption of cost reduction techniques, especially in the area of administrative expenses.

Income tax expense

For the year ended 31 December 2012, the Group recorded an income tax credit of ₦1,050 million compared to an income tax expense of ₦18,736 million for the year ended 31 December 2011. The tax credit was a result of the reversal of temporary deferred tax differences of ₦5,595 million.

Financial condition as at 31 December 2013, 2012 and 2011

Total assets

The following table presents data regarding the Group's assets as at the dates indicated.

	As at 31 December					
	2013	**% of total**	**2012**	**% of total**	**2011**	**% of total**
			(₦ millions, except %)			
Cash and balances with central banks	603,851	19.2	332,515	12.8	223,187	9.6
Treasury bills	586,441	18.7	669,164	25.7	510,738	22.0
Due from other banks	256,729	8.2	182,020	7.0	234,521	10.1
Derivative assets held for risk management	2,681	0.1	—	—	—	—
Loans and advances	1,251,355	39.8	989,814	38.0	893,834	38.4
Investment securities	303,125	9.6	299,343	11.5	308,231	13.2
Investment in associates	165	0.0	420	0.0	1,756	0.1
Deferred tax assets	749	0.0	432	0.0	186	0.0
Other assets	36,238	1.1	28,665	1.1	25,510	1.1
Investment property	—	—	—	—	7,114	0.3
Property and equipment	69,410	2.2	68,782	2.6	68,366	2.9
Intangible assets	1,935	0.1	1,406	0.1	770	0.0
Assets classified as held for sale	30,454	1.0	31,943	1.2	52,482	2.3
Total assets	**3,143,133**	**100**	**2,604,504**	**100**	**2,326,695**	**100**

The Group's total assets increased to ₦3,143,133 million as at 31 December 2013 from ₦2,604,504 million as at 31 December 2012 and ₦2,326,695 million as at 31 December 2011. The increase in total assets of ₦538,629 million between 31 December 2012 and 31 December 2013 is primarily attributable to an increase in the Group's loans and advances, largely as a result of additional liquidity growth in the Group's customer deposits and long-term borrowings, which the Bank in turn used to expand its loan portfolio. Similarly, the increase of ₦277,809 million in total assets as at 31 December 2012 compared to 31 December 2011 was principally due to an increase in treasury bills, largely funded by additional liquidity growth in customer deposits.

Cash and balances with central banks.

The following table sets out details of the Group's cash and balances with central banks as at the dates indicated.

	As at 31 December		
	2013	**2012**	**2011**
		(₦ millions)	
Cash in vault	44,512	42,123	39,913
Operating accounts with central banks	210,646	110,256	76,666
Mandatory reserve deposits with central banks	348,693	180,136	106,608
Total cash and balances with central banks	**603,851**	**332,515**	**223,187**

The Group's cash and balances with central banks, consisting of cash in vault, operating accounts with central banks and mandatory reserve deposits with central banks, increased to ₦603,851 million as at 31 December 2013, compared with ₦332,515 million as at December 2012 due primarily to the growth in operating accounts with the CBN and the increase in cash reserve requirements on public sector funds to 50 per cent.The increase of ₦109,328 million between 31 December 2011 and 31 December 2012 was principally due to the increase in the cash reserve requirement from 8 per cent. in 2011 to 12 per cent. in 2012.

Treasury bills

The following table sets out details of the Group's treasury bills as at the dates indicated.

	As at 31 December		
	2013	2012	2011
		(₦ millions)	
Treasury bills (FVTPL)	—	—	—
Treasury bills (amortised cost)	586,441	669,164	510,738
Total treasury bills	**586,441**	**669,164**	**510,738**

Treasury bills decreased to ₦586,441 million as at 31 December 2013 from ₦669,164 million as at 31 December 2012, following an increase from ₦510,738 million as at 31 December 2011. The fluctuation in the volume of treasury bills held by the Group in 2013 was primarily due to the increase in the cash reserve requirement on public sector funds from the previous 12 per cent. to 50 percent during the year ended 31 December 2013 resulting in a reduction in funds available for investment, compared to 2012 when there was greater liquidity and funds to invest.

Due from other banks

The following table sets out the details of amounts due from other banks.

	As at 31 December		
	2013	2012	2011
		(₦ millions)	
Current balances with banks within Nigeria	11,384	8,358	5,309
Current balances with banks outside Nigeria	109,791	84,267	145,294
Placements with banks and discount houses	135,554	89,395	83,918
Total due from other banks	**256,729**	**182,020**	**234,521**

Amounts due from other banks increased to ₦256,729 million as at 31 December 2013 from ₦182,020 million as at 31 December 2012, after decreasing from ₦234,521 million as at 31 December 2011. The increase in amounts due from other banks, in 2013 was principally due to increased letters of credit and trade finance transactions in 2013. Also, for the year ended 2013, placements with banks outside Nigeria grew from ₦47,0442 million to ₦97,257 million. The decline in amounts due from banks in 2012 from 2011 was due to the reduction in volume of outstanding letters of credit and trade finance transactions at year end.

Loans and advances to customers

The following table sets out details of the Group's loans and advances to customers as at the dates indicated.

	As at 31 December		
	2013	2012	2011
		(₦ millions)	
Overdrafts	351,642	270,672	273,788
Term loans	858,389	672,931	595,005
On-lending facilities	52,693	54,149	44,525
Advances under finance lease	13,398	16,774	7,303
Gross loans and advances to customers	1,276,122	1,014,526	920,621
Less: Allowances for impairment	(24,767)	(24,712)	(26,787)
Specific allowances for impairment	(7,972)	(10,601)	(12,408)
Collective allowance for impairment	(16,795)	(14,111)	(14,379)
Net loans and advances to customers	**1,251,355**	**989,814**	**893,834**
Overdrafts			
Gross overdrafts	351,642	270,672	273,788
Less: Allowances for impairment	(15,634)	(17,896)	(17,318)
Specific allowances for impairment	(5,867)	(9,713)	(8,721)
Collective allowance for impairment	(9,767)	(8,183)	(8,597)
Net overdrafts	336,008	252,776	256,470
Term loans			
Gross term loans	858,389	672,931	595,005
Less: Allowances for impairment	(8,280)	(5,875)	(9,071)
Specific allowances for impairment	(1,926)	(888)	(3,687)
Collective allowance for impairment	(6,354)	(4,987)	(5,384)
Net term loans	850,109	667,056	585,934
On- lending facilities			
Carrying amount	52,693	54,149	44,525
Less: Collective allowance for impairment	(714)	(857)	(332)
Net on-lending facilities	51,979	53,292	44,193
Advances under finance lease			
Carrying amount	13,398	16,774	7,303
Less: Collective allowance for impairment	(139)	(84)	(66)
Net advances under finance lease	**13,259**	**16,690**	**7,237**

Net loans and advances to customers increased to ₦1,251,355 million as at 31 December 2013 from ₦989,814 million as at 31 December 2012 and ₦893,834 million as at 31 December 2011 as a result of the Bank's robust and expansive lending policies (particularly for term loans). The Bank created new loans to both new and existing customers through overdrafts and term loans. The expansion in the Bank's loan portfolio was funded from the increase in the Group's deposits of ₦347,511 million, increase in long term borrowings of ₦45,012 million and ₦98,288 million increase in the Group's other liabilities.

Investment securities

The following table sets out details of the Group's investment securities as at the dates indicated.

	As at 31 December		
	2013	2012	2011
		(₦ millions)	
Debt securities	292,471	289,938	298,841
Equity securities	10,654	9,405	9,390
Total investment securities	**303,125**	**299,343**	**308,231**

Total investment securities were ₦303,125 million as at 31 December 2013, ₦299,343 million as at 31 December 2012 and ₦308,231 million as at 31 December 2011. Investment securities increased slightly in 2013 largely because the Group increased its investment in debt securities to maximise yields available on government bonds. The decrease in 2012 was primarily due to the principal the Group received from certain long-term government bonds that matured in the first half of 2012 which was not re-invested.

Other assets

Other assets are comprised of prepayments and other receivables less specific impairment. Other assets were ₦36,238 million as at 31 December 2013, a ₦7,573 million or 26.4 per cent. increase from ₦28,665 million as at 31 December 2012, which was an increase of ₦3,155 million, or 12.4 per cent., compared to ₦25,510 million as at 31 December 2011. The increase in 2013 mainly reflected an increase in other receivables of ₦7,300 million. This represents the amount due from other banks for NIBSS (online) transfers to the Group's customers. The 15 per cent. increase in 2012 is substantially due to the increase in receivables outstanding at year end from the Bank's subsidiaries.

Property and equipment

Property and equipment was ₦69,410 million as at 31 December 2013, ₦68,782 million as at 31 December 2012 and ₦68,366 million as at 31 December 2011. The increase in property and equipment as 31 December 2013 was primarily driven by asset acquisitions and the establishment of new branches.

Assets classified as held for sale

The following table sets out details of the Group's assets classified as held for sale as at the dates indicated.

	As at 31 December		
	2013	**2012**	**2011**
		(₦ millions)	
Cash and balances with central banks	500	500	500
Treasury bills	11,076	7,696	5,351
Due from other banks	11,875	15,398	36,451
Loans and advances	59	484	641
Reinsurance assets and insurance receivables	1,112	499	1,423
Investment securities	2,915	5,520	4,625
Deferred tax assets	1	1,065	1,628
Other assets	1,861	261	1,015
Property and equipment	1,026	474	809
Intangible assets	29	46	39
Total	**30,454**	**31,943**	**52,482**

The Group's assets classified as held for sale as at 31 December 2013 was ₦30,454 million, a decrease of ₦1,489 million, or 4.7 per cent., compared to ₦31,943 million as at 31 December 2012 which was a decrease of ₦20,539 million, or 39.1 per cent., compared to ₦52,482 million as at 31 December 2012.The decrease in 2012 was driven by the successful disposal of Zenith Registrar which usually held significant un-claimed dividend funds on fixed deposit with banks, treasury bills and investment securities in the form of government bonds. The marginal decrease in 2013 was due to the gradual wind down and diminished level of operations within the non banking subsidiaries slated for disposal.

Total liabilities

The following table presents data regarding the Group's liabilities as at the dates indicated.

	As at 31 December					
	2013	% of total	2012	% of total	2011	% of total
			(₦ millions, except %)			
Customers' deposits	2,276,755	86.4	1,929,244	90.1	1,655,458	85.7
Current income tax	7,017	0.3	6,577	0.3	13,348	0.7
Deferred income tax liabilities	678	0.0	5,584	0.3	10,742	0.6
Other liabilities	215,643	8.2	117,355	5.5	152,836	7.9
On-lending facilities	59,528	2.3	56,066	2.6	49,370	2.6
Borrowings	60,150	2.3	15,138	0.7	21,070	1.1
Liabilities classified as held for sale	14,111	0.5	11,584	0.5	29,603	1.5
Total liabilities	**2,633,882**	**100**	**2,141,548**	**100**	**1,932,427**	**100**

The Group's total liabilities increased to ₦2,633,882 million as at 31 December 2013 from ₦2,141,548 million as at 31 December 2012 and ₦1,932,427 million as at 31 December 2011. The increase across the relevant periods was principally attributable to increases in customer deposits, primarily in retail demand deposit, evidencing the Group's business expansion strategy.

Customers' deposits

The following table sets out details of the Group's deposits from customers as at the dates indicated.

	As at 31 December					
	2013	% of total	2012	% of total	2011	% of total
			(₦ millions, except %)			
Demand	1,293,778	56.8	1,171,216	60.7	1,026,371	62.0
Savings	192,281	8.4	152,464	7.9	139,532	8.4
Term	439,466	19.3	336,927	17.5	278,253	16.8
Deposits from banks	64,335	2.8	48,580	2.5	36,016	2.2
Domiciliary	286,895	12.6	220,057	11.4	175,286	10.6
Total deposits	**2,276,755**	**100**	**1,929,244**	**100**	**1,655,458**	**100**

Deposits from customers constituted 86.4 per cent. of total liabilities as at 31 December 2013, 90.1 per cent. as at 31 December 2012 and 85.7 per cent. as at 31 December 2011. Deposits from customers increased to ₦2,276,755 million as at 31 December 2013 from ₦1,929,244 million as at 31 December 2012 and ₦1,655,458 million as at 31 December 2011. The increase across the relevant periods was principally due to the Group's efforts to expand its deposit base, particularly among retail customers.

Other liabilities

The following table sets out details of the Group's other liabilities as at the dates indicated.

	As at 31 December		
	2013	2012	2011
		(₦ millions)	
Customer deposits for letters of credit	32,276	38,450	44,208
Managers' cheques	13,063	14,996	14,729
Other payables [1]	170,304	63,909	93,899
Total	**215,643**	**117,355**	**152,836**

(1) Other payables includes interest, customers' funds for purchases, tax collections, sales and other collections and payments due to banks for clean letters of credit.

The Group's other liabilities increased to ₦215,643 million as at 31 December 2013 from ₦117,355 million as at 31 December 2012 and ₦152,836 million as at 31 December 2011. The increase in 2013 is attributable to the increase in other payables, particularly in the volume of collections carried out by the Group on behalf of government agencies, which are remitted at specific intervals to the relevant agencies. The decrease in 2012 was attributable to reduced volume at year end of customers' deposits for letters of credit and other payables as a result of the Group remitting revenue collections that had fallen due to shortening of average remittance periods.

On-lending facilities

The following table sets out details of the Group's on-lending facilities as at the dates indicated.

	As at 31 December		
	2013	**2012**	**2011**
		(₦ millions)	
Central Bank of Nigeria Commercial Agriculture Credit Scheme Loan[(1)]	29,905	23,955	20,535
Central Bank of Nigeria/Bank of Industry – SME/Manufacturing Intervention Fund[(2)]	14,417	14,670	16,326
Central Bank of Nigeria/Bank of Industry – Power & Aviation Intervention Fund[(3)]	15,206	17,441	12,509
Total[(4)]	**59,528**	**56,066**	**49,370**

(1) The funds received under the Central Bank of Nigeria (CBN) Commercial Agriculture Credit Scheme represents a credit line granted to the Bank for the purpose of providing concessionary funding to the agricultural sector. The facility is secured by Nigerian government securities and has a tenor of seven years with effect from 2009 to expire by September 2016. The facility attracts an interest of 0% per annum and the Bank is under obligation to on-lend to customers at an all-in interest rate of not more than 9% per annum. Based on the structure of the facility, the Bank assumes the default risk of all amounts lent to the Bank's customers.

(2) The Central Bank of Nigeria (CBN)/Bank of Industry (BOI) – SME/Manufacturing Intervention Fund represents an intervention credit granted to the Bank for the purpose of refinancing/restructuring existing loans to Small and Medium Scale Enterprises (SMEs) and Manufacturing Companies. The total facility is secured by Nigerian government securities. The maximum tenor for term loans under the programme is 15 years while the tenor for working capital is one year, renewable annually subject to a maximum tenor of five years. A management fee of 1% per annum deductible at source in the first year, and quarterly in arrears thereafter, is paid by the Bank under the Intervention programme and the Bank is under obligation to on-lend to customers at an all in interest rate of 7% per annum. The Bank is the primary obligor to the CBN and BOI and assumes the risk of default.

(3) The Central Bank of Nigeria (CBN)/Bank of Industry (BOI) – Power & Aviation Intervention Fund represents a credit line for the purpose of granting new loans and refinancing/restructuring existing loans to companies in the power and aviation industries. The facility is secured by Irrevocable Standing Payment Order (ISPO). The maximum tenor for term loans under the programme is 15 years while the tenor for working capital is one year, renewable annually subject to a maximum tenor of five years. The facility attracts an interest of 1% per annum payable quarterly in arrears and the Bank is under obligation to on-lend to customers at an all in interest rate of 7% per annum.

(4) There were no undisbursed on-lending funds in 2013. Included in on-lending facilities are amounts totalling ₦1.9 billion as at 31 December 2012 (₦4.8 billion as at 31 December 2011) that were received but not yet disbursed.

The Group's on-lending facilities increased to ₦59,528 million as at 31 December 2013, compared to ₦56,066 million as at 31 December 2012 and ₦49,370 million as at 31 December 2011. The increase in on-lending facilities in 2013 was driven by additional credits granted to the Bank under the Central Bank of Nigeria (CBN) Commercial Agriculture Credit Scheme. The Bank applied for additional credits under the scheme to service increased customer demand.

Borrowings

The following table sets out details of the Group's interest bearing loans and borrowings as at the dates indicated. The facilities listed below are for on-lending purposes.

	As at 31 December		
	2013	2012	2011
	(₦ millions)		
Due to FMO	—	—	261
Due to ADB[(1)]	7,445	11,957	14,903
Due to KEXIM[(2)]	3,440	313	—
Due to EIB[(3)]	4,331	—	120
Due to HSBC[(4)]	—	—	138
Due to SCB[(5)]	15,876	—	—
Due to CITIBANK[(6)]	15,794	—	—
Due to PROPARCO[(7)]	13,264	2,183	4,015
Due to PEFCO[(8)]	—	685	1,633
Total	**60,150**	**15,138**	**21,070**

(1) The amount due to African Development Bank (AfDB) of ₦7.48 billion (U.S.$45.83 million) represents the outstanding balances from two dollar term loan facilities of the sums of U.S.$100 million and U.S.$50 million granted by AfDB in May 2007 and March 2010, respectively. The facilities are repayable over seven years and five years respectively. Interest is payable half-yearly at the rate of LIBOR + 2.2 per cent. per annum and LIBOR + 4.5 per cent. per annum respectively. The outstanding balance of U.S.$8.33 million from the first facility will mature in two months while the outstanding balance of U.S.$37.5 million from the second facility will mature in one year and two months.

(2) The amount of ₦3.44 billion (U.S.$21.5 million) represents the outstanding balances from two short term loan facilities of U.S.$30 million and U.S.$18 million granted by The Export-Import Bank of Korea (KEXIM) in February 2013 and November 2013 respectively. The facilities are priced at LIBOR + 1.5 per cent. per annum and LIBOR + 1.6 per cent. per annum with outstanding balances of U.S.$5 million and U.S.$16.5 million, respectively. Final repayments on these facilities were due in February 2014 (which repayment has been made) and November 2014, respectively.

(3) The amount of ₦4.38 billion (U.S.$27.32 million) represents the first tranche of disbursement (received in December 2013) from the EUR60 million (U.S.$80 million) mid-cap loan granted by the European Investment Bank (EIB). Interest is payable at the rate of LIBOR + 2.74 per cent. per annum and the facility will mature in July 2019.

(4) The amount of ₦138 million represents the outstanding balance of the dollar facility granted by The Honkong and Shangai Banking Corporation in June 2007 for a tenor of five years. Interest is payable at the rate of LIBOR plus 0.6 per cent. per annum.

(5) The amount of ₦16.01 billion (U.S.$100 million) represents the balance of a 3-year dollar term loan facility granted by Standard Chartered Bank in June 2013. The facility will mature in June 2016 and interest is payable quarterly at LIBOR + 3.50 per cent. per annum.

(6) The amount of ₦16.03 billion (U.S.$100 million) represents the balance of a 3-year dollar term loan facility granted by Citibank in December 2013. The facility will mature in December 2016 and interest is payable quarterly at LIBOR + 3.50 per cent. per annum.

(7) The amount of ₦13.37 billion (U.S.$83.33 million) represents the outstanding balances from three dollar term loan facilities of U.S.$25 million, U.S.$25 million and U.S.$50 million granted by Promotion et Participation pour la Coopération économique (PROPARCO) in February 2010, February 2013 and December 2013 respectively. Interest is payable semi-annually at LIBOR + 3.3 per cent. per annum, LIBOR + 3.76 per cent. per annum and LIBOR + 3.71 per cent. per annum with outstanding balances of U.S.$8.33 million, U.S.$25 million and U.S.$50 million, respectively. Final repayments on these facilities are due in April 2015, April 2020 and April 2021, respectively.

(8) The amount of ₦685 million represents the outstanding balance of a five year dollar facility granted by Sovereign Bank in November 2008. However, in December 2008 Sovereign Bank sold its outstanding receivable loan balance from Zenith Bank to Private Exporters Funding Corporation (PEFCO). This loan was liquidated in 2013.

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the years ended 31 December 2013, 2012 and 2011.

Liabilities classified as held for sale

The following table sets out details of the Group's liabilities classified as held for sale as at the dates indicated.

	As at 31 December		
	2013	2012	2011
		(₦ millions)	
Claims payable	2,084	425	420
Current income tax	1,405	1,782	1,882
Deferred income tax liabilities	295	552	500
Tax collections	—	1,446	819
Sales and other collections	—	—	12,452
Other payables	6,274	3,961	10,711
Liabilities on insurance contracts	4,053	3,418	2,819
Total	**14,111**	**11,584**	**29,603**

Liabilities classified as held for sale increased to ₦14,111 million as at 31 December 2013, from ₦11,584 million as at 31 December 2011. The increase was primarily due to increased insurance claims outstanding at year end and other insurance payables. Liabilities classified as held for sale decreased to ₦11,584 million as at 31 December 2012 from ₦29,603 million as at 31 December 2011, primarily reflecting sales and other collections outstanding as at year end 2011.

Funding and Liquidity

The Group's funding needs arise primarily from funds required to give loans to customers, to undertake investment in fixed income instruments and to meet customers' obligations. As at 31 December 2013, the Group's funding base consisted primarily of deposits (72.4 per cent.), other borrowed funds (3.8 per cent.), shareholders' fund (16.2 per cent.) and other liabilities and taxes (7.6 per cent.). Please see "*– Financial condition as at 31 December 2013, 2012 and 2011*" above for more information on the Group's funding sources.

The Bank believes that its management of assets and liabilities have allowed the Group to maintain prudent levels of liquidity. Additionally, the CBN Prudential Guidelines require the Group to maintain 35 per cent. of its deposits in liquid assets, which further boosts liquidity. See "*Asset, Liability and Risk Management – Liquidity Risk*" for further information on how the Group manages its liquidity risk.

The following table sets out certain liquidity ratios for the Group as at the dates indicated.

	As at 31 December		
	2013	2012	2011
		(%)	
Liquid assets[(1)]/total assets	42	49	50
Liquid assets[(1)]/customer deposits	58	66	70
Loans to customers, net/total assets	40	38	38
Loans to customers, net/customer deposits	55	51	54
Loans to customers, net/total equity	246	214	227

(1) Liquid assets include cash and cash equivalents, treasury bills, trading assets and government bonds.

Off-balance sheet arrangements

In the normal course of business the Group is party to financial instruments with off-balance sheet risk. These instruments are issued to meet the credit and other financial requirements of customers. These instruments include performance bonds and guarantees, usance, letters of credit and pension funds, each of which involve varying degrees of credit risk and are not reflected on the balance sheet of the Group. Additionally, the Group's off-balance sheet arrangements include the legally-required guarantee provided by the Bank for the assets held by its subsidiary, Zenith Pensions Custodian Limited under the subsidiary's custodial business. The Group's total off-balance sheet assets were ₦2,456,748 million as at 31 December 2013, ₦1,878,255 million as at 31 December 2012 and ₦1,257,941 million as at 31 December 2011.

Contingent liabilities and commitments

As at the year ended 31 December 2013 the Bank was involved in 115 litigation suits in the ordinary course of business. The total amount claimed in the cases against the Bank (as at 31 December 2013) is estimated by the Bank to be ₦3.38 billion. The actions are being contested and the Directors are not of the opinion that any of the suits are likely to have a material adverse effect on the Bank and are not aware of any other pending or threatened litigation.

The following table sets out the contingent liabilities and commitments of the Group as at the dates indicated.

	As at 31 December		
	2013	**2012**	**2011**
		(₦ millions)	
Contingent liabilities:			
Performance bonds and guarantees[(1)]	648,847	468,728	229,206
Usance[(2)]	167,520	162,133	69,830
Letters of credit[(2)]	170,516	141,021	121,618
Pension funds[(3)]	1,469,865	1,106,373	837,287
Total contingent liabilities	**2,456,748**	**1,878,255**	**1,257,941**
Commitments:			
Capital commitments	2,370	2,830	2,790
Total commitments	**2,370**	**2,830**	**2,790**

(1) The transaction related performance bonds and guarantees are, generally, short-term commitments to third parties which are not directly dependent on the customer's creditworthiness. As at 31 December 2013, performance bonds and guarantees worth ₦47.3 billion were secured by cash while others were otherwise secured, compared to ₦10.4 billion and ₦11.9 billion, secured by cash as at 31 December 2012 and 2011, respectively.

(2) Usance and Letters of credit are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity dates, but are cancellable by the Group (as lender) subject to notice requirements. These Letters of credit are provided at market-related interest rates and cannot be settled net in cash. Usance and letters of credit are secured by different types of collaterals similar to those accepted for actual credit facilities.

(3) The amount of ₦1,469,865 million as at 31 December 2013, compared to ₦1,106,373 million as at 31 December 2012 and ₦837,287 million as at 31 December 2011, represented the full amount of the Bank's guarantee for the assets held by its subsidiary, Zenith Pensions Custodian Limited under the latter's custodial business as required by the National Pensions Commission. The assets held by Zenith Pensions Custodian Limited increased during the periods under review due to growth and expansion of the pension business in Nigeria.

Capital adequacy

The Group calculates its capital adequacy ratio as the quotient of the capital base of the Group and the Group's risk weighted asset base. In accordance with CBN regulations, a minimum ratio of 10.0 per cent. is to be maintained. The Group has been in the process of implementing the Basel II framework as part of its capital management strategy since 2009. The Group has engaged the services of risk consultants to assist in the migration to Basel II standards. The migration process is projected to be completed within the next 24 months. See "*Asset, Liability and Risk Management – Basel II Implementation*" for further information.

The following table sets forth the Group's capital adequacy as at the dates indicated, calculated utilising the respective financial awards reported in accordance with IFRS.

	As at 31 December		
	2013	2012	2011
		(₦ millions)	
Tier 1 capital			
Share capital	15,698	15,698	15,698
Share premium	255,047	255,047	255,047
Statutory reserves	57,762	45,199	30,205
Contingency reserve	1,371	997	752
SMEIES reserve	3,729	3,729	3,729
Retained earnings	161,144	130,153	75,072
Credit risk reserve	10,697	10,243	10,243
Non- controlling interest	4,015	3,272	2,686
Total qualifying Tier 1 capital	**509,463**	**464,338**	**393,432**
Deferred tax assets	(749)	(432)	(186)
Intangible assets	(1,935)	(1,406)	(770)
Adjusted Total qualifying Tier 1 capital	**506,779**	**462,500**	**392,476**
Tier 2 capital			
Revaluation reserve – investment	3,499	2,285	2,079
Translation reserve	(5,683)	(3,667)	(1,243)
Total qualifying Tier 2 capital	**(2,184)**	**(1,382)**	**836**
Total regulatory capital (A)	**504,595**	**461,118**	**393,312**
Risk-weighted assets			
On-balance sheet	1,456,562	1,166,719	1,135,373
Off-balance sheet	493,442	385,941	210,327
Total risk-weighted assets (B)	1,950,004	1,552,660	1,345,700
Risk-weighted Capital Adequacy Ratio (CAR) (A/B)	**26%**	**30%**	**29%**

From 1 January 2012, the CBN expressed its capital adequacy ratio requirement on the basis of IFRS, and the CBN requires Nigerian commercial banks with international authorisation to maintain a total capital adequacy ratio of 15.0 per cent.

As at 31 December 2013, the Group's total capital adequacy ratio (calculated utilising the respective financial awards reported in accordance with IFRS) was 26 per cent., compared to 30 per cent. as at 31 December 2012. The decrease was a result of risk-weighted assets growing more quickly than regulatory capital.

SELECTED STATISTICAL AND OTHER INFORMATION

The following tables present certain selected statistical information and ratios for the Group as at and for the periods indicated. The selected statistical information should be read in conjunction with the Financial Statements and the information included in "*Operating and Financial Review*". Investors should note that certain information included in this section (including monthly average balances and interest rates) is not extracted from the Group's audited Financial Statements and is not audited.

The Group prepared its consolidated financial statements as at and for the years ended 31 December 2013, 2012 and 2011 in accordance with IFRS. In the year ended 31 December 2013, 2012 and 2011, profit for the year after tax from the Bank accounted for 87.51 per cent, 95.15 per cent and 84.80 per cent respectively, of the Group's total consolidated profit for the year after tax. Also, total assets of the Bank as at 31 December 2013, 2012 and 2011 accounted for 91.59 per cent, 93.56 per cent and 93.23 per cent respectively of the Group's total consolidated assets, respectively.

Average Balances and Interest Rates

The following table sets forth the consolidated average balances of interest-earning assets and interest-bearing liabilities of the Group for the years ended 31 December 2013, 2012 and 2011. The table also sets forth the amount of interest income earned and interest expense incurred by the Group for the same periods, as well as the average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities. For the purposes of this table, the average balances of assets and liabilities for the Group have been calculated on the basis of monthly averages for each of the years presented. Investors should note that the results of the analysis of average balances and interest rates below would be likely to be different if alternative or more frequent averaging methods were used and such differences could be material. The average balances and related data presented in this Base Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions, in connection with similar offers of securities. Average interest rates are distinct from the effective interest rates presented in the consolidated financial statements of the Bank.

	For the year ended 31 December								
	2013			2012			2011		
	Average Balance	Interest Income/ Expense	Average Rate %	Average Balance	Interest Income Expense	Average Rate %	Average Balance	Interest Income/ Expense	Average Rate %
	(₦ millions, except %)								
Interest-earning assets:									
Due from banks	278,438	4,655	1.67%	315,821	5,031	1.59%	338,359	10,276	3.04%
Treasury bills	625,792	77,728	12.42%	489,906	74,364	15.18%	413,016	39,590	9.59%
Investment securities	264,243	35,947	13.60%	286,184	27,274	9.53%	244,514	20,040	8.20%
Loans and advances to customers[(1)]	1,110,635	141,729	12.76%	953,504	114,649	12.02%	870,862	93,286	10.71%
Total[(2)]	**2,279,108**	**260,059**	**11.41%**	**2,045,415**	**221,318**	**10.82%**	**1,866,751**	**163,192**	**8.74%**
Interest bearing liabilities:									
Deposits from customers[(3)]	2,234,591	69,338	3.10%	1,990,563	63,372	3.18%	1,564,670	34,092	2.18%
Other borrowings	90,523	1,458	1.61%	72,836	1,189	1.63%	60,639	814	1.34%
Total[(2)]	**2,325,114**	**70,796**	**3.04%**	**2,063,399**	**64,561**	**3.13%**	**1,625,309**	**34,906**	**2.15%**
Net interest spread[(4)]			8.37%			7.69%			6.59%
Net interest income		**189,263**			**156,757**			**128,286**	
Net interest margin[(5)]			8.30%			7.66%			6.87%

(1) Average balances are net of impairment allowance.

(2) The total for Average Rate is based on a weighted average.

(3) The monthly average for deposits have been adjusted to include those transactions in the month on which interest expense was paid which were not part of the month end deposit balances so as to more accurately reflect the actual cost of funds on deposits.

(4) Net interest spread is calculated as the difference between the average rate of the Group's interest earned on interest-earning assets and the average rate of interest accrued on the Group's interest-bearing liabilities.

(5) Net interest margin is calculated as the Group's net interest income divided by the average balance of the Group's total interest-earning assets during the applicable period.

Net Changes in Interest Income and Interest Expense – Volume and Rate Analysis

The following table provides a comparative analysis of net changes in interest income and interest expense of the Group by reference to changes in the average volume and average rates for the periods indicated. Net changes in net interest income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for interest-earning assets and interest-bearing liabilities on which interest is earned or incurred. Changes in interest income or interest expense are attributed to either (i) changes in average balances (volume change) of interest bearing assets or interest bearing liabilities or (ii) changes in average rates (rate change) at which interest income was earned on such assets or at which interest expense was incurred on such liabilities or (iii) changes in rate/volume. Volume change is calculated as the change in volume multiplied by the previous rate, while rate change is the change in rate multiplied by the previous volume. The rate/volume change (change in rate multiplied by change in volume) is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total. See "– *Average balances and interest rates*" above for an explanation of the calculation of the average balances.

	Change from 31 December 2012 to 31 December 2013				Change from 31 December 2011 to 31 December 2012				Change from 31 December 2010 to 31 December 2011			
	Increase/(decrease) due to changes in				Increase/(decrease) due to changes in				Increase/(decrease) due to changes in			
	Volume	Rate	Volume /Rate	Net change	Volume	Rate	Volume /Rate	Net change	Volume	Rate	Volume /Rate	Net change
	(₦ millions)											
Interest-earning assets:												
Due from banks	(596)	249	(29)	(376)	(684)	(4,886)	325	(5,245)	345	1,014	39	1,398
Treasury bills	20,626	(13,514)	(3,748)	3,364	7,370	(23,103)	4,301	34,774	4,388	15,816	4,737	24,941
Investment securities	(2,091)	11,658	(894)	8,673	3,415	3,263	556	7,234	4,127	2,370	765	7,262
Loans and advances to customers	18,893	7,028	1,158	27,079	8,853	11,426	1,084	21,363	23,494	(20,837)	(5,113)	(2,456)
Total	**36,832**	**5,421**	**(3,513)**	**38,740**	**18,954**	**32,906**	**6,267**	**58,126**	**32,354**	**(1,637)**	**428**	**31,145**
Interest-bearing liabilities:												
Deposits from customers	7,769	(1,606)	(197)	5,966	9,280	15,721	4,279	29,280	7,041	(6,503)	(1,313)	(775)
Other borrowings	289	(16)	(4)	269	164	176	35	375	475	(329)	(183)	(37)
Total	**8,058**	**(1,622)**	**(201)**	**6,235**	**9,444**	**15,897**	**4,314**	**29,655**	**7,516**	**(6,832)**	**(1,496)**	**(812)**

Interest-Earning Assets: Yield, Margin and Spread

The following table sets forth the Group's net interest income, yield, margin and spread for the years ended 31 December 2013, 2012 and 2011.

	For the year ended 31 December		
	2013	2012	2011
		(₦ millions)	
Net interest income[1]			
Naira	175,381	147,878	122,464
Foreign currency	13,882	8,879	5,822
Total	**189,263**	**156,757**	**128,286**
Yield on interest-earning assets[1]			
Naira	10.70%	10.42%	8.35%
Foreign currency	0.71%	0.40%	0.39%
Total	**11.41%**	**10.82%**	**8.74%**
Yield on interest-bearing liabilities[1]			
Naira	2.94%	3.17%	2.06%
Foreign currency	0.10%	(0.04)%	0.09%
Total	**3.04%**	**3.13%**	**2.15%**
Net interest margin[1]			
Naira	7.70%	7.23%	6.56%
Foreign currency	0.60%	0.43%	0.31%
Total	**8.30%**	**7.66%**	**6.87%**
Net interest spread[1]			
Naira	7.76%	7.25%	6.29%
Foreign currency	0.61%	0.44%	0.30%
Total	**8.37%**	**7.69%**	**6.59%**

(1) Figures for the Bank were reflected as the Naira balance while the aggregate balances of the consolidated subsidiaries were reflected as the foreign currency balance to arrive at the total.

Deposits

The following table shows the composition of the Group's average deposits, and the average rate paid on such deposits, as at and for the periods indicated. For the purposes of this table, the average deposits and average rates on deposits for the Group have been calculated on the basis of monthly averages.

	As at 31 December					
	2013		2012		2011	
Deposits	Volumes	Rate %	Volumes	Rate %	Volumes	Rate %
			(₦ millions, except %)			
Domestics branches:						
Demand deposits	1,130,898	0.37%	1,077,888	0.35%	905,006	0.24%
Savings deposits	154,487	2.44%	134,761	1.08%	121,443	1.03%
Time deposits	554,594	10.65%	549,758	10.72%	309,608	9.41%
Domiciliary[1]	210,378	0%	166,123	0%	155,868	0%
Total domestic deposits	**2,050,357**		**1,928,530**		**1,491,925**	
Foreign Operations	184,234	1.26%	62,033	(1.28)%	72,745	2.06%
Total deposits	**2,234,591**		**1,990,563**		**1,564,670**	

(1) Domiciliary covers the foreign currency accounts of customers held by the Group in Nigeria.

Loan Portfolio

Distribution of loans by economic sector

The following sets forth the Group's gross loans and advances to customers by economic sector as at the dates indicated.

Loan portfolio	Distribution of loans by sector		
	As at 31 December		
	2013	2012	2011
	(₦ millions)		
Agriculture	64,696	62,541	30,403
Oil & Gas	193,883	170,890	153,497
Consumer Credit	30,141	43,182	47,060
Manufacturing	287,636	244,723	247,246
Real Estate and Construction	84,709	72,734	64,423
Finance and Insurance	25,667	28,208	18,043
Government	113,801	82,358	74,117
Power	49,696	4,111	22,007
Other Public Utilities	28,208	153	106
Transportation	93,183	48,661	48,179
Communication	186,176	141,671	114,617
Education	3,578	2,038	1,229
General Commerce	72,058	80,031	67,183
Others	42,690	33,225	32,511
Total	**1,276,122**	**1,014,526**	**920,621**

Maturity profile of the Group's loan portfolio

The following table sets forth the maturity analysis of the gross loans and advances to customers as at the dates indicated.

	Due within 1 month	Due within 1 to 3 months	Due within 3 to 6 months	Due within 6 to 12 months	Over 12 months	Total
	(₦ millions)					
As at 31 December 2013	496,418	69,133	52,286	74,612	583,673	1,276,122
As at 31 December 2012	409,039	95,370	31,099	64,611	414,407	1,014,526
As at 31 December 2011	45,542	345,120	5,888	43,300	480,771	920,621
As at 31 December 2010	147,409	57,817	68,700	98,054	409,604	781,584

Loan concentration

The following table sets forth information on the Group's exposure to borrowers with the ten largest balances of outstanding loans, which constituted 23.6 per cent. of total gross loans and advances, as at 31 December 2013.

Loan Concentration	As at 31 December		
	2013	2012	2011
	(₦ millions)		
Loans extended to the Bank's 10 largest borrowers	300,906	214,511	206,289
Loans extended to other borrowers	975,216	800,015	714,332
Total gross loans and advances	**1,276,122**	**1,014,526**	**920,621**

Geographical distribution of the Group's loan portfolio

The following sets forth the geographical distribution of the Group's gross loans and advances to customers as at the dates indicated.

Geographical distribution of the Group's loan portfolio	As at 31 December		
	2013	2012	2011
		(₦ millions)	
North West	7,874	6,933	5,850
North Central	57,689	16,665	27,635
North East	20,893	23,024	25,885
South East	17,294	19,607	25,227
South South	70,109	66,955	62,283
South West	974,519	783,607	704,038
Nigeria	**1,148,378**	**916,791**	**850,918**
Rest of Africa	52,783	32,474	23,875
Outside Africa	74,961	65,261	45,829
Total gross loans and advances	**1,276,122**	**1,014,526**	**920,621**

Credit Quality of Loans

Loans by credit quality classification

The following table shows the Group's loans by credit quality classification as at the dates indicated.

Loans by credit quality classification	As at 31 December		
	2013	2012	2011
		(₦ millions)	
Gross loans:			
Overdraft	351,642	270,672	273,788
Term loan	858,389	672,931	595,005
On lending	52,693	54149	44,525
Advances under finance lease	13,398	16,774	7,303
Total	**1,276,122**	**1,014,526**	**920,621**
Risk Rating			
AAA	814,467	640,001	241,678
AA – A	164,906	133,145	506,352
BBB – BB	204,311	163,164	76,746
Below BB	38,824	32,083	24,739
Unrated	53,614	46,163	71,106
Total gross	**1,276,122**	**1,014,526**	**920,621**
Gross non-performing loans:	30,917	31,930	59,768
Reserves for impairment	(24,767)	(24,712)	(26,787)
Net loan	**1,251,355**	**989,814**	**893,834**

Loans and advances under close monitoring

The following table sets forth the breakdown of the Group's non-performing loans and past due but performing loans as at the dates indicated.

Loans and advances under close monitoring	As at December		
	2013	2012	2011
		(₦ millions)	
Non-performing loans	30,917	31,930	59,768
Past due but not impaired	8,147	10,016	17,104
Total	**39,064**	**41,946**	**76,872**

Distribution of non-performing loans by sector

The following table presents the Group's non-performing loans by sector as at the dates indicated.

Distribution of non-performing loans by sector	As at 31 December		
	2013	2012	2011
	(₦ millions)		
Agriculture	239	649	1,813
Oil and Gas	1,686	2,076	9,259
Capital Market	1,080	8,010	11,014
Consumer Credit	61	1,850	1,014
Manufacturing	2,107	2,259	12,982
Real Estate and Construction	6,377	2,337	1,353
Finance and Insurance	7,941	2,580	1,752
Government	210	498	983
Power	1,667	186	—
Other Public Utilities	209	8	—
Transportation	23	636	3,326
Communication	945	2,575	1,921
Education	1,830	943	1,598
General Commerce/Trading	4,937	7,268	7,673
Others	1,605	55	5,080
Total	**30,917**	**31,930**	**59,768**

Distribution of non-performing loans by geography

The following table presents the Group's non-performing loans by geography as at the dates indicated.

Distribution of non-performing loans by geography	As at 31 December		
	2013	2012	2011
	(₦ millions)		
North West	11	108	149
North Central	1,186	910	825
North East	11	545	6,646
South East	839	676	55
South South	385	816	778
South West	25,545	25,402	28,837
Nigeria	**27,977**	**28,457**	**37,290**
Rest of Africa	2,896	3,473	22,478
Outside Africa	44	—	—
Total	**30,917**	**31,930**	**59,768**

Changes in provision for loan impairment

The following table sets out details of movements in the Group's provision for loan losses for the years ended 31 December 2013, 2012 and 2011.

Changes in provision for loan impairment	As at 31 December		
	2013	2012	2011
	(₦ millions)		
Balance at the beginning of the year	24,712	26,787	27,560
Impairment loss for the year			
Charge for the year	11,067	9,099	16,603
Recoveries / write Backs	47	—	(6,098)
Net impairment for the period/year	**35,826**	**35,886**	**38,065**
Effect of foreign currency movements	(523)	(664)	(503)
Write offs	(10,536)	(10,510)	(10,775)
Balance at the end of the period	**24,767**	**24,712**	**26,787**

Investment Securities

The following table sets out details of the Group's investment securities as at the dates indicated.

Investment securities	As at 31 December 2013	2012	2011
		(₦ millions)	
Bonds	292,471	289,938	298,841
Unquoted equity securities	7,137	6,141	6,421
Treasury bills	586,441	669,164	510,738
Revaluation movement[1]	3,517	3,264	2,969
Total investment securities	**889,566**	**968,507**	**818,969**

(1) Revaluation movement of the unquoted equity securities held by the Group.

The following table sets out details of the Group's investment securities as at the dates indicated, by investment securities at fair value through profit and loss, available for sale and held to maturity.

	As at 31 December 2013	2012	2011
		(₦ millions)	
Fair Value Through Profit and Loss			
Treasury Bills	—	—	—
Bonds	2,280	—	—
Quoted Equity Securities	—	—	—
	2,280	—	—
Fair Value Through Other Comprehensive Income			
Treasury Bills	—	—	—
Bonds	—	—	—
Unquoted Equity Securities	10,654	9,405	9,390
Less Impairment	—	—	—
	10,654	9,405	9,390
Held To Maturity			
Treasury Bills	586,441	669,164	510,738
Bonds	290,191	289,938	298,841
	876,632	959,102	809,579
Total Investment Securities	889,566	968,507	818,969

The following table shows the contractual maturity distributions of investment securities held as at the dates indicated.

Contractual maturity distribution of security held as at dates indicated	Due within 3 months	Due within 3 to 12 months	Over 12 months	Total net	Allowance for impairment	Total gross	Total
				(₦ millions)			
As at 31 December 2013	394,218	302,513	192,835	889,566	—	889,566	889,566
As at 31 December 2012	349,363	435,292	183,852	968,507	—	968,507	968,507
As at 31 December 2011	194,235	368,398	256,336	818,969	—	818,969	818,969
As at 31 December 2010	337	299,108	211,217	510,662	—	510,662	510,662

Contractual Commitments

The following table sets forth the Group's contractual commitments as at the dates indicated.

Contractual commitments	As at 31 December 2013	2012	2011
		(₦ millions)	
Letters of credit	170,516	141,021	121,618
Guarantees	648,847	468,728	229,206

Return on Assets and Equity

The following table shows the Group's return on average total assets and return on average total equity as at the dates or for the years indicated.

Return on assets and equity	As at or for the years ended 31 December		
	2013	2012	2011
		(₦ millions)	
Net profit	95,318	100,681	48,704
Average total assets[(1)]	2,873,818	2,465,600	2,116,508
Return on average total assets (%)[(2)]	3.32%	4.08%	2.30%
Return on average total equity (%)[(3)]	19.61%	23.49%	12.71%
Average equity[(4)]	486,103	428,612	383,229

(1) Average total assets is calculated as the average opening (1 January) and closing (31 December) balances of total assets.

(2) Return on average total assets is calculated as net profit for the year attributable to equity holders divided by the average total assets.

(3) Return on average total equity is calculated as net profit for the year attributable to equity holders divided by the average equity.

(4) Average equity is calculated as the average opening (1 January) and closing (31 December) balances of equity attributable to equity holders.

DIRECTORS AND SENIOR MANAGEMENT

Overview of Nigerian Company Law

The Companies and Allied Matters Act Cap C20 Laws of the Federation of Nigeria 2004 ("**CAMA**") regulates the affairs of companies in Nigeria while the BOFIA regulates the conduct of the banking industry and the operations of banking companies. Under Nigerian law, a company acts directly through its shareholders or its board of directors or indirectly through officers or agents appointed by, or under the authority of, the shareholders or the board of directors. Every company is required to register a copy of its memorandum and articles of association with the Corporate Affairs Commission. Once registered, the memorandum and articles of association have the effect of a contract under seal between the company and its shareholders and officers and between the shareholders and officers themselves. The memorandum of association, among other things, states the nature of the business of the company and the powers of the company. The respective powers of the shareholders and the board of directors are contained in the articles of association of the company. Except as otherwise contained in the articles, the business of a company is to be managed by the board of directors, who may in turn delegate its powers to board committees or the managing director. The articles of association prescribe the regulations of the company.

The SEC Code of Corporate Governance was implemented in October 2003 and then revised in 2011 and is now titled the "Code of Corporate Governance for Public Companies in Nigeria" (the "**SEC Code**"). The SEC Code enumerates, amongst other things, best practices for the boards of directors of public companies, such as the Bank. The SEC Code was supplemented by the "Code of Corporate Governance for Banks in Nigeria Post Consolidation" (the "**CBN Code**"), a set of rules issued by the CBN in effect from April 2006. Compliance with the CBN Code is mandatory for all banks in Nigeria. As at the date of this Base Prospectus, the Bank believes it is in full compliance with the provisions of the SEC Code, the CBN Code and its own corporate governance framework in all material aspects.

The Bank has adopted a Code of Ethics which defines the Bank's mission within a corporate governance framework. The Code of Ethics was approved by the Board. The Code of Ethics contains guidance on compliance matters, confidentiality and client and employee relations.

The Board of Directors of the Bank

The Bank's articles of association (the "**Articles**") specify that the number of directors on the Board (unless otherwise determined by an ordinary shareholder resolution of the Bank) shall not be less than five or more than 15. As at the date of this Base Prospectus, the Board comprises 11 members, which include a Non-executive Chairman, six Non-executive Directors and four Executive Directors. Three of the Non-executive Directors are independent, appointed in compliance with the CBN circular on appointment of independent directors by banks. The size and composition of the Board may be revised from time to time to reflect the changing needs of the Bank's business. Under the existing CBN Code, the post of Chairman cannot be filled by the person who is Chief Executive Officer. In addition, the Chairman of the Board cannot serve simultaneously as a member of any of the Board committees.

Furthermore, the CBN Prudential Guidelines prescribe a maximum tenure of 10 years for the CEO of every bank and the Bank is in compliance with this directive, with its current CEO, Mr. Godwin Emefiele scheduled to retire by June 2014. Under the CBN Prudential Guidelines, the CEO shall not qualify for appointment in his former bank or subsidiaries in any capacity until after three years following the expiration of his tenure as CEO. Non-executive Directors may serve a maximum of 12 years on the board of directors of a bank under the CBN Prudential Guidelines.

On 20 February 2014, Mr. Emefiele was nominated by President Jonathan for appointment as the next CBN governor. His appointment was confirmed by the Senate on 26 March 2014. On 31 March 2014, the Board announced the appointment of Mr. Peter Amangbo as Mr. Emefiele's successor, subject to approval by the CBN. Once approved by the CBN, Mr. Amangbo, who is currently an executive director and member of the Board, will take over as the Group's Managing Director/Chief Executive Officer effective 1 June 2014. The Board seat vacated by Mr. Amangbo will be filled by the Board in accordance with the Articles and CAMA. See "*– Director Nomination Process*" for more information.

The business address of the Directors and senior management is Plot 84, Ajose Adeogun Street, Victoria Island, Lagos, Nigeria.

Responsibilities of the Board

The Board is the decision-making body of the Bank for all significant matters. It reviews and provides guidance for the Bank's corporate and business strategy, major plans of action and risk policy. The Board also reviews and approves annual budgets and business plans, sets performance objectives and monitors implementation and corporate performance as well as overseeing major capital expenditures, acquisitions and divestitures.

The Board is also responsible for monitoring the effectiveness of the Bank's governance practices and making appropriate changes where necessary. This includes ensuring the integrity of the Group's account and financial reporting systems, including the independent audit. In order to achieve this, the Board oversees a system of internal controls which provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations.

Powers reserved for the Board include the approval of semi-annual and full-year financial statements, the approval of significant changes in accounting policy and practice, the appointment of Directors (subject to ratification by the shareholders at a general meeting) and the appointment of the Company Secretary. In addition, the Board has an oversight function covering credit, market and operational risk management issues. To undertake this function effectively, the Board is responsible for the establishment of committees, their terms of reference and review of their reports that address key areas of the Bank's business.

Core Values of Executive and Non-executive Directors

Both Executive and Non-executive Directors owe fiduciary duties and general duties of skill and care to the Bank and its shareholders. Under the CBN Code and the Group's Corporate Governance Manual, the core values expected to be displayed by Directors in exercising their duties include:

- exercising reasonable skill and care and acting in good faith and honesty in carrying out their duties;
- avoiding a conflict of interest between their personal interests and their duties to the Bank;
- acting in the Bank's best interests at all times and not for any ulterior purpose or to benefit themselves or others at the Bank's expense;
- having due regard for the interests of the Bank's employees;
- ensuring compliance by the Bank with all laws and regulations guiding its operations;
- acting with integrity at all times and not engaging in any act that would jeopardise the reputation of the Bank;
- acting with due skill, care and attention and observing proper standards of market conduct; and
- appropriately disclosing any information which the statutory authorities reasonably expect.

Director Nomination Process

The process for appointing new Directors to the Board is laid out by CAMA. Shareholders have the power to re-elect or select Directors and appoint new ones. The Board may also appoint Directors in the case of casual vacancies arising out of death, resignation, retirement or removal, although such appointments will be subject to the approval of the shareholders at the next annual general meeting. However, prior to the appointment of a director the written approval of the CBN must be obtained. In line with the provisions of CAMA and the Bank's articles of association, a third of the Directors must retire from office at each annual general meeting. Who is slated to retire at each meeting is determined by the length of time they have served. However, Directors who retire at the annual general meeting may be re-elected at the same meeting. Shareholding in the Bank is not a criterion for the nomination or appointment of a Director.

The balance and mix of appropriate skills and experience of Non-executive Directors is taken into account by the Board when considering a proposed nomination. In reviewing Board composition, the Board strives for a mix of representatives from different industry sectors.

Profiles of Members of the Board

Sir Steve Omojafor – Chairman

Sir Omojafor was appointed to the Board on 18 May 2004 and began his tenure as Chairman on 25 June 2010. He is also the Executive Chairman of STB-McCann, Lagos. Prior to joining the Board, Sir Omojafor was a Sub Editor with the Daily Times, the Group Head of Client Service, Lintas Limited as well as the Client Service

Director of Rosabel Advertising. Sir Omojafor is also currently the Chairman of Starch & Adhesive Company, Agbor and Universal McCann, Lagos. He held the position of President of the Association of Advertising Practitioners of Nigeria ("**AAPN**") between 1997 and 1999. He also served as the Vice President of the International Advertising Association, Nigerian Chapter, between 1995 and 2001.

Sir Omojafor holds a degree in Mass Communication from the University of Lagos, Nigeria, awarded in 1972. He has been a fellow of the AAPN since 27 October 1993 and a member of the Nigerian Institute of Marketing since 1994.

Mr. Godwin Emefiele – Managing Director and Chief Executive Officer

Mr. Emefiele was appointed to the Board on 1 January 1999. Mr. Emefiele has been with the Bank since joining as a founding staff member in 1990. Before starting with the Bank, Mr. Emefiele worked with Industrial Bank Limited (Merchant Bankers) from February 1989 until 1990. He began his career in banking at the Nigerian-American Merchant Bank Limited from 1987 to 1989 working in the Corporate Banking Division.

Prior to his career in banking, Mr. Emefiele lectured at the University of Nigeria, Nsukka and the University of Port-Harcourt, Nigeria.

Mr. Emefiele is an alumnus of executive education at Stanford University, Harvard University and the Wharton School of the University of Pennsylvania, United States. He holds a B.Sc. in Finance from the University of Nigeria, Nsukka, awarded in 1984, and a Masters in Business Administration (Finance), from the same university, awarded in 1986.

Mr. Peter Amangbo – Executive Director

Mr. Amangbo was appointed to the Board on 3 February 2005. He joined the Bank in 1993 as the Head of Financial Control and Strategic Planning and then moved to the Bank's Ikoyi branch to join the Corporate Banking Group in 2000.

Prior to joining the Bank, Mr. Amangbo trained with PricewaterhouseCoopers (Nigeria) between 1989 and 1993, qualifying as a Chartered Accountant in 1993.

Mr. Amangbo received a degree in Electrical/Electronics Engineering from the University of Benin, Nigeria in 1988, a Masters in Business Administration from the University of Lagos, Nigeria in 1997 and a post-graduate diploma in Computer Science from the University of Lagos, Nigeria in 1992.

Mr. Ebenezer Onyeagwu – Executive Director

Mr. Onyeagwu was appointed to the Board on 24 April 2013. He joined the Bank in 2002 as a Senior Manager in the Internal Control and Audit Group and has served in various capacities as Assistant General Manager, in charge of the coordination of strategies for business development and relationship management for the Ikeja branch. He has also served as the General Manager in charge of the Commercial Banking Group as well as the Zonal Head for the Ikeja Zone, who is responsible for the supervision of the 25 branches of the Bank within Ikeja and Otta, Ogun State.

Mr. Onyeagwu has over 22 years banking industry experience. He worked as a Credit Analyst in the Financial Merchant Bank Limited and later joined Citizens International Bank Limited where he held several management positions including Branch Head of both the Warri Branch and the Ikoyi Branch.

Mr. Onyeagwu is an alumnus of the University of Pennsylvania (Wharton Executive Education), Columbia Business School and Harvard Business School in the United States. He is a fellow of the Institute of Chartered Accountants of Nigeria ("**ICAN**") as of 2003

Ms. Adaora Umeoji – Executive Director

Ms. Umeoji joined the Bank in 1998 and was appointed to the Board on 9 October 2012. Since joining the Bank, she has been the head of the marketing group at the Maitama branch of the Bank, Deputy Zonal Head for the Abuja zone and is currently the Executive Director in charge of the Abuja and Middle Belt zones of the Bank.

Ms. Umeoji attended the University of Jos, Plateau State and obtained a degree in Sociology in 1996. She holds a Masters in Business Administration obtained from the University of Calabar in 2003. She is a member of the Nigerian Institute of Management and a member of the Institute of Certified Public Accountants of Nigeria.

Mr. Babatunde Adejuwon – Non-executive Director

Mr. Adejuwon was appointed to the Board on 18 May 2004. He is currently the Managing Partner of the law firm Babs Adejuwon & Company. He is a solicitor in Nigeria and an advocate of the Supreme Court of Nigeria, with over 31 years experience at the Nigerian Bar. Mr. Adejuwon was appointed as a notary public in 1992 by the Supreme Court of Nigeria.

He holds an LLB degree in Law from Obafemi Awolowo University, Ile-Ife, Nigeria, awarded in 1980 and a BL (Barrister at Law) degree from the Nigerian Law School, Lagos, awarded in 1981.

Mr. Adejuwon is a member of the Nigerian Bar Association, the Nigerian-British Chamber of Commerce, the Nigerian-American Chamber of Commerce, the Nigerian-German Business Council, the Nigerian-Netherlands Chamber of Commerce and the Nigerian-Japan Association.

Chief (Mrs.) Chinyere C. Asika – Non-executive Director

Mrs. Asika was appointed to the Board on 9 October 2012. She was the Chairman of the National Working Group of Africa Peer Review Mechanism (APRM), a non-governmental organization, between 2008 and 2009.

She worked as an assistant librarian at the University of Ibadan between 1965 and 1967. She was also senior special assistant to the President on the New Partnership for Africa's Development (NEPAD) between 2001 and 2007.

Mrs. Asika graduated from Mills College, Oakland in the United States in 1964 with a B.A. in Government and a minor in Social Anthropology. She also obtained a Masters in Library Science & Information Technology in 1965 from the University of California, United States.

She is currently a director of Dibueze Integrated Services Limited and holds the national honour of Officer of the Federal Republic (OFR) conferred by the President of Nigeria.

Mr. Jeffery Efeyini – Non-executive Director

Mr. Efeyini was appointed to the Board on 23 June 2010. He retired from, but remains a Non-executive Director at, the Melvale Group in the United Kingdom in 2009, where he served as Managing Director between 1989 and 2009.

Mr. Efeyini started his banking career with Barclays Bank International, United Kingdom in 1971, later moving to the Union Bank of Nigeria in 1979, where he later became the first Chief Executive/ General Manager of Union Bank UK Plc, London in 1982.

He obtained a Masters from the London School of Economics and Political Science in 2006 as well as a Masters in Business Administration from the University of Lagos, Nigeria, awarded in 1976. Mr. Efeyini is a fellow of the Chartered Institute of Bankers, United Kingdom and was also a Director, and later Chairman, of the Britain Nigeria Business Council, London between 1988 and 2007.

Professor Chukuka Enwemeka – Non-executive Director

Professor Enwemeka was appointed to the Board on 23 June 2010. He joined the University of Wisconsin, Milwaukee in 2009, and is currently serving as Dean of the College of Health Sciences in addition to his role as professor. Prior to his appointment at the University of Wisconsin he was a professor at, and the Dean of, the School of Health Professions at the New York Institute of Technology, Old Westbury, New York between 2003 and 2009.

Between 1993 and 2003, Professor Enwemeka was a professor and Chairman of the Medical Centre at the University of Kansas, Kansas City, and between 1989 and 1993 he was an Associate Professor of Orthopaedics and Rehabilitation at the University of Miami Miller School of Medicine in Miami, Florida. Professor Enwemeka is currently a non-executive director of the Curative Care Network, Inc., and a director of the Milwaukee Academy of Science, both in Milwaukee, Wisconsin.

Professor Enwemeka obtained his Masters in Physical Therapy from the University of Southern California, Los Angeles in 1983, and his undergraduate degree in Physiotherapy from the University of Ibadan, Ibadan, Nigeria in 1978. He then obtained his PhD in Physical Therapy in 1985 from New York University, New York.

Dr. Haruna Sanusi – Independent Non-executive Director

Dr. Sanusi was appointed to the Board on 24 April 2013. He is a consultant on organizational and strategic management and policy analysis as well as international trade and investment relations.

Dr. Sanusi worked in government between 2001 and 2009, holding the following roles: Permanent Budget Secretary for the Federal Ministry of Finance, Permanent Secretary for the Ministry of Defence and Permanent Secretary for the Office of the Head of Civil Service of the Federation (Establishment and Record Office). He was also a Director of Finance and Supplies for the Federal Ministry of Education, Director of Planning, Research and Statistics for the Federal Ministry of Industry, Director of Personnel Management for the Office of Principal Secretary to the Head of State, Commander in Chief of the State House, Abuja Director of Revenue Allocation of the National Revenue Mobilization, Allocation and Fiscal Commission of the Presidency, Abuja.

Dr. Sanusi is a graduate of the Ahmadu Bello University, Zaria in 1976 and holds a Masters, obtained in 1980, and a PhD obtained in 1982 in Political Economy from Northwestern University, Evanston, Illinois in the United States. He is a Fellow of the Chartered Institute of Management and Administrators and has published over 30 articles, chapters and books on management, policy and strategy. Dr. Sanusi served as a Research Fellow and Head of Social and Political Studies for the National Institute for Policy and Strategic Studies Kuru, as well as Senior Lecturer and Deputy Dean of Social Science and Administration at the University of Sokoto, Nigeria.

He was conferred with the national honour of Office of the Order of the Niger by the President of the Federal Republic of Nigeria in recognition of his contribution to the country.

Mr. Alhaji Baba Tela – Independent Non-executive Director

Mr. Tela was appointed to the Board on 15 August 2007. He also currently sits on the boards of Zenith Bank (Gambia) Limited and Magoba Limited, Bauchi State, Nigeria. Mr. Tela was an Executive Director of Yarwa Consolidated Industries Limited between January 1985 and July 1988, the Chairman of the Nigerian Maritime Administration and Safety Agency between 2005 and 2010 and the Managing Director and Chief Executive of Masenterp Nigeria Limited between July 1988 and May 2001.

Between 2001 and 2002, Mr. Tela served as Special Assistant to the President of Nigeria on economic affairs. Between 2003 and 2007, Mr. Tela was a Senator of the Federal Republic of Nigeria. During his tenure in office as a Senator, he was the Vice Chairman of the Senate Services Committee in addition to various other roles in different committees of the Senate. He has since returned to his role of Managing Director of Masenterp Nigeria Limited following his tenure in office as a Senator.

Mr. Tela graduated with a degree in Business Administration and Finance from the Ahmadu Bello University, Zaria, Nigeria in 1982.

Board Committees

The Board consists of 11 members: a Non-executive Chairman, six Non-executive Directors and four Executive Directors.

The oversight functions of the Board are performed through its various committees: the Board Credit Committee, the Staff Matters, Finance and General Purpose Committee, the Risk Management Committee, the Audit Committee and the Executive Committee.

Each committee has terms of reference and meets quarterly but may hold extraordinary sessions if required.

Board Credit Committee

The Board Credit Committee is composed of three Non-executive Directors and three Executive Directors, meeting at least once every quarter. The committee considers for approval all credit facilities above the management approval limit and generally makes recommendations to the Board with respect to credit facilities.

The Board Credit Committee also provides criteria against which the Board makes decisions to lend and makes recommendations in connection with new credit proposals and restructuring plans, as well as amendments to existing plans. The committee also recommends non-performing credits for write-off by the Board. In carrying out its duties, the committee conducts reviews of the credit portfolio of the Bank to ensure coherence of strategies, goals and performance. In addition, the committee evaluates the Bank's policies regarding maximum product tenor requirements, repayment requirements and maximum loan size on an annual basis.

As at the date of this Base Prospectus, the members of the Board Credit Committee are:

- Mr. Jeffrey Efeyini (Chairman);
- Mr. Godwin Emefiele;
- Mr. Peter Amangbo;
- Mr. Ebenezer Onyeagwu;
- Mr. Babatunde Adejuwon; and
- Mr. Alhaji Baba Tela.

Staff Matters, Finance and General Purpose Committee

The Staff Matters, Finance and General Purpose Committee is composed of three Non-executive Directors and three Executive Directors. It is chaired by a Non-executive Director. The committee considers large scale procurement by the Bank as well as matters concerning staff welfare, discipline, staff remuneration and promotion.

As at the date of this Base Prospectus, the members of the Staff Matters, Finance and General Purpose Committee are:

- Mr. Alhaji Baba Tela (Chairman);
- Mr. Peter Amangbo;
- Mr. Godwin Emefiele;
- Ms. Adaora Umeoji;
- Chief (Mrs) Chinyere C. Asika; and
- Professor Chukuka Enwemeka.

Board Risk Management Committee

The Board Risk Management Committee's primary responsibilities are to ensure that sound policies, procedures and practices are in place for the management of the Group's material risks by periodically reviewing such policies, procedures and practices and to report the results of the committee's activities to the Board. Furthermore, the committee is tasked with developing a comprehensive risk management framework to reflect the Group's risk management policies and procedures and enforce compliance with such policies and procedures. The committee meets at least once every quarter and is made up of four Non-executive Directors and one Executive Director. In each of the meetings, the chief risk officer of the Group provides an update of the Group's operations for the committee's consideration.

The committee is responsible for the design and implementation of risk management best practices to ensure that senior management understands and accepts its responsibility for identifying, assessing and managing risk. The committee determines which risks are most significant and approves resource allocation for monitoring and improvement activities, which includes assigning persons responsible for risk and approving action plans. The committee will, from time to time, select and retain independent experts and consultants in risk analysis (subject to the Board's approval) to provide advice in connection with the Group's risk management practices.

As of the date of this Base Prospectus, the members of the Board Risk Management Committee are:

- Mr. Babatunde Adejuwon (Chairman);
- Mr. Godwin Emefiele;
- Mr Jeffrey Efeyini;

- Professor Chukuka Enwemeka; and
- Dr. Haruna Sanusi.

Audit Committee

CAMA requires every public company to have an audit committee. This committee is responsible for ensuring that the Bank complies with all relevant policies and procedures imposed by both the regulators and by the Board. The committee is made up of three Non-executive Directors and, as required by CAMA, three shareholders, who are elected at an annual general meeting of the Bank. One of the shareholder committee members is appointed as the chairman. The committee meets at least once every quarter. When considering appointments to the committee, the Board considers candidates with relevant financial expertise and experience in internal control processes. Members of the committee are not entitled to remuneration and are subject to re-election annually.

The committee's primary responsibilities include reviewing the Bank's standalone and the Group's consolidated quarterly and audited annual financial statements, respectively, and the performance and results of the external and internal audits.

The Audit Committee also reviews the effectiveness of the Bank's internal controls, areas of judgement involved in the preparation of the Bank's results, as well as reviewing the effect of alternative accounting methods and the effect of changes in accounting policies. Finally, the committee is responsible for reviewing the integrity of the Bank's financial reporting and for monitoring the objectivity of its independent auditors.

As of the date of this Base Prospectus, the members of the Audit Committee are:

- Alhaji Hamis B. Musa (Chairman and shareholder);
- Ms. Angela Agidi (shareholder);
- Mr. Michael Olusoji Ajayi (shareholder);
- Mr. Babatunde Adejuwon;
- Chief (Mrs) Chinyere C. Asika; and
- Mr. Jeffrey Efeyini.

Executive Committee

The Executive Committee is chaired by the Managing Director of the Bank and its membership comprises all of the Executive Directors. The committee meets at least twice a week. The committee considers and makes policy decisions concerning the effective and efficient management of the Group, and prepares matters to be discussed at board level. The committee's primary responsibility is to ensure the implementation of strategies approved by the Board, to provide leadership to senior management and to ensure efficient deployment and management of the Group's resources.

As at the date of this Base Prospectus, the members of the Executive Committee are:

- Mr. Godwin Emefiele (Chairman);
- Mr. Peter Amangbo;
- Mr. Ebenezer Onyeagwu; and
- Ms. Adaora Umeoji.

Senior Management

Managing Director and Chief Executive Officer

The Board has delegated responsibility for the day-to-day management of the Bank to the Managing Director and Chief Executive Officer, Mr. Godwin Emefiele, who is responsible for leading the Executive Directors and senior management and for making and implementing operational decisions. He is directly responsible to the Board.

Senior managers

Mr. Michael Osilama Otu – Company Secretary/Legal Adviser

Mr. Michael Osilama Otu is the Company Secretary/Legal Adviser of the Bank. He joined the Bank on 14 July 1997 and became the Company Secretary/ Legal Adviser in February 2002. The Company Secretary provides a point of reference and support for all Directors and consults regularly with Directors to ensure that they receive any necessary information.

His professional banking experience spans over 19 years beginning in 1993 when he was employed as a Legal Officer at Crystal Bank of Africa Limited (now United Bank for Africa Plc). He also worked as a General Counsel and was Deputy Head of Chambers at Vincent Omegba & Co.

He obtained his undergraduate degree in Law in 1992 from the then Bendel (Edo) State and Ambrose Alli University, Ekpoma, and attended the Nigerian Law School, Lagos State between 1992 and 1993. He was admitted to the Nigerian Bar in 1993. He obtained a Masters in Law from the University of Lagos, Akoka, Lagos State in 1996.

He is a member of various professional bodies including the Nigerian Bar Association, the Nigerian Society of International Law and the International Bar Association. He is also a senior member of the Chartered Institute of Bankers of Nigeria ("**CIBN**") and a resource person for the Financial Institutions Training Centre and CIBN.

Mr. Felix Egbon – Chief Risk Officer

Mr. Felix Egbon is the Chief Risk Officer of the Bank. He is a Deputy General Manager and currently the Head of the Risk Management Group of the Bank. Mr. Egbon joined the Bank in May 2006 with responsibility for branch coordination and subsequently Internal Control and Audit and was responsible for review and enforcement of the Bank's risk management procedures, controls and policies in branches bank-wide.

Prior to his engagement with the Bank, he worked with PricewaterhouseCoopers as an Audit Senior, the Auditing and Business Advisory Services and the United Bank for Africa Plc as the principal manager in charge of branch coordination, internal control and audit and was responsible for review and enforcement of procedures, controls and policies in United Bank for Africa's branches.

He is a fellow of ICAN, an honorary member of CIBN and a senior member of the Risk Management Association of Nigeria.

Mr. Gideon Jarikre – Chief Compliance Officer

Mr. Jarikre is the Chief Compliance Officer and a General Manager of the Bank. His primary responsibility is ensuring the Bank's compliance with regulatory laws and guidelines. He joined the Bank in 1991 and headed the Bank's Trade Services Group for over 15 years. He is an experienced professional with approximately 20 years of banking experience.

Prior to joining the Bank, he worked at The Guardian Publications Limited, reporting on financial news and at Institutional Investors Limited, working with institutional investors. He has been employed in various capacities in the Bank's Correspondent Banking unit, the Energy/Engineering unit and the Bank's Foreign Operations unit.

Mr. Jarikre received a degree in Business Administration from the University of Benin in 1985 and a Masters in Banking and Finance from the same university in 1997. He is an honorary senior member of CIBN and has attended executive education courses at several institutions including London Business School, London, United Kingdom.

Mr. Francis Chukwunyem – Chief Information Officer

Mr. Chukwunyem is a General Manager of the Bank and currently the Chief Information Officer of the Bank. He oversees the general technology and infrastructure of the Bank by ensuring that the Bank's technology is in line with its business needs.

Prior to joining the Bank, he worked at Data Designs Technology Co. as a software programmer.

He received a degree in Computer Science from the University of Benin in 1991 and a Masters in Computer Science from the University of Lagos in 1998. He is a certified Sybase Developer, certified Microsoft Engineer and certified Internet Webmaster.

Mr. Stanley Amuchie – Chief Financial Officer

Mr. Amuchie is the Chief Financial Officer of the Bank. He is a Deputy General Manager and currently the Head of the Financial Control and Strategic Planning Group of the Bank and supervises the Foreign Subsidiaries Department. Mr. Amuchie joined the Bank in February 2000.

Prior to his career with the Bank, he worked with Arthur Andersen (now KPMG Professional Services) between 1995 and 2000, where he rose to the level of a Senior before exiting the firm in February 2000 to join the banking industry. While at Arthur Andersen, he worked on both business advisory and consulting assignments for major financial institutions in Nigeria and other West African countries.

Mr. Amuchie received his degree in Industrial Chemistry from the University of Benin, Edo State, Nigeria. He is a fellow of ICAN and an honorary member of CIBN.

Mr. Joseph Esenwa – Chief Inspector

Mr. Esenwa is a General Manager of the Bank and the Chief Inspector of the Bank. As Chief Inspector, he is the Head of the Internal Control and Audit Department. His responsibilities include reviewing, monitoring, evaluating and enforcing internal controls within the Bank. He joined the Bank in 1991.

Prior to joining the Bank, Mr. Esenwa worked as a management accountant at John Holt Plc.

He received a degree in Accounting in 1985 and a Masters in Business Administration in 1988 from the University of Benin. He is an associate of ICAN.

Ms. Nonye Ayeni – Group Treasurer

Ms. Ayeni is a General Manager of the Bank and currently the Group Treasurer. She joined the Bank in 1990 and has over twenty years of banking experience.

Prior to joining the Bank, she worked at Nigeria International Bank Limited.

She received a degree in Microbiology from the University of Ife in 1986 and a Masters in Business Administration from the University of Lagos. She is an alumna of Insead Business School, France and has attended executive education courses at the Wharton School of the University of Pennsylvania and in the United Kingdom.

Mrs. Oladoyin O. Olugbuyi – Group Head of Human Resources

Mrs. Olugbuyi is the Group Head of Human Resources and oversees the Bank’s Human Resources/Learning Management Group. She joined the Bank in 1994 in the Treasury and Financial Institutions department. She also oversees domestic operations, which comprise funds transfer, cash and teller, cash management, clearing, collections, Nigerian FIRS/State government taxes and custom duties, customer service and the Zenith Contact Centre.

Mrs. Olugbuyi began her banking career in 1991 with ABC Merchant Bank Ltd. as a corporate finance officer. She has 22 years of banking experience and in-depth knowledge of treasury management, retail banking strategies, banking policy formulations, baking operations and human resources management.

She received a degree in Economics and an MBA from the University of Lagos.

Mr. Michael Anyimah – Group Head of Investor Relations

Mr. Anyimah is a General Manager of the Bank and currently the Group Head of Investor Relations, Multilateral Agencies, Conglomerates and Private Banking.

He began his banking career with Citibank in Treasury Operations and his experience spans treasury/treasury operations, currency and derivative trading, money market and fixed income trading, corporate banking and Domestic Operations.

Mr. Anyimah received a degree in Actuarial Science and an MBA from the University of Lagos. In addition, he has attended professional development courses in the banking field. He is a Chartered Financial Analyst and an honorary member of CIBN.

Conflicts of Interest

There are no potential conflicts of interest between any duties owed by the Directors and the senior managers to the Bank and their private interests and/or other duties.

None of the Directors or any of the senior managers are related to one another for the purposes of the Prospectus Directive.

Management Committees

Management Committee

The Management Committee is comprised of senior management and has been established to identify, analyse, and make recommendations various business opportunities, challenges and risks the Group faces. The committee also ensures compliance with risk limits set by the Board and contained in the Board's regulatory policies. Members of the Management Committee submit reports to the respective Board Committees and also ensure that the recommendations of the Board Committees are effectively and efficiently implemented. The committees meet weekly or as frequently as any matter requiring urgent attention may arise. Other major management committees of the Bank are:

- Management Risk Committee;
- Asset/Liability Management Committee;
- Global Credit Committee; and
- Information Technology Steering Committee.

Management Risk Committee

The Management Risk Committee is responsible for the regular analysis and consideration of risks in the Bank, in particular credit risk. The committee reviews and approves new credit risk policies and procedures and amendments to existing policies and procedures for each of the Bank's various divisions. The committee also reviews and approves internal policies for model development, model monitoring and model validating (e.g., approving minimum thresholds on performance indicators for models) and the usage of analytical tools (e.g., credit scoring models and pricing models). It meets at least monthly to review industry issues and policies affecting the Bank and recommends steps to be taken. The committee submits reports to the Board Risk Management Committee and ensures that the Board Risk Management Committee's decisions and policies are implemented. The members of the committee include the Managing Director, two Executive Directors and all divisional and group heads of the Bank.

Asset/Liability Management Committee

The Asset/Liability Management Committee is responsible for the management of a variety of risks arising from the Bank's business, including market and liquidity risk, through loan to deposit ratio analysis, cost of funds analysis, establishment of pricing guidelines on deposit and credit facilities, exchange rate risks analysis, balance sheet structuring, analysis of regulatory considerations and monitoring of the implementation of asset and liability strategies. The members of the committee are the Managing Director, three Executive Directors, The Chief Risk Officer, the Head of Treasury, the Head of Credit Assessment and Documentation, the Head of Marketing Groups, the Head of Financial Control and Strategic Planning, the Head of the Assets and Liability Management Department and the Head of Market Risk. The Head of Financial Control and Strategic Planning serves as the secretary of the Asset/Liability Management Committee. The committee meets weekly or as frequently as any matter requiring urgent attention may occur.

Global Credit Committee

The Global Credit Committee ("**GCC**") is responsible for ensuring that the Bank complies with the Credit Risk Policy, an internal set of credit risk guidelines established by the Board. The committee also submits reports to the Board Credit Committee. The GCC can approve credit facilities to individual obligors not exceeding, in aggregate, a sum as predetermined by the Board from time to time. The committee is responsible for reviewing and approving extensions of credit, including one-obligor commitments that exceed an amount as may be determined by the Board. The committee meets fortnightly or more often depending on the number of credit applications to be considered. The members of the GCC include the Managing Director, the Executive Directors and all divisional and group heads of the Bank.

The GCC reviews the entire credit portfolio of the Bank and conducts periodic assessment of the quality of risk assets. It also ensures that adequate monitoring of performance is carried out. The secretary of the committee is the Head of the Credit Administration Department.

Information Technology Steering Committee

The Information Technology Steering Committee is responsible for, amongst other matters, development of corporate information technology (IT) strategies and plans that ensure cost effective application and management of resources throughout the organization.

Membership of the committee is as follows:

- Managing Director/Chief Executive Officer
- Two Executive Directors
- Head of Treasury
- Head of Trade Services
- Marketing Group Representatives
- Chief Inspector
- Chief Risk Officer
- Head of IT
- Head of Infotech – Software
- Head of Infotech – Engineering
- Head of Card Services
- Head of Operations
- Head of IT Audit
- Head of e-Business
- Head of Investigation

The Committee meets monthly or as the need arises.

Compensation for members of the Board

For the year ended 31 December 2013, total compensation paid to Directors was ₦675 million as compared to ₦726 million in the year ended 31 December 2012. The total amount of executive compensation paid in the year ended 31 December 2013 was ₦421 million as compared to ₦496 million in the year ended 31 December 2012. The Bank's Chairman received ₦23 million in the year ended 31 December 2013 as compared to ₦16 million in the year ended 31 December 2012. The total retirement benefit cost incurred by the Group in respect of Directors for the year ended 31 December 2013 (which is included within the ₦675 million total above) was ₦21 million as compared to ₦6 million for the year ended 31 December 2012.

During the year ended 31 December 2013, total compensation paid to staff (excluding Executive Directors) was ₦59,952 million as compared to ₦52,247 million in the year ended 31 December 2012.

None of the Directors or any of the senior managers has any contract with the Bank or any of its subsidiaries providing for benefits upon termination of employment.

The total amount set aside or accrued for by the Group to provide pension or retirement benefits for staff (excluding Executive Directors) was ₦2,803 million as at 31 December 2013.

As at 31 December 2013, the Group had loans and advances outstanding to Directors and their close members of family totalling ₦1,363 million. For further information, see "*Business Description – Related Party Transactions*".

SHARE CAPITAL AND SHARE OWNERSHIP

As at 31 December 2013, the Bank's issued and fully paid share capital was ₦15,698 million, comprised of 31,396,493,786 ordinary shares with a nominal value of 50 kobo each. The Bank's authorised share capital as of 31 December 2013 was ₦20 billion, comprised of 40 billion ordinary shares with a nominal value of 50 kobo each.

As at 31 December 2013, the Bank had over 658,185 shareholders with only two shareholders owning more than a 5.0 per cent. shareholding.

The following table lists the Bank's shareholders of record, as indicated on its share register, as at 31 December 2013, that held 5.0 per cent. or more of its outstanding ordinary shares. All holders of the Bank's ordinary shares have the same voting rights. The Bank is not aware of any arrangements that may result in a change of control.

Shareholders	Shareholding	%
Stanbic Nominees Nigeria Limited	5,254,797,029	16.74%
Jim Ovia[(1)]	2,946,199,395	9.38%

(1) Mr. Ovia and his family also own Institutional Investors Limited which in turn owns a 4.08 per cent. interest in the Bank. The other shareholders in Institutional Investors Limited are persons connected to Mr Ovia.

To the Bank's knowledge, no other person or entity controls more than 5.0 per cent.

NIGERIA

*The information in this section has been extracted from documents and other publications released by various officials and other public and private sources, such as the CBN, the International Monetary Fund ("**IMF**"), the Nigerian Debt Management Office ("**DMO**"), the National Bureau for Statistics of Nigeria ("**NBS**"), the Nigerian Federal Ministry of Finance ("**FMF**") and the United States Central Intelligence Agency ("**CIA**"), as indicated herein. There is not necessarily any uniformity of views among such sources as to such information provided. The Issuer has not independently verified the information included in this section. The information in this section has been derived substantially from publicly available information, such as annual reports, official data published by the Nigerian government or regional agencies or other third party sources as indicated in the text. The Bank has accurately reproduced such information and, so far as the Bank is aware and is able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Bank has relied on the accuracy of this information without independent verification.*

Introduction

The Federal Republic of Nigeria is located in the West African sub-region of Africa and occupies 923,768 square kilometres of West Africa, bordering the Republic of Benin to the west, Chad and the Republic of Cameroon to the east, the Republic of Niger to the north and the Gulf of Guinea right down to the shores of the Atlantic Ocean forming the southern limits of the Nigerian Territory. The topography and vegetation of Nigeria vary considerably and include swamps and tropical rain forests in the south and savannah and open woodland in the central part of the country. The official language in Nigeria is English. There are three main indigenous languages spoken by the three predominant ethnic groups in the country. These ethnic groups are the Yorubas in the west, the Hausa-Fulani in the North and the Igbos in the east. There is also a vernacular known as "broken/ pidgin English" which is spoken and understood by most Nigerians (it is a Nigerian adaptation of the English language). There are over 250 other languages spoken in Nigeria by ethnic groups, including Urhobo, Edo, Efik, Ijaw and Kanuri, and over 500 dialects within the ethnic groups.

Demographics

Nigeria is the African continent's most populous country (and the seventh most populous country in the world) with an estimated population of over 171 million people. The population is forecast to grow by 2.60 per cent. on average over the long term, with total population forecast to reach 200 million people by 2020. Nigeria consists of 36 states and the Federal Capital Territory ("**FCT**") of Abuja, which is located in central Nigeria. Lagos, the most populous city in Nigeria, has a population of approximately 17 million. Other major cities include Port Harcourt, Kaduna and Kano.

Nigeria is politically divided into six geopolitical zones: North-central (comprising Benue, Kogi, Kwara, Nasarawa, Niger and Plateau states), North-east (comprising Adamawa, Bauchi, Borno, Gombe, Taraba and Yobe states), North-west (comprising Jigawa, Kaduna, Kano, Katsina, Kebbi, Sokoto and Zamfara states), South-east (comprising Abia, Anambra, Ebonyi, Enugu and Imo states), South-west (comprising Ekiti, Lagos, Ogun, Ondo, Osun and Oyo states) and South-south (comprising Akwa-Ibom, Bayelsa, Cross River, Delta, Edo and Rivers states).

Constitution, Government and Political Parties

Constitution

Nigeria is a federation made up of three tiers of government – federal, state and local governments. The Constitution was adopted in May 1999 and has been amended three times since it came into force. The Constitution provides for a tripartite structure of government in which power is divided among the executive, legislative and judicial branches. It establishes and sets out the powers and functions of the President (executive), the National Assembly (legislative) and an independent judicial system (judicial) as well as persons and bodies which may validly exercise such powers.

Executive branch

Nigeria has adopted a presidential system of government with the executive powers of the federal government vested in the President. Such executive powers, subject to the provisions of the Constitution and of any law passed by the National Assembly, may be exercised by the President directly or through the Vice-President, ministers of the government or public officers of the federal government. The President has the power to appoint ministers and any such appointment shall be effective if confirmed by the Senate, one of the two chambers of the National Assembly. In appointing ministers, the President shall appoint at least one member from each state. The executive is accountable to the bicameral National Assembly. The President is elected by popular vote for a four-year term and is eligible to be elected to a second (and final) term. In addition to being the head of government, the President is also the Head of State and the Commander-in-Chief of the armed forces of the country.

The President's role includes overseeing the day-to-day running of the affairs of the nation assisted by the Vice President, ministers, special assistants, special advisers and other relevant government functionaries with supervisory roles over areas of government.

The President may, in his discretion and in addition to any duties prescribed under the Constitution and other legislation, assign to the Vice-President or any minister of the federal government responsibility for any business of the federal government, including the administration of any department of government.

Legislative branch

The legislative powers of the federal government are vested in the National Assembly, which comprises a Senate and a House of Representatives. The National Assembly is empowered to legislate with respect to matters set out in the Exclusive Legislative List and the Concurrent Legislative List, as set out in the Schedules to the Constitution.

The current House of Representatives, formed following elections held in April 2011, has 360 members who are elected in single member constituencies. Members serve four-year terms. The number of seats per state is based on the population of each state. The head of the House of Representatives is referred to as the Speaker.

The Senate is made up of members elected into the upper house for a four-year term. Each state elects three senators while the FCT elects one, making 109 seats in total. The head of the Senate is referred to as the Senate President.

The two chambers of the National Assembly work in collaboration with the executive arm in areas such as budgetary appropriation and the enactment of laws. A bill may originate from either of the chambers but it must be passed by both chambers in order for it to be signed into law by the President.

Judicial branch

In accordance with the Constitution, judicial authority is vested mainly in the following courts: the Supreme Court; the Court of Appeal; the Federal High Court; the High Court of the FCT; the National Industrial Court, the Sharia Court of Appeal and Customary Court of Appeal of the FCT; the High Court; Sharia Court of Appeal and Customary Court of Appeal of each state; and such other court as may be authorised by law to exercise jurisdiction over matters with respect to which the National Assembly (national legislature) may make laws at first instance or on appeal over matters with respect to which a House of Assembly (state legislature) may make laws.

Nigerian courts are empowered to hear and determine disputes between private parties, disputes between a private party and any of the three tiers of government or their agencies or disputes between the three tiers of government or their agencies. Thus, the courts have the power to review statutes and executive actions to ensure that they conform to the Constitution and other laws in force in Nigeria.

The courts with jurisdiction and power to deal with commercial, civil, criminal and constitutional matters, mentioned above, are:

Supreme Court of Nigeria – The Supreme Court is the highest court in Nigeria and is situated in the FCT. The Supreme Court consists of the Chief Justice of Nigeria ("**CJN**") and such number of justices not exceeding 21 as may be prescribed by the National Assembly. The CJN and other justices of the Supreme Court are appointed by the President on the recommendation of the National Judicial Council (the "**NJC**") subject to confirmation of such appointment by the Senate. The CJN heads the judiciary of Nigeria and presides over the Supreme Court.

The Supreme Court exercises original jurisdiction with respect to disputes between (i) the federal government and the states, (ii) the states of the federation, (iii) the National Assembly and the President, (iv) the National Assembly and a state and (v) the National Assembly and a state's House of Assembly. The Supreme Court also has jurisdiction to review decisions of the Court of Appeal. Decisions of the Court of Appeal can also be appealed to the Supreme Court. The Supreme Court is duly constituted by seven justices when it is exercising its original jurisdiction or sitting to consider an appeal requiring interpretation of any provision of the Constitution or human rights violation. In all other cases, the court is duly constituted by not less than five justices.

Court of Appeal – The Court of Appeal, comprising the President of the Court of Appeal and such number of Justices of the Court of Appeal (not less than 49), ranks immediately below the Supreme Court. It exercises original jurisdiction with respect to the election of the President or Vice President of Nigeria, whether the term of those offices has ceased and whether those offices have become vacant. The Court of Appeal has exclusive jurisdiction to hear appeals from the Federal High Court, the High Courts, the National Industrial Court, the Sharia Courts of Appeal and the Customary Courts of Appeal of each state and the FCT, as well as decisions of any court martial or any other tribunal established pursuant to the Act of the National Assembly. The court is duly constituted by not less than three justices for the purpose of exercising any of its stated jurisdictions. For administrative convenience, the court is divided into judicial divisions which sit in various parts of the country, including Abuja, Lagos, Enugu, Kaduna, Ibadan, Benin, Jos, Calabar, Ilorin, Sokoto, Owerri, Yola, Ekiti, Akure, Makurdi and Port Harcourt. The president of the Court of Appeal is appointed by the President on the recommendation of the NJC, subject to confirmation by the Senate. Justices of the Court of Appeal are appointed by the President on the recommendation of the NJC.

Federal High Court – The Federal High Court, comprising the Chief Judge of the Federal High Court and such number of judges of the Federal High Court as may be prescribed by an act of the National Assembly, is a specialised court, which hears and determines civil cases and matters arising from a number of areas including (but not limited to) the operation of CAMA bankruptcy and insolvency, the taxation of companies (and other bodies established or carrying out business in Nigeria) and all other persons subject to federal taxation; banking and securities regulation, foreign investments and foreign exchange. The chief judge of the Federal High Court is appointed by the President on the recommendation of the NJC, subject to confirmation by the Senate. Judges of the Federal High Court are appointed by the President on the recommendation of the NJC. The court is duly constituted by not less than one judge for the purpose of exercising any of its stated jurisdictions.

High Court – There is a High Court for each state and the FCT. Subject to the jurisdiction of the Federal High Court as stipulated in the Constitution, the High Court has jurisdiction to determine civil and criminal proceedings which originate in the High Court and those brought before the High Court in the exercise of its appellate and supervisory jurisdiction. The High Court exercises jurisdiction over matters pertaining to contract, tort and negligence, amongst other matters. The chief judge of a state is appointed by the governor of the state on the recommendation of the NJC and subject to the confirmation of the House of Assembly of a state. Judges of a state High Court are appointed by the governor of the state on the recommendation of the NJC.

The National Industrial Court – The National Industrial Court has exclusive jurisdiction in civil cases and matters relating to labour, employment, trade unions, industrial relations, terms of service and matters arising in relation to the workplace. The Court also has exclusive jurisdiction on matters relating to or arising from the Factories Act, the Trade Disputes Act, the Trade Unions Act, the Employee's Compensation Act or any other legislation in relation to labour, employment, industrial relations or workplaces. In May 2013, President Goodluck Jonathan approved the appointment of 12 new judges for the National Industrial Court; this was in addition to the nine residing judges and the president of the Court.

Other courts

In addition to the courts mentioned above, there are also Magistrates Courts, District Courts, Area Courts and Customary Courts established in various states by state laws. These courts have limited jurisdiction as specified in their enabling laws and decisions from them are appealed to the High Court, the Sharia Court of Appeal or the Customary Court of Appeal as the case may be.

The Constitution also establishes the election tribunals and authorises the National Assembly to constitute other tribunals as may be required. The more prominent of these special "courts" is the Investment and Securities Tribunal, which handles disputes in relation to capital market activities.

State and local government

Each state is governed by a chief executive (known as the Governor) who is elected to a four-year term of office and is eligible for one further four-year term. The Governor is assisted in carrying out his or her functions by a Deputy Governor. The Governor is empowered to appoint commissioners and advisers and to assign responsibilities to them.

The legislative powers of a state are vested in a unicameral legislative body called the House of Assembly. The House of Assembly of each state may legislate with respect to matters set out in the Concurrent Legislative List. It is made up of representatives from all the local government areas within the state and exercises identical functions at the state level to those of the National Assembly at the federal level. A state House of Assembly shall consist of not less than 24 and not more than 40 members.

State governments are vested with the power to collect personal income tax from its residents, certain forms of stamp duties and capital gains tax amongst others.

There are 774 local government councils in Nigeria. Each local government area is administered under a local government council consisting of a chairman who is the chief executive of the local government area and other elected members who are referred to as councillors. The functions of local governments include considering and making recommendations to a state commission on economic, administrative and urban planning issues, including the economic development of the state, collection of rates, radio and television licences, establishment and maintenance of cemeteries, burial grounds and homes for the destitute or infirm, naming of roads and streets, numbering of houses and such other functions as may be conferred on a local government council by the state House of Assembly.

Political parties

According to the Independent National Electoral Commission ("**INEC**"), there are 25 political parties currently registered in Nigeria. In addition to the ruling Peoples Democratic Party ("**PDP**"), which has been in power at the federal level since 1999, the main political parties until recently included the All Nigeria People's Party ("**ANPP**") (formerly All People's Party), the Action Congress of Nigeria ("**ACN**"), the Labour Party, the Democratic People's Party ("**DPP**") and the All Progressives Grand Alliance ("**APGA**"). The ACN (formerly known as Action Congress), which won 83 seats in the 2011 National Assembly election, is the main opposition party. The Congress for Progressive Change ("**CPC**"), which won 41 seats in the same election, is the second largest. The PDP has been in power at the federal level since 1999 and won 275 out of 467 seats in the National Assembly in the 2011 elections.

The All Progressives Congress was registered in July 2013 following the merger of the ACN, CPC, ANPP and a faction of APGA and of DPP.

Overview of Nigerian GDP

Nigeria has the second largest economy in sub-Saharan Africa behind South Africa, and will probably overtake South Africa in a few years, especially after the planned GDP rebasing for 2014. As at 2012 it is the 10th largest oil producing country in the world with a GDP of U.S.$258.1 billion and a relatively low GDP per capita of U.S.$1,509. Although the economy is heavily dependent on the oil sector, which contributed approximately 12.50 per cent. to real GDP in the third quarter of 2013, and constituted 59.7 per cent. of the total federal revenue collected in the third quarter of 2013, agriculture is still a dominant contributor to the GDP, contributing about 41.9 per cent. of the GDP in the third quarter of 2013. Nigeria displays the characteristics of a dual economy – a modern economy heavily dependent on oil earnings and a traditional agrarian economy. Data from the NBS showed that GDP was estimated to have grown by 6.9 per cent. in the third quarter of 2013, compared with 6.2 per cent. in the preceding quarter and 5.1 per cent. for sub-Saharan Africa, as projected by the IMF. The development was attributed largely to the increase in the contribution of the non-oil sector.

Over the last decade, attempts have been made to improve the country's macroeconomic management and international image. Tighter controls on monetary policy, improved financial sector reforms and the use of oil revenues to reduce Nigeria's debt burden considerably have bolstered the country's external position. In April 2006, Nigeria became the first African country to fully repay its Paris Club debt, which was estimated at U.S.$30.5 billion. Nigeria's external debt obligation was estimated at U.S.$8.82 billion as at 31 December 2013. Nigeria is also currently rated by two leading credit rating agencies, S&P and Fitch, who have both assigned a sovereign rating of BB-. Furthermore, in a bid to manage the country's excess crude oil revenues, the National Assembly passed the Nigeria Sovereign Investment Authority Act ("**NSIA Act**") in May 2011, which established the Nigeria Sovereign Investment Authority ("**NSIA**"). The NSIA is responsible for building a savings base for Nigerian citizens, enhancing the development of Nigerian infrastructure, providing stabilisation support in times of economic stress and carrying out such other matters as may be related to the stated objectives. To accomplish these objectives, the NSIA Act establishes three funds: (i) the Stabilisation Fund which seeks to provide stabilisation support in times of economic stress by investing in a diversified portfolio of liquid, low risk products such as treasury bills and short-term investment grade bonds; (ii) the Future Generations Fund which will invest in a diversified portfolio of appropriate growth investments in order to provide future generations of Nigerians with a solid savings base for such a time when the hydrocarbon reserves in Nigeria are exhausted and (iii) the Nigerian Infrastructure Fund which is aimed at investing in infrastructure projects in Nigeria in areas such as transportation, energy, power, sewage treatment, water resources and delivery. It is envisaged that these investments would stimulate growth and lead to diversification of the Nigerian economy.

The population is forecast to grow by 2.60 per cent. on average over the long term, with total population forecast to reach 200 million people by 2020. The country's main exports are petroleum, petroleum products, cocoa, rubber and palm products and its main imports are machinery, chemicals, motor vehicles and manufactured consumer goods. The leading trade partners are the United States, India, Brazil and Spain, with China becoming increasingly important. Nigeria is a member of the Commonwealth of Nations, the African Union ("**AU**") and the Economic Community of West African States ("**ECOWAS**").

Since 2005, the non-oil and gas sector has been a key driver of growth, growing on average by 8 per cent. per year; the biggest drivers being agriculture, telecommunications and wholesale and retail trade. The following table sets out information regarding the main non-oil sectors of the economy as well as the oil and gas sector:

	2012		3rd Quarter of 2013	
Economic Sector	**Contribution to real GDP (%)**	**Growth rate (%)**	**Contribution to real GDP (%)**	**Growth rate (%)**
Agriculture	39.21	3.97	41.93	5.08
Crude petroleum and natural gas	13.76	(0.91)	12.50	(0.53)
Wholesale and retail trade	19.92	9.61	19.20	9.03
Manufacturing	4.20	7.55	3.58	8.16
Telecommunications and post	7.05	31.83	7.84	24.42

Source: NBS

The Government seeks to continue this trend of diversifying the economy by pursuing a range of economic reforms, including power and banking sector reforms, privatisation programmes to address poor power and transportation infrastructure reforms to reduce overdependence on oil and gas as a major source of income and policies to improve economic coordination as the uncoordinated economic policies of previous Nigerian governments have been barriers to developing a significant portion of Nigeria's natural resources and diversifying the economy.

Nigeria is also a significant exporter of cocoa, rubber and cassava, in addition to other significant natural resources.

Nigeria's crude oil production in 2010 and 2011 averaged 2.47 million barrels per day ("**mbd**") and 2.4 mbd compared to 2.5 mbd in 2005. According to the Nigerian National Petroleum Corporation (the "**NNPC**") Annual Statistical Bulletin, average crude oil and condensate production in 2012 was 2.27 mbd. In the third quarter of 2013, crude oil production in Nigeria including condensates and natural gas liquids was estimated at 1.89 mbd compared to 1.93 mbd for the preceding quarter. According to the CBN, the decline is a result of crude oil theft in Nigeria.

Furthermore, Nigeria has benefited from a reduction in perceived country risk, which has accelerated and increased foreign direct investment, which comprises equity capital, re-invested earnings and other capital inflows, from U.S.$0.7 billion in 2010 to U.S.$1.7 billion in 2011 and U.S.$2.0 billion in 2012. The relatively low level in 2010 can be attributed to the global financial downturn in 2008 and 2009, as greenfield projects, which are the major basis for FDI in Africa, suffered a value decline of about 10 per cent. in 2010. Similarly, peer economies within Africa also suffered declines in FDI in 2010, such as South Africa, which recorded a decrease in FDI of 77.9 per cent. and Africa as a whole recording an average decrease in FDI of 18.1 per cent. in 2010.

Notwithstanding the decline in FDI inflows to Africa, Nigeria continued to be one of the major recipients of FDI inflow into Africa.

Additionally, under-developed infrastructure within the country has created significant unsatisfied demand and investment opportunities, which have motivated the increasing inflow of FDI outside of the energy sector (which had historically accounted for a high percentage of FDI).

Nigeria – key macroeconomic indicators

The following table sets forth certain Nigerian economic indicators as at and for the periods indicated.

	As at or for the years ended 31 December			
	2013[(1)]	2012	2011	2010
Economic Indicators				
Nominal GDP at market exchange rates (*U.S.$ billions*)	292.03	270.21	243.99	228.64
Real GDP growth (%)	6.87	6.58	7.43	7.98
GDP per capita (*U.S.$ at purchasing power parity (“**PPP**”) market exchange rates*)	2,826.79	2,697.08	2,555.41	2,398.68
Inflation (*all items, year on year change, as at December in each year*) (%)	8.0	12.0	10.3	11.8
Population (*millions*)	169.28	164.75	160.34	156.05
Total external debt (*U.S.$ billions*)	8.82	6.53	5.66	4.58
Total external debt (*% of GDP*)	3.02	2.42	2.32	2.0
Exchange rate ₦/U.S.$ (*average*)	157.32	157.50	153.86	150.30

(1) Data as at or for the year ended 31 December 2013 is provisional.

Sources: NBS, CBN, DMO, IMF

Oil production

Nigeria is the world’s 10th largest producer of crude oil and the NNPC estimated Nigeria’s crude oil reserves at 36.0 billion barrels as at 31 December 2011. In 2012, OPEC estimated Nigeria’s crude oil reserves at 37.1 billion barrels.

Nigeria has been producing oil for approximately 55 years. The Nigerian economy is highly impacted by oil and gas production, which accounted for 89.4 per cent. of all federally collectible revenue in 2012. The average spot price of crude oil (Bonny Light) was U.S.$74.96 per barrel in 2007, U.S.$101.02 per barrel in 2008, U.S.$63.90 per barrel in 2009, U.S.$80.90 per barrel in 2010, US 113.77 per barrel in 2011, U.S. 113.72 per barrel in 2012 and U.S.$110.99 per barrel for the year ended 31 December 2013.

Nigeria’s crude oil production, including condensates and natural gas liquids, was estimated at 1.89 million barrels per day (mbd) or 173.88 million barrels as at the end of the third quarter of 2013, compared with 1.93 mbd or (175.63 million barrels) in the preceding quarter. This represented a decline of 0.04 mbd or 2.1 per cent. below the level in the preceding quarter. The decrease, which also reduced exports in the oil sector, was attributed to oil theft and sabotage of oil infrastructure.

A divide between the oil producing states and the non-oil producing states has arisen over how the oil revenues should be distributed between the federal government and the states. The oil-producing states (which are predominantly situated in the southern region of the country) believe they are entitled to a greater share of revenue by virtue of the fact that the oil is produced in their region and they suffer the consequences of oil pollution and oil-related violence.

In the Niger Delta region, which is made up of nine states (Abia, Akwa Ibom, Bayelsa, Cross River, Delta, Edo, Imo, Ondo and Rivers states), and covering approximately 112,110 square kilometres or 12 per cent. of Nigeria’s land mass, sporadic violence has been a longstanding problem that the multinational oil companies operating in the Niger Delta have faced for a number of years. The region, the world’s third largest wetland, accounts for over 90 per cent. of Nigeria’s oil and gas export earnings and over 70 per cent. of revenues accruing to the Federation Accounts. Presently, Nigerian oil reserves stand at about 37.5 billion barrels, while the country’s gas reserves are estimated at about 187 trillion cubic feet. Accordingly, the stability and development of the Niger Delta is critical to the economic well-being of Nigeria, the wider West African region and, to a lesser degree, global energy security.

The Niger Delta has been a source of unrest for many years. In 1995, in the face of international protests, nine Nigerian peace activists including author Ken Saro Wiwa from Ogoniland in the Niger Delta were executed by the military regime of General Sani Abacha. By 2002, unrest had grown once again throughout several states of the Niger Delta with a new wave of activism in the region. In 2006, militia forces formed in the Niger Delta, targeting international oil companies by destroying oil infrastructure and kidnapping expatriate staff. The largest of the armed groups, MEND, has carried out most of its activities and attacks in the Niger Delta region but in July 2009, the assault extended to Lagos with the destruction of part of the Atlas Cove Jetty on Takwa Bay, Lagos, a major oil hub for Nigeria.

Significant efforts have been made by the Government to tackle the problems in the Niger Delta. For example, the Niger Delta Development Commission was established to, amongst other things: (i) develop the infrastructure of the Niger Delta; (ii) manage the sums received from upstream oil companies and the allocation of the Federation Account for addressing ecological problems which arise from the exploration of oil minerals in the Niger Delta area; and (iii) alleviate the plight of local inhabitants. The Government has also built power plants and is working to create more jobs and improve infrastructure in the area. In addition, in 2009, the Government offered amnesty to militants who surrendered their weapons by October 2009, in the hope that rebels would exchange their weapons for a pardon and retraining. Over 20,000 militants surrendered their arms and ammunition pursuant to the amnesty offer of the Government, which expired on 4 October 2009.

The amnesty programme has significantly reduced but not eliminated tensions in the region. In December 2009, MEND claimed responsibility for an attack on an oil pipeline in the Niger Delta, breaching the ceasefire agreement with the Government. After another attack on an oil pipeline in the Niger Delta in January 2010, during late President Umaru Musa Yar' Adua's absence from office, MEND announced that it would end the indefinite ceasefire it offered in 2009, threatening further hostility in the region.

Following the accession to office by Goodluck Ebele Jonathan as President of Nigeria on 6 May 2010, militants in the Niger Delta region resumed their talks with the Government and other amnesty committees. However, on 1 October 2010, during Nigeria's celebration of the fiftieth anniversary of its independence, two bomb blasts occurred in the capital city Abuja. Further attacks on oil pipelines and kidnappings took place in November and December 2010 when two bombs exploded during a political rally in Yenagoa, Bayelsa State, causing injury to several people.

In February 2014, the suspended Governor of the CBN, Sanusi Lamido Sanusi, appeared before the Nigerian Senate Committee on Finance to discuss alleged discrepancies between crude oil production and oil revenues collected by the Nigerian government. Following the allegations made by Mr. Sanusi, the senate committee announced the launch of an independent forensic investigation of the situation. The senate committee has stated that the initial findings of this investigation will be submitted within the next few months.

Fiscal deficit

The fiscal operations of the Federal Government of Nigeria resulted in an estimated deficit of ₦114.05 billion, or 0.95 per cent. of estimated nominal GDP for the third quarter of 2013. The overall fiscal deficit decreased from ₦1,158.52 billion in 2011 to ₦975.72 billion in 2012 and to ₦887.0 billion in 2013. The budget deficit is expected to increase to ₦912 billion in 2014, or 1.90 per cent. of GDP.

THE NIGERIAN BANKING SECTOR

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According to data from the CBN, total Nigerian banking industry assets was ₦23,301.4 billion at the end of the third quarter of 2013, representing an increase of 3.4 per cent. as compared to the end of the preceding quarter. The funds, which were sourced largely from increased mobilisation of demand deposit and unclassified liabilities, were used for accretion to reserves, extension of credit and acquisition of foreign and unclassified assets. Total specified liquid assets of the deposit making banks were ₦5,992.8 billion at the end of the third quarter of 2013, representing a liquidity ratio of 37.7 per cent. The liquidity ratio fell by 18.4 percentage points as compared to the preceding quarter, but was 7.7 percentage points above the CBN's stipulated minimum ratio of 30.0 per cent. The loans-to-deposit ratio, at 33.4 per cent., decreased by 10.5 and 46.6 percentage points as compared to the end of the preceding quarter and the prescribed maximum ratio of 80.0 per cent., respectively.

Non-performing loans, as a proportion of total loans were 36.0 per cent. as at 31 December 2009, compared with 5.6 per cent. in 2008. Subsequent to AMCON's acquisition of NPLs since 31 December 2010, the industry NPL ratio dropped to 16 per cent. of total loans and dropped further to 4.8 per cent. by the end of 2011. The CBN set a target across the sector for NPL levels of 5 per cent. by 31 December 2011. However, only some banks (including the Bank) have achieved this target. Banks with NPL levels above 5 per cent. are required to either sell those excess NPLs to AMCON or write off the excess. AMCON has announced that it will no longer purchase NPLs; as such it is expected that the percentage of NPLs held by many banks in the industry will rise. According to the CBN, average NPL levels was down to 3.8 per cent. as at April 2013.

There were 22 commercial banks licensed to operate but only 21 commercial banks are in operation in Nigeria as at the date of this Base Prospectus.

Retail lending penetration in Nigeria remains significantly lower than that of other countries, with such lending only around 0.1 per cent. of GDP as at 31 December 2011, and the economy is broadly cash based, although the CBN has commenced a cashless policy in Abuja, Lagos, Kano, Rivers, Ogun, Abia and Anambra States and stated that it will be extended to other states by June 2014. The CBN disclosed that the total value of electronic funds transfer in the country had risen significantly to approximately ₦80 billion per day in May 2013, primarily due to the growing acceptance in Nigeria of the cashless policy. Trade and oil and gas finance, structured debt for infrastructure projects, cash management for large corporations and electronic banking are key areas for growth for the banking sector. Nigeria's underdeveloped retail market is considered to be a long-term market opportunity and many industry players have shifted their focus to establishing consumer risk assets with higher yields.

Supervision and Regulation of Banks in Nigeria

The major regulators of Nigeria's financial sector are the CBN and the NDIC. Since January 1999, the CBN has acted autonomously (formerly supervised by the FMF) and has the power to formulate and implement monetary and exchange rate policies. The CBN was granted more independence and autonomy under the Central Bank of Nigeria Act, No.7 of 2007. The principal governing body of the CBN is its board of directors, which consists of the Governor of the CBN, who acts as chairman, four Deputy Governors and six non-executive board members including the Accountant General of the Federation, the Permanent Secretary of the FMF and four directors. Each Deputy Governor overlooks one directorate of the CBN. The directorates are Operations, Corporate Services, Financial System Stability and Governors and Economic Policy.

On 20 February 2014, President Goodluck Jonathan announced the suspension of the CBN Governor Mallam Sanusi Lamido Sanusi over the allegation that the CBN Governor's tenure had been characterised by various acts of financial misconduct, and appointed the Deputy Governor of Economic Policy of the CBN, Dr. Sarah Alade, as Acting CBN Governor. Governor Sanusi's 5 year term was already due to expire on 3 June 2014, and the President subsequently nominated Mr. Godwin Emefiele, the Managing Director/Chief Executive Officer of the Group, as the new CBN Governor, subject to confirmation by the Senate in accordance with the Central Bank of Nigeria Act, No. 7 of 2007. Mr. Emefiele's appointment as CBN Governor was confirmed by the Senate on 26 March 2014 and will take effect beginning on 3 June 2014.

There are four departments under the remit of the Financial System Stability Directorate of the CBN: banking supervision, financial policy and regulation, development finance and other financial institutions supervision.

The functions of the Financial System Stability Directorate include supervision of banks, which entails on-site examination of banks, especially with respect to their financial condition, internal control systems, reliability of information provided and compliance with corporate governance codes. The CBN also monitors trends in the banking sector, generates industry reports on a monthly and quarterly basis, evaluates the development of the finance sector and monitors other financial institutions. Activities such as changes of auditors, announcements of audited financial statements, opening of branches, changes in control and appointments of directors by banks are subject to the prior approval of the CBN.

As the regulator of the Nigerian banking sector, the CBN intends to introduce a more robust and risk sensitive supervisory framework in line with global best practice including greater collaboration among the financial sector regulators and supervisory agencies. The aim is to facilitate the evaluation of the banking industry as a whole through stress-testing and other methods and to bring to the attention of regulators the risks which the operations of each entity within the industry could bring to the sector as a whole so that regulators can take proactive actions.

The CBN's monetary policy mandate encompasses issuing currency (Naira and kobo), the maintenance of Nigeria's external reserves, promoting and maintaining monetary and price stability and a sound and efficient financial system and acting as both banker and financial adviser to the federal government and as the banker and lender of last resort to commercial banks. The CBN also regulates payment and settlement systems in Nigeria.

The CBN is also the agency of the Government which maintains general surveillance over the Nigerian foreign exchange market. It designates licensed banks as authorised dealers who may deal in foreign exchange. By virtue of Section 1(2) of the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, Cap F34 LFN 2004, the CBN may make regulations from time to time pertaining to foreign exchange transactions.

The NDIC, established pursuant to the Nigeria Deposit Insurance Corporation Decree No. 22 of 15 June 1988, insures all deposit liabilities of licensed banks and other financial institutions operating in Nigeria. The NDIC guarantees payments to depositors in case of imminent or actual suspension of payments by insured banks or financial institutions up to the maximum amount of ₦200,000.00 per depositor for primary mortgage institutions and micro finance banks, and ₦500,000.00 per depositor for deposit money banks. The NDIC is also mandated to assist monetary authorities in the formulation and implementation of banking policy in Nigeria so as to ensure sound banking practices and promote fair competition among banks in Nigeria. The NDIC carries out examination of the financial institutions within its purview, in particular banks, from time to time. It also plays a major role in co-ordinating with the CBN in the liquidation of banks in Nigeria. The powers and functions of the NDIC are stated in the Nigeria Deposit Insurance Corporation Act No. 16 of 2006 which repealed and replaced the Nigeria Deposit Insurance Corporation Decree of 1988.

Banking Sector Reform – 2004-2009

Pursuant to its 13-point agenda aimed at reforming the banking industry, the CBN introduced a number of reforms in July 2004, including a requirement that all banks raise their minimum capital base from ₦2.0 billion to ₦25.0 billion by 31 December 2005. Banks that failed to meet these capitalisation requirements by 31 December 2005 had their licences revoked. This led to numerous capital raising exercises and mergers and acquisitions, and reduced the number of banks operating in Nigeria from 89 to 25. In 2007, the first post-CBN mandated consolidation was completed, with Stanbic Bank Nigeria Ltd (wholly owned by The Standard Bank of South Africa) merging with IBTC Chartered Bank Plc, thereby reducing the number of banks in Nigeria to 24. The result was a leaner and more highly capitalised banking sector consisting of 24 deposit money banks with enhanced capacity for rapid asset growth and branch expansion.

The 2005 consolidation spurred an unprecedented growth in the Nigerian banking sector, with 27 per cent. 7-year compound annual growth rate ("**CAGR**") in total assets to ₦19.4 trillion in 2011 (52 per cent. of the nominal GDP). Buoyed by the supportive deposit base (33 per cent. CAGR to ₦11.5 trillion in 2011) and seasoned equity additions, the industry's loan book quadrupled to ₦6.1 trillion between 2005 and 2011 (24 per cent. compounded annual growth). Whilst banks were still relatively averse to the retail market, the consolidation paved way for retail lending, with increased focus on consumer finance and payroll-backed lending. The increased capital base allowed continuous branch expansion, with an estimate of 5,348 branches in 2011 from 3,367 in 2005.

March 2008 marked a turning point for the economy when the first signs of the global economic downturn on Nigeria became visible. Brent crude oil prices fell from a high of U.S.$143.95 per barrel on 3 July 2008 to U.S.$33.73 on 26 December 2008, according to the EIA, triggering a decline in equity prices as foreign investors reduced their exposures. The effect on the Nigerian banking sector was especially significant due to its considerable exposure to the oil and gas industry and the capital markets through margin lending. Exposure to the capital markets in the form of margin loans to operators and individuals stood at approximately ₦900 billion as at 31 December 2008, representing approximately 12 per cent. of aggregate credit (39 per cent. of shareholders' funds of the Nigerian banking sector). As at the same date, the banking sector's total exposure to the oil and gas industry exceeded ₦754 billion, representing over 10 per cent. of aggregate credit (27 per cent. of shareholders' funds). The economic downturn, combined with underdeveloped credit and risk management procedures as well as lax regulatory controls, led to a significant impairment in asset quality, severe capital erosion, reduced liquidity, and a decline in earnings due to elevated credit impairment charges and the slowdown in credit disbursements. The global financial crisis and the resulting decline in the Nigerian equities market in 2009 resulted in significant provisions and high NPLs at a number of Nigerian banks.

The asset quality and liquidity problems created concerns about solvency. The CBN, under Governor Chukwuma Soludo, embarked on a number of initiatives to reduce counterparty risk concerns and improve liquidity in the sector. These initiatives included:

- reducing the MPR to eight per cent.;
- reducing the liquidity ratio requirement from 40 per cent. to 25 per cent.;
- reducing the cash reserve requirement from four per cent. to one per cent.; and
- expansion of the CBN's discount window ("**Expanded Discount Window**") in October 2008 to provide banks with access to funds for longer terms and to accommodate money market instruments such as Bankers' Acceptances and Commercial Papers.

Other key initiatives pioneered by the then CBN Governor include:

- deepening of micro credit via introduction of microfinance and community banks;
- replacing the retail Dutch Auction System ("**RDAS**") with the wholesale Dutch Auction System ("**WDAS**") for Nigerian FX market regulation;
- introducing the universal banking model; and
- building the initial framework for the establishment of AMCON.

Towards the end of Soludo's term in June 2009, a cloud of uncertainty dominated the banking sector. Given the general lack of transparency, the troubling symptoms in the banking sector began to spread to other areas of the Nigerian economy, thus weakening macroeconomic conditions through rising interest rates, Naira depreciation, 4-year low bank valuations, reduced lending to the real estate sector and loss of investor confidence.

Banking Sector Reform – 2009 to date

The previous Governor of the CBN, Sanusi Lamido Sanusi, was appointed in June 2009. The CBN's first action under the leadership of Sanusi was to close the Expanded Discount Window in July 2009 and to instead provide guarantees for all interbank placements. Notably, 90 per cent. of the total disbursements under the Expanded Discount Window between its opening and closing were to five banks: Afribank, Finbank, Intercontinental Bank, Oceanic Bank and Union Bank, who were also the main net takers under Soludo's Expanded Discount Window arrangement. This prompted the CBN and NDIC to carry out a special examination of the 24 deposit money banks regarding their liquidity, capital adequacy and corporate governance issues. The CBN Special Examination was carried out in two phases and phase one found the abovementioned five banks to be in a "grave situation" as defined in the BOFIA, under capitalised with insufficient liquidity and poor corporate governance and characterised by the following:

- NPLs representing 40 per cent. of their total loan portfolio;
- failure to meet the minimum liquidity requirement and capital adequacy ratios of 25 per cent. and 10 per cent., respectively;
- weak corporate governance and risk management; and
- a significant loan portfolio concentration in the capital markets and oil and gas portfolio exposure.

In order to prevent further deterioration in these five banks, the CBN replaced the executive management of each bank and injected a total of ₦420 billion into the five banks.

At the conclusion of the second phase of the examination in September 2009, an additional five banks were found to be in varying degrees of distress, prompting the CBN to offer an additional ₦200 billion of liquidity support in the form of Tier 2 capital. Of those five banks, four were found to be in a grave situation, namely Equitorial Trust Bank ("**ETB**"), Bank PHB, Spring Bank and Wema Bank. As with the initial five banks, the executive management of ETB, Bank PHB and Spring Bank were removed. Wema Bank changed its management in June 2009 prior to the CBN Special Examination, following which the new management was given until June 2010 to recapitalise the bank. Unity Bank was judged to have sufficient liquidity but fell short of the statutorily required capital adequacy amount. Accordingly, the CBN ordered Unity Bank to recapitalise before June 2010. The CBN subsequently extended the compliance deadline for both banks to October 2010. Both Wema Bank and Unity Bank successfully recapitalised by the October 2010 deadline. In the process leading to recapitalisation, Wema Bank raised ₦7.5 billion through a special placement offer and recovered ₦4 billion from debtors, while Unity Bank raised ₦17.3 billion through a rights issue to shareholders. To further ensure stability in the banking sector and increase lending capacity, the CBN announced in March 2011 that it would offer additional liquidity support to the banking sector through the provision of term loans, totalling ₦200 billion, for refinancing and restructuring loans issued by banks to the Nigerian manufacturing sector.

The CBN subsequently revoked the licenses of three of the Intervened Banks, Afribank, Bank PHB and Spring Bank, for failure to show the necessary capacity and ability to recapitalise before the September 2011 deadline. Consequently, the NDIC, in the interest of depositors and to prevent possible liquidations, transferred the assets and certain liabilities of these three banks to newly formed Bridge Banks established pursuant to the provisions of the Nigeria Deposit Insurance Corporation Act No. 16 of 2006. The assets and liabilities of Afribank, Bank PHB and Spring Bank were transferred to Mainstreet Bank Limited, Keystone Bank Limited and Enterprise Bank Limited, respectively. The NDIC entered into purchase and assumption agreements with each of the new Bridge Banks pursuant to which the Bridge Banks acquired the assets and some liabilities of the relevant ailing banks. Subsequently, AMCON acquired the majority of shares in the Bridge Banks through a share subscription agreement with the banks, which also resulted in the removal of the bridge bank designation of the said banks.

Overall, the CBN's rationale for intervening was to resolve the immediate liquidity challenges in the country's banking system and to restore stability and confidence to the banking sector. In total, the CBN injected ₦620 billion of Tier 2 capital into the eight Intervened Banks as well as Wema Bank and Unity Bank, whilst stimulating liquidity across the sector by reducing statutory limits and guaranteeing interbank placements. To increase transparency, in September 2009 the CBN ordered all banks to report their results for the nine-month period ended 30 September 2009 under a prescribed pro forma, which aimed to ensure adequate and consistent levels of disclosure. To date, there has been no run on the Intervened Banks and interbank rates have dropped significantly in response to the CBN guarantee and related liquidity stimuli, although such rates have rebounded on the back of monetary tightening following the relative stability of the banking system.

To manage the effects of its intervention, the CBN is facilitating the recovery of NPLs of the affected banks. Furthermore, in October 2010 the CBN repealed the universal banking guidelines which had been in operation since 2000 and issued new rules and guidelines for the banking licences regime titled "Regulation on the Scope of Banking Activities & Ancillary Matters," No. 3, 2010. The new rules, according to the CBN, are aimed at streamlining banking operations in Nigeria as well as reducing the exposure of the banks to higher operational risks. Henceforth only commercial banks, merchant banks, and specialised banks, which include non-interest banks, microfinance banks, development banks and mortgage banks, will be permitted to carry out banking businesses in Nigeria.

The new regulation, which was issued by previous CBN Governor Sanusi Lamido Sanusi, also stated that no bank shall establish, maintain or permit to exist any related enterprise except pursuant to Sections 21(1) and 22(1)(c) of BOFIA and if such related enterprise is a banking institution incorporated outside Nigeria with the permission of the CBN and is a company jointly established by two or more banks with the approval of the CBN for the purpose of promoting the development of the money market or improving the delivery of banking services in Nigeria.

This rule effectively required banks to divest all non-banking business or to adopt a non-operating holding company structure in compliance with the new regime by 30 September 2012 (although this deadline was extended to 31 December 2012 for some banks, and the CBN has granted an extension to certain banks on a case-by-case basis). Under the new regime, banks were required to present a business case to their stakeholders to assist in deciding which structure to adopt going forward (namely, the non-operating holding company or complete divestment structures). In addition, all existing universal banks were required to submit their plans on compliance with the new banking regime to the CBN not later than 90 days from 15 November 2010 or, in the case of Intervened Banks, following the agreement of acquisition terms with any strategic investors (which all Intervened Banks had been asked to seek). Whilst four banks, resolved to operate holding company structures, which allow them to keep non-core banking subsidiaries, a number of banks including the Bank, have concluded or are in the process of divesting non-core banking activities. Under the new rules, banks are also required to maintain a minimum paid up share capital of ₦10 billion for institutions granted a regional banking license, ₦25 billion for institutions granted a national banking licence and ₦50 billion for institutions granted an international banking licence.

Weaknesses in the Nigerian financial system and banking sector prompted the CBN to implement additional initiatives in 2010 to reform the Nigerian financial system and, in particular the banking sector, through the "Project Alpha Initiative", based on a 4-pillar policy framework of enhancing the quality of banks, establishing financial stability, allowing for a healthy financial sector evolution and ensuring that the financial sector contributes to the real economy. Key interventions under the fourth pillar have been the ₦200 billion Commercial and Agricultural Credit Scheme and the ₦300 billion Power and Aviation Intervention Fund administered through the Bank of Industry ("**BOI**"), a development financing institution in Nigeria, to stimulate the economy. The CBN also established the Small and Medium Enterprises Credit Guarantee Scheme ("**SMECGS**") for promoting access to credit by small and medium enterprises ("**SMEs**") in Nigeria. The new initiative is also intended to produce greater transparency and disclosure.

Further to the banking sector reforms, the CBN has implemented or is in the process of implementing a number of changes to banking regulations, including:

- a requirement for banks to prepare annual IFRS financial statements, beginning from 1 January 2012;
- the termination of the CBN's policy limiting aggregate foreign investment in any Nigerian bank to 10 per cent. of the bank's total capital in 2009;
- limits on the tenures of a bank's chief executive officer to two terms of five years each, effective as of January 2010;
- a requirement for banks to rotate their external auditors every ten years and not re-appoint them until after a period of ten years has passed. The Bank is in compliance with this requirement;
- reversal of the universal banking regime and a requirement for Nigerian banks to divest non-banking businesses or restructure their banking groups under a holding company structure. This resulted in the Group divesting some of its non-banking businesses. See "*Business Description – Compliance with Central Bank of Nigeria's Regulation on the Scope of Banking Activities*";
- the signing by the CBN of multilateral agreements with cross border regulators, in order to enhance the regulation of Nigerian banks that have an international presence;
- a mandatory requirement for all deposit taking banks to perform annual appraisals of their board members to ensure that the board is informed of the latest trends and information in the banking industry so as to make effective decisions on behalf of the shareholders;
- the release of the Revised Guide to Bank Changes by the CBN, which took effect from April 2013 and mandates all banks to gradually reduce and eventually phase out COT charged on current accounts by 2016;
- increasing the CRR for all public sector deposits from 12 per cent. to 50 per cent. and then to the current rate of 75 per cent. to manage excess liquidity. The CBN stated that the increase in the CRR for public sector deposits was due to the depletion of fiscal buffers following the continuing decline in oil revenue, rundown of reserves and depletion of excess crude oil savings, failing portfolio and FDI inflows, widening gap between the official and the bureau de change foreign exchange rates and creeping increase in core inflation;
- increasing the capitalisation requirement of banks, deploying information technology in all banking operations, establishing microfinance banks, adopting a new code of corporate governance and pension reforms in an effort to achieve Nigeria's aim of being one of the largest economies in the world by 2020;
- the launch of the Nigerian Financial Inclusion Strategy, which is aimed at increasing the percentage of adult Nigerians who have easy access to a broad range of financial services (e.g., payments, savings, remittances, credit, insurance and pensions) according to their needs and at affordable prices;
- the introduction of the Bank Verification Number for biometric identification of customers in the financial industry;
- the directive that banks and discount houses should transfer all non-proprietary financial instruments held on behalf of customers to licensed custodians;

- the introduction by the CBN of electronic banking, generally referred to as its "cashless policy", in Nigeria with a pilot commencement in the commercial centre, Lagos State. The policy has been extended to Abuja, Kano, Abia, Rivers, Ogun and Anambra states and would eventually be rolled out to other regions across the country by June 2014. Pursuant to the cashless policy, daily cash withdrawals and deposits of individual and corporate customers are pegged at ₦500,000 and ₦3 million respectively, with penalties for carrying out cash transactions beyond the set limits. Cash in transit lodgment services rendered by Nigerian banks to merchant customers were also discontinued;
- the additional "know your customer" requirements by the CBN requiring banks to ensure their customers who are "designated non-financial businesses and professions" (which include dealers in jewellery, cars and luxury goods, supermarkets, hotels and casinos) are registered with the Special Control Unit on Money Laundering of the Federal Ministry of Trade and Investment prior to establishing a business relationship with them.

The Asset Management Corporation of Nigeria

The Asset Management Corporation of Nigeria Act No. 4 of 2010 ("**AMCON Act**"), was signed into law by President Goodluck Jonathan on 19 July 2010. AMCON was created as a resolution vehicle to assist deposit money banks in Nigeria to improve their capital and liquidity positions by acquiring NPLs, with the ultimate aim of stabilising the financial system. Under the provisions of the AMCON Act, AMCON should have a capital base of up to U.S.$67 million which will be jointly funded by the FMF and the CBN. To achieve its objectives, AMCON is expected to engage with the debtors of all Nigerian banks, with a view to taking over their NPLs, and restructuring such loans by negotiating more favourable terms of repayment with the debtors. AMCON will also appoint asset managers to manage and seek the best returns on the underlying collateral with a view to minimising costs to the Government in the event that the debtors cannot redeem the debt. Initially, AMCON had proposed a ten-year time frame in which to conduct these activities. However, the AMCON Act grants it indefinite life as a going concern.

In November 2010, in accordance with the AMCON Act, which granted AMCON the power to issue debt securities with maturities up to 7 years, or any other tenor as may be prescribed by the CBN, AMCON announced plans to issue up to ₦3 trillion, approximately U.S.$20 billion of three-year, zero-coupon bonds, to finance the purchase of NPLs from the 21 eligible financial institutions that chose to participate in the AMCON scheme in the first round. The AMCON Bonds have the credit guarantee of the Government as set out in the AMCON Act. The proceeds from the sale of the AMCON Bonds were to be used to purchase approximately ₦2.48 trillion aggregate principal amount of NPLs at a discounted purchase price of approximately ₦854 billion, which was intended to reflect the valuation assigned to those NPLs after making certain adjustments depending on the nature of the collateral backing of the relevant NPLs. In addition, pursuant to the guidelines issued by AMCON in November 2010, AMCON has a period of 12 months (from the date of purchase of the relevant NPLs) to undertake an independent review of the valuation assigned to the relevant collateral backing the NPLs that AMCON purchased. To the extent that a lower value is assigned to those NPLs (as a result of the relevant collateral being assigned a lower value) following the review process or AMCON is not able to assume ownership of such collateral free and clear of encumbrances or liens having priority, AMCON could require the relevant bank to make up the difference to AMCON or repurchase the relevant NPLs.

At the completion of the first stage of this process, on 31 December 2010, AMCON issued ₦1.04 trillion principal amount of Initial Consideration Bonds ("**ICBs**"), with net proceeds of ₦854 billion, to 21 Nigerian banks, (Citibank Nigeria, Equitorial Trust Bank and Standard Chartered Nigeria elected not to participate) in consideration for margin loans of the 21 banks and non-performing, non-margin loans of Intervened Banks. AMCON executed loan purchase and service agreements with the 21 banks to acquire NPLs with a face value of ₦2.48 trillion for approximately ₦854 billion, representing an estimated 80 per cent. of the banking industry NPLs, and to purchase margin loans from each of the 21 banks. Of the purchased NPLs, 92.5 per cent. were from the eight Intervened Banks with the remaining balance of 7.5 per cent. from the other Nigerian banks.

On 6 April 2011, after the completion of its Series I bond issuance, AMCON issued an aggregate of ₦1.68 trillion additional AMCON Bonds (which are tradable and listed on the NSE) in three tranches with face values of approximately ₦1.15 trillion, ₦17.6 billion and ₦516.9 billion, respectively. The first tranche of bonds (Tranche I) was issued to be swapped with and replace the ICBs issued on 31 December 2010. Unlike the ICBs which were not tradable and therefore not liquid, the Tranche I bonds are registered and tradable. Tranche II of the bonds was issued for price discovery purposes, in an attempt to determine the market price and yield for future issuances (including the Tranche III bonds). Tranche III was issued for the purpose of acquiring additional

NPLs from 22 participating Nigerian banks (Citibank Nigeria and Standard Chartered Nigeria elected not to participate). In addition, AMCON has also issued Series II, III, IV and V bonds, all of which are due to mature in 2014.

In July 2010 the CBN agreed with the then existing 24 deposit money banks in Nigeria to establish a sinking fund, the Banking Sector Resolution Cost Sinking Fund, to cover any net deficits incurred by AMCON. Each of the banks agreed to contribute, 0.3 per cent. of its total assets as of the date of its audited financial statements for the immediately preceding financial year annually for the next ten years to the sinking fund. AMCON intends to use the sinking fund, recoveries earned on the NPLs purchased from the banks, proceeds from the sale of its holding in the Intervened Banks and the acquired Bridge Banks and foreclosures of collaterals of debtors who cannot redeem their debt to repay the AMCON Bonds at maturity. The memorandum of understanding between the CBN and the relevant Nigerian banks for the "Banking Sector Resolution Cost Sinking Fund", which set out the above arrangements, was signed in January 2011. Subsequently, in August 2013, the 21 existing commercial banks signed a Trust Deed amongst themselves, whereby the banks formally committed to a 0.5 per cent. contribution of their total assets and another 0.5 per cent. of 33 per cent. of their off balance sheet items to the sinking fund. The sinking fund is managed by a board of trustees independent from AMCON and the fund constitutes up to 65 per cent. of AMCON's cash flows.

To give the sinking fund legislative backing, the Asset Management Corporation of Nigeria (Amendment) Act Bill 2011 (the "**Bill**") was introduced to the House of Representatives in July 2011. The Bill seeks to amend the AMCON Act by establishing the Banking Sector Resolution Cost Fund with a lifespan of ten years extendable by the Senate upon request from the CBN. The Bill also provides for the establishment of a board of trustees with representatives from the CBN, the FMF, the DMO and five financial institutions for the management and administration of the fund. The Bill provides for annual contributions of ₦50 billion by the CBN and an amount equal to 0.30 per cent. of total assets of every licensed bank, as of the date of its audited financial statements, subject to a maximum amount of ₦1 trillion (from all the banks) and ₦500 billion from the CBN. The Bill was referred to the banking committee of the House of Representatives, and the recommendations of the banking committee were adopted by the full House of Representatives in September 2011. A public hearing on a revised version of the bill was organised by the banking committee on 23 September 2013. The Bill scaled its second reading on the floor of the Senate on 23 January 2014 and has been referred to the Senate Committee on Banking. In addition to providing for the establishment of the sinking fund, the revised version of the Bill seeks to remove contradictions relating to the purchase agreements between AMCON and EFIs, especially with regard to legal impediments to acquiring assets that are *subjudice*. The Bill also seeks to specifically exempt AMCON from paying fees to the SEC in relation to its activities.

In April 2013, another bill, the Asset Management Corporation of Nigeria (Establishment Act) (Amendment) Bill 2013 (the "**2013 Bill**"), was presented before the Senate. The 2013 Bill, which currently awaits its second reading in the Senate, provides for the establishment of a Banking Sector Resolution Cost Fund into which, beginning in 2014, the CBN will contribute ₦50 billion yearly.

Occasionally, both Houses of the National Assembly will deliberate on separate bills involving the same subject simultaneously. Ultimately, a joint committee of both legislative Houses meets to consolidate the separate bills into one bill. Pending the enactment of the AMCON Amendment Bill into law, every licensed bank will be required to contribute an amount equal to 0.5 per cent. of its total assets and another 0.5 per cent. of 33 per cent. of its off balance sheet items as of the date of its audited financial statements.

The Government estimates the total net cost to recapitalise the banks and recover the bad debts and NPLs will be between ₦1 trillion to ₦1.5 trillion, most of which the Government expects to recover from the Banking Sector Resolution Cost Sinking Fund, recoveries from the bad debts and NPLs and dividends paid on any equity capital injected into banks participating in the AMCON scheme.

In May 2013, AMCON announced a plan for repaying or refinancing its ₦5.7 trillion zero coupon AMCON Bonds maturing in 2013 and 2014. Due to successful NPL recoveries and restructuring by AMCON and the cooperation of the Nigerian banks in fulfilling their commitments to the sinking fund, AMCON successfully redeemed its ₦1.0 trillion Series one, two, three and four bonds held by institutions excluding the CBN. AMCON is expected to retire another ₦1.0 trillion of AMCON Bonds in October 2014.

Non-Interest Banking

In 2011, the CBN issued the Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria (the "**NIFI Guidelines**"). The NIFI Guidelines provide the framework for the provision of non-interest banking (particularly Islamic banking) services in Nigeria and the licensing of such institutions. The guidelines focus on non-interest financial institutions operating under the principles of Islamic jurisprudence. Non-interest banking has been the subject of debate in Nigeria as to whether its religious connotations align with the constitutional secularity of the country.

The National Financial Inclusion Strategy

In October 2012, the CBN launched Nigeria's National Financial Inclusion Strategy (the "**NFIS**") aimed at reducing the percentage of adult Nigerians excluded from financial services from 46.3 per cent. as at 2010 to 20 per cent. by 2020. In line with the NFIS, the CBN has developed Agent Banking Guidelines (yet to be operational) and tiered Know Your Customer requirements to encourage financial institutions to reach out to the underserved segments in the society. The CBN has also developed the consumer protection framework to be administered by the Consumer Protection Department of CBN and launched a financial literacy strategy, all geared towards achieving the NFIS.

With the emergence of Islamic banking, increased participation of developmental financial institutions in the banking sector and the full implementation of the NFIS, it is envisaged that more banking products will evolve and saturate the markets.

Credit bureaux in Nigeria

Rising levels of NPLs in the banking sector, coupled with the lack of fully-developed credit bureaux and the need for a central database from which credit information on prospective borrowers could be obtained led to the establishment of the Credit Risk Management System ("**CRMS**") by the CBN. The CRMS aims to gather information on a borrower's credit history from various sources, and analyse the merged information to form a comprehensive credit history for the borrower, which helps in ascertaining the credit worthiness of the borrower. Previously, financial institutions in Nigeria had little information regarding the credit history of borrowers and principally relied on their own internal data or shared data with other financial institutions as a business courtesy.

The CBN Act No. 7 of 2007 empowers the CBN to collect credit information on customers of banks and other financial institutions from any person or credit bureau, and to disclose such information collected as deemed appropriate. The Act also requires banks to obtain credit information from the CBN before granting a loan, advance or credit facility to any customer over ₦1 million or such other sums as may be set from time to time by the CBN. However, the Guidelines for the Licensing, Operations and Regulation of Credit Bureaux and Credit Bureaux Related Transactions in Nigeria issued by the CBN require banks to obtain credit reports from at least two credit bureaux before granting any facility to their customers.

Currently, the CRMS is web-enabled, thus allowing banks and other stakeholders to directly access the CRMS database for the purpose of rendering the statutory returns or conducting status enquiry on borrowers.

In addition, the CBN has also licensed some private credit bureaux to provide credit information to banks and other entities that are registered with the bureau. Through a letter dated 14 November 2013, the CBN informed all credit bureau in Nigeria, banks and other stakeholders of its revision of the existing Guidelines for the Licensing, Operations and Regulation of Credit Bureaux. The guidelines has been renamed "Guidelines for the Licensing, Operations and Regulations of Credit Bureaux and Credit Bureaux Related Transactions in Nigeria". Some of the changes in the new guidelines include a requirement that a data provider give notice to all its customers or potential customers of its duty to report positive and negative credit information to a licensed credit bureau. In addition, the guidelines provide that the consent of the customer who is the subject of the data will not be required where the credit report that is prepared is required by a law enforcement agency, a regulatory body or pursuant to a directive of a regulator or a court order. Furthermore, the guidelines mandate banks to obtain credit reports for quarterly credit reviews on all existing facilities from at least two licensed credit bureaux.

Monetary policy

In an effort to attain bank soundness and manage liquidity effectively, the CBN introduced in 2006 a new framework for monetary policy implementation in the marketplace using the short-term interest rate as its benchmark rate. The benchmark rate, the MPR, serves as an indicative rate for transactions in the interbank money market as well as money market rates. The ultimate goal of the new framework is to achieve a stable value of the Naira through stability in short-term interest rates around the MPR which will be determined and operated by the Monetary Policy Committee. The MPR replaced the then-existing Minimum Rediscount Rate

("**MRR**") and was set at 10.0 per cent. using the then-current rate of inflation and the expected inflation rate outcome of 9.0 per cent. for the 2007 financial year as a guide to ensure that interest rates remain positive in real terms.

The CBN has maintained the MPR at 12 per cent. since 2011 in an effort to tighten money supply and reduce inflationary pressures in the economy. On 24-25 March 2014, the MPC voted to maintain MPR at 12.0 per cent. with a corridor of +/– 200 basis points.

The following table sets out changes in the MPR and the CBN's standing lending rate and standing deposit rates:

	Monetary Policy Rate	Standing Lending Rate	Standing Deposit Rate
		(%)	
1 April 2008	10.00	10.00	0.00
2 June 2008	10.25	10.00	0.00
18 September 2008	9.75	9.75	0.00
8 April 2009	8.00	8.00	0.00
7 July 2009	6.00	8.00	4.00
3 November 2009	6.00	8.00	2.00
2 March 2010	6.00	8.00	1.00
21 September 2010	6.25	8.25	3.25
23 November 2010	6.50	8.25	4.25
25 January 2011	7.50	8.50	4.50
22 March 2011	8.00	9.50	5.50
24 May 2011	8.00	10.00	6.00
26 July 2011	8.75	10.75	6.75
19 September 2011	9.25	11.25	7.25
10 October 2011	12.00	14.00	10.00

Other Policy and Regulatory Considerations

The CBN adopted a "Framework for Risk Based Supervision of Banks in Nigeria", aimed at encouraging individual banks to develop and continuously update their internal risk management systems to ensure that such systems are commensurate with the scope and complexity of the relevant bank's operations and to assist Nigerian banks with the implementation of Basel II. As a result, Nigerian banks have been directed to institute effective risk management systems to enable them to identify, measure, monitor and control risks in their institutions. In line with this framework, the Bank has adopted numerous risk management procedures and controls, which it maintains and continuously reviews to further improve its internal systems and minimise the effect of these risks. The Bank is in compliance with the CBN Prudential Guidelines with respect to risk management and is in the process of upgrading its framework to be in compliance with Basel II, as implemented by the CBN.

In 2004, the Basel Committee on Banking Supervision (the "**Basel Committee**") issued a revised capital adequacy framework ("**Basel II**") to replace the previous Capital Accord issued in 1988 ("**Basel I**"). With regard to the risk weightings to be applied to exposures to sovereign states, Basel II replaced the previous approach by a system that uses both external and internal credit assessments for determining risk weightings. Implementation of a Basel II framework as part of a Nigerian bank's capital management strategies will be complete in June 2014. While the Group has started implementing Basel II since 2008 in principle, the process is ongoing. As a result, the Group's risk management system may not be completely in line with Basel II principles.

In December 2010 and January 2011, the Basel Committee issued its final guidance on a new capital adequacy framework ("**Basel III**"). The reforms under Basel III include increasing the minimum common equity (or equivalent) requirement and applying stricter regulatory adjustments. In addition, banks will be required to maintain, in the form of common equity (or equivalent), a capital conservation buffer. A countercyclical buffer may also be implemented if there is excess credit growth in any given country resulting in a system wide build up of risk. If the Basel III guidelines are implemented in Nigeria in their current form, they could increase the minimum quantity and quality of capital which banks are obliged to maintain.

On 10 December 2013, the CBN issued a circular to all banks and discount houses regarding the implementation of Basel II/III in Nigeria. The circular contains guidance notes on the Regulatory Capital Measurement and Management Framework for the Implementation of Basel II/III for the Nigerian Banking Sector (the "**Basel II/**

III Framework") published by the CBN. The guidance notes specify approaches for quantifying the risk weighted assets for credit risk, market risk and operational risk for the purpose of determining regulatory capital. Although the guidance notes comply significantly with the requirements of Basel II/III accords, certain sections were adjusted to reflect the environmental peculiarities of Nigeria. Under the Basel II/III Framework, the minimum capital requirement is retained at 10 per cent. and 15 per cent. for local and international banks, respectively. The Basel II/III Framework further provides for the timeframe for the implementation of Basel II. The timeframe states that banks are expected to commence a parallel run of both Basel I and II minimum capital adequacy computations based on the requirements of Basel I and II beginning January 2014. The minimum capital adequacy computation under Basel II rules will commence in June 2014, which means that all banks are expected to have fully adopted Basel II rules by June 2014 and no longer using Basel I rules at that time.

With regards to implementation of Basel III, the circular provides that the guidance notes will remain in force during the period of the parallel run of Basel I and II until full adoption of Basel II in June 2014. After that time, the CBN will release additional notes on other approaches for determining regulatory capital and Basel III rules.

In addition, the CBN issued a new circular reviewing the risk weight on certain industry exposures for the purposes of computing capital adequacy ratios in April 2013. Effective from January 2014, the circular states that where a bank's exposure to a particular industry within a sector (as defined by the International Standard Industrial Classification of Economic Sectors issued by the CBN) is in excess of 20 per cent. of the total credit facilities of a bank, the risk weight of the entire portfolio in that industry shall be 150 per cent.

In November 2013, the CBN issued a draft paper where it designated certain Nigerian banks including the Bank as systemically important banks ("**SIBs**"). The draft report also mentions that SIBs would be required to provide an additional one per cent. of capital as a Higher Loss Absorbency (HLA) charge, in addition to the prescribed minimum capital adequacy ratio and meet a liquidity ratio of five per cent. above the minimum requirement currently set at 30 per cent. It is not clear yet if the draft report will be issued as presently drafted.

Prudential Guidelines

As part of its initiative to enhance the quality of banks in Nigeria and with a view to adhering to international best practices, the CBN issued revised prudential guidelines which came into effect on 1 July 2010. The CBN Prudential Guidelines revised the previous guidelines issued in November 1990 and aimed to address various key aspects of banks' operations such as risk management, corporate governance, know-your-customer, anti-money laundering, financing of terrorism and loan loss provisioning. The CBN Prudential Guidelines are required to be regarded as minimum requirements and licensed banks are required to implement more stringent policies and practices to enhance mitigation of risks. In addition to the CBN Prudential Guidelines, the CBN also prescribes certain mandatory ratios that must be maintained by Nigerian banks.

Mandatory Ratios	CBN Maximum/Minimum Mandatory Ratio Requirements
Cash reserve ratio/requirement	12.0 per cent. of deposits to be held at the CBN*
Specified liquidity ratio	30.0 per cent. of deposits
Specified capital adequacy ratio	10.0 per cent. of risk weighted assets
Guaranteed BAS/CPS to shareholders funds	150.0 per cent. of shareholder's funds minimum capital base (inclusive of reserves) of ₦10 billion for regional banks,
Statutory minimum capital base	₦25 billion for national banks, ₦50 billion for international banks
Long term equity investments	25.0 per cent. of paid up capital and statutory reserves
Single exposure limit	20.0 per cent. of shareholders' funds unimpaired by losses
Statutory limit to a single obligor	$33^{1}/_{3}$ per cent. of a bank's off balance sheet engagement
Large exposure limit	Total of all large exposures cannot exceed eight times shareholders' funds unimpaired by losses
Total outstanding exposure to all tiers of government and their agencies	10.0 per cent. of total credit portfolio
FX net open position	1.0 per cent. of shareholders fund
Maximum asset exposure to public sector	10.0 per cent. of total loan book

In July 2013, having expressed concerns over the excess liquidity in the balance sheets of Deposit Money Banks, the CBN announced a revision of the CRR for all public sector deposits (i.e., deposits of all tiers of government, including ministries, departments, agencies and government-owned enterprises) to 50 per cent. At a meeting of the CBN's MPC from 20-21 January 2014, the CRR for all public sector deposits was increased from 50 per cent. to 75 per cent. This increase came into effect on 4 February 2014. The CRR of 12.0 per cent. for private sector deposits remained unchanged. The CBN indicated that the increase became imperative in order to further tighten liquidity owing to increased spending in preparation for the 2015 elections. The CBN stated that the increase in the CRR for public sector deposits was necessary because of the depletion of fiscal buffers following the continuing decline in oil revenue, rundown of reserves and depletion of excess crude oil savings, falling portfolio and FDI inflows, widening gap between the official and the bureau de change foreign exchange rates and creeping increase in core inflation.

The CBN Prudential Guidelines stipulate requirements that must be met by Nigerian banks with regard to classification of assets, disclosure, provisioning and interest accruals. They also set forth the minimum standards that Nigerian banks must meet in these regards, while encouraging banks to implement even more stringent requirements.

The CBN Prudential Guidelines also require licensed banks to review their credit portfolios at least once every quarter and to provide in their audited financial statements an analysis of whether their credit facilities are performing or non-performing. Under the CBN Prudential Guidelines, a credit facility is deemed to be performing if payments of both the principal amount and interest sums are up-to-date in accordance with the agreed terms. A credit facility is considered to be non-performing if (i) interest or principal is due and unpaid for 90 days or more or (ii) interest payments equal to 90 days interest or more have been capitalised, rescheduled or rolled over into a new loan. A non-performing credit facility is reclassified as performing only when the borrower pays the outstanding unpaid interest within 90 days. They also provide for a classification of non-performing credit facilities into sub-standard, doubtful and lost, depending on the number of days for which the principal amount and/or interest sums have remained outstanding. Assessment parameters in this regard include repayment performance and net value of collateral that can be realised.

The CBN Prudential Guidelines further specify that off balance sheet engagements such as letters of credit, bonds and guarantees, indemnities and protracted litigation must also be properly appraised to determine the extent of any likely loss arising from them.

The CBN Code of Corporate Governance prescribes a maximum tenure of ten years for the CEO of every bank. The Bank is in compliance with this directive, with its current CEO having served for approximately three and a half years. Under the CBN Code of Corporate Governance, the CEO shall not qualify for appointment in his former bank or subsidiaries in any capacity until after three years following the expiration of his tenure as CEO.

Non-executive directors may serve a maximum of 12 years on the board of directors of a bank under the CBN Code of Corporate Governance. Additionally, the CBN Code of Corporate Governance requires banks to rotate their firm of external auditors after the expiration of ten years following the auditors' appointment. The auditors shall not be reappointed until an additional ten year period has passed. The Bank will be required to change its auditors, KPMG, by 2020 in compliance with this directive.

The Small and Medium Industries Equity Investment Scheme

Several challenges face SMEs in developing countries, the most significant of which is funding, as banks which constantly seek to minimise their risk profile are not very eager to fund SMEs. With a view to addressing this issue, the Bankers' Committee, a body comprised of chief executives from the CBN and other Nigerian banks, intervened in 2001 with the introduction of the Small and Medium Industries Equity Investment Scheme ("**SMIEIS**").

The SMIEIS commenced in June 2001 as a government initiative for the promotion of SMEs as a vehicle for rapid industrialisation, sustainable economic development, poverty alleviation and employment generation. The SMIEIS sets forth a mandatory requirement that all banks licensed in Nigeria set aside 10.0 per cent. of their annual profit after tax for equity investment in SMEs. In July 2007, however, the CBN announced that participation in the SMIEIS programme would be optional going forward. The participants in the SMIEIS programme are the Nigerian government, the CBN, the Bankers' Committee and individual banks.

The SMIEIS aims to assist with the establishment of new small-and medium-scale projects in certain sectors of the economy including agriculture and allied industries, information technology and telecommunication, manufacturing, educational establishments, services, tourism and leisure, solid minerals, construction and other sectors as determined by the Bankers' Committee.

The SMIEIS was cancelled in 2007 and in March 2010, the CBN established the SMECGS with the objectives of (i) promoting access to credit by SMEs and (ii) fast-tracking the development of the manufacturing SME sector of the Nigerian economy and setting the pace for industrialisation of the Nigerian economy. The CBN acts as the managing agent of the SMECGS and all deposit banks and development finance institutions are eligible to act as participating banks under the SMECGS. The maximum loan amount under the SMECGS is ₦100 million which can be in the form of working capital, overdrafts, term loans for refurbishments or equipment. The CBN provides 80 per cent. guarantee cover of the loan advanced by participating banks to each SMEs.

Legal and Regulatory Developments

The Government is in the process of implementing reforms in the oil and gas, power and shipping sectors, which may have an impact on the Nigerian banking sector. Legislative initiatives behind these reforms include the Nigerian Content Act, the Petroleum Industry Bill currently pending before both houses of the National Assembly and the Cabotage Act. The Nigerian Content Act was enacted in April 2010. Prior to the enactment of the Nigerian Content Act, local content promotion and development in the Nigerian oil and gas industry was loosely regulated. The Nigerian Content Act provides that all operators, contractors and other entities engaged in any operation, business or transaction in the Nigerian oil and gas industry requiring financial services shall retain only the services of Nigerian financial institutions or organisations, except where this is impracticable. The Nigerian Content Act also requires all operators, contractors and sub-contractors to maintain a minimum of 10 per cent. of the total revenue accruing from their Nigerian operations in bank accounts domiciled in Nigeria. The Nigerian Content Act also contains provisions which seek to prioritise the use of Nigerian goods and services in sectors such as insurance and legal services as a first resort. The Cabotage Act contains local content provisions in connection with domestic coastal carriage of cargo and passengers, which are expected to also increase Nigerian entities' requirements for finance and financial services from Nigerian banks.

BOOK ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Bank, the Trustee nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

Book entry systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book entry changes in the Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC makes book entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit the Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book entry ownership of and payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Transfer Agent and any custodian ("**Custodian**") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Transfer Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bank, the Trustee, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

Nigeria

General

The following is a general summary of Nigerian tax consequences as of the date hereof. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder or prospective holder of Notes. In view of its general nature, it should be treated with corresponding caution. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Notes. Except as otherwise indicated, this summary only addresses Nigerian tax legislation, as in effect and in force at the date hereof, as interpreted and applied by the courts or tax authorities in Nigeria, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

Taxation of Noteholders

Under Nigerian law, income accruing in, derived from, brought into, or received in Nigeria in respect of dividends, interest, royalties, discounts, charges or annuities is subject to tax. Interest shall be deemed to be derived from Nigeria if (a) there is a liability to payment of the interest by a Nigerian company or a company in Nigeria regardless of where or in what form the payment is made, or (b) the interest accrues to a foreign company or person from a Nigerian company or a company in Nigeria regardless of whichever way the interest may have accrued.

Interest payments on the Notes to the Noteholders would ordinarily be subject to the withholding tax at the applicable rate and the Issuer would be required to withhold tax on such payments and remit to the Nigerian FIRS. However, the Federal Government has approved a waiver of income tax on all forms of debt instruments and the legislative and administrative processes required to give legal effect to the waivers save for the waiver on capital gains tax have been completed. In this regard the Federal Government of Nigeria has issued the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order 2011, which exempts, among other things, bonds issued by corporate bodies from companies income tax for a period of ten years from the date of the Order (2 January 2012) to 1 January 2022 (if not extended). Therefore, when the Bank issues any Notes, interest payments made by it to the Noteholders will not be subject to withholding tax under Nigerian law where the tenor of the Notes does not exceed the duration of the Order. The Personal Income Tax Act 2004 Cap P8 LFN 2004, as amended by the Personal Income Tax (Amendment) Act No. 20 of 2011 also exempts from taxation any income earned by an individual from, among other things, bonds issued by corporate bodies such as the Bank. However, there is no limitation period for the exemption granted in the Personal Income Tax (Amendment) Act No. 20 of 2011. Thus, interest payments by the Bank to individual Noteholders will not be subject to the withholding tax even after 1 January 2022.

The proceeds from the disposal of corporate bonds issued by Nigerian corporate entities are also exempt from value added tax ("**VAT**") in accordance with the Value Added Tax (Exemption of Proceeds of the Disposal of Government and Corporate Securities) Order 2011. This exemption applies for a period of ten years from the date of the Order, being 2 January 2012 to 1 January 2022 (if not extended). Thus, when the Bank issues the Notes, VAT will not be payable upon a disposal of the Notes during the subsistence of the Order.

In relation to capital gains tax, whilst there is no capital gains tax payable upon the disposal of any Nigerian government securities, stocks or shares in Nigeria under the provisions of the Capital Gains Tax Act Cap C1 LFN 2004 ("**CGT Act**"), there is capital gains tax on disposal of corporate bonds or other debt instruments not issued by the Federal Government of Nigeria. The CGT Act states that any gain paid, used or enjoyed in or in any manner or form transmitted or brought to Nigeria shall be treated as derived from Nigeria for the purposes of the CGT Act. Disposals of the Notes by an individual Noteholder who is in Nigeria for a period or aggregate of the periods in a year of assessment exceeding 182 days will be subject to capital gains tax in Nigeria if any portion of the gain from the disposal is brought into Nigeria even if such individual Noteholder is in Nigeria for a temporary purpose and has no view or intent to establish residence in Nigeria. However capital gains tax may in the future not be levied on gains realised from a disposal of corporate bonds or other non–governmental debt instruments. The Federal Government of Nigeria has approved a waiver of capital gains tax on such gains, but the legislative and administrative processes required to give legal effect to the waiver have not yet been implemented.

In the event that any Notes continue to be outstanding beyond 1 January 2022, interest payments on such Notes may be subject to withholding tax (if held by corporate Noteholders), and to VAT. However, the Issuer has agreed in the Conditions of the Notes to gross up for any withholding or other taxes and pay such additional amounts as shall be necessary to ensure that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been received in respect of the Notes in the absence of the withholding or deduction. See "*Terms and Conditions of the Notes* – Condition 8 *(Taxation)*".

Stamp duties

The Programme Agreement, the Trust Deed, the Agency Agreement and the documents for the issue of any series of Notes are intended to be executed and held outside of Nigeria and are therefore not required to be stamped in Nigeria. However, if it becomes necessary to bring any such documentation into Nigeria for the purpose of admission in evidence before a Nigerian court and enforcement by such courts, the documents will be required to be stamped and will be subject to the payment of the relevant rate of stamp duty, assessed by the Nigerian Commissioner for Stamp Duties, as prescribed by the Stamp Duties Act Cap S8 LFN 2004. Arrangements will need to be made for the payment of stamp duty within 30 days from when the documents are brought into Nigeria.

Stamp duty is payable in Nigeria either on a flat rate or an *ad valorem* basis. Each of the documents, other than the Trust Deed, would be subject to a nominal amount of stamp duty assessed on a flat rate. Based on the schedule to the Stamp Duties Act, the maximum rate of stamp duty payable in Nigeria in respect of security documents securing payment or repayment of money (where the security is not a marketable security transferable by delivery), is 0.375 per cent., levied on an *ad valorem* basis on the sum secured. Based on current practice in Nigeria, it is unclear whether stamp duty will be assessed on the Trust Deed at a flat rate or on an *ad valorem* basis.

Other taxes and duties

Save as set out above, no registration fees, or any other similar documentary tax, charge or duty will be payable by the holders of Notes in respect of, or in connection with the issue of the Notes or with respect to the payment of interest or principal by the Issuer under the Notes.

United States

THE DISCUSSION OF TAX MATTERS IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY PERSON, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL, STATE OR LOCAL TAX PENALTIES, AND WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE PROGRAMME. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON SUCH PERSON'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following summary discusses certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Notes. Except as specifically noted below, this discussion applies only to:

- Registered Notes;
- with a maturity of 30 years or less;
- purchased by U.S. Holders (as defined below);
- purchased on original issuance at their published offer price; and
- that are held as capital assets.

This discussion does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances or to U.S. Holders subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or foreign currencies;
- persons holding Notes as part of a hedging transaction, straddle, conversion transaction or other integrated transaction;
- U.S. Holders whose functional currency is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes; or
- former citizens and residents of the United States.

This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "**Code**"), administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury Regulations all as of the date of this Prospectus and any of which may at any time be repealed, revised or subject to differing interpretation, possibly retroactively so as to result in U.S. federal income tax consequences different from those described below. No rulings have been requested from the U.S. Internal Revenue Service (the "**IRS**") and there can be no guarantee that the IRS would not challenge, possibly successfully, the treatment described below. This discussion does not address any other U.S. federal tax laws rules (such as the alternative minimum tax or the Medicare contribution tax on net investment income) nor does it address any non-U.S. tax rules. Moreover, this summary does not describe the U.S. federal income tax considerations relating to the purchase, ownership or disposition of a Note that is a dual currency note, an index linked interest note, an index linked redemption note, a Note otherwise treated as a "contingent payment debt instrument" (under applicable U.S. Treasury Regulations) or certain "variable rate debt instruments" (under applicable U.S. Treasury Regulations). Persons considering the purchase of the Notes should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under any other U.S. federal laws or the laws of any state, local or non-U.S. taxing jurisdiction.

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organised in or under the laws of the United States or of any state thereof or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partners of partnerships holding Notes should consult with their tax advisers regarding the U.S. federal tax consequences of an investment in the Notes.

Payments of interest

Interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes, provided that the interest is "qualified stated interest" (as defined below). Interest income earned by a U.S. Holder with respect to a Note will constitute foreign source income for U.S. federal income tax purposes, which may be relevant in calculating the U.S. Holder's foreign tax credit limitation. The rules regarding foreign tax credits are complex and prospective investors should consult their tax advisers about the application of such rules to them in their particular circumstances. Special rules governing the treatment of interest paid with respect to original issue discount notes and foreign currency notes are described under "*– Original Issue Discount*," and "*– Foreign Currency Notes*."

Original issue discount

A Note that has an "issue price" that is less than its "stated redemption price at maturity" will be considered to have been issued with original issue discount for U.S. federal income tax purposes (and will be referred to as an "original issue discount Note") unless the Note satisfies a *de minimis* threshold (as described below) or is a short-term Note (as defined below). The "issue price" of a Note generally will be the first price at which a substantial amount of the Notes is sold to the public (which does not include sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers). The "stated redemption price at maturity" of a Note generally will equal the sum of all payments required to be made under the Note other than payments of "qualified stated interest." "Qualified stated interest" is stated interest unconditionally payable (other than in debt instruments of the Issuer) at least annually during the entire term of the Note at a single fixed rate of interest, at a single qualified floating rate of interest or at a rate that is determined at a single fixed formula that is based on objective financial or economic information. A rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the Note is denominated.

If the difference between a Note's stated redemption price at maturity and its issue price is less than a *de minimis* amount, i.e., $^{1}/_{4}$ of 1 per cent. of the stated redemption price at maturity multiplied by the number of complete years to maturity (or weighted average maturity if any amount included in the stated redemption price at maturity is payable before maturity), the Note will not be considered to have original issue discount. U.S. Holders of the Notes with a *de minimis* amount of original issue discount will include this original issue discount in income, as capital gain, on a pro rata basis as principal payments are made on the Note.

U.S. Holders of original issue discount Notes that mature more than one year from their date of issuance will be required to include original issue discount in income for U.S. federal income tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest, regardless of whether cash attributable to this income is received. Under these rules, U.S. Holders generally will have to include in taxable income, increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder may make an election to include in gross income all interest that accrues on any particular Note (including stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium) in accordance with a constant yield method based on the compounding of interest, and generally may revoke such election only with the permission of the IRS (a "**constant yield election**"). If a U.S. Holder makes a constant yield election with respect to a Note with market discount (discussed below), the U.S. Holder will be treated as having made an election to include market discount in income currently over the life of all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which such election applies. U.S. Holders should consult their tax advisers about making this election in light of their particular circumstances.

A Note that matures one year or less from its date of issuance (a "**short-term Note**") will be treated as being issued at a discount and none of the interest paid on the Note will be treated as qualified stated interest regardless of issue price. In general, a cash method U.S. Holder of a short-term Note is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so. Cash method U.S. Holders who do not elect to accrue the discount should include stated interest payments on short-term Notes as ordinary income upon receipt. Cash method U.S. Holders who do elect to accrue the discount and certain other U.S. Holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder who is not required and who does not elect to include the discount in income currently, any gain realised on the sale, exchange, or retirement of the short-term Note will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, those U.S. Holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry short-term Notes in an amount not exceeding the accrued discount until the accrued discount is included in income.

The Issuer may have an unconditional option to redeem, or U.S. Holders may have an unconditional option to require the Issuer to redeem, a Note prior to its stated maturity date. Under applicable regulations, if the Issuer has an unconditional option to redeem a Note prior to its stated maturity date, this option will be presumed to be exercised if, by utilizing any date on which the Note may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Note as the stated redemption price at maturity, the yield on the Note would be lower than its yield to maturity. If the U.S. Holders have an unconditional option to require the Issuer to redeem a Note prior to its stated maturity date, this option will be presumed to be exercised if making the same assumptions as those set forth in the previous sentence, the yield on the Note would be higher than its yield to maturity. If it was presumed that an option would be exercised but it is not in fact exercised, the Note would be treated solely for purposes of calculating original issue discount as if it were redeemed, and a new Note were issued, on the presumed exercise date for an amount equal to the Note's adjusted issue price on that date. The adjusted issue price of an original issue discount Note is defined as the sum of the issue price of the Note and the aggregate amount of previously accrued original issue discount, less any prior payments other than payments of qualified stated interest.

Market discount

If a U.S. Holder purchases a Note (other than a short-term Note) for an amount that is less than its stated redemption price at maturity or, in the case of an original issue discount Note, its revised issue price, the amount of the difference will be treated as market discount for U.S. federal income tax purposes, unless this difference is less than a specified *de minimis* amount.

A U.S. Holder will be required to treat any principal payment (or, in the case of an original issue discount Note, any payment that does not constitute qualified stated interest) on, or any gain on the sale, exchange, retirement or other disposition of a Note, including disposition in certain nonrecognition transactions, as ordinary income to the extent of the market discount accrued on the Note at the time of the payment or disposition unless this market discount has been previously included in income by the U.S. Holder pursuant to an election by the U.S. Holder to include market discount in income as it accrues. An election to include market discount in income as it accrues applies to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which such election applies and may not be revoked without the consent of the IRS. In addition, a U.S. Holder that does not elect to include market discount in income currently may be required to defer, until the maturity of the Note or its earlier disposition (including certain nontaxable transactions), the deduction of all or a portion of the interest expense on any indebtedness incurred or maintained to purchase or carry such Note.

Market discount will accrue on a straight line basis unless a U.S. Holder makes an election with respect to a particular note to accrue on a constant yield basis (as described under "– *Original Issue Discount*"). Such election will result in a deemed election for all market discount bonds acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies.

Acquisition premium and amortisable bond premium

A U.S. Holder who purchases a Note for an amount that is greater than the Note's adjusted issue price but less than or equal to sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest will be considered to have purchased the Note at an acquisition premium. Under the acquisition premium rules, the amount of original issue discount that the U.S. Holder must include in its gross income with respect to the Note for any taxable year will be reduced by the portion of acquisition premium properly allocable to that year.

If a U.S. Holder purchases a Note for an amount that is greater than the stated redemption price at maturity, the U.S. Holder will be considered to have purchased the Note with amortisable bond premium equal in amount to the excess of the purchase price over the amount payable at maturity. The U.S. Holder may elect to amortise this premium, using a constant yield method, over the remaining term of the Note. A U.S. Holder who elects to amortise bond premium must reduce its tax basis in the Note by the amount of the premium amortised in any year. An election to amortise bond premium applies to all taxable debt obligations then owned and thereafter acquired by the U.S. Holder and may be revoked only with the consent of the IRS. Bond premium on a Note held by a U.S. Holder that does not make such an election will decrease the gain or increase the loss otherwise recognized on disposition of the Note. Special rules limit the amortisation of bond premium in the case of Notes subject to certain options, including callable Notes. U.S. Holders should consult their tax advisers about these rules if applicable.

If a U.S. Holder makes a constant yield election (as described under "– *Original Issue Discount*") for a Note with amortisable bond premium, such election will result in a deemed election to amortise bond premium for all of the U.S. Holder's debt instruments with amortisable bond premium.

Sale, exchange or retirement of the notes

Upon the sale, exchange or retirement of a Note, a U.S. Holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the acquisition cost of the Note increased by the amount of original issue discount and market discount included in the Noteholder's gross income and decreased by any bond premium or acquisition premium previously amortised and by the amount of any payment received from the Issuer other than a payment of qualified stated interest. Gain or loss, if any, will generally be U.S. source income for purposes of computing a U.S. Holder's foreign tax credit limitation. For these purposes, the amount realised does not include any amount attributable to accrued but unpaid qualified stated interest on the Note. Amounts attributable to accrued but unpaid qualified stated interest are treated as payments of interest as described under "– Payments of Stated Interest."

Gain or loss realised on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the U.S. Holder has held the Note for more than one year. Exceptions to this general rule apply to the extent of any accrued market discount or, in the case of a short-term Note, to the extent of any accrued discount not previously included in the U.S. Holder's taxable income. See "– *Original Issue Discount*" and "– *Market Discount*." In addition, other exceptions to this general rule apply in the case of foreign currency Notes; see "– *Foreign Currency Notes.*" The deductibility of capital losses is subject to limitations.

Foreign currency notes

The following discussion summarizes the principal U.S. federal income tax consequences to a U.S. Holder of the ownership and disposition of the Notes that are denominated in a specified currency other than the U.S. dollar or the payments of interest or principal on which are determined by reference to a currency other than the U.S. dollar ("**foreign currency Notes**").

The rules applicable to foreign currency Notes could require some or all gain or loss on the sale, exchange or other disposition of a foreign currency Note to be recharacterised as ordinary income or loss. The rules applicable to foreign currency Notes are complex and may depend on the U.S. Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. Holder should make any of these elections may depend on the U.S. Holder's particular U.S. federal income tax situation. U.S. Holders are urged to consult their tax advisers regarding the U.S. federal income tax consequences of the ownership and disposition of foreign currency Notes.

A U.S. Holder who uses the cash method of accounting and who receives a payment of qualified stated interest in a foreign currency with respect to a foreign currency Note will be required to include in income the U.S. dollar value of the foreign currency payment (determined on the date the payment is received) regardless of whether the payment is in fact converted to U.S. dollars at the time, and this U.S. dollar value will be the U.S. Holder's tax basis in the foreign currency.

An accrual method U.S. Holder (or cash method U.S. Holder with respect to original issue discount) will be required to include in income the U.S. dollar value of the amount of interest income, including original issue discount, that has accrued and is otherwise required to be taken into account with respect to a foreign currency Note during an accrual period. The U.S. dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year.

Alternatively, the U.S. Holder described in the preceding paragraph may elect to translate interest income, including original issue discount, into U.S. dollars at the spot rate on the last day in the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the partial accrual period in the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

A U.S. Holder that has accrued interest income as described in either of the two preceding paragraphs will recognise ordinary income or loss with respect to accrued income on the date the corresponding payment is actually received. The amount of ordinary income or loss recognised will equal the difference between the U.S. dollar value of the foreign currency payment determined on the date the payment is received, and the U.S. dollar value that was accrued with respect to the accrual period.

Original issue discount, market discount, acquisition premium and amortisable bond premium on a foreign currency Note are to be determined in the relevant foreign currency. Where the taxpayer elects to include market discount in income currently, the amount of market discount will be determined for any accrual period in the relevant foreign currency and then translated into U.S. dollars on the basis of the average rate in effect during the accrual period. Exchange gain or loss realised with respect to such accrued market discount shall be determined in accordance with the rules relating to accrued interest described above. Accrued market discount (other than market discount currently included in income) taken into account upon the receipt of any partial principal payment or upon the sale, retirement or other disposition of a Note is translated into U.S. dollars at the spot rate on such payment or disposition date.

If an election to amortise bond premium is made, amortisable bond premium taken into account on a current basis shall reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realised on amortised bond premium with respect to any period by treating the bond premium amortised in the period in the same manner as payments on the sale, exchange or retirement of the foreign currency Note, as described below. Any exchange gain or loss will be ordinary income or loss as described below. If the election is not made, any loss realised on the sale, exchange or retirement of a foreign currency Note with amortisable bond premium by a U.S. Holder who has not elected to amortise the premium will be a capital loss to the extent of the bond premium.

Gain or loss realised upon the sale, exchange or retirement of a foreign currency Note that is attributable to fluctuation in currency exchange rates will be ordinary income or loss that will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the payment is received or the Note is disposed of, and (ii) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the U.S. Holder acquired the Note. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on foreign currency Notes described above. The foreign currency gain or loss will be recognised only to the extent of the total gain or loss realised by the U.S. Holder on the sale, exchange or retirement of the foreign currency Note. The source of the foreign currency gain or loss will be determined by reference to the residence of the U.S. Holder on whose books the Note is properly reflected. Any gain or loss realised by these U.S. Holders in excess of the foreign currency gain or loss will be capital gain or loss except to the extent of any accrued market discount or, in the case of short-term Note, to the extent of any discount not previously included in the U.S. Holder's income. U.S. Holders should consult their tax advisers with respect to the tax consequences of receiving payments in a currency different from the currency in which payments with respect to such Note accrue and how to account for the U.S. dollar value of payments made or received upon the acquisition or disposition of Notes.

Information reporting and backup withholding

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes. A U.S. Holder may be subject to U.S. backup withholding on these payments if it fails to provide its tax identification number to the paying agent and comply with certain certification procedures. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

U.S. Holders should consult their tax advisers about any additional reporting obligations that may apply as a result of the acquisition, holding or disposition of the Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A U.S. HOLDER'S PARTICULAR SITUATION. U.S. HOLDERS SHOULD CONSULT THEIR TAX ADVISERS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL OR OTHER TAX LAWS.

Certain ERISA considerations

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") imposes certain requirements on "employee benefit plans" (as defined in ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), prohibit certain transactions involving the assets of an ERISA Plan (Section 4975 of the Code also imposes prohibitions for certain plans that are not subject to Title I of ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "**Plans**")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code. Accordingly, each original or subsequent purchaser or transferee of a Note that is or may become a Plan is responsible for determining that its purchase and holding of such Note will not constitute a prohibited transaction under ERISA or Section 4975 of the Code.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN ERISA IMPLICATIONS OF AN INVESTMENT IN THE NOTES AND DOES NOT PURPORT TO BE COMPLETE. PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR OWN LEGAL, TAX, FINANCIAL AND OTHER ADVISORS PRIOR TO INVESTING IN THE NOTES TO REVIEW THESE IMPLICATIONS IN LIGHT OF SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

EU Savings Directive

Under the European Union Directive on the taxation of savings income (Council Directive 2003/48/EC, the "**EU Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35.0 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information of transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into reciprocal provision of information arrangements or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has published proposals for amendments to the EU Savings Directive, which, if implemented, would amend and broaden the scope of the requirements above. Investors who are in any doubt as to their position should consult their professional advisers.

The Proposed Financial Transaction Tax

The European Commission has published a proposal for a Directive for a common Financial Transaction Tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement dated 1 April 2014 (the "**Programme Agreement**"), agreed with the Bank a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain Dealers participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such Dealers may over allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such Dealers may also elect to cover any such short position by purchasing Notes in the open market. In addition, such Dealers may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under U.K. laws and regulations stabilising activities may only be carried on by the Stabilising Manager and only for a limited period following the Issue Date of the relevant Tranche of Notes.

Transfer restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or *vice versa,* will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (c) it is outside the United States and is not a U.S. person;

(ii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(iii) that, unless it holds an interest in a Regulation S Global Note and is a non-U.S. person located outside the United States, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so only: (i) to the Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available), or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

(iv) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;

(v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;

(vi) that either: (i) it is not acquiring the Note (or a beneficial interest therein) with the assets of an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, any "plan" as defined in and subject to Section 4975 of the Code, any entity whose underlying assets include "plan assets" of any of the foregoing or a U.S. governmental plan, church plan or non-U.S. plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), or (ii) the acquisition, holding and disposition of such Note (or a beneficial interest therein) will not give rise to a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a violation of Similar Law;

(vii) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A "**QUALIFIED INSTITUTIONAL BUYER**" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL "**ACCREDITED INVESTOR**" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN "**INSTITUTIONAL ACCREDITED INVESTOR**"); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS NOTE (OR A BENEFICIAL INTEREST HEREIN), EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

EACH PURCHASER AND TRANSFEREE OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WITH THE ASSETS OF AN "**EMPLOYEE BENEFIT PLAN**" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, ANY "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "**PLAN ASSETS**" OF ANY OF THE FOREGOING OR A U.S. GOVERNMENTAL PLAN, CHURCH PLAN OR NON-US PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL NOT GIVE RISE TO A NONEXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

THIS NOTE AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF THE NOTES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS

ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE OR TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THE NOTES AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(viii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A, in each case in accordance with all applicable U.S. state securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.

EACH PURCHASER AND TRANSFEREE OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WITH THE ASSETS OF AN "**EMPLOYEE BENEFIT PLAN**" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, ANY "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "**PLAN ASSETS**" OF ANY OF THE FOREGOING OR A U.S. GOVERNMENTAL PLAN, CHURCH PLAN OR NON-US PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL NOT GIVE RISE TO A NONEXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW."; and

(ix) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by provided by Section 4(a)(2) or Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form. See "*Form of the Notes*".

The IAI Investment Letter will state, among other things, the following:

(i) that the Institutional Accredited Investor has received a copy of the Base Prospectus and such other information as it deems necessary in order to make its investment decision;

(ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Base Prospectus and the Notes (including those set out in the section "*Transfer Restrictions*" under "*Subscription And Sale and Transfer And Selling Restrictions*" in the Base Prospectus) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions, the Securities Act or any other applicable U.S. state securities laws, and the applicable securities laws of any other jurisdiction;

(iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;

(iv) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

(v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and

(vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.$500,000 (or the approximate equivalent in another Specified Currency) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency) or, in the case of sales to Institutional Accredited Investors, U.S.$500,000 (or the approximate equivalent in another Specified Currency) principal amount of Registered Notes.

Selling restrictions

United States

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury Regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the U.S. Treasury Regulations thereunder.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided by Regulation S ("**Regulation S Notes**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager(s), of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of any Tranche of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.$100,000 (or the approximate equivalent thereof in any other currency). To the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed to furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

United Kingdom

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Nigeria

This Base Prospectus and the Notes have not been and will not be registered with the Nigerian SEC, or under the Nigerian ISA. Further, neither this Base Prospectus nor any other offering material related to the Notes may be utilised in connection with any offering to the public within Nigeria, and the Notes may not be offered or sold within Nigeria to, or for the account or benefit of, persons resident in Nigeria, except to the extent that the Notes have been registered with the Nigerian SEC and its written approval obtained in accordance with the provisions of the Nigerian ISA and other Nigerian securities law and regulations. Accordingly, this Base Prospectus is not directed to, and the Notes are not available for subscription by, any persons within Nigeria.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that, subject to the provisions of the Nigerian ISA and regulations made thereunder, it will not offer, sell or deliver the Notes within Nigeria as part of their distribution at any time.

South Africa

Each Dealer has represented and agreed that:

(a) it has not and will not offer for sale, subscription, sell or transfer, whether directly or indirectly, within the Republic of South Africa, any Notes to any person, company or other juristic person resident in the Republic of South Africa except in accordance with: (i) all South African Reserve Bank Exchange Control Regulations or with the approval of the South African Reserve Bank (where applicable); (ii) the Companies Act, 2008; (iii) the Banks Act, 1990, and the regulations promulgated in terms thereof (including but not limited to the Commercial Paper Regulations); (iv) the Financial Advisory and Intermediary Services Act, 2002; and (v) in circumstances which would not constitute an offer to the public within the meaning of the Companies Act, 2008; and

(b) it shall not offer any Notes for subscription or sell any Notes to any single addressee for an amount of less than R1,000,000.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Bank, the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Bank, the Trustee or the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in a supplement to this Base Prospectus.

GENERAL INFORMATION

Authorisation

The establishment of the Programme was duly authorised by a resolution of the Board of Directors of the Bank dated 12 December 2013. All necessary corporate and regulatory approvals will be obtained by the Bank prior to each issuance of Notes under the Programme.

Listing of Notes

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Irish Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the Central Bank of Ireland for Notes issued under the Programme to be admitted to the Official List and to the Irish Stock Exchange for such Notes to be admitted to trading on the Irish Stock Exchange's regulated market.

Documents available

For the period of 12 months following the date of this Base Prospectus, electronic copies of the following documents will, when published, be available for inspection at the registered office of the Bank and from the specified offices of the Paying Agents for the time being in London:

(i) the constitutional documents of the Bank;

(ii) the consolidated audited annual financial statements of the Bank in respect of the financial years ended 31 December 2013, 2012 and 2011, together with the audit reports prepared in connection therewith;

(iii) the most recently published audited financial statements of the Bank, together with the audit reports prepared in connection therewith;

(iv) the most recently published interim financial statements of the Bank;

(v) the Programme Agreement, the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;

(vi) this Base Prospectus; and

(vii) any future Base Prospectus, Drawdown Prospectuses, information memoranda and supplements including Final Terms to this Base Prospectus and any other documents incorporated herein or therein by reference.

Clearing systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be). In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of such Registered Notes, together with the relevant ISIN and (if applicable) common code, will be specified in the relevant Final Terms or the or the relevant Drawdown Prospectus (as the case may be). If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be).

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B 1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or material change

There has been no significant change in the financial or trading position of the Bank or the Group since 31 December 2013 and there has been no material adverse change in the prospects of the Bank or the Group since 31 December 2013.

Litigation

Except as disclosed in this Base Prospectus in "Description of the Group—Legal Proceedings" on page 115, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.

Auditors

The auditors of the Bank are KPMG Professional Services, member of the Institute of Chartered Accountants of Nigeria, who have audited the Bank's consolidated financial statements, in accordance with International Standards on Auditing as of and for each of the financial years ended 31 December 2013, 2012 and 2011.

The auditors do not have any material interest in the Bank.

Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the notes and is not itself seeking admission of the notes to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.

Dealers transacting with the Bank

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Bank and the Bank's affiliates in the ordinary course of business.

INDEX TO FINANCIAL STATEMENTS

ZENITH BANK PLC AND SUBSIDIARY COMPANIES
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

DIRECTORS, OFFICERS & PROFESSIONAL ADVISERS

Directors

Sir Steve Omojafor	-	Chairman
Godwin Emefiele	-	Managing Director
Babatunde Adejuwon	-	Non-Executive Director
Alhaji Baba Tela	-	Non-Executive Director/ Independent
Prof. Chukuka Enwemeka	-	Non-Executive Director
Mr. Jeffrey Efeyini	-	Non-Executive Director
Chief (Mrs) Chinyere Asika	-	Non-Executive Director/ Independent
Dr Haruna Usman Sanusi	-	Non-Executive Director/ Independent
Udom Emmanuel	-	Executive Director
Peter Amangbo	-	Executive Director
Ms. Adaora Umeoji	-	Executive Director
Ebenezer Onyeagwu	-	Executive Director

Company Secretary
Michael Osilama Otu

Registered Office
Zenith Bank Plc
Zenith Heights
Plot 87, Ajose Adeogun Street
Victoria Island
Lagos.

Auditors
KPMG Professional Services
KPMG Tower
Bishop Aboyade Cole street
Victoria Island
Lagos

Registrar & Transfer Office
Veritas Registrars Limited (formerly Zenith Registrars Limited)
Plot 89 A, Ajose Adeogun Street
Victoria Island
Lagos.

Zenith Bank Plc
Index To The Consolidated And Separate Financial Statements
For The Year Ended 31 December 2013

The directors present their annual report on the affairs of Zenith Bank Plc ("the Bank") and its subsidiaries (together "the Group"), together with the financial statements and auditor's report for the year ended 31 December, 2013.

a. Legal Form

The Bank was incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability company on 30 May,1990. It was granted a banking licence in June 1990, to carry on the business of commercial banking and commenced business on 16 June 1990. The Bank was converted into a Public Limited Liability Company on 20 May 2004. The Bank's shares were listed on the 21 October 2004 on the floor of the Nigerian Stock Exchange.

b. Principal Activities and Business Review

The principal activity of the Bank is the provision of banking and other financial services to corporate and individual customers. Such services include granting of loans and advances, corporate finance and money market activities.

The Bank has eleven subsidiary companies namely, Zenith Bank (Ghana), Zenith Bank (UK) Limited, Zenith Bank (Sierra Leone) Limited, Zenith Bank (Gambia) Limited, Zenith General Insurance Company Limited, Zenith Life Assurance Company Limited, Zenith Medicare Limited, Zenith Pension Custodian Limited, Zenith Capital Limited, Zenith Securities Limited and Zenith Trustees Limited.

In line with regulatory directives on the scope of banking operations in Nigeria, the Bank has elected to discontinue its non-core banking operations with the exception of Pension Custodianship. Accordingly, non-core banking subsidiaries which have not been disposed of have been accounted for as discontinued operations in line with IFRS 5. These non-core banking subsidiaries are the Insurance operations (Zenith General Insurance Company Limited, Zenith Life Assurance Company Limited, Zenith Medicare Limited) and the capital market operations (Zenith Capital Limited, Zenith Securities Limited and Zenith Trustees Limited). For the insurance operations, discussion with the potential buyers is in an advanced stage with certain commitments such as sale agreements and shareholders' agreement already in place. The transaction is expected to be fully completed and the subsidiaries within the insurance operation are expected to be de-recognized before the end of the first half of 2014. For the subsidaries within the capital market operations, a restructuring of their balance sheets was concluded in December 2013 and the final sale to the identified investors is expected to be concluded before the end of the first half of 2014.

The Group does not have any unconsolidated structured entity.

c. Operating Results

Gross earnings of the Group increased by 14% and profit before tax increased by 8% respectively. Highlights of the Group's operating results for the year under review are as follows:

	2013 **N'million**	**2012** **N'million**
Profit before tax (continuing and discontinued operations)	110,597	102,100
Taxation (continuing and discontinued operations)	(15,279)	(1,419)
Profit after taxation (continuing and discontinued operations)	95,318	100,681
Non- controlling interest	(742)	(534)
Profit attributable to equity holders of the parent	94,576	100,147
Appropriations:		
Transfer to statutory reserve	12,563	14,994
Transfer to contingency reserve	374	245
Transfer to retained earnings reserve	81,639	84,908
	94,576	100,147
Non-performing loan ratio	3.0%	3.1%

Dividends

TThe Board of Directors, pursuant to the powers vested in it by the provisions of section 379 of the Companies and Allied Matters Act (CAMA) of Nigeria, proposed a dividend of N1.75 kobo per share (December 2012: N1.60 kobo per share) from the retained earnings account as at 31 December 2013. This is subject to approval by shareholders at the next Annual General Meeting.

If the proposed dividend is approved by the shareholders, the Bank will be liable to pay additional corporate tax estimated at N13.8 billion, which represents the difference between the tax liability calculated at 30% of the dividend approved and the minimum tax charge reported in the statement of comprehensive income for year ended 31 December 2013.

Payment of dividends is subject to withholding tax at a rate of 10% in the hand of recipients.

d. Directors' Shareholding

The direct interests of directors in the issued share capital of Zenith Bank as recorded in the register of directors shareholding and/or as notified by the directors for the purposes of sections 275 and 276 of the Companies and Allied Matters Act and the listing requirements of the Nigerian Stock Exchange are as follows:

		Number of Shareholding	
Name	**Designation**	**2013**	**2012**
Sir Steve Omojafor	Chairman	4,466,036	4,447,563
Godwin Emefiele	Group Managing Director/CEO	46,700,792	44,700,792
Babatunde Adejuwon	Non-Executive Director	3,752,853	3,752,853
Alhaji Baba Tela	Non Executive Director / Independent	250,880	250,880
Alhaji Lawal Sani **	Non Executive Director / Independent	-	-
Mr. Jeffrey Efeyini	Non-Executive Director	197,400	197,400
Prof. Chukuka Enwemeka	Non-Executive Director	127,137	127,137
Chief (Mrs) Chinyere Asika	Non Executive Director / Independent	95,757	-
Dr Haruna Usman Sanusi *	Non Executive Director / Independent	-	-
Peter Amangbo	Executive Director	5,000,000	5,000,000
Elias Igbinakenzua **	Executive Director	11,401,341	11,401,341
Andy Ojei **	Executive Director	8,122,074	9,522,074
Udom Emmanuel ***	Executive Director	7,110,308	7,110,308
Ms. Adaora Umeoji	Executive Director	20,035,604	25,949,887
Ebenezer Onyeagwu *	Executive Director	2,000,000	-

* Appointed by the Board on April 24, 2013 and approved by the Central Bank of Nigeria (CBN) on June 25, 2013.

** Retired with effect from July 24, 2013.

*** On leave of absence with effect from July 31, 2013.

e. Directors' Interests in Contracts

For the purpose of section 277 of the Companies and Allied Matters Act, none of the existing directors had direct or indirect interest in contracts or proposed contracts with the Bank during the year.

f. Acquisition of Own Shares

The shares of the Bank are held in accordance with the Articles of Association of the Bank. The Bank has no beneficial interest in any of its shares.

g. Property and Equipment

Information relating to changes in property and equipment is given in Note 27 to the financial statements. In the opinion of the directors, the market value of the Group's properties is not less than the value shown in the financial statements.

h. Shareholding Analysis

The shareholding pattern of the Bank as at 31 December 2013 is as stated below:

Share Range	No. of Shareholders	Percentage of Shareholders (%)	Number of Holdings (%)	Percentage Holdings (%)
1-9,999	547,119	83.13%	1,676,928,030	5.34%
10,000 - 50,000	88,210	13.40%	1,809,701,360	5.76%
50,001 - 1,000,000	21,758	3.31%	3,284,733,586	10.46%
1,000,001 - 5,000,000	782	0.12%	1,640,586,902	5.23%
5,000,001 - 10,000,000	132	0.02%	913,513,381	2.91%
10,00,001 - 50,00,000	125	0.02%	2,578,251,111	8.21%
50,00,001 - 100,000,000	28	0.00%	2,095,421,405	6.67%
100,000,001 - 500,000,000	23	0.00%	4,723,471,330	15.04%
500,000,001 - 1,000,000,000	3	0.00%	1,845,907,290	5.88%
Above 1,000,000,000	5	0.00%	10,827,979,391	34.50%
	658,185	**100.00%**	**31,396,493,786**	**100.00%**

The shareholding pattern of the Bank as at 31 December 2012 is as stated below:

Share Range	No. of Shareholders	Percentage of Shareholders (%)	Number of Holdings (%)	Percentage Holdings (%)
1-9,999	551,582	82.65%	1,714,937,257	5.46%
10,000 - 50,000	91,740	13.75%	1,885,285,543	6.00%
50,001 - 100,000	10,914	1.64%	757,374,308	2.41%
100,001 - 500,000	11,054	1.66%	2,069,814,212	6.59%
500,001 - 1,000,000	916	0.14%	644,079,303	2.05%
1,000,001 - 5,000,000	873	0.13%	1,864,323,308	5.94%
5,000,001 - 10,000,000	142	0.02%	999,376,950	3.18%
10,00,001 - 50,00,000	126	0.02%	2,516,751,236	8.02%
50,00,001 - 100,00,000	24	0.00%	1,759,195,224	5.60%
100,000,001 - 500,000,000	28	0.00%	6,084,636,747	19.38%
500,000,001 - 1,000,000,000	3	0.00%	1,613,347,555	5.14%
Above 1,000,000,000	5	0.00%	9,487,372,143	30.22%
	667,407	**100.00%**	**31,396,493,786**	**100.00%**

i. Substantial Interest in Shares

According to the register of members at 31 December 2013, the following shareholders held more than 5.0% of the issued share capital of the Bank.

	Number of Shares Held	Percentage Holdings (%)
Jim Ovia	2,946,199,395	9.38%
Stanbic Nominees Nigeria Limited/C001 - TRAD	2,901,359,725	9.24%
Stanbic Nominees Nigeria Limited/C002 - TRAD	2,353,437,304	7.50%

According to the register of members at 31 December 2012, the following shareholders held more than 5.0% of the issued share capital of the Bank.

	Number of Shares Held	Percentage Holdings (%)
Jim Ovia	2,747,223,748	8.75%
Stanbic Nominees Nigeria Limited/C001 - TRAD	2,578,440,480	8.21%
Stanbic Nominees Nigeria Limited/C002 - TRAD	1,772,836,681	5.65%

j. Donations and Charitable Gifts

The Bank made contributions to charitable and non-political organisations amounting to N 856 million during the year (2012: N 587 million)

The beneficiaries are as follows:

	N' million
Federal Government Flood Disaster Fund	300
Delta State ICT Centre	62
Lagos State Security Trust Fund	50
Delta State Football Association	26
Day Waterman College Indigent Student Scholarship Fund	20
African Youth Athletics Championship	20
Edo State Security Fund	20
Jesuit Fathers of Nigeria Youth Development	20
Government Science Secondary School -Kuru Jos Plateau State	15
Musical Society of Nigeria	9
Adamawa State Windstorm Disaster Relief Fund	5
Project 52 Mobile Health Center	5
Others below N5 million	304
	856

k. Post Balance Sheet Events

There were no significant events after the balance sheet date that could affect the reported amount of assets and liabilities as of the balance sheet date.

l. Human Resources

i. Employment of Disabled Persons

The Bank continues to maintain a policy of giving fair consideration to the application for employment made by disabled persons with due regard to their abilities and aptitude. The Bank's policy prohibits discrimination against disabled persons in the recruitment, training and career development of its employees. In the event of members of staff becoming disabled, efforts will be made to ensure that their employment continues and appropriate training arranged to ensure that they fit into the Bank's working environment.

ii. Health, Safety and Welfare at Work

The Bank enforces strict health and safety rules and practices at the work environment, which are reviewed and tested regularly. The Bank retains top-class private hospitals where medical facilities are provided for staff and their immediate families at the Bank's expense.

Fire prevention and fire-fighting equipment are installed in strategic locations within the Bank's premises.

The Bank operates both a Group Personal Accident and the Workmen's Compensation Insurance covers for the benefit of its employees. It also operates a contributory pension plan in line with the Pension Reform Act.

iii. Employee Training and Development

The Bank ensures, through various fora, that employees are informed on matters concerning them. Formal and informal channels are also employed in communication with employees with an appropriate two-way feedback mechanism.

In accordance with the Bank's policy of continuous development, training facilities are provided in our well-equipped training centres. In addition, employees of the Bank are nominated to attend both locally and internationally organized courses. These are complemented by on-the-job training.

iv. Gender Analysis of Staff

The average number of employees of the Bank during the year by gender and level is as follows;

(a) Analysis of total employees

	Gender			Gender	
	Male	**Female**	**Total**	**Male**	**Female**
	Number			**Percentage**	
Employees	3,469	3,146	6,615	52%	48%

(b) Analysis of board and top management staff

	Gender			Gender	
	Male	**Female**	**Total**	**Male**	**Female**
	Number			**Percentage**	
Board Members (Executive and Non Executive Directors)	9	2	11	82%	18%
Top Management Staff (AGM-GM)	62	21	83	75%	25%
	71	**23**	**94**	**76%**	**24%**

(c) Further analysis of board and top mangement staff

	Gender			Gender	
	Male	Female	Total	Male	Female
	Number			Percentage	
Assistant General Managers	27	13	40	68%	33%
Deputy General Managers	16	2	18	89%	11%
General Managers	19	6	25	76%	24%
Board Members (Non Executive Directors)	6	1	7	86%	14%
Board Members (Executive Directors excluding MD/CEO)	2	1	3	67%	33%
Managing Director/CEO	1	-	1	100%	0%
	71	23	94	76%	24%

m. Auditors

The auditors, Messrs. KPMG Professional Services have indicated their willingness to continue in office as auditors in accordance with Section 357 (2) of the Companies and Allied Matters Act, 1990.

By Order of the Board

Michael Osilama Otu
Company Secretary
FRC/2013/MULTI/00000001084

a. Introduction

As a major player in the Nigerian financial services industry, Zenith Bank has an effective governance system that ensures proper over-sight of its business by the Directors and other principal organs of the bank.

b. Shareholding

The Bank has a large and diversified shareholder base. No single individual ultimate beneficiary holds more than 9.5% of the Bank's total shares.

c. Board of Directors

The Board is responsible for driving the governance structure of the Bank. Besides possessing the requisite academic qualifications and experience in Board affairs, Directors are well abreast of their responsibilities and are conversant with the Bank's business. They are therefore able to exercise sound judgment on matters relating to its business.

d. Board Structure

The board is made up of a non-executive Chairman, six (6) non-executive Directors and five (5) executive Directors including the GMD/CEO. Three (3) of the non-executive Directors are independent directors, appointed in compliance with the Central Bank of Nigeria (CBN) circular on appointment of independent directors by banks.

The Managing Director/Chief Executive is responsible for the day to day running of the Bank, assisted by the Executive Committee (EXCO).

e. Responsibilities of the Board

The Board is responsible for:

• Reviewing and providing guidance for the bank's corporate and business strategy, major plans of action and risk policy.

• Overseeing major capital expenditures, acquisitions and divestitures.

• Review and approval of annual budgets and business plans; setting performance objectives, monitoring implementation and corporate performance.

• Overseeing major capital expenditures, acquisitions and divestitures.

• Providing oversight of senior management.

• Monitoring the effectiveness of the governance practices under which the bank operates and making appropriate changes as necessary.

• Ensuring the integrity of the bank's accounting and financial reporting systems, including the independent audit and that appropriate systems of control and risk monitoring are in place.

• Establishment of the various Committees of the bank including the terms of reference and review of reports of such Committees to address key areas of the bank's business

The membership of the Board during the year is as follows:

Board of Directors

NAME	POSITION
Sir. Steve Omojafor	Chairman
Mr. Babatunde Adejuwon	Non Executive Director
Alhaji Baba Tela	Non Executive Director / Independent
Mr. Lawal Sani **	Non Executive Director / Independent
Mr. Jeffrey Efeyini	Non Executive Director
Prof. Chukuka S. Enwemeka	Non Executive Director
Chief (Mrs) Chinyere Asika	Non Executive Director / Independent
Dr. Haruna Usman Sanusi *	Non Executive Director / Independent
Mr. Elias Igbinakenzua **	Executive Director
Mr. Peter Amangbo	Executive Director
Mr. Andy Ojei **	Executive Director
Mr. Udom Emmanuel (***)	Executive Director
Ms. Adaora Remy Umeoji	Executive Director
Mr. Ebenezer Onyeagwu *	Executive Director
Mr. Godwin Emefiele	Group Managing Director / Chief Executive Officer

* Appointed by the Board on April 24, 2013 and approved by the Central Bank of Nigeria (CBN) on June 25, 2013.

** Retired with effect from July 24, 2013

*** On leave of absence with effect from July 31, 2013.

The Board meets at least every quarter but may hold extra-ordinary sessions to address urgent matters requiring the attention of the Board.

f. Board Committees

The Board carries out its oversight functions using its various Board Committees. This makes for efficiency and allows for a deeper attention to specific matters for the board. The Committees are set up in line with statutory and regulatory requirements and consistent with global best practice.

Membership of the Committees of the Board is intended to make the best use of the skills and experience of non-executive directors in particular.

The Committees have well defined terms of reference and Charters defining their scope of responsibilities in such a way as to avoid overlap or duplication of functions.

The Committees of the Board meet quarterly but may hold extraordinary sessions as business of the bank demand.

The following are the current standing Committees of the Board:

i. Board Credit Committee

The Committee is made up of six (6) members comprising three (3) non Executive Directors and three (3) Executive Directors of the bank. The Board Credit Committee is chaired by a non-Executive Director who is well versed in credit matters. The Committee considers loan applications above the level of Management Credit Committee. It also determines the credit policy of the bank or changes therein.

The membership of the Committee during the year is as follows:

Mr. Jeffrey Efeyini – (Chairman)

Mr. Babatunde Adejuwon

Alhaji Baba Tela

Alhaji Lawal Sani **

Mr. Elias Igbinakenzua **

Mr. Peter Amangbo

Mr. Ebenezer Onyeagwu *

Mr. Godwin Emefiele

** Retired with effect from July 24, 2013

* Appointed with effect from April 24, 2013

Committee's Terms of Reference

• To recommend criteria by which the Board of Directors can evaluate the credit facilities presented from various customers.

• To review the credit portfolio of the Bank.

• To consider all credit facilities above Management approval limit.

• To establish and periodically review the Bank's credit portfolio in order to align organizational strategies, goals, and performance.

• To evaluate on an annual basis the components of total credit facilities as well as market competitive data and other factors as deemed appropriate, and to determine the credit level based upon this evaluation.

• To make recommendations to the Board of Directors with respect to credit facilities based upon performance, market competitive data, and other factors as deemed appropriate.

• To recommend to the Board of Directors, as appropriate, new credit proposals, restructure plans, and amendments to existing plans.

• To select and retain independent experts and consultants in the field of credit analysis subject to Board's approval, to advise with respect to market data and assist the Committee with its duties, and to approve fees and set terms of engagement for such consultants.

• To report to the entire Board at such times as the Committee and Board shall determine, but not less than every quarter.

• To perform such other duties and responsibilities as the Board of Directors may assign from time to time.

• To recommend non-performing credits for write-off by the Board.

ii. Staff Matters, Finance and General Purpose Committee

This Committee is made up of six (6) members: three (3) non Executive Directors and three (3) Executive Directors. It is chaired by a non-executive Director. The Committee considers large scale procurement by the Bank, as well as matters bordering on staff welfare, discipline, staff remuneration and promotion.

The membership of the Committee is as follows:

Alhaji Baba Tela – (Chairman)
Mr. Lawal Sani **
Chief (Mrs) Chinyere Asika
Prof. Chukuka Enwemeka
Mr. Peter Amangbo
Mr. Andy Ojei **
Ms. Adaora Umeoji
Mr. Godwin Emefiele

** Retired with effect from July 24, 2013

Committee's Terms of Reference

• Review of all matters relating to staff welfare, including remuneration of staff, and Executive Management;

• Consideration of all large scale procurement to be made by the Bank;

• Review of contracts award for significant expenditures;

• Consideration of promotions of Senior Management staff of the Bank;

• Any other matter that may be referred to it by the Board.

iii. Risk Management Committee:

The Board Risk Management Committee has oversight responsibility for the overall risk assessment of various areas of the Bank's operations and compliance.

The Chief Risk Officer have access to this Committee and makes quarterly presentations for the consideration of the Committee. Chaired by Mr. Adejuwon (a non executive Director), the Committee's membership comprises the following:

Mr. Babatunde Adejuwon – (Chairman)

Mr. Jeffrey Efeyini

Mr. Lawal Sani **

Dr. Haruna Usman Sanusi *

Prof. Chukuka Enwemeka

Mr. Andy Ojei **

Mr. Udom Emmanuel (***)

Mr. Godwin Emefiele

* Appointed by the Board on April 24, 2013 and approved by the Central Bank of Nigeria (CBN) on June 25, 2013.

** Retired with effect from July 24, 2013

*** On leave of absence with effect from July 31, 2013.

Committee's Terms of Reference

• The primary responsibility of the Committee is to 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.

• Design and implement risk management practices, specifically provide ongoing guidance and support for the refinement of the overall risk management framework and ensuring that best practices are incorporated;

• Ensure that Management understands and accepts its responsibility for identifying, assessing and managing risk;

• Ensure and monitor risk management practices, specifically determine which enterprise risks are most significant and approve resource allocation for risk monitoring and improvement activities, assign risk owners and approve action plans;

• Periodically review and monitor risk mitigation process and periodically review and report to the Board of Directors:

(a) magnitude of all material business risks;

(b) the processes, procedures and controls in place to manage material risks; and

(c) the overall effectiveness of the risk management process;

• Facilitate the development of a comprehensive risk management framework for the Bank and develop the risk management policies and processes and enforce its compliance.

• To establish and periodically review the bank's risk portfolio in order to align organizational strategies, goals, and performance.

• To evaluate on a periodic basis the components of risk as well as market competitive data and other factors as deemed appropriate, and to determine the risk level based upon this evaluation.

• To select and retain independent experts and consultants in the field of risk analysis subject to Board's approval, to advise with respect to market data and assist the Committee with its duties, and to approve fees and set terms of engagement for such consultants.

• To report to the entire Board at such times as the Committee and Board shall determine, but not less than twice a year.

• To perform such other duties and responsibilities as the Board of Directors may assign from time to time.

iv. Audit Committee

The Committee is established in line with Section 359(6) of the Companies and Allied Matters Act, 1990. The Committee's membership consists of three (3) representatives of the shareholders elected at the Annual General Meeting (AGM) and three (3) non-executive Directors. The Committee meets every quarter, but could also meet at any other time, should the need arise.

The membership of the Committee is as follows:

Shareholders' Representative

Alhaji Hamis B. Musa – (Chairman)

Mr. Michael Olusoji Ajayi

Ms. Angela Agidi

Non Executive Directors

Mr. Babatunde Adejuwon

Alhaji Lawal Sani **

Chief (Mrs) Chinyere Asika *

Mr. Jeffrey Efeyini

* Appointed by the Board to the Committee on October 24, 2013 to replace Mr. Lawal Sani who retired from the Board with effect from July 24, 2013.

** Retired from the board with effect from July 24, 2013

Committee's Terms of Reference

• To meet with the independent Auditors, Chief Financial Officer, Internal Auditor and any other Bank executive both individually and/or together, as the Committee deems appropriate at such times as the Committee shall determine to discuss and review:

• the terms of engagement for the independent auditors, the scope of the audit, and the procedures to be used;

• the bank's quarterly and audited annual financial statements, including any related notes, the bank's specific disclosures and discussion under "Managements Control Report" and the independent auditors' report, in advance of publication;

• the performance and results of the external and internal audits, including the independent auditors' management letter, and management's responses thereto;

• the effectiveness of the bank's system of internal controls, including computerized information systems and security; any recommendations by the independent auditor and internal auditor regarding internal control issues and any actions taken in response thereto; and, the internal control certification and attestation required to be made in connection with the bank's quarterly and annual financial reports;

• such other matters in connection with overseeing the financial reporting process and the maintenance of internal controls as the Committee shall deem appropriate.

• To actively engage in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and to take appropriate action in response to the independent auditors' report to satisfy itself of the independent auditors' independence; to periodically evaluate the independent auditor's qualifications and performance including a review of the lead partner, taking into account the opinion of management and the internal auditor.

• To review critical accounting policies and financial statement presentation; to discuss with management and the independent auditors significant financial reporting issues and judgments made in preparation of the Bank's financial statements including the effect of alternative accounting methods; to review major changes in accounting policies.

• To initiate, at its discretion, investigations within the parameters of its responsibilities.

• To prepare the Committee's report for inclusion in the bank's annual report.

• To report to the entire Board at such times as the Committee shall determine.

• To conduct an annual evaluation of the Committee's performance.

v. Executive Committee (EXCO)

The EXCO comprises of the Managing Director, who chairs it and all Executive Directors. The Committee meets twice weekly (or such other times as business exigency may require) to deliberate and take policy decisions on the effective and efficient management of the bank. It also serves as a processing unit for issues to be discussed at the Board level. EXCO's primary responsibility is to ensure the implementation of strategies approved by the Board, provide leadership to the Management team and ensure efficient deployment and management of the bank's resources. Its Chairman is responsible for the day-to-day running and performance of the bank.

vi. Other Committees

In addition to the afore-mentioned Committees, the Bank has in place, other Standing Management Committees. They include:

(a) Management Committee (MANCO)
(b) Assets and Liabilities Committee (ALCO)
(c) Management Global Credit Committee (MGCC)
(d) Risk Management Committee (RMC)
(e) Information Technology (IT) Steering Committee

(a) Management Committee

The Management Committee comprises the senior management of the Bank and has been established to identify, analyse, and make recommendations on risks arising from day-to-day activities. They also ensure that risk limits as contained in the Board and Regulatory policies are complied with. Members of the management committee make contributions to the respective Board Committees and also ensure that recommendations of the Board Committees are effectively and efficiently implemented. They meet weekly and as frequently as the need arises.

(b) Assets and Liabilities Committee (ALCO)

The ALCO is responsible for the management of 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. The members of the Committee include the Managing Director, Executive Directors, the Treasurer, the Head of Financial Control, Group Head, Risk Management Group and a representative of the Assets and Liability Management Unit. A representative of the Asset and Liability Management Department serves as the secretary of this Committee.

(c) Global Credit Committee

The Management Global Credit Committee is responsible for ensuring that the Bank complies with the Credit Policy Guide as established by the Board. The Committee also makes contributions to the Board Credit Committee. The Committee can approve credit facilities to individual obligors not exceeding in aggregate a sum as pre-determined by the Board from time to time. The Committee is responsible for reviewing and approving extensions of credit, including one-obligor commitments that exceed an amount as may be determined by the Board. The Committee meets weekly or fortnightly depending on the number of credit applications to be considered. The members of the Committee include the Managing Director, and all divisional and group heads, including the Executive Directors.

The committee reviews the entire credit portfolio of the Bank and conducts periodic assessment of the quality of risk assets in the Bank. It also ensures that adequate monitoring of performance is carried out. The secretary of the committee is the Head of the Credit Administration Department.

(d) Risk Management Committee

This Committee is responsible for regular analysis and consideration of risks other than credit risk in the Bank. It meets [at least monthly or as the need arises] to review environmental and other risk issues and policies affecting the Bank and recommend steps to be taken. The Committee's approach is entirely risk based. The Committee makes contributions to the Board Risk Management Committee and also ensures that the Board Risk Committee's decisions and policies are implemented. The members of the Committee include the Managing Director, two Executive Directors and all divisional and group heads.

(e) Information Technology Steering Committee

The Information Technology 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 organization.

Membership of the Committee is as follows:

(1) The Managing Director/Chief Executive

(2) Two (2) Executive Directors

(3) Head of Treasury

(4) Head of Trade Services

(5) Marketing Groups Representatives

(6) Chief Inspector

(7) Chief Risk Officer

(8) Head of IT

(9) Head of Infotech - Software

(10) Head of Infotech - Enginering

(11) Head of Card Services

(12) Head of Operations

(13) Head of IT Audit

(14) Head of e-Business

(15) Head of Investigation

The Committee meets monthly or as the need arises.

BOARD AND BOARD COMMITTEES MEETINGS

The table below shows the frequency of meetings of the Board of Directors, Board Committees and members' attendance at these meetings during the year under review.

	Board	Credit Committee	Staff Matters, Finance & General Purpose Committee	Risk Management Committee
Directors				
Number of Meetings	**4**	**4**	**4**	**4**
Attendance				
Sir Steve Omojafor	4	N/A	N/A	N/A
Mr. Babatunde Adejuwon	4	4	N/A	4
Alhaji Baba Tela	4	4	4	N/A
Alhaji Lawal Sani **	3	N/A	3	3
Mr. Jeffrey Efeyini	4	4	N/A	4
Prof. Chukuka S.Enwemeka	4	N/A	4	4
Chief (Mrs) Chinyere Asika *	4	N/A	3	N/A
Dr. Haruna Usman Sanusi *	2	N/A	N/A	1
Mr. Elias Igbinakenzua **	3	3	N/A	N/A
Mr. Peter Amangbo	4	3	4	N/A
Mr. Andy Ojei **	3	N/A	3	3
Mr. Udom Emmanuel (***)	3	N/A	N/A	3
Ms. Adaora Umeoji	4	N/A	3	N/A
Mr. Ebenezer Onyeagwu *	2	1	N/A	N/A
Mr. Godwin Emefiele	4	4	4	4

Note:

* Appointed by the Board on April 24, 2013 and approved by the Central Bank of Nigeria (CBN) on June 25, 2013

* * Retired from the Board with effect from July 24, 2013.

*** On leave of absence with effect from July 31, 2013.

N/A Not Applicable (not a Committee member).

The table below shows the frequency of meetings of the Audit Committee and members' attendance at these meetings during the year under review.

Members	**Audit committee**
Number of Meetings	4
Attendance	
Alhaji Hamis B. Musa	4
Mr. Michael Olusoji Ajayi	4
Ms. Angela Agidi	4
Mr. Babatunde Adejuwon	4
Mr. Jeffrey Efeyini	4
Alhaji Lawal Sani **	3
Chief (Mrs) Chinyere Asika *	-

* Appointed by the Board to the Committee on October 24, 2013 to replace Mr. Lawal Sani who retired from the Board with effect from July 24, 2013.

** Retired from the board with effect from July 24, 2013

f. Relationship with Shareholders

Zenith Bank maintains an effective communication with its shareholders, which enables them understand our business, financial condition and operating performance and trends. Apart from our annual report and accounts, proxy statements and formal shareholders' meetings, we maintain a rich website (with suggestion boxes) that provide information on a wide range of issues for all stakeholders.

The Bank has an Investors Relations Unit which holds regular forum to brief all stakeholders on operations of the Bank.

The Bank also, from time to time, holds briefing sessions with market operators (stockbrokers, dealers, institutional investors, issuing houses, stock analysts, mainly through investors conference) to update them with the state of our business. These professionals, as advisers and purveyors of information, relate with and relay to the shareholders useful information about us. We also regularly brief the regulatory authorities, and file statutory returns which are usually accessible to the shareholders.

g. Disclosure Of Customer Complaints In Financial Statements For The Year Ended December 2013

Description	Number		Amount Claimed		Amount refunded	
	2013	2012	2013	2012	2013	2012
			N	N	N	N
Pending complaint b/f	5	12	921,558,783	939,772,160		
Received Complaints	84	125	3,825,870,583	3,509,075,829		
Resolved Complaints	70	132	2,302,784,576	3,527,289,206	336,822,865	1,087,915,913
Unresolved Complaints escalated to CBN for Intervention	19	5	2,444,644,790	921,558,783		
Unresolved Complaints pending with the Bank C/F	19	5	2,444,644,790	921,558,783		

The Directors accept responsibility for the preparation of the annual financial statements set out on pages 23 to 106 that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act of Nigeria and relevant Central Bank of Nigeria regulations.

The Directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied Matters Act of Nigeria and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The Directors have made assessment of the Bank's ability to continue as a going concern and have no reason to believe that the Bank will not remain a going concern in the year ahead.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Sir Steve Omojafor	Godwin Emefiele	Ebenezer Onyeagwu
Chairman	Group Managing Director / CEO	Executive Director
FRC/2013/IODN/00000001299	FRC/2013/IODN/00000001080	FRC/2013/ICAN/00000003788
12 February, 2014	12 February, 2014	12 February, 2014

ZENITH

ZENITH BANK PLC
REPORT OF THE AUDIT COMMITTEE
FOR THE YEAR ENDED 31 DECEMBER 2013

In compliance with Section 359(6) of the Companies and Allied Matters Act (1990), we have reviewed the consolidated and separate financial statements of Zenith Bank Plc for the year ended 31 December 2013 and hereby state as follows:

1. The scope and planning of the audit were adequate in our opinion;

2. The accounting and reporting policies of the Group and Bank conformed with the statutory requirements and agreed ethical practices;

3. The Internal Control and Internal Audit functions were operating effectively; and

4. The External Auditor's findings as stated in the management letter are being dealt with satisfactorily by the management.

5. Related party transactions and balances have been disclosed in note 38 to the Financial Statements in accordance with requirements of the International Financial Reporting Standards (IFRS) and the Central Bank of Nigeria (CBN) directives as contained in the Prudential Guidelines for Deposit Money Banks in Nigeria and Circular on Disclosure of Insider-Related Credits in Financial Statements B5D/1/2004.

Dated February 11, 2014.

Alhaji Hamis B. Musa
Chairman, Audit Committee
FRC/2013/CICNG/00000001295

MEMBERS OF THE COMMITTEE

1. Alhaji Hamis B. Musa
2. Mr. Michael Olusoji Ajayi
3. Mr. Babatunde Adejuwon
4. Chief (Mrs) Chinyere Asika
5. Mr. Jeffrey Efeyini
6. Ms. Angela Agidi

KPMG

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INDEPENDENT AUDITOR'S REPORT

To the Members ofZenithBank Plc

Report on the Financial Statements

We have audited the accompanying financial statements of Zenith BankPlc("the Bank")and its subsidiary companies (together "the Group"), which comprise the statements of financial position as at December 31, 2013, and the statements ofcomprehensive income, statements of changes in equity,and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 23 to 102.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies and Allied Matters Act of Nigeria,the Financial Reporting Council of NigeriaAct, 2011, the Banks and Other Financial Institutions Act of Nigeria, and relevant Central Bank of Nigeria circulars, andfor such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Anaudit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, these financial statements give a true and fair view of the financial position of Zenith Bank Plc ("the Bank") and its subsidiaries (together "the Group") as at December 31, 2013, and of the Group and Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act of Nigeria, and relevant Central Bank of Nigeria circulars.

Report on Other Legal and Regulatory Requirements

Compliance with the requirements of Schedule 6 of the Companies and Allied Matters Act of Nigeria

In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from branches not visited by us. Additionally, the Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account and returns.

Compliance with Section 27 (2) of the Banks and Other Financial Institutions Act of Nigeria and Central Bank of Nigeria circular BSD/1/2004

i. The Bank paid penalties in respect of contraventions of the Banks and Other Financial Institutions Act during the year ended 31 December 2013. Details of these contraventions and penalties paid are as disclosed in note (42) to the financial statements.

ii. Related party transactions and balances are disclosed in note (38) of the financial statements in compliance with the Central Bank of Nigeria circular BSD/1/2004.

KPMG

7 March 2014

Lagos, Nigeria

Signed:

Ayodele H. Othihiwa

FRC/2012/ICAN/00000000425

Zenith Bank Plc
Consolidated and Separate Statements of Comprehensive Income
For The Year Ended 31 December 2013

In millions of Naira	Note	**Group 2013**	Group 2012	**Bank 2013**	Bank 2012
Gross earnings		**351,470**	307,082	**311,275**	279,042
Continuing Operations:					
Interest and similar income	*6*	**260,059**	221,318	**243,852**	213,230
Interest and similar expense	*7*	**(70,796)**	(64,561)	**(68,471)**	(65,352)
Net interest income		**189,263**	156,757	**175,381**	147,878
Impairment charge for credit losses	*8*	**(11,067)**	(9,099)	**(9,907)**	(7,998)
Net interest income after impairment charge for credit losses		**178,196**	147,658	**165,474**	139,880
Fee and commission income	*9*	**52,550**	50,480	**47,116**	44,211
Net gains on financial instruments measured at fair value through profit or loss	*10*	**21,787**	19,012	**19,580**	16,201
Other income	*11*	**754**	1,038	**727**	5,400
Share of profit of associates	*23*	**118**	23	**-**	-
Amortisation of intangible assets	*28*	**(951)**	(1,059)	**(844)**	(624)
Depreciation of property and equipment	*27*	**(9,766)**	(10,307)	**(9,015)**	(9,500)
Personnel expenses	*37*	**(59,952)**	(52,427)	**(56,864)**	(49,787)
Operating expenses	*12*	**(76,527)**	(55,826)	**(72,066)**	(51,733)
Profit before minimum tax and income tax from continuing operations		**106,209**	98,592	**94,108**	94,048
Minimum tax	*13(a)*	**(2,663)**	(2,469)	**(2,663)**	(2,469)
Income tax expense from continuing operations	*13(b)*	**(11,958)**	2,007	**(8,031)**	4,224
Profit after tax from continuing operations		**91,588**	98,130	**83,414**	95,803
Discontinued Operations:					
Gross income from discontinued operations		**16,320**	15,234	**-**	-
Gross expenses from discontinued operations		**(11,932)**	(11,726)	**-**	-
Profit before tax from discontinued operations	*14*	**4,388**	3,508	**-**	-
Income tax expense from discontinued operations	*14*	**(658)**	(957)	-	-
Profit after tax from discontinued operations		**3,730**	2,551	**-**	**-**
Continued and Discontinued Operations:					
Profit for the year before minimum tax and income tax		**110,597**	102,100	**94,108**	94,048
Minimum tax	*13(a)*	**(2,663)**	(2,469)	**(2,663)**	(2,469)
Income tax expense	*13(b)*	**(12,616)**	1,050	**(8,031)**	4,224
Profit for the year after tax		**95,318**	100,681	**83,414**	95,803
Other comprehensive income:					
Items that will never be reclassified to profit or loss					
Fair value movements on equity instruments		**549**	15	**549**	15
Related tax credit / (expense)		**890**	(5)	**890**	(5)
Fair value movements on equity instruments - discontinued operations		**(225)**	196	-	-
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences		**(2,070)**	(2,424)	**-**	-
Effective portion of changes in fair value of cash flow hedges		**2,771**	-	-	-
Related tax expense		**(760)**	-	-	-
Other comprehensive income for the year, net of tax		**1,155**	(2,218)	**1,439**	10
Total comprehensive income for the year		**96,473**	98,463	**84,853**	95,813
Profit attributable to:					
Equity holders of the parent		**94,576**	100,147	**83,414**	95,803
Non controlling interests		**742**	534	**-**	-
Total comprehensive income attributable to:					
Equity holders of the parent		**95,746**	97,971	**84,853**	95,813
Non controlling interests		**727**	492	**-**	-
Profit from continuing operations attributable to:					
Equity holders of the parent		**91,411**	98,044	**83,414**	95,803
Non controlling interests		**177**	86	**-**	-
Earnings per share for profit from total operations attributable to equity holders of parent					
Basic and diluted	*15*	**301 k**	319 k	**266 k**	305 k
Earnings per share for profit from continuing operations attributable to equity holders of parent					
Basic and diluted	*15*	**291 k**	312 k	**266 k**	305 k

The accompanying notes are an integral part of these consolidated and separate financial statements.

Zenith Bank Plc
Consolidated and Separate Statements of Financial Position
As At 31 December 2013

In millions of Naira

	Note	Group 2013	Group 2012	Bank 2013	Bank 2012
Assets					
Cash and balances with central banks	16	**603,851**	332,515	**587,793**	313,546
Treasury bills	17	**586,441**	669,164	**572,598**	647,474
Due from other banks	18	**256,729**	182,020	**249,524**	203,791
Derivative assets held for risk management	19	**2,681**	-	**-**	-
Loans and advances	20	**1,251,355**	989,814	**1,126,559**	895,354
Investment securities	21	**303,125**	299,343	**212,523**	256,905
Investment in subsidiaries	22	**-**	-	**24,375**	24,375
Investment in associates	23	**165**	420	**90**	463
Deferred tax assets	24	**749**	432	**-**	-
Other assets	25	**36,238**	28,665	**31,415**	16,814
Assets classified as held for sale	26	**30,454**	31,943	**4,749**	10,338
Property and equipment	27	**69,410**	68,782	**67,364**	66,651
Intangible assets	28	**1,935**	1,406	**1,703**	1,175
Total assets		**3,143,133**	2,604,504	**2,878,693**	2,436,886
Liabilities					
Customers' deposits	29	**2,276,755**	1,929,244	**2,079,862**	1,802,008
Current income tax	13	**7,017**	6,577	**5,266**	5,071
Deferred income tax liabilities	24	**678**	5,584	**-**	5,573
Other liabilities	30	**215,643**	117,355	**201,265**	115,027
On-lending facilities	31	**59,528**	56,066	**59,528**	56,066
Borrowings	32	**60,150**	15,138	**60,150**	15,138
Liabilities classified as held for sale	33	**14,111**	11,584	**-**	-
Total liabilities		**2,633,882**	2,141,548	**2,406,071**	1,998,883
Capital and reserves					
Share capital	34	**15,698**	15,698	**15,698**	15,698
Share premium	35	**255,047**	255,047	**255,047**	255,047
Retained earnings		**161,144**	130,153	**126,678**	106,010
Other reserves		**73,347**	58,786	**75,199**	61,248
Attributable to equity holders of the parent		**505,236**	459,684	**472,622**	438,003
Non-controlling interest		**4,015**	3,272	**-**	-
Total shareholders' equity		**509,251**	462,956	**472,622**	438,003
Total liabilities and equity		**3,143,133**	2,604,504	**2,878,693**	2,436,886

The accompanying notes are an integral part of these consolidated and separate financial statements.

The financial statements were approved by the Board of Directors on 12 February 2014 and signed on its behalf by:

Sir Steve Omojafor (Chairman)
FRC/2013/IODN/00000001299

Godwin Emefiele (Group Managing Director and Chief Executive)
FRC/2013/IODN/00000001080

Ebenezer Onyeagwu (Executive Director)
FRC/2013/ICAN/00000003788

Stanley Amuchie (Chief Financial Officer)
FRC/2013/MULTI/00000001063

Zenith Bank Plc
Consolidated and Separate Statements of Changes in Equity

In millions of Naira

Group	Share capital	Share premium	Retained earnings	Statutory reserve	SMIEIS reserve	Contingency reserve	Revaluation reserve (investment securities)	Credit risk reserve	Foreign currency translation reserve	Hedging reserve	Total	Non-controlling interest	Total equity
At 1 January 2012	15,698	255,047	75,072	30,205	3,729	752	2,079	10,243	(1,243)	-	391,582	2,686	394,268
Profit	-	-	84,908	14,994	-	245	-	-			100,147	534	100,681
Transfer between reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign currency translation differences	-	-	-	-	-	-	-	-	(2,424)	-	(2,424)	(47)	(2,471)
Fair value movements on equity instruments, net of tax	-	-	-	-	-	-	206	-	-	-	206	5	211
Changes in the revaluation surplus	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	84,908	14,994	-	245	206	-	(2,424)	-	97,929	492	98,421
Dividends	-	-	(29,827)	-	-	-	-	-	-	-	(29,827)		(29,827)
Changes in ownership interests in subsidiaries without loss of control and other changes	-	-	-	-	-	-	-	-	-	-	-	94	94
At 31 December 2012	15,698	255,047	130,153	45,199	3,729	997	2,285	10,243	(3,667)	-	459,684	3,272	462,956
Profit			81,639	12,563	-	374	-	-			94,576	742	95,318
Foreign currency translation differences	-	-	-	-	-	-	-	-	(2,016)		(2,016)	(54)	(2,070)
Fair value movements on equity instruments, net of tax	-	-	-	-	-	-	1,214	-	-	-	1,214	-	1,214
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	-	-	-	-	-	1,972	1,972	39	2,011
Total comprehensive income	-	-	81,639	12,563	-	374	1,214	-	(2,016)	1,972	95,746	727	96,473
Dividends	-	-	(50,234)	-	-	-	-	-	-	-	(50,234)	-	(50,234)
Transfer between reserves			(454)	-		-		454			-		-
Changes in ownership interests in subsidiaries without loss of control and other changes	-	-	40	-	-	-	-	-	-	-	40	16	56
At 31 December 2013	15,698	255,047	161,144	57,762	3,729	1,371	3,499	10,697	(5,683)	1,972	505,236	4,015	509,251

The accompanying notes are an integral part of these consolidated and separate financial statements.

Zenith Bank Plc
Consolidated and Separate Statements of Changes in Equity
In millions of Naira

Bank	Share Capital	Share Premium	Retained earnings	Statutory reserve	SMIEIS reserve	Revaluation reserve (investment securities)	Credit Risk reserve	Total equity
At 1 January 2012	15,698	255,047	55,028	30,204	3,729	2,068	10,243	372,017
								-
Profit	-	-	80,809	14,994	-	-	-	95,803
Fair value movements on equity instruments, net of tax	-	-	-	-	-	10	-	10
Total comprehensive income	-	-	80,809	14,994	-	10	-	95,813
Dividends	-	-	(29,827)	-	-	-	-	(29,827)
At 31 December 2012	15,698	255,047	106,010	45,198	3,729	2,078	10,243	438,003
Profit	-	-	70,902	12,512	-	-	-	83,414
Fair value movements on equity instruments, net of tax	-	-	-	-	-	1,439	-	1,439
Total comprehensive income	-	-	70,902	12,512	-	1,439	-	84,853
Dividends	-	-	(50,234)	-	-	-	-	(50,234)
At 31 December 2013	15,698	255,047	126,678	57,710	3,729	3,517	10,243	472,622

The accompanying notes are an integral part of these consolidated and separate financial statements.

Zenith Bank Plc
Consolidated And Separate Statements of Cash Flows
For The Year Ended 31 December 2013

In millions of Naira	Note	Group 2013	Group 2012	Bank 2013	Bank 2012
Cash flows from operating activities					
Profit after tax for the year		**95,318**	100,681	**83,414**	95,803
Impairment					
- on loans and advances		**11,012**	9,066	**9,852**	7,965
- on leases		**55**	33	**55**	33
- on other assets		**-**	1,280	**-**	1,280
- on investment in associates		**371**	851	**371**	851
Fair value changes recognised in profit and loss		**(64)**	-	**(39)**	-
Depreciation of property and equipment	27	**9,766**	10,307	**9,015**	9,500
Depreciation of investment property		**-**	136	**-**	136
Amortisation of intangible assets	28	**951**	1,059	**844**	624
Dividend income	11	**(303)**	(110)	**(303)**	(694)
Net interest income		**(189,263)**	(156,757)	**(175,381)**	(147,878)
Share of profit of associates	23	**(118)**	(23)	**-**	-
Profit on sale of property and equipment	11	**(151)**	(10)	**(124)**	(9)
Profit on sale of investment property	11	**-**	(150)	**-**	(150)
Gain on disposal of subsidiary		**-**	(32)	**-**	(3,811)
Tax expense	13	**15,279**	1,419	**10,694**	(1,755)
		(57,147)	(32,250)	**(61,602)**	(38,105)
Loans and advances		**(272,085)**	(104,415)	**(241,112)**	(76,317)
Other assets		**(7,573)**	(4,435)	**(14,601)**	(478)
Treasury bills with maturities greater than three months		**157,139**	(52,524)	**151,982**	(47,594)
Reinsurance assets and insurance receivables		**-**	-	**-**	-
Restricted balances (cash reserves)		**(168,557)**	(73,528)	**(169,009)**	(73,081)
Net assets of subsidiary disposed		**-**	(4,479)	**-**	-
Debt securities		**(3,716)**	8,629	**45,670**	10,160
Changes in operating assets:		**(294,792)**	(230,752)	**(227,070)**	(187,310)
Customers deposits		**347,511**	273,786	**277,854**	224,718
Other liabilities		**98,288**	(35,481)	**86,238**	(11,633)
Changes in operating liabilities:		**445,799**	238,305	**364,092**	213,085
Cash flows (used in)/generated from operating activities		**93,860**	(24,697)	**75,420**	(12,330)
Interest received		**260,059**	221,318	**243,852**	213,230
Interest paid		**(70,796)**	(64,561)	**(68,471)**	(65,352)
Tax paid		**(19,724)**	(12,799)	**(15,182)**	(10,272)
Cash flows from discontinued operations		**2,180**	(15,621)	**-**	-
Net cash flows generated from operations		**265,579**	103,640	**235,619**	125,276
Cash flows from investing activities					
Purchase of property and equipment	27	**(10,772)**	(11,290)	**(9,826)**	(10,477)
Purchase of intangible assets	28	**(1,421)**	(1,709)	**(1,313)**	(1,138)
Proceed from sale of property and equipment		**218**	361	**163**	212
Purchase of investment property		**-**	(37)	**-**	(37)
Proceed from sale of investment property		**-**	7,165	**-**	7,165
Purchase of equity securities	21	**(700)**	-	**(700)**	-
Disposal of associates		**2**	508	**2**	508
Dividends received	11	**303**	110	**303**	694
Investment in subsidiaries		**-**	-	**-**	(5,030)
Proceeds from sale of subsidiary		**-**	4,511	**-**	4,311
Cash flows from discontinued operations		**1,845**	(567)	**5,589**	-
Net cash used in investing activities		**(10,525)**	(948)	**(5,782)**	(3,792)

In millions of Naira

	Note				
Cash flows from financing activities					
Dividend paid to shareholders		**(50,234)**	(29,827)	**(50,234)**	(29,827)
Borrowed funds					
- inflow from long term borrowing		**50,209**	313	**50,209**	313
- repayment of long term borrowing		**(5,197)**	(6,245)	**(5,197)**	(6,245)
Inflow from On-lending facilities		**3,462**	6,696	**3,462**	6,696
Net cash from changes in ownership interest in subsidiaries		**56**	-	**-**	-
Net cash used in financing activities		**(1,704)**	(29,063)	**(1,760)**	(29,063)
Increase in cash and cash equivalents		**253,350**	73,629	**228,077**	92,421
Analysis of changes in cash and cash equivalents:					
Cash and cash equivalents at start of year	41	**614,817**	525,616	**613,400**	520,979
Increase in cash and cash equivalents		**253,350**	73,629	**228,077**	92,421
Cash and cash equivalents from discontinued operations		**143**	18,708	**-**	-
Exchange rate movements on cash and cash equivalents		**(1,589)**	(3,136)	**-**	-
Cash and cash equivalents at end of year	41	**866,721**	614,817	**841,477**	613,400

The accompanying notes are an integral part of these consolidated and separate financial statements.

1 General information

Zenith Bank Plc (the "Bank") was incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability company on May 30, 1990. It was granted a banking licence in June 1990, to carry on the business of commercial banking and commenced business on 16 June 1990. The Bank was converted into a Public Limited Liability Company on May 20, 2004. The Bank's shares were listed on October 21, 2004 on the Nigerian Stock Exchange.

The principal activity of the Bank is the provision of banking and other financial services to corporate and individual customers. Such services include granting of loans and advances, corporate finance and money market activities.

The Bank has nine subsidiary companies namely, Zenith General Insurance Company Limited, Zenith Bank (Ghana) Limited, Zenith Pension Custodian Limited, Zenith Bank (UK) Limited, Zenith Capital Limited, Zenith Medicare Limited, Zenith Life Assurance Company Limited, Zenith Bank (Sierra Leone) Limited and Zenith Bank (Gambia) Limited.

In line with regulatory directives on the scope of banking operations in Nigeria, the Bank has elected to discontinue its non-core banking operations with the exception of Pension Custodianship. Accordingly, non-core banking subsidiaries which have not been disposed of have been accounted for as discontinued operations in line with IFRS 5. These non-core banking subsidiaries are the Insurance operations (Zenith General Insurance Company Limited, Zenith Life Assurance Company Limited, Zenith Medicare Limited) and the capital market operations (Zenith Capital Limited, Zenith Securities Limited and Zenith Trustees Limited). For the insurance operations, discussion with the potential buyers is in an advance stage with certain commitments such as sale agreements and shareholders' agreement already in place. The transaction is expected to be fully completed and the subsidiaries within the insurance operation are expected to be de-recognized before the end of the first half of 2014. For the subsidaries within the capital market operations, a restructuring of their balance sheets was concluded in December 2013 and the final sale to the identified investors is expected to be concluded before the end of the first half of 2014.

The consolidated financial statements as at and for the year ended 31 December 2013 comprise the Bank and its subsidiaries (together referred to as "the Group" and individually as "Group entities") and the Group's interest in associates. The separate financial statements comprise the Bank. The consolidated and separate financial statements for the year ended 31 December 2013 were approved for issue by the Board of Directors on 12 February 2014.

The Group does not have any unconsolidated structured entity.

2(i) Changes in accounting policies

Except as noted below, the Group has consistently applied the accounting policies as set out in Note 2(ii) to all periods presented in these consolidated financial statements

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

a. IFRS 10 Consolidated Financial Statements

b. IFRS 12 Disclosure of Interests in Other Entities

c. IFRS 13 Fair Value Measurement

d. Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7).

e. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).

The nature and the effects of the changes are explained below.

(a) Subsidiaries, including structured entities

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns

In accordance with the transitional provision provisions of IFRS 10 (2011), the Group reassessed its control conclusions as of 1 January 2013. The Group did not have unconsolidated enties, which by virtue of the reassessment of control, would have been qualified for consolidation.

The change did not have a material impact on the Group's financial statements.

(b) Interests in other entities

As a result of IFRS 12 , the Group has expanded disclosures about its interests in subsidiaries (see Note 38). The Group does not have interest in any unconsolidated structured entity.

(c) Fair value measurement

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, as set out in Note 2.6 (h), prospectively. The change had no significant impact on the measurements of the Bank's assets and liabilities, but the Group has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Group has provided the relevant comparative disclosures under those standards.

(d) Offsetting financial assets and financial liabilities

The amendments to IFRS 7 require additional disclosures about offsetting financial assets and financial liabilities,which does not apply to the Group as the Group does not offset financial assets and financial liabilities.

(e) Presentation of items of OCI

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of comprehensive income, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

2(ii) Significant accounting policies

Except for the changes explained in Note 2(i), the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, unless otherwise stated.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

2.1 Basis of preparation

a. Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB) and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011, the Banks and other Financial Institutions Act of Nigeria, and relevant Central Bank of Nigeria circulars. The IFRS accounting policies have been consistently applied to all periods presented.

b. Basis of measurement

The financial statements have been prepared in accordance with the going concern principle under the historical cost convention as modified by the measurement of certain financial assets and financial liabilities held at fair value.

c. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated and separate financial statements are disclosed in note 4**.**

2.2 New standards, interpretations and amendments to existing standards that are not yet effective

● IFRS 9 early adoption

FRS 9, Financial Instruments (amended November 2013), which is available for early adoption has been early adopted by the group in the preparation of this financial statement as permitted by the standard.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated and separate financial statements.

The Group plan to adopt these standards at their respective effective dates. Management is in the process of assessing the impact of these standards on the Group.

● Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted.

The Group is still evaluating the potential effect of the amendments to IAS 32.

● IFRIC 21 Levies
IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Group's financial statements

2.3 Basis of consolidation

(a) Subsidiaries

The financial statements of subsidiaries are consolidated from the date the Group acquires control, up to the date that such effective control ceases. For the purpose of these financial statements, subsidiaries are entities over which the Group, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from their activities.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners). Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Group.

Inter-company transactions, balances and unrealised gains on transactions between companies within the Group are eliminated on consolidation. Unrealised losses are also eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the separate financial statements, investments in subsidiaries and associates are measured at cost.

(b) Loss of Control
On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, that retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in profit or loss.

(d) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

2.4 Foreign currency translations

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The parent entity's functional currency (Nigerian Naira) is adopted as the presentation currency for the consolidated financial statements. Except as otherwise indicated, financial information presented in Naira has been rounded to the nearest million.

(b) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On the disposal of a foreign operation, the Group recognises in profit or loss the cumulative amount of exchange differences relating to that foreign operation. When a subsidiary that includes a foreign operation is partially disposed of or sold, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In the case of any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of exchange differences recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the reporting date.

(c) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to the functional currency using the exchange rate at the transaction date, and those measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Exchange differences on non-monetary assets are accounted for based on the classification of the underlying items.

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on equities measured at fair value through other comprehensive income are included in the revaluation reserve in other comprehensive income.

Foreign currency gains and losses on intra-group loans are recognised in profit or loss unless settlement of the loan is neither planned nor likely to occur in the foreseeable future, in which case the foreign currency gains and losses are initially recognised in the foreign currency translation reserve in the consolidated financial statements. Those gains and losses are recognised in profit or loss at the earlier of settling the loan or at the time at which the foreign operation is disposed.

2.5 Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

2.6 Financial instruments

(a) Initial recognition and measurement

Financial instruments at fair value through profit or loss are recognised at fair value with transaction costs, which are directly attributable to the acquisition or issue of the financial instruments, being recognised immediately through profit or loss. Financial instruments that are not carried at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instruments.

Financial instruments are recognised or de-recognised on the date the Group commits to purchase or sell the instruments (trade day accounting).

(b) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost depending on their classification.

(c) Classification and measurement

(i) Financial assets

The Group classifies its financial assets as subsequently measured at amortised cost or fair value.

A financial asset is subsequently measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest in this context is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. Interest income is recognised in Interest and similar income.

The following instruments have been measured at amortised cost;
- Loans and advances
- Held-to-maturity debt securities
- Held-to-maturity treasury bills.

All other financial assets are subsequently measured at fair value. Financial assets which meet the requirement for measurement at amortised cost may also be designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch). Gains and losses arising from changes in the fair value of financial assets subsequently measured at fair value are recognised in profit or loss ("FVTPL"), except where the Group elects to present in other comprehensive income fair value gains and losses arising on investments in equity instruments which are not held for trading but for strategic purposes ("Fair value through OCI"). Gains and losses recognised directly in other comprehensive income are not subsequently transferred to profit or loss on disposal of the equity instrument.

The following instruments have been measured at fair value through profit or loss, or other comprehensive income:
- Financial guarantees measured at fair value through profit or loss.
- Equity securities measured at fair value through other comprehensive income.
- Trading debt securities measured at fair value through profit or loss.
- Derivatives held for risk management purposes and hedge accounting measured at fair value through OCI (effective portion of changes in fair value) and through profit or loss (ineffective portion of changes in fair value)

(ii) Financial liabilities

Financial liabilities consist of financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

Financial liabilities that are not classified at fair value through profit or loss are measured at amortised cost. Interest expenditure is recognised in Interest and similar expense.

No financial liabilities have been classified as fair value through profit or loss at any of the reporting dates covered by this set of financial statements.

(iii) Financial guarantees

A financial guarantee contract is a contract that requires the Group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee liabilities are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

(d) Determination of fair value

At initial recognition, the best evidence of the fair value of a financial instrument is the transaction price (i.e. the fair value of the consideration paid or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models and option pricing models whose variables include only data from observable markets.

Subsequent to initial recognition, the fair value of a financial instrument is based on quoted market prices or dealer price quotation for financial instruments traded in an active market. If the market for a financial instrument is not active or the instrument is not listed, the fair value is determined using valuation techniques. Refer to note 3.3.6(c) for a description of the valuation techniques used by the Group.

(e) De-recognition

Financial assets are de-recognised when the contractual rights to receive the cash flows from these assets have expired or the Group has transferred the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or which the Group neither retains substantially all the risks and rewards of ownership and it does not retain control of the financial assets. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On de-recognition of a fianncial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised in the statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not de-recognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(f) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arsing from a group of similar transactions.

(g) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(h) Fair value

Policy applicable from 1 January 2013

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Policy applicable before 1 January 2013

'Fair value' is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Bank establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price. Where the Bank has positions with offsetting risks, mid market prices are used to measure the offsetting risk positions and a bid or ask price adjustment is applied only to the net open position as appropriate.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs into valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

See note 3.36 on fair value disclosures of financial assets and liabilities.

2.7 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within acceptable profitable range. The Group makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

These hedging relationships are discussed below.

(a) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

(b) Other non trading derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

2.8 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:
- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of impairment loss for financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets are reflected and directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss under impairment charge for credit losses.

2.9 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purposes of assessing impairment, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

2.10 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Where significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property and equipment are depreciated on the straight line basis to their residual values over the estimated useful lives of the assets. The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each reporting date and the depreciation method is reviewed at each financial year end. Leasehold land and buildings are depreciated over the period of the lease or over such lesser period as is considered appropriate.

Depreciation is calculated on a straight line basis to write down the cost of property and equipment to their residual values over their estimated useful lives as follows:

Leasehold land	- Over the remaining lease period
Motor vehicles	- 4 years
Office equipment	- 5 years
Furniture and fittings	- 5 years
Computer hardware and equipment	- 3 years
Buildings	- 50 years
Leasehold improvement	- Over the remaining lease period

Depreciation is included in profit or loss.

Work in progress consists of items of property and equipment that are not yet available for use. Work in progress is carried at cost less any required impairment. An impairment loss is recognised if the asset's recoverable amount is less than cost. The asset is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Once the items are available for use, they are transferred to relevant classes of property and equipment as appropriate.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

2.11 Intangible assets

(a) Computer software

Software not integral to the related hardware acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group, are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that the asset is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life is 5 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

2.12 Leases

(a) A Group company is the lessee

Leases, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(b) A Group company is the lessor

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in Loans and advances to customers in the statement of financial position.

Finance charges earned are computed using the effective interest method which reflects a constant periodic return on the investment in the finance lease. Initial direct costs paid are capitalised to the value of the lease amount receivable and accounted for over the lease term as an adjustment to the effective rate of return.

Leases of assets under which the Group effectively retains all the risks and rewards of ownership are classified as operating leases. Receipts of operating leases from properties held as investment properties in investment management and life insurance activities, net of any incentives given to lessees, are accounted for as income on the straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of penalty is recognised as income in the period in which termination takes place.

2.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements.

Provisions are recognised when the separate entities in the Group have a present or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount of the obligation can be made.

2.14 Employee benefits

(a) Post-employment benefits

The Group has a defined contribution plan.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans, the Group makes contributions on behalf of qualifying employees to a mandatory scheme under the provisions of the Pension Reform Act. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. For entities operating in Nigeria, the contribution by employees and the employing entities are 2.5% and 12.5% respectively of the employees' basic salary, housing and transport allowances. Entities operating outside Nigeria contribute in line with the relevant pension laws in their jurisdictions.

(b) Short-term benefits

Short-term benefits consist of salaries, accumulated leave allowances, profit share, bonuses and any non-monetary benefits.

Short-term employees' benefits are measured on an undiscounted basis and are expensed as the related services are provided.

A liability is recognised for the amount expected to be paid under short-term cash benefits such as accumulated leave and leave allowances if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

(c) Termination benefits

The Group recognises termination benefits as an expense when the Group is demonstrably committed , without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide ternmination benefits as a result of an offer made to encourage voluntary redundancy. The Group settles termination benefits within twelve months and are accounted for as short-term benefits.

2.15 Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the end of the reporting period are dealt with in the subsequent events note.

(c) Treasury shares

Where the Bank or other members of the Group purchase the Bank's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

2.16 Recognition of interest income and expense

Interest income and expense for all financial assets and financial liabilities carried at amortised cost are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities in the statement of financial position, are capitalised to the carrying amount of financial instruments, excluding financial instruments at fair value through profit or loss, and amortised as interest income or expense over the life of the asset as part of the effective interest rate.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Where the estimated cash flows on financial assets are subsequently revised, other than impairment losses, the carrying amount of the financial assets is adjusted to reflect actual and revised estimated cash flows.

Where a financial asset or a Group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.17 Fees, commissions and other income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income and expenses are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, are recognised on completion of the underlying transaction.

Dividend income is recognised in profit or loss in the period in which the right of receipt is established.

2.18 Insurance and investment contracts

The Group issues contracts that transfer insurance risk, financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. The Group defines as significant insurance risk the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk without significant insurance risk. Financial risk refers to the risk of a possible future change in the value of an asset or financial instrument due to a change in interest rate, commodity price, index of prices, foreign exchange rate or other measurable variable.

(a) Insurance contracts

In terms of IFRS 4, insurance liabilities are measured under existing local practice at the date of adoption of IFRS 4.

The Group had, prior to the adoption of IFRS 4, valued insurance liabilities using certain actuarial techniques as described below. The Group has continued to value insurance liabilities in accordance with these.

Insurance contracts are classified into three broad categories, depending on the duration of the risk and the type of risk insured, namely Individual Life, Group Life and General insurance.

(i) Individual life

These contracts insure mainly against death. For the published accounts, the contracts are valued based on a gross premium valuation taking into account the present value of expected future premium, claim and associated expense cash flows.

Any resultant negative policyholder liabilities, measured on an individual policy level, are set to zero (“zeroised”) so as not to recognise profits prematurely.

Where the same policy includes both insurance and investment components and where the policy is classified as insurance, the insurance and investment benefits are valued separately.

(ii) Group Life

These contracts insure against death on a group basis. These contracts are short term in nature and are typically renewed annually. Gross premium on life contract are recognised in the life fund account when payable by the policy holder. Gross life insurance written premium comprise the total premium receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date of inception of the policy.

(iii) General Insurance

These contracts provide Fire, Accident, Motor, Marine, Bond, Engineering and Aviation insurance. Gross premiums comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. It is recognised at the point of attachment of risk to a policy before deducting cost of reinsurance cover and unearned portion of the premium.

Unearned premiums are those proportions of premiums written in the year that relate to periods of risks after the reporting date. It is computed separately for each insurance contract using a time proportionate basis, or another suitable basis for uneven risk contracts.

(iv) Outstanding claims provision

A full provision is made for the estimated cost of all claims notified but not settled at the reporting date, using the best information available at that time. Provision is also made for the cost of claims incurred but not reported ("IBNR") until after the reporting date.

Similarly, provisions are made for “unallocated claims expenses” being the estimated administrative expenses that will be incurred after the reporting date in settling all claims outstanding as at the date, including IBNR. Differences between the provision for outstanding claims at a reporting date and the subsequent settlement are included in the Revenue Account of the following year.

(b) Insurance contracts with Discretionary Participation Features

Zenith issues single premium contracts that provide primarily savings benefits to policyholders but also transfer insurance risk. The investment return credited to the policyholders is at Zenith’s discretion, subject to fair oversight and a minimum guaranteed. These contracts are valued on a retrospective basis.

(i) Embedded Investment Derivatives

Embedded derivatives are analysed and valued separately where significant to the total liability, taking into account variation in investment performance and interest rates.

(ii) Guaranteed Annuity Options

Guaranteed Annuity Options, where a guaranteed rate of conversion to a life annuity is provided, is offered on some products. This feature provides an option to the policyholder as is analysed and valued separately where significant to the total liability, taking into account expected take-up rates, mortality variation and investment variation.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity and subsequently recognised in profit or loss when the related deferred gain or loss is recognised.

(a) Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Bank’s subsidiaries and associates operate and generate taxable income.

(b) Deferred tax

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.
Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and
- investments in subsidiaries and joint ventures (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognized.

Deferred tax related to the fair value re-measurement of equity instruments which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is not subsequently transferred from equity to profit or loss.

2.20 Earnings per share

The Group presents basic earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

2.21 Segment reporting

An operating segment is a component of the Group engaged in business activities from which it can earn revenues, whose operating results are regularly reviewed by the Group's Executive [Management/Board] in order to make decisions about resources to be allocated to segments and assessing segment performance. The Group's identification of segments and the measurement of segment results is based on the Group's internal reporting to management.

2.22 Fiduciary activities

The Group acts as trustees and in other fiduciary capacities through Zenith Trustees Limited and Zenith Pension Custodians that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.23 Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or a geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

2.24 Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Intangible assets and property and equipment once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

3. Risk management

3.1 Enterprise Risk Review

Zenith Bank Group operates a business model that is largely diversified and spread across different geographical locations. This therefore neccesitates the need for proper identification, measurement, aggregation and effective management of risks and efficient utilisation of capital to derive an optimal risk and return ratio.

Risks associated with the business of the Group include financial risks, namely, credit risk, liquidity risk and market risk, counterparty and concentration risks (which includes currency risk, interest rate risk and other price risks) as well as other risks such as operational risk, strategic risk, legal risk, reputational risk, taxation risk, regulatory risk and insurance risk.

3.1.1 Risk Management Philisophy/Strategy

•The group considers sound risk management practise 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.
•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.

3.1.2 Risk Appetite

The Group's risk appetite is reviewed by the Board of Directors annually, at a level that minimises erosion of earnings or capital due to avoidable losses or from frauds and operational inefficiencies. This reflect the conservative nature of Zenith Group as far as risk taking is concerned.

The Group employs a range of quantitative and qualitative indicators to monitor the risk profile. Specific limits are set in line with the Group's risk appetite

3.1.3 Risk Management Approach

The Group addresses the challenge of risks comprehensively through an enterprise-wide risk management framework and a risk governance policy by applying leading practices that is 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 commitee provides oversight on the systems of internal control, financial reporting and compliance. The Board credit commitee 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 commitee and Management Risk committee) that help it develop and implement various risk strategies. The Global Credit commitee manages the credit 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 drives the management of the financial risks (Market, Liquidity and Credit Risk), operational risks as well as strategic and reputational risks.

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

The key features of the Group's risk management policy are:
• The Board of Directors provides overall risk management direction and oversight.
• The Group'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 Group manages its credit, market, operational and liquidity risks in a co-ordinated manner within the organisation.
• The Group's risk management function is independent of the business divisions.
• The Group'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.

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 intergral part of the Group's management of risk.

The Board of Directors ensures strict compliance with relevant laws, rules and standards issued by the industry regulators and other law enforcement agencies, market conventions, codes of practices promoted by industry associations and internal policies.
The compliance function, under the leadership of the Chief Compliance Officer of the bank has put in place a robust compliance framework, which includes:
• Comprehensive compliance manual detailing the roles and responsibilities of all stakeholders in the compliance process,
• Review and analysis of all relevant laws and regulations, which are adopted into policy statements to ensure business is conducted professionally;
• Review of the Bank's Anti Money Laundering Policy in accordance with changes in the Money Laudering Prohibition Act 2011 and Anti Terrorism Act 2011 as amended;
• Incorporation of new guidelines in the Bank's Know Your Customer policies in line with the increasing global trend as outlined in the Central Bank of Nigeria's Anti Money Laundering/Combating Finance of Terrorism Compliance Manual.

The Group's culture emphasizes high standard of ethical behaviour at all levels of the Bank. Therefore the Bank's board of directors promotes sound organisation.

3.1.4 Methodology for risk rating

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 Group's activities.

All activities in the Group 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 Group:

• Develop and implement procedures and practices that translate the board's goals, objectives, and risk tolerances into operating standards that are well understood by staff.

• Establish lines of authority and responsibility for managing individual risk elements in line with the Board's overall direction.

• Risk identification, measurement, monitoring and control procedures.

• Establish effective internal controls that cover each risk management process.
• Ensure that the group's risk management processes are properly documented.

• Create adequate awareness to make risk management a part of the corporate culture of the Group.

• Ensure that risk remains within the boundaries established by the Board.

• Ensure that business lines comply with risk parameters and prudent limits established by the Board.

The CBN Risk Management Guidelines prescribes quantitative and qualitative criteria for the identification of significant activities and sets a threshold of contributions for determining significant activities in Bank and its subsidiaries. This practice is essentially to drive the risk control focus of financial institutions.

Zenith Bank applies a mix of qualitative and quantitative techniques in the determination of its significant activities under a prescribed broad headings. The criteria used in estimating the materiality of each activity is essentially based on the following:
• The strategic importance of the activity and sector.
• The contribution of the activity/sector to the total assets of the Bank.
• The net income of the sector.
• The risk inherent in the activity and sector.

Risk Management structures and processes are continually reviewed to ensure, their adequacy and appropriateness for the group's risk and opportunities profile as well as bringing them up to date with changes in strategy, business environment, evolving thoughts and trends in risk management.

3.2 Credit Risk

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations resulting in a default situation and/or financial loss. Credit exposures arise principally in credit-related risk that is embedded in loans and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as letters of credit, guarantees and loan commitments.

The Group has robust credit standards, policies and procedures to control and monitor intrinsic and concentration risks through all credit levels of selection, underwriting, administration and control. Some of the policies are:

• 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.
• 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.
• 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.
• 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
• 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.
• 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.
• All insiders' related credits are limited to regulatory and strict internal limits and are disclosed as required.
• The consequences for non-compliance with the credit policy and credit indiscipline are communicated to all staff and implemented.

3.2.1 Credit Metrics and Measurement Tools

Over the years, Zenith Bank and its subsidiaries have been able to devote resources and harness its credit data into developing models to improve the determination of economic and financial threats due to credit risk. As a result some key factors are considered in credit risk assesement and measurement.

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

2. The likelihood of failure to pay over the period stipulated in the contract.
3. The size of the facility in case default occurs.
4. 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.

3.2.2 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.

(a) Loans and advances and amounts due from banks

Each individual borrower is rated based on an internally developed rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the experience of the Bank and its various subsidiaries.

In order to allow for a meaningful distribution of exposures across grades with no excessive concentrations on the Group's borrower-rating and its facility-rating scale, the Group maintains the under listed rating grade which is applicable to both new and existing customers.

Zenith Group's internal rating:

Zenith Group Rating	Description of the grade	Equivalent of external rating
AAA	Investment Risk (Extremely Low Risk)	AAA
AA	Investment Risk (Very Low Risk)	AA
A	Investment Risk (Low Risk)	A
BBB	Upper Standard Grade (Acceptable Risk)	BBB
BB	Lower Standard Grade (Moderately High Risk)	BB
B	Non Investment Grade (High Risk)	B
CCC	Non Investment Grade (Very High Risk)	CCC
CC	Non Investment Grade (Extremely High Risk)	CC
C	on Investment Grade (High Likelihood of Defaul	C
D	Non Investment Grade (Lost)	D
Unrated	Unrated	Unrated

The credit rating system seeks to achieve the foundation level of the internal ratings based approach under Basle II, through continuous validation exercises over the years.

(b) Other debt instruments

With respect to other debt instruments, the Group takes the following into consideration in the management of the associated credit risk:

- External ratings of such instruments/institutions by rating agencies like Fitch; Standard & Poor's; Agusto & Co. etc.
- Internal and external research and market intelligence reports
- Regulatory agencies reports

In addition to the above, we have put in place a conservative limits structure which is monitored from time to time in order to limit our risk exposures on these securities.

Control mechanisms for the credit risk rating system

Zenith's credit risk rating system is reviewed periodically to confirm that the rating criteria and procedures are appropriate given the current portfolio and external conditions. Hence, in accordance with the Groups model risk policy, all models that materially impact the risk rating process are reviewed.
Furthermore, the ratings accorded to customers are regularly reviewed, incorporating new financial information available and the experience in the development of the banking relationship. The regularity of the reviews increases in the case of clients who reach certain levels in the automated warning systems. The rating system is currently undergoing external review with a view to enhancing its robustness.

3.2.3 Credit Processes

Zenith operates a Centralised Credit Approval Process System. Credits are originated from the branches/business groups and subjected to reviews at various levels before presentation to the Global Credit Committee for approvals, and including all documents and information defined for the proper assessment and decision of Credit. All credit presented for approval are required to be in conformity with the documented and communicated Risk Acceptance Criteria(RAC).

As part of credit appraisal process, the Group will have to satisfy itself in the following areas:
a) Credit assessment of the borrower's industry, and macro economic factors.
b) The purpose of credit and source of repayment.
c) The track record / repayment history of borrower.
d) Assess/evaluate the repayment capacity of the borrower.
e) The Proposed terms and conditions and covenants.
f) Adequacy and enforceability of collaterals.
g) Approval from appropriate authority

3.2.4 Group Credit Risk Management

Zenith'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 Group to deal with the emerging risks and challenges with a high level of confidence and determination.

The framework for Credit Risk at Zenith is well defined and institutionally predicated on:
• Clear tolerance limits and risk appetite set at the Board level, well communicated to the business units and periodically reviewed and monitored to adjust as appropriate.
• Well-defined target market and risk asset acceptance criteria.
• Rigorous financial, credit and overall risk analysis for each customer/transaction.
• Portfolio quality examined on regular basis according to key performance indicators mechanism and periodic stress testing.
• Concentrations together with mitigation strategies are continuously assessed.
• Early warning system is continually validated and modified to ensure proper functioning for risk identification.
• Systematic and objective credit risk rating methodologies that are based on quantitative, qualitative and expert judgment.
• Systematic credit limits management enabling the Bank to monitor its credit exposure on daily basis at country, borrower, industry, credit risk rating and credit facility type levels.
• Solid documentation and collateral management process with proper coverage and top-up triggers and follow-ups.
• Annual and interim individual credit reviews to ensure detection of weakness signs or warning signals and considering proper remedies.

Our rigorous credit processes are supplemented by sectoral portfolio reviews focused on countries, regions or specific industries as well as multiple stress testing scenarios.

These are intended to identify any inherent risks in the portfolios resulting from changes in market conditions and are supplemented by independent reviews from our Group Internal Audit.

Additionally, the Group continues to upgrade and fine-tune the above in line with the developments in the financial services industry environment and technology.

3.2.5 Group Credit Risk Limits

The Group applies credit risk limits, among other techniques in managing credit risk. This is the practice of stipulating a maximum amount that the individual or counterparty can obtain as loan. Internal and regulatory limits are strictly adhered to.Through this, the Group not only protects itself, but also in a sense, protects the counterparty from borrowing more than they are capable of paying.

The Group continues to focus on its concentration and intrinsic risks and further manage them to a more comfortable level. This is very important due to the serious risk implications that intrinsic and concentration risk pose to the Group. A thorough analysis of economic factors, market forecasting and prediction based on historical evidence is used to mitigate the crystallization of these risks.

The Group has in place various portfolio concentration limits(which is subject to periodic review) .These limits are closely monitored and reported on from time to time.

The Group’s internal credit approval limits for the various authorities levels are as indicated below.

Approval Authority level	Approval limit (% of Shareholders' Fund)
Board Credit Committee	N7 billion and above (Not exceeding 20% of Total Shareholders’ funds)
Global Credit Committee	Below N7 billion

These internal approval limits are set and approved by the Group Board and are reviewed regularly as the state of affairs of the Group and the wider financial environment demands.

3.2.6 Group Credit Risk Monitoring

The Group’s 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 awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

The capabilities of the credit review team is continously being improved in order to improve the facility monitoring activity and assure good quality Risk Assets Portfolio accross the Group.
A specialised and focused loan recovery and workout team handles the management and collection of problem credit facilities.

3.2.7(a) Credit Risk Mitigation, Collateral and other Credit Enhancements

Portfolio diversification is the cornerstone of the Group’s credit risk mitigation strategy which is implemented through customer, facility, industry and geographical limit structure. Zenith uses a variety of techniques to manage the credit risk arising from its lending activities.
Enforceable legal documentation establishes Zenith’s direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided to secure facilities granted.

(a) Collateral Security

A key mitigation step employed by the Group in its credit risk management process includes the use of collateral securities to secure its loans and advances as alternative sources of repayment during adverse conditions. All major credit facilities to our customers are to be secured and the security instruments and documentations must be perfected and all conditions precedent must be met before drawdown or disbursement is allowed. Collateral analysis includes a good description of the collateral, its value, how the value was arrived at, and when the valuation was made. It is usually necessary to review the potential adverse changes in the value of collateral security for the foreseeable future.

Collateral securities that are pledged must be in negotiable form and usually fall under the following categories:

• Real estate, plant and equipment collateral (usually all asset or mortgage debenture or charge) which have to be registered and enforceable under Nigerian law;
• Collateral consisting of inventory, accounts receivable, machinery equipment, patents, trademarks, farm products, general intangibles, etc. These require a security agreement (usually a floating debenture) which has to be registered and, must be enforceable under Nigerian law;

• Stocks and shares of publicly quoted companies;
•Domiciliation of contracts proceeds;
• Documents of title to goods such as shipping documents consigned to the order of Zenith Bank or any of its subsidiaries; and
• Letter of lien.

Collateral securities are usually valued and inspected prior to disbursement and on a regular basis thereafter until full repayment of the exposure. We regularly conduct a review of all collateral documentation in respect of all credits in the Bank and specific gaps in the collateral documentation are advised to the Lending Group/Zones/Branch for appropriate action and follow-up.

The type and size of collateral held as security for financial assets other than loans and advances is usually a function of the nature of the instrument. Our debt securities, treasury and other eligible bills are normally unsecured but our comfort is on the issuer's credit rating which is the Federal Government of Nigeria (FGN).
Details of collateral held and their carrying amounts as at 31 December 2013 are as follows:

In millions of Naira	Group	Group	Bank	Bank
	Total exposure	Value of collateral	Total exposure	Value of collateral
Secured against real estate	177,379	137,292	152,379	127,292
Secured by shares of quoted companies	32,482	10,652	17,482	5,652
Cash Collateral, lien over fixed and floating assets	860,299	340,038	810,299	325,038
Unsecured	205,962	-	168,218	-
	1,276,122	487,982	1,148,378	457,982

Details of collateral held and their carrying amounts as at 31 December 2012 are as follows:

In millions of Naira	Group	Group	Bank	Bank
	Total exposure	Value of collateral	Total exposure	Value of collateral
Secured against real estate	164,620	185,137	140,789	156,540
Secured by shares of quoted companies	11,217	7,507	8,666	3,680
Cash Collateral, lien over fixed and floating assets	788,155	535,830	728,208	489,071
Unsecured	50,534	-	39,128	-
	1,014,526	728,474	916,791	649,291

(b) Balance Sheet Netting Arrangements

Risk reduction by way of current account set-off is recognised for exposures to highly rated and creditworthy customers. Customers are required to enter into formal agreements giving Zenith the unfettered right to set-off gross credit and debit balances in their nominated accounts to determine the Groups net exposure. Cross-border set-offs are not permitted.

(c) Guarantees and Standby Letters of Credit

Guarantees and Standby Letters of Credit are considered to carry about the same level of credit risk as loans and advances. And in accordance with the Group's credit policies, banks and creditworthy companies and individuals with high net worth are accepted as guarantor, subject to credit risk assessment. Furthermore Zenith only recognises unconditional irrevocable guarantees or standby letters of credit provided they are not related to the underlying obligor.

3.2.7 (b) Maximum Exposure to Credit Risk Before Collateral Held or Credit Enhancements

The Group's maximum exposure to credit risk at 31 December 2013 and 2012 respectively, is represented by the net carrying amounts of the financial assets, with the exception of financial and other guarantees issued by the Group for which the maximum exposure to credit risk is represented by the maximum amount the Group would have to pay if the guarantees are called on (refer note 39 Contingent liabilities and commitments).

3.2.8 Concentration of Risks of Financial Assets with Credit Risk Exposure

The Group monitors concentrations of credit risk by geographical location and by industry sector. An analysis of concentrations of credit risk at 31 December 2013 and 2012 respectively for loans and advances to customers and amounts due from banks, is set out below:

(a) Geographical sectors

The following table breaks down the Group's main credit exposure at their gross amounts ("Due from banks" at carrying amount), as categorised by geographical region at 31 December 2013 and 2012 respectively. For this table, the Group has allocated exposures to regions based on the region of domicile of our counterparties.

In millions of Naira	Group			Bank		
At 31 December 2013	**Due from banks**	**Loans and advances to customers**	**Total**	**Due from banks**	**Loans and advances to customers**	**Total**
Nigeria	153,887	1,148,378	**1,302,265**	97,257	1,148,378	**1,245,635**
Rest of Africa	12,039	52,783	**64,822**	-	-	**-**
Outside Africa	90,803	74,961	**165,764**	152,267	-	**152,267**
	256,729	1,276,122	**1,532,851**	249,524	1,148,378	1,397,902

At 31 December 2012	**Due from banks**	**Loans and advances to customers**	**Total**	**Due from banks**	**Loans and advances to customers**	**Total**
Nigeria	20,717	916,791	**937,508**	12,359	916,791	**929,150**
Rest of Africa	3,498	32,474	**35,972**	-	-	**-**
Outside Africa	157,805	65,261	**223,066**	191,432	-	**191,432**
	182,020	**1,014,526**	**1,196,546**	203,791	916,791	**1,120,582**

(b) Industry sectors

	Group		Bank	
	2013	**2012**	**2013**	**2012**
	Loans and advances to customers	**Loans and advances to customers**	**Loans and advances to customers**	**Loans and advances to customers**
Agriculture	64,696	62,541	60,722	52,541
Oil and gas	193,883	170,890	173,143	160,850
Consumer Credit	30,141	43,182	29,901	35,182
Manufacturing	287,636	244,723	262,848	214,691
Real estate and construction	84,709	72,734	77,101	59,734
Finance and Insurance	25,667	28,208	22,463	20,208
Government	113,801	82,358	102,572	80,695
Power	49,696	4,111	44,938	2,111
Other public utilities	28,208	153	28,192	153
Transportation	93,183	48,661	86,712	51,661
Communication	186,176	141,671	168,041	141,671
Education	3,578	2,038	3,185	2,038
General Commerce	72,058	80,031	64,573	69,031
Others	42,690	33,225	23,987	26,225
	1,276,122	1,014,526	1,148,378	916,791

3.2.9 Credit quality

In millions of Naira	Group			Bank	
At 31 December 2013	**Due from banks**	**Loans and advances to customers**		**Due from banks**	**Loans and advances to customers**
Neither past due nor impaired	256,729	1,237,058		249,524	1,112,512
Past due but not impaired	-	8,147		-	7,889
Impaired					
Individually impaired	-	13,843		-	11,021
Collectively impaired	-	17,074		-	16,956
			6,231		
Gross	256,729	1,276,122		249,524	1,148,378
Impairment allowance					
Specific impairment	-	(7,972)		-	(5,600)
Collective impairment	-	(16,795)		-	(16,219)
	256,729	1,251,355		249,524	1,126,559
At 31 December 2012					
Neither past due nor impaired	182,020	972,580		203,791	878,753
Past due but not impaired	-	10,016		-	9,581
Impaired					
Individually impaired	-	14,480		-	11,992
Collectively impaired	-	17,450		-	16,465
Gross	182,020	1,014,526		203,791	916,791
Impairment allowance					
Specific impairment	-	(10,601)		-	(8,368)
Collective impairment	-	(14,111)		-	(13,069)
	182,020	989,814		203,791	895,354

3.2.9.1 Non-Performing Loans by Industry
At 31 December 2013

	Group N' million 2013	**Group N' million 2012**	Bank N' million **2013**	Bank N' million **2012**
Agriculture	239	649	202	647
Oil and Gas	1,686	2,076	1,642	1,385
Capital Market	1,080	8,010	-	-
Consumer Credit	61	1,850	-	5,030
Manufacturing	2,107	2,259	1,897	1,599
Real Estate and Construction	6,377	2,337	5,588	5,316
Finance and Insurance	7,941	2,580	7,868	2,166
Government	210	498	210	49
Power	1,667	186	1,573	186
Other Public Utilities	209	8	209	8
Transportation	23	636	23	583
Communication	945	2,575	929	2,056
Education	1,830	943	1,830	943
General Commerce/Trading	4,937	7,268	4,754	8,436
Others	1,605	55	1,252	53
	30,917	**31,930**	**27,977**	**28,457**

3.2.9.2 Non-Performing Loans by Geography
At 31 December

	Group N' million 2013	**Group N' million 2012**	Bank N' million **2013**	Bank N' million **2012**
South South	385	816	385	816
South West	25,545	25,402	25,545	25,402
South East	839	676	839	676
North Central	1,186	910	1,186	910
North West	11	108	11	108
North East	11	545	11	545
Rest of Africa	2,896	3,473	-	-
Outside Africa	44	-	-	-
	30,917	**31,930**	**27,977**	**28,457**

(a) Geographical Sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by geographical region at 31 December 2013 together with prior period comparatives. For this table, the Group has allocated exposures to regions based on the domicile region of our counterparties.

	Group		Bank	
At 31 December (N'millions)	**Loans and advances to customers**	**Loans and advances to customers**	**Loans and advances to customers**	**Loans and advances to customers**
	2013	**2012**	**2013**	**2012**
South South	70,109	66,955	70,109	66,955
South West	974,519	783,607	974,519	783,606
South East	17,294	19,607	17,294	19,607
North Central	57,689	16,665	57,689	16,666
North West	7,874	6,933	7,874	6,933
North East	20,893	23,024	20,893	23,024
Rest of Africa	52,783	32,474	-	-
Outside Africa	74,961	65,261	-	-
	1,276,122	1,014,526	1,148,378	916,791

All other financial assets are neither past due nor impaired, except other assets. NGN 3.05 billion of financial assets which are neither past due nor impaired have been renegotiated (2012: NGN 2.9 billion).

(a) Credit portfolio neither past due nor impaired

The credit quality of the portfolio of loans and advances and amounts due from banks that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

	Group		Bank	
At 31 December 2013	**Due from banks**	**Loans and advances to customers**	**Due from banks**	**Loans and advances to customers**
AAA	256,729	814,467	249,524	734,057
AA to A	-	156,932	-	123,644
BBB to BB	-	193,838	-	189,669
Below B	-	35,281	-	32,540
Unrated	-	36,540	-	32,602
		-		
	256,729	1,237,058	249,524	1,112,512

	Group		Bank	
At 31 December 2012	**Due from banks**	**Loans and advances to customers**	**Due from banks**	**Loans and advances to customers**
AAA	182,020	640,001	203,791	579,818
AA to A	-	123,827	-	97,664
BBB to BB	-	152,316	-	149,816
Below B	-	27,723	-	25,703
Unrated	-	28,713	-	25,752
	182,020	972,580	203,791	878,753

The credit quality of cash and balances with central banks, treasury bills, investment securities and other financial assets that were neither past due nor impaired can also be assessed by reference to the internal rating system adopted by the Group.

	Group			Bank		
At 31 December 2013	**Cash and balances with central**	**Treasury bills**	**Investment securities**	**Cash and balances with central**	**Treasury bills**	**Investment securities**
AAA	603,851	586,441	292,471	587,793	572,598	201,869
AA to A	-	-	10,654	-	-	10,654
BBB to BB	-	-	-	-	-	-
Below B	-	-	-	-	-	-
Unrated	-	-	-	-	-	-
	603,851	586,441	303,125	587,793	572,598	212,523

	Group			Bank		
In millions of Naira **At 31 December 2012**	**Cash and balances with central**	**Treasury bills**	**Investment securities**	**Cash and balances with central**	**Treasury bills**	**Investment securities**
AAA	332,515	669,164	289,938	313,546	647,474	247,500
AA to A	-	-	9,405	-	-	9,405
BBB to BB	-	-	-	-	-	-
Below B	-	-	-			
Unrated	-	-	-			
	332,515	669,164	299,343	313,546	647,474	256,905

The credit risk associated with other financial assets that were neither past due nor impaired are considered to be low at 31 December 2013 and 2012.

(b) Credit portfolio past due but not impaired

	Group		Bank	
	2013	**2012**	**2013**	**2012**
	Loans and advances to customers N'millions	**Loans and advances to customers N'millions**	**Loans and advances to customers N'millions**	**Loans and advances to customers N'millions**
Past due up to 30 days	4,701	1,633	4,601	1,364
Past due 30 - 60 days	894	7,999	824	7,844
Past due 60 - 90 days	2,552	384	2,464	373
	8,147	10,016	7,889	9,581
(c) Credit rating of past due but not impaired				
A	7,974	9,318	7,758	9,289
BB	173	698	131	292
	8,147	10,016	7,889	9,581

(d) Credit portfolio individually impaired

In millions of Naira	Group		Bank	
	2013	**2012**	**2013**	**2012**
	Loans and advances to customers N'millions	**Loans and advances to customers N'millions**	**Loans and advances to customers N'millions**	**Loans and advances to customers N'millions**
Gross amount				
BB	10,300	10,120	8,530	8,152
Grade: Below BB	3,543	4,360	2,491	3,840
Specific impairment	(7,972)	(10,601)	(5,600)	(8,368)
	5,871	3,879	5,421	3,624

Included in interest income on loans and advances are amounts totalling N 3,160 million (2012: N4,186 million) and N 2,022 million (2012: N2,308 million) for the Group and Bank respectively which represent interest incomes on impaired financial assets, recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Restructuring policy

Loans with renegotiated terms are loans that have been restructured because the Group has made concessions by agreeing to terms and conditions that are more favorable for the customer than the Group has provided initially. The Group implements restructuring policy in order to maximize collections opportunities and minimize the risk of default.

The group's credit committee may from time to time grant approval for restructuring of certain facilities due to the following reasons;

i. Where the execution of the loan purpose and the repayment is no longer realistic in light of new cash flows.
ii, To avoid unintended default arising from adverse business conditions .
iii. To align loan repayment with new pattern of achievable cash flows.
iv. Where there are proven cost over runs that may significantly impair the project repayment capacity.
v. Where there is temporary downturn in the customer's business environment .
vi. Where the customer's going concern status is NOT in doubt or threatened.

The revised terms of restructured facilities usually include extended maturity, changing timing of interest payments and amendments to the terms of the loan agreement.

Write-off policy

The group writes off a loan balance when the Group's credit department determines that the loan is uncollectable and had been declared delinquent and subsequently classified as lost. This determination is made after considering information such as the continuous deterioration in the customer's financial position, such that the customer can no longer pay the obligation, or that proceeds from the collateral will not be sufficient to pay back the entire exposure. Board approval is required for such write-off. The loan recovery department continues with its recovery efforts and any loan subsequently recovered is treated as other income.

3.3 Market risk

The Group undertakes activities which give rise to a considerable level of market risks exposures (i.e. the risk that the fair value of future cash flows of our trading and investment positions or other financial instrument will fluctuate because of changes 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 manage and control market risk exposure within acceptable parameters, while optimizing the return on risks taken.

3.3.1 Management of market risk

The Group has an independent Market Risk Management unit which assesses, monitors, manages and reports on market risk taking activities across the group. We have continued to enhance our Market Risk Management Framework. The 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 Group'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:

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

The Group proactively manages its Market risk exposures in both the trading and banking books within the acceptable levels.

The Group's Market Risks exposures are broadly categorised into:
(i) **Trading Market Risks -** These are risks that arise primarily through trading activities and Market Making activities. These include position taking in foreign exchange and fixed income securities (Bonds and Treasury Bills).

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

3.3.2 Measurement of Market Risk

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

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

Zenith Group generally does not offer very complex derivative products. However, with the setting up of Financial Market Quotation Plc (FMDQ), it is expected that more sophisicated products will be introduced into the market. We will ensure that adequate capacity (both systems and training/knowledge base) are in place to handle these products as at when they are introduced. The overall size of the trading book is maintained at a very manageable size.

3.3.3 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 Group manages part of the Foreign exchange risks through basic derivatives products and hedges. The risk is also managed by ensuring the Treasury Group operates within approved limits.
For example, Zenith employs the use of Internal limits (for Overall Overnight and Intra-day positions), Dealer limits, as well as individual currency limits which is monitored by the Market Risk Department. There are other limits that are utilised in managing foreign exchange risks.
These limits are set with the aim of minimizing the Group's risk exposures to exchange rates volatilities to an acceptable level. The more volatile currencies are assigned lower limits. The Group's transactions are carried out mainly in seven (7) foreign currencies with a significant percentage of transactions involving US Dollars and British Pounds Sterling (GBP).

The Group's net exposure to foreign currency risk is largely concentrated in US Dollars and British Pounds Sterling.
(a) Group

The table below summarizes the Group's exposure to foreign currency exchange rate risk at 31 December 2013 and 31 December 2012. Included in the table are the Group's financial instruments at carrying amounts (except for loans and advances to customers and other assets which are shown at thier gross amount), categorised by currency.

At 31 December 2013	**Naira**	**Dollar**	**GBP**	**Euro**	**Others**	**Total**
Assets						
Cash and balances with central banks	426,581	119,433	38,064	19,750	23	603,851
Treasury bills	572,598	-	13,789	-	54	586,441
Due from other banks	152,267	81,201	128	2,011	21,122	256,729
Loans and advances to customers (gross)	921,643	296,435	578	-	57,466	1,276,122
Investment securities	212,523	40,249	-	49,729	624	303,125
Other assets (gross)	36,052	-	3,071	-	1,752	40,875
	2,321,664	537,318	55,630	71,490	81,041	3,067,143
Liabilities						
Deposits from customers	1,831,245	424,241	5,852	13,300	2,117	2,276,755
Other liabilities	25,937	168,695	2,423	16,034	2,554	215,643
On-lending facilities	59,528	-	-	-	-	59,528
Borrowings	-	60,150	-	-	-	60,150
	1,916,710	653,086	8,275	29,334	4,671	2,612,076
Net on-balance sheet position	404,954	(115,768)	47,355	42,156	76,370	455,067

At 31 December 2012

In millions of Naira	**Naira**	**Dollar**	**GBP**	**Euro**	**Others**	**Total**
Assets						
Cash and balances with central banks	321,907	660	6,786	58	3,104	332,515
Treasury bills	647,475	-	-	-	21,689	669,164
Due from other banks	12,359	149,924	4,046	-	15,691	182,020
Loans and advances to customers (gross)	836,219	165,184	712	-	12,411	1,014,526
Investment securities	256,905	33,546	6,604	1,019	1,269	299,343
Other assets (gross)	21,770	-	-	-	11,532	33,302
	2,096,635	349,314	18,148	1,077	65,696	2,530,870
Liabilities						
Deposits from customers	1,653,908	190,330	5,259	8,027	71,720	1,929,244
Other liabilities	11,608	88,221	1,954	14,228	1,344	117,355
On-lending facilities	56,066	-	-	-	-	56,066
Borrowings	-	15,138	-	-	-	15,138
	1,721,582	293,689	7,213	22,255	73,064	2,117,803
Net on-balance sheet position	375,053	55,625	10,935	(21,178)	(7,368)	413,067

The Group's exposure to foreign currency risk is largely concentrated in the US Dollar and Pound Sterling. Movement in exchange rate between the US Dollar,GBP and the Nigerian Naira affects reported earnings through revaluation gain or loss and balance sheet size through increase or decrease in the revalued amounts of assets and liabilities denominated in US Dollars or GBP.

The table below shows the impact on the Group's profit and balance sheet size if the exchange rate between the US Dollars,GBP and Nigerian Naira had increased or decreased by 10%, with all other variables held constant.

	2013	**2012**
US Dollars effect of 10% up or (down) movement on profit before tax and balance sheet size	11,577	5,563
GBP effect of 10% up or (down) movement on profit before tax and balance sheet size	4,736	1,093

(b) Bank

The table below summarizes the bank's exposure to foreign currency exchange rate risk at 31 December 2013 and 31 December 2012. Included in the table are the Banks's financial instruments at carrying amounts, categorised by currency.

At 31 December 2013 ***In millions of Naira***	**Naira**	**Dollar**	**GBP**	**Euro**	**Others**	**Total**
Assets						
Cash and balances with central banks	458,572	96,293	15,431	17,497	-	587,793
Treasury bills	572,598	-	-	-	-	572,598
Due from other banks	152,267	96,829	-	428	-	249,524
Loans and advances to customers (gross)	921,643	226,735	-	-	-	1,148,378
Investment securities	212,523	-	-	-	-	212,523
Other assets (gross)	36,052	-	-	-	-	36,052
	2,353,655	419,857	15,431	17,925	-	2,806,868
Liabilities						
Deposits from customers	1,831,245	237,526	2,958	8,133	-	2,079,862
On-lending facilities	59,528	-		-	-	59,528
Borrowings	-	60,150		-	-	60,150
Other liabilities	25,937	157,127	2,167	16,034	-	201,265
	1,916,710	454,803	5,125	24,167	-	2,400,805
Net on-balance sheet position	436,944	(34,946)	10,306	(6,242)	-	406,063

At 31 December 2012 ***In millions of Naira***	**Naira**	**Dollar**	**GBP**	**Euro**	**Others**	**Total**
Assets						
Cash and balances with central banks	313,546	-	-	-	-	313,546
Treasury bills	647,474	-	-	-	-	647,474
Due from other banks	12,359	185,166	4,046	-	2,220	203,791
Loans and advances to customers (gross)	836,219	80,572	-	-	-	916,791
Investment securities	256,905	-	-	-	-	256,905
Other assets (gross)	21,451	-	-	-	-	21,451
	2,087,954	265,738	4,046	-	2,220	2,359,958
Liabilities						
Deposits from customers	1,653,908	141,861	2,378	3,861	-	1,802,008
Other liabilities	11,530	87,749	1,519	14,229	-	115,027
On-lending facilities	56,066	-	-	-	-	56,066
Borrowings	-	15,138	-	-	-	15,138
	1,721,504	244,748	3,897	18,090	-	1,988,239
Net on-balance sheet position	366,450	20,990	149	(18,090)	2,220	371,719

The Bank's exposure to foreign currency risk is largely concentrated in the US Dollar and Pound Sterling . Movement in exchange rate between the US Dollar,GBP and the Nigerian Naira affects reported earnings through revaluation gain or loss and balance sheet size through increase or decrease in the revalued amounts of assets and liabilities denominated in US Dollars and GBP.

The table below shows the impact on the Bank's profit and balance sheet size if the exchange rate between the US Dollars, GBP and Nigerian Naira had increased or decreased by 10%, with all other variables held constant.

	2013	**2012**
US Dollar effect of 10% up or (down) movement on profit before tax and balance sheet size	3,495	2,099
GBP effect of 10% up or (down) movement on profit before tax and balance sheet size	1,031	15

3.3.4 Interest Rate Risk

The Group 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). Interest rate was quite volatile within the year in various geographies where the bank operated. The increase in the Cash Reserve Ratio (CRR) on government deposits to 50% (from 12%) by the Central Bank of Nigeria (CBN) resulted in huge jump in the market rates for sometimes before the market normalised.These changes could have a negative impact on the Net Interest Income, if not properly managed. The Group however, has a significant portion of its liabilities in non-rate sensitive liabilities. This greatly assists it in managing its exposure to interest rate risks. The Group also enjoys some form of flexibility in adjusting both lending and deposits rates to reflect current realities.

Sensitivities analysis are carried out from time to time to evaluate the impact of rate changes on the net interest income(ranging from 1basis point to 500 basis points). The assessed impacts on capital or earnings of the Group are within tolerance level.

(a) Group

The table below summarizes the Group's interest rate gap position:

At 31 December 2013

In millions of Naira	Carrying amount	Rate sensitive	Non rate sensitive
Assets			
Cash and balance with central banks	603,851	255,158	348,693
Treasury and other eligible bills (Amortized cost)	586,441	586,441	-
Due from other banks	256,729	256,729	-
Derivative assets held for risk management	2,681	2,681	-
Loans and advances to customers (gross)	1,276,122	1,276,122	-
Investment securities (Amortized cost and Fair value through OCI)	303,125	303,125	-
Deferred tax assets	749	-	749
Other assets (gross)	40,875	-	40,875
Property and equipment	69,410	-	69,410
Intangible assets	1,935	-	1,935
Total assets	3,141,918	2,680,256	461,662
Liabilities			
Customer deposits	2,276,755	1,089,012	1,187,743
On-lending facilities	59,528	59,528	-
Borrowings	60,150	60,150	-
Current income tax	7,017	-	7,017
Other liabilities	215,643	-	215,643
Deferred income tax liabilities	678	-	678
Total liabilities	2,619,771	1,208,690	1,411,080
Total interest repricing gap	522,147	1,471,566	(949,418)

	Up to 1	1 - 3	3 - 6 months	6 - 12	Over 1 year	Total rate
Financial assets						
Cash and balance with central banks	150,400	-	-	104,758	-	255,158
Treasury bills	120,740	234,094	223,661	7,946	-	586,441
Due from other banks	256,729	-	-	-	-	256,729
Derivative assets held for risk management	2,681	-	-	-	-	2,681
Loans and advances to customers (Gross)	496,418	69,133	52,286	74,612	583,673	1,276,122
Investment in securities (Amortized cost and fair value through OCI)	-	39,384	151	70,755	192,835	303,125
Total assets	1,026,968	342,611	276,098	258,071	776,508	2,680,256
Financial liabilities						
Customer deposits	977,400	94,192	5,282	12,138	-	1,089,012
On- lending facilities	1,309	31,804	2,000	1,560	22,855	59,528
Borrowing	-	-	-	-	60,150	60,150
Total liabilities	978,709	125,996	7,282	13,698	83,005	1,208,690
Total interest repricing gap	48,259	216,615	268,816	244,373	693,503	1,471,566

Group
In millions of Naira

At 31 December 2012	Carrying amount	Rate sensitive	Non rate sensitive
Assets			
Cash and balance with central banks	332,515	152,379	180,136
Treasury and other eligible bills (Amortized cost)	669,164	669,164	-
Due from other banks	182,020	182,020	-
Loans and advances to customers (gross)	1,014,526	1,014,526	-
Investment securities (Amortized cost and Fair value through OCI)	299,343	299,343	-
Deferred tax assets	432	-	432
Other assets (gross)	33,302	-	33,302
Property and equipment	68,782	-	68,782
Intangible assets	1,406	-	1,406
Total assets	2,601,490	2,317,432	284,058
Liabilities			
Customer deposits	1,929,244	1,119,051	810,193
On-lending facilities	56,066	56,066	-
Borrowings	15,138	15,138	-
Current income tax	6,577	-	6,577
Other liabilities	117,355	-	117,355
Deferred income tax liabilities	5,584	-	5,584
Total liabilities	2,129,964	1,190,255	939,709
Total interest repricing gap	471,526	1,127,177	(655,651)

At 31 December 2012	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total rate sensitive
Financial assets						
Cash and balance with central banks	129,969	-	-	22,410	-	152,379
Treasury and other eligible bills (Amortized cost)	118,642	161,776	357,465	30,586	695	669,164
Due from other banks	179,920	-	2,100	-	-	182,020
Loans and advances to customers (gross)	409,039	95,370	31,099	64,611	414,407	1,014,526
Investment Securities (Amortized cost and Fair value through OCI)	18,400	50,545	1,958	45,283	183,157	299,343
Total assets	855,970	307,691	392,622	162,890	598,259	2,317,432
Financial liabilities						
Customer deposits	952,766	110,548	34,596	4,944	16,198	1,119,051
On-lending facilities	1,142	-	270	-	54,654	56,066
Borrowings	318	-	-	697	14,123	15,138
Total liabilities	954,226	110,548	34,866	5,641	84,975	1,190,255
Total interest repricing gap	(98,256)	197,143	357,756	157,249	513,284	1,127,177

The management of interest risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various scenarios. Interest rate movement affects reported income by causing an increase or decrease in net interest income and fair value changes.

The table below shows the impact on the Group's profit before tax if interest rates on financial instruments held at amortized cost or at fair value had increased or decreased by 100 basis points, with all other variables held constant.

	2013	2012
Effect of 100 basis points movement on profit before tax	7,122	5,991

(b) Bank

The table below summarizes the Bank's interest rate gap position:

At 31 December 2013	Carrying amount	Rate sensitive	Non rate sensitive
Assets			
Cash and balance with central banks	587,793	239,167	348,626
Treasury and other eligible bills (Amortized cost)	572,598	572,598	-
Due from other banks	249,524	249,524	-
Loans and advances to customers (gross)	1,148,378	1,148,378	-
Investment securities (Amortized cost and Fair value through OCI)	212,523	212,523	-
Other assets (gross)	36,052	-	36,052
Property and equipment	67,364	-	67,364
Intangible assets	1,703	-	1,703
Total assets	2,875,935	2,422,190	453,745
Liabilities			
Customer deposits	2,079,862	939,012	1,140,850
On-lending facilities	59,528	59,528	-
Borrowings	60,150	60,150	-
Current income tax	5,266	-	5,266
Other liabilities	201,265	-	201,265
Deferred income tax liabilities	-	-	-
Total liabilities	2,406,071	1,058,690	1,347,381
Total interest repricing gap	469,864	1,363,500	(893,636)

	Up to 1	1 - 3	3 - 6 months	6 - 12	Over 1 year	Total rate
Financial assets						
Cash and balance with central banks	100,600	-	-	138,567	-	239,167
Treasury and other eligible bills (Amortized cost)	119,240	233,546	213,066	6,746	-	572,598
Due from other banks	249,524	-	-	-	-	249,524
Loans and advances to customers (gross)	491,899	54,133	41,196	50,647	510,503	1,148,378
Investment securities (Amortized cost and Fair value through OCI)	-	39,384	151	64,098	108,890	212,523
Total assets	961,263	327,063	254,413	260,058	619,393	2,422,190
Financial liabilities						
Customer deposits	888,281	50,430	101	200	-	939,012
On- lending facilities	309	48,511	900	-	9,808	59,528
Borrowings	1,000	6,148	1,100	1,560	50,342	60,150
Total liabilities	889,590	105,089	2,101	1,760	60,150	1,058,690
Total interest repricing gap	71,673	221,974	252,312	258,298	559,243	1,363,500

In millions of Naira

At 31 December 2012	Carrying amount	Rate sensitive	Non rate sensitive
Assets			
Cash and balance with central banks	313,546	133,929	179,617
Treasury and other eligeble bills (Amortized cost)	647,474	647,474	-
Due from other banks	203,791	203,791	-
Loans and advances to customers (gross)	916,791	916,791	-
Investment securities (Amortized cost and fair value through OCI)	256,905	256,905	-
Other assets (gross)	21,451	-	21,451
Property and equipment	66,651	-	66,651
Intangible assets	1,175	-	1,175
Total assets	2,427,784	2,158,890	268,894
Liabilities			
Customer deposits	1,802,008	1,011,815	790,193
On- lending facilities	56,066	56,066	-
Borrowings	15,138	15,138	-
Current incom tax	5,071	-	5,071
Other liabilities	115,027	-	115,027
Deferred income tax liabilities	5,573		5,573
Total liabilities	1,998,883	1,083,019	915,864
Total interest repricing gap	428,901	1,075,871	(646,970)

At 31 December 2012	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total rate sensitive
Financial assets						
Cash and Balance with central banks	83,799	-	-	50,130	-	133,929
Treasury and other eligible bills (Amortized cost)	114,560	161,120	344,144	27,650	-	647,474
Due from other banks	201,691	-	2,100	-	-	203,791
Loans and advances to customers (gross)	425,171	55,817	17,536	48,746	369,521	916,791
Investment securities (Amortized cost and Fair value through OCI)	18,400	49,546	1,000	36,929	141,625	256,905
Total assets	843,621	266,484	364,780	163,455	511,146	2,158,890
Financial liabilities						
Customer deposits	967,296	42,787	334	1,399	-	1,011,816
On-lending facilities	1,142	-	270	-	54,654	56,066
Borrowings	318	-	-	697	14,123	15,138
Total liabilities	968,756	42,787	604	2,096	68,777	1,083,020
Total interest repricing gap	(125,135)	223,696	364,177	161,359	442,369	1,075,870

The management of interest risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various scenarios. Interest rate movement affects reported income by causing an increase or decrease in net interest income and fair value changes.

The table below shows the impact on the Bank's profit before tax if interest rates on financial instruments held at amortized cost or at fair value had increased or decreased by 100 basis points, with all other variables held constant.

	2013	2012
Effect of 100 basis points movement on profit before tax	6,960	6,750

The effect of 100 basis points movement on profit is considered moderate and we do not expect all the rates to move at the same time and in the same direction. This risk can largely be handled by the flexibility in the changing/adjustment rates on loans and deposits.

3.3.5 Equity and commodity price risk

The Group is exposed to equity price risk by holding investments quoted on the Nigerian Stock Exchange (NSE) and other non-quoted investments. Equity securities quoted on the NSE are exposed to movement based on the general movement of the all share index and movement in prices of specific securities held by the Group.

Unquoted equity security held by the Group is a 5% equity holding in African Finance Corporation (AFC) valued at N 9.95 billion (cost 6.4 billion) as at 31 December 2013. The AFC is a private sector-led investment bank and development finance institution which has the Central Bank of Nigeria (CBN) as the single major shareholder (42.5%) with other African financial institutions and investors holding the remaining shares. The AFC operates a US Dollar denominated balance sheet and provides financing in this currency.

The Group does not deal in commodities and is therefore not exposed to any commodity price risk.

3.3.6 Fair value of financial assets and liabilities

(a) Group

Financial instruments measured at amortised cost

In millions of Naira	At 31 December 2013 Carrying value	At 31 December 2013 Fair value	At 31 December 2012 Carrying value	At 31 December 2012 Fair value
Financial assets				
Cash and balances with central banks	603,851	603,851	332,515	332,515
Due from other banks	256,729	254,316	182,020	182,020
Treasury bills (Amortized cost)	586,441	580,929	669,164	648,284
Debt securities (Amortized cost)	290,191	279,926	289,938	247,897
Loans and advances to customers (gross)	1,276,122	1,264,127	1,014,526	863,063
Other assets (gross)	40,875	40,491	33,302	32,554
Financial liabilities				
Deposits from customers	2,276,755	2,276,755	1,929,244	1,805,411
Other liabilities	215,643	213,616	117,355	111,614
Borrowings	60,150	60,002	15,138	10,483
On-lending facilities	59,528	59,382	56,066	38,826

(b) Bank

Financial instruments measured at amortised cost

	At 31 December 2013 Carrying value	At 31 December 2013 Fair value	At 31 December 2012 Carrying value	At 31 December 2012 Fair value
Financial assets				
Cash and balances with central banks	587,793	587,793	313,546	313,546
Due from other banks	249,524	247,179	203,791	203,791
Treasury bills (Amortized cost)	572,598	557,331	647,474	648,284
Debt securities (Amortized cost)	201,280	194,160	247,500	176,341
Loans and advances to customers (gross)	1,148,378	1,137,583	916,791	808,085
Other assets (gross)	36,052	35,713	21,451	20,969
Financial liabilities				
Deposits from customers	2,079,862	2,079,862	1,802,008	1,749,373
Other liabilities	201,265	199,373	115,027	108,130
On-lending facilities	59,528	37,965	15,138	10,483
Borrowings	60,150	60,002	56,066	38,827

(b) Financial instruments measured at fair value

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

1 Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
2 Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or prices) or indirectly (i.e. derived from prices).
3 Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

At 31 December 2013

In millions of Naira	**Level 1**	**Level 2**	**Level 3**
Financial assets			
Derivative assets held for risk management	-	2,681	-
Bonds (FVTPL)	2,280	-	-
Investment securities (quoted)	-	-	-
Investment securities (unquoted)	-	-	10,654
	2,280	2,681	10,654

Reconciliation of Level 3 items

At 31 December 2012	9,405
Gains/(losses) recognised through profit or loss	-
Gains/(losses) recognised through other comprehensive income	549
Purchases	700
Sales	-
Issues	-
Settlements	-
At 31 December 2013	10,654

At 31 December 2012	**Level 1**	**Level 2**	**Level 3**
Financial assets			
Treasury bills (FVTPL)	-	-	-
Bonds (FVTPL)	-	-	-
Investment securities (quoted)	-	-	-
Investment securities (unquoted)	-	-	9,405
	-	-	9,405

Reconciliation of Level 3 items

At 31 December 2011	9,390
Gains/(losses) recognised through profit or loss	
Gains/(losses) recognised through other comprehensive income	15
Purchases	
Sales	
Issues	
Settlements	
At 31 December 2012	9,405

Sensitivity analysis of Level 3 items	**At 31 December 2013**		**At 31 December 2012**	
	Favourable changes	**Un-favourable changes**	**Favourable changes**	**Un-favourable changes**
Financial assets				
Unqouted investment securities	525	(525)	333	(333)

The sensitivity analysis was determined based on 5% increase or decrease in profit of the investee company under normal operating conditions with all other variables held constant.

(c) Fair valuation methods and assumptions

(i) Cash and balances with central banks

Cash and balances with Central banks represent cash held (including mandatory cash reserve requirements of 2012: N180.1 billion, 2011: N106.7 billion) with Central banks of the various jurisdictions in which the Group operates. The fair value of these balances is their carrying amounts.

(ii) Due from other banks

Due from other banks represents balances with local and correspondence banks, inter-bank placements and items in the course of collection. The fair value of the current account balances, floating placements and overnight deposits are their carrying amounts.

(iii) Treasury bills and investment securities

Treasury bills represent short term instruments issued by the Central banks of the jurisdiction where the Group has operations. The fair value of treasury bills and bonds at fair value through profit or loss are determined with reference to quoted prices (unadjusted) in active markets for identical assets. The estimated fair value of treasury bills and bonds at amortized cost represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The fair values of quoted equity securities are determined by reference to quoted prices (unadjusted) in active markets for identical instruments. The fair value of the unquoted equity holding in AFC is determined on the basis of the discounted cashflow methodology which takes into account the discounted stream of future income and free cashflows of the investement. Subsequently,the percantage holding of the Bank is then applied on the derived company value.

(iv) Loans and advances to customers

Loans and advances are carried at amortized cost net of provision for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(v) Other assets

Other assets represent monetary assets which usually has a short recycle period and as such the fair values of these balances approximate their carrying amount.

(vi) Customer deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair values of fixed interest-bearing deposits and borrowings are determined using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

3.4 Liquidity risk

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

3.4.1 Liquidity risk management process

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

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

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

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

3.4.2 Funding approach

Our sources of liquidity are regularly reviewed by both the ALCO and the Treasury Group in order to avoid undue reliance on large individual depositors and ensure that a satisfactory overall funding mix is maintained at all times. The funding strategy is geared toward ensuring effective diversification in the sources and tenor of funding. The Group however places greater emphasis on demand deposits as against purchased funds in order to minimize the cost of funding.

3.4.3 Liquidity gap analysis

The table below presents the cash flows payable by the Group under financial liabilities and other liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

(a) Group

At 31 December 2013

In millions of Naira	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total
Cash and balances with central banks	279,040	-	-	324,811	-	603,851
Treasury bills	120,740	234,094	223,661	7,946	-	586,441
Due from other banks	256,729	-	-	-	-	256,729
Derivative assets held for risk management	2,681	-	-	-	-	2,681
Loans and advances to customers (gross)	496,418	69,133	52,286	74,612	583,673	1,276,122
Investment securities	-	39,384	151	70,755	192,835	303,125
Investments in associates	-	-	-	-	165	165
Deferred tax assets	-	-	-	-	749	749
Other assets (gross)	6,354	-	34,521	-	-	40,875
Assets classified as held for sale	-	-	30,454		-	30,454
Property and equipment	-	-	-	23,312	46,098	69,410
Intangible assets	-	-	-	-	1,935	1,935
Total assets	1,161,962	342,611	341,073	501,436	825,455	3,172,537
Liabilities						
Deposits from customers	2,165,143	94,192	5,282	12,138	-	2,276,755
Current income tax	-	-	-	7,017	-	7,017
Deferred tax	-	-	-	-	678	678
Other liabilities	149,256	-	-	45,256	21,131	215,643
On-lending facilities	1,309	31,804	2,000	1,560	22,855	59,528
Borrowings	-	-	-	-	60,150	60,150
Liabilities classified as held for sale	-	-	14,111	-	-	14,111
	2,315,708	125,996	21,393	65,971	104,814	2,633,882
Net liquidity gap	(1,153,746)	216,615	319,680	435,465	720,641	538,655
Cummulative gap	(1,153,746)	(937,131)	(617,451)	(181,986)	538,655	

At 31 December 2012
In millions of Naira

Assets	Up to 1	1 - 3	3 - 6 months	6 - 12	Over 1 year	Total
Cash and balances with central banks	129,969	-	-	202,546	-	332,515
Treasury bills	118,642	161,776	357,465	30,586	695	669,164
Due from other banks	179,920	-	2,100	-	-	182,020
Loans and advances to customers (gross)	409,039	95,370	31,099	64,611	414,407	1,014,526
Investment securities	18,400	50,545	1,958	45,283	183,157	299,343
Investments in associates	-	-	-	-	420	420
Deferred tax assets	-	-	-	-	432	432
Other assets (gross)	15,394	10,106	14	7,773	15	33,302
Assets classified as held for sale	-	-	31,943	-	-	31,943
Investment property	-	-	-	-	-	-
Property and equipment	-	-	-	18,093	50,689	68,782
Intangible assets	-	-	-	-	1,406	1,406
Total assets	871,364	317,797	424,579	368,892	651,221	2,633,853
Liabilities						
Deposits from customers	1,762,958	110,548	34,596	4,944	16,198	1,929,244
Current income tax	-	-	-	6,577	-	6,577
Deferred tax	-	-	-	-	5,584	5,584
Other liabilities	56,518	21	-	37,460	23,356	117,355
On-lending facilities	11,088	13,276	-	1,787	29,915	56,066
Borrowings	2,994	3,584	-	483	8,077	15,138
Liabilities classified as held for sale	-	-	11,584	-	-	11,584
	1,833,558	127,429	46,180	51,251	83,130	2,141,548
Net liquidity gap	(962,194)	190,368	378,399	317,641	568,091	492,305
Cummulative gap	(962,194)	(771,826)	(369,691)	(75,786)	492,305	

(a) Bank

At 31 December 2013 *In millions of Naira*	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**Over 1 year**	**Total**
Cash and balances with central banks	263,693	-	-	324,100	-	587,793
Treasury bills	119,240	233,546	213,066	6,746	-	572,598
Due from other banks	249,524	-	-	-	-	249,524
Loans and advances to customers (gross)	491,899	54,133	41,196	50,647	510,503	1,148,378
Investment securities	-	39,384	151	64,098	108,890	212,523
Investment in subsidiaries	-	-	-	-	24,375	24,375
Investments in associates	-	-	-	-	90	90
Other assets (gross)	10,991	-	-	25,061	-	36,052
Assets classified as held for sale	-	-	-	4,749	-	4,749
Property and equipment	-	-	-	23,313	44,051	67,364
Intangible assets	-	-	-	-	1,703	1,703
Total assets	1,135,347	327,063	254,413	498,714	689,612	2,905,149
Liabilities						
Deposits from customers	1,985,581	84,050	211	10,020	-	2,079,862
Current income tax	-	-	-	5,266	-	5,266
Other liabilities	152,409			30,874	17,982	201,265
On-lending facilities	1,309	31,804	2,000	1,560	22,855	59,528
Borrowings	-	-	-	-	60,150	60,150
	2,139,299	115,854	2,211	47,720	100,987	2,406,071
Net liquidity gap	(1,003,952)	211,209	252,202	450,994	588,625	499,078
Cummulative gap	(1,003,952)	(792,743)	(540,541)	(89,547)	499,078	

At 31 December 2012 **Assets**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**Over 1 year**	**Total**
Cash and balances with central banks	133,929	-	-	179,617	-	313,546
Treasury bills	114,560	161,120	344,144	27,650	-	647,474
Due from other banks	201,691	-	2,100	-	-	203,791
Loans and advances to customers (gross)	425,171	55,817	17,536	48,746	369,521	916,791
Investment securities	18,400	49,546	1,000	36,929	151,030	256,905
Investment in subsidiaries	-	-	-	-	24,375	24,375
Investments in associates	-	-	-	-	463	463
Other assets (gross)	15,390	-	-	6,061	-	21,451
Assets classified as held for sale	-	-	10,338	-	-	10,338
Property and equipment	-	-	-	17,184	49,467	66,651
Intangible assets	-	-	-	-	1,175	1,175
Total assets	909,141	266,483	375,118	316,187	596,031	2,462,960
Liabilities						
Deposits from customers	1,757,489	42,787	333	1,399	-	1,802,008
Current income tax	-	-	-	5,071	-	5,071
Deferred tax	-	-	-	-	5,573	5,573
Other liabilities	50,417	-	-	25,512	39,098	115,027
On-lending facilities	11,088	13,276	-	1,787	29,915	56,066
Borrowings	2,994	3,584	-	483	8,077	15,138
Liabilities classified as held for sale	-	-	-	-	-	-
	1,821,988	59,647	333	34,252	82,663	1,998,883
Net liquidity gap	(912,847)	206,836	374,785	281,935	513,368	464,077
Cummulative gap	(912,847)	(706,011)	(331,226)	(49,291)	464,077	

3.5 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 Group’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 Group's assessment and against the supervisory/regulatory capital requirements taking account of the Group business strategy and value creation to all its stakeholders.

The Group prides itself in maintaining very healthy capital adequacy ratio in all its areas of operations. Capital levels are determined either based on internal assesments or regulatory requirements.

The Capital Adequacy of the Group is reviewed regularly to meet regulatory requirements and standard of international best practises 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 Group 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.

The group has consistently met and surpassed the minimum capital adequacy requirments applicable in all areas of operations.

Most of the Group'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. We support and meet all capital requests from these regulatory jurisdictions and determine the adequacy based on our expansion strategies and internal capital assessments.

The Group’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 Group's capital adequacy remains strong and the capacity to generate and retain reserves continues to grow.

The Group will only seek additional capital where it finds compellling 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 group to meet its capital growth requirements:
1. **Profit from Operations :**The Group has consistently reported good profit which can easily be retained to support the capital base.
2. **Issue of Shares:** The Group can successfully access the capital market to raise desired funds for its operations and needs.
3. **Bank Loans (Long Term/short Term):**

The table below shows the computation of the Group's capital adequacy ratio for the year ended 31 December 2013 as well as the 2012 comparatives. During those two years, the individual entities within the Group complied with all of the externally imposed capital requirements to which they are subject.

		Group	Group	Bank	Bank
In millions of Naira		2013	2012	2013	2012
Tier 1 capital					
Share capital		15,698	15,698	15,698	15,698
Share premium		255,047	255,047	255,047	255,047
Statutory reserves		57,762	45,199	57,710	45,198
Contingency reserve		1,371	997	-	-
SMEIES reserve		3,729	3,729	3,729	3,729
Retained earnings		161,144	130,153	126,678	106,010
Credit risk reserve		10,697	10,243	10,243	10,243
Non- controlling interest		4,015	3,272	-	-
Total qualifying Tier 1 capital		509,463	464,338	469,105	435,925
Deferred tax assets		(749)	(432)	-	-
Intangible assets		(1,935)	(1,406)	(1,703)	(1,175)
Adjusted Total qualifying Tier 1 capital		506,779	462,500	467,402	434,750
Tier 2 capital					
Revaluation reserve - investment		3,499	2,285	3,517	2,078
Translation reserve		(5,683)	(3,667)	-	-
Total qualifying Tier 2 capital		(2,184)	(1,382)	3,517	2,078
Total regulatory capital	(A)	504,595	461,118	470,919	436,828
Risk-weighted assets					
On-balance sheet		1,456,562	1,166,719	1,329,965	1,079,887
Off-balance sheet		493,442	385,941	466,134	353,438
Total risk-weighted assets	(B)	1,950,004	1,552,660	1,796,099	1,433,325
Risk-weighted Capital Adequacy Ratio (CAR)	**(A/B)**	**26%**	**30%**	**26%**	**30%**

3.6 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. Operational Risk is considered as a critical risk faced by the Group.

The group proactively identifies, assesses and manages all operational risks 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 includes the following:
- To provide clear and consistent direction in all operations of the group
- To provide a standardised framework and appropriate guidelines for creating and managing all operational risk exposures
- To enable the group identify and analyse events (both internal and external) that impact on its business.

The Operational Risk Unit constantly carry out reviews to identify and assess the operational risk inherent in all material products, activities, processes and systems. It also ensures that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is identified clearly and subjected to adequate assessment procedures.

There was no significant operational risk incidence during the financial year across the group.

3.7 Strategic risk

Strategic risk examines the impact of design and implementation of business models and decisions, on earnings and capital as well as the responsiveness to industry changes. This responsibility is taken quite seriously by the Board and Executive Management of the Group and deliberate steps are taken to ensure that the right models are employed and appropriately communicated to all decision makers in the Group. The execution, processes and constant reviews ensures that strategic objectives are achieved. This has essentially driven the Group's sound banking culture and performance record to date.

3.8 Legal risk

Legal risk is defined as the risk of loss due to defective contractual arrangements, legal liability (both criminal and civil) incurred during operations by the inability of the organisation to enforce its rights, or by failure to address identified concerns to the appropriate authorities where changes in the law are proposed.

The Group manages this risk by monitoring new legislation, creation of awareness of legislation amongst employees, identification of significant legal risks as well as assessing the potential impact of these.

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

The Group also has a team of well experienced professionals who handle legal issues across the Group.

3.9 Reputational risk

It is recognised that the Group's reputation may suffer adversely due to bad publicity, non-compliance with regulatory rules and legislation, which may lead to a significant drop in new business and/or a significant increase in the number of lapses and/or withdrawals.

The Group promotes sound business ethics among its employees.

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

The Group did not record any issue with major reputational effect in the financial year.

3.10 Taxation risk

Taxation risk refers to the risk that new taxation laws will adversely affect the Group and/or the loss of non-compliance with tax laws.

The taxation risk is managed by monitoring applicable tax laws, maintaining operational policies that enable the Group to comply with taxation laws and, where required, seeking the advice of tax specialists.

This risk is well managed across the group.

3.11 Regulatory risk

The Group manages the regulatory risk it is potentially exposed to by monitoring new regulatory rules and applicable laws, and the identification of significant regulatory risks. The Group strives to maintain appropriate procedures, processes and policies that enable it to comply with applicable regulation.

The Group has continued to maintain zero tolerance posture for any regulatory breaches in all its area of operations.
The strengthening of Compliance Group during the financial year has further enhanced the process of management of regulatory risk across the Group.

3.12 Insurance risk

Insurance risk is the risk that future risk claims and expenses will exceed the value placed on insurance liabilities. It occurs due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, persistency and expenses about which assumptions are made in order to place a value on the liabilities. Deviations from assumptions will result in actual cash flows differing from those projected in the policyholder liability calculations. As such, each assumption represents a source of uncertainty.

3.12.1 Mortality and morbidity risks

The risk that actual experience in respect of the rates of mortality and morbidity may vary from what is assumed in pricing and valuation, depending on the terms of different products. The material classes of business most affected by these risks are discussed below:

(a) Individual life products – Term assurance, Mortgage protection, Savings Plan

Products are sold directly to individuals providing a benefit on death. The main insurance risk relates to the possibility that rates of death may be higher than expected. This may be due to:

- Normal statistical variation due to the random nature of the insured events;
- Natural catastrophes such as floods, and unnatural catastrophes such as acts of terrorism;
- The impact of HIV/AIDS or other health epidemics;
- Anti-selection such as where a policyholder with a pre-existing condition or disease purchases a product where a benefit will be paid on death;
- The effect of selective withdrawal; and
- Concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area.

For contracts with fixed and guaranteed benefits (such as the minimum death benefits available on savings plan policies) and fixed future premiums, there are no mitigating terms that reduce the risk accepted by Group. The Group therefore employs some underwriting controls to ensure that only acceptable risks are accepted.
The following additional controls and measures are in place in order to ensure that the Group manages its exposure to mortality risk:

- Claims assessment processes to ensure only valid claims are paid;
- Reinsurance to limit liability on particularly large claims or substandard risks; and
- Concentration risk is reduced by diversification of business over a large number of independent lives, as well as by taking out catastrophe reinsurance.

(b) Group life products
Employee benefit products provide life cover to members of a group, such as employees of companies or members of trade unions.

An aggregate stop-loss reinsurance agreement is in place to ensure that the Group's exposure to the aggregate mortality risk in its group life business is managed and limited to a specified limit.

In addition, there is a catastrophe reinsurance treaty in place for both group business and individual business. Such a treaty is particularly important for the group life business as there are considerably more concentrations of risks compared to individual business.

(c) Deposit administration
Deposit administration contracts provide a guaranteed life annuity conversion at the maturity of the contract. The mortality risk in this case is that the policyholders may live longer than assumed in the pricing of the contract. This is known as the risk of longevity.

The Group manages this risk by allowing for improvements in mortality when pricing and valuing the contracts. The Group also performs more detailed actuarial experience investigations and adjust assumptions in pricing for new contracts and valuation of existing contracts when necessary.

3.12.2 Claims experience risk

In terms of the short-term insurance contracts held by the Group, the claims experience risk for these policies is that the number of claims and/or the monetary claim amounts are worse than that assumed in the pricing basis.

The Group manages this risk by charging premiums which are appropriate to the risks under the insurance contracts.

Under the short-term insurance products, the Group also holds a concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area. This risk is reduced by diversification over a large number of uncorrelated risks, as well as taking out catastrophe reinsurance.

3.12.3 Persistency risk

Persistency risk relates to the risk that policyholders may withdraw their benefits and terminate their contracts prior to the contractual maturity date of the contract. Expenses such as commission and acquisition expenses are largely incurred at the outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges from the contract. Therefore, if the contract is terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred.

Where a surrender benefit is payable, the benefit amount on withdrawal normally makes provision for recouping any outstanding expenses. However, losses may still occur if the expenses incurred in respect of the policy exceed the value of the policy, or where the withdrawal benefit does not fully allow for the recovery of all unrecouped expenses. This may either be due to a regulatory minimum surrender benefit applying, or because of product design.

3.12.4 Expense risk

There is a risk that the Group may experience a loss due to actual expenses being higher than those assumed when pricing and valuing policies. This may be due to inefficiencies, higher than expected inflation, lower than expected volumes of new business or higher than expected terminations resulting in smaller in-force policies.

To manage this risk, the Group performs expense investigations annually and sets pricing and valuation assumptions to be in-line with the actual expenses experience, with allowance for inflation.

The Group’s exposure to unexpected increases in the inflation rate is expected to be minimal due to the short-term nature of their business and their ability to review premium rates at renewals (typically on an annual basis).

3.12.5 Business volume risk

There is a risk the Group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs are variable and relate directly to sales volumes.

3.12.6 Capital adequacy risk

There is a risk that the capital held by the Group to back its insurance liabilities may prove to be inadequate on a regulatory solvency basis. This may then lead to intervention by the Regulator and may further lead to a fall in the reputation of the group (see Reputational risk below for further details). At an extreme, the Regulator may require the Group to close to new business. This will have a further negative impact on the Group.

This risk is monitored and assessed by performing annual valuations on the life insurance liabilities performed by an independent valuation actuary, calculating the outstanding claims reported (OCR) and Incurred But Not Reported (IBNR) contingency reserves, monitoring any regulatory rules applying to the assets and the adequacy of the assets to back the liabilities and adopting an investment strategy which is aimed at investing in admissible assets and maintaining adequate capital.

In addition, sensitivity and scenario analysis are performed to assess the Group capital adequacy under various scenarios and to ensure that the Group will remain financially sound under some stress economic conditions.

3.12.7 Asset liability matching risk

Due to the short-term nature of the Group’s insurance business, most of the liability cash flows will be of short-term nature. The asset liability matching risk lies in the risk that the cash inflows from the assets held will not match liability cash outflows in terms of timing and/or amounts. Therefore, the risk arises that Group will be unable to meet policyholder obligations. In this case, the asset liability mismatch risk is similar to liquidity risk described in liquidity risk.

3.12.8 Assumption risk

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality, morbidity, termination rates, expenses and investment performance. The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected, and, in the extreme, that the actual claims and benefits exceed the liabilities. The risk is mitigated to an extent through:

- The addition of margins, specifically where there is evidence of moderate or extreme variation in experience;
- The use of appropriate sources of data; and
- Regular actual versus expected investigations.

Due to the short-term nature of the Group’s business, exposure to unexpected changes in trends in experience is minimal since premium rates are reviewable at renewal.

3.12.9 Data risk

Data risk is the risk that data used in the policyholders' liabilities valuation calculations are inaccurate or incomplete and, therefore, are not a true and accurate view of the insurance contracts held by the Group. The data could be inaccurate or incomplete due to incorrect data or valuation extracts between the policy administration system and the actuarial valuation model and/or incorrect capturing of data on the policy administration system.

This risk is managed by the Group through regular data integrity testing in order to assess the appropriateness, accuracy and credibility of the various data sets as well as investigations into data exceptions reported.

Where insufficient internal data is available, the Group makes use of external sources to derive its pricing and valuation assumptions. Frequent monitoring of these external sources is performed, including actual versus expected investigations.

3.12.10 Model risk

There is a risk that the Group may suffer a loss if the model used to calculate the insurance liabilities does not project expected cash flows under the insurance contracts accurately. The expected cash flow projections may be inaccurate either due to the model itself being incorrect, inappropriate to the policies being valued or inaccurate and/or the underlying assumptions used in the model being inappropriate.

The Group makes use of an independent valuation actuary to value its liabilities. The models being used to value the liabilities are, therefore, not internal to but belong to an external third party. The model risk underlying the use of third party models are addressed by:

- Regular actual versus expected cash flow investigations to assess the appropriateness of the external models; and
- Detailed investigations are performed annually to ensure the integrity of the data used in the valuation process.

3.12.11 Insurance premium rating

(a) Individual life products – Term-assurance, Mortgage protection and Savings Plan
The price for an individual life product is adjusted for the following risk factors:

- Age;
- Gender;
- Smoker status;
- Medical conditions;
- Financial condition; and
- Hazardous pursuits.

The Group employs the following additional controls and measures to ensure that only acceptable risks are accepted and risks are appropriately priced:

- Underwriting controls, with risk classification based on the above risk factors;
- Regular review of premium rates; and
- Appropriate policy conditions, including any exclusion on the cover on the individual's life.

Premium rates are guaranteed for the period up to the renewal of a policy, typically, after 1 year.

(b) Deposit administration
Premium rating on deposit administration policies distinguishes between the ages and gender of prospective policyholders. Annual premiums, payable up front, are repriced at renewal of the deposit administration policies.

(c) Group life products
Underwriting on group business is much less stringent than for individual business, as there is typically less scope for anti-selection. The main reason for this is that participation in the group schemes is normally compulsory, and members have limited choice in the level of the benefits.

Group policies are priced using standard mortality tables. The price for an individual scheme is adjusted for the following risk factors:

- Region;
- Salary structure;
- Gender structure; and
- Industry.

For large schemes, a scheme's past experience is a crucial input in setting rates for the scheme. The larger the scheme the more weight is given to the scheme's past experience. Rates are guaranteed for one year and reviewable at the renewal of the policy.

(d) Short-term insurance products
Underwriting on short-term insurance products takes the form of the insurance applicant completing a proposal form. The following risk factors are used in the risk classification:

- Age and gender of the insured driver or operator;
- Value of the item(s) to be covered;
- Use of the item(s) to be insured, for example, premium rates distinguish business and personal use for vehicle cover;
- Physical condition of the item(s) to be insured;
- Safety and security features installed; and
- Past claims experience, for example, the premium rate payable on vehicle cover reflects the past claims experience on the vehicle and driver to be insured.

Where the value of the item(s) to be insured exceeds a pre-specified limit, the underwriting becomes more stringent. This is particularly the case for marine and aviation cover. In this case the Group makes use of specialist underwriting agents to assess the risks and set an appropriate premium for cover.

Premium rates are guaranteed for the period up to the renewal of a policy, typically, after 1 year.

3.13 Sustainability Report

Zenith Group is committed to sustainable development and the responsible stewardship of resources. This implies developing solutions that link economic success with social responsibility, which requires balancing short and long term goals and interests and integrating economic, environmental and social considerations into business decisions across the board.

3.13.1 External Principles

(a) Sustainable Lending

Sustainability of the environment is central to the Zenith Group, and its wider social and environmental impact is of concern. Zenith Bank goes beyond concerted efforts to minimise energy usage internally and dispose of waste responsibly, to also having in place lending policies that promote sustainable lending and ensure high environmental standards.

(b) Integrating environmental impact considerations into business decisions across the group

Zenith has established an environmental guideline, management system and governance model that integrates environmental impact considerations into lending decisions across the group with initial focus on some significant sectors/industries. The group's lending policies has been redesigned to ensure that facilities are not extended to industries that engage in illegal activities, pollute the environment, have no proper pollution control methods, are involved in manufacturing and selling arms, as well as those engaged in activities that involve harmful or exploitative forms of forced labour or child labour.

Zenith has in place an Environmental and Social Management System (ESMS) where the Group does a social and environmental risk analysis for borrowers and takes measures to avoid, mitigate and minimise the risks identified. The ESMS of the Bank identifies Environmental & Social (E&S) risks in the projects/companies the bank finances and encourages mitigatory action by these groups to minimize such risks at a very early stage of the credit evaluation.

3.13.2 Internal Principles

(a) Energy Saving Measures

Environmentally responsible practices involve identifying, assessing and seeking to reduce the direct and indirect environmental impact of our services.

Mindful of its carbon footprint, Zenith Group has taken measures to neutralise and minimise its adverse impact on the environment. As a service- oriented organisation, reduction of energy consumption could be identified as being the most significant contribution towards reducing our Carbon Footprint. The group has taken several measures to minimise energy consumption. Consequent to carrying out a comprehensive Energy Audit, improvements have been implemented in the areas of lighting and energy management.

(b) Waste Reduction & Recyclin g

The Bank continually promotes reduced paperless culture where employees are encouraged to use electronic communications, online approvals and other web- based applications, and to print documents only when required. Document workflows are automated, which minimizes paper usage.

(c) Employee Relation s

Zenith Group believes that its people are the driving force behind its success and the main competitive advantage that positions it ahead of competition. The group is of the view that its future lies in a committed team of individuals who are convinced of their future at the organisation.

To this end, Zenith remains committed to creating a healthy, safe and fulfilling work environment that supports personal growth, encourages individuality and instigates team spirit. The group organizes numerous training programs covering soft skills, negotiation skills to personality development and encourages all staff to participate actively.

(d) Diversity

Zenith Group recognizes the need to promote a diverse workforce as a means to attracting top-flight talent and enhancing its competitive advantage. It further recognizes that each employee brings to the workplace experiences and capabilities that are as unique as the individual.

The group treats all employees fairly and the group do not discriminate on the basis of gender, race, colour, nationality, religious belief or any other distinctive attribute. Furthermore, we take steps to assure that underrepresented groups continue to have access to available opportunities within the organisation and that they are upwardly mobile within the system at all managerial levels within the group.

(e) Financial Inclusion

Financial Inclusion is achieved when adults have easy access to a broad range of financial products designed according to their needs and provided at affordable costs. Promoting financial inclusion is essential to building a sustainable, vibrant and robust financial system. Financial literacy on the other hand is a state that is achieved when all economic agents or bankable public know, understand and develop the ability to evaluate and assess financial products and services or transact in financial markets.

Zenith as a key stakeholder in the Nigerian financial services landscape supports efforts to promote financial inclusion and literacy and views same as a responsibility it owes the un-banked public. We take steps to reduce the preponderance of adults without access to suitable financial products and explore opportunities to promote financial literacy. Some of our initiatives in this area include the introduction of eaZymoney the bank's flagship mobile banking product with agency partners in remote areas of the country. The group is also establishing a public enlightenment group to deliver financial literacy content at regular customer forums.

(f) Occupational Health & Safety

The health and safety of employees, customers and other stakeholders is of paramount importance to the group. The group constantly seek to identify and reduce the potential for accidents or injuries in all its operations. There is ongoing training of health and safety officers in line with the group's health and safety policy. There is also adequate communication of the health and safety policies across the group to ensure staff are conversant with its content.

(g) Supply Chain Management

The group will continue to work in active partnership with its suppliers to help them manage their own social and environmental risks, particularly those firms who have more significant impacts than it does and those in countries, where the regulatory framework is sometimes not as stringent as our standards. The group is also committed to treating its suppliers with respect, especially in areas such as contract terms and conditions and payment terms.

We continue to adopt a risk-based approach to managing our supply chain's sustainability impacts. We conduct an initial risk assessment of all new suppliers which allows us to determine whether the supplier, or its products and services, present a high level of risk in commercial, social, environmental or ethical terms. All suppliers assessed to be 'high risk' have specific requirements to address these risks included in their contracts with Zenith

(h) Active Engagements

In demonstrating our commitment to sustainability and greater market transparency, Zenith actively contributed to the development of the Nigeria Sustainability Banking Principles, which aims to introduce good practice for banks to consider and mitigate the environmental and social risks associated with their business operation; and deliver positive impacts to the society, while protecting the communities and environments in which the they operate.

The Group also worked with a number of banks, organisations and multilateral institutions to help raise awareness of environmental and social issues and contribute to the wider public debate. For example, from 2012, the bank has been working with International Finance Corporation (IFC), The Bankers Committee, United Nations Environment Programme Finance Initiative (UNEP FI) on sustainability to develop cross-industry capacity.

The group is a member of UNEP FI and continues to foster other partnership arrangements.

4. Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recognised, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The specific component of total allowance for impairment applies to credits evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgment about a customer's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimates of cash flows considered recoverable are independently reviewed and approved.

Collectively assessed impairment allowances cover credit losses inherent in portfolios with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot be identified. In assessing the need for collective loan assessment, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In estimating the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameter, based on historical experience and current economic conditions. The accuracy of allowance depends on how well future cash flows and the model assumptions and parameters are estimated.

4.2 Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market prices requires the use valuation techniques as described in note 3.3.6(c). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

i) Level 1 : Quoted market price(unadjusted) in an active market for an identical instrument.

ii) Level 2 : Valuation techniques based on observable inputs, either directly - i.e , as prices - or indirectly - i.e derived from prices. This category includes instruments valued using : quoted market prices in active markets for similar instruments ; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data

iii) Level 3 : Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instrument that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are requried to reflect differences between the instruments.

4.3 Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the groupwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4.4 Determining the value of liabilities under insurance contracts

4.4.1 Mortality

The Group's life assurance business is very small and therefore the Group does not have sufficient credible data to set its own mortality assumptions based on the mortality experience of its policyholders. Zenith relies on an independent actuary to set the mortality assumptions based on standard mortality tables, with appropriate adjustments.

4.4.2 Expenses

(a) Group life, term-assurance and mortgage protection products
The Group makes an explicit allowance for expenses of 40% of the gross premiums received, consistent with past experience.

(b) Deposit administration, Savings plan
No explicit assumption has been set to the level of the expenses. It has been assumed that the interest margin (excess of interest earned over interest paid on life funds) will be sufficient to cover future expenses that will be incurred.

(c) Non-life insurance
Annual expense investigations are carried out on non-life insurance policies. Further expense analyses are performed to split expenses between different lines of business, e.g. motor vehicle, aviation and marine insurance, as well as different functions, e.g. initial, renewal and management, termination as well as investment expenses. The expense assumptions for non-life insurance products are then set in-line with this expense investigation, with an additional allowance for inflation.

4.4.3 Prudential Adjustments

Provisions under prudential guidelines are determined using the time based provisioning prescribed by the Revised Central Bank of Nigeria (CBN) Prudential Guidelines. This is at variance with the incurred loss model required by IFRS under IAS 39. As a result of the differences in the methodology/provision, there will be variances in the impairments allowances required under the two methodologies.

Paragraph 12.4 of the revised Prudential Guidelines for Deposit Money Banks in Nigeria stipulates that Banks would be required to make provisions for loans as prescribed in the relevant IFRS Standards when IFRS is adopted. However, Banks would be required to comply with the following:

(a) Provisions for loans recognised in the profit and loss account should be determined based on the requirements of IFRS. However, the IFRS provision should be compared with provisions determined under prudential guidelines and the expected impact/changes in general reserves should be treated as follows:

• Prudential Provisions is greater than IFRS provisions; the excess provision resulting should be transferred from the general reserve account to a "regulatory risk reserve".

• Prudential Provisions is less than IFRS provisions; IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve account

(b) The non-distributable reserve should be classified under Tier 1 as part of the core capital.

During the year ended 31 December 2011, the Bank transferred an amount of N10,243 million to the Credit risk reserve. This amount represents the difference between the provisions for credit and other known losses as determined under the prudential guideline issued by the Central Bank of Nigeria (CBN), and the impairment reserve as determined in line with IAS 39 as at the year then ended.

In line with the same directive of the CBN, the Bank has maintained this credit risk reserve as at 31 December 2013, by comparing the provision and impairment as determined under both bases. A reconciliation of this amount is provided below:

		N'million	N'million
Provision for loan losses per prudential guidelines			
Loans and advances			30,415
Other financial assets			6,837
			37,252
Impairment assessment under IFRS			
Loans and advances			
Specific allowance for impairment	20(b)	5,600	
Collective allowance for impairment	20(b)	16,219	
		21,819	
Other financial assets			
Specific allowance for impairment on associated companies	23	1,222	
Specific allowance for impairment on other assets	25	4,637	
			(27,678)
Required credit reserve as at year end			9,574

Although the expected closing credit risk reserve balance (as per the reconciliation above) is **N 9.57 billion**, the credit risk reserve was left unchanged at **N10,243 million** because the Bank's directors are of the opinon that it is more prudent to maintain the credit risk reserve at the balance as at 31 December 2013.

5. Segment analysis

The Group's strategic divisions offer different products and services, and are managed seperately based on the Group's management and internal reporting structure. For each of the strategic divisions, the Group's Executive Management (Chief Operating Decision Maker) reviews internal management reports on a monthly basis.

The Group's operations are primarily organised on the basis of its products and service offerings in Nigeria, while the banking operations outside Nigeria are reported seperately for Africa and Europe. The following summary describes each of the Group's reportable segments:

(i) Corporate, Retail Banking and pension custodial services - Nigeria

This segment provides a broad range of banking and pension custodial services to a diverse group of corporations, financial institutions, investment funds, governments and individuals.

(ii) Treasury and Investment Management - Nigeria

Provision of investment advisory, financial planning services and investment product offerings (primarily through separately managed accounts such as mutual funds and private investment funds) to a diverse group of institutions and individuals. It also includes brokerage services, financing services and securities lending services to institutional clients, including mutual funds, pension funds and to high-net-worth individuals.

(iii) Insurance - Nigeria

The Group’s insurance operations in Nigeria write substantially all lines of insurance other than title insurance while its life and health insurance operations offer a broad line of individual and group life, annuity and accident and health policies.

(iv) Outside Nigeria Banking - Africa and Europe

These segments provide a broad range of banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals outside Nigeria. The reportable segments covers banking operations in other parts of Africa (Ghana, Sierra Leone and The Gambia) and Europe (the United Kingdom).

(v) All other segments

These segments provide share registration and funds trusteeship services in Nigeria. None of these individual activities or services constitutes a separate reportable segment.

Transactions between the business segments are on normal commercial terms and conditions.

	Nigeria			Outside Nigeria Banking							
In millions of Naira	Corporate, Retail Banking and Pension custodial services (Continuing operations)	Treasury and Investment Banking (Discontinued operations)	Insurance (Discontinued operations)	Africa (Continuing operations)	Europe (Continuing operations)	Total reportable segments (Continuing operations)	Total reportable segments (Discontinued operations)	Total reportable segments	all other segments (Discontinued operations)	Eliminations	Consolidated
31 December 2013											
Revenue:											
Derived from external customers	314,565	292	13,767	19,124	5,502	339,191	14,059	353,250	122	-	353,372
Derived from other business segments	1,193	220	1,919	-	2,976	4,169	2,139	6,308	-	(8,210)	(1,902)
Total revenue*	315,758	512	15,686	19,124	8,478	343,360	16,198	359,558	122	(8,210)	351,470
Share of profit of associates	-	-	-	-	-	-	-	-	-	118	118
Interest expense	(68,471)	-	-	(4,838)	(3,793)	(77,102)	-	(77,102)	-	6,306	(70,796)
Impairment charge for credit losses	(9,907)	-	(109)	(1,160)	-	(11,067)	(109)	(11,176)	-	-	(11,176)
Operating and underwriting expenses	(139,074)	(75)	(11,664)	(6,426)	(1,696)	(147,196)	(11,739)	(158,935)	(84)	-	(159,019)
Profit before tax	98,306	437	3,913	6,700	2,989	107,995	4,350	112,345	38	(1,786)	110,597
Tax expense	(11,622)	(124)	(529)	(2,351)	(648)	(14,621)	(653)	(15,274)	(5)	-	(15,279)
	86,684	313	3,384	4,349	2,341	93,374	3,697	97,071	33	(1,786)	95,318
Capital expenditure**	11,254	-	657	835	105	12,194	657	12,851	-	-	12,851
Identifiable assets	2,890,293	2,630	24,645	146,692	225,074	3,262,059	27,275	3,289,334	3,179	(149,380)	3,143,133
Identifiable liabilities	2,406,847	967	10,196	127,782	205,399	2,740,028	11,163	2,751,191	2,948	(120,257)	2,633,882

** Revenues are allocated based on the location of the operations.*
*** Capital expenditure consists of expenditure on intangible assets and property and equipment during the year.*

In millions of Naira	Nigeria			Outside Nigeria Banking		Total					
	Corporate, Retail Banking and Pension custodial services (Continuing operations)	Treasury and Investment Banking (Discontinued operations)	Insurance (Discontinued operations)	Africa (Continuing operations)	Europe (Continuing operations)	Total reportable segments (Continuing operations)	Total reportable segments (Discontinued operations)	Total reportable segments	all other segments (Discontinued operations)	Eliminations	Consolidated
31 December 2012											
Revenue:											
Derived from external customers	281,301	737	7,031	13,591	3,890	298,782	7,768	306,550	532	-	307,082
Derived from other business segments	1,031	686	1,690	-	1,391	2,422	2,376	4,798	197	(4,995)	-
Total revenue*	282,332	1,423	8,721	13,591	5,281	301,204	10,144	311,348	729	(4,995)	307,082
Share of profit of associates	-	-	-	-	-	-	-	-	-	23	23
Interest expense	(65,352)	-	-	(2,341)	(1,861)	(69,554)	-	(69,554)	-	4,993	(64,561)
Impairment charge for credit losses	(7,999)	-	(346)	(1,100)	-	(9,099)	(346)	(9,445)	-	-	(9,445)
Operating and underwriting expenses	(116,359)	(1,073)	(5,665)	(5,564)	(1,880)	(123,803)	(6,738)	(130,541)	(460)	2	(130,999)
Profit before tax	92,622	350	2,710	4,586	1,540	98,748	3,060	101,808	269	23	102,100
Tax expense	828	(216)	(741)	(874)	(416)	(462)	(957)	(1,419)	-	-	(1,419)
	93,450	134	1,969	3,712	1,124	98,286	2,103	100,389	269	23	100,681
Capital expenditure**	11,785	7	100	644	607	13,036	107	13,143	-	-	13,143
Identifiable assets	2,445,596	10,315	21,015	89,112	155,336	2,690,044	31,330	2,721,374	2,427	(119,297)	2,604,504
Identifiable liabilities	2,000,083	2,870	6,516	73,836	138,772	2,212,691	9,386	2,222,077	2,240	(82,769)	2,141,548

** Revenues are allocated based on the location of the operations.*
*** Capital expenditure consists of expenditure on intangible assets and property and equipment during the year.*

Notes to the Financial Statements
For The Year Ended 31 December 2013

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012
6 Interest and similar income				
Inter-bank placements	4,655	5,031	7,468	6,170
Treasury bills	77,728	74,364	76,307	71,011
Government and other bonds	35,947	27,274	26,322	25,183
Loans and advances to customers	141,729	114,649	133,755	110,866
	260,059	221,318	243,852	213,230

7 Interest and similar expense

Current accounts	4,223	3,828	4,159	3,761
Savings accounts	3,825	1,507	3,772	1,459
Time deposits	58,812	57,533	59,082	58,942
Inter-bank takings	2,478	504	-	-
Borrowed funds	1,458	1,189	1,458	1,190
	70,796	64,561	68,471	65,352

8 Impairment charge for credit losses

The net impairment charge for credit losses comprises:

Overdrafts (See Note 20)	8,059	8,172	6,899	5,053
Term loans(See Note 20)	2,774	369	2,774	2,387
On-lending facilities (See Note 20)	179	525	179	525
Advances under finance lease (See Note 20)	55	33	55	33
	11,067	9,099	9,907	7,998

9 Fee and commission income

Credit related fees	11,206	9,892	9,033	7,862
Commission on turnover	27,033	27,938	26,076	27,185
Income from financial guarantee contracts issued	2,525	2,431	2,304	2,251
Fees on electronic products	2,509	3,637	2,411	3,566
Foreign currency transaction fees and commissions	1,329	1,092	1,167	1,031
Other fees and commissions	7,948	5,490	6,125	2,316
	52,550	50,480	47,116	44,211

10 Net gains on financial instruments measured at fair value through profit or loss

Foreign exchange trading income	20,945	18,186	18,763	15,707
Treasury bill trading income	778	415	778	415
Bond trading income	64	411	39	79
	21,787	19,012	19,580	16,201

Foreign exchange trading income is principally made up of trading income on foreign currencies, as well as gains and losses from translated foreign currency assets and liabilities.

Notes to the Financial Statements
For The Year Ended 31 December 2013

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012
11 Other income				
Dividend income from equity investments	303	110	303	694
Gain on disposal of property and equipment	151	10	124	9
Gain on disposal of investment property	-	150	-	150
Gain on disposal of subsidiary	-	32	-	3,811
Income on cash handling	227	602	227	602
Rental income	73	134	73	134
	754	1,038	727	5,400
12 Operating expenses				
Auditors' remuneration	420	320	329	250
Directors' emoluments (Note 37(b))	675	726	429	281
Deposit insurance premium	8,279	7,588	8,279	7,588
Professional fees	1,891	1,419	1,621	1,256
Training and development	1,421	849	1,339	782
Information technology	3,389	1,770	3,154	1,728
Operating leases	2,496	2,200	1,882	1,579
Advertisement	3,370	6,709	3,241	6,557
Bank charges	1,166	833	1,025	783
Fuel and maintenance	9,472	8,476	8,604	7,454
Insurances	1,335	1,590	1,280	1,544
Licenses, registrations and subscriptions	2,383	2,039	2,242	1,939
Travel and hotel expenses	1,154	1,021	824	681
Printing and stationery	1,148	1,268	948	1,073
Security and cash handling	12,609	9,374	12,480	9,221
Expenses on electronic products	2,954	1,242	2,892	1,216
AMCON premum	17,553	6,507	17,553	6,507
Others	4,812	1,895	3,944	1,294
	76,527	55,826	72,066	51,733
13 Tax expense				
(a) Minimum tax expense (see note (c)(i) below)	2,663	2,469	2,663	2,469
(b) Income tax expense				
Corporate tax	4,363	2,648	-	-
Excess dividend tax (see note (c)(ii) below)	11,773	-	11,773	-
Information technology tax	941	940	941	940
Current income tax - current period	17,077	3,588	12,714	940
Reversal of temporary deferred tax differences (Note 24)	(5,119)	(5,595)	(4,683)	(5,164)
Income tax expense from continuing operations	11,958	(2,007)	8,031	(4,224)
Income tax expense from discontinued operations	658	957	-	-
Total Income tax expense	12,616	(1,050)	8,031	(4,224)

The movement in the current income tax payable balance is as follows:

	Group 2013	Group 2012	Bank 2013	Bank 2012
At start of the year	6,577	13,348	5,071	11,934
Tax paid(continuing operations)	(18,690)	(12,799)	(15,182)	(10,272)
Tax effect of translation	(610)	(29)	-	-
Minimum tax charge	2,663	2,469	2,663	2,469
Income tax charge	17,077	3,588	12,714	940
At end of the year	7,017	6,577	5,266	5,071
Total tax expense	15,279	1,419	10,694	(1,755)

c(i) The Bank was assessed based on the minimum tax legislation for the years ended 31 December 2013 and 31 December 2012 because of a tax exemption granted via Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order, 2011 as contained in a gazette issued by the President of the Federal Republic of Nigeria, which took effect from 2 January 2012.

The Order exempts all interests earned on Bonds (Federal, state, local and corporate bodies including supra-nationals) and other short term securities such as Treasury Bills and Promissory Notes from being subjected to tax imposed under the Companies Income Tax Act. The Order is valid for a period of 10 years from the effective date of the Order, except for Bonds issued by the Federal Government, which will continue to enjoy the exemption.

A significant portion of the Bank's income derives from short-term securities and government bonds, and as a result, the Bank's current income tax assessment for both 2013 and 2012 financial years yielded tax credit in its favour. Consequently, the Bank applied the provisions of the Companies Income Tax Act that mandate a minimum tax assessment, where a tax payer does not have any tax liability arising from its tax assessment.

c(ii) During the year, the Bank was liable to excess dividend tax of N15.07 billion, representing 30% of N50.23 billion dividend paid as the Nigerian tax laws requires companies to pay tax calculated at 30% of the higher of taxable profit and dividend paid. However, in the 2012 financial statements, the Bank only accrued for tax of N2.50 billion based on minimum tax rule, as the Bank did not have taxable profit and the dividend was not yet approved as at the reporting date. Therefore, total income tax paid in 2013 was N14.2 billion, which was net of tax credits amounting to N 0.828 billion. The difference between total tax paid and minimum tax accrued which amounted to N11.73 billion was charged as tax expense in 2013 financial statements.

Notes To The Financial Statements
For The Year Ended 31 December 2013

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012
Reconciliation of effective tax rate				
Profit before income tax	110,597	102,100	94,108	94,048
Tax calculated at the weighted average Group rate of 30% (2012: 30%)	33,179	30,630	28,232	28,214
Effect of tax rates in foreign jurisdictions	(610)	(29)	-	-
Non-deductible expenses	5,284	4,878	4,496	2,909
Tax exempt income	(32,262)	(31,966)	(32,159)	(31,215)
Balancing charge	41	7	41	7
Tax loss effect	(328)	367	(328)	367
Tax effect Information technology levy	(282)	(282)	(282)	(282)
Information technology tax levy	941	940	941	940
Effect of deferred tax reversal	(5,119)	(5,595)	(4,683)	(5,164)
Excess dividend tax paid	11,773	-	11,773	-
Minimum tax	2,663	2,469	2,663	2,469
Income tax expense	15,279	1,419	10,694	(1,755)
Tax rate reconciliation	%	%	%	%
Tax charge as a percentage of profit before tax	13.8	1.4	11.4	(1.9)
Effect of tax rates in foreign jurisdictions	1.0	0.0	-	-
Non-deductible expenses	(4.8)	(4.8)	(4.8)	(3.1)
Tax exempt income	29.2	31.3	34.2	33.2
Balancing charge	(0.0)	(0.0)	(0.0)	(0.0)
Tax loss effect	0.3	(0.4)	0.3	(0.4)
Tax effect Information technology levy	0.3	0.3	0.3	0.3
Information technology tax levy	(0.9)	(0.9)	(1.0)	(1.0)
Effect of deferred tax reversal	4.6	5.5	5.0	5.5
Excess dividend tax paid	(10.6)	-	(12.5)	-
Minimum tax	(2.4)	(2.4)	(2.8)	(2.6)
Standard rate of tax	30	30	30	30

14 **Profit for the year from discontinued operations** **In millions of Naira**	2013	2012
Interest and similar income	2,349	3,066
Interest and similar expense	-	-
Net interest income	2,349	3,066
Impairment charge for credit losses	(109)	(346)
Net interest income after impairment charge for credit losses	2,240	2,720
Fee and commission income	253	810
Underwriting profit	4,270	3,934
Gross premium income	10,527	9,730
Reinsurances/ coinsurances	(2,550)	(2,964)
Net premiums underwritten	7,977	6,766
Commission earned	644	434
Claims recovered	2,367	1,185
Claim expenses	(5,208)	(3,426)
Acquisition costs	(1,344)	(1,025)
Transfer to/ (from) profit and loss	(166)	-
Other income	180	9
Operating expenses	(2,555)	(3,965)
Profit before tax on discontinued operations	4,388	3,508
Taxation	(658)	(957)
Profit after tax on discontinued operations	3,730	2,551
Basic and diluted earnings per share (discontinued operatio	12 k	8 k

In 2011, the group committed to a plan to sell all its non-banking subsidiaries with the exception of Zenith Pension Custodian Limited. This is in response to the Banking Reforms of the Central Bank of Nigeria which abolished the Universal Banking Regime in Nigeria. The subsidiaries to be disposed have been presented as discontinued operations in this financial statement. The related assets and liabilities of the discontinued operations have been classified as held for sale and are disclosed in notes 26 and 33 respectively.

Notes To The Financial Statements
For The Year Ended 31 December 2013

15 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. Where a stock split or bonus share issue has occurred, the number of shares in issue in the prior year is adjusted to achieve comparability.

	Group 2013	Group 2012	Bank 2013	Bank 2012
Profit attributable to shareholders of the Bank (total operations) (**N'million**)	94,576	100,147	83,414	95,803
Profit attributable to shareholders of the Bank (continuing operations) (**N'million**)	91,411	98,044	83,414	95,803
Number of shares in issue at end of the period (**millions**)	31,396	31,396	31,396	31,396
Weighted average number of ordinary shares in issue (**millions**)	31,396	31,396	31,396	31,396
Basic and diluted earnings per share (total operations)	301 k	319 k	266 k	305 k
Basic and diluted earnings per share (continuing operations)	291 k	312 k	266 k	305 k

16 Cash and balances with central banks

In millions of Naira

Cash	44,512	42,123	38,521	37,832
Operating accounts with Central Banks	210,646	110,256	200,646	96,097
Mandatory reserve deposits with central banks (cash reserve)	348,693	180,136	348,626	179,617
	603,851	332,515	587,793	313,546

Mandatory reserve deposits with central banks represents a percentage of customers' deposits (prescribed from time to time by the central bank) which are not available for daily use. For the purposes of the Statement of cashflow, this balance is excluded from cash and cash equivalents.

17 Treasury bills

In millions of Naira

	Group 2013	Group 2012	Bank 2013	Bank 2012
Treasury bills (Amortized cost)	586,441	669,164	572,598	647,474
Classified as:				
Current	586,441	668,469	572,598	647,474
Non-current	-	695	-	-
	586,441	669,164	572,598	647,474

Included in treasury bills is N6.925 billion (2012: N6.92 billion) worth of treasury bills pledged as collateral to Nigeria Interbank Settlement System (NIBBS) , Federal Inland Revenue Services, V-Pay, E-Tranzact International Limited and Interswitch.

The following treasury bills have maturities less than three months and are classified as cash and cash equivalents for purposes of the statements of cash flows (Note 41).	354,834	280,418	352,786	275,680

Notes To The Financial Statements
For The Year Ended 31 December 2013

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012
18 Due from other banks				
a. Current balances with banks within Nigeria	11,384	8,358	-	-
Current balances with banks outside Nigeria (see Note (b))	109,791	84,267	152,267	144,389
Placements with banks and discount houses	135,554	89,395	97,257	59,402
	256,729	182,020	249,524	203,791
Classified as:				
Current	256,729	182,020	249,524	203,791
Non-current	-	-	-	-
	256,729	182,020	249,524	203,791

b. Included in balances with banks outside Nigeria is the amount of N64.96 billion and N64.96 billion for the Group and Bank respectively (2012: N38.45 billion and N38.44 billion respectively) which represents the Naira value of foreign currency balances held on behalf of customers in respect of letters of credit. The corresponding liabilities are included in other liabilities (See Note 30). These balances are not available for the day to day operations of the Group.

19 Derivative assets held for risk management

The Group used cross currency swaps to hedge its foreign currency risks arising from indebtedness in foreign currency. During the year, Zenith Bank (Ghana) Limited entered into foreign currency swaps with the Bank of Ghana to hedge foreign currency risks arising from its indebtedness of USD 225 million to Zenith Bank (UK) Limited, at an agreed forward exhange rate of GH¢/USD 2.1725. The hedged cash flows are expected to occur in June 2014, when the contract terminates. Upon termination in June 2014, total expected net gain in the range of N1.7 billion (GH¢ 22 million) and N4.3 billion (GH¢ 55 million) will be recognized in the statement of comprehensive income. In determining the expected net gains, spot rates ranging from GH¢/USD 2.300 to GH¢/USD 2.500 were projected.

During 2013, net gains of N2.01 billion relating to the fair value of the swap were recognised in other comprehensive income and no transfer was made between equity and profit or loss.

20 Loans and advances to customers

	Group 2013	Group 2012	Bank 2013	Bank 2012
Overdrafts	351,642	270,672	321,361	252,107
Term loans	858,389	672,931	761,183	594,095
On-lending facilities	52,693	54,149	52,693	54,149
Advances under finance lease	13,398	16,774	13,141	16,440
Gross loans and advances to customers	1,276,122	1,014,526	1,148,378	916,791
Less: Allowances for impairment	(24,767)	(24,712)	(21,819)	(21,437)
Specific allowances for impairment	(7,972)	(10,601)	(5,600)	(8,368)
Collective allowance for impairment	(16,795)	(14,111)	(16,219)	(13,069)
Net loans and advances to customers	1,251,355	989,814	1,126,559	895,354
Overdrafts				
Gross overdrafts	351,642	270,672	321,361	252,107
Less: Allowances for impairment	(15,634)	(17,896)	(12,890)	(14,777)
Specific allowances for impairment	(5,867)	(9,713)	(3,695)	(7,634)
Collective allowance for impairment	(9,767)	(8,183)	(9,195)	(7,143)
Net overdrafts	336,008	252,776	308,471	237,330
Term loans				
Gross term loans	858,389	672,931	761,184	594,095
Less: Allowances for impairment	(8,280)	(5,875)	(8,076)	(5,719)
Specific allowances for impairment	(1,926)	(888)	(1,726)	(734)
Collective allowance for impairment	(6,354)	(4,987)	(6,350)	(4,985)
Net term loans	850,109	667,056	753,108	588,376
On- lending facilities				
Carrying amount	52,693	54,149	52,693	54,149
Less: Allowances for impairment	(714)	(857)	(714)	(857)
Specific allowances for impairment	(179)		(179)	
Collective allowance for impairment	(535)	(857)	(535)	(857)
Net on-lending facilities	51,979	53,292	51,979	53,292
Advances under finance lease				
Carrying amount	13,398	16,774	13,141	16,440
Less: Collective allowance for impairment	(139)	(84)	(139)	(84)
Net advance under finance lease	13,259	16,690	13,002	16,356
Gross Loans classified as:				
Current	692,449	600,119	637,875	547,270
Non-current	583,673	414,407	510,503	369,521
	1,276,122	1,014,526	1,148,378	916,791

Notes To The Financial Statements
For The Year Ended 31 December 2013

Reconciliation of impairment allowance on loans and advances to customers:

Group

In millions of Naira	Overdrafts	Term loans	On-lending facilities	Advances under finance lease	Total
Balance at 1 January 2013	**17,896**	**5,875**	**857**	**84**	**24,712**
Specific impairment	9,713	888	-	-	10,601
Collective impairment	8,183	4,987	857	84	14,111
Additional impairment charge for the year	**8,059**	**2,774**	**179**	**55**	**11,067**
Specific impairment	5,136	990	179	-	6,305
Collective impairment	2,923	1,784	-	55	4,762
Write-backs	2	45	-	-	47
Foreign currency translation and other adjustments	(526)	3	-	-	(523)
Write-offs (specific)	(8,458)	-	-	-	**(8,458)**
Write-offs (collective) *	(1,339)	(417)	(322)	-	**(2,078)**
Balance at 31 December 2013	**15,634**	**8,280**	**714**	**139**	**24,767**
Specific impairment	5,867	1,926	179	-	7,972
Collective impairment	9,767	6,354	535	139	16,795
Balance at 1 January 2012	**17,318**	**9,071**	**332**	**66**	**26,787**
Specific impairment	8,721	3,687	-	-	12,408
Collective impairment	8,597	5,384	332	66	14,379
Additional impairment charge for the year	8,172	369	525	33	9,099
Specific impairment	8,586	766	-	15	9,367
Collective impairment	(414)	(397)	525	18	(268)
Foreign currency translation and other adjustments	-	(664)	-	-	(664)
Write-offs	(7,594)	(2,901)	-	(15)	(10,510)
Balance at 31 December 2012	**17,896**	**5,875**	**857**	**84**	**24,712**
Specific impairment	9,713	888	-	-	10,601
Collective impairment	8,183	4,987	857	84	14,111

Notes To The Financial Statements
For The Year Ended 31 December 2013

In millions of Naira

Reconciliation of impairment allowance on loans and advances to customers:
Bank

	Overdrafts	Term loans	On-lending facilities	Advances under finance lease	Total
Balance at 1 January 2013	**14,777**	**5,719**	**857**	**84**	**21,437**
Specific impairment	7,634	734	-	-	8,368
Collective impairment	7,143	4,985	857	84	13,069
Additional impairment charge for the year	**6,899**	**2,774**	**179**	**55**	**9,907**
Specific impairment	3,508	992	179	-	4,679
Collective impairment	3,391	1,782	-	55	5,228
Write-offs (specific)	(7,447)	-	-	-	(7,447)
Write-offs (collective) *	(1,339)	(417)	(322)	-	(2,078)
Balance at 31 December 2013	**12,890**	**8,076**	**714**	**139**	**21,819**
Specific impairment	3,695	1,726	179	-	5,600
Collective impairment	9,195	6,350	535	139	16,219

* Impaired loans that are not individually significant are included in the collective impairment. Therefore, when such loans are written off, the cummulative impairment on them are taken from the collective impairment reserve.

	Overdrafts	Term loans	On-lending facilities	Advances under finance lease	Total
Balance at 1 January 2012	**17,318**	**6,166**	**332**	**66**	**23,882**
Specific impairment	8,721	1,447	-	-	10,168
Collective impairment	8,597	4,719	332	66	13,714
Additional impairment charge for the year	**5,053**	**2,387**	**525**	**33**	**7,998**
Specific impairment	6,507	2,121	-	15	8,643
Collective impairment	(1,454)	266	525	18	(645)
Amounts recovered during the year	-	-	-	-	-
impairment no longer required		-	-	-	-
Write-offs	(7,594)	(2,834)	-	(15)	(10,443)
Balance at 31 December 2012	**14,777**	**5,719**	**857**	**84**	**21,437**
Specific impairment	7,634	734	-	-	8,368
Collective impairment	7,143	4,985	857	84	13,069

Notes To The Financial Statements
For The Year Ended 31 December 2013

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012
Advances under finance lease				
Gross investment	19,381	23,342	19,058	22,478
Less: Unearned income	(5,983)	(6,568)	(5,917)	(6,038)
Net Investment	13,398	16,774	13,141	16,440
The net investment is analysed as follows:				
No later than 1 year	2,177	281	2,062	281
Later than 1 year and no later than 5 years	11,221	16,493	11,079	16,159
	13,398	16,774	13,141	16,440

The nature of security in respect of loans and advances is as follows:

	Group 2013	Group 2012	Bank 2013	Bank 2012
Secured against real estate	177,379	164,620	152,379	140,789
Secured by shares of quoted companies	32,482	11,217	17,482	8,666
Cash collateral, lien over fixed and floating assets,e.t.c	838,422	788,155	788,422	728,208
Unsecured	227,839	50,534	190,095	39,128
	1,276,122	1,014,526	1,148,378	916,791

Reconciliation of gross investment to minimum lease rental payments

	Group 2013	Group 2012	Bank 2013	Bank 2012
Gross investment	19,381	23,342	19,058	22,478
Less: Unearned income	(5,983)	(6,568)	(5,917)	(6,038)
Net Investment	13,398	16,774	13,141	16,440
Impaiment on leases	(139)	(84)	(139)	(84)
Present value of minimum lease payments	13,259	16,690	13,002	16,356

21 Investment securities

(a) Analysis of investments

	Group 2013	Group 2012	Bank 2013	Bank 2012
Debt securities (measured at amortised cost)	290,191	289,938	201,280	247,500
Debt securities (measured at fair value through profit or loss)	2,280	-	589	-
Equity securities (measured at fair value through other comprehensive income)	10,654	9,405	10,654	9,405
	303,125	299,343	212,523	256,905
Classified as:				
Current	110,290	116,186	103,633	105,875
Non- current	192,835	183,157	108,890	151,030
	303,125	299,343	212,523	256,905

(b) Equity securities measured at fair value through other comprehensive income

	Group 2013	Group 2012	Bank 2013	Bank 2012
Unquoted securities	10,654	9,405	10,654	9,405
	10,654	9,405	10,654	9,405

The Group has elected to present the fair value gains and losses on the above equity instruments in other comprehensive income as these investments are not held for trading purposes but rather for strategic purposes.

Notes To The Financial Statements
For The Year Ended 31 December 2013

In millions of Naira

The movement in investment securities may be summarised as follows:
Group

	Debt securities at fair value through profit and loss	Debt securities at amortised cost	Equity securities at fair value through other comprehensive income	Total
At 1 January 2013	**-**	**289,938**	**9,405**	**299,343**
Exchange differences	**71**	**(1,318)**	**-**	**(1,247)**
Additions	**172,320**	**109,387**	**700**	**282,407**
Disposals (sale and redemption)	**(170,178)**	**(112,101)**	**-**	**(282,279)**
Gains from changes in fair value recognised in profit or loss (Note10)	**64**	**-**	**-**	**64**
Gains from changes in fair value recognised in other comprehensive income	**-**	**-**	**549**	**549**
Interest accrued	**166**	**35,947**	**-**	**36,113**
Coupon received	**(163)**	**(31,662)**	**-**	**(31,825)**
At 31 December 2013	**2,280**	**290,191**	**10,654**	**303,125**
At 1 January 2012	-	298,841	9,390	308,231
Exchange differences on monetary assets	-	(274)	-	(274)
Additions	220,000	61,479	-	281,479
Disposals (sale and redemption)	(220,411)	(69,000)	-	(289,411)
Gains from changes in fair value recognised in profit or loss (Note10)	411	-	-	411
Gains from changes in fair value recognised in other comprehensive income	-	-	15	15
Interest accrued	65	27,274	-	27,339
Coupon received	(65)	(28,382)	-	(28,447)
At 31 December 2012	**-**	**289,938**	**9,405**	**299,343**

Notes To The Financial Statements
For The Year Ended 31 December 2013

In millions of Naira

The movement in investment securities may be summarised as follows:
Bank

	Debt securities at fair value through profit and loss	Debt securities at amortised cost	Equity securities at fair value through other comprehensive income	Total
At 1 January 2013	**-**	**247,500**	**9,405**	**256,905**
Exchange differences	**-**	**-**	**-**	**-**
Additions	**169,217**	**53,408**	**700**	**223,325**
Disposals (sale and redemption)	**(168,670)**	**(99,329)**	**-**	**(267,999)**
Gains from changes in fair value recognised in profit or loss (Note10)	**39**	**-**	**-**	**39**
Gains from changes in fair value recognised in other comprehensive income	**-**	**-**	**549**	**549**
Interest accrued	**166**	**26,322**	**-**	**26,488**
Coupon received	**(163)**	**(26,621)**	**-**	**(26,784)**
At 31 December 2013	**589**	**201,280**	**10,654**	**212,523**
At 1 January 2012	-	257,660	9,390	267,050
Exchange differences on monetary assets	-	-	-	-
Additions	220,000	33,688	-	253,688
Disposals (sale and redemption)	(220,079)	(44,118)	-	(264,197)
Gains from changes in fair value recognised in profit or loss (Note10)	79	-	-	79
Gains from changes in fair value recognised in other comprehensive income	-	-	15	15
Interest accrued	65	26,521	-	26,586
Coupon received	(65)	(26,251)	-	(26,316)
At 31 December 2012	-	247,500	9,405	256,905

22 Investment in subsidiaries

		Ownership interest %	**Group 2013**	Group 2012	**Bank 2013**	Bank 2012
a.	Zenith Pensions Custodian Limited	99.0000%	**-**	**-**	**1,980**	1,980
	Zenith Bank (Ghana) Limited	98.0722%	**-**	**-**	**6,444**	6,444
	Zenith Bank (UK) Limited	100.0000%	**-**	**-**	**13,307**	13,307
	Zenith Bank (Sierra Leone) Limited	99.9928%	**-**	**-**	**1,606**	1,606
	Zenith Bank (Gambia) Limited	99.9624%	**-**	**-**	**1,038**	1,038
			-	**-**	**24,375**	24,375

b. Condensed results of consolidated entities from continuing operations

In millions of Naira

December 2013

Condensed statement of profit or loss	Zenith Group	Elimination entries	Zenith Bank PLC	Zenith Bank (Ghana) Limited	Zenith Bank (UK) Limited	Zenith Bank (Sierra Leone) Limited	Zenith Bank (Gambia) Limited	Zenith Pensions Custodian Limited
Operating income	335,150	(6,307)	309,371	17,745	8,473	795	585	4,484
Share of profit of associate	118	-	-	-	-	-	-	-
Dividend from subsidiary	-	-	1,904	-	-	-	-	-
Operating expenses	(217,992)	6,308	(207,260)	(10,030)	(5,489)	(664)	(524)	(287)
Provision expense	(11,067)	-	(9,907)	(1,139)	-	0	(21)	-
Profit before tax	106,209	1	94,108	6,576	2,984	131	40	4,197
Tax	(14,621)	-	(10,695)	(2,275)	(648)	(45)	(32)	(926)
Profit for the year	91,588	1	83,413	4,301	2,336	86	8	3,271
Condensed statement of financial position								
Assets								
Cash and balances with central banks	603,851	(3,004)	587,793	8,892	8,775	992	403	-
Treasury bills	586,441	-	572,598	8,517	468	3,212	1,646	-
Due from other banks	256,729	(61,651)	249,524	18,162	34,660	3,491	1,162	11,381
Derivative assets held for risk management	2,681							
Loans and advances to customers	1,251,355	1,982	1,126,559	46,271	74,961	738	844	-
Investment securities	303,125	-	212,523	41,070	49,532	-	-	-
Investment in subsidiaries and associates	165	(24,300)	24,465	-	-	-	-	-
Deferred tax asset	749	670.00	-	40	39	-	-	-
Other assets	36,238	(55,604)	31,415	3,373	56,380	216	67	391
Assets classified as held for sale	30,454	25,705	4,749	-	-	-	-	-
Property and equipment	69,410	2	67,364	1,249	135	313	213	134
Intangible assets	1,935	(1)	1,703	-	125	8	59	41
	3,143,133	(116,201)	2,878,693	127,574	225,075	8,970	4,394	11,947
Liabilities & Equity								
Customer deposits	2,276,755	(17,827)	2,079,862	111,474	92,723	7,592	2,931	-
Current income tax	7,017	-	5,266	726	-	45.00	19	961
Deferred income tax liabilities	678	670.00	0	-	-	-	-	8
Other liabilities	215,643	(100,449)	201,265	1,191	112,676	310	495	155
On-lending facilities	59,528	-	59,528	-	-	-	-	-
Borrowings	60,150	-	60,150	-	-	-	-	-
Liabilities classified as held for sale	14,111	14,111	-	-	-	-	-	-
Equity and reserves	509,251	(12,707)	472,622	16,865	19,676	1,023	949	10,823
	3,143,133	(116,202)	2,878,693	130,256	225,075	8,970	4,394	11,947
Condensed cash flow								
Net cash from operating activities	265,580	(35,630)	235,619	39,776	14,336	5,493	394	5,592
Net cash from financing activities	(1,704)	(195)	(1,760)	-	-	251	-	-
Net cash from investing activities	(10,526)	44,770	(5,782)	(41,075)	(9,236)	172	140	485
Increase in cash and cash equivalents	253,350	8,945	228,077	(1,299)	5,100	5,916	534	6,077
Cash and cash equivalents								
At start of year	614,817	(45,651)	613,400	33,165	4,143	1,779	2,677	5,304
Cash and cash equivalents from discontinued operations	143	143	-	-	-	-	-	-
Exchange rate movements on cash and cash equivalents	(1,589)	(1,589)	-	-	-	-	-	-
At end of year	866,721	(38,152)	841,477	31,866	9,243	7,695	3,211	11,381
	253,350	8,945	228,077	(1,299)	5,100	5,916	534	6,077

Condensed results of consolidated entities from continuing operations (contd.)

In millions of Naira

December 2012

Condensed statement of profit or loss	**Zenith Group**	**Elimination entries**	**Zenith Bank PLC**	**Zenith Bank (Ghana) Limited**	**Zenith Bank (UK) Limited**	**Zenith Bank (Sierra Leone) Limited**	**Zenith Bank (Gambia) Limited**	**Zenith Pensions Custodian Limited**
Operating income	227,255	(4,995)	209,295	9,873	3,420	742	637	3,288
Share of profit of associate	23	-	-	-	-	-	-	-
Profit on disposal of subsidiary	32	-	3,811	-	-	-	-	-
Dividend from subsidiary	-	-	584	-	-	-	-	-
Operating expenses	(119,619)	4,995	(111,644)	(4,636)	(1,880)	(609)	(388)	(462)
Provision expense	(9,099)	-	(7,998)	(1,011)	-	(84)	(6)	-
Profit before tax	98,592	-	94,048	4,226	1,540	49	243	2,826
Tax	(462)	-	1,755	(821)	(416)	(10)	(43)	(927)
Profit for the year	98,130	-	95,803	3,405	1,124	39	200	1,899
Condensed statement of financial position								
Cash and balances with central banks	332,515	(5,726)	313,546	14,353	9,930	28	384	-
Treasury bills	669,164	-	647,474	17,504	216	2,096	1,874	-
Due from other banks	182,020	(76,990)	203,791	17,427	26,495	1,724	1,212	8,361
Loans and advances to customers	989,814	(86)	895,354	28,679	64,793	582	492	-
Investment securities	299,343	-	256,905	-	42,438	-	-	-
Investment in subsidiaries and associates	420	(24,418)	24,838	-	-	-	-	-
Deferred tax asset	432	-	-	408	24	-	-	-
Other assets	28,665	(9)	16,814	300	11,106	50	85	319
Assets classified as held for sale	31,943	21,605	10,338	-	-	-	-	-
Property and equipment	68,782	2	66,651	1,199	201	383	248	98
Intangible assets	1,406	-	1,175	-	133	13	71	14
	2,604,504	(85,622)	2,436,886	79,870	155,336	4,876	4,366	8,792
Liabilities & Equity								
Customer deposits	1,929,244	(14,836)	1,802,008	65,193	70,352	3,723	2,804	-
Current income tax	6,577	-	5,071	326	-	-	27	1,153
Deferred income tax liabilities	5,584	-	5,573	-	-	-	-	11
Other liabilities	117,355	(67,932)	115,027	1,016	68,420	242	505	77
On-lending facilities	56,066	-	56,066	-	-	-	-	-
Borrowings	15,138	-	15,138	-	-	-	-	-
Liabilities classified as held for sale	11,584	11,584	-	-	-	-	-	-
Equity and reserves	462,956	(14,438)	438,003	13,335	16,564	911	1,030	7,551
	2,604,504	(85,622)	2,436,886	79,870	155,336	4,876	4,366	8,792
Condensed cash flow								
Net cash from operating activities	103,640	(46,869)	125,276	12,057	8,219	1,721	700	2,536
Net cash from financing activities	(29,063)	(251)	(29,063)	-	-	251	-	-
Net cash from investing activities	(948)	4,305	(3,792)	44	(2,216)	97	93	521
Increase in cash and cash equivalents	73,629	(42,815)	92,421	12,101	6,003	2,069	793	3,057
Cash and cash equivalents								
At start of year	525,616	(42,431)	520,979	33,165	4,143	1,779	2,677	5,304
Cash and cash equivalents from discontinued operations	18,708	18,708	-	-	-	-	-	-
Exchange rate movements on cash and cash equivalents	(3,136)	(3,136)	-	-	-	-	-	-
At end of year	614,817	(69,674)	613,400	45,266	10,146	3,848	3,470	8,361
	73,629	(42,815)	92,421	12,101	6,003	2,069	793	3,057

Notes To The Financial Statements
For The Year Ended 31 December 2013

c.

i Apart from Zenith Pensions Custodian Limited, all other subsidiaries consolidated as continuing operations are incorporated outside Nigeria.

ii Zenith Pensions Custodian Limited provides pension funds custodial services to Licensed Pension Fund Administrators (PFAs) and Closed Pension Funds Administrators under the Pension (Reform) Act, 2004. It was incorporated on 1 March 2005. The name was changed from "Zenith Pensions Limited" to "Zenith Pensions Custodian Limited" on September 20, 2005. It was licensed by the National Pension Commission as a custodian of pension funds and assets on 7 December 2005 and commenced operations in December 2005 .

iii Zenith Bank (Ghana) Limited provides corporate and retail banking services. It was incorporated on April 15, 2005 and commenced operations on September 16, 2005.

iv Zenith Bank (UK) Limited provides a range of commercial, wholesale, investment and retail banking in the United Kingdom. It was incorporated on 17 February 2006 and commenced operations on 30 March 2007.

v Zenith Bank (Sierra Leone) Limited provides corporate and retail Banking services. It was incorporated in Sierra Leone on 17 September 2007 and granted an operating license by the Bank of Sierra Leone on 10 September 2008. It commenced banking operations on 15 September 2008.

vi Zenith Bank (The Gambia) Limited provides corporate and retail banking services. It was incorporated in The Gambia on 24 October 2008 and granted an operating license by the Central Bank of The Gambia on 30 December 2009. It commenced banking operations on 18 January 2010.

vii Zenith Life Assurance Company Limited provides group life and individual life policy cover. It was incorporated 30 March 2001 . Its name was changed from "Zenith Life Insurance Company Limited" to "Zenith Life Assurance Company Limited" on April 25, 2005. The company commenced operations in April 2006. The carrying amount of investment in Zenith Life Assurance Company Limited in 2012 is included in 'assets classified as held for sale' (see Note 26).

viii Zenith Capital Limited provides investment banking services, including corporate finance and advisory, project finance, capital markets, syndication, asset management and principal investment. It was incorporated on 11 November 2005 and commenced operations in October 2006. On 21 November 2006, Its name was changed from "Zenith Capital Markets Limited" to "Zenith Capital Limited". The carrying amount of investment in Zenith Capital Limited in 2012 is included in 'assets classified as held for sale' (see Note 26).

ix Zenith Medicare Limited provides health insurance and managed care services. It was incorporated on May 31, 2005 and commenced operations on January 1, 2006. Its name was changed from "Zenith Assurance Medicare Limited" to Zenith Medicare Limited" on September 28, 2006. The carrying amount of investment in Zenith Medicare Limited in 2012 is included in 'assets classified as held for sale'(see Note 26).

x Zenith Trustees Limited provides trust services and non-pension fund custodial services. It was incorporated in Nigeria on July 5, 2004 and commenced operations in May 2006. The carrying amount of investment in Zenith Trustees Limited in 2012 is included in 'assets classified as held for sale'(see Note 26).

xi Zenith General Insurance Company Limited provides marine, motor, accident, fire and other non-life insurance services. It was incorporated on 8 January 1970 as Picadilly Insurance Company Limited and it traded in this name until 2003 when it was acquired by Zenith Bank PLC . The name was changed to Zenith General Insurance Company Limited on April 16, 2004. The carrying amount of investment in Zenith General Insurance Company Limited in 2012 is included in 'assets classified as held for sale'(see Note 26).

23 Investments in associates

The Group's investments under the Small and Medium Enterprises Equity Investment Scheme ("SMEEIS") is in compliance with the Policy Guidelines for 2001 Fiscal Year (Monetary Policy Circular No. 35). The Group generally holds 20 percent or more of the voting power of the investee and is therefore presumed to have significant influence over the investee. In instances where the Group holds less than 20 percent of the voting power of the investee, the Group concluded that it has significant influence due to the Group's representation on the board of the relevant investee, with such board generally limited to a small number of board members.

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012
Gross investment	1,822	1,822	1,822	1,822
Share of profit/(loss) b/f	(43)	(66)	-	-
Share of profit: current year	118	23	-	-
Disposals (cumulative)	(510)	(508)	(510)	(508)
Diminution in investment (cumulative)	(1,222)	(851)	(1,222)	(851)
Balance at end of the year	165	420	90	463
Classified as:				
Current	-	-	-	-
Non- current	165	420	90	463
	165	420	90	463

There were no published price quotations for any associates of the Group. Furthermore, there are no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends or repayment of loans and advances.

Summarised financial information of associates
The aggregate amounts of assets, liabilities, revenue and profits of associates are shown below;

In millions of Naira	2013	2012
Total assets	12,355	8,704
Total liabilities	7,599	4,490
Total revenue	15,874	11,611
Profit before tax	2,551	475

Notes To The Financial Statements
For The Year Ended 31 December 2013

In millions of Naira

24 Deferred tax

Group	**01 Jan 2013**	**Recognised in profit or loss**	**Recognised in OCI**	**31 Dec 2013**
Movements in temporary differences during the year:				
Property and equipment	9,995	(9,998)	-	(3)
Other assets	11	-	-	11
Allowances for loan losses	(5,312)	5,312	-	-
Equity securities at fair value	890	-	(890)	-
Foreign currency translation difference	-	-	(90)	(90)
Effective Portion of change in fair value of cash flow hedge	-	-	760	760
	5,584	(4,686)	(220)	678
Foreign currency translation difference		(116)		
Tax loss carried forward (Deferred tax asset)	(432)	(317)	-	(749)
Reversal of timing difference (Note 13)		(5,119)		

	01 Jan 2012	**Recognised in profit or loss**	**Recognised in OCI**	**31 Dec 2012**
Movements in temporary differences during the year:				
Property and equipment	6,586	3,409	-	9,995
Other assets	580	(569)	-	11
Allowances for loan losses	3,072	(8,384)	-	(5,312)
Equity securities at fair value	504	381	5	890
	10,742	(5,163)	5	5,584
Foreign exchange differences		-		
Tax loss carried forward (Deferred tax asset)	(186)	(246)	-	(432)
Originating timing difference (Note 13)		(5,595)		

Bank	**01 Jan 2013**	**Recognised in profit or loss**	**Recognised in OCI**	**31 Dec 2013**
Movements in temporary differences during the year:				
Property and equipment	9,995	(9,995)	-	-
Allowances for loan losses	(5,312)	5,312	-	-
Equity securities at fair value	890	-	(890)	-
	5,573	(4,683)	(890)	-

	1 Jan 2012	**Recognised in profit or loss**	**Recognised in OCI**	**31 Dec 2012**
Movements in temporary differences during the year:				
Property and equipment	6,050	3,945	-	9,995
Other assets	579	(579)	-	-
Allowances for loan losses	3,073	(8,385)	-	(5,312)
Treasury bills and bonds (FVTPL)	145	(145)	-	-
Equity securities at fair value	885	-	5	890
	10,732	(5,164)	5	5,573

During the year, deferred tax liabilities amounting to N5.57 billion (N4.6 billion initially recognized in profit or loss and N0.89 billion initially recognized in OCI) were reversed as the Group had deferred tax assets as at the reporting date.

Deferred income tax assets are recognised for tax loss carry-forwards only to the extent that the realisation of the related tax benefit is probable.

In 2013, the Bank had deferred tax assets amounting to N7.3 billion, which have not been recognized due to uncertainties relating to the timing of future taxable profits, mainly arising from the Bank's investment in Government bonds and securities (See note 13 c(i)). These were in respect of the following items .

In millions of Naira	**Group 2013**	Group 2012	**Bank 2013**	Bank 2012
Property, plant and equipment	5,552	-	5,552	-
Equity securities at fair value	1,055	-	1,055	-
Unutilized Capital allowances	(7,611)	-	(7,611)	-
Collective impairment	(6,257)	-	(6,257)	-
Tax losses	(38)	-	(38)	-
	(7,299)	-	(7,299)	-

Notes To The Financial Statements
For The Year Ended 31 December 2013

In millions of Naira

	Group 2013	Group 2012	Bank 2013	Bank 2012
25 Other assets				
Prepayments	14,265	13,971	13,064	13,467
Other receivables	26,610	19,331	22,988	7,984
Gross other assets	40,875	33,302	36,052	21,451
Less: Specific impairment	(4,637)	(4,637)	(4,637)	(4,637)
	36,238	28,665	31,415	16,814
Classified as:				
Current	40,875	33,287	36,052	21,451
Non- current	-	15	-	-
	40,875	33,302	36,052	21,451
Movement in specific impairment:				
At start of year	4,637	3,357	4,637	3,357
Specific impairment	-	1,280	-	1,280
At end of the year	4,637	4,637	4,637	4,637

26 Assets classified as held for sale

	Group 2013	Group 2012	Bank 2013	Bank 2012
Investment in subsidiaries (see Note 22(c))	-	-	4,749	10,338
Cash and balances with central banks	500	500	-	-
Treasury bills	11,076	7,696	-	-
Due from other banks	11,875	15,398	-	-
Loans and advances	59	484	-	-
Reinsurance assets and insurance receivables	1,112	499	-	-
Investment securities	2,915	5,520	-	-
Deferred tax assets	1	1,065	-	-
Other assets	1,861	261	-	-
Property and equipment	1,026	474	-	-
Intangible assets	29	46	-	-
	30,454	31,943	4,749	10,338

In line with regulatory directives on the scope of banking operations in Nigeria, the Bank has elected to discontinue its non-core banking operations with the exception of Pension Custodianship. Accordingly, non-core banking subsidiaries which have not been disposed of have been accounted for as discontinued operations in line with IFRS 5. These non-core banking subsidiaries are the Insurance operations (Zenith General Insurance Company Limited, Zenith Life Assurance Company Limited, and Zenith Medicare Limited) and the capital market operations (Zenith Capital Limited, Zenith Securities Limited and Zenith Trustees Limited).

For the insurance operations (in which the group holds 80% stake), discussion with the potential buyers is in an advanced stage and sale agreements and shareholders' agreement has already been signed with two different potential investors interested in acquiring different stakes. Prior to entering into a firm sale and purchase agreement with these investors, several investors have undertaken due diligence exercises on the company and made purchase offers. The only two potential investors whose offers were acceptable to the group, placed an additional condition of carrying out a revised due diligence based on the audited financial statements of the companies as at 31 December 2013. Subsequent to year end, the potential investors have concluded the revised due diligence and one of the investors has made payment for 45% stake in the insurance sub group. The sale of the remaining 35% is expected to be concluded before the end of the first half of 2014.

For the subsidiaries within the capital market operations, a restructuring of their balance sheets was concluded in December 2013. The restructuring resulted in reduction in the share capital of Zenith Securities Limited and Zenith Capital Limited by N2.9 billion and N2.7 billion respectively, amounting to the total reduction in investment in subsidiaries by N5.6 billion. Having concluded the restructuring exercise, the potential investors have commenced a due diligence review based on the 2013 financial statements. In March 2014, the sale of the subsidiaries was concluded.

In millions of Naira

27 Property and equipment

(a) Group

	Leasehold land	Buildings	Leasehold improvement	Furniture, fittings & equipment	Computer equipment	Motor vehicles	Work in progress	Total
Cost								
At start of the year	16,484	18,219	12,955	34,523	20,934	13,805	17,529	134,449
Exchange difference	-	(32)	(119)	(137)	(157)	(110)	(69)	(624)
Additions	349	1,403	625	3,646	1,623	2,599	527	10,772
Reclassifications	(363)	1,172	59	42	41	108	(1,118)	(59)
Disposals	-	-	(14)	(38)	(18)	(1,138)	-	(1,208)
At end of the year	16,470	20,762	13,506	38,036	22,423	15,264	16,869	143,330
Accumulated depreciation								
At start of the year	1,235	2,656	9,665	23,352	18,478	10,281	-	65,667
Exchange difference	-	(2)	(76)	(103)	(125)	(66)	-	(372)
Charge for the year	163	374	1,313	4,298	1,888	1,730	-	9,766
Reclassifications	(46)	48	(4)	13	(10)	(1)	-	-
Disposals	-	-	(14)	(37)	(18)	(1,072)	-	(1,141)
At end of the year	1,352	3,076	10,884	27,523	20,213	10,872	-	73,920
Net book amount								
At 31 December 2013	**15,118**	**17,686**	**2,622**	**10,513**	**2,210**	**4,392**	**16,869**	**69,410**
At 31 December 2012	15,249	15,563	3,290	11,171	2,456	3,524	17,529	68,782

There were no impairment losses on any class of property and equipment during the year (2012 : nil)

In millions of Naira

27 Property and equipment

(b) BANK

	Land	Buildings	Leasehold improvement	Furniture, fittings & equipment	Computer equipment	Motor vehicles	Work in progress	Total
Cost								
At start of the year	16,484	18,130	11,177	33,284	19,937	13,012	17,188	129,212
Additions	349	1,257	468	3,517	1,476	2,359	400	9,826
Reclassifications	(363)	1,032	58	41	(1)	108	(934)	(59)
Disposals	-	-	(14)	(38)	(18)	(1,029)	-	(1,099)
At end of the year	16,470	20,419	11,689	36,804	21,394	14,450	16,654	137,880
Accumulated depreciation								
At start of the year	1,235	2,645	8,687	22,512	17,691	9,791	-	62,561
Charge for the year	163	369	1,072	4,106	1,730	1,575	-	9,015
Reclassifications	(46)	48	(4)	13	(10)	(1)	-	-
Disposals	-	-	(14)	(37)	(17)	(992)	-	(1,060)
At end of the year	1,352	3,062	9,741	26,594	19,394	10,373	-	70,516
Net book amount								
At 31 December 2013	**15,118**	**17,357**	**1,948**	**10,210**	**2,000**	**4,077**	**16,654**	**67,364**
At 31 December 2012	15,249	15,485	2,490	10,772	2,246	3,221	17,188	66,651

There were no impairment losses on any class of property and equipment during the year (2012 : nil)

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012
28 Intangible assets				
Computer software				
Cost				
At start of the year	3,661	1,969	2,981	1,843
Exchange difference	18	(17)	-	-
Reclasification	59		59	
Additions	1,421	1,709	1,313	1,138
At end of the year	5,159	3,661	4,353	2,981
Accumulated depreciation				
At start of the year	2,255	1,199	1,806	1,182
Exchange difference	18	(3)	-	-
Charge for the year	951	1,059	844	624
At end of year	3,224	2,255	2,650	1,806
Carrying amount				
At end of the year	1,935	1,406	1,703	1,175

There were no impairment losses on intangible assets during the year (2012 : nil)

29 Customers' deposits

	Group 2013	Group 2012	Bank 2013	Bank 2012
Demand	1,293,778	1,171,216	1,229,706	1,140,494
Savings	192,281	152,464	174,184	140,973
Term	439,466	336,927	419,751	328,965
Deposit from banks	64,335	48,580	-	-
Domiciliary	286,895	220,057	256,221	191,576
	2,276,755	1,929,244	2,079,862	1,802,008
Classified as:				
Current	2,276,755	1,913,046	2,079,862	1,802,008
Non- current	-	16,198	-	-
	2,276,755	1,929,244	2,079,862	1,802,008

30 Other liabilities

	Group 2013	Group 2012	Bank 2013	Bank 2012
Customer deposits for letters of credit	32,276	38,450	32,276	38,442
Settlement payables	14,094	2,875	13,841	2,760
Managers' cheques	13,063	14,996	12,659	14,733
Due to banks for clean letters of credit	98,743	36,300	98,743	36,300
Customers' funds for purchases	2,963	2,581	2,927	2,559
Deferred income on financial guarantee contracts	389	434	349	402
Tax collections	1,336	1,295	1,289	1,255
Sales and other collections	19,272	7,884	19,272	7,884
Other payables	33,507	12,540	19,909	10,692
	215,643	117,355	201,265	115,027
Classified as:				
Current	194,512	93,999	183,283	75,929
Non- current	21,131	23,356	17,982	39,098
	215,643	117,355	201,265	115,027

Notes to the Financial Statements
For The Year Ended 31 December 2013

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012
31 On-lending facilities				
This comprises:				
Central Bank of Nigeria (CBN) Commercial Agriculture Credit Scheme Loan (See (i)) below	29,905	23,955	29,905	23,955
Bank of Industry (BOI) Intervention Loan (See (ii)) below	14,417	14,670	14,417	14,670
Central Bank of Nigeria (CBN) / Bank of Industry(BOI) - Power & Aviation intervention Funds (See (iii)) below	15,206	17,441	15,206	17,441
	59,528	56,066	59,528	56,066
Classified as:				
Current	36,673	26,151	36,673	26,151
Non- current	22,855	29,915	22,855	29,915
	59,528	56,066	59,528	56,066

There was no undisbursed on-lending facility in 2013. Included in on-lending facilities in 2012 were amount totalling N1.9 billion received but not yet disbursed.

(i) The fund received under the Central Bank of Nigeria (CBN) Commercial Agriculture Credit Scheme represents a credit line granted to the Bank for the purpose of providing concessionary funding to the agricultural sector. The facility is secured by Nigerian Government Securities and has a tenor of 7 years with effect from 2009 to expire by September 2016. The facility attracts an interest of 0% per annum and the Bank is under obligation to on-lend to customers at an all-in interest rate of not more than 9% per annum. Based on the structure of the facility, the Bank assumes the default risk of all amounts lent to the Bank's customers.

(ii) The Central Bank of Nigeria (CBN) / Bank of Industry (BOI) - SME / Manufacturing Intervention Fund represents an intervention credit granted to the Bank for the purpose of refinancing / restructuring existing loans to Small and Medium Scale Enterprises (SMEs) and Manufacturing Companies. The total facility is secured by Nigerian Government Securities. The maximum tenor for term loan under the programme is 15 years while the tenor for working capital is one year, renewable annually subject to a maximum tenor of five years. A management fee of 1% per annum deductible at source in the first year, and quarterly in arrears thereafter, is paid by the Bank under the Intervention programme and the Bank is under obligation to on-lend to customers at an all-in interest rate of 7% per annum. The Bank is the primary obligor to CBN / BOI and assumes the risk of default.

(iii) The Central Bank of Nigeria (CBN) / Bank of Industry (BOI) - Power & Aviation Intervention Fund represents a credit line for the purpose of granting new loans and refinancing / restructuring existing loans to companies in the power and aviation industries. The facility is secured by Irrevocable Standing Payment Order (ISPO). The maximum tenor for term loan under the programme is 15 years while the tenor for working capital is one year, renewable annually subject to a maximum tenor of five years. The facility attracts an interest of 1% per annum payable quarterly in arrears and the Bank is under obligation to on-lend to customers at an all-in interest rate of 7% per annum.

Notes to the Financial Statements
For The Year Ended 31 December 2013

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012
32 Borrowings				
Borrowings comprise:				
Due to FMO	-	-	-	-
Due to ADB (See Note(i))	7,445	11,957	7,445	11,957
Due to KEXIM(See Note(ii))	3,440	313	3,440	313
Due to EIB	4,331	-	4,331	-
Due to HSBC	-	-	-	-
Due to PROPARCO (See Note(iii))	13,264	2,183	13,264	2,183
Due to SCB (See Note(iv))	15,876	-	15,876	-
Due to CITIBANK (See Note(v))	15,794		15,794	
Due to Private Exporters Funding Corporation(See Note (vi))	-	685	-	685
	60,150	15,138	60,150	15,138
Classified as:				
Current	-	7,061	-	7,061
Non- current	60,150	8,077	60,150	8,077
	60,150	15,138	60,150	15,138

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2012: nil).

(i) The amount due to African Development Bank (AfDB) of N7.48 billion (US $45.83 million) represents the outstanding balances from two dollar term loan facilities of the sums of US $100 million and US $50 million granted by AfDB in May 2007 and March 2010 respectively. The facilities are repayable over 7 years and 5 years respectively. Interest is payable half-yearly at the rate of LIBOR + 2.2% per annum and LIBOR + 4.5% per annum respectively. The outstanding balance of US $8.33 million from the first facility will mature in 2 months while the outstanding balance of US $37.5 million from the second facility will mature in 1 year and 2 months.

(ii) The amount of N3.44 billion (US $21.5 million) represents the outstanding balances from two short term loan facilities of US $30 million and US $18 million granted by The Export-Import Bank of Korea (KEXIM) in February 2013 and November 2013 respectively. The facilities are priced at LIBOR + 1.5% per annum and LIBOR + 1.6% per annum with outstanding balances of US $5 million and US $16.5 million respectively. Final repayments on these facilities are due in February 2014 and November 2014 respectively.

(iii) The amount of N13.37 billion (US $83.33 million) represents the outstanding balances from three dollar term loan facilities of US $25 million, US $25 million and US $50 million granted by Promotion et Participation pour la Coopération économique (PROPARCO) in February 2010, February 2013 and December 2013 respectively.Interest is payable semi-annualy at LIBOR + 3.3% p.a, LIBOR + 3.76% p.a and LIBOR + 3.71% p.a with outstanding balances of US $8.33 million, US $25 million and US $50 million respectively. Final repayments on these facilities are due in April 2015, April 2020 and April 2021 respectively.

(iv) The amount of N16.01 billion (US $100 million) represents the balance of a 3-year dollar term loan facility granted by Standard Chartered Bank in June 2013. The facilty will mature in June 2016 and interest is payable quarterly at LIBOR + 3.50% p.a.

(v) The amount of N16.03 billion (US $100 million) represents the balance of a 3-year dollar term loan facility granted by Citibank in December 2013. The facilty will mature in December 2016 and interest is payable quarterly at LIBOR + 3.50% p.a.

(vi) The amount of N4.38 billion (US $27.32 million) represents the first tranche of disbursement (received in December 2013) from the EUR60 million (US $80 million) mid-cap loan granted by the European Investment Bank (EIB) . Interest is payable at the rate of LIBOR + 2.74% p.a and the facility will mature in July 2019.

	Group 2013	Group 2012	Bank 2013	Bank 2012
33 Liabilities classified as held for sale				
Claims payable	2,084	425	-	-
Current income tax	1,405	1,782	-	-
Deferred income tax liabilities	295	552	-	-
Other payables	6,274	5,407	-	-
Liabilities on insurance contracts	4,053	3,418	-	-
	14,111	11,584	-	-

The business of the entities classified as held for sale are discussed in Note 22(c).

34 Share capital	Group	Group	Bank	Bank
Authorised				
40,000,000,000 ordinary shares of 50k each (**2012**: 40,000,000,000)	20,000	20,000	20,000	20,000
Issued and fully paid				
31,396,493,786 ordinary shares of 50k each (**2012**: 31,396,493,786)	15,698	15,698	15,698	15,698

There was no movement in the share capital account during the year.

Notes to the Financial Statements
For The Year Ended 31 December 2013

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012

35 Share premium, retained earnings and other reserves

(a) There was no movement in the Share premium account during the current and prior year.

At end of the year	255,047	255,047	255,047	255,047

The nature and purpose of the reserves in equity are as follows:

(b) Share premium: Premiums from the issue of shares are reported in share premium.

(c) Retained earnings: Retained earnings comprise the undistributed profits from previous years which have not been reclassified to the other reserves noted below.

(d) Statutory reserve: Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by section 16(1) of the Bank and Other Financial Institutions Act of 1991 (amended), an appropriation of 30% of profit after tax is made if the statutory reserve is less than the paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid-up share capital.

(e) SMIEIS reserve: The SMIEIS reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investments in qualifying small and medium scale enterprises. Under the terms of the guideline (amended by CBN letter dated 11 July 2006), the contributions will be 10% of profit after tax and shall continue after the first 5 years but banks' contributions shall thereafter reduce to 5% of profit after tax. The small and medium scale industries equity investment scheme reserves are non-distributable. Transfer to this reserve is no longer required.

(f) Revaluation reserve: Comprises fair value movements on equity instruments.

(g) Foreign Currency translation reserve: Comprises exchange differences resulting from the translation to Naira of the results and financial position of entities within the group that have a functional currency other than Naira.

(h) Statutory Reserve for Credit Risk: The Nigerian banking regulators requires the bank to create a reserve for the difference between the cumulative impairment charge determined in line with the principles of IFRS and the charge determined in line with the prudential guidelines issued by the Central Bank of Nigeria (CBN). This reserve is not available for distribution to shareholders.

36 Pension contribution

In accordance with the provisions of the Pensions Reform Act 2004, the bank and its subsidiaries commenced a contributory pension scheme in January 2005. For entities operating in Nigeria, the contribution by employees and the employing entities are 2.5% and 12.5% respectively of the employees' basic salary, housing and transport allowances. Entities operating outside Nigeria contribute in line with the relevant pension laws in their jurisdictions. The contribution by the group and the bank during the period were **N 2.80 billion** and **N 2.50 billion** respectively (**2012: N 3.04 billion** and **N 2.84 billion**).

Notes to the Financial Statements
For The Year Ended 31 December 2013

37 Personnel Expenses

Compensation for the staff (excluding executive directors) are as follows:

	Group 2013 N'million	Group 2012 N'million	Bank 2013 N'million	Bank 2012 N'million
Salaries and wages	47,974	44,840	45,328	42,410
Other staff costs	9,175	4,551	9,035	4,536
Pension contribution (Note 36)	2,803	3,036	2,501	2,841
	59,952	52,427	56,864	49,787

(a) The average number of persons employed during the period by category:

	Number	Number	Number	Number
Executive directors	8	13	4	6
Management	468	435	455	409
Non-management	6,825	7,431	6,156	6,749
	7,301	7,879	6,615	7,164

The number of employees of the bank, other than directors, who earned salaries and emoluments (excluding pension and reimbursable expenses) are in the following ranges:

	Number	Number	Number	Number
N300,001 - N2,000,000	841	1,212	769	1,157
N2,000,001 - N2,800,000	324	199	-	-
N2,800,001 - N4,000,000	1,138	1,569	956	1,406
N4,000,001 - N6,000,000	1,677	2,853	1,636	2,668
N6,000,001 - N8,000,000	1,223	606	1,205	569
N8,000,001 - N9,000,000	681	394	670	381
N9,000,001 - and above	1,415	1,033	1,375	977
	7,299	7,866	6,611	7,158

(b) Directors' emoluments

The remuneration paid to directors are as follows:

	N'million	N'million	N'million	N'million
Fees and sitting allowances	233	224	165	103
Executive compensation	421	496	258	172
Retirement benefit costs	21	6	6	6
	675	726	429	281

Fees and other emoluments disclosed above include amounts paid to:

The chairman	23	16	23	16
The highest paid director	26	16	26	16

The number of directors who received fees and other emoluments (excluding pension contributions and reimbursable expenses) in the following ranges was:

	Number	Number	Number	Number
N5,500,001 and above	15	13	7	6

Notes to the Financial Statements
For The Year Ended 31 December 2013

38 Group subsidiaries and related party transactions

Parent:
Zenith Bank Plc (incorporated in Nigeria) is the ultimate parent company of the Group.

Subsidiaries:
Transactions between Zenith Bank Plc and its subsidiaries which are eliminated on consolidation are not separately disclosed in the consolidated financial statements. The Group's effective interests and investments in subsidiaries as at 31 December 2013 are shown below.

Entity	Effective holding	Nominal share capital held
	%	N'million
Foreign / banking subsidiaries:		
Zenith Bank (Ghana) Limited	98.07%	6,444
Zenith Bank (UK) Limited	100.00%	13,307
Zenith Bank (Sierra Leone) Limited	99.99%	1,606
Zenith Bank (Gambia) Limited	99.96%	1,038
Domestic / non-banking subsidiaries:		
Zenith General Insurance Limited	80.12%	3,978
Zenith Life Assurance Limited (Indirect)	81.61%	1,632
Zenith Securities Limited	99.98%	70
Zenith Capital Limited	99.99%	550
Zenith Pension Custodians Limited	99.00%	1,980
Zenith Trustees Limited (Indirect)	49.99%	60
Zenith Medicare Limited (Indirect)	80.12%	380

Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. See notes 3.4, 3.5 and 4.4.3 for disclosures on liquidity, capital adequacy, and credit risk reserve requirements respectively. The carrying amounts of banking subsidiaries' assets and liabilities are N371.77 billion and N333.18 billion respectively (2012: N244.45 billion and N212.61 billion respectively).

Non controlling interest in subsidiaries

The Group does not have any subsidiary that has material non controlling interest.

Key management personnel

Key management personnel is defined as the Group's executive management, including their close members of family and any entity over which they exercise control. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with the Group.

Key management compensation

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012
Salaries and other short-term benefits	534	534	258	275
Retirement benefit cost	10	8	6	6
Loans and advances				
At start of the year	1,159	1,429	1,090	1,357
Granted during the year	83	57	83	57
Repayment during the year	(354)	(327)	(352)	(324)
At end of of the year	888	1,159	821	1,090
Interest earned	26	50	25	48

Loans to key management personnel represent mortgage loans which are given under terms that are no more favourable than those given to other staff. No impairment has been recognised in respect of loans granted to key management (2012: Nil). Mortgage loans amounting to N888 million (2012: N1,159 million) and N821 million (2012: N1,090 million) for the Group and Bank respectively are secured by the underlying assets. All other loans are unsecured.

		2013			
Name of company	**Relationship**	**Loans**	**Deposits**	**Interest received**	**Interest paid**
Visafone Communication Limited	Common significant shareholder	2,640	21	396	21
Quantum Fund Management	Common significant shareholder	7,978	82	957	1
At end of of the year		10,618	103	1,353	22

Notes to the Financial Statements
For The Year Ended 31 December 2013

In millions of Naira		2012			
Name of company	**Relationship**	**Loans**	**Deposits**	**Interest received**	**Interest paid**
Capri Martins Nigeria Limited	Common directorship	2,700	-	324	-
Multibanc Savings and Loans Limited	Common directorship	2,650	-	371	-
Visafone Communication Limited	Common significant shareholder	2,405	10	568	44
Cyberspace Limited	Associate	-	124	-	1
Cyberspace Networks Limited	Associate	-	215	-	1
At end of of the year		**7,755**	**349**	**1,263**	**46**

Interest charged on loans to related parties and interest and other fees paid to related parties are similar to what would be charged in an arms' length transaction. Loans granted to related parties are secured over real estate and other assets of the respective borrowers. No impairment has been recognised in respect of loans granted to related parties (2012: Nil).

39 Contingent liabilities and commitments

(a) Legal proceedings

The Bank is presently involved in **115 (2012: 78)** litigation suits in the ordinary course of business. The total amount claimed in the cases against the Bank is estimated at **N3.38 billion (2012: N2.08 billion)**. The actions are being contested and the Directors are of the opinion that none of the aforementioned cases is likely to have a material adverse effect on the Bank and are not aware of any other pending or threatened claims and litigations.

(b) Capital commitments

At the balance sheet date, the Bank had capital commitments amounting to **N2.37 billion (2012: N2.83 billion)** in respect of authorized and contracted capital projects.

(c) Confirmed credits and other obligations on behalf of customers

In the normal course of business the group is a party to financial instruments which carry off-balance sheet risk. These instruments are issued to meet the credit and other financial requirements of customers. The contractual amounts of the off-balance sheet financial instruments are:

	Group 2013	Group 2012	**Bank 2013**	Bank 2012
Performance bonds and guarantees	**648,847**	468,728	**632,167**	434,038
Usance	**167,520**	162,133	**147,067**	131,817
Letters of credit	**170,516**	141,021	**153,033**	125,709
Pension funds (See Note (below))	**1,469,865**	1,106,373	**1,469,865**	1,106,373
	2,456,748	1,878,255	**2,402,132**	1,797,937

The transaction related performance bonds and guarantees are, generally, short-term commitments to third parties which are not directly dependent on the customer's creditworthiness. As at 31 December 2013, performance bonds and guarantees worth **N47.3 billion (2012: N10.4 billion)** are secured by cash while others are otherwise secured.

Usance and Letters of credit are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity dates, but are cancellable by the Group (as lender) subject to notice requirements. These Letters of credit are provided at market-related interest rates and cannot be settled net in cash. Usance and letters of credit are secured by different types of collaterals similar to those accepted for actual credit facilities.

The amount of N 1,469.87 billion (2012: N 1,106.37 billion) represents the full amount of the Bank's guarantee for the assets held by its subsidiary, Zenith Pensions Custodian Limited under the latter's custodial business as required by the National Pensions Commission.

Notes to the Financial Statements
For The Year Ended 31 December 2013

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012

40 Dividend per share

Dividend proposed	54,944	50,234	54,944	50,234
Number of shares in issue and ranking for dividend	31,396	31,396	31,396	31,396
Proposed dividend paid per share	175 k	160 k	175 k	160 k

The Board of Directors, pursuant to the powers vested in it by the provisions of section 379 of the Companies and Allied Matters Act (CAMA) of Nigeria, proposed a dividend of N1.75 kobo per share (2012: N1.60 kobo per share) from the retained earnings account as at 31 December 2013. This is subject to approval by shareholders at the next Annual General Meeting.

If the proposed dividend is approved by the shareholders, the Bank will be liable to pay additional corporate tax estimated at N13.8 billion, which represents the difference between the tax liability calculated at 30% of the dividend approved and the minimum tax charge reported in the statement of comprehensive income for year ended 31 December 2013.

The number of shares in issue and ranking for dividend represents the outstanding number of shares as at 31 December 2013 and 31 December 2012 respectively.

Payment of dividends to shareholders is subject to withholding tax at a rate of 10% in the hand of recipients.

41 Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents include cash and non-restricted balances with central banks, treasury bills maturing within three months, operating account balances with other banks, amounts due from other banks.

In millions of Naira	Group 2013	Group 2012	Bank 2013	Bank 2012
Cash and balances with central banks (less mandatory reserve deposits in note 16)	255,158	152,379	239,167	133,929
Treasury bills (maturing within three months) (note 17)	354,834	280,418	352,786	275,680
Due from other banks	256,729	182,020	249,524	203,791
	866,721	614,817	841,477	613,400

42 Compliance with banking regulations

During the year, the Bank paid penalties to the Central Bank of Nigeria for the following contraventions:
- promotion of top management staff without CBN approval (N270 million);
- insufficient data for lodgment on credit report (N 2million);
-WDAS utilisation (N 2 million).
- non rendition of original certificate of capital importation (N 2 million).

43 Events after reporting date

No significant event that requires special disclosure occured between the reporting date and the date when the financial statements were issued.

Other information

In millions of Naira

44 Value Added Statement (Group)

	December 2013 Group	%	December 2,012 Group	%
Gross income	**351,470**		307,082	
Interest expense				
- Local	**(60,791)**		(59,636)	
- Foreign	**(10,005)**		(4,925)	
	280,674		242,521	
Impairment charge for credit losses	**(11,176)**		(9,445)	
	269,498		233,076	
Bought-in materials and services				
- Local	**(84,117)**		(68,747)	
- Foreign	**(4,115)**		(3,663)	
Value added	**181,266**	**100**	160,666	100
Distribution				
Employees				
Salaries and benefits	**59,952**	**33**	47,200	29
Government				
Income tax	**15,279**	**8**	1,419	1
Retained in the Group				
Asset replacement (depreciation)	**10,717**	**6**	11,366	7
To pay proposed dividend	**54,943**	**30**	50,234	31
Profit for the year (including statutory, small scale industry, contingency reserves and non-controlling interest)	**40,375**	**23**	50,447	32
	181,266	**100**	160,666	100

These statements represent the distribution of the wealth created through the use of the group's assets through its own and its employees' efforts.

Other information

In millions of Naira

Value Added Statement (Bank)

	December 2013 Bank	%	December 2012 Bank	%
Gross income	311,275		279,042	
Interest expense				
- Local	(67,013)		(64,628)	
- Foreign	(1,458)		(724)	
	242,804		213,690	
Diminution in asset values	(9,907)		(7,998)	
	232,897		205,692	
Bought-in materials and services				
- Local	(70,356)		(56,323)	
- Foreign	(1,710)		(632)	
Value added	160,831	100	148,737	100
Distribution				
Employees				
Salaries and benefits	56,864	35	44,565	30
Government				
Income tax	10,694	7	(1,755)	(1)
Retained in the Bank				
Asset replacement (depreciation)	9,859	6	10,124	7
To pay proposed dividend	54,943	34	50,234	34
Profit for the year (including statutory, and small scale industry reserves)	28,471	18	45,569	30
	160,831	100	148,737	100

These statements represent the distribution of the wealth created through the use of the bank's assets through its own and its employees' efforts.

Other information

In millions of Naira

45	FIVE-YEAR FINANCIAL SUMMARY GROUP	IFRS 2013	IFRS 2012	IFRS 2011	IFRS 2010	IFRS 2009
	Assets					
	Cash and balances with central banks	603,851	332,515	223,187	141,724	126,779
	Treasury bills	586,441	669,164	510,738	298,858	231,530
	Due from other banks	256,729	182,020	234,521	399,478	341,830
	Derivative assets held for risk management	2,681				
	Loans and advances	1,251,355	989,814	893,834	754,024	707,602
	Reinsurance assets and insurance receivables	-	-	-	1,121	1,594
	Investment securities	303,125	299,343	308,231	211,804	158,922
	Investments in associates	165	420	1,756	2,443	2,443
	Deferred tax assets	749	432	186	1,657	966
	Other assets	36,238	28,665	25,510	20,457	22,353
	Assets classified as held for sale	30,454	31,943	52,482	-	-
	Investment property	-	-	7,114	7,342	424
	Property and equipment	69,410	68,782	68,366	66,585	71,564
	Intangible assets	1,935	1,406	770	827	712
	Total assets	3,143,133	2,604,504	2,326,695	1,906,320	1,666,719
	Liabilities					
	Customers deposits	2,276,755	1,929,244	1,655,458	1,319,762	1,178,188
	Claims payable	-	-	-	218	198
	Current income tax	7,017	6,577	13,348	3,735	7,407
	Deferred income tax liabilities	678	5,584	10,742	10,348	5,900
	Other liabilities	215,643	117,355	152,836	143,373	90,572
	Liabilities on insurance contracts	-	-	-	2,287	2,161
	On-lending facilities	59,528	56,066	49,370	26,049	-
	Borrowings	60,150	15,138	21,070	28,358	36,402
	Liabilities classified as held for sale	14,111	11,584	29,603	-	-
	Total Liabilities	2,633,882	2,141,548	1,932,427	1,534,130	1,320,828
	Net assets	509,251	462,956	394,268	372,190	345,891
	EQUITY					
	Share capital	15,698	15,698	15,698	15,698	12,559
	Share premium	255,047	255,047	255,047	255,047	255,047
	Retained earnings	161,144	130,153	75,072	64,826	51,170
	Other reserves	73,347	58,786	45,765	34,202	24,800
	Attributable to equity holders of the parent	505,236	459,684	391,582	369,773	343,576
	Non-controlling Interest	4,015	3,272	2,686	2,417	2,315
	Total shareholders' equity	509,251	462,956	394,268	372,190	345,891
	STATEMENT OF COMPREHENSIVE INCOME					
	Gross earnings	351,470	307,082	243,948	193,286	279,307
	Share of profit / (loss) of associates	118	23	45	27	78
	Interest expense	(70,796)	(64,561)	(34,906)	(35,719)	(83,957)
	Operating and direct expenses	(159,019)	(130,999)	(124,256)	(102,503)	(118,322)
	Impairment charge for credit losses	(11,176)	(9,445)	(17,391)	(4,977)	(34,802)
	Profit before tax	110,597	102,100	67,440	50,114	42,304
	Income tax	(15,279)	(1,419)	(18,736)	(12,291)	(16,255)
	Profit after tax	95,318	100,681	48,704	37,823	26,049
	Other comprehensive income:					
	Foreign currency translation differences	(2,070)	(2,424)	(421)	(507)	461
	Fair value movements on equity instruments	324	297	705	210	1,365
	Related tax	890	(91)	(211)	(63)	(530)
	Effective portion of changes in fair value of cash flow hedges	2,771	-	-	-	-
	Related tax	(760)	-	-	-	-
		1,155	(2,218)	73	(360)	1,296
	Total comprehensive income	96,473	98,463	48,776	37,463	27,345

Other information

In millions of Naira	IFRS	IFRS	IFRS	IFRS	IFRS
FIVE-YEAR FINANCIAL SUMMARY BANK	**2013**	**2012**	**2011**	**2010**	**2009**
ASSETS					
Cash and balances with central banks	587,793	313,546	211,098	130,604	115,044
Treasury bills	572,598	647,474	494,253	287,981	222,787
Due from other banks	249,524	203,791	246,364	374,604	290,025
Loans and advances	1,126,559	895,354	827,035	707,586	677,760
Investment securities	212,523	256,905	267,050	-	144,280
Investment in subsidiaries	24,375	24,375	19,345	172,180	36,096
Investments in associates	90	463	1,822	37,134	2,509
Deferred tax assets	-	-	-	2,509	-
Other assets	31,415	16,814	17,616	-	21,593
Assets classified as held for sale	4,749	10,338	10,838	15,402	-
Investment property	-	-	7,114	6,895	-
Property and equipment	67,364	66,651	65,877	63,000	68,106
Intangible assets	1,703	1,175	661	784	712
Total assets	2,878,693	2,436,886	2,169,073	1,798,679	1,578,912
LIABILITIES					
Customers deposits	2,079,862	1,802,008	1,577,290	1,290,014	1,114,271
Current income tax	5,266	5,071	11,934	1,010	5,718
Deferred income tax liabilities	-	5,573	10,732	9,869	6,264
Other liabilities	201,265	115,027	126,660	86,470	80,497
On-lending facilities	59,528	56,066	49,370	26,049	-
Borrowings	60,150	15,138	21,070	28,358	36,402
Total Liabilities	2,406,071	1,998,883	1,797,056	1,441,770	1,243,152
Net Assets	472,622	438,003	372,017	356,909	335,760
EQUITY					
Share capital	15,698	15,698	15,698	15,698	12,559
Share premium	255,047	255,047	255,047	255,047	255,047
Retained earnings	126,678	106,010	55,028	51,769	43,365
Other reserves	75,199	61,248	46,244	34,395	24,789
Total shareholders' equity	472,622	438,003	372,017	356,909	335,760
STATEMENT OF COMPREHENSIVE INCOME					
Gross Earnings	311,275	279,042	214,980	168,415	255,264
Interest expense	(68,471)	(65,352)	(33,407)	(34,522)	(82,836)
Operating and direct expenses	(138,789)	(111,644)	(108,529)	(89,107)	(103,338)
Impairment charge for credit losses	(9,907)	(7,998)	(15,900)	(3,317)	(32,217)
Profit before tax	94,108	94,048	57,144	41,469	36,873
Income tax	(10,694)	1,755	(15,843)	(9,164)	(14,940)
Profit after tax	83,414	95,803	41,301	32,305	21,933
Other comprehensive income:					
Fair value movements on equity instruments	549	15	705	210	2,012
Tax effect of equity instruments at fair value	890	(5)	(211)	(63)	(604)
	1,439	10	494	147	1,408
Total comprehensive income	84,853	95,813	41,795	32,452	23,341

ZENITH BANK PLC AND SUBSIDIARY COMPANIES
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

DIRECTORS, OFFICERS & PROFESSIONAL ADVISERS

Directors

Sir Steve Omojafor	-	Chairman
Godwin Emefiele	-	Managing Director
Babatunde Adejuwon	-	Director
Alhaji Baba Tela	-	Director
Alhaji Lawal Sani	-	Director
Prof. Chukuka Enwemeka	-	Director
Mr. Jeffrey Efeyini	-	Director
Chief (Mrs) Chinyere Asika *	-	Director
Peter Amangbo	-	Executive Director
Elias Igbinakenzua	-	Executive Director
Apollos Ikpobe * *	-	Executive Director
Udom Emmanuel	-	Executive Director
Andy Ojei	-	Executive Director
Ms. Adaora Remy Umeoji *	-	Executive Director

* Appointed by the Board on October 9, 2012 and approved by the Central Bank of Nigeria (CBN) on December 20, 2012.

** Retired with effect from August 31, 2012

Company Secretary
Michael Osilama Otu

Registered Office
Zenith Bank Plc
Zenith Heights
Plot 87, Ajose Adeogun Street
Victoria Island
Lagos.

Auditors
KPMG Professional Services
Bishop Aboyade Cole street
Victoria Island
Lagos

Registrar & Transfer Office
Zenith Registrars Limited
Plot 89 A, Ajose Adeogun Street
Victoria Island
Lagos.

Zenith Bank Plc
Index To The Consolidated And Separate Financial Statements
For The Year Ended 31 December 2012

The directors present their annual report on the affairs of Zenith Bank Plc ("the Bank") and its subsidiaries (together "the Group"), together with the financial statements and auditors' report for the year ended 31 December, 2012.

a. Legal Form

The Bank was incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability company on 30 May,1990. It was granted a banking licence in June 1990, to carry on the business of commercial banking and commenced business on 16 June 1990. The Bank was converted into a Public Limited Liability Company on 20 May 2004. The Bank's shares were listed on the 21 October 2004 on the floor of the Nigerian Stock Exchange.

b. Principal Activities and Business Review

The principal activity of the Bank is the provision of banking and other financial services to corporate and individual customers. Such services include granting of loans and advances, corporate finance and money market activities.

The Bank has eleven subsidiary companies namely, Zenith Securities Limited, Zenith General Insurance Company Limited, Zenith Bank (Ghana) Limited, Zenith Pension Custodian Limited, Zenith Bank (UK) Limited, Zenith Capital Limited, Zenith Medicare Limited, Zenith Trustees Limited, Zenith Life Assurance Company Limited, Zenith Bank (Sierra Leone) Limited, and Zenith Bank (Gambia) Limited.

In line with regulatory directives on the scope of banking operations in Nigeria, the Bank has commenced the process of divesting from its non-core banking operations (excluding Zenith Pension Custodian Limited) and hence these subsidiaries have been accounted for as discontinued operations in line with IFRS 5. During the year, the Bank successfully divested from Zenith Registrar Limited.

c. Operating Results

Gross earnings of the Group increased by 26% and profit before tax increased by 51% respectively. Highlights of the Group's operating results for the year under review are as follows:

	2012 N'million	2011 N'million
Profit before tax (continuing and discontinued operations)	102,100	67,440
Taxation (continuing and discontinued operations)	(1,419)	(18,736)
Profit after taxation (continuing and discontinued operations)	100,681	48,704
Non- controlling interest	(534)	(281)
Profit attributable to the Group	100,147	48,423
Appropriations:		
Transfer to Statutory Reserve	14,994	5,571
Transfer to Contingency Reserve	245	135
Transfer to Retained Earnings Reserve	84,908	42,717
	100,147	48,423

Dividends

The Board of Directors, pursuant to the powers vested in it by the provisions of section 379 of the Companies and Allied Matters Act (CAMA) of Nigeria, proposed a dividend of N1.60 kobo per share (December 2011: 95 kobo per share) from the retained earnings account as at 31 December 2012. This is subject to approval by shareholders at the next Annual General Meeting.

If the proposed dividend is approved by the shareholders, the Bank will be liable to pay additional corporate tax estimated at N12.6 billion, which represents the difference between the tax liability calculated at 30% of the dividend approved and the minimum tax charge reported in the statement of comprehensive income for year ended 31 December 2012.

Payment of dividends is subject to withholding tax at a rate of 10% in the hand of recipients.

d. Directors' Shareholding

The direct interests of directors in the issued share capital of Zenith Bank as recorded in the register of directors shareholding and/or as notified by the directors for the purposes of sections 275 and 276 of the Companies and Allied Matters Act and the listing requirements of the Nigerian Stock Exchange is as follows:

		Number of Shareholding	
Name	**Designation**	**2012**	**2011**
Sir Steve Omojafor	Chairman	4,447,563	4,447,563
Godwin Emefiele	Group Managing Director/CEO	44,700,792	44,700,792
Babatunde Adejuwon	Non-Executive Director	3,752,853	3,752,853
Alhaji Baba Tela	Non Executive Director / Independent	250,880	250,880
Alhaji Lawal Sani	Non Executive Director / Independent	-	-
Prof. Chukuka Enwemeka	Non-Executive Director	127,137	127,137
Mr. Jeffrey Efeyini	Non-Executive Director	197,400	197,400
Chief (Mrs) Chinyere Asika *	Non Executive Director / Independent	-	-
Peter Amangbo	Executive Director	5,000,000	12,737,500
Elias Igbinakenzua	Executive Director	11,401,341	17,788,841
Apollos Ikpobe * *	Executive Director	-	12,666,963
Udom Emmanuel	Executive Director	7,110,308	14,062,496
Andy Ojei	Executive Director	9,522,074	14,209,574
Ms. Adaora Remy Umeoji *	Executive Director	25,949,887	25,949,887

* Appointed by the Board on October 9, 2012 and approved by the Central Bank of Nigeria (CBN) on December 20, 2012.

** Retired with effect from August 31, 2012

e. Directors' Interests in Contracts

For the purpose of section 277 of the Companies and Allied Matters Act, none of the existing directors had direct or indirect interest in contracts or proposed contracts with the Bank during the year.

f. Acquisition of Own Shares

The shares of the Bank are held in accordance with the Articles of Association of the Bank. The Bank has no beneficial interest in any of its shares.

g. Property and Equipment

Information relating to changes in property and equipment is given in Note 27 to the financial statements. In the opinion of the directors, the market value of the Group's properties is not less than the value shown in the financial statements.

h. Shareholding Analysis

The shareholding pattern of the Bank as at 31 December 2012 is as stated below:

Share Range	No. of Shareholders	Percentage of Shareholders (%)	Number of Holdings (%)	Percentage Holdings (%)
1-9,999	551,582	82.65%	1,714,937,257	5.46%
10,000 - 50,000	91,740	13.75%	1,885,285,543	6.00%
50,001 - 100,000	10,914	1.64%	757,374,308	2.41%
100,001 - 500,000	11,054	1.66%	2,069,814,212	6.59%
500,001 - 1,000,000	916	0.14%	644,079,303	2.05%
1,000,001 - 5,000,000	873	0.13%	1,864,323,308	5.94%
5,000,001 - 10,000,000	142	0.02%	999,376,950	3.18%
10,00,001 - 50,00,000	126	0.02%	2,516,751,236	8.02%
50,00,001 - 100,00,000	24	0.00%	1,759,195,224	5.60%
100,000,001 - 500,000,000	28	0.00%	6,084,636,747	19.38%
500,000,001 - 1,000,000,000	3	0.00%	1,613,347,555	5.14%
Above 1,000,000,000	5	0.00%	9,487,372,143	30.22%
	667,407	**100.00%**	**31,396,493,786**	**100.00%**

i. Substantial Interest in Shares

According to the register of members at 31 December 2012, the following shareholders held more than 5.0% of the issued share capital of the Bank.

	Number of Shares Held	Percentage Holdings (%)
Jim Ovia	2,747,223,748	8.75%
Stanbic Nominees Nigeria Limited/C001 - TRAD	2,578,440,480	8.21%
Stanbic Nominees Nigeria Limited/C002 - TRAD	1,772,836,681	5.65%

j. Donations and Charitable Gifts

The Bank made contributions to charitable and non-political organisations amounting to N 587 million during the year (2011: N 716 million)

The beneficiaries are as follows:

	N' million
IFRS Academy	100
South South Economic Summit	100
Obafemi awolowo University	70
Lagos State Security Trust Fund	50
Ogun State Security Trust Fund	30
Pan-Africa University	30
Day Waterman College Indigent student scholarship fund	20
St. Saviour School, Ikoyi Lagos	20
Nigeria Basketball Federation	17
University of Agriculture. Abeokuta, Ogun state	13
Ojota Secondary School, Lagos	11
Plateau State ICT Development project	7
Others below N5 million	119
	587

k. Post Balance Sheet Events

There were no significant events after the balance sheet date that could affect the reported amount of assets and liabilities as of the balance sheet date.

l. Human Resources

i. Employment of Disabled Persons

The Bank continues to maintain a policy of giving fair consideration to the application for employment made by disabled persons with due regard to their abilities and aptitude. The Bank's policy prohibits discrimination against disabled persons in the recruitment, training and career development of its employees. In the event of members of staff becoming disabled, efforts will be made to ensure that their employment continues and appropriate training arranged to ensure that they fit into the Bank's working environment.

ii. Health, Safety and Welfare at Work

The Bank enforces strict health and safety rules and practices at the work environment, which are reviewed and tested regularly. The Bank retains top-class private hospitals where medical facilities are provided for staff and their immediate families at the Bank's expense.

Fire prevention and fire-fighting equipment are installed in strategic locations within the Bank's premises.

The Bank operates both a Group Personal Accident and the Workmen's Compensation Insurance covers for the benefit of its employees. It also operates a contributory pension plan in line with the Pension Reform Act.

iii. Employee Training and Development

The Bank ensures, through various fora, that employees are informed on matters concerning them. Formal and informal channels are also employed in communication with employees with an appropriate two-way feedback mechanism.

In accordance with the Bank's policy of continuous development, training facilities are provided in our well-equipped training centres. In addition, employees of the Bank are nominated to attend both locally and internationally organized courses. These are complemented by on-the-job training.

iv. Gender Analysis of Staff

The average number of employees of the Bank during the year by gender and level is as follows;

(a) Analysis of total employees

	Gender			Gender	
	Male	**Female**	**Total**	**Male**	**Female**
	Number			**Percentage**	
Employees	3,753	3,411	7,164	52%	48%

(b) Analysis of board and top management staff

	Gender			Gender	
	Male	**Female**	**Total**	**Male**	**Female**
	Number			**Percentage**	
Board Members (Executive and Non Executive Directors)	11	2	13	85%	15%
Top Management Staff (AGM-GM)	59	22	81	73%	27%
	70	**24**	**94**	**74%**	**26%**

(c) Further analysis of board and top mangement staff

	Gender			Gender	
	Male	Female	Total	Male	Female
	Number			Percentage	
Assistant General Managers	31	14	45	69%	31%
Deputy General Managers	17	4	21	81%	19%
General Managers	11	4	15	73%	27%
Board Members (Non Executive Directors)	6	1	7	86%	14%
Board Members (Executive Directors excluding MD/CEO)	4	1	5	80%	20%
Managing Director/CEO	1	-	1	100%	0%
	70	24	94	74%	26%

m. Auditors

The auditors, Messrs. KPMG Professional Services have indicated their willingness to continue in office as auditors in accordance with Section 357 (2) of the Companies and Allied Matters Act, 1990.

By Order of the Board

Michael Osilama Otu
Company Secretary
FRC/2013/MULTI/00000001084

a. Introduction

Zenith Bank as a major player in the Nigerian financial sector has in place an effective governance mechanism that not only ensures proper oversight of its business by the Directors and other principal organs of the Bank, but also carries on its business in a manner that engenders public trust and confidence while meeting the expectations of all stakeholders.

In pursuit of this objective, we consistently reappraise our processes to ensure the Bank operates on the global standard of corporate governance at all times.

b. Shareholding

The Bank has a large and diversified shareholder base. No single individual ultimate beneficiary holds more than 9% of the Bank's total shares.

c. Board of Directors

The tone for proper corporate governance by the Bank is set at the Board.

Besides possessing the requisite academic qualifications and experience in Board affairs, Directors are well abreast of their responsibilities and are conversant with the bank's business.

They are therefore able to exercise sound judgment on matters relating to its business.

d. Board Structure

The board is made up of a non-executive Chairman, six (6) non-executive Directors and six (6) executive Directors including the GMD/CEO. Three (3) of the non-executive Directors are independent directors, appointed in compliance with the Central Bank of Nigeria (CBN) circular on appointment of independent directors by banks.

The Managing Director/Chief Executive is responsible for the day to day running of the bank, assisted by the Executive Committee (EXCO).

e. Responsibilities of the Board

The Board is responsible for:

• Reviewing and providing guidance for the Bank's corporate and business strategy, major plans of action and risk policy.

• Review and approval of annual budgets and business plans; setting performance objectives, monitoring implementation and corporate performance.

• Overseeing major capital expenditures, acquisitions and divestitures.

• Monitoring the effectiveness of the governance practices under which the Bank operates and making appropriate changes as necessary.

• Ensuring the integrity of the Bank's accounting and financial reporting systems, including the internal audit function and that appropriate systems of control and risk monitoring are in place.

• Providing oversight of senior management.

• Establishment of the various Committees of the Bank including the terms of reference and review of reports of such Committees to address key areas of the Bank's business.

The board members who served on the board during the financial year are as follows:

Board of Directors

NAME	POSITION
Sir. Steve Omojafor	Chairman
Mr. Babatunde Adejuwon	Non Executive Director
Alhaji Baba Tela	Non Executive Director / Independent
Mr. Lawal Sani	Non Executive Director / Independent
Mr. Jeffrey Efeyini	Non Executive Director
Prof. Chukuka S. Enwemeka	Non Executive Director
Chief (Mrs) Chinyere Asika *	Non Executive Director / Independent
Mr. Godwin Emefiele	Group Managing Director / Chief Executive Officer
Mr. Peter Amangbo	Executive Director
Mr. Elias Igbinakenzua	Executive Director
Mr. Apollos Ikpobe **	Executive Director
Mr. Udom Emmanuel	Executive Director
Mr. Andy Ojei	Executive Director
Ms. Adaora Remy Umeoji *	Executive Director

* Appointed by the Board on October 9, 2012 and approved by the Central Bank of Nigeria (CBN) on December 20, 2012

** Retired with effect from August 31, 2012

The Board meets at least every quarter but may hold extra-ordinary sessions to address urgent matters requiring the attention of the Board.

f. Board Committees

The Board carries out its oversight functions using its various Board Committees. This makes for efficiency and allows for a deeper attention to specific matters for the board. The Committees are set up in line with statutory and regulatory requirements and consistent with global best practice.

Membership of the Committees of the Board is intended to make the best use of the skills and experience of non-executive directors in particular.

The Committees have well defined terms of reference and Charters defining their scope of responsibilities in such a way as to avoid overlap of functions.

The Committees of the Board meet quarterly but may hold extraordinary sessions as business of the bank demand.

The following are the current standing Committees of the Board:

i. Board Credit Committee

The Committee is made up of six (6) members comprising three (3) non Executive Directors and three (3) Executive Directors of the bank. The Board Credit Committee is chaired by a non-Executive Director who is well versed in credit matters. The Committee considers loan applications above the level of Management Credit Committee. It also determines the credit policy of the bank or changes therein.

The membership of the Committee is as follows:

Mr. Jeffrey Efeyini – (Chairman)

Mr. Babatunde Adejuwon

Alhaji Baba Tela

Mr. Godwin Emefiele

Mr. Elias Igbinakenzua

Mr. Apollos Ikpobe *

* Retired with effect from August 31, 2012

Committee's Terms of Reference

• To recommend criteria by which the Board of Directors can evaluate the credit facilities presented from various customers.

• To review the credit portfolio of the Bank.

• To consider all credit facilities above Management approval limit.

• To establish and periodically review the Bank's credit portfolio in order to align organizational strategies, goals, and performance.

• To evaluate on an annual basis the components of total credit facilities as well as market competitive data and other factors as deemed appropriate, and to determine the credit level based upon this evaluation.

• To make recommendations to the Board of Directors with respect to credit facilities based upon performance, market competitive data, and other factors as deemed appropriate.

• To recommend to the Board of Directors, as appropriate, new credit proposals, restructure plans, and amendments to existing plans.

• To select and retain independent experts and consultants in the field of credit analysis subject to Board's approval, to advise with respect to market data and assist the Committee with its duties, and to approve fees and set terms of engagement for such consultants.

• To report to the entire Board at such times as the Committee and Board shall determine, but not less than every quarter.

• To perform such other duties and responsibilities as the Board of Directors may assign from time to time.

• To recommend non-performing credits for write-off by the Board.

ii. Staff Matters, Finance and General Purpose Committee

This Committee is made up of six (6) members: three (3) non Executive Directors and three (3) Executive Directors. It is chaired by a non-executive Director. The Committee considers large scale procurement by the Bank, as well as matters bordering on staff welfare, discipline, staff remuneration and promotion.

The membership of the Committee is as follows:

Alhaji Baba Tela – (Chairman)
Mr. Lawal Sani
Prof. Chukuka Enwemeka
Mr. Godwin Emefiele
Mr. Peter Amangbo
Mr. Andy Ojei

Committee's Terms of Reference

• Review of all matters relating to staff welfare, including remuneration of staff, and Executive Management;

• Consideration of all large scale procurement to be made by the Bank;

• Review of contracts award for significant expenditures;

• Consideration of promotions of Senior Management staff of the Bank;

• Any other matter that may be referred to it by the Board.

iii. Board Risk Management Committee

The Board Risk Management Committee has oversight responsibility for the overall risk assessment of various areas of the Bank's operations and compliance.

The Chief Risk Officer has access to this Committee and makes quarterly presentations for the consideration of the Committee. Chaired by Mr. Adejuwon (a non executive Director), the Committee's membership comprises the following:

Mr. Babatunde Adejuwon – (Chairman)

Mr. Jeffrey Efeyini

Mr. Lawal Sani

Prof. Chukuka Enwemeka

Mr. Godwin Emefiele

Mr. Udom Emmanuel

Mr. Andy Ojei

Committee's Terms of Reference

• The primary responsibility of the Committee is to 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.

• Design and implement risk management practices, specifically provide ongoing guidance and support for the refinement of the overall risk management framework and ensuring that best practices are incorporated;

• Ensure that Management understands and accepts its responsibility for identifying, assessing and managing risk;

• Ensure and monitor risk management practices, specifically determine which enterprise risks are most significant and approve resource allocation for risk monitoring and improvement activities, assign risk owners and approve action plans;

• Periodically review and monitor risk mitigation process and periodically review and report to the Board of Directors:

(a) magnitude of all material business risks;

(b) the processes, procedures and controls in place to manage material risks; and

(c) the overall effectiveness of the risk management process;

• Facilitate the development of a comprehensive risk management framework for the Bank and develop the risk management policies and processes and enforce its compliance.

• To establish and periodically review the bank's risk portfolio in order to align organizational strategies, goals, and performance.

• To evaluate on a periodic basis the components of risk as well as market competitive data and other factors as deemed appropriate, and to determine the risk level based upon this evaluation.

• To select and retain independent experts and consultants in the field of risk analysis subject to Board's approval, to advise with respect to market data and assist the Committee with its duties, and to approve fees and set terms of engagement for such consultants.

• To report to the entire Board at such times as the Committee and Board shall determine, but not less than twice a year.

• To perform such other duties and responsibilities as the Board of Directors may assign from time to time

iv. Audit Committee

The Committee is established in line with Section 359(6) of the Companies and Allied Matters Act, 1990. The Committee's membership consists of three (3) representatives of the shareholders elected at the Annual General Meeting (AGM) and three (3) non-executive Directors. The Committee meets every quarter, but could also meet at any other time, should the need arise.

The membership of the Committee is as follows:

Shareholders' Representative

Alhaji Hamis B. Musa – (Chairman)

Mr. Michael Olusoji Ajayi

Ms. Angela Agidi

Non Executive Directors

Mr. Babatunde Adejuwon

Alhaji Lawal Sani

Mr. Jeffrey Efeyini

Committee's Terms of Reference

• To meet with the independent Auditors, Chief Financial Officer, Internal Auditor and any other Bank executive both individually and/or together, as the Committee deems appropriate at such times as the Committee shall determine to discuss and review:

- the terms of engagement for the independent auditors, the scope of the audit, and the procedures to be used

- the Bank's quarterly and audited annual financial statements, including any related notes, the Bank's specific disclosures and discussion under "Managements Control Report and the independent auditors' report, in advance of publication;

- the performance and results of the external and internal audits, including the independent auditors' management letter, and management's responses thereto;

- the effectiveness of the Bank's system of internal controls, including computerized information systems and security; any recommendations by the independent auditor and internal auditor regarding internal control issues and any actions taken in response thereto; and, the internal control certification and attestation required to be made in connection with the Bank's quarterly and annual financial reports;

- such other matters in connection with overseeing the financial reporting process and the maintenance of internal controls as the Committee shall deem appropriate;

•To actively engage in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and to take appropriate action in response to the independent auditors' report to satisfy itself of the independent auditors' independence; to periodically evaluate the independent auditor's qualifications and performance including a review of the lead partner, taking into account the opinion of management and the internal auditor;

• To review critical accounting policies and financial statement presentation; to discuss with management and the independent auditors significant financial reporting issues and judgments made in preparation of the financial statements including the effect of alternative accounting methods; to review major changes in accounting policies.

• To initiate, at its discretion, investigations within the parameters of its responsibilities.

• To prepare the Committee's report for inclusion in the Bank's annual report.

• To report to the entire Board at such times as the Committee shall determine.

• To conduct an annual evaluation of the Committee's performance.

v. Executive Committee (EXCO)

The EXCO comprises of the Managing Director, who chairs it and all Executive Directors. The Committee meets twice weekly (or such other times as business exigency may require) to deliberate and take policy decisions on the effective and efficient management of the Bank. It also serves as a processing unit for issues to be discussed at the Board level. EXCO's primary responsibility is to ensure the implementation of strategies approved by the Board, provide leadership to the Management team and ensure efficient deployment and management of the Bank's resources. Its Chairman is responsible for the day-to-day running and performance of the Bank.

vi. Other Committees

In addition to the afore-mentioned Committees, the Bank has in place, other Standing Management Committees. They include:

(a) Management Committee (MANCO)
(b) Assets and Liabilities Committee (ALCO)
(c) Management Global Credit Committee (MGCC)
(d) Risk Management Committee (RMC)
(e) Information Technology (IT) Steering Committee

(a) Management Committee

The Management Committee comprises the senior management of the Bank and has been established to identify, analyse, and make recommendations on risks arising from day-to-day activities. They also ensure that risk limits as contained in the Board and Regulatory policies are complied with. Members of the management committee make contributions to the respective Board Committees and also ensure that recommendations of the Board Committees are effectively and efficiently implemented. They meet weekly and as frequently as the need arises.

(b) Assets and Liabilities Committee (ALCO)

The ALCO is responsible for the management of 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. The members of the Committee include the Managing Director, Executive Directors, the Treasurer, the Head of Financial Control, the Head of Risk Management Group and a representative of the Assets and Liability Management Unit. The representative of the Asset and Liability Management Department serves as the secretary of this Committee.

(c) Global Credit Committee

The Management Global Credit Committee is responsible for ensuring that the Bank complies with the Credit Policy Guide as established by the Board. The Committee also makes contributions to the Board Credit Committee. The Committee can approve credit facilities to individual obligors not exceeding in aggregate a sum as pre-determined by the Board from time to time. The Committee is responsible for reviewing and approving extensions of credit, including one-obligor commitments that exceed an amount as may be determined by the Board. The Committee meets weekly or fortnightly depending on the number of credit applications to be considered. The members of the Committee include the Managing Director, and all divisional and group heads, including the Executive Directors.

The committee reviews the entire credit portfolio of the Bank and conducts periodic assessment of the quality of risk assets in the Bank. It also ensures that adequate monitoring of performance is carried out. The secretary of the committee is the Head of the Credit Administration Department.

(d) Risk Management Committee

This Committee is responsible for regular analysis and consideration of risks other than credit risk in the Bank. It meets [at least monthly or as the need arises] to review environmental and other risk issues and policies affecting the Bank and recommend steps to be taken. The Committee's approach is entirely risk based. The Committee makes contributions to the Board Risk Management Committee and also ensures that the Board Risk Committee's decisions and policies are implemented. The members of the Committee include the Managing Director, two Executive Directors and all divisional and group heads.

(e) Information Technology Steering Committee

The Information Technology 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 organization.

Membership of the Committee is as follows:

(1) The Managing Director/Chief Executive

(2) Two (2) Executive Directors

(3) Head of Treasury

(4) Head of Trade Services

(5) Marketing Groups Representatives

(6) Chief Inspector

(7) Chief Risk Officer

(8) Head of IT

(9) Head of Infotech - Software

(10) Head of Infotech - Enginering

(11) Head of Card Services

(12) Head of Operations

(13) Head of IT Audit

(14) Head of e-Business

(15) Head of Investigation

The Committee meets monthly or as the need arises.

BOARD AND BOARD COMMITTEES MEETINGS

The table below shows the frequency of meetings of the Board of Directors, Board Committees and members' attendance at these meetings during the year under review.

Directors	Board	Credit Committee	Staff Matters, Finance & General Purpose Committee	Risk Management Committee
Number of Meetings	**5**	**5**	**5**	**4**
Attendance				
Sir Steve Omojafor	5	N/A	N/A	N/A
Mr. Babatunde Adejuwon	5	5	N/A	4
Alhaji Baba Tela	5	5	5	N/A
Alhaji Lawal Sani	5	N/A	5	4
Mr. Jeffrey Efeyini	5	5	N/A	4
Prof. Chukuka S.Enwemeka	5	N/A	4	4
Chief (Mrs) Chinyere Asika *	-	N/A	N/A	N/A
Mr. Godwin Emefiele	5	5	5	4
Mr. Peter Amangbo	5	N/A	5	N/A
Mr. Elias Igbinakenzua	5	5	N/A	N/A
Mr. Apollos Ikpobe * *	3	3	N/A	N/A
Mr. Udom Emmanuel	5	N/A	N/A	4
Mr. Andy Ojei	4	N/A	5	3
Ms. Adaora Remy Umeoji *	-	N/A	N/A	N/A

Note:

* Appointed by the Board on October 9, 2012 and approved by the Central Bank of Nigeria (CBN) on December 20, 2012.

* * Retired from the Board effective August 31,2012

N/A Not Applicable (not a Committee member).

The table below shows the frequency of meetings of the Audit Committee and members' attendance at these meetings during the year under review.

Members	Audit committee
Number of Meetings	4
Attendance	
Alhaji Hamis B. Musa	4
Mr. Michael Olusoji Ajayi	4
Ms. Angela Agidi	4
Mr. Babatunde Adejuwon	4
Mr. Jeffrey Efeyini	4
Alhaji Lawal Sani	4

f. Relationship with Shareholders

Zenith Bank maintains an effective communication with its shareholders, which enables them understand our business, financial condition and operating performance and trends. Apart from our annual report and accounts, proxy statements and formal shareholders' meetings, we maintain a rich website (with suggestion boxes) that provide information on a wide range of issues for all stakeholders.

The Bank has an Investors Relations Unit which holds a regular forum to brief all stakeholders on operations of the Bank

The Bank also, from time to time, holds briefing sessions with market operators (stockbrokers, dealers, institutional investors, issuing houses, stock analysts, mainly through investors conference) to update them with the state of our business. These professionals, as advisers and purveyors of information, relate with and relay to the shareholders useful information about us. We also regularly brief the regulatory authorities, and file statutory returns which are usually accessible to the shareholders.

g. Customer ATM Complaint's Resolution

Number of complaints	Number resolved	Number not resolved	Number refered to CBN
53	41	12	53

The Directors accept responsibility for the preparation of the annual financial statements set out on pages 22 to 105 that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act of Nigeria and relevant Central Bank of Nigeria regulations.

The Directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied Matters Act of Nigeria and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The Directors have made assessment of the Bank's ability to continue as a going concern and have no reason to believe that the Bank will not remain a going concern in the year ahead.

SIGNED ON BEHALF OF THE
BOARD OF DIRECTORS BY:

Sir Steve Omojafor	Godwin Emefiele	Udom Emmanuel
Chairman	Group Managing Director / CEO	Executive Director/ CFO
FRC/2013/IODN/00000001299	FRC/2013/IODN/00000001080	FRC/2013/MULTI/00000001066
30 January, 2013	30 January, 2013	30 January, 2013

ZENITH

ZENITH BANK PLC
REPORT OF THE AUDIT COMMITTEE
FOR THE YEAR ENDED 31 DECEMBER 2012

To the members of **Zenith Bank Plc**

In compliance with Section 359(6) of the Companies and Allied Matters Act of Nigeria, we have reviewed the consolidated and separate financial statements of Zenith Bank Plc for the year ended 31 December 2012 and hereby state as follows:

1. The scope and planning of the audit were adequate in our opinion;

2. The accounting and reporting policies of the Group and Bank conformed with the statutory requirements and agreed ethical practices.

3. The Internal Control and Internal Audit functions were operating effectively; and

4. The External Auditor's findings as stated in the management letter are being dealt with satisfactorily by the management.

5. Related party transactions and balances have been disclosed in note 38 to the Financial Statements in accordance with requirements of the International Financial Reporting Standards (IFRS) and the Central Bank of Nigeria (CBN) directives as contained in the Prudential Guidelines for Deposit Money Banks in Nigeria and Circular on Disclosure of Insider-Related Credits in Financial Statements BSD/1/2004.

Dated January 30, 2013.

Alhaji Hamis B. Musa
Chairman, Audit Committee

MEMBERS OF THE COMMITTEE

1. Alhaji Hamis B. Musa
2. Mr. Michael Olusoji Ajayi
3. Mr. Babatunde Adejuwon
4. Alhaji Lawal Sani
5. Mr. Jeffrey Efeyini
6. Ms. Angela Agidi

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Lagos

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Internet www.kpmg.com/ng

INDEPENDENT AUDITOR'S REPORT

To the Members of Zenith Bank Plc

Report on the Financial Statements

We have audited the accompanying financial statements of Zenith Bank Plc ("the Bank") and its subsidiary companies (together "the Group"), which comprise the statements of financial position as at December 31, 2012, and the statements of comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 22 to 101.

Directors' Responsibility for the Financial Statements
The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act of Nigeria, and relevant Central Bank of Nigeria circulars, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, these financial statements give a true and fair view of the financial position of Zenith Bank Plc ("the Bank") and its subsidiaries (together "the Group") as at December 31, 2012, and of the Group and Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act of Nigeria, and relevant Central Bank of Nigeria circulars.

Report on Other Legal and Regulatory Requirements

Compliance with the requirements of Schedule 6 of the Companies and Allied Matters Act of Nigeria

In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from branches not visited by us. Additionally, the Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account and returns.

Compliance with Section 27 (2) of the Banks and Other Financial Institutions Act of Nigeria and Central Bank of Nigeria circular BSD/1/2004

i. The Bank contravened the requirements of some Central Bank circulars during the financial year. Details of these are stated in Note 42 of the financial statements.

ii. Related party transactions and balances are disclosed in note (38) of the financial statements in compliance with the Central Bank of Nigeria circular BSD/1/2004.

KPMG

28th March, 2013

Lagos, Nigeria

FRC/2012/ICAN/00000000425

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
A 343013

Zenith Bank Plc
Consolidated and Separate Statements of Comprehensive Income
For The Year Ended 31 December 2012

In millions of Naira	Note	Group 2012	Group 2011	Bank 2012	Bank 2011
Gross earnings		**307,082**	243,948	**279,042**	214,980
Continuing Operations:					
Interest and similar income	*6*	**221,318**	163,192	**213,230**	155,871
Interest and similar expense	*7*	**(64,561)**	(34,906)	**(65,352)**	(33,407)
Net interest income		**156,757**	128,286	**147,878**	122,464
Impairment charge for credit losses	*8*	**(9,099)**	(16,514)	**(7,998)**	(15,900)
Net interest income after impairment charge for credit losses		**147,658**	111,772	**139,880**	106,564
Fee and commission income	*9*	**50,480**	42,197	**44,211**	36,590
Net gains on financial instruments measured at fair value through profit or loss	*10*	**19,012**	18,524	**16,201**	15,714
Other income	*11*	**1,038**	6,803	**5,400**	6,805
Share of profit of associates		**23**	45	**-**	-
Amortisation of intangible assets	*28*	**(1,059)**	(310)	**(624)**	(298)
Operating expenses	*12*	**(118,560)**	(115,918)	**(111,020)**	(108,231)
Profit before minimum tax and income tax from continuing operations		**98,592**	63,113	**94,048**	57,144
Minimum tax		**(2,469)**	-	**(2,469)**	-
Income tax expense from continuing operations	*13*	**2,007**	(17,261)	**4,224**	(15,843)
Profit after tax from continuing operations		**98,130**	**45,852**	**95,803**	**41,301**
Discontinued Operations:					
Gross income from discontinued operations		**15,234**	13,232	**-**	-
Gross expenses from discontinued operations		**(11,726)**	(8,905)	**-**	-
Profit before tax from discontinued operations	*14*	**3,508**	**4,327**	**-**	-
Income tax expense from discontinued operations		(957)	(1,475)	**-**	-
Profit after tax from discontinued operations		**2,551**	**2,852**	**-**	**-**
Continued and Discontinued Operations:					
Profit for the year before minimum tax and income tax		**102,100**	67,440	**94,048**	57,144
Minimum tax		**(2,469)**	-	**(2,469)**	**-**
Income tax expense		**1,050**	(18,736)	**4,224**	(15,843)
Profit for the year after tax		**100,681**	**48,704**	**95,803**	**41,301**
Other comprehensive income					
Foreign currency translation differences		**(2,424)**	(421)	-	-
Fair value movements on equity instruments		**297**	705	**15**	705
Tax effect of equity instruments at fair value		**(91)**	(211)	**(5)**	(211)
Other comprehensive income for the year, net of tax		**(2,218)**	73	**10**	494
Total comprehensive income for the year		**98,463**	48,777	**95,813**	41,795
Profit attributable to:					
Equity holders of the parent		**100,147**	48,423	**95,803**	41,301
Non controlling interests		**534**	281	**-**	-
Total comprehensive income attributable to:					
Equity holders of the parent		**97,971**	48,527	**95,813**	41,795
Non controlling interests		**492**	250	**-**	-
Profit from continuing operations attributable to:					
Equity holders of the parent		**98,044**	45,780	**95,803**	41,301
Non controlling interests		**86**	72	**-**	-
Earnings per share for profit from total operations attributable to equity holders of parent					
Basic	*15*	**319 k**	154 k	**305 k**	132 k
Earnings per share for profit from continuing operations attributable to equity holders of parent					
Basic	*15*	**312 k**	146 k	**305 k**	132 k

The accompanying notes are an integral part of these consolidated and separate financial statements.

Zenith Bank Plc
Consolidated and Separate Statements of Financial Position
As At 31 December 2012

In millions of Naira

	Note	Group 2012	Group 2011	Bank 2012	Bank 2011
Assets					
Cash and balances with central banks	16	**332,515**	223,187	**313,546**	211,098
Treasury bills	17	**669,164**	510,738	**647,474**	494,253
Due from other banks	18	**182,020**	234,521	**203,791**	246,364
Loans and advances	19	**989,814**	893,834	**895,354**	827,035
Investment securities	20	**299,343**	308,231	**256,905**	267,050
Investment in subsidiaries	21	**-**	-	**24,375**	19,345
Investment in associates	22	**420**	1,756	**463**	1,822
Deferred tax assets	23	**432**	186	**-**	-
Other assets	24	**28,665**	25,510	**16,814**	17,616
Assets classified as held for sale	25	**31,943**	52,482	**10,338**	10,838
Investment property	26	**-**	7,114	**-**	7,114
Property and equipment	27	**68,782**	68,366	**66,651**	65,877
Intangible assets	28	**1,406**	770	**1,175**	661
Total assets		**2,604,504**	2,326,695	**2,436,886**	2,169,073
Liabilities					
Customers' deposits	29	**1,929,244**	1,655,458	**1,802,008**	1,577,290
Current income tax	13	**6,577**	13,348	**5,071**	11,934
Deferred income tax liabilities	23	**5,584**	10,742	**5,573**	10,732
Other liabilities	30	**117,355**	152,836	**115,027**	126,660
On-lending facilities	31	**56,066**	49,370	**56,066**	49,370
Borrowings	32	**15,138**	21,070	**15,138**	21,070
Liabilities classified as held for sale	33	**11,584**	29,603	**-**	-
Total liabilities		**2,141,548**	1,932,427	**1,998,883**	1,797,056
Capital and reserves					
Share capital	34	**15,698**	15,698	**15,698**	15,698
Share premium	35	**255,047**	255,047	**255,047**	255,047
Retained earnings		**130,153**	75,072	**106,010**	55,028
Other reserves		**58,786**	45,765	**61,248**	46,244
Attributable to equity holders of the parent		**459,684**	391,582	**438,003**	372,017
Non-controlling interest		**3,272**	2,686	**-**	-
Total shareholders' equity		**462,956**	394,268	**438,003**	372,017
Total liabilities and equity		**2,604,504**	2,326,695	**2,436,886**	2,169,073

The accompanying notes are an integral part of these consolidated and separate financial statements.

The financial statements were approved by the Board of Directors on 30 January 2013 and signed on its behalf by:

Sir Steve Omojafor (Chairman)
FRC/2013/IODN/00000001299

Godwin Emefiele (Group Managing Director and Chief Executive)
FRC/2013/IODN/00000001080

Udom Emmanuel (Executive Director and Chief Financial Officer)
FRC/2013/MULTI/00000001066

Zenith Bank Plc
Consolidated and Separate Statements of Changes in Equity

In millions of Naira

Group	Share capital	Share premium	Retained earnings	Statutory reserve	SMIEIS reserve	Contingency reserve	Revaluation reserve (investment securities)	Credit risk reserve	Foreign currency translation reserve	Total	Non-controlling interest	Total equity
At 1 January 2011	15,698	255,047	64,826	24,634	3,729	617	1,585	4,459	(822)	369,773	2,417	372,190
Profit	-	-	42,717	5,571	-	135	-	-	-	48,423	281	48,704
Transfer between reserves	-	-	(5,784)	-	-	-	-	5,784	-	-	-	-
Foreign currency translation differences	-	-	-	-	-	-	-	-	(421)	(421)	-	(421)
Fair value movements on equity instruments, net of tax	-	-	-	-	-	-	494	-	-	494	-	494
Changes in the revaluation surplus	-	-	-	-	-	-	-	-	-	-	(31)	(31)
Total comprehensive income	-	-	36,933	5,571	-	135	494	5,784	(421)	48,496	250	48,746
Dividends	-	-	(26,687)	-	-	-	-	-	-	(26,687)		(26,687)
Changes in ownership interests in subsidiaries without loss of control and other changes	-	-	-	-	-	-	-	-	-	-	19	19
At 31 December 2011 (See Note 35)	15,698	255,047	75,072	30,205	3,729	752	2,079	10,243	(1,243)	391,582	2,686	394,268
Profit			84,908	14,994	-	245	-	-		100,147	534	100,681
Foreign currency translation differences	-	-	-	-	-	-	-	-	(2,424)	(2,424)	(47)	(2,471)
Fair value movements on equity instruments, net of tax	-	-	-	-	-	-	206	-	-	206	5	211
Changes in the revaluation surplus	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	84,908	14,994	-	245	206	-	(2,424)	97,929	492	98,421
Dividends	-	-	(29,827)	-	-	-	-	-	-	(29,827)	-	(29,827) -
Changes in ownership interests in subsidiaries without loss of control and other changes	-	-	-	-	-	-	-	-	-	-	94	94
At 31 December 2012 (See Note 35)	15,698	255,047	130,153	45,199	3,729	997	2,285	10,243	(3,667)	459,684	3,272	462,956

The accompanying notes are an integral part of these consolidated and separate financial statements.

Zenith Bank Plc
Consolidated and Separate Statements of Changes in Equity

In millions of Naira

Bank	Share Capital	Share Premium	Retained earnings	Statutory reserve	SMIEIS reserve	Revaluation reserve (investment securities)	Credit Risk reserve	Total equity
At 1 January 2011	15,698	255,047	51,769	24,633	3,729	1,574	4,459	356,909
								-
Profit	-	-	35,730	5,571	-	-	-	41,301
Transfer between reserves	-	-	(5,784)	-	-	-	5,784	-
Fair value movements on equity instruments, net of tax	-	-	-	-	-	494	-	494
Total comprehensive income	-	-	29,946	5,571	-	494	5,784	41,795
Dividends	-	-	(26,687)	-	-	-	-	(26,687)
At 31 December 2011 (See Note 35)	15,698	255,047	55,028	30,204	3,729	2,068	10,243	372,017
Profit	-	-	80,809	14,994	-	-	-	95,803
Fair value movements on equity instruments, net of tax	-	-	-	-	-	10	-	10
Total comprehensive income	-	-	80,809	14,994	-	10	-	95,813
Dividends	-	-	(29,827)	-	-	-	-	(29,827)
At 31 December 2012 (See Note 35)	15,698	255,047	106,010	45,198	3,729	2,078	10,243	438,003

The accompanying notes are an integral part of these consolidated and separate financial statements.

Zenith Bank Plc
Consolidated And Separate Statements of Cash Flows
For The Year Ended 31 December 2012

In millions of Naira	Note	Group 2012	Group 2011	Bank 2012	Bank 2011
Cash flows from operating activities					
Profit after tax for the year		**100,681**	48,704	**95,803**	41,301
Impairment					
- on loans and advances		**9,066**	17,837	**7,965**	16,346
- on leases		**33**	(357)	**33**	(357)
- on other assets		**1,280**	(89)	**1,280**	(89)
- on investment in associates		**851**	**-**	**851**	**-**
Fair value changes recognised in profit and loss		**-**	(205)	**-**	(171)
Depreciation of property and equipment	27	**10,307**	12,175	**9,500**	11,527
Depreciation of investment property	26a	**136**	-	**136**	-
Amortisation of intangible assets	28	**1,059**	-	**624**	-
Dividend income	11	**(110)**	(240)	**(694)**	(249)
Net interest income		**(156,757)**	(128,286)	**(147,878)**	(122,464)
Share of (profit)/loss of associates		**(23)**	(45)	**-**	-
Profit on sale of property and equipment	11	**(10)**	(58)	**(9)**	(51)
Profit on sale of investment property	26b	**(150)**	-	**(150)**	-
Gain on disposal of subsidiary	25b	**(32)**	-	**(3,811)**	-
Tax expense	13	**1,419**	18,736	**(1,755)**	15,843
		(32,250)	(31,828)	**(38,105)**	(38,364)
Changes in operating assets:		**(230,752)**	(504,444)	**(187,310)**	(473,053)
Loans and advances		**(104,415)**	(155,910)	**(76,317)**	(135,438)
Other assets		**(4,435)**	(4,950)	**(478)**	(2,125)
Treasury bills with maturities greater than three months		**(52,524)**	(153,640)	**(47,594)**	(146,684)
Reinsurance assets and insurance receivables		**-**	3,096	**-**	-
Restricted balances (cash reserves)		**(73,528)**	(94,618)	**(73,081)**	(94,813)
Statutory deposits		**-**	500	**-**	-
Net assets of subsidiary disposed		**(4,479)**	-	**-**	-
Debt securities		**8,629**	(98,922)	**10,160**	(93,993)
Changes in operating liabilities:		**238,305**	342,654	**213,085**	327,466
Claims payable		**-**	(218)	**-**	-
Liabilities on insurance contracts		**-**	(2,287)	**-**	-
Customers deposits		**273,786**	335,696	**224,718**	287,276
Other liabilities		**(35,481)**	9,463	**(11,633)**	40,190
Cash flows (used in)/generated from operating activities		**(24,697)**	(193,618)	**(12,330)**	(183,952)
Interest received		**221,318**	163,192	**213,230**	155,871
Interest paid		**(64,561)**	(34,906)	**(65,352)**	(33,407)
Tax paid	13	**(12,799)**	(6,569)	**(10,272)**	(4,266)
Cash flows from discontinued operations		**(15,621)**	23,682	**-**	-
Net cash flows (used in)/generated from operations		**103,640**	(48,219)	**125,276**	(65,754)
Cash flows from investing activities					
Purchase of Property and equipment	27	**(11,290)**	(14,725)	**(10,477)**	(13,995)
Purchase of Intangible assets	28a	**(1,709)**	(275)	**(1,138)**	(175)
Proceed from sale of property and equipment		**361**	131	**212**	87
Purchase of investment property	26a	**(37)**	(367)	**(37)**	(367)
Proceed from sale of investment property	26b	**7,165**	447	**7,165**	-
Proceeds from sale of equity securities	20	**-**	2,769	**-**	-
Disposal of associates		**508**	687	**508**	687
Dividends received		**110**	285	**694**	249
Investment in subsidiaries		**-**	-	**(5,030)**	(239)
Proceeds from sale of subsidiary		**4,511**	-	**4,311**	-
Divestment from subsidiaries		**-**	-	**-**	7,190
Cash flows from discontinued operations		**(567)**	(5,473)	**-**	-
Net cash used in investing activities		**(948)**	(16,521)	**(3,792)**	(6,563)

In millions of Naira

	Note				
Cash flows from financing activities					
Dividend paid to shareholders		**(29,827)**	(26,687)	**(29,827)**	(26,687)
Borrowed funds					
- inflow from long term borrowing		**313**	-	**313**	-
- repayment of long term borrowing		**(6,245)**	(7,288)	**(6,245)**	(7,288)
Inflow from On-lending facilities		**6,696**	23,321	**6,696**	23,321
Net cash (used in)/generated from financing activities		**(29,063)**	(10,654)	**(29,063)**	(10,654)
Increase/(Decrease) in cash and cash equivalents		**73,629**	(75,394)	**92,421**	(82,971)
Analysis of changes in cash and cash equivalents:					
Cash and cash equivalents at start of year	41	**525,616**	644,988	**520,979**	603,950
Increase/(Decrease) in cash and cash equivalents		**73,629**	(75,394)	**92,421**	(82,971)
Cash and cash equivalents from discontinued operations		**18,708**	(42,302)	**-**	-
Exchange rate movements on cash and cash equivalents		**(3,136)**	(1,676)	**-**	-
Cash and cash equivalents at end of year	41	**614,817**	525,616	**613,400**	520,979

The accompanying notes are an integral part of these consolidated and separate financial statements.

1 General information

Zenith Bank Plc (the "Bank") was incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability company on May 30, 1990. It was granted a banking licence in June 1990, to carry on the business of commercial banking and commenced business on 16 June 1990. The Bank was converted into a Public Limited Liability Company on May 20, 2004. The Bank's shares were listed on October 21, 2004 on the Nigerian Stock Exchange.

The principal activity of the Bank is the provision of banking and other financial services to corporate and individual customers. Such services include granting of loans and advances, corporate finance and money market activities.

The Bank has eleven subsidiary companies namely, Zenith Securities Limited, Zenith General Insurance Company Limited, Zenith Bank (Ghana) Limited, Zenith Pension Custodian Limited, Zenith Bank (UK) Limited, Zenith Capital Limited, Zenith Medicare Limited, Zenith Trustees Limited, Zenith Life Assurance Company Limited, Zenith Bank (Sierra Leone) Limited and Zenith Bank (Gambia) Limited.

The consolidated financial statements as at and for the year ended 31 December 2012 comprise the Bank and its subsidiaries (together referred to as "the Group" and individually as "Group entities") and the Group's interest in associates. The separate financial statements comprise the Bank. The consolidated and separate financial statements for the year ended 31 December 2012 were approved for issue by the Board of Directors on **30 January 2013**

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

a. Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs). The IFRS accounting policies have been consistently applied to all periods presented.

b. Basis of measurement

The financial statements have been prepared in accordance with the going concern principle under the historical cost convention as modified by the measurement of certain financial assets and financial liabilities held at fair value.

c. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated and separate financial statements are disclosed in note 4.

2.2 New standards, interpretations and amendments to existing standards that are not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated and separate financial statements.

The Group plan to adopt these standards at their respective effective dates. Management is in the process of assessing the impact of the guidance on the Group.

● IFRS 10 *Consolidated Financial Statements (effective on or after 1 January 2013)*
IFRS 10 introduces a single control to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees.

● IFRS 11 *Joint Arrangements (effective on or after 1 January 2013)*
Under IFRS 11, the structure of joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore its subsequent accounting.The Group is still assessing the possible impact of this standard.

● IFRS 12 *Disclosure of Interests in other Entities (effective on or after 1 January 2013)*

This standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries , joint arrangements, associates and unconsolidated structured entities. IFRS 12 requires the disclosure of information about the nature, risks and financial effects of these interests. The Group is currently assessing these additional disclosure requirements.

● IFRS 13 *Fair Value Measurement (effective on or after 1 January 2013)*
IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. The Group is currently reviewing its methodologies in determining fair values in line with this standard.

● IAS 19 *Employee Benefits (effective on or after 1 January 2013)*
IAS 19 changes the definition of short-term and other long-term employee benefits to clarify the distiction between the two. For defined benefit plans, the removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Group.

2.3 Basis of consolidation

(a) Subsidiaries

The financial statements of subsidiaries are consolidated from the date the Group acquires control, up to the date that such effective control ceases. For the purpose of these financial statements, subsidiaries are entities over which the Group, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from their activities.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners). Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Group.

Inter-company transactions, balances and unrealised gains on transactions between companies within the Group are eliminated on consolidation. Unrealised losses are also eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the separate financial statements, investments in subsidiaries and associates are measured at cost.

(b) Loss of Control
On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, that retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in profit or loss.

2.4 Foreign currency translations

(a) Functional and presentation

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The parent entity’s functional currency (Nigerian Naira) is adopted as the presentation currency for the consolidated financial statements. Except as otherwise indicated, financial information presented in Naira has been rounded to the nearest million.

(b) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On the disposal of a foreign operation, the Group recognises in profit or loss the cumulative amount of exchange differences relating to that foreign operation. When a subsidiary that includes a foreign operation is partially disposed of or sold, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In the case of any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of exchange differences recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the reporting date.

(c) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to the functional currency using the exchange rate at the transaction date, and those measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Exchange differences on non-monetary assets are accounted for based on the classification of the underlying items.

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on equities measured at fair value through other comprehensive income are included in the revaluation reserve in other comprehensive income.

Foreign currency gains and losses on intra-group loans are recognised in profit or loss unless settlement of the loan is neither planned nor likely to occur in the foreseeable future, in which case the foreign currency gains and losses are initially recognised in the foreign currency translation reserve in the consolidated financial statements. Those gains and losses are recognised in profit or loss at the earlier of settling the loan or at the time at which the foreign operation is disposed.

2.5 Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

2.6 Financial instruments

(a) Initial recognition and measurement

Financial instruments at fair value through profit or loss are recognised at fair value with transaction costs, which are directly attributable to the acquisition or issue of the financial instruments, being recognised immediately through profit or loss. Financial instruments that are not carried at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instruments.

Financial instruments are recognised or de-recognised on the date the Group commits to purchase or sell the instruments (trade day accounting).

The Group does not apply hedge accounting.

(b) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost depending on their classification.

(c) Classification and measurement

(i) Financial assets

The Group classifies its financial assets as subsequently measured at amortised cost or fair value.

A financial asset is subsequently measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest in this context is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. Interest income is recognised in Interest and similar income.

The following instruments have been measured at amortised cost;

- Loans and advances
- Held-to-maturity debt securities
- Held-to-maturity treasury bills.

All other financial assets are subsequently measured at fair value. Financial assets which meet the requirement for measurement at amortised cost may also be designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch). Gains and losses arising from changes in the fair value of financial assets subsequently measured at fair value are recognised in profit or loss ("FVTPL"), except where the Group elects to present in other comprehensive income fair value gains and losses arising on investments in equity instruments which are not held for trading but for strategic purposes ("Fair value through OCI"). Gains and losses recognised directly in other comprehensive income are not subsequently transferred to profit or loss on disposal of the equity instrument.

The following instruments have been measured at fair value through profit or loss, or other comprehensive income:

- Financial guarantees
- Equity securities measured at fair value through other comprehensive income.

(ii) Financial liabilities

Financial liabilities consist of financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

Financial liabilities that are not classified at fair value through profit or loss are measured at amortised cost. Interest expenditure is recognised in Interest and similar expense.

No financial liabilities have been classified as fair value through profit or loss at any of the reporting dates covered by this set of financial statements.

(iii) Financial guarantees

A financial guarantee contract is a contract that requires the Group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee liabilities are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

(d) Determination of fair value

At initial recognition, the best evidence of the fair value of a financial instrument is the transaction price (i.e. the fair value of the consideration paid or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models and option pricing models whose variables include only data from observable markets.

Subsequent to initial recognition, the fair value of a financial instrument is based on quoted market prices or dealer price quotation for financial instruments traded in an active market. If the market for a financial instrument is not active or the instrument is not listed, the fair value is determined using valuation techniques. Refer to note 3.3.6(c) for a description of the valuation techniques used by the Group.

(e) De-recognition

Financial assets are de-recognised when the contractual rights to receive the cash flows from these assets have expired or the Group has transferred the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or which the Group neither retains substantially all the risks and rewards of ownership and it does not retain control of the financial assets. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On de-recognition of a fianncial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised in the statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a protion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not de-recognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(f) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

(g) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(h) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs into valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

2.7 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of impairment loss for financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets are reflected and directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss under impairment charge for credit losses.

2.8 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purposes of assessing impairment, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

2.9 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Where significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property and equipment are depreciated on the straight line basis to their residual values over the estimated useful lives of the assets. The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each reporting date and the depreciation method is reviewed at each financial year end. Leasehold land and buildings are depreciated over the period of the lease or over such lesser period as is considered appropriate.

Depreciation is calculated on a straight line basis to write down the cost of property and equipment to their residual values over their estimated useful lives as follows:

Leasehold land	- Over the remaining lease period
Motor vehicles	- 4 years
Office equipment	- 5 years
Furniture and fittings	- 5 years
Computer hardware and equipment	- 3 years
Buildings	- 50 years
Leasehold improvement	- Over the remaining lease period

Depreciation is included in profit or loss.

Work in progress consists of items of property and equipment that are not yet available for use. Work in progress is carried at cost less any required impairment. An impairment loss is recognised if the asset's recoverable amount is less than cost. The asset is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Once the items are available for use, they are transferred to relevant classes of property and equipment as appropriate.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

2.10 Intangible assets

(a) Computer software

Software not integral to the related hardware acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group, are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that the asset is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life is 5 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

2.11 Leases

(a) A Group company is the lessee

Leases, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(b) A Group company is the lessor

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in Loans and advances to customers in the statement of financial position.

Finance charges earned are computed using the effective interest method which reflects a constant periodic return on the investment in the finance lease. Initial direct costs paid are capitalised to the value of the lease amount receivable and accounted for over the lease term as an adjustment to the effective rate of return.

Leases of assets under which the Group effectively retains all the risks and rewards of ownership are classified as operating leases. Receipts of operating leases from properties held as investment properties in investment management and life insurance activities, net of any incentives given to lessees, are accounted for as income on the straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of penalty is recognised as income in the period in which termination takes place.

2.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group’s control. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements.

Provisions are recognised when the separate entities in the Group have a present or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount of the obligation can be made.

2.13 Employee benefits

(a) Post-employment benefits

The Group has a defined contribution plan.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans, the Group makes contributions on behalf of qualifying employees to a mandatory scheme under the provisions of the Pension Reform Act. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. For entities operating in Nigeria, the contribution by employees and the employing entities are 2.5% and 12.5% respectively of the employees' basic salary, housing and transport allowances. Entities operating outside Nigeria contribute in line with the relevant pension laws in their jurisdictions.

(b) Short-term benefits

Short-term benefits consist of salaries, accumulated leave allowances, profit share, bonuses and any non-monetary benefits.

Short-term employees' benefits are measured on an undiscounted basis and are expensed as the related services are provided.

A liability is recognised for the amount expected to be paid under short-term cash benefits such as accumulated leave and leave allowances if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

(c) Termination benefits

The Group recognises termination benefits as an expense when the Group is demonstrably committed , without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide ternmination benefits as a result of an offer made to encourage voluntary redundancy. The Group settles termination benefits within twelve months and are accounted for as short-term benefits.

2.14 Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the end of the reporting period are dealt with in the subsequent events note.

(c) Treasury shares

Where the Bank or other members of the Group purchase the Bank's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

2.15 Recognition of interest income and expense

Interest income and expense for all financial assets and financial liabilities carried at amortised cost are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities in the statement of financial position, are capitalised to the carrying amount of financial instruments, excluding financial instruments at fair value through profit or loss, and amortised as interest income or expense over the life of the asset as part of the effective interest rate.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Where the estimated cash flows on financial assets are subsequently revised, other than impairment losses, the carrying amount of the financial assets is adjusted to reflect actual and revised estimated cash flows.

Where a financial asset or a Group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.16 Fees, commissions and other income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income and expenses are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, are recognised on completion of the underlying transaction.

Dividend income is recognised in profit or loss in the period in which the right of receipt is established.

2.17 Insurance and investment

The Group issues contracts that transfer insurance risk, financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. The Group defines as significant insurance risk the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk without significant insurance risk. Financial risk refers to the risk of a possible future change in the value of an asset or financial instrument due to a change in interest rate, commodity price, index of prices, foreign exchange rate or other measurable variable.

(a) Insurance contracts

In terms of IFRS 4, insurance liabilities are measured under existing local practice at the date of adoption of IFRS 4.

The Group had, prior to the adoption of IFRS 4, valued insurance liabilities using certain actuarial techniques as described below. The Group has continued to value insurance liabilities in accordance with these.

Insurance contracts are classified into three broad categories, depending on the duration of the risk and the type of risk insured, namely Individual Life, Group Life and General insurance.

(i) Individual life

These contracts insure mainly against death. For the published accounts, the contracts are valued based on a gross premium valuation taking into account the present value of expected future premium, claim and associated expense cash flows.

Any resultant negative policyholder liabilities, measured on an individual policy level, are set to zero (“zeroised”) so as not to recognise profits prematurely.

Where the same policy includes both insurance and investment components and where the policy is classified as insurance, the insurance and investment benefits are valued separately.

(ii) Group Life

These contracts insure against death on a group basis. These contracts are short term in nature and are typically renewed annually. For these contracts, gross premiums are recognised as revenue when due.

(iii) General Insurance

These contracts provide Fire, Accident, Motor, Marine, Bond, Engineering and Aviation insurance. For these contracts, gross premiums are recognised as revenue when due.

(iv) Outstanding claims provision

A full provision is made for the estimated cost of all claims notified but not settled at the reporting date, using the best information available at that time. Provision is also made for the cost of claims incurred but not reported ("IBNR") until after the reporting date.

Similarly, provisions are made for “unallocated claims expenses” being the estimated administrative expenses that will be incurred after the reporting date in settling all claims outstanding as at the date, including IBNR. Differences between the provision for outstanding claims at a reporting date and the subsequent settlement are included in the Revenue Account of the following year.

(b) Insurance contracts with Discretionary Participation Features

Zenith issues single premium contracts that provide primarily savings benefits to policyholders but also transfer insurance risk. The investment return credited to the policyholders is at Zenith's discretion, subject to fair oversight and a minimum guaranteed. These contracts are valued on a retrospective basis.

(i) Embedded Investment Derivatives

Embedded derivatives are analysed and valued separately where significant to the total liability, taking into account variation in investment performance and interest rates.

(ii) Guaranteed Annuity Options

Guaranteed Annuity Options, where a guaranteed rate of conversion to a life annuity is provided, is offered on some products. This feature provides an option to the policyholder as is analysed and valued separately where significant to the total liability, taking into account expected take-up rates, mortality variation and investment variation.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity and subsequently recognised in profit or loss when the related deferred gain or loss is recognised.

(a) Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Bank's subsidiaries and associates operate and generate taxable income.

(b) Deferred tax

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.
Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and
- investments in subsidiaries and joint ventures (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognized.

Deferred tax related to the fair value re-measurement of equity instruments which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is not subsequently transferred from equity to profit or loss.

2.19 Earnings per share

The Group presents basic earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

2.20 Segment reporting

An operating segment is a component of the Group engaged in business activities from which it can earn revenues, whose operating results are regularly reviewed by the Group's Executive [Management/Board] in order to make decisions about resources to be allocated to segments and assessing segment performance. The Group's identification of segments and the measurement of segment results is based on the Group's internal reporting to management.

2.21 Fiduciary activities

The Group acts as trustees and in other fiduciary capacities through Zenith Trustees Limited and Zenith Pension Custodians that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.22 Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or a geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

2.23 Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Intangible assets and property and equipment once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

2.24 Investment property

An investment property is an investment in land or buildings held primarily for generating income, capital appreciation or both and not occupied substantially for use in the operations of the Group.

Investment property is initially recognized and subsequently measured at cost less accumulated depreciation and impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Investment property held by the Group is depreciated over an estimated useful life of 50 years. Fair values are determined at the end of each reporting period and are disclosed.

3. Risk management

3.1 Enterprise Risk Review

Zenith Group's business operations are largely diversified and spread across different geographical locations. This neccesitates the need for proper identification, measurement, aggregation and effective management of risks and efficient utilisation of capital to derive an optimal risk and return ratio.

Risks associated with the business of the Group include financial risks, namely, credit risk, liquidity risk and market risk (which includes currency risk, interest rate risk and other price risks) as well as other risks such as operational risk, strategic risk, legal risk, reputational risk, taxation risk, regulatory risk and insurance risk.

3.1.1 Risk Management Philisophy/Strategy

•The group considers sound risk management to be the foundation of a long lasting financial institution.
•The group continues to adopt a holistic and intergrated 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.
•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.

3.1.2 Risk Appetite

The Group's risk appetite is reviewed by the Board of Directors annually, at a level that minimises erosion of earnings or capital due to avoidable losses or from frauds and operational inefficiencies. This reflect the conservative nature of Zenith Group as far as risk taking is concerned.

The Group employs a range of quantitative indicators to monitor the risk profile. Specific limits have been set in line with the Group's risk appetite.

3.1.3 Risk Management Approach

The Group addresses the challenge of risks comprehensively through an enterprise-wide risk management framework by applying leading practices that is 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 commitee provides oversight on the systems of internal control, financial reporting and compliance. The Board credit commitee 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 (Global Credit commitee and Management Risk committee) that hep it develop and implement various risk strategies. The Global Credit commitee manages the credit 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 drives the management of the financial risks (Market, Liquidity and Credit Risk), operational risks as well as strategic and reputational risks.

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

The key features of the Group's risk management policy are:
• The Board of Directors provides overall risk management direction and oversight.
• The Group'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 competency of all its employees.
• The Group manages its credit, market, operational and liquidity risks in a co-ordinated manner within the organisation.
• The Group's risk management function is independent of the business divisions.
• The Group'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.

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, lie at the heart of the Group's management of risk.

The Board of Directors is committed to managing compliance with a robust compliance framework to enforce compliance with applicable laws, rules and standards issued by the industry regulators and other law enforcement agencies, market conventions, codes of practices promoted by industry associations and internal policies
The Group's culture emphasizes high standard of ethical behaviour at all levels of the Bank. Therefore the Bank's board of directors promotes sound organisation.

3.1.4 Methodology for risk rating

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 Group's activities.

All activities in the Group 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 Group:

• Develop and implement procedures and practices that translate the board's goals, objectives, and risk tolerances into operating standards that are well understood by staff.

• Establish lines of authority and responsibility for managing individual risk elements in line with the Board's overall direction.

• Risk identification, measurement, monitoring and control procedures.

• Establish effective internal controls that cover each risk management process.
• Ensure that the group's risk management processes are properly documented.

• Create adequate awareness to make risk management a part of the corporate culture of the Group.

• Ensure that risk remains within the boundaries established by the Board.

• Ensure that business lines comply with risk parameters and prudent limits established by the Board.

The CBN Risk Management Guidelines prescribes quantitative and qualitative criteria for the identification of significant activities and sets a threshold of contributions for determining significant activities in Bank and its subsidiaries. This practice is essentially to drive the risk control focus of financial institutions.

Zenith Bank applies a mix of qualitative and quantitative techniques in the determination of its significant activities under the prescribed broad headings. The criteria used in estimating the materiality of each activity is essentially based on the following:
• The strategic importance of the activity and sector.
• The contribution of the activity/sector to the total assets of the Bank.
• The net income of the sector.
• The risk inherent in the activity and sector.

Risk Management structures and processes are continually reviewed to ensure, their adequacy and appropriateness for the group's risk and opportunities profile as well as bringing them up to date with changes in strategy, business environment, evolving thoughts and trends in risk management.

3.2 Credit Risk

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations resulting in a default situation and/or financial loss. Credit exposures arise principally in credit-related risk that is embedded in loans and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as letters of credit, guarantees and loan commitments.

The Group has dedicated credit standards, policies and procedures to control and monitor intrinsic and concentration risks through all credit levels of selection, underwriting, administration and control. Some of the policies are

• 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.
• Exposures to any industry or customer will be determined by the regulatory guidelines, clearly defined internal policies, debt service capability ar balance sheet management guidelines.
• Credit is not extended to customers where the source of repayment is unknown or speculative, and also where the destination of funds i unknown. There must be clear and verifiable purpose for the use of the funds.
• 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
• The primary source of repayment for all credits must be from an identifiable cash flow from the counterparty's normal business operations or othe financial arrangements. The realization of security remains a fall back option.
• 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.
• All insiders' related credits are limited to regulatory and strict internal limits and are disclosed as required.
• The consequences for non-compliance with the credit policy and credit indiscipline are communicated to all staff and implemented.

3.2.1 Credit Metrics and Measurement Tools

Over the years, Zenith Bank and its subsidiaries have been able to devote resources and harness its credit data into developing models to improve the determination of economic and financial threats due to credit risk. As a result some key factors are considered in credit risk measurement.

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

2. The possibility of failure to pay over the period stipulated in the contract.
3. The size of the facility in case default occurs.
4. Estimated Rate of Recovery which is a measure of the portion of the debt that can be regained through freezing of assets and collateral shoul default occur.

3.2.2 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.

(a) Loans and advances and amounts due from banks

Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the experience of the Bank and its various subsidiaries.

In order to allow for a meaningful distribution of exposures across grades with no excessive concentrations on the Group's borrower-rating and its facility-rating scale, the Group maintains the under listed rating grade which is applicable to both new and existing customers.

Zenith Group's internal rating.

Zenith Group Rating	Description of the grade	Equivalent of external rating
AAA	Investment Risk (Extremely Low Risk)	AAA
AA	Investment Risk (Very Low Risk)	AA
A	Investment Risk (Low Risk)	A
BBB	Upper Standard Grade (Acceptable Risk)	BBB
BB	Lower Standard Grade (Moderately High Risk)	BB
B	Non Investment Grade (High Risk)	B
CCC	Non Investment Grade (Very High Risk)	CCC
CC	Non Investment Grade (Extremely High Risk)	CC
C	lon Investment Grade (High Likelihood of Defaul	C
D	Non Investment Grade (Lost)	D
Unrated	Unrated	Unrated

The credit rating system seeks to achieve the foundation level of the internal ratings based approach under Pillar 1 of Basle II, through continuous validation exercises over the years.

(b) Other debt instruments

With respect to other debt instruments, the Group takes the following into consideration in the management of the associated credit risk:

- External ratings of such instruments/institutions by rating agencies like Fitch; Standard & Poor's; Agusto & Co. etc.
- Internal and external research and market intelligence reports
- Regulatory agencies reports

In addition to the above, we have put in place a conservative limits structure which is monitored from time to time in order to limit our risk exposures on these securities.

Control mechanisms for the credit risk rating system

Zenith's credit risk rating system is reviewed periodically to confirm that the rating criteria and procedures are appropriate given the current portfolio and external conditions. As all models materially impacting the risk rating process are reviewed in accordance with the Groups model risk policy. Furthermore, the ratings accorded to customers are regularly reviewed, incorporating new financial information available and the experience in the development of the banking relation. The regularity of the reviews increases in the case of clients who reach certain levels in the automatic warning systems.

3.2.3 Credit Processes
Zenith operates a Centralised Credit Approval Process System. Credits are originated from the branches/business groups and subjected to reviews at various levels before presentation to the Global Credit Committee for approvals. All credit presented for approval are required to be in conformity with the documented and communicated Risk Acceptance Criteria(RAC)

3.2.4 Group Credit Risk Management

Zenith'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 enable the Group to deal with the emerging risks and challenges with a high level of confidence and determination.

The framework for credit Risk at Zenith Group is well defined and institutionally predicated on:
• Clear tolerance limits and risk appetite set at the Board level, well communicated to the business units and periodically reviewed and monitored to adjust as appropriate.
• Well-defined target market and risk asset acceptance criteria.
• Rigorous financial, credit and overall risk analysis for each customer/transaction.
• Portfolio quality examined on regular basis according to key performance indicators mechanism and periodic stress testing.
• Concentrations together with mitigation strategies are continuously assessed.
• Early warning system is continually validated and modified to ensure proper functioning for risk identification.
• Systematic and objective credit risk rating methodologies that are based on quantitative, qualitative and expert judgment.
• Systematic credit limits management enabling the Bank to monitor its credit exposure on daily basis at country, borrower, industry, credit risk rating and credit facility type levels.
• Solid documentation and collateral management process with proper coverage and top-up triggers and follow-ups.
• Annual and interim individual credit reviews to ensure detection of weakness signs or warning signals and considering proper remedies.

Our rigorous credit processes are supplemented by sectoral portfolio reviews focused on countries, regions or specific industries as well as multiple stress testing scenarios.

These are intended to identify any inherent risks in the portfolios resulting from changes in market conditions and are supplemented by independent reviews from our Group Internal Audit.

Additionally, the Group continues to upgrade and fine-tune the above in line with the developments in the financial services industry environment and technology.

3.2.5 Group Credit Risk Limits

In managing credit risk, the Group applies credit risk limits, among other techniques. This is the practice of stipulating a maximum amount that the individual or counterparty can obtain as loan. Internal and regulatory limits are strictly adhered to.Through this, the Group not only protects itself, but also in a sense, protects the counterparty from borrowing more than they are capable of paying

The Group continues to focus on its concentration and intrinsic risks and further manage them to a more comfortable level. This is very important due to the serious risk implications that intrinsic and concentration risk pose to the Group. A thorough analysis of economic factors, market forecasting and prediction based on historical evidence is used to mitigate the crystallization of these risks

The Group has in place various portfolio concentration limits(which is subject to periodic review) .These limits are closely monitored and reported on from time to time.

The Group's internal credit approval limits for the various authorities levels are as indicated below.

Approval Authority level	Approval limit (% of Shareholders' Fund)
Board Credit Committee	N7 billion and above (Not exceeding 20% of Total Shareholders' funds)
Global Credit Committee	Below N7 billion

These internal approval limits are set and approved by the Group Board and are reviewed frequently as the state of affairs of the Group and the wider financial environment demands

3.2.6 Group Credit Risk Monitoring

The Group's 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 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 has been strengthened in order to improve the facility monitoring activity and assure good quality Risk Assets Portfolio accross the Group.
A specialised and focused loan recovery and workout team handles the management and collection of problem credit facilities.

3.2.7 Credit Risk Mitigation, Collateral and other Credit Enhancements

Portfolio diversification is the cornerstone of the Group's credit risk mitigation strategy which is implemented through customer, industry and geographical limit structures. Nevertheless, Zenith uses a variety of techniques to manage the credit risk arising from its lending activities.
Enforceable legal documentation establishes Zenith's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided.

(a) Collateral Security

A key mitigation step employed by the Group in its credit risk management process includes the use of collateral securities to secure its loans and advances as alternative sources of repayment during adverse conditions. All major credit facilities to our customers are to be secured and the security instruments and documentations must be perfected and all conditions precedent must be met before drawdown or disbursement is allowed. Collateral analysis includes a good description of the collateral, its value, how the value was arrived at, and when the valuation was made. It is usually necessary to review the potential adverse changes in the value of collateral security for the foreseeable future.

Collateral securities that are pledged must be in negotiable form and usually fall under the following categories:

- Real estate, plant and equipment collateral (usually all asset or mortgage debenture or charge) which have to be registered and enforceable under Nigerian law;
- Collateral consisting of inventory, accounts receivable, machinery equipment, patents, trademarks, farm products, general intangibles, etc. These require a security agreement (usually a floating debenture) which has to be registered and, must be enforceable under Nigerian law;

- Stocks and shares of publicly quoted companies
- Domiciliation of contracts proceeds;
- Documents of title to goods such as shipping documents consigned to the order of Zenith Bank or any of its subsidiaries; an
- Letter of lien.

Collateral securities are usually valued and inspected prior to disbursement and on a regular basis thereafter until full repayment of the exposure. We regularly conduct a review of all collateral documentation in respect of all credits in the Bank and specific gaps in the collateral documentation are advised to the Lending Group/Zones/Branch for appropriate action and follow-up

The type and size of collateral held as security for financial assets other than loans and advances is usually a function of the nature of the instrument. Our debt securities, treasury and other eligible bills are normally unsecured but our comfort is on the issuer's credit rating.

Details of collateral held and their carrying amounts as at 31 December 2012 are as follows

In millions of Naira	Group	Group	Bank	Bank
	Total exposure	Value of collateral	Total exposure	Value of collateral
Secured against real estate	164,620	185,137	140,789	156,540
Secured by shares of quoted companies	11,217	7,507	8,666	3,680
Cash Collateral, lien over fixed and floating assets	788,155	535,830	728,208	489,071
Unsecured	50,534	-	39,128	-
	1,014,526	728,474	916,791	649,291

(b) Balance Sheet Netting Arrangements

Risk reduction by way of current account set-off is recognised for exposures to highly rated and creditworthy customers domiciled in Nigeria only. Customers are required to enter into formal agreements giving Zenith the unfettered right to set-off gross credit and debit balances in their nominated accounts to determine the Groups net exposure. Cross-border set-offs are not permitted.

(c) Guarantees and Standby Letters of Credit

Guarantees and Standby Letters of Credit are considered to carry about the same level of credit risk as loans and advances. And in accordance with the Group's credit policies, banks and creditworthy companies and individuals with high net worth are accepted as guarantor, subject to credit risk assessment. Furthermore Zenith only recognises unconditional irrevocable guarantees or standby letters of credit provided they are not related to the underlying obligor

3.2.7 Maximum Exposure to Credit Risk Before Collateral Held or Credit Enhancements

The Group's maximum exposure to credit risk at 31 December 2012 and 2011 respectively, is represented by the net carrying amounts of the financial assets, with the exception of financial and other guarantees issued by the Group for which the maximum exposure to credit risk is represented by the maximum amount the Group would have to pay if the guarantees are called on (refer note 39 Contingent liabilities and commitments).

3.2.8 Concentration of Risks of Financial Assets with Credit Risk Exposure

The Group monitors concentrations of credit risk by geographical location and by industry sector. An analysis of concentrations of credit risk at 31 December 2012 and 2011 respectively for loans and advances to customers and amounts due from banks, is set out below:

(a) Geographical sectors

The following table breaks down the Group's main credit exposure at their gross amounts ("Due from banks" at carrying amount), as categorised by geographical region at 31 December 2012 and 2011 respectively. For this table, the Group has allocated exposures to regions based on the region of domicile of our counterparties.

In millions of Naira	Group			Bank		
At 31 December 2012	**Due from banks**	**Loans and advances to customers**	**Total**	**Due from banks**	**Loans and advances to customers**	**Total**
Nigeria	20,717	916,791	**937,508**	12,359	916,791	**929,150**
Rest of Africa	3,498	32,474	**35,973**	-	-	**-**
Outside Africa	157,805	65,261	**223,066**	191,432	-	**191,432**
	182,020	**1,014,526**	**1,196,546**	203,791	916,791	**1,120,582**

At 31 December 2011	**Due from banks**	**Loans and advances to customers**	**Total**	**Due from banks**	**Loans and advances to customers**	**Total**
Nigeria	89,259	851,800	**941,059**	49,371	850,917	**900,288**
Rest of Africa	20,567	23,155	**43,722**	-	-	-
Outside Africa	124,695	45,666	**170,361**	196,993	-	**196,993**
	234,521	920,621	**1,155,142**	246,364	850,917	**1,097,281**

(b) Industry sectors

	Group		Bank	
	2012	**2011**	**2012**	**2011**
	Loans and advances to customers	**Loans and advances to customers**	**Loans and advances to customers**	**Loans and advances to customers**
Agriculture	62,541	30,403	52,541	29,837
Oil and gas	170,890	153,497	160,850	142,336
Consumer Credit	43,183	47,060	35,183	44,432
Manufacturing	244,723	247,246	214,691	219,970
Real estate and construction	72,735	64,423	59,735	63,792
Finance and Insurance	28,208	18,043	20,208	15,816
Government	82,358	74,117	80,695	73,616
Power	4,111	22,007	2,111	14,248
Other public utilities	153	106	153	106
Transportation	48,661	48,179	51,661	48,179
Communication	141,671	114,617	141,671	101,209
Education	2,038	1,229	2,038	1,229
General Commerce	80,031	67,183	69,031	67,183
Others	33,225	32,511	26,225	28,964
	1,014,526	920,621	916,791	850,917

3.2.9 Credit quality

In millions of Naira	Group		Bank	
At 31 December 2012	**Due from banks**	**Loans and advances to customers**	**Due from banks**	**Loans and advances to customers**
Neither past due nor impairec	182,020	972,580	203,791	878,753
Past due but not impairec	-	10,016	-	9,581
Impaired				
Individually impairec	-	14,480	-	11,992
Collectively impairec	-	17,450	-	16,465
Gross	182,020	1,014,526	203,791	916,791
Impairment allowance				
Specific impairment	-	(10,601)	-	(8,368)
Collective impairment	-	(14,111)	-	(13,069)
	182,020	989,814	203,791	895,354
At 31 December 2011				
Neither past due nor impairec	234,521	843,749	246,364	796,877
Past due but not impaired	-	17,104	-	16,750
Impaired				
Individually impairec	-	22,038	-	19,227
Collectively impairec	-	37,730	-	18,063
Gross	234,521	920,621	246,364	850,917
Impairment allowance				
Specific impairment	-	(12,408)	-	(10,168)
Collective impairment	-	(14,379)	-	(13,714)
	234,521	893,834	246,364	827,035

3.2.9.1 Non-Performing Loans by Industry

At 31 December 2012	**Group N' million 2012**	**Group N' million 2011**	Bank N' million **2012**	Bank N' million **2011**
Agriculture	649	1,812	647	1,231
Oil and Gas	2,076	9,258	1,385	5,676
Capital Market	8,010	11,014	-	5,972
Consumer Credit	1,850	1,014	5,030	633
Manufacturing	2,259	12,982	1,598	9,000
Real Estate and Construction	2,337	1,353	5,316	844
Finance and Insurance	2,580	1,752	2,166	1,093
Government	498	983	49	613
Power	186	-	186	-
Other Public Utilities	8	-	8	-
Transportation	636	3,325	583	2,374
Communication	2,575	1,921	2,056	899
Education	943	1,598	943	997
General Commerce/Trading	7,268	7,673	8,436	4,787
Others	55	5,080	53	3,170
	31,930	**59,768**	**28,457**	**37,290**

3.2.9.2 Non-Performing Loans by Geography

At 31 December	**Group N' million 2012**	**Group N' million 2011**	Bank N' million **2012**	Bank N' million **2011**
South South	817	778	817	778
South West	25,402	28,837	25,402	28,837
South East	676	55	676	55
North Central	910	825	910	825
North West	108	149	108	149
North East	545	6,646	545	6,646
Rest of Africa	3,473	22,478	-	-
Outside Africa	-	-	-	-
	31,930	59,768	28,457	37,290

(a) Geographical Sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by geographical region at 3 December 2012 together with prior period comparatives. For this table, the Group has allocated exposures to regions based on the domicile region of our counterparties.

At 31 December (N'millions)	Group		Bank	
	Loans and advances to customers	Loans and advances to customers	Loans and advances to customers	Loans and advances to customers
	2012	2011	2012	2011
South South	66,955	62,283	66,955	62,283
South West	783,606	704,038	783,606	704,038
South East	19,607	25,227	19,607	25,227
North Central	16,665	27,635	16,665	27,635
North West	6,933	5,850	6,933	5,850
North East	23,024	25,885	23,024	25,885
Rest of Africa	51,906	23,875	-	-
Outside Africa	45,829	45,829	-	-
	1,014,526	920,621	916,791	850,917

All other financial assets are neither past due nor impaired, except other assets. NGN 2.9 billion of financial assets which are neither past due nor impaired have been renegotiated (2011: Nil).

(a) Credit portfolio neither past due nor impaired

The credit quality of the portfolio of loans and advances and amounts due from banks that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

	Group		Bank	
At 31 December 2012	**Due from banks**	**Loans and advances to customers**	**Due from banks**	**Loans and advances to customers**
AAA	182,020	640,001	203,791	579,818
AA to A	-	123,826	-	97,663
BBB to BB	-	152,316	-	149,816
Below B	-	27,723	-	25,703
Unrated	-	28,713	-	25,752
	182,020	972,580	203,791	878,753
At 31 December 2011	**Due from banks**	**Loans and advances to customers**	**Due from banks**	**Loans and advances to customers**
AAA	234,521	241,678	246,364	213,380
AA to A	-	507,233	-	478,828
BBB to BB	-	84,049	-	77,685
Below B	-	4,739	-	22,866
Unrated	-	6,050	-	4,118
	234,521	843,749	246,364	796,877

The credit quality of cash and balances with central banks, treasury bills, investment securities and other financial assets that were neither past due nor impaired can also be assessed by reference to the internal rating system adopted by the Group.

In millions of Naira	Group			Bank		
At 31 December 2012	**Cash and balances with central banks**	**Treasury bills**	**Investment securities**	**Cash and balances with central banks**	**Treasury bills**	**Investment securities**
AAA	332,515	669,164	289,938	313,546	647,474	247,500
AA to A	-	-	9,405	-	-	9,405
BBB to BB	-	-	-	-	-	-
Below B	-	-	-			
Unrated	-	-	-			
	332,515	669,164	299,343	313,546	647,474	256,905

	Group			Bank		
At 31 December 2011	**Cash and balances with central banks**	**Treasury bills**	**Investment securities**	**Cash and balances with central banks**	**Treasury bills**	**Investment securities**
AAA	223,187	510,738	289,938	211,098	494,253	257,660
AA to A	-	-	9,390	-	-	9,390
BBB to BB	-	-	-	-	-	-
Below B	-	-	-	-	-	-
Unrated	-	-	-	-	-	-
	223,187	510,738	308,231	211,098	494,253	267,050

The credit risk associated with other financial assets that were neither past due nor impaired are considered to be low at 31 December 2012 and 2011.

(b) Credit portfolio past due but not impaired

	Group		Bank	
	2012	**2011**	**2012**	**2011**
	Loans and advances to customers N'millions	**Loans and advances to customers N'millions**	**Loans and advances to customers N'millions**	**Loans and advances to customers N'millions**
Past due up to 30 days	1,634	11,617	1,364	11,412
Past due 30 - 60 days	7,999	4,822	7,844	4,747
Past due 60 - 90 days	384	665	373	591
	10,016	17,104	9,581	16,750
(c) Credit rating of past due but not impaired				
A	9,319	14,289	9,289	16,300
BB	698	2,815	292	450
	10,016	17,104	9,581	16,750

(d) Credit portfolio individually impaired

In millions of Naira	Group		Bank	
	2012	**2011**	**2012**	**2011**
	Loans and advances to customers N'millions	**Loans and advances to customers N'millions**	**Loans and advances to customers N'millions**	**Loans and advances to customers N'millions**
Gross amount				
Grade: Below BB	14,480	24,739	11,992	22,866
Specific impairment	(10,601)	(12,408)	(8,368)	(10,168)
	3,879	12,331	3,624	12,698

Included in interest income on loans and advances are amounts totalling N 4,186 million (2011: N904 million) and N 2,308 million (2011: N357 million) for the Group and Bank respectively which represent interest incomes on impaired financial assets, recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Restructuring policy

Loans with renegotiated terms are loans that have been restructured because the Group has made concessions by agreeing to terms and conditions that are more favorable for the customer than the Group has provided initially. The Group implements restructuring policy in order to maximize collections opportunities and minimize the risk of default.

The group's credit committee may from time to time grant approval for restructuring of certain facilities due to the following reasons;

i. Where the execution of the loan purpose and the repayment is no longer realistic in light of new cash flows.
ii, To avoid unintended default arising from adverse business conditions .
iii. To align loan repayment with new pattern of achievable cash flows.
iv. Where there are proven cost over runs that may significantly impair the project repayment capacity.
v. Where there is temporary downturn in the customer's business environment .
vi. Where the customer's going concern status is NOT in doubt or threatened.

The revised terms of restructured facilities usually include extended maturity, changing timing of interest payments and amendments to the terms of the loan agreement.

Write-off policy

The group writes off a loan balance when the Group's credit department determines that the loan is uncollectable and had been declared delinquent and subsequently classified as lost. This determination is made after considering information such as the continuous deterioration in the customer's financial position, such that the customer can no longer pay the obligation, or that proceeds from the collateral will not be sufficient to pay back the entire exposure. Board approval is required for such write-off. The loan recovery department continues with its recovery efforts and any loan subsequently recovered is treated as other income.

3.3 Market risk

The Group undertakes activities which give rise to a considerable level of market risks exposures(i.e. the risk that the fair value of future cash flows of our trading and investment positions or other financial instrument will fluctuate because of changes 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 manage and control market risk exposure within acceptable parameters, while optimizing the return on risks taken.

3.3.1 Management of market risk

The Group has an independent Market Risk Management unit which assesses, monitors , manages and reports on market risk taking activities across the group. We have continued to enhance our Market Risk Management Framework. The 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 Group'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:

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

The Group proactively manages its Market risk exposures in both the trading and banking books within the acceptable levels.

The Group's Market Risks exposures are broadly categorised into:
(i)**Trading Market Risks-** These are risks that arise primarily through trading activities and Market Making activities. These include position taking in foreign exchange and fixed income securities(Bonds and Treasury Bills).

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

3.3.2 Measurement of Market Risk

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

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

Zenith Group currently does not offer very complex derivative products. However, we are already building capacity (both systems and training/knowledge base) to enable us handle these products as at when they are introduced.

3.3.3 Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.The Group manages part of the Foreign exchange risks through derivatives and hedges.The position is managed by the Treasury Group operating within approved limits. Internal limits for Overall Overnight and Intra-day positions are employed in managing the risks.In addition, Individual currency limits are set and monitored by Market Risk unit. There are other limits that are utilised in managing foreign exchange risks. These limits are set with the aim of minimizing the Group's risk exposures to exchange rates volatilities to an acceptable level. The more volatile currencies are assigned lower limits. The Group operates mainly in seven (7) foreign currencies with a significant percentage of transactions involving US Dollars.

(a) Group

The table below summarizes the Group’s exposure to foreign currency exchange rate risk at 31 December 2012 and 31 December 2011. Included in the table are the Group’s financial instruments at carrying amounts (except for loans and advances to customers and other assets which are shown at thier gross amount), categorised by currency.

At 31 December 2012

In millions of Naira	Naira	Dollar	GBP	Euro	Others	Total
Assets						
Cash and balances with central banks	321,907	662	6,785	58	3,103	332,515
Treasury bills	647,474	-	-	-	21,689	669,164
Due from other banks	12,359	149,924	4,046	-	15,691	182,020
Loans and advances to customers (gross)	836,219	165,184	712	-	12,412	1,014,526
Investment securities	256,905	33,546	6,604	1,019	1,269	299,343
Other assets (gross)	21,770	-	-	-	11,532	33,302
	2,096,634	349,315	18,148	1,077	65,697	2,530,870
Liabilities						
Deposits from customers	1,653,908	190,330	5,259	8,027	71,720	1,929,244
Other liabilities	11,608	88,221	1,954	14,228	1,344	117,355
On-lending facilities	56,066	-	-	-	-	56,066
Borrowings	-	15,138	-	-	-	15,138
	1,721,582	293,689	7,213	22,255	73,064	2,117,803
Net on-balance sheet position	375,052	55,627	10,935	(21,178)	(7,368)	413,067

At 31 December 2011	Naira	Dollar	GBP	Euro	Others	Total
Assets						
Cash and balances with central banks	218,549	363	4,215	48	12	223,187
Treasury bills	510,675	-	-	-	63	510,738
Due from other banks	7,395	179,940	30,931	16,192	63	234,521
Loans and advances to customers (gross)	800,421	70,946	45,901	3,295	58	920,621
Reinsurance assets and insurance receivables		-	-	-	-	-
Investment securities	283,767	-	21,682	-	2,782	308,231
Other assets (gross)	22,972	476	5,419	-	-	28,867
	1,843,779	251,725	108,149	19,535	2,978	2,226,165
Liabilities						
Deposits from customers	1,465,256	135,474	46,866	7,862	-	1,655,458
Other liabilities	-	21,070	-	-	-	21,070
On-lending facilities	4,173	66,426	69,783	12,321	133	152,836
Borrowings	49,370	-	-	-	-	49,370
	1,518,799	222,971	116,648	20,182	133	1,878,734
Net on-balance sheet position	324,980	28,754	(8,500)	(647)	2,845	347,431

The Group’s exposure to foreign currency risk is largely concentrated in the US Dollar. Movement in exchange rate between the US Dollar and the Nigerian Naira affects reported earnings through revaluation gain or loss and balance sheet size through increase or decrease in the revalued amounts of assets and liabilities denominated in US Dollars.

The table below shows the impact on the Group’s profit and balance sheet size if the exchange rate between the US Dollars and Nigerian Naira had increased or decreased by 10%, with all other variables held constant.

	2012	2011
Effect of 10% up or (down) movement on profit before tax and balance sheet size	5,563	2,875

(b) Bank

The table below summarizes the bank's exposure to foreign currency exchange rate risk at 31 December 2012 and 31 December 2011. Included in the table are the Banks's financial instruments at carrying amounts, categorised by currency.

At 31 December 2012

In millions of Naira	Naira	Dollar	GBP	Euro	Others	Total
Assets						
Cash and balances with central banks	313,546	-	-	-	-	313,546
Treasury bills	647,474	-	-	-	-	647,474
Due from other banks	12,359	185,166	4,046	-	2,220	203,791
Loans and advances to customers (gross)	836,219	80,573	-	-	-	916,791
Investment securities	256,905	-	-	-	-	256,905
Other assets (gross)	21,451	-	-	-	-	21,451
	2,087,954	265,738	4,046	-	2,220	2,359,958
Liabilities						
Deposits from customers	1,653,908	141,861	2,378	3,861	-	1,802,008
Other liabilities	11,531	87,749	1,519	14,228	-	115,027
On-lending facilities	-	15,138	-	-	-	15,138
Borrowings	56,066	-	-	-	-	56,066
	1,721,505	244,748	3,897	18,089	-	1,988,239
Net on-balance sheet position	366,449	20,991	149	(18,089)	2,220	371,719

At 31 December 2011	Naira	Dollar	GBP	Euro	Others	Total
Assets						
Cash and balances with central banks	211,098	-	-	-	-	211,098
Treasury bills	494,253	-	-	-	-	494,253
Due from other banks	7,249	230,520	2,935	5,647	13	246,364
Loans and advances to customers (gross)	800,584	50,333	-	-	-	850,917
Investment securities	267,050	-	-	-	-	267,050
Other assets (gross)	20,973	-	-	-	-	20,973
	1,801,207	280,853	2,935	5,647	13	2,090,655
Liabilities						
Deposits from customers	1,465,272	103,312	1,611	7,095	-	1,577,290
On-lending facilities	49,370	-	-	-	-	49,370
Borrowings	-	21,070	-	-	-	21,070
Other liabilities	4,176	50,427	59,736	12,321	-	126,660
	1,518,818	174,809	61,347	19,416	-	1,774,390
Net on-balance sheet position	282,389	106,044	(58,412)	(13,769)	13	316,265

The Bank's exposure to foreign currency risk is largely concentrated in the US Dollar. Movement in exchange rate between the US Dollar and the Nigerian Naira affects reported earnings through revaluation gain or loss and balance sheet size through increase or decrease in the revalued amounts of assets and liabilities denominated in US Dollars.

The table below shows the impact on the Bank's profit and balance sheet size if the exchange rate between the US Dollars and Nigerian Naira ha increased or decreased by 10%, with all other variables held constant.

	2012	2011
Effect of 10% up or (down) movement on profit before tax and balance sheet size	2,099	10,604

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3.3.4 Interest Rate Risk

The Group 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). Similar to the last financial year,interest rate was fairly volatile. This resulted in the adjustment of both the lending and deposit rates a couple of times.These changes could have a negative impact on the Net Interest Income, if not properly managed. The Group however, has a significant portion of its liabilities in non-rate sensitive liabilities. This greatly assists it in managing its exposure to interest rate risks. The Group also enjoys some form of flexibility in adjusting both lending and deposits rates to reflect current realities.

Sensitivities analysis are carried out from time to time to evaluate the impact of rate changes on the net interest income(ranging from 1basis point to 500 basis points). The assessed impact has not been significant on capital or earnings of the Group.

(a) Group
The table below summarizes the Group's interest rate gap position:

In millions of Naira **At 31 December 2012**	**Carrying amount**	**Rate sensitive**	**Non rate sensitive**
Assets			
Cash and balance with central banks	332,515	152,379	180,136
Treasury and other eligible bills (Amortized cost)	669,164	669,164	-
Due from other banks	182,020	182,020	-
Loans and advances to customers (gross)	1,014,526	1,014,526	-
Investment securities (Amortized cost and Fair value through OCI)	289,938	289,938	-
Deferred tax assets	432	-	432
Other assets (gross)	33,302	-	33,302
Property and equipment	68,782	-	68,782
Intangible assets	1,406	-	1,406
Total assets	2,592,085	2,308,027	284,058
Liabilities			
Customer deposits	1,929,244	1,119,051	810,193
Borrowings	71,204	71,204	-
Current income tax	6,577	-	6,577
Other liabilities	117,356	-	117,356
Deferred income tax liabilities	5,584	-	5,584
Total liabilities	2,129,965	1,190,255	939,710
Total interest repricing gap	462,120	1,117,772	(655,652)

At 31 December 2012	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**Over 1 year**	**Total rate sensitive**
Financial assets						
Cash and balance with central banks	129,969	-	-	22,410	-	152,379
						-
Treasury and other eligible bills (Amortized cost)	218,641	235,512	207,465	6,850	695	669,164
Due from other banks	179,920	-	2,100	-	-	182,020
Loans and advances to customers (gross)	409,039	95,370	31,099	64,611	414,406	1,014,526
Investment Securities (Amortized cost and Fair value through OCI)	18,400	50,545	1,957	45,283	183,157	289,938
Total assets	955,970	381,427	242,622	139,154	598,259	2,308,027
Financial liabilities						
Customer deposits	952,765	110,548	34,596	4,944	16,197	1,119,051
On-lending facilities	1,142	-	270	-	54,654	56,066
Borrowings	318	-	-	697	14,123	15,138
Total liabilities	954,225	110,548	34,866	5,641	84,975	1,190,255
Total interest repricing gap	1,746	270,880	207,755	133,512	513,284	1,117,772

At 31 December 2011

In millions of Naira	Carrying amount	Rate sensitive	Non rate sensitive
Assets			
Cash and balance with central banks	223,187	43,570	179,617
Treasury and other eligible bills (FVTPL	-	-	-
Treasury and other eligible bills (Amortized cost	510,738	510,738	-
Loans and advances to customers (gross)	920,621	920,621	-
Insurance receivables	-	-	-
Investment securities (FVTPL)	-	-	-
Deferred tax assets	186	-	186
Investment property	7,114	-	7,114
Property and equipment	68,366	-	68,366
Intangible assets	770	-	770
Total assets	2,299,244	2,197,298	101,946
Liabilities			
Customer deposits	1,655,458	945,257	710,201
Claims payable	-	-	-
Liability on insurance contrac	-	-	-
On-lending facilities		-	-
Borrowings	70,440	70,440	-
Other liabilities	152,836	-	152,836
Deferred income tax liabilities	10,742	-	10,742
Total liabilities	1,902,824	1,721,760	181,064
Total interest repricing gap	396,420	475,538	(79,118)

At 31 December 2011	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total rate sensitive
Financial assets						
Cash and balance with central banks	36,560	-	-	7,010	-	43,570
Treasury and other eligible bills (FVTPL	-	-	-	-	-	-
Treasury and other eligible bills (Amortized cost)	7,329	170,000	191,977	141,432	-	-
Due from other banks	34,121	200,400	-	-	-	234,521
Loans and advances to customers (Gross)	45,542	345,120	5,888	43,300	480,771	920,621
Investment securities (FVTPL)						-
Investment securities (Amortized cost and Fair	16,906	-	23,001	11,988	256,336	308,231
Total assets	140,458	715,520	220,866	203,730	737,107	2,017,681
Financial liabilities						
Customer deposits	929,416	540	344	750	14,207	945,257
On- lending facilities	-	-	270	-	49,100	49,370
Borrowing	-	-	-	-	21,070	21,070
Total liabilities	929,416	540	614	750	84,377	1,015,697
Total interest repricing gap	(788,958)	714,980	220,252	202,980	652,730	475,538

The management of interest risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various scenarios. Interest rate movement affects reported income by causing an increase or decrease in net interest income and fair value changes.

The table below shows the impact on the Group's profit before tax if interest rates on financial instruments held at amortized cost or at fair value ha increased or decreased by 100 basis points, with all other variables held constant.

	2012	2011
Effect of 100 basis points movement on profit before tax	5,991	3,723

(b) Bank
The table below summarizes the Bank's interest rate gap position:

In millions of Naira

At 31 December 2012	Carrying amount	Rate sensitive	Non rate sensitive
Assets			
Cash and balance with central banks	313,546	133,929	179,617
Treasury and other eligible bills (Amortized cost)	647,474	647,474	-
Due from other banks	203,791	203,791	-
Loans and advances to customers (gross)	916,791	916,791	-
Investment securities (Amortized cost and Fair value through OCI)	247,500	247,500	-
Other assets (gross)	21,451	-	21,451
Investment property	-	-	-
Property and equipment	66,651	-	66,651
Intangible assets	1,175	-	1,175
Total assets	2,418,379	2,149,485	268,894
Liabilities			
Customer deposits	1,802,008	1,011,815	790,193
Borrowings	71,204	71,204	-
Current income tax	5,071	-	5,071
Other liabilities	115,027	-	115,027
Deferred income tax liabilities	5,573	-	5,573
Total liabilities	1,998,883	1,083,019	915,864
Total interest repricing gap	419,496	1,066,466	(646,970)

At 31 December 2012	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total rate sensitive
Financial assets						
Cash and Balance with central banks	83,799	-	-	50,130	-	133,929
Treasury and other eligible bills (FVTPL)	-	-	-	-	-	-
						-
Treasury and other eligible bills (Amortized cost)	214,560	234,770	194,144	4,000	-	647,474
Due from other banks	201,691	-	2,100	-	-	203,791
Loans and advances to customers (gross)	425,171	55,817	17,536	48,746	369,522	916,791
						-
Investment securities (Amortized cost and Fair value through OCI)	18,400	49,546	1,000	36,929	141,626	247,500
Total assets	943,621	340,133	214,780	139,805	511,147	2,149,485
Financial liabilities						
Customer deposits	967,296	42,787	334	1,399	-	1,011,815
On-lending facilities	1,142	-	270	-	54,654	56,066
Borrowings	318	-	-	697	14,123	15,138
Total liabilities	968,755	42,787	604	2,096	68,777	1,083,019
Total interest repricing gap	(25,134)	297,346	214,177	137,708	442,370	1,066,466

At 31 December 2011

In millions of Naira	Carrying amount	Rate sensitive	Non rate sensitive
Assets			
Cash and balance with central banks	211,098	104,562	106,536
Treasury and other eligible bills (FVTPL	-	-	-
Treasury and other eligible bills (Amortized cost	494,253	494,253	-
Loans and advances to customers (gross)	827,035	827,035	-
Investment securities (FVTPL)	-	-	-
Investment securities (Amortized cost and Fair value through OCI)	267,050	-	267,050
Other assets (gross)	17,616	-	17,616
Property and equipment	65,877	-	65,877
Intangible assets	661	-	661
Total assets	2,137,068	1,778,750	358,318
Liabilities			
Customer deposits	1,577,290	862,089	715,201
On-lending facilities	-	-	-
Borrowings	70,440	70,440	-
Other liabilities	126,660	-	126,660
Deferred income tax liabilities	10,732	-	10,732
Total liabilities	1,797,056	1,644,592	152,464
Total interest repricing gap	340,012	134,158	205,854

At 31 December 2011	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total rate sensitive
Financial assets						
Cash and balance with central banks	42,592	1,150	-	60,820	-	104,562
Treasury and other eligible bills (FVTPL	-	-	-	-	-	-
Treasury and other eligible bills (Amortized cost)						
Due from other banks	236,364	10,000	-	-	-	246,364
Loans and advances to customers (gross)	292,085	50,320	5,347	39,325	439,958	827,035
Investment securities (FVTPL)						-
Investment securities (Amortized cost and Fair						
Total assets	744,832	67,070	231,321	248,237	647,804	1,939,264
Financial liabilities						
Customer deposits	288,002	565,400	344	738	7,605	862,089
On- lending facilities	-	-	270	-	49,100	49,370
Borrowing	-	-	-	-	21,070	21,070
Total liabilities	288,002	565,400	614	738	77,775	932,529
Total interest repricing gap	456,830	(498,330)	304,035	528,839	41,190	1,006,735

The management of interest risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various scenarios. Interest rate movement affects reported income by causing an increase or decrease in net interest income and fair value changes.

The table below shows the impact on the Bank's profit before tax if interest rates on financial instruments held at amortized cost or at fair value had increased or decreased by 100 basis points, with all other variables held constant.

	2012	2011
Effect of 100 basis points movement on profit before tax	6,750	4,786

The effect of 100 basis points movement on profit is considered moderate and we do not expect all the rates to move at the same time and in the same direction. This risk can largely be handled by the flexibility in the changing/adjustment rates on loans and deposits.

3.3.5 Equity and commodity price risk

The Group is exposed to equity price risk by holding investments quoted on the Nigerian Stock Exchange (NSE) and other non-quoted investments Equity securities quoted on the NSE is exposed to movement based on the general movement of the all share index and movement in prices of specific securities held by the Group.

Unquoted equity security held by the Group is a 5% equity holding in African Finance Corporation (AFC) valued at N 9.3 billion (cost 6.4 billion) as at 31 December 2012. The AFC is a private sector-led investment bank and development finance institution which has the Central Bank of Nigeria (CBN) as the single major shareholder (42.5%) with other African financial institutions and investors holding the remaining shares. The AFC operates a US Dollar denominated balance sheet and provides financing in this currency.

The Group does not deal in commodities and is therefore not exposed to any commodity price risk.

3.3.6 Fair value of financial assets and liabilities

(a) Group

(a) Financial instruments measured at amortised cost

	At 31 December 2012		At 31 December 2011	
In millions of Naira	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	332,515	332,515	223,187	223,187
Due from other banks	182,020	182,020	234,521	234,521
Treasury bills (Amortized cost)	669,164	648,284	510,738	491,813
Debt securities (Amortized cost)	289,938	247,897	298,841	283,899
Loans and advances to customers (gross)	1,014,526	863,063	920,128	885,057
Financial liabilities				
Deposits from customers	1,929,244	1,805,411	1,655,458	1,651,049
Other liabilities	117,355	111,614	152,836	151,311
Borrowings	15,138	10,483	21,070	21,041
On-lending facilities	56,066	38,826	49,370	49,095

(b) Bank

(a) Financial instruments measured at amortised cost

	At 31 December 2012		At 31 December 2011	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	313,546	313,546	211,098	211,098
Due from other banks	203,791	203,791	246,364	246,364
Treasury bills (Amortized cost)	647,474	648,284	494,253	489,310
Debt securities (Amortized cost)	247,500	176,341	257,660	255,083
Loans and advances to customers (gross)	916,791	808,085	850,917	791,987
Other assets (gross)	18,114	20,969	20,973	17,440
Financial liabilities				
Deposits from customers	1,802,008	1,749,373	1,577,290	1,561,818
Other liabilities	115,027	108,130	126,660	125,999
Borrowings	15,138	10,483	21,070	20,136
On-lending facilities	56,066	38,827	49,370	49,299

(b) Financial instruments measured at fair value

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

1 Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
2 Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or as prices) or indirectly (i.e. derived from prices).
3 Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

At 31 December 2012

In millions of Naira	Level 1	Level 2	Level 3
Financial assets			
Treasury bills (FVTPL)	-	-	-
Bonds (FVTPL)	-	-	-
Investment securities (quoted)	-	-	-
Investment securities (unquoted)	-	-	9,405
	-	-	9,405

Reconciliation of Level 3 items

At 31 December 2011	9,390
Gains/(losses) recognised through profit or loss	15
Gains/(losses) recognised through other comprehensive income	-
Purchases	-
Sales	-
Issues	-
Settlements	-
At 31 December 2012	9,405

At 31 December 2011	Level 1	Level 2	Level 3
Financial assets			
Treasury bills (FVTPL)	-	-	-
Bonds (FVTPL)	-	-	-
Investment securities (quoted)	-	-	-
Investment securities (unquoted)	-	-	9,390
	-	-	9,390

Reconciliation of Level 3 items

At 31 December 2010	8,685
Gains/(losses) recognised through profit or loss	
Gains/(losses) recognised through other comprehensive income	705
Purchases	
Sales	
Issues	
Settlements	
At 31 December 2011	9,390

Sensitivity analysis of Level 3 items	At 31 December 2012		At 31 December 2011	
	Favourable changes	Un- favourable changes	Favourable changes	Un- favourable changes
Financial assets				
Unqouted investment securities	333	(333)	273	(273)

The sensitivity analysis was determined based on 5% increase or decrease in profit of the investee company under normal operating conditions with *(c) Fair valuation methods and assumptions*

(i) Cash and balances with central banks

Cash and balances with Central banks represent cash held (including mandatory cash reserve requirements of 2012: N180.1 billion, 2011: N106.7 billion) with Central banks of the various jurisdictions in which the Group operates. The fair value of these balances is their carrying amounts.

(ii) Due from other banks

Due from other banks represents balances with local and correspondence banks, inter-bank placements and items in the course of collection. The fair value of the current account balances, floating placements and overnight deposits are their carrying amounts.

(iii) Treasury bills and investment securities

Treasury bills represent short term instruments issued by the Central banks of the jurisdiction where the Group has operations. The fair value of treasury bills and bonds at fair value through profit or loss are determined with reference to quoted prices (unadjusted) in active markets for identical assets. The estimated fair value of treasury bills and bonds at amortized cost represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The fair values of quoted equity securities are determined by reference to quoted prices (unadjusted) in active markets for identical instruments. The fair value of the unquoted equity holding in AFC is determined on the basis of the fair value of the entity's net assets.

(iv) Loans and advances to customers

Loans and advances are carried at amortized cost net of provision for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(v) Other assets

Other assets represent monetary assets which usually has a short recycle period and as such the fair values of these balances approximate their carrying amount.

(vi) Customer deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair values of fixed interest-bearing deposits and borrowings are determined using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

3.4 Liquidity risk

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

3.4.1 Liquidity risk management process

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

a. Projecting cash flows and considering the level of liquid assets necessary in relation thereto;
b. Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
c. Maintaining a diverse range of funding sources with adequate back-up facilities;
d. Managing the concentration and profile of debt maturities;
e. Monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix;

f. Maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimizing any adverse long-term implications for the business.
g. Regular conduct of stress testing, coupled with testing of contingency funding plans from time to time.

The Maximum Cumulative Outflow has remained positive all through the short tenor maturity buckets. Assessments are carried out on Contractual

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

3.4.2 Funding approach

Our sources of liquidity are regularly reviewed by both the ALCO and the Treasury Group in order to avoid undue reliance on large individual depositors and ensure that a satisfactory overall funding mix is maintained at all times. The funding strategy is geared toward ensuring effective diversification in the sources and tenor of funding. The Group however places greater emphasis on demand deposits as against purchased funds in order to minimize the cost of funding.

3.4.3 Liquidity gap analysis

The table below presents the cash flows payable by the Group under financial liabilities and other liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

(a) Group

In millions of Naira

At 31 December 2012	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total
Assets						
Cash and balances with central banks	129,969	-	-	202,546	-	332,515
Treasury bills	218,641	235,512	207,465	6,850	695	669,164
Due from other banks	179,920	-	2,100	-	-	182,020
Loans and advances to customers (gross)	409,039	95,370	31,099	64,611	414,406	1,014,526
Investment securities	18,400	50,545	1,957	45,283	183,157	299,343
Investments in associates	-	-	-	-	420	420
Deferred tax assets	-	-	-	-	432	432
Other assets (gross)	15,394	10,106	14	7,773	15	33,302
Assets classified as held for sale	-	-	31,943	-	-	31,943
Property and equipment	-	-	-	18,092	50,689	68,782
Intangible assets	-	-	-	-	1,406	1,406
Total assets	971,365	391,534	274,578	345,155	651,221	2,633,853
Liabilities						
Deposits from customers	1,762,958	110,548	34,596	4,944	16,197	1,929,244
Current income tax	-	-	-	6,577	-	6,577
Deferred tax	-	-	-	-	5,584	5,584
Other liabilities	56,518	21	-	37,460	23,356	117,355
Borrowings	14,082	16,860	-	2,270	37,992	71,204
Liabilities classified as held for sale	-	-	11,584	-	-	11,584
	1,833,558	127,429	46,180	51,251	83,130	2,141,548
Net liquidity gap	(862,193)	264,105	228,398	293,904	568,091	492,305
Cummulative gap	(862,193)	(598,088)	(369,691)	(75,786)	492,305	

At 31 December 2011

In millions of Naira	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total
Cash and balances with central banks	93,623	-	-	129,564	-	223,187
Treasury bills	166,834	179,777	158,368	5,229	530	510,738
Due from other banks	232,314	-	2,208	-	-	234,521
Loans and advances to customers (gross)	370,317	86,678	28,265	58,723	376,638	920,621
Investment securities	20,022	55,002	2,130	49,275	236,040	362,469
Investment in subsidiaries	-	-	-	-	-	-
Investments in associates	-	-	-	-	-	-
Deferred tax assets					186	186
Other assets (gross)	7,940	6,655	9	10,897	10	25,510
Assets classified as held for sale	-	-	-	52,482	-	52,482
Investment property	-	-	-	-	7,114	7,114
Property and equipment	-	-	-	17,977	50,389	68,366
Intangible assets	-	-	-	-	770	770
Total assets	891,050	328,112	190,979	324,146	671,678	2,405,965
Liabilities						
Deposits from customers	1,511,763	95,529	29,896	4,273	13,997	1,655,458
Current income tax	-	-	-	13,348	-	13,348
Deferred tax	11	-	-	-	10,731	10,742
Other liabilities	88,353	21	-	39,705	24,756	152,836
Borrowings	13,931	16,678	-	2,246	37,585	70,440
Liabilities classified as held for sale	-	-	-	29,603	-	29,603
	1,614,058	112,229	29,896	89,174	87,069	1,932,427
Net liquidity gap	(723,008)	215,883	161,083	234,972	584,609	473,538
Cummulative gap	(723,008)	(507,125)	(346,042)	(111,070)	473,538	

(a) Bank

At 31 December 2012 **Assets**	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total
Cash and balances with central banks	133,929	-	-	179,617	-	313,546
Treasury bills	214,560	234,770	194,144	4,000	-	647,474
Due from other banks	201,691	-	2,100	-	-	203,791
Loans and advances to customers (gross)	425,171	55,817	17,536	48,746	369,522	916,791
Investment securities	18,400	49,546	1,000	36,929	151,031	256,905
Investment in subsidiaries	-	-	-	-	24,375	24,375
Investments in associates	-	-	-	-	463	463
Deferred tax assets	-	-	-	-	-	-
Other assets (gross)	15,390	-	-	6,061	-	21,451
Assets classified as held for sale	-	-	10,338	-	-	10,338
Property and equipment	-	-	-	17,184	49,467	66,651
Intangible assets	-	-	-	-	1,175	1,175
Total assets	1,009,140	340,133	225,118	292,537	596,032	2,462,960
Liabilities						
Deposits from customers	1,757,489	42,787	334	1,399	-	1,802,008
Current income tax	-	-	-	5,071	-	5,071
Deferred tax	-	-	-	-	5,573	5,573
Other liabilities	50,417	-	-	25,512	39,098	115,027
Borrowings	14,082	16,859	-	2,270	37,993	71,204
Liabilities classified as held for sale	-	-	-	-	-	-
	1,821,987	59,646	334	34,252	82,665	1,998,883
Net liquidity gap	(812,847)	280,487	224,785	258,285	513,367	464,077
Cummulative gap	(812,847)	(532,360)	(307,576)	(49,290)	464,077	

At 31 December 2011 *In millions of Naira*	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**Over 1 year**	**Total**
Cash and balances with central banks	80,949	-	-	130,149	-	211,098
Treasury bills	163,785	179,213	148,201	3,053	-	494,253
Due from other banks	244,174	-	2,190	-	-	246,364
Loans and advances to customers (gross)	378,866	51,903	16,306	45,328	358,514	850,917
Investment securities	18,141	48,849	986	36,409	162,665	267,050
Investment in subsidiaries	-	-	-	-	19,345	19,345
Investments in associates	-	-	-	-	1,822	1,822
Other assets (gross)	7,490	-	-	13,483	-	20,973
Assets classified as held for sale	-	-	-	10,838	-	10,838
Investment property	-	-	-	-	7,114	7,114
Property and equipment	-	-	-	16,987	48,890	65,877
Intangible assets	-	-	-	-	661	661
Total assets	893,405	279,965	167,684	256,248	599,010	2,196,312
Liabilities						
Deposits from customers	1,538,080	37,684	294	1,233	-	1,577,290
Current income tax	-	-	-	11,934	-	11,934
Deferred tax	-	-	-	-	10,732	10,732
Other liabilities	70,510	-	-	22,171	33,979	
Borrowings	13,931	16,678	-	2,246	37,585	70,440
Liabilities classified as held for sale	-	-	-	-	-	-
	1,622,520	54,362	294	37,583	82,296	1,670,396
Net liquidity gap	(729,116)	225,603	167,390	218,665	516,714	525,916
Cummulative gap	(729,116)	(503,513)	(336,123)	(117,458)	399,256	

3.5 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 Group'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 Group's assessment and against the supervisory/regulatory capital requirements taking account of the Group business strategy and value creation to all its stakeholders.

The Group prides itself in maintaining very healthy capital adequacy ratio in all its areas of operations. Capital levels are determined either based on internal assesments or regulatory requirements.

The Capital Adequacy of the Group is reviewed regularly to meet regulatory requirements and standard of international best practises 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 Group 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.

The group has consistently met and surpassed the minimum capital adequacy requirments applicable in all areas of operations.

Most of the Group'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. We support and meet all capital requests from these regulatory jurisdictions and determine the adequacy based on our expansion strategies and internal capital assessments.

The Group'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 Group's capital adequacy remains strong and the capacity to generate and retain reserves continues to grow.

The following sources of funds are available to the group to meet its capital growth requirements:
1. **Profit from Operations :**The Group has consistently reported good profit which can easily be retained to support the capital base.
2. **Issue of Shares:** The Group can successfully access the capital market to raise desired funds for its operations and needs.
3. **Bank Loans (Long Term/short Term):**

The table below shows the computation of the Group's capital adequacy ratio for the year ended 31 December 2012 as well as the 2011 comparatives. During those two years, the individual entities within the Group complied with all of the externally imposed capital requirements to which they are subject.

		Group	Group	Bank	Bank
In millions of Naira		2012	2011	2012	2011
Tier 1 capital					
Share capital		15,698	15,698	15,698	15,698
Share premium		255,047	255,047	255,047	255,047
Statutory reserves		45,199	30,205	45,198	30,204
Contingency reserve		997	752	-	-
SMEIES reserve		3,729	3,729	3,729	3,729
Retained earnings		130,153	75,072	106,010	55,028
Credit risk reserve		10,243	10,243	10,243	10,243
Non- controlling interest		3,272	2,686	-	-
Total qualifying Tier 1 capital		464,338	393,432	435,925	369,949
Deferred tax assets		(432)	(186)	-	-
Intangible assets		(1,406)	(770)	(1,175)	(661)
Adjusted Total qualifying Tier 1 capital		462,500	392,476	434,751	369,289
Tier 2 capital					
Revaluation reserve - investment		2,285	2,079	2,078	2,068
Translation reserve		(3,667)	(1,243)	-	-
Collective impairment		14,111	14,379	13,069	13,714
Total qualifying Tier 2 capital		12,729	15,215	15,147	15,782
Total regulatory capital	(A)	475,229	407,691	449,898	385,071
Risk-weighted assets					
On-balance sheet		1,166,719	1,135,373	1,079,887	986,406
Off-balance sheet		385,941	210,327	353,438	166,691
Total risk-weighted assets	(B)	1,552,660	1,345,700	1,433,325	1,153,096
Risk-weighted Capital Adequacy Ratio (CAR)	**(A/B)**	**31%**	**30%**	**31%**	**33%**

3.6 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. Operational Risk is considered as a critical risk faced by the Group.

The group proactively identifies, assesses and manages all operational risks 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 includes the following:
- To provide clear and consistent direction in all operations of the group
- To provide a standardised framework and appropriate guidelines for creating and managing all operational risk exposures
- To enable the group identify and analyse events (both internal and external) that impact on its business.

The basic principles that guide the operational risk activities include:

Operational risks are identified by the assessments covering risks facing each business unit and risks inherent in processes, activities and products.

Risk assessment incorporates a regular review of risks identified to monitor significant changes.

Risk mitigation, including insurance, is considered where this is cost-effective.

The Operational Risk Unit constantly identifies and assesses the operational risk inherent in all material products, activities, processes and systems It also ensures that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is identified clearly and subjected to adequate assessment procedures.

The techniques employed by the group in its measurements include the following: Key Control Self Assessment (KCSA): Key Risk Indicators (KRIs) and the Risk Register. These tools have been quite useful in the identification, measurement and analyses of operational risk in the group. These are subject to review from time to time.

Training and sensitisation on operational risk is carried out on an ongoing basis across the group.

There was no significant operational risk incidence during the financial yea

3.7 Strategic risk

Strategic risk examines the impact of design and implementation of business models and decisions, on earnings and capital as well as the responsiveness to industry changes. This responsibility is taken quite seriously by the Board and Executive management of the Group and deliberate steps are taken to ensure that the right models are employed and appropriately communicated to all decision makers in the Group. The execution, processes and constant reviews ensures that strategic objectives are achieved. This has essentially driven the Group's sound banking culture and performance record to date.

3.8 Legal risk

Legal risk is defined as the risk of loss due to defective contractual arrangements, legal liability (both criminal and civil) incurred during operations b the inability of the organisation to enforce its rights, or by failure to address identified concerns to the appropriate authorities where changes in the law are proposed.

The Group manages this risk by monitoring new legislation, creation of awareness of legislation amongst employees, identification of significant legal risks as well as assessing the potential impact of these.

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

The Group also has a team of well experienced professionals who handle legal issues across the Group.

3.9 Reputational risk

It is recognised that the Group's reputation may suffer adversely due to bad publicity, non-compliance with regulatory rules and legislation, which may lead to a significant drop in new business and/or a significant increase in the number of lapses and/or withdrawals.

The Group promotes sound business ethics among its employees.

The Group also strives to maintain quality customer services and procedures, and business operations that enable compliance with regulatory rule

The Group did not record any issue with major reputational effect in the financial year.

3.10 Taxation risk

Taxation risk refers to the risk that new taxation laws will adversely affect the Group and/or the loss of non-compliance with tax laws.

The taxation risk is managed by monitoring applicable tax laws, maintaining operational policies that enable the Group to comply with taxation laws and, where required, seeking the advice of tax specialists.

This risk is well managed across the group.

3.11 Regulatory risk

The Group manages the regulatory risk it is potentially exposed to by monitoring new regulatory rules and applicable laws, and the identification of significant regulatory risks. The Group strives to maintain appropriate procedures, processes and policies that enable it to comply with applicable regulation.

The Group has continued to maintain zero tolerance posture for any regulatory breaches in all its area of operations.
The strengthening of Compliance Group during the financial year has further enhanced the process of management of regulatory risk across the Group.

3.12 Insurance risk

Insurance risk is the risk that future risk claims and expenses will exceed the value placed on insurance liabilities. It occurs due to the uncertainty o the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, persistency and expenses about which assumptions are made in order to place a value on the liabilities. Deviations from assumptions will result in actual cash flows differing from those projected in the policyholder liability calculations. As such, each assumption represents a source of uncertainty.

3.12.1 Mortality and morbidity risks

The risk that actual experience in respect of the rates of mortality and morbidity may vary from what is assumed in pricing and valuation, depending on the terms of different products. The material classes of business most affected by these risks are discussed below.

(a) Individual life products – Term assurance, Mortgage protection, Savings Plan

Products are sold directly to individuals providing a benefit on death. The main insurance risk relates to the possibility that rates of death may b higher than expected. This may be due to:

- Normal statistical variation due to the random nature of the insured events;
- Natural catastrophes such as floods, and unnatural catastrophes such as acts of terrorism;
- The impact of HIV/AIDS or other health epidemics;
- Anti-selection such as where a policyholder with a pre-existing condition or disease purchases a product where a benefit will be paid on death;
- The effect of selective withdrawal; and
- Concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area.

For contracts with fixed and guaranteed benefits (such as the minimum death benefits available on savings plan policies) and fixed future premiums there are no mitigating terms that reduce the risk accepted by Group. The Group therefore employs some underwriting controls to ensure that only acceptable risks are accepted.
The following additional controls and measures are in place in order to ensure that the Group manages its exposure to mortality risk:

- Claims assessment processes to ensure only valid claims are paid;
- Reinsurance to limit liability on particularly large claims or substandard risks; and
- Concentration risk is reduced by diversification of business over a large number of independent lives, as well as by taking out catastrophe reinsurance.

(b) Group life products
Employee benefit products provide life cover to members of a group, such as employees of companies or members of trade unions.

An aggregate stop-loss reinsurance agreement is in place to ensure that the Group's exposure to the aggregate mortality risk in its group life business is managed and limited to a specified limit.

In addition, there is a catastrophe reinsurance treaty in place for both group business and individual business. Such a treaty is particularly important for the group life business as there are considerably more concentrations of risks compared to individual business.

(c) Deposit administration

Deposit administration contracts provide a guaranteed life annuity conversion at the maturity of the contract. The mortality risk in this case is that th policyholders may live longer than assumed in the pricing of the contract. This is known as the risk of longevity.

The Group manages this risk by allowing for improvements in mortality when pricing and valuing the contracts. The Group also performs more detailed actuarial experience investigations and adjust assumptions in pricing for new contracts and valuation of existing contracts when necessary.

3.12.2 Claims experience risk

In terms of the short-term insurance contracts held by the Group, the claims experience risk for these policies is that the number of claims and/or the monetary claim amounts are worse than that assumed in the pricing basis.

The Group manages this risk by charging premiums which are appropriate to the risks under the insurance contracts.

Under the short-term insurance products, the Group also holds a concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area. This risk is reduced by diversification over a large number of uncorrelated risks, as well as taking out catastrophe reinsurance.

3.12.3 Persistency risk

Persistency risk relates to the risk that policyholders may withdraw their benefits and terminate their contracts prior to the contractual maturity date of the contract. Expenses such as commission and acquisition expenses are largely incurred at the outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges from the contract. Therefore, if the contract is terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred.

Where a surrender benefit is payable, the benefit amount on withdrawal normally makes provision for recouping any outstanding expenses. However, losses may still occur if the expenses incurred in respect of the policy exceed the value of the policy, or where the withdrawal benefit does not fully allow for the recovery of all unrecouped expenses. This may either be due to a regulatory minimum surrender benefit applying, or because of product design.

3.12.4 Expense risk

There is a risk that the Group may experience a loss due to actual expenses being higher than those assumed when pricing and valuing policies. This may be due to inefficiencies, higher than expected inflation, lower than expected volumes of new business or higher than expected termination resulting in smaller in-force policies.

To manage this risk, the Group performs expense investigations annually and sets pricing and valuation assumptions to be in-line with the actual expenses experience, with allowance for inflation.

The Group's exposure to unexpected increases in the inflation rate is expected to be minimal due to the short-term nature of their business and the ability to review premium rates at renewals (typically on an annual basis).

3.12.5 Business volume risk

There is a risk the Group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs are variable and relate directly to sales volumes.

3.12.6 Capital adequacy risk

There is a risk that the capital held by the Group to back to its insurance liabilities may prove to be inadequate on a regulatory solvency basis. This may then lead to intervention by the Regulator and may further lead to a fall in the reputation of the group (see Reputational risk below for further details). At an extreme, the Regulator may require the Group to close to new business. This will have a further negative impact on the Group.

This risk is monitored and assessed by performing annual valuations on the life insurance liabilities performed by an independent valuation actuar calculating the outstanding claims reported (OCR) and Incurred But Not Reported (IBNR) contingency reserves, monitoring any regulatory rules applying to the assets and the adequacy of the assets to back the liabilities and adopting an investment strategy which is aimed at investing in admissible assets and maintaining adequate capital.

In addition, sensitivity and scenario analysis are performed to assess the Group capital adequacy under various scenarios and to ensure that th Group will remain financially sound under some stress economic conditions.

3.12.7 Asset liability matching risk

Due to the short-term nature of the Group's insurance business, most of the liability cash flows will be of short-term nature. The asset liabilit matching risk lies in the risk that the cash inflows from the assets held will not match liability cash outflows in terms of timing and/or amounts. Therefore, the risk arises that Group will be unable to meet policyholder obligations. In this case, the asset liability mismatch risk is similar to liquidit risk described in liquidity risk.

3.12.8 Assumption risk

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality, morbidity, termination rates expenses and investment performance. The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected, and, in the extreme, that the actual claims and benefits exceed the liabilities. The risk is mitigated to an extent through:

- The addition of margins, specifically where there is evidence of moderate or extreme variation in experience;
- The use of appropriate sources of data; and
- Regular actual versus expected investigations.

Due to the short-term nature of the Group's business, exposure to unexpected changes in trends in experience is minimal since premium rates ar reviewable at renewal.

3.12.9 Data risk

Data risk is the risk that data used in the policyholders' liabilities valuation calculations are inaccurate or incomplete and, therefore, are not a tru and accurate view of the insurance contracts held by the Group. The data could be inaccurate or incomplete due to incorrect data or valuation extracts between the policy administration system and the actuarial valuation model and/or incorrect capturing of data on the policy administration system.

This risk is managed by the Group through regular data integrity testing in order to assess the appropriateness, accuracy and credibility of th various data sets as well as investigations into data exceptions reported.

Where insufficient internal data is available, the Group makes use of external sources to derive its pricing and valuation assumptions. Frequer monitoring of these external sources is performed, including actual versus expected investigations.

3.12.10 Model risk

There is a risk that the Group may suffer a loss if the model used to calculate the insurance liabilities does not project expected cash flows under the insurance contracts accurately. The expected cash flow projections may be inaccurate either due to the model itself being incorrect, inappropriate to the policies being valued or inaccurate and/or the underlying assumptions used in the model being inappropriate.

The Group makes use of an independent valuation actuary to value its liabilities. The models being used to value the liabilities are, therefore, no internal to but belong to an external third party. The model risk underlying the use of third party models are addressed by:

- Regular actual versus expected cash flow investigations to assess the appropriateness of the external models; an
- Detailed investigations are performed annually to ensure the integrity of the data used in the valuation process

3.12.11 Insurance premium rating

(a) Individual life products – Term-assurance, Mortgage protection and Savings Plan
The price for an individual life product is adjusted for the following risk factors:

- Age;
- Gender;
- Smoker status;
- Medical conditions;
- Financial condition; and
- Hazardous pursuits.

The Group employs the following additional controls and measures to ensure that only acceptable risks are accepted and risks are appropriatel priced:

- Underwriting controls, with risk classification based on the above risk factors;
- Regular review of premium rates; and
- Appropriate policy conditions, including any exclusion on the cover on the individual's life.

Premium rates are guaranteed for the period up to the renewal of a policy, typically, after 1 year.

(b) Deposit administration
Premium rating on deposit administration policies distinguishes between the ages and gender of prospective policyholders. Annual premiums payable up front, are repriced at renewal of the deposit administration policies.

(c) Group life products
Underwriting on group business is much less stringent than for individual business, as there is typically less scope for anti-selection. The main reason for this is that participation in the group schemes is normally compulsory, and members have limited choice in the level of the benefits.

Group policies are priced using standard mortality tables. The price for an individual scheme is adjusted for the following risk factors:

- Region;
- Salary structure;
- Gender structure; and
- Industry.

For large schemes, a scheme's past experience is a crucial input in setting rates for the scheme. The larger the scheme the more weight is given to the scheme's past experience. Rates are guaranteed for one year and reviewable at the renewal of the policy.

(d) Short-term insurance products
Underwriting on short-term insurance products takes the form of the insurance applicant completing a proposal form. The following risk factors are used in the risk classification:

- Age and gender of the insured driver or operator;
- Value of the item(s) to be covered;
- Use of the item(s) to be insured, for example, premium rates distinguish business and personal use for vehicle cover;
- Physical condition of the item(s) to be insured;
- Safety and security features installed; and
- Past claims experience, for example, the premium rate payable on vehicle cover reflects the past claims experience on the vehicle and driver to be insured.

Where the value of the item(s) to be insured exceeds a pre-specified limit, the underwriting becomes more stringent. This is particularly the case for marine and aviation cover. In this case the Group makes use of specialist underwriting agents to assess the risks and set an appropriate premium for cover.

Premium rates are guaranteed for the period up to the renewal of a policy, typically, after 1 year.

3.13 Sustainability Report

Zenith Group is committed to sustainable development and the responsible stewardship of resources. This implies developing solutions that link economic success with social responsibility, which requires balancing short and long term goals and interests and integrating economic, environmental and social considerations into business decisions across the board.

3.13.1 External Principles

(a) Sustainable Lending

Sustainability of the environment is central to the Zenith Group, and its wider social and environmental impact is of concern. Zenith Bank goes beyond concerted efforts to minimise energy usage internally and dispose of waste responsibly, to also having in place lending policies that promote sustainable lending and ensure high environmental standards.

(b) Integrating environmental impact considerations into business decisions across the group

Zenith has established an environmental guideline, management system and governance model that integrates environmental impact considerations into lending decisions across the group with initial focus on some significant sectors/industries. The group's lending policies has been redesigned to ensure that facilities are not extended to industries that engage in illegal activities, pollute the environment, have no proper pollution control methods, are involved in manufacturing and selling arms, as well as those engaged in activities that involve harmful or exploitative forms of forced labour or child labour.

Zenith has in place an Environmental and Social Management System (ESMS) where the Group does a social and environmental risk analysis for borrowers and takes measures to avoid, mitigate and minimise the risks identified. The ESMS of the Bank identifies Environmental & Social (E&S) risks in the projects/companies the bank finances and encourages mitigatory action by these groups to minimize such risks at a very early stage of the credit evaluation

3.13.2 Internal Principles

(a) Energy Saving Measures

Environmentally responsible practices involve identifying, assessing and seeking to reduce the direct and indirect environmental impact of our services.

Mindful of its carbon footprint, Zenith Group has taken measures to neutralise and minimise its adverse impact on the environment. As a service-oriented organisation, reduction of energy consumption could be identified as being the most significant contribution towards reducing our Carbon Footprint. The group has taken several measures to minimise energy consumption. Consequent to carrying out a comprehensive Energy Audit, improvements have been implemented in the areas of lighting and energy management.

(b) Waste Reduction & Recycling

The Bank continually promotes reduced paperless culture where employees are encouraged to use electronic communications, online approvals and other web- based applications, and to print documents only when required. Document workflows are automated, which minimizes paper usage.

(c) Employee Relations

Zenith Group believes that its people are the driving force behind its success and the main competitive advantage that positions it ahead of competition. The group is of the view that its future lies in a committed team of individuals who are convinced of their future at the organisation.

To this end, Zenith remains committed to creating a healthy, safe and fulfilling work environment that supports personal growth, encourages individuality and instigates team spirit. The group organizes numerous training programs covering soft skills, negotiation skills to personality development and encourages all staff to participate actively.

(d) Diversity

Zenith Group recognizes the need to promote a diverse workforce as a means to attracting top-flight talent and enhancing its competitive advantage. It further recognizes that each employee brings to the workplace experiences and capabilities that are as unique as the individual.

The group treats all employees fairly and the group do not discriminate on the basis of gender, race, colour, nationality, religious belief or any other distinctive attribute. Furthermore, we take steps to assure that underrepresented groups continue to have access to available opportunities within the organisation and that they are upwardly mobile within the system at all managerial levels within the group.

(e) Financial Inclusion

Financial Inclusion is achieved when adults have easy access to a broad range of financial products designed according to their needs and provided at affordable costs. Promoting financial inclusion is essential to building a sustainable, vibrant and robust financial system. Financial literacy on the other hand is a state that is achieved when all economic agents or bankable public know, understand and develop the ability to evaluate and assess financial products and services or transact in financial markets.

Zenith as a key stakeholder in the Nigerian financial services landscape supports efforts to promote financial inclusion and literacy and views same as a responsibility it owes the un-banked public. We take steps to reduce the preponderance of adults without access to suitable financial products and explore opportunities to promote financial literacy. Some of our initiatives in this area include the introduction of eaZymoney the bank's flagship mobile banking product with agency partners in remote areas of the country. The group is also establishing a public enlightenment group to deliver financial literacy content at regular customer forums *(f) Occupational Health & Safety*

The health and safety of employees, customers and other stakeholders is of paramount importance to the group. The group constantly seek to identify and reduce the potential for accidents or injuries in all its operations. There is ongoing training of health and safety officers in line with the group's health and safety policy. There is also adequate communication of the health and safety policies across the group to ensure staff are conversant with its content.

(g) Supply Chain Management

The group will continue to work in active partnership with its suppliers to help them manage their own social and environmental risks, particularly those firms who have more significant impacts than it does and those in countries, where the regulatory framework is sometimes not as stringent as our standards. The group is also committed to treating its suppliers with respect, especially in areas such as contract terms and conditions and payment terms.

(h) Active Engagements

The Group worked with a number of banks, organisations and multilateral institutions to help raise awareness of environmental and social issues and contribute to the wider public debate. For example, during 2012, the bank worked with International Finance Corporation (IFC), The Bankers Committee, United Nations Environment Programme Finance Initiative (UNEP FI) on sustainability to develop cross-industry capacity.

The group is a member of UNEP FI and continues to foster other partnership arrangements. It also took an active part in the development of 'Nigeria Sustainable Principles' in collaboration with other financial institutions.

The group believes that social and environmental issues will continue to grow in importance in 2013. And Zenith aims to develop a greater understanding of the risks associated with these issues, and the effect they will have on its clients, through investigation and research and, where appropriate, through engagement with relevant industry and regulatory bodies

4. Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recognised, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The specific component of total allowance for impairment applies to credits evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgment about a customer's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimates of cash flows considered recoverable are independently reviewed and approved.

Collectively assessed impairment allowances cover credit losses inherent in portfolios with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot be identified. In assessing the need for collective loan assessment, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In estimating the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameter, based on historical experience and current economic conditions. The accuracy of allowance depends on how well future cash flows and the model assumptions and parameters are estimated.

4.2 Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market prices requires the use valuation techniques as described in note 3.3.6(c). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

i) Level 1 : Quoted market price(unadjusted) in an active market for an identical instrument.

ii) Level 2 : Valuation techniques based on observable inputs, either directly - i.e , as prices - or indirectly - i.e derived from prices. This category includes instruments valued using : quoted market prices in active markets for similar instruments ; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data

iii) Level 3 : Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instrument that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are requried to reflect differences between the instruments.

4.3 Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the groupwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4.4 Determining the value of liabilities under insurance contracts

4.4.1 Mortality

The Group's life assurance business is very small and therefore the Group does not have sufficient credible data to set its own mortality assumptions based on the mortality experience of its policyholders. Zenith relies on an independent actuary to set the mortality assumptions based on standard mortality tables, with appropriate adjustments.

4.4.2 Expenses

(a) Group life, term-assurance and mortgage protection products
The Group makes an explicit allowance for expenses of 40% of the gross premiums received, consistent with past experience.

(b) Deposit administration, Savings plan
No explicit assumption has been set to the level of the expenses. It has been assumed that the interest margin (excess of interest earned over interest paid on life funds) will be sufficient to cover future expenses that will be incurred.

(c) Non-life insurance
Annual expense investigations are carried out on non-life insurance policies. Further expense analyses are performed to split expenses between different lines of business, e.g. motor vehicle, aviation and marine insurance, as well as different functions, e.g. initial, renewal and management, termination as well as investment expenses. The expense assumptions for non-life insurance products are then set in-line with this expense investigation, with an additional allowance for inflation.

4.4.3 Prudential Adjustments

Provisions under prudential guidelines are determined using the time based provisioning prescribed by the Revised Central Bank of Nigeria (CBN) Prudential Guidelines. This is at variance with the incurred loss model required by IFRS under IAS 39. As a result of the differences in the methodology/provision, there will be variances in the impairments allowances required under the two methodologies.

Paragraph 12.4 of the revised Prudential Guidelines for Deposit Money Banks in Nigeria stipulates that Banks would be required to make provisions for loans as prescribed in the relevant IFRS Standards when IFRS is adopted. However, Banks would be required to comply with the following:

(a) Provisions for loans recognised in the profit and loss account should be determined based on the requirements of IFRS. However, the IFRS provision should be compared with provisions determined under prudential guidelines and the expected impact/changes in general reserves should be treated as follows:

- Prudential Provisions is greater than IFRS provisions; the excess provision resulting should be transferred from the general reserve account to a "regulatory risk reserve".

- Prudential Provisions is less than IFRS provisions; IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve account

(b) The non-distributable reserve should be classified under Tier 1 as part of the core capital.

During the year ended 31 December 2011, the Bank transferred an amount of N10,243 million to the Credit risk reserve. This amount represents the difference between the provisions for credit and other known losses as determined under the prudential guideline issued by the Central Bank of Nigeria (CBN), and the impairment reserve as determined in line with IAS 39 as at the year then ended.

In line with the same directive of the CBN, the Bank has maintained this credit risk reserve as at 31 December 2012, by comparing the provision and impairment as determined under both bases. A reconciliation of this amount is provided below:

		N'million	N'million
Provision for loan losses per prudential guidelines			
Loans and advances			15,768
Other financial assets			11,220
			26,988
Impairment assessment under IFRS			
Loans and advances			
Specific allowance for impairment	19(b)	8,368	
Collective allowance for impairment	19(b)	13,069	
		21,437	
Other financial assets			
Specific allowance for impairment on associated companies	22	851	
Specific allowance for impairment on other assets	24	4,637	
			26,925
Required credit reserve as at year end			63

Although the expected closing credit risk reserve balance (as per the reconciliation above) is **N 63 million**, the credit risk reserve was left unchanged at **N10,243 million** because the Bank's directors are of the opinon that it is more prudent to maintain the credit risk reserve at the balance as at 31 December 2011.

5. Segment analysis

The Group's strategic divisions offer different products and services, and are managed seperately based on the Group's management and internal reporting structure. For each of the strategic divisions, the Group's Executive Management (Chief Operating Decision Maker) reviews internal management reports on a monthly basis.

The Group's operations are primarily organised on the basis of its products and service offerings in Nigeria, while the banking operations outside Nigeria are reported seperately for Africa and Europe. The following summary describes each of the Group's reportable segments:

(i) Corporate, Retail Banking and pension custodial services - Nigeria

This segment provides a broad range of banking and pension custodial services to a diverse group of corporations, financial institutions, investment funds, governments and individuals.

(ii) Treasury and Investment Management - Nigeria

Provision of investment advisory, financial planning services and investment product offerings (primarily through separately managed accounts such as mutual funds and private investment funds) to a diverse group of institutions and individuals. It also includes brokerage services, financing services and securities lending services to institutional clients, including mutual funds, pension funds and to high-net-worth individuals.

(iii) Insurance - Nigeria

The Group’s insurance operations in Nigeria write substantially all lines of insurance other than title insurance while its life and health insurance operations offer a broad line of individual and group life, annuity and accident and health policies.

(iv) Outside Nigeria Banking - Africa and Europe

These segments provide a broad range of banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals outside Nigeria. The reportable segments covers banking operations in other parts of Africa (Ghana, Sierra Leone and The Gambia) and Europe (the United Kingdom).

(v) All other segments

These segments provide share registration and funds trusteeship services in Nigeria. None of these individual activities or services constitutes a separate reportable segment.

Transactions between the business segments are on normal commercial terms and conditions.

	Nigeria			Outside Nigeria Banking					
In millions of Naira	Corporate, Retail Banking and Pension custodial services (Continuing operations)	Treasury and Investment Banking (Discontinued operations)	Insurance (Discontinued operations)	Africa (Continuing operations)	Europe (Continuing operations)	Total reportable segments	all other segments (Discontinued operations)	Eliminations	Consolidated
31 December 2012									
Revenue:									
Derived from external customers	281,301	737	7,031	13,591	3,890	306,550	532	-	307,082
Derived from other business segments	1,031	686	1,690	-	1,391	4,798	197	(4,995)	-
Total revenue*	282,332	1,423	8,721	13,591	5,281	311,348	729	(4,995)	307,082
Share of profit of associates	-	-	-	-	-	-	-	23	23
Interest expense	(65,352)	-	-	(2,341)	(1,861)	(69,554)	-	4,993	(64,561)
Impairment charge for credit losses	(7,999)	-	(346)	(1,100)	-	(9,445)	-	-	(9,445)
Operating and underwriting expenses	(116,359)	(1,073)	(5,665)	(5,564)	(1,880)	(130,541)	(460)	2	(130,999)
Profit before tax	92,622	350	2,710	4,586	1,540	101,808	269	23	102,100
Tax (expense) / write-back	828	(216)	(741)	(874)	(416)	(1,419)	-	-	(1,419)
	93,450	134	1,969	3,712	1,124	100,389	269	23	100,681
Capital expenditure**	11,785	7	100	644	607	13,143	-	-	13,143
Identifiable assets	2,445,596	10,315	21,015	89,112	155,336	2,721,374	2,427	(119,297)	2,604,504
Identifiable liabilities	2,000,083	2,870	6,516	73,836	138,772	2,222,077	2,240	(82,769)	2,141,548

** Revenues are allocated based on the location of the operations.*
*** Capital expenditure consists of expenditure on intangible assets, property and equipment, and investment property during the year.*

In millions of Naira	Nigeria			Outside Nigeria Banking		Total			
	Corporate, Retail Banking and Pension custodial services (Continuing operations)	**Treasury and Investment Banking (Discontinued operations)**	**Insurance (Discontinued operations)**	**Africa (Continuing operations)**	**Europe (Continuing operations)**	**Total reportable segments**	**all other segments (Discontinued operations)**	**Eliminations**	**Consolidated**
31 December 2011									
Revenue:									
Derived from external customers	217,273	765	8,806	13,306	3,352	243,502	446	-	243,948
Derived from other business segments	432	445	838	-	574	2,289	1,272	(3,561)	-
Total revenue*	217,705	1,210	9,644	13,306	3,926	245,791	1,718	(3,561)	243,948
Share of profit of associates								45	45
Interest expense	(33,407)	-	-	(4,163)	(895)	(38,465)	-	3,559	(34,906)
Impairment charge for credit losses	(15,885)	(11)	(883)	(148)	(464)	(17,391)	-	-	(17,391)
Operating and underwriting expenses	(108,889)	(348)	(6,934)	(6,318)	(1,742)	(124,231)	(27)	2	(124,256)
Profit before tax	59,524	851	1,827	2,677	825	65,704	1,691	45	67,440
Tax expense	(16,410)	(322)	(719)	(626)	(224)	(18,301)	(435)	-	(18,736)
	43,114	529	1,108	2,051	601	47,403	1,256	45	48,704
Capital expenditure**	14,671	-	28	621	75	15,395	148	-	15,543
Identifiable assets	2,175,586	9,197	17,809	75,849	123,196	2,401,637	27,190	(102,132)	2,326,695
Identifiable liabilities	1,797,975	2,088	5,693	62,417	112,667	1,980,840	21,821	(70,234)	1,932,427

** Revenues are allocated based on the location of the operations.*
*** Capital expenditure consists of expenditure on intangible assets, property and equipment, and investment property during the year.*

Notes to the Financial Statements
For The Year Ended 31 December 2012

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
6 Interest and similar income				
Inter-bank placements	5,031	10,276	6,170	10,631
Treasury bills	74,364	39,590	71,011	38,297
Government and other bonds	27,274	20,040	25,183	17,440
Loans and advances to customers	114,649	93,286	110,866	89,503
	221,318	163,192	213,230	155,871
7 Interest and similar expense				
Current accounts	3,828	2,383	3,761	2,194
Savings accounts	1,507	1,334	1,459	1,253
Time deposits	57,998	30,198	59,408	29,146
Inter-bank takings	504	177	-	-
Borrowed funds	724	814	724	814
	64,561	34,906	65,352	33,407

8 Impairment charge for credit losses

The net impairment charge for credit losses comprises:

	Group 2012	Group 2011	Bank 2012	Bank 2011
Overdrafts (See Note 19)	8,172	16,472	5,053	16,914
Term loans(See Note 19)	369	295	2,387	(761)
On-lending facilities (See Note 19)	525	193	525	193
Advances under finance lease (See Note 19)	33	(357)	33	(357)
Other assets	-	(89)	-	(89)
	9,099	16,514	7,998	15,900

9 Fee and commission income

	Group 2012	Group 2011	Bank 2012	Bank 2011
Credit related fees	9,892	8,189	7,862	6,077
Commission on turnover	27,938	24,009	27,185	23,366
Fees on electronic products	3,637	3,293	3,566	3,256
Foreign currency transaction fees and commissions	1,092	1,269	1,031	1,223
Other fees and commissions	7,921	5,437	4,567	2,668
	50,480	42,197	44,211	36,590

10 Net gains on financial instruments measured at fair value through profit or loss

	Group 2012	Group 2011	Bank 2012	Bank 2011
Foreign exchange trading income	18,186	18,033	15,707	15,257
Treasury bill trading income	415	286	415	286
Bond trading income	411	205	79	171
	19,012	18,524	16,201	15,714

Foreign exchange trading income is principally made up of trading income on foreign currencies, as well as gains and losses from translated foreign currency assets and liabilities.

Notes to the Financial Statements
For The Year Ended 31 December 2012

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
11 Other income				
Dividend income from equity investments	110	240	694	249
Gain on disposal of property and equipment	10	58	9	51
Gain on disposal of investment property(Note 26)	150	-	150	-
Gain on disposal of subsidiary(Note 25)	32	-	3,811	-
Gain on the disposal of loans	-	5,290	-	5,290
Income on cash handling	602	557	602	557
Rental income	134	658	134	658
	1,038	6,803	5,400	6,805

In 2011, the Group recorded a gain of N5.29 billion which represents the excess of the carrying amount of the Bonds issued by Assets Management Corporation of Nigeria (AMCON) over the net realisable value of loans sold by the Bank to it. In 2012, however, the Bank did not dispose of any loans to AMCON and hence, no gain or loss was recognised.

	Group 2012	Group 2011	Bank 2012	Bank 2011
12 Operating expenses				
Staff costs (Note 37)	47,200	47,387	44,565	44,604
Depreciation of property and equipment (Note 27)	10,307	12,175	9,500	11,229
Auditors' remuneration	320	254	250	212
Directors' emoluments (Note 37(b))	726	742	281	374
Deposit insurance premium	7,588	6,130	7,588	6,130
Professional fees	1,419	864	1,256	700
Training and development	849	755	782	685
Information technology	1,770	4,082	1,728	1,677
Operating leases	2,200	2,154	1,579	1,534
Advertisement	6,709	4,002	6,557	3,605
Bank charges	833	780	783	716
Fuel and maintenance	8,476	9,943	7,454	9,695
Insurances	1,590	1,284	1,544	1,231
Licenses, registrations and subscriptions	2,039	1,829	1,939	1,651
Travel and hotel expenses	1,021	1,807	681	1,701
Printing and stationery	1,268	1,167	1,073	921
Security and cash handling	9,374	11,591	9,221	11,444
Expenses on electronic products	1,242	928	1,216	913
Others	13,629	8,044	13,023	9,209
	118,560	115,918	111,020	108,231

	Group 2012	Group 2011	Bank 2012	Bank 2011
13 Income tax expense				
Corporate tax	2,648	12,003	-	10,275
Minimum tax	2,469	-	2,469	-
Information technology tax	940	506	940	506
Education tax	-	1,152	-	1,153
Current income tax - current period	6,057	13,661	3,409	11,934
Current income taxes referring to previous periods	-	3,257	-	3,257
	6,057	16,918	3,409	15,191
Origination and reversal of temporary deferred tax differences (Note 23)	(5,595)	343	(5,164)	652
Income tax expense from continuing operations	462	17,261	(1,755)	15,843
Income tax expense from discontinued operations	957	1,475	-	-
Total Income tax expense	1,419	18,736	(1,755)	15,843

The movement in the current income tax payable balance is as follows:

	Group 2012	Group 2011	Bank 2012	Bank 2011
At start of the year	13,348	3,735	11,934	1,010
Classified as held for sale	-	(1,946)	-	-
Tax paid(continuing operations)	(12,799)	(5,355)	(10,272)	(4,266)
Tax effect of translation	(29)	(4)	-	-
Prior period under provision	-	3,257	-	3,257
Income tax charge	6,057	13,661	3,409	11,933
At end of the year	6,577	13,348	5,071	11,934

The bank was assessed based on the minimum tax legislation for the year ended 31 December 2012 because of a tax exemption granted via Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order, 2011 as contained in a gazette issued by the President of the Federal Republic of Nigeria, which took effect from 2 January 2012.

The Order exempts all interests earned on Bonds (Federal, state, local and corporate bodies including supra-nationals) and other short term securities such as Treasury Bills and Promissory Notes from being subjected to tax imposed under the Companies Income Tax Act. The Order is valid for a period of 10 years from the effective date of the Order, except for Bonds issued by the Federal Government, which will continue to enjoy the exemption.

A significant portion of the Bank's income derives from short-term securities and government bonds, and as a result, the Bank's current income tax assessment for the year under review yields a tax credit in its favour. Consequently, the Bank has applied the provisions of the Companies Income Tax Act that mandate a minimum tax assessment, where a tax payer does not have any tax liability arising from its tax assessment.

Notes To The Financial Statements
For The Year Ended 31 December 2012

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
Reconciliation of effective tax rate				
Profit before income tax	102,100	67,440	94,048	57,144
Tax calculated at the weighted average Group rate of 30% (2011: 30%)	30,630	20,232	28,214	17,143
Effect of tax rates in foreign jurisdictions	(29)	720	-	-
Non-deductible expenses	8,854	11,691	6,632	11,482
Tax exempt income	(37,754)	(18,130)	(36,319)	(17,039)
Information technology tax levy	(282)	(152)	(282)	(152)
Education tax levy	-	1,152	-	1,152
Prior period under provision	-	3,257	-	3,257
Tax loss effect	-	(34)	-	-
Income tax expense	1,419	18,736	(1,755)	15,843
Tax rate reconciliation	%	%	%	%
Tax charge as a percentage of profit before tax	1.4	27.8	(1.9)	27.7
Effect of tax rates in foreign jurisdictions	-	(1.1)	-	-
Permanent differences	28.3	9.5	31.6	9.7
Information technology tax levy	0.3	0.2	0.3	0.3
Education tax levy	-	(1.7)	-	(2.0)
Tax relating to prior period	-	(4.8)	-	(5.7)
Tax loss effect	-	0.1	-	-
Standard rate of Nigerian tax	30	30	30	30

14 Profit for the year from discontinued operations

	Group 2012	Group 2011
Interest and similar income	3,066	2,805
Interest and similar expense	-	-
Net interest income	3,066	2,805
Impairment charge for credit losses	(346)	(877)
Net interest income after impairment charge for credit losses	2,720	1,928
Fee and commission income	810	931
Underwriting profit	3,934	3,563
Gross premium income	9,730	7,907
Reinsurances/ coinsurances	(2,964)	(2,357)
Net premiums underwritten	6,766	5,550
Commission earned	434	659
Claims recovered	1,185	898
Claim expenses	(3,426)	(2,718)
Acquisition costs	(1,025)	(861)
Transfer to/ (from) profit and loss	-	35
Other income	9	32
Operating expenses	(3,965)	(2,127)
Profit before tax on discontinued operations	3,508	4,327
Taxation	(957)	(1,475)
Profit after tax on discontinued operations	2,551	2,852
Basic earnings per share (discontinued operations)	8 k	9 k

In 2011, the group committed to a plan to sell all its non-banking subsidiaries with the exception of Zenith Pension Custodian Limited. This is in response to the Banking Reforms of the Central Bank of Nigeria which abolished the Universal Banking Regime in Nigeria. The subsidiaries to be disposed have been presented as discontinued operations in this financial statement. The related assets and liabilities of the discontinued operations have been classified as held for sale and are disclosed in notes 25 and 33 respectively.

Notes To The Financial Statements
For The Year Ended 31 December 2012

15 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. Where a stock split or bonus share issue has occurred, the number of shares in issue in the prior year is adjusted to achieve comparability.

	Group 2012	Group 2011	Bank 2012	Bank 2011
Profit attributable to shareholders of the Bank (total operations) (**N'million**)	100,147	48,423	95,803	41,301
Profit attributable to shareholders of the Bank (continuing operations) (**N'million**)	98,044	45,780	95,803	41,301
Number of shares in issue at end of the period (**millions**)	31,396	31,396	31,396	31,396
Weighted average number of ordinary shares in issue (**millions**)	31,396	31,396	31,396	31,396
Basic earnings per share (total operations)	319 k	154 k	305 k	132 k
Basic earnings per share (continuing operations)	312 k	146 k	305 k	132 k

16 Cash and balances with central banks

	Group 2012	Group 2011	Bank 2012	Bank 2011
Cash	42,123	39,913	37,832	36,714
Operating accounts with Central Banks	110,256	76,666	96,097	67,848
Mandatory reserve deposits with central banks (cash reserve)	180,136	106,608	179,617	106,536
	332,515	223,187	313,546	211,098

Mandatory reserve deposits with central banks represents a percentage of customers' deposits (prescribed from time to time by the central bank) which are not available for daily use. For the purposes of the Statement of cashflow, this balance is excluded from cash and cash equivalents.

17 Treasury bills

	Group 2012	Group 2011	Bank 2012	Bank 2011
Treasury bills (Amortized cost)	669,164	510,738	647,474	494,253

Included in treasury bills is N6.92 billion (2011: N6.93 billion) worth of treasury bills pledged as collateral to Nigeria Interbank Settlement System (NIBBS) , Federal Inland Revenue Services, V-Pay, E-Tranzact International Limited and Interswitch.

The following treasury bills have maturities less than three months and are classified as cash and cash equivalents for purposes of the statements of cash flows (Note 41).	280,418	174,516	275,680	170,053

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
18 Due from other banks				
a. Current balances with banks within Nigeria	8,358	5,309	-	-
Current balances with banks outside Nigeria (see Note (b))	131,310	145,294	191,432	196,993
Placements with banks and discount houses	42,352	83,918	12,359	49,371
	182,020	234,521	203,791	246,364

b. Included in balances with banks outside Nigeria is the amount of **N38.45 billion** and **N38.44 billion** for the Group and Bank respectively (**2011: N44.21 billion** for both Group and Bank) which represents the Naira value of foreign currency balances held on behalf of customers in respect of letters of credit. The corresponding liabilities are included in other liabilities (See Note 30). These balances are not available for the day to day operations of the Group.

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
19 Loans and advances to customers				
Overdrafts	270,672	273,788	252,107	259,950
Term loans	672,931	595,005	594,095	540,037
On-lending facilities	54,149	44,525	54,149	44,525
Advances under finance lease	16,774	7,303	16,440	6,405
Gross loans and advances to customers	1,014,526	920,621	916,791	850,917
Less: Allowances for impairment	(24,712)	(26,787)	(21,437)	(23,882)
Specific allowances for impairment	(10,601)	(12,408)	(8,368)	(10,168)
Collective allowance for impairment	(14,111)	(14,379)	(13,069)	(13,714)
Net loans and advances to customers	989,814	893,834	895,354	827,035
Overdrafts				
Gross overdrafts	270,672	273,788	252,107	259,950
Less: Allowances for impairment	(17,896)	(17,318)	(14,777)	(17,318)
Specific allowances for impairment	(9,713)	(8,721)	(7,634)	(8,721)
Collective allowance for impairment	(8,183)	(8,597)	(7,143)	(8,597)
Net overdrafts	252,776	256,470	237,330	242,632
Term loans				
Gross term loans	672,931	595,005	594,095	540,037
Less: Allowances for impairment	(5,875)	(9,071)	(5,719)	(6,166)
Specific allowances for impairment	(888)	(3,687)	(734)	(1,447)
Collective allowance for impairment	(4,987)	(5,384)	(4,985)	(4,719)
Net term loans	667,056	585,934	588,376	533,871
On- lending facilities				
Carrying amount	54,149	44,525	54,149	44,525
Less: Collective allowance for impairment	(857)	(332)	(857)	(332)
Net on-lending facilities	53,292	44,193	53,292	44,193
Advances under finance lease				
Carrying amount	16,774	7,303	16,440	6,405
Less: Collective allowance for impairment	(84)	(66)	(84)	(66)
Net advance under finance lease	16,690	7,237	16,356	6,339

Reconciliation of impairment allowance on loans and advances to customers:

Group

In millions of Naira	Overdrafts	Term loans	On-lending facilities	Advances under finance lease	Total
Balance at 1 January 2012	**17,318**	**9,071**	**332**	**66**	**26,787**
Specific impairment	8,721	3,687	-	-	12,408
Collective impairment	8,597	5,384	332	66	14,379
Additional impairment charge for the year	**8,172**	**369**	**525**	**33**	**9,099**
Specific impairment	8,586	766	-	15	9,367
Collective impairment	(414)	(397)	525	18	(268)
Foreign currency translation and other adjustments	-	(664)	-	-	(664)
Write-offs	(7,594)	(2,901)	-	(15)	**(10,510)**
Balance at 31 December 2012	**17,896**	**5,875**	**857**	**84**	**24,712**
Specific impairment	9,713	888	-	-	10,601
Collective impairment	8,183	4,987	857	84	14,111
Balance at 1 December 2011	**17,719**	**9,279**	**139**	**423**	**27,560**
Specific impairment	3,352	3,883	-	-	7,235
Collective impairment	14,367	5,396	139	423	20,325
Additional impairment charge for the year	16,472	295	193	(357)	16,603
Specific impairment	22,242	307	-	-	22,549
Collective impairment	(5,770)	(12)	193	(357)	(5,946)
Impairment no longer required	(6,098)	-	-	-	(6,098)
Foreign currency translation and other adjustments	-	(503)	-	-	(503)
Write-offs	(10,775)	-	-	-	(10,775)
Balance at 31 December 2011	**17,318**	**9,071**	**332**	**66**	**26,787**
Specific impairment	8,721	3,687	-	-	12,408
Collective impairment	8,597	5,384	332	66	14,379

Notes To The Financial Statements
For The Year Ended 31 December 2012

In millions of Naira

Reconciliation of impairment allowance on loans and advances to customers:
Bank

	Overdrafts	Term loans	On-lending facilities	Advances under finance lease	Total
Balance at 1 January 2012	**17,318**	**6,166**	**332**	**66**	**23,882**
Specific impairment	8,721	1,447	-	-	10,168
Collective impairment	8,597	4,719	332	66	13,714
Additional impairment charge for the year	**5,053**	**2,387**	**525**	**33**	**7,998**
Specific impairment	6,507	2,121	-	15	8,643
Collective impairment	(1,454)	266	525	18	(645)
Write-offs	(7,594)	(2,834)	-	(15)	(10,443)
Balance at 31 December 2012	**14,777**	**5,719**	**857**	**84**	**21,437**
Specific impairment	7,634	734	-	-	8,368
Collective impairment	7,143	4,985	857	84	13,069
Balance at 1 December 2011	**17,277**	**6,927**	**139**	**423**	**24,766**
Specific impairment	2,904	3,640	-	-	6,544
Collective impairment	14,373	3,287	139	423	18,222
Additional impairment charge for the year	**16,914**	**(761)**	**193**	**(357)**	**15,989**
Specific impairment	22,690	(2,193)	-	-	20,497
Collective impairment	(5,776)	1,432	193	(357)	(4,508)
Amounts recovered during the year	-	-	-	-	-
impairment no longer required	(6,098)	-	-	-	(6,098)
Write-offs	(10,775)	-	-	-	(10,775)
Balance at 31 December 2011	**17,318**	**6,166**	**332**	**66**	**23,882**
Specific impairment	8,721	1,447	-	-	10,168
Collective impairment	8,597	4,719	332	66	13,714

Notes To The Financial Statements
For The Year Ended 31 December 2012

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
Advances under finance lease				
Gross investment	23,342	8,796	22,478	7,774
Less: Unearned income	(6,568)	(1,493)	(6,038)	(1,369)
Net Investment	16,774	7,303	16,440	6,405
The net investment is analysed as follows:				
No later than 1 year	281	376	281	376
Later than 1 year and no later than 5 years	16,493	6,927	16,159	6,029
	16,774	7,303	16,440	6,405

The nature of security in respect of loans and advances is as follows:

	Group 2012	Group 2011	Bank 2012	Bank 2011
Secured against real estate	164,620	141,377	140,789	130,673
Secured by shares of quoted companies	11,217	8,702	8,666	8,043
Cash collateral, lien over fixed and floating assets,e.t.c	788,155	731,250	728,208	675,884
Unsecured	50,534	39,292	39,128	36,317
	1,014,526	920,621	916,791	850,917

Reconciliation of gross investment to minimum lease rental payments

	Group 2012	Group 2011	Bank 2012	Bank 2011
Gross investment	23,342	8,796	22,478	7,774
Less: Unearned income	(6,568)	(1,493)	(6,038)	(1,369)
Net Investment	16,774	7,303	16,440	6,405
Impaiment on leases	84	66	84	66
Present value of minimum lease payments	16,690	7,237	16,356	6,339

20 Investment securities

(a) Analysis of investments

	Group 2012	Group 2011	Bank 2012	Bank 2011
Debt securities (measured at amortised cost)	289,938	298,841	247,500	257,660
Equity securities (measured at fair value through other comprehensive income)	9,405	9,390	9,405	9,390
	299,343	308,231	256,905	267,050

(b) Equity securities measured at fair value through other comprehensive income

	Group 2012	Group 2011	Bank 2012	Bank 2011
Quoted securities	-	-	-	-
Unquoted securities	9,405	9,390	9,405	9,390
	9,405	9,390	9,405	9,390

The Group has elected to present the fair value gains and losses on the above equity instruments in other comprehensive income as these investments are not held for trading purposes but rather for strategic purposes.

In millions of Naira

The movement in investment securities may be summarised as follows:

Group

	Debt securities at fair value through profit and loss	Debt securities at amortised cost	Equity securities at fair value through other comprehensive income	Total
At 1 January 2012	**-**	**298,841**	**9,390**	**308,231**
Exchange differences	**-**	**(274)**	**-**	**(274)**
Additions	**220,000**	**61,479**	**-**	**281,479**
Disposals (sale and redemption)	**(220,411)**	**(69,000)**	**-**	**(289,411)**
Gains from changes in fair value recognised in profit or loss (Note10)	**411**	**-**	**-**	**411**
Gains from changes in fair value recognised in other comprehensive income	**-**	**-**	**15**	**15**
Interest accrued	**65**	**27,274**	**-**	**27,339**
Coupon received	**(65)**	**(28,382)**	**-**	**(28,447)**
		-		
At 31 December 2012	**-**	**289,938**	**9,405**	**299,343**
At 1 January 2011	587	199,058	12,159	211,804
Exchange differences on monetary assets	-	69	-	69
Additions	463,094	202,337	-	665,431
Disposals (sale and redemption)	(463,886)	(102,623)	(2,769)	(569,278)
Gains from changes in fair value recognised in profit or loss (Note10)	205	-	-	205
Gains from changes in fair value recognised in other comprehensive income	-	-	-	-
At 31 December 2011	**-**	**298,841**	**9,390**	**308,231**

Notes To The Financial Statements
For The Year Ended 31 December 2012

In millions of Naira

The movement in investment securities may be summarised as follows:
Bank

	Debt securities at fair value through profit and loss	Debt securities at amortised cost	Equity securities at fair value through other comprehensive income	Total
At 1 January 2012	**-**	**257,660**	**9,390**	**267,050**
Exchange differences	**-**	**-**	**-**	**-**
Additions	**220,000**	**33,688**	**-**	**253,688**
Disposals (sale and redemption)	**(220,079)**	**(44,118)**	**-**	**(264,197)**
Gains from changes in fair value recognised in profit or loss (Note10)	**79**	**-**	**-**	**79**
Gains from changes in fair value recognised in other comprehensive income	**-**	**-**	**15**	**15**
Interest accrued	**65**	**26,521**	**-**	**26,586**
Coupon received	**(65)**	**(26,251)**	**-**	**(26,316)**
At 31 December 2012	**-**	**247,500**	**9,405**	**256,905**
At 1 January 2011	587	162,908	8,685	172,180
Exchange differences on monetary assets	-	-	-	-
Additions	462,923	197,369	-	660,292
Disposals (sale and redemption)	(463,681)	(102,617)	-	(566,298)
Gains from changes in fair value recognised in profit or loss (Note10)	171	-	-	171
Gains from changes in fair value recognised in other comprehensive income	-	-	705	705
At 31 December 2011	-	257,660	9,390	267,050

21	**Investment in subsidiaries**	**Ownership interest %**	**Group 2012**	Group 2011	**Bank 2012**	Bank 2011
a.	Zenith Pensions Custodian Limited	99.0000%	**-**	**-**	**1,980**	1,980
	Zenith Bank (Ghana) Limited	98.0722%	**-**	**-**	**6,444**	6,444
	Zenith Bank (UK) Limited	100.0000%	**-**	**-**	**13,307**	8,527
	Zenith Bank (Sierra Leone) Limited	99.9928%	**-**	**-**	**1,606**	1,356
	Zenith Bank (Gambia) Limited	99.9624%	**-**	**-**	**1,038**	1,038
			-	**-**	**24,375**	19,345

Notes to the Financial Statements
For The Year Ended 31 December 2012

b. Condensed results of consolidated entities from continuing operations

In millions of Naira

December 2012

Condensed statement of profit or loss	Zenith Group	Elimination entries	Zenith Bank PLC	Zenith Bank (Ghana) Limited	Zenith Bank (UK) Limited	Zenith Bank (Sierra Leone) Limited	Zenith Bank (Gambia) Limited	Zenith Pensions Custodian Limited
Operating income	227,255	(4,995)	209,295	9,873	3,420	742	637	3,288
Share of profit of associate	23	-	-	-	-	-	-	-
Profit on disposal of subsidiary	32	-	3,811	-	-	-	-	-
Dividend from subsidiary	-	-	584	-	-	-	-	-
Operating expenses	(119,619)	4,995	(111,644)	(4,636)	(1,880)	(609)	(388)	(462)
Provision expense	(9,099)	-	(7,998)	(1,011)	-	(84)	(6)	-
Profit before tax	98,592	-	94,048	4,226	1,540	49	243	2,826
Tax	(462)	-	1,755	(821)	(416)	(10)	(43)	(927)
Profit for the year	98,130	-	95,803	3,405	1,124	39	200	1,899
Condensed statement of financial position								
Assets								
Cash and balances with central banks	332,515	(5,726)	313,546	14,353	9,930	28	384	-
Treasury bills	669,164	-	647,474	17,504	216	2,096	1,874	-
Due from other banks	182,020	(76,990)	203,791	17,427	26,495	1,724	1,212	8,361
Loans and advances to customers	989,814	(86)	895,354	28,679	64,793	582	492	-
Investment securities	299,343	-	256,905	-	42,438	-	-	-
Investment in subsidiaries and associates	420	(24,418)	24,838	-	-	-	-	-
Deferred tax asset	432	-	-	408	24	-	-	-
Other assets	28,665	(9)	16,814	300	11,106	50	85	319
Assets classified as held for sale	31,943	21,605	10,338	-	-	-	-	-
Property and equipment	68,782	2	66,651	1,199	201	383	248	98
Intangible assets	1,406	-	1,175	-	133	13	71	14
	2,604,504	(85,622)	2,436,886	79,870	155,336	4,876	4,366	8,792
Liabilities & Equity								
Customer deposits	1,929,244	(14,836)	1,802,008	65,193	70,352	3,723	2,804	-
Current income tax	6,577	-	5,071	326	-	-	27	1,153
Deferred income tax liabilities	5,584	-	5,573	-	-	-	-	11
Other liabilities	117,355	(67,932)	115,027	1,016	68,420	242	505	77
On-lending facilities	56,066	-	56,066	-	-	-	-	-
Borrowings	15,138	-	15,138	-	-	-	-	-
Liabilities classified as held for sale	11,584	11,584	-	-	-	-	-	-
Equity and reserves	462,956	(14,438)	438,003	13,335	16,564	911	1,030	7,551
	2,604,504	(85,622)	2,436,886	79,870	155,336	4,876	4,366	8,792
Condensed cash flow								
Net cash from operating activities	103,640	(46,869)	125,276	12,057	8,219	1,721	700	2,536
Net cash from financing activities	(29,063)	(251)	(29,063)	-	-	251	-	-
Net cash from investing activities	(948)	4,305	(3,792)	44	(2,216)	97	93	521
Increase in cash and cash equivalents	73,629	(42,815)	92,421	12,101	6,003	2,069	793	3,057
Cash and cash equivalents								
At start of year	525,616	(42,431)	520,979	33,165	4,143	1,779	2,677	5,304
Cash and cash equivalents from discontinued operations	18,708	18,708	-	-	-	-	-	-
Exchange rate movements on cash and cash equivalents	(3,136)	(3,136)	-	-	-	-	-	-
At end of year	614,817	(69,674)	613,400	45,266	10,146	3,848	3,470	8,361
	73,629	(42,815)	92,421	12,101	6,003	2,069	793	3,057

Notes to the Financial Statements
For The Year Ended 31 December 2012

Condensed results of consolidated entities from continuing operations (contd.)

In millions of Naira

December 2011

Condensed statement of profit or loss	Zenith Group	Elimination entries	Zenith Bank PLC	Zenith Bank (Ghana) Limited	Zenith Bank (UK) Limited	Zenith Bank (Sierra Leone) Limited	Zenith Bank (Gambia) Limited	Zenith Pensions Custodian Limited
Operating income	195,855	(3,561)	181,573	8,302	3,030	495	266	2,189
Operating expenses	(116,228)	3,561	(108,529)	(4,512)	(1,742)	(798)	(253)	(394)
Provision expense	(16,514)	-	(15,900)	(118)	(464)	(28)	(4)	-
Profit before tax	63,113	-	57,144	3,672	824	(331)	9	1,795
Tax	(17,261)	-	(15,843)	(623)	(224)	3	(6)	(568)
Profit for the year	45,852	-	41,301	3,049	600	(328)	3	1,227
Condensed statement of financial position								
Cash and balances with central banks	223,187	3,198	211,098	8,502	-	80	309	-
Treasury bills	510,738	-	494,253	13,512	-	1,062	1,911	-
Due from other banks	234,521	(71,971)	246,364	21,970	31,699	639	513	5,307
Loans and advances to customers	893,834	-	827,035	20,722	45,371	449	257	-
Investment securities	308,231	-	267,050	-	40,222	-	-	959
Investment in subsidiaries and associates	1,756	(17,431)	19,187	-	-	-	-	-
Deferred tax asset	186	-	-	34	152	-	-	-
Other assets	25,510	(1,460)	17,616	3,553	5,419	68	117	197
Assets classified as held for sale	52,482	39,664	12,818	-	-	-	-	-
Investment property	7,114	-	7,114	-	-	-	-	-
Property and equipment	68,366	-	65,877	1,245	334	479	318	113
Intangible assets	770	-	661	-	-	15	94	-
	2,326,695	(48,000)	2,169,073	69,538	123,197	2,792	3,519	6,576
Liabilities & Equity								
Customer deposits	1,655,458	(27,161)	1,577,290	56,039	45,291	2,001	1,998	-
Current income tax	13,348	-	11,934	621	-	1	1	791
Deferred income tax liabilities	10,742	-	10,732	-	-	-	-	10
Other liabilities	152,836	(43,077)	126,660	1,039	67,376	154	562	122
On-lending facilities	49,370	-	49,370	-	-	-	-	-
Borrowings	21,070	-	21,070	-	-	-	-	-
Liabilities classified as held for sale	29,603	29,603	-	-	-	-	-	-
Equity and reserves	394,268	(7,365)	372,017	11,839	10,530	636	958	5,653
	2,326,695	(48,000)	2,169,073	69,538	123,197	2,792	3,519	6,576
Condensed cash flow								
Net cash from operating activities	(47,909)	(37,890)	(65,754)	17,832	35,138	462	1,039	1,264
Net cash from financing activities	(10,654)	(240)	(10,654)	-	-	240	-	-
Net cash from investing activities	(16,521)	(5,171)	(6,563)	100	(4,410)	54	(78)	(453)
Increase in cash and cash equivalents	(75,084)	(43,301)	(82,971)	17,932	30,728	756	961	811
Cash and cash equivalents								
At start of year	644,988	6,722	603,950	26,052	971	1,025	1,772	4,496
Cash and cash equivalents from discontinued operations	(42,302)	(42,302)	-	-	-	-	-	-
Exchange rate movements on cash and cash equivalents	(1,986)	(1,986)	-	-	-	-	-	-
At end of year	525,616	(80,867)	520,979	43,984	31,699	1,781	2,733	5,307
	(75,084)	(43,301)	(82,971)	17,932	30,728	756	961	811

Notes To The Financial Statements
For The Year Ended 31 December 2012

c.

i Apart from Zenith Pensions Custodian Limited, all other subsidiaries consolidated as continuing operations are incorporated outside Nigeria.

ii Zenith Pensions Custodian Limited provides pension funds custodial services to Licensed Pension Fund Administrators (PFAs) and Closed Pension Funds Administrators under the Pension (Reform) Act, 2004. It was incorporated on 1 March 2005. The name was changed from "Zenith Pensions Limited" to "Zenith Pensions Custodian Limited" on September 20, 2005. It was licensed by the National Pension Commission as a custodian of pension funds and assets on 7 December 2005 and commenced operations in December 2005 .

iii Zenith Bank (Ghana) Limited provides corporate and retail banking services. It was incorporated on April 15, 2005 and commenced operations on September 16, 2005.

iv Zenith Bank (UK) Limited provides a range of commercial, wholesale, investment and retail banking in the United Kingdom. It was incorporated on 17 February 2006 and commenced operations on 30 March 2007.

v Zenith Bank (Sierra Leone) Limited provides corporate and retail Banking services. It was incorporated in Sierra Leone on 17 September 2007 and granted an operating license by the Bank of Sierra Leone on 10 September 2008. It commenced banking operations on 15 September 2008.

vi Zenith Bank (The Gambia) Limited provides corporate and retail banking services. It was incorporated in The Gambia on 24 October 2008 and granted an operating license by the Central Bank of The Gambia on 30 December 2009. It commenced banking operations on 18 January 2010.

vii Zenith Life Assurance Company Limited provides group life and individual life policy cover. It was incorporated 30 March 2001 . Its name was changed from "Zenith Life Insurance Company Limited" to "Zenith Life Assurance Company Limited" on April 25, 2005. The company commenced operations in April 2006. The carrying amount of investment in Zenith Life Assurance Company Limited in 2012 is included in 'assets classified as held for sale' (see Note 25).

viii Zenith Capital Limited provides investment banking services, including corporate finance and advisory, project finance, capital markets, syndication, asset management and principal investment. It was incorporated on 11 November 2005 and commenced operations in October 2006. On 21 November 2006, Its name was changed from "Zenith Capital Markets Limited" to "Zenith Capital Limited". The carrying amount of investment in Zenith Capital Limited in 2012 is included in 'assets classified as held for sale' (see Note 25).

ix Zenith Medicare Limited provides health insurance and managed care services. It was incorporated on May 31, 2005 and commenced operations on January 1, 2006. Its name was changed from "Zenith Assurance Medicare Limited" to Zenith Medicare Limited" on September 28, 2006. The carrying amount of investment in Zenith Medicare Limited in 2012 is included in 'assets classified as held for sale'(see Note 25).

x Zenith Trustees Limited provides trust services and non-pension fund custodial services. It was incorporated in Nigeria on July 5, 2004 and commenced operations in May 2006. The carrying amount of investment in Zenith Trustees Limited in 2012 is included in 'assets classified as held for sale'(see Note 25).

xi Zenith General Insurance Company Limited provides marine, motor, accident, fire and other non-life insurance services. It was incorporated on 8 January 1970 as Picadilly Insurance Company Limited and it traded in this name until 2003 when it was acquired by Zenith Bank PLC . The name was changed to Zenith General Insurance Company Limited on April 16, 2004. The carrying amount of investment in Zenith General Insurance Company Limited in 2012 is included in 'assets classified as held for sale'(see Note 25).

22 Investments in associates

The Group's investments under the Small and Medium Enterprises Equity Investment Scheme ("SMEEIS") is in compliance with the Policy Guidelines for 2001 Fiscal Year (Monetary Policy Circular No. 35). The Group generally holds 20 percent or more of the voting power of the investee and is therefore presumed to have significant influence over the investee. In instances where the Group holds less than 20 percent of the voting power of the investee, the Group concluded that it has significant influence due to the Group's representation on the board of the relevant investee, with such board generally limited to a small number of board members.

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
Balance at beginning of the year	1,756	2,443	1,822	2,509
Share of profit	23	45	-	-
Disposals	(508)	(687)	(508)	(687)
Dividends paid	-	(45)	-	-
Dimunition in investment	(851)	-	(851)	-
Balance at end of the year	420	1,756	463	1,822

There were no published price quotations for any associates of the Group. Furthermore, there are no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends or repayment of loans and advances.

In millions of Naira

23 Deferred tax

Group	01 Jan 2012	Recognised in profit or loss	Recognised in OCI	31 Dec 2012
Movements in temporary differences during the year:				
Property and equipment	6,586	3,409	-	9,995
Other assets	580	(569)	-	11
Allowances for loan losses	3,072	(8,384)	-	(5,312)
Equity securities at fair value	504	381	5	890
	10,742	(5,163)	5	5,584
Foreign currency translation difference		-		
Tax loss carried forward (Deferred tax asset)	(186)	(246)	-	(432)
Reversal of timing difference (Note 13)		(5,595)		

	01 Jan 2011	Recognised in profit or loss	Recognised in OCI	31 Dec 2011
Movements in temporary differences during the year:				
Property and equipment	7,993	(1,407)	-	6,586
Other assets	580	-	-	580
Allowances for loan losses	1,337	1,735	-	3,072
Treasury bills and bonds (FVTPL)	145	(145)	-	-
Equity securities at fair value	293	-	211	504
	10,348	183	211	10,742
Foreign exchange differences		-		
Tax loss carried forward (Deferred tax asset)	(1,657)	1,471	-	(186)
Originating timing difference (Note 13)		1,654		

Bank	01 Jan 2012	Recognised in profit or loss	Recognised in OCI	31 Dec 2012
Movements in temporary differences during the year:				
Property and equipment	6,050	3,945	-	9,995
Other assets	579	(579)	-	-
Allowances for loan losses	3,073	(8,385)	-	(5,312)
Treasury bills and bonds (FVTPL)	145	(145)	-	-
Equity securities at fair value	885	-	5	890
	10,732	(5,164)	5	5,573

	1 Jan 2011	Recognised in profit or loss	Recognised in OCI	31 Dec 2011
Movements in temporary differences during the year:				
Property and equipment	7,133	(1,083)	-	6,050
Other assets	579	-	-	579
Allowances for loan losses	1,338	1,735	-	3,073
Treasury bills and bonds (FVTPL)	145	-	-	145
Equity securities at fair value	674	-	211	885
	9,869	652	211	10,732

Deferred income tax assets are recognised for tax loss carry-forwards only to the extent that the realisation of the related tax benefit is probable.

Notes To The Financial Statements
For The Year Ended 31 December 2012

In millions of Naira

	Group 2012	Group 2011	Bank 2012	Bank 2011
24 Other assets				
Prepayments	13,971	14,658	13,467	14,093
Other receivables	19,331	14,209	7,984	6,880
Gross other assets	33,302	28,867	21,451	20,973
Less: Specific impairment	(4,637)	(3,357)	(4,637)	(3,357)
	28,665	25,510	16,814	17,616
Movement in specific impairment:				
At start of year	3,357	4,096	3,357	4,081
Specific impairment (See Note 8)	1,280	133	1,280	118
Clasified as held for disposal	-	(15)	-	-
Impairment no longer required(See Note 8)	-	(222)	-	(207)
Prior year impairment written off against other assets	-	(635)	-	(635)
At end of the year	4,637	3,357	4,637	3,357
25 Assets classified as held for sale				
a. Investment in subsidiaries (see Note 21(c))	-	-	10,338	10,838
Cash and balances with central banks	500	500	-	-
Treasury bills	7,696	5,351	-	-
Due from other banks	15,398	36,451	-	-
Loans and advances	484	641	-	-
Reinsurance assets and insurance receivables	499	1,423	-	-
Investment securities	5,520	4,625	-	-
Deferred tax assets	1,065	1,628	-	-
Other assets	261	1,015	-	-
Property and equipment	474	809	-	-
Intangible assets	46	39	-	-
	31,943	52,482	10,338	10,838

b. Disposal of subsidiary

The Bank disposed of its investment in Zenith Registrars Limited in line with the Bank's decision to opt for a commercial banking license with international authorization following Central Bank of Nigeria's regulation on the scope of banking acitivities and ancillary matters. Details of divestment for Zenith Registrars are as follows;

Group	
Cash and cash equivalents	24,035
Equity investment	80
Property and equipment	353
Intangible assets	5
Other assets	266
Total assets	24,739
Current tax liability	1,204
Deferred income tax liabilities	21
Other liabilities	19,035
Total Liabilities	20,260
Share of net assets at date of disposal	4,479
Net proceeds from disposal	4,511
Profit on disposal (See Note 11)	32
Bank	
Net proceeds from disposal	4,311
Cost of investment	500
Profit on disposal (See Note 11)	3,811

Notes To The Financial Statements
For The Year Ended 31 December 2012

In millions of Naira

26 Investment property

		Group	Bank
a.	***Cost***		
	At start of the year	7,403	7,403
	Additions	37	37
	Disposals	(7,440)	(7,440)
	At end of the year	-	-
	Accumulated amortization		
	At start of the year	289	289
	Charge for the year	136	136
	Disposals	(425)	(425)
	At 31 December 2012	-	-
	Carrying amount		
	At 31 December 2012	-	-
	At 31 December 2011	7,114	7,114

During the year, the Bank disposed of its investment property and realised a gain of N150 million which was reported as other income(Note 11). Details of the disposal are as follows;

b. Profit on disposal of investment property

Cost	7,440
Accummulated depreciation	(425)
Net book value	7,015
Proceeds	7,165
Profit from disposal	150

In millions of Naira

27 Property and equipment

(a) Group

	Leasehold land	Buildings	Leasehold improvement	Furniture, fittings & equipment	Computer equipment	Motor vehicles	Work in progress	Total
Cost								
At start of the year	15,357	14,777	13,126	28,923	20,469	12,718	20,221	125,591
Exchange difference	-	(16)	(152)	(151)	(118)	(98)	(26)	(561)
Additions	94	935	384	2,640	505	1,852	4,880	11,290
Reclassifications	1,033	2,523	(390)	3,221	645	514	(7,546)	-
Disposals	-	-	(13)	(110)	(567)	(1,181)	-	(1,871)
At end of the year	16,484	18,219	12,955	34,523	20,934	13,805	17,529	134,449
Accumulated depreciation								
At start of the year	1,143	1,169	9,762	18,904	16,651	9,596	-	57,225
Exchange difference	-	(2)	(80)	(95)	(85)	(83)	-	(345)
Charge for the year	92	439	1,416	4,246	2,338	1,776	-	10,307
Reclassifications	-	1,050	(1,421)	391	(7)	(13)	-	-
Disposals	-	-	(12)	(94)	(419)	(995)	-	(1,520)
At end of the year	1,235	2,656	9,665	23,352	18,478	10,281	-	65,667
Net book amount								
At 31 December 2012	**15,249**	**15,563**	**3,290**	**11,171**	**2,456**	**3,524**	**17,529**	**68,782**
At 31 December 2011	14,214	13,608	3,364	10,019	3,818	3,122	20,221	68,366

There were no impairment losses on any class of property and equipment during the year (2011 : nil)

In millions of Naira

27 Property and equipment

(b) BANK

	Land	Buildings	Leasehold improvement	Furniture, fittings & equipment	Computer equipment	Motor vehicles	Work in progress	Total
Cost								
At start of the year	15,357	14,671	11,308	27,639	19,012	11,988	20,063	120,038
Additions	94	936	271	2,534	280	1,691	4,671	10,477
Reclassifications	1,033	2,523	(390)	3,221	645	514	(7,546)	-
Disposals	-	-	(12)	(110)	-	(1,181)	-	(1,303)
At end of the year	16,484	18,130	11,177	33,284	19,937	13,012	17,188	129,212
Accumulated depreciation								
At start of the year	1,143	1,159	8,908	18,183	15,605	9,163	-	54,161
Charge for the year	92	437	1,210	4,032	2,093	1,636	-	9,500
Reclassifications	-	1,049	(1,420)	391	(7)	(13)	-	-
Disposals	-	-	(11)	(94)	-	(995)	-	(1,100)
At end of the year	1,235	2,645	8,687	22,512	17,691	9,791	-	62,561
Net book amount								
At 31 December 2012	**15,249**	**15,485**	**2,490**	**10,772**	**2,246**	**3,221**	**17,188**	**66,651**
At 31 December 2011	14,214	13,512	2,400	9,456	3,407	2,825	20,063	65,877

There were no impairment losses on any class of property and equipment during the year (2011 : nil)

Notes to the Financial Statements
For The Year Ended 31 December 2012

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
28 Intangible assets				
Computer software				
Cost				
At start of the year	1,969	1,751	1,843	1,668
Exchange difference	(17)	-	-	-
Additions	1,709	275	1,138	175
Classified as assets held for sale	-	(57)	-	-
At end of the year	3,661	1,969	2,981	1,843
Accumulated depreciation				
At start of the year	1,199	924	1,182	884
Exchange difference	(3)	-	-	-
Charge for the year	1,059	310	624	298
Classified as assets held for sale	-	(35)	-	-
At end of year	2,255	1,199	1,806	1,182
Carrying amount				
At end of the year	1,406	770	1,175	661

There were no impairment losses on intangible assets during the year (2011 : nil)

29 Customers' deposits

	Group 2012	Group 2011	Bank 2012	Bank 2011
Demand	1,171,216	1,026,371	1,140,494	1,032,526
Savings	152,464	139,532	140,973	130,679
Term	336,927	278,253	328,965	263,517
Deposit from banks	48,580	36,016	-	-
Domiciliary	220,057	175,286	191,576	150,568
	1,929,244	1,655,458	1,802,008	1,577,290

30 Other liabilities

	Group 2012	Group 2011	Bank 2012	Bank 2011
Customer deposits for letters of credit	38,450	44,208	38,442	44,208
Interest payable	2,660	5,016	2,545	1,512
Managers' cheques	14,996	14,729	14,733	14,250
Due to banks for clean letters of credit	36,300	28,860	36,300	28,860
Customers' funds for purchases	2,581	7,747	2,559	1,966
Tax collections	1,295	4,633	1,255	1,587
Sales and other collections	7,884	12,736	7,884	8,992
Other payables	13,189	34,907	11,309	25,285
	117,355	152,836	115,027	126,660

Notes to the Financial Statements
For The Year Ended 31 December 2012

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
31 On-lending facilities				
This comprises:				
Central Bank of Nigeria (CBN) Commercial Agriculture Credit Scheme Loan (See (i)) below	23,955	20,535	23,955	20,535
Bank of Industry (BOI) Intervention Loan (See (ii)) below	14,670	16,326	14,670	16,326
Central Bank of Nigeria (CBN) / Bank of Industry(BOI) - Power & Aviation intervention Funds (See (iii)) below	17,441	12,509	17,441	12,509
	56,066	49,370	56,066	49,370

Included in on-lending facilities are amount totalling N1.9 billion (2011: N4.8 billion) received but not yet disbursed.

(i) The fund received under the Central Bank of Nigeria (CBN) Commercial Agriculture Credit Scheme represents a credit line granted to the Bank for the purpose of providing concessionary funding to the agricultural sector. The facility is secured by Nigerian Government Securities and has a tenor of 7 years with effect from 2009 to expire by September 2016. The facility attracts an interest of 0% per annum and the Bank is under obligation to on-lend to customers at an all-in interest rate of not more than 9% per annum. Based on the structure of the facility, the Bank assumes the default risk of all amounts lent to the Bank's customers.

(ii) The Central Bank of Nigeria (CBN) / Bank of Industry (BOI) - SME / Manufacturing Intervention Fund represents an intervention credit granted to the Bank for the purpose of refinancing / restructuring existing loans to Small and Medium Scale Enterprises (SMEs) and Manufacturing Companies. The total facility is secured by Nigerian Government Securities. The maximum tenor for term loan under the programme is 15 years while the tenor for working capital is one year, renewable annually subject to a maximum tenor of five years. A management fee of 1% per annum deductible at source in the first year, and quarterly in arrears thereafter, is paid by the Bank under the Intervention programme and the Bank is under obligation to on-lend to customers at an all-in interest rate of 7% per annum. The Bank is the primary obligor to CBN / BOI and assumes the risk of default.

(iii) The Central Bank of Nigeria (CBN) / Bank of Industry (BOI) - Power & Aviation Intervention Fund represents a credit line for the purpose of granting new loans and refinancing / restructuring existing loans to companies in the power and aviation industries. The facility is secured by Irrevocable Standing Payment Order (ISPO). The maximum tenor for term loan under the programme is 15 years while the tenor for working capital is one year, renewable annually subject to a maximum tenor of five years. The facility attracts an interest of 1% per annum payable quarterly in arrears and the Bank is under obligation to on-lend to customers at an all-in interest rate of 7% per annum.

Notes to the Financial Statements
For The Year Ended 31 December 2012

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
32 Borrowings				
Borrowings comprise:				
Due to FMO	-	261	-	261
Due to ADB (See Note(i))	11,957	14,903	11,957	14,903
Due to KEXIM(See Note(ii))	313	-	313	-
Due to EIB	-	120	-	120
Due to HSBC	-	138	-	138
Due to PROPARCO (See Note(iii))	2,183	4,015	2,183	4,015
Due to Private Exporters Funding Corporation(See Note (iv))	685	1,633	685	1,633
	15,138	21,070	15,138	21,070

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2011: nil).

(i) The amount due to African Development Bank (ADB) of N11.96 billion ($75.00 million) represents the outstanding balance of two tranches of dollar facilities in the sums of $100 million and $50 million granted by ADB in May 2007 and March 2010 respectively. The tranches of the facility are repayable over 7 years and 5 years respectively. Interest is payable half-yearly at the rate of LIBOR + 2.2% per annum and LIBOR + 4.5% per annum respectively. The outstanding balance of the first tranch of $25 million will mature in 1 year and 2 months while the second tranch $50 million will mature in 2 years and 2 months.

(ii) The amount of N313 million ($2 million) represents the outstanding balance of the $12 million short term loan facility granted by The Export-Import Bank of Korea in July 2012. The facility is priced at LIBOR + 1.05% per annum and will be due for final repayment in January 2013.

(iii) The amount of N2.18 billion ($13.89 million) represents the outstanding balance of the credit facility granted by Promotion et Participation pour la Coopération économique (PROPARCO) in June 2009.The facilty will mature in April 2015 and interest is payable semi-annually at LIBOR plus 2.30% per annum.

(iv)

The amount of N685 million ($4.38 million) represents the outstanding balance of a 5-year dollar facility granted by Sovereign Bank in November 2008. However, In December 2008, Sovereign Bank sold its outstanding receivable loan balance from Zenith Bank to Private Exporters Funding Corporation (PEFCO). Consequently, Zenith Bank Plc is now obligated to PEFCO under this revised agreement. Interest is payable at the rate of 3 months' LIBOR plus 0.60 % per annum. The facility will mature in 9 months.

	Group 2012	Group 2011	Bank 2012	Bank 2011
33 Liabilities classified as held for sale				
Claims payable	425	420	-	-
Current income tax	1,782	1,882	-	-
Deferred income tax liabilities	552	500	-	-
Tax collections	1,446	819	-	-
Sales and other collections	-	12,452	-	-
Other payables	3,961	10,711	-	-
Liabilities on insurance contracts	3,418	2,819	-	-
	11,584	29,603	-	-

The business of the entities classified as held for sale are discussed in Note 21(c).

34 Share capital	Group	Group	Bank	Bank
Authorised				
40,000,000,000 ordinary shares of 50k each (**2011**: 40,000,000,000)	20,000	20,000	20,000	20,000
Issued and fully paid				
31,396,493,786 ordinary shares of 50k each (**2011**: 31,396,493,786)	15,698	15,698	15,698	15,698

There was no movement in the share capital account during the year.

Notes to the Financial Statements
For The Year Ended 31 December 2012

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011

35 Share premium, retained earnings and other reserves

(a) There was no movement in the Share premium account during the current and prior year.

	Group 2012	Group 2011	Bank 2012	Bank 2011
At end of the year	255,047	255,047	255,047	255,047

The nature and purpose of the reserves in equity are as follows:

(b) Share premium: Premiums from the issue of shares are reported in share premium.

(c) Retained earnings: Retained earnings comprise the undistributed profits from previous years which have not been reclassified to the other reserves noted below.

(d) Statutory reserve: Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by section 16(1) of the Bank and Other Financial Institutions Act of 1991 (amended), an appropriation of 30% of profit after tax is made if the statutory reserve is less than the paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid-up share capital.

(e) SMIEIS reserve: The SMIEIS reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investments in qualifying small and medium scale enterprises. Under the terms of the guideline (amended by CBN letter dated 11 July 2006), the contributions will be 10% of profit after tax and shall continue after the first 5 years but banks' contributions shall thereafter reduce to 5% of profit after tax. The small and medium scale industries equity investment scheme reserves are non-distributable. Transfer to this reserve is no longer required.

(f) Revaluation reserve: Comprises fair value movements on equity instruments.

(g) Foreign Currency translation reserve: Comprises exchange differences resulting from the translation to Naira of the results and financial position of entities within the group that have a functional currency other than Naira.

(h) Statutory Reserve for Credit Risk: The Nigerian banking regulators requires the bank to create a reserve for the difference between the cumulative impairment charge determined in line with the principles of IFRS and the charge determined in line with the prudential guidelines issued by the Central Bank of Nigeria (CBN). This reserve is not available for distribution to shareholders.

36 Pension contribution

In accordance with the provisions of the Pensions Reform Act 2004, the bank and its subsidiaries commenced a contributory pension scheme in January 2005. For entities operating in Nigeria, the contribution by employees and the employing entities are 2.5% and 12.5% respectively of the employees' basic salary, housing and transport allowances. Entities operating outside Nigeria contribute in line with the relevant pension laws in their jurisdictions. The contribution by the group and the bank during the period were **N 3.04 billion** and **N 2.84 billion** respectively (**2011: N 2.57 billion** and **N 2.42 billion**).

Notes to the Financial Statements
For The Year Ended 31 December 2012

37 Employees

(a) The average number of persons employed during the period by category:

	Group 2012 Number	Group 2011 Number	Bank 2012 Number	Bank 2011 Number
Executive directors	13	15	6	6
Management	435	476	409	426
Non-management	7,431	8,321	6,749	7,351
	7,879	8,812	7,164	7,783

Compensation for the above staff (excluding executive directors):

	N'million	N'million	N'million	N'million
Salaries and wages	39,613	39,104	37,188	36,875
Other staff costs	4,551	5,761	4,536	5,316
Pension contribution (Note 36)	3,036	2,522	2,841	2,413
	47,200	47,387	44,565	44,604

The number of employees of the bank, other than directors, who earned salaries and emoluments (excluding pension and reimbursable expenses) are in the following ranges:

	Number	Number	Number	Number
N300,001 - N2,000,000	1,212	1,710	1,157	1,498
N2,000,001 - N2,800,000	199	1,967	-	1,862
N2,800,001 - N4,000,000	1,569	1,977	1,406	1,623
N4,000,001 - N6,000,000	2,853	1,108	2,668	905
N6,000,001 - N8,000,000	606	597	569	524
N8,000,001 - N9,000,000	394	457	381	407
N9,000,001 - and above	1,033	981	977	958
	7,866	8,797	7,158	7,777

(b) Directors' emoluments

The remuneration paid to directors are as follows:

	N'million	N'million	N'million	N'million
Fees and sitting allowances	224	253	103	96
Executive compensation	496	480	172	271
Retirement benefit costs	6	9	6	7
	726	742	281	374

Fees and other emoluments disclosed above include amounts paid to:

The chairman	16	14	16	14
The highest paid director	16	37	16	37

The number of directors who received fees and other emoluments (excluding pension contributions and reimbursable expenses) in the following ranges was:

	Number	Number	Number	Number
N5,500,001 and above	13	15	6	6

Notes to the Financial Statements
For The Year Ended 31 December 2012

38 Related party transactions

Parent:
Zenith Bank Plc (incorporated in Nigeria) is the ultimate parent company of the Group.

Subsidiaries:
Transactions between Zenith Bank Plc and its subsidiaries which are eliminated on consolidation are not separately disclosed in the consolidated financial statements. The Group's effective interests and investments in subsidiaries as at 31 December 2012 are shown below.

Entity	Effective holding	Nominal share capital held
	%	N'million
Foreign / banking subsidiaries:		
Zenith Bank (Ghana) Limited	98.07%	6,444
Zenith Bank (UK) Limited	100.00%	13,307
Zenith Bank (Sierra Leone) Limited	99.99%	1,606
Zenith Bank (Gambia) Limited	99.96%	1,038
Domestic / non-banking subsidiaries:		
Zenith General Insurance Limited	80.12%	3,978
Zenith Life Assurance Limited (Indirect)	81.61%	1,632
Zenith Securities Limited	99.98%	3,000
Zenith Capital Limited	99.99%	2,000
Zenith Pension Custodians Limited	99.00%	1,980
Zenith Trustees Limited (Indirect)	49.99%	60
Zenith Medicare Limited (Indirect)	80.12%	380

Key management personnel

Key management personnel is defined as the Group's executive management, including their close members of family and any entity over which they exercise control. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with the Group.

Key management compensation

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
Salaries and other short-term benefits	534	480	275	374
Retirement benefit cost	8	9	6	7
Loans and advances				
At start of the year	1,429	1,315	1,357	1,239
Granted during the year	57	214	57	214
Repayment during the year	(121)	(100)	(118)	(96)
At end of of the year	1,365	1,429	1,296	1,357
Interest earned	50	41	48	41

Loans to key management personnel include mortgage loans and other personal loans which are given under terms that are no more favourable than those given to other staff. No impairment has been recognised in respect of loans granted to key management (2011: Nil). Mortgage loans amounting to N330 million (2011: N331 million) are secured by the underlying assets. All other loans are unsecured.

		2012			
Name of company	**Relationship**	**Loans**	**Deposits**	**Interest received**	**Interest paid**
Capri Martins Nigeria Limited	Common directorship	2,700	-	324	-
Multibanc Savings and Loans Limited	Common directorship	2,650	-	371	-
Visafone Communication Limited	Common significant shareholder	2,405	10	568	44
Cyberspace Limited	Associate	-	124	-	1
Cyberspace Networks Limited	Associate	-	215	-	1
At end of of the year		7,755	349	1,263	46

In millions of Naira		2011			
Name of company	Relationship	Loans	Deposits	Interest received	Interest paid
Capri Martins Nigeria Limited	Common directorship	2,700	-	351	-
Multibanc Savings and Loans Limited	Common directorship	2,650	-	398	-
Visafone Communication Limited	Common significant shareholder	5,552	3219	777	29
Tadop Properties Ltd	Common directorship	4,400	250	572	1
Goodwork Properties Ltd	Common directorship	5,180	-	673	-
Cyberspace Limited	Associate	-	211	-	1
Cyberspace Networks Limited	Associate	-	129	-	1
At end of of the year		**20,482**	**3,809**	**2,771**	**32**

Interest charged on loans to related parties and interest and other fees paid to related parties are similar to what would be charged in an arms' length transaction. Loans granted to related parties are secured over real estate and other assets of the respective borrowers. No impairment has been recognised in respect of loans granted to related parties (2011: Nil).

39 Contingent liabilities and commitments

(a) Legal proceedings

The Bank is presently involved in **78 (2011: 52)** litigation suits in the ordinary course of business. The total amount claimed in the cases against the Bank is estimated at **N2.08 billion (2011: N2.99 billion)**. The actions are being contested and the Directors are of the opinion that none of the aforementioned cases is likely to have a material adverse effect on the Bank and are not aware of any other pending or threatened claims and litigations.

(b) Capital commitments

At the balance sheet date, the Bank had capital commitments amounting to **N2.83 billion** **(2011: N2.79 billion)** in respect of authorized and contracted capital projects.

(c) Confirmed credits and other obligations on behalf of customers

In the normal course of business the group is a party to financial instruments which carry off-balance sheet risk. These instruments are issued to meet the credit and other financial requirements of customers. The contractual amounts of the off-balance sheet financial instruments are:

	Group 2012	Group 2011	**Bank 2012**	Bank 2011
Performance bonds and guarantees	**468,728**	229,206	**434,038**	218,299
Usance	**162,133**	69,830	**131,817**	57,541
Letters of credit	**141,021**	121,618	**125,709**	94,103
Pension funds (See Note (below))	**1,106,373**	837,287	**1,106,373**	837,287
	1,878,255	1,257,941	**1,797,937**	1,207,230

The transaction related performance bonds and guarantees are, generally, short-term commitments to third parties which are not directly dependent on the customer's creditworthiness. As at 31 December 2012, performance bonds and guarantees worth **N10.4 billion (2011: N11.9 billion)** are secured by cash while others are otherwise secured.

Usance and Letters of credit are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity dates, but are cancellable by the Group (as lender) subject to notice requirements. These Letters of credit are provided at market-related interest rates and cannot be settled net in cash. Usance and letters of credit are secured by different types of collaterals similar to those accepted for actual credit facilities.

The amount of **N 1,106.37 billion** (**2011: N 837.29 billion**) represents the full amount of the Bank's guarantee for the assets held by its subsidiary, Zenith Pensions Custodian Limited under the latter's custodial business as required by the National Pensions Commission.

Notes to the Financial Statements
For The Year Ended 31 December 2012

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
40 Dividend per share				
Dividend proposed	50,234	29,827	50,234	29,827
Number of shares in issue and ranking for dividend	31,396	31,396	31,396	31,396
Proposed dividend paid per share	160 k	95 k	160 k	95 k

The Board of Directors, pursuant to the powers vested in it by the provisions of section 379 of the Companies and Allied Matters Act (CAMA) of Nigeria, proposed a dividend of N1.60 kobo per share (2011: 95 kobo per share) from the retained earnings account as at 31 December 2012. This is subject to approval by shareholders at the next Annual General Meeting.

If the proposed dividend is approved by the shareholders, the Bank will be liable to pay additional corporate tax estimated at N12.6 billion, which represents the difference between the tax liability calculated at 30% of the dividend approved and the minimum tax charge reported in the statement of comprehensive income for year ended 31 December 2012.

The number of shares in issue and ranking for dividend represents the outstanding number of shares as at 31 December 2012 and 31 December 2011 respectively.

Payment of dividends to shareholders is subject to withholding tax at a rate of 10% in the hand of recipients.

41 Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents include cash and non-restricted balances with central banks, treasury bills maturing within three months, operating account balances with other banks, amounts due from other banks.

In millions of Naira	Group 2012	Group 2011	Bank 2012	Bank 2011
Cash and balances with central banks (less restricted balances)	152,379	116,579	133,929	104,562
Treasury bills (maturing within three months)	280,418	174,516	275,680	170,053
Due from other banks	182,020	234,521	203,791	246,364
	614,817	525,616	613,400	520,979

42 Compliance with banking regulations

During the year, the Bank paid penalties to the Central Bank of Nigeria for the following contraventions:
- Late rendition of certain regulatory returns (N 25,000);
- Non-rendition of certain regulatory returns (N 6 million);
- Incomplete rendition of some regulatory returns, and non-completion of some KYC requirements of the Federal Civil Service (N 39.5 million).

43 Events after reporting date

No significant event that requires special disclosure occured between the reporting date and the date when the financial statements were issued.

In millions of Naira

44 Restatement of prior year balances

Certain prior year balances under 'assets classifed as held for sale' were restated to 'investment in subsidiaries' to correspond to the presentation of current year.

	Bank 2011
a. *Assets held for sale*	
Balance previously reported	12,818
Reclassification to 'investment in subsidiaries'	(1,980)
Balance as restated	10,838
b. *Investments in subsidiaries*	
Balance previously reported	17,365
Reclassification from 'assets held for sale'	1,980
Balance as restated	19,345

Notes to the Financial Statements
For The Year Ended 31 December 2012

In millions of Naira

45 Value Added Statement (Group)

	December 2012 Group	%	December 2011 Group	%
Gross income	307,082		243,948	
Interest expense				
- Local	(59,636)		(29,033)	
- Foreign	(4,925)		(5,873)	
	242,521		209,042	
Impairment charge for credit losses	(9,445)		(17,391)	
	233,076		191,651	
Bought-in materials and services				
- Local	(68,747)		(60,841)	
- Foreign	(3,663)		(3,499)	
Value added	160,666	100	127,311	100
Distribution				
Employees				
Salaries and benefits	47,200	29	47,386	37
Government				
Income tax	1,419	1	18,736	15
Retained in the Group				
Asset replacement (depreciation)	11,366	7	12,485	10
To pay proposed dividend	50,234	31	29,827	23
Profit for the year (including statutory, small scale industry, contingency reserves and non-controlling interest)	50,447	32	18,877	15
	160,666	100	127,311	100

These statements represent the distribution of the wealth created through the use of the group's assets through its own and its employees' efforts.

In millions of Naira

Value Added Statement (Bank)

	December 2012 Bank	%	December 2011 Bank	%
Gross income	279,042		214,980	
Interest expense				
- Local	(64,628)		(32,593)	
- Foreign	(724)		(814)	
	213,690		181,573	
Diminution in asset values	(7,998)		(15,900)	
	205,692		165,673	
Bought-in materials and services				
- Local	(56,323)		(52,038)	
- Foreign	(632)		(359)	
Value added	148,737	100	113,276	100
Distribution				
Employees				
Salaries and benefits	44,565	30	44,605	40
Government				
Income tax	(1,755)	(1)	15,843	14
Retained in the Bank				
Asset replacement (depreciation)	10,124	7	11,527	10
To pay proposed dividend	50,234	34	29,827	26
Profit for the year (including statutory, and small scale industry reserves)	45,569	30	11,474	10
	148,737	100	113,276	100

These statements represent the distribution of the wealth created through the use of the bank's assets through its own and its employees' efforts.

In millions of Naira

46 FIVE-YEAR FINANCIAL SUMMARY GROUP	IFRS 2012	IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008
Assets					
Cash and balances with central banks	332,515	223,187	141,724	126,779	240,848
Treasury bills	669,164	510,738	298,858	231,530	391,940
Due from other banks	182,020	234,521	399,478	341,830	536,846
Loans and advances	989,814	893,834	754,024	707,602	460,647
Reinsurance assets and insurance receivables	-	-	1,121	1,594	1,953
Investment securities	299,343	308,231	211,804	158,922	60,184
Investments in associates	420	1,756	2,443	2,443	2,573
Deferred tax assets	432	186	1,657	966	160
Other assets	28,665	25,510	20,457	22,353	37,511
Assets classified as held for sale	31,943	52,482	-	-	-
Investment property	-	7,114	7,342	424	-
Property and equipment	68,782	68,366	66,585	71,564	46,006
Intangible assets	1,406	770	827	712	238
Total assets	2,604,504	2,326,695	1,906,320	1,666,719	1,778,906
Liabilities					
Customers deposits	1,929,244	1,655,458	1,319,762	1,178,188	1,192,737
Claims payable	-	-	218	198	234
Current income tax	6,577	13,348	3,735	7,407	5,690
Deferred income tax liabilities	5,584	10,742	10,348	5,900	2,439
Other liabilities	117,355	152,836	143,373	90,572	187,084
Liabilities on insurance contracts	-	-	2,287	2,161	2,214
On-lending facilities	56,066	49,370	26,049	-	-
Borrowings	15,138	21,070	28,358	36,402	40,868
Liabilities classified as held for sale	11,584	29,603	-	-	-
Total Liabilities	2,141,548	1,932,427	1,534,130	1,320,828	1,431,266
Net assets	462,956	394,268	372,190	345,891	347,640
EQUITY					
Share capital	15,698	15,698	15,698	12,559	8,372
Share premium	255,047	255,047	255,047	255,047	255,047
Retained earnings	130,153	75,072	64,826	51,170	61,392
Other reserves	58,786	45,765	34,202	24,800	20,497
Attributable to equity holders of the parent	459,684	391,582	369,773	343,576	345,308
Non-controlling Interest	3,272	2,686	2,417	2,315	2,332
Total shareholders' equity	462,956	394,268	372,190	345,891	347,640
STATEMENT OF COMPREHENSIVE INCOME					
Gross Earnings	307,082	243,948	193,286	279,307	211,057
Share of profit / (loss) of associates	23	45	27	78	(111)
Interest expense	(64,561)	(34,906)	(35,719)	(83,957)	(53,294)
Operating and direct expenses	(130,999)	(124,256)	(102,503)	(118,322)	(91,604)
Impairment charge for credit losses	(9,445)	(17,391)	(4,977)	(34,802)	(9,728)
Profit before tax	102,100	67,440	50,114	42,304	56,320
Income tax	(1,419)	(18,736)	(12,291)	(16,255)	(4,223)
Profit after tax	100,681	48,704	37,823	26,049	52,097
Other comprehensive income:					
Foreign currency translation differences	(2,424)	(421)	(507)	461	(1,188)
Fair value movements on equity instruments	297	705	210	1,365	219
Tax effect of equity instruments at fair value	(91)	(211)	(63)	(530)	(64)
	(2,218)	73	(360)	1,296	(1,033)
Total comprehensive income	98,463	48,776	37,463	27,345	51,064

In millions of Naira	IFRS	IFRS	IFRS	IFRS	(Unpublished) IFRS
FIVE-YEAR FINANCIAL SUMMARY BANK	**2012**	**2011**	**2010**	**2009**	**2008**
ASSETS					
Cash and balances with central banks	313,546	211,098	130,604	115,044	233,972
Treasury bills	647,474	494,253	287,981	222,787	386,917
Due from other banks	203,791	246,364	374,604	290,025	481,442
Loans and advances	895,354	827,035	707,586	677,760	427,510
Investment securities	256,905	267,050	-	144,280	51,977
Investment in subsidiaries	24,375	19,345	172,180	36,096	16,935
Investments in associates	463	1,822	37,134	2,509	2,683
Deferred tax assets	-	-	2,509	-	-
Other assets	16,814	17,616	-	21,593	28,689
Assets classified as held for sale	10,338	10,838	15,402	-	-
Investment property	-	7,114	6,895	-	-
Property and equipment	66,651	65,877	63,000	68,106	42,689
Intangible assets	1,175	661	784	712	266
Total assets	2,436,886	2,169,073	1,798,679	1,578,912	1,673,080
LIABILITIES					
Customers deposits	1,802,008	1,577,290	1,290,014	1,114,271	1,164,459
Current income tax	5,071	11,934	1,010	5,718	3,550
Deferred income tax liabilities	5,573	10,732	9,869	6,264	1,953
Other liabilities	115,027	126,660	86,470	80,497	120,893
On-lending facilities	56,066	49,370	26,049	-	-
Borrowings	15,138	21,070	28,358	36,402	40,431
Total Liabilities	1,998,883	1,797,056	1,441,770	1,243,152	1,331,286
Net Assets	438,003	372,017	356,909	335,760	341,794
EQUITY					
Share capital	15,698	15,698	15,698	12,559	8,372
Share premium	255,047	255,047	255,047	255,047	255,047
Retained earnings	106,010	55,028	51,769	43,365	57,750
Other reserves	61,248	46,244	34,395	24,789	20,625
Total shareholders' equity	438,003	372,017	356,909	335,760	341,794
STATEMENT OF COMPREHENSIVE INCOME					
Gross Earnings	279,042	214,980	168,415	255,264	191,496
Interest expense	(65,352)	(33,407)	(34,522)	(82,836)	(49,964)
Operating and direct expenses	(111,644)	(108,529)	(89,107)	(103,338)	(81,013)
Impairment charge for credit losses	(7,998)	(15,900)	(3,317)	(32,217)	(8,515)
Profit before tax	94,048	57,144	41,469	36,873	52,004
Income tax	1,755	(15,843)	(9,164)	(14,940)	(2,438)
Profit after tax	95,803	41,301	32,305	21,933	49,566
Other comprehensive income:					
Fair value movements on equity instruments	15	705	210	2,012	-
Tax effect of equity instruments at fair value	(5)	(211)	(63)	(604)	-
	10	494	147	1,408	-
Total comprehensive income	95,813	41,795	32,452	23,341	49,566

ZENITH BANK PLC AND SUBSIDIARY COMPANIES
CONSOLIDATED AND SEPARATE IFRS FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

These financial statements have been issued in addition to the annual statutory financial statements

DIRECTORS, OFFICERS & PROFESSIONAL ADVISERS

Directors

Sir Steve Omojafor	-	Chairman
Godwin Emefiele	-	Managing Director
Babatunde Adejuwon	-	Director
Alhaji Baba Tela	-	Director
Alhaji Lawal Sani	-	Director
Prof Chukuka Enwemeka	-	Director
Mr Jeffrey Efeyini	-	Director
Peter Amangbo	-	Executive Director
Elias Igbinakenzua	-	Executive Director
Apollos Ikpobe	-	Executive Director
Udom Emmanuel	-	Executive Director
Andy Ojei	-	Executive Director

Company Secretary
Michael Osilama Otu

Registered Office
Zenith Bank Plc
Zenith Heights
Plot 87, Ajose Adeogun Street
Victoria Island
Lagos.

Auditors
KPMG Professional Services
22A, Gerrard Road
Ikoyi, Lagos

Registrar & Transfer Office
Zenith Registrars Limited
Plot 89 A, Ajose Adeogun Street
Victoria Island
Lagos.

Zenith Bank Plc
Index To The Consolidated And Separate Financial Statements
For The Year Ended 31 December 2011

The directors present their annual report on the affairs of Zenith Bank Plc ("the Bank") and its subsidiaries (together "the Group"), together with the financial statements and auditors' report for the year ended 31 December, 2011.

a. Legal Form

The Bank was incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability company on 30 May,1990. It was granted a banking licence in June 1990, to carry on the business of commercial banking and commenced business on 16 June 1990. The Bank was converted into a Public Limited Liability Company on 20 May 2004. The Bank's shares were listed on the 21 October 2004 on the floor of the Nigerian Stock Exchange.

b. Principal Activities and Business Review

The principal activity of the Bank is the provision of banking and other financial services to corporate and individual customers. Such services include granting of loans and advances, corporate finance and money market activities.

The Bank has twelve subsidiary companies namely, Zenith Securities Limited, Zenith General Insurance Company Limited, Zenith Bank (Ghana) Limited, Zenith Pension Custodian Limited, Zenith Bank (UK) Limited, Zenith Capital Limited, Zenith Registrars Limited, Zenith Medicare Limited, Zenith Trustees Limited, Zenith Life Assurance Company Limited, Zenith Bank (Sierra Leone) Limited, and Zenith Bank (Gambia) Limited.

In line with regulatoty directives on the scope of banking operations in Nigeria, the Group has commenced the process of divesting from its non-core banking operations and hence these subsidiaries have been accounted for as discontinued operations in line with IFRS 5.

c. Operating Results

Gross earnings of the Group increased by **26%** and profit before tax increased by 34**%**. Highlights of the Group's operating results for the year under review are as follows:

	2011 N'million	2010 N'million
Profit before tax (continuing and discontinued operations)	67,440	50,114
Taxation (continuing and discontinued operations)	(18,736)	(12,291)
Profit after taxation (continuing and discontinued operations)	48,704	37,823
Non- controlling interest	(281)	(120)
Profit attributable to the Group	48,423	37,703
Appropriations:		
Transfer to Statutory Reserve	5,571	5,000
Transfer to Contingency Reserve	135	186
Reserve for Credit Risk	5,784	4,459
Transfer to Bonus Reserve	-	3,139
Transfer to Retained Earnings Reserve	36,933	24,919
	48,423	37,703

Dividends

The Board of Directors, pursuant to the powers vested in it by the provisions of section 379 of the Companies and Allied Matters Act (CAMA) of Nigeria, proposed a dividend of 95 kobo per share (December 2010: 85 kobo per share) from the retained earnings account as at 31 December 2011. This was approved by shareholders at the Annual General Meeting held on 3 April 2012

Payment of dividends is subject to withholding tax at a rate of 10%

d. Directors' Shareholding

The direct interests of directors in the issued share capital of Zenith Bank as recorded in the register of directors shareholding and/or as notified by the directors for the purposes of sections 275 and 276 of the Companies and Allied Matters Act and the listing requirements of the Nigerian Stock Exchange is as follows:

		Number of Shareholding	
Name	**Designation**	**2011**	**2010**
Sir Steve Omojafor	Chairman	4,447,563	2,815,504
Godwin Emefiele	Group Managing Director/CEO	44,700,792	44,700,792
Babatunde Adejuwon	Non-Executive Director	3,752,853	3,752,853
Alhaji Baba Tela	Non-Executive Director (Independent)	250,880	250,880
Alhaji Lawal Sani	Non-Executive Director (Independent)	-	-
Prof. Chukuka Enwemeka	Non-Executive Director	127,137	127,142
Mr. Jeffrey Efeyini	Non-Executive Director	197,400	-
Ms. Amal Pepple *	Non-Executive Director	174,104	174,104
Peter Amangbo	Executive Director	12,737,500	12,723,213
Elias Igbinakenzua	Executive Director	17,788,841	17,788,841
Apollos Ikpobe	Executive Director	12,666,963	12,666,963
Udom Emmanuel	Executive Director	14,062,496	14,062,496
Andy Ojei	Executive Director	14,209,574	14,086,606

* Resigned from the Board with effect from July, 2011 following her appointment as the Honourable Minister of Housing and Urban Development (Federal Republic of Nigeria).

e. Directors' Interests in Contracts

For the purpose of section 277 of the Companies and Allied Matters Act, none of the existing directors had direct or indirect interest in contracts or proposed contracts with the Bank during the year.

f. Acquisition of Own Shares

The shares of the Bank are held in accordance with the Articles of Association of the Bank. The Bank has no beneficial interest in any of its shares.

g. Property and Equipment

Information relating to changes in property and equipment is given in Note 28 to the financial statements. In the directors' opinion, the market value of the Group's properties is not less than the value shown in the financial statements.

h. Research and Development

The Bank is on a continuous basis, carrying out research into new banking products and services.

i. Shareholding Analysis

The shareholding pattern of the Bank as at 31 December 2011 is as stated below:

Share Range	No. of Shareholders	Percentage of Shareholders (%)	Number of Holdings (%)	Percentage Holdings (%)
1-9,999	559,742	82.08%	1,760,937,215	5.61%
10,000 - 50,000	96,089	14.09%	1,982,355,125	6.31%
50,001 - 100,000	11,671	1.71%	811,884,620	2.59%
100,001 - 500,000	12,006	1.76%	2,267,592,371	7.22%
500,001 - 1,000,000	1,026	0.15%	716,912,761	2.28%
1,000,001 - 5,000,000	1,037	0.15%	2,227,399,754	7.10%
5,000,001 - 10,000,000	173	0.03%	1,218,909,807	3.88%
10,00,001 - 50,00,000	179	0.03%	3,657,021,930	11.65%
50,00,001 - 100,00,000	26	0.00%	1,887,121,367	6.01%
100,000,001 - 500,000,000	27	0.00%	5,654,152,375	18.01%
500,000,001 - 1,000,000,000	3	0.00%	1,793,544,519	5.71%
Above 1,000,000,000	4	0.00%	7,418,661,942	23.63%
	681,983	**100.00%**	**31,396,493,786**	**100.00%**

j. Substantial Interest in Shares

According to the register of members at 31 December 2011, the following shareholders held more than 5.0% of the issued share capital of the Bank.

	Number of Shares Held	Percentage Holdings (%)
Jim Ovia	2,747,223,748	8.75%
Stanbic Nominees Nigeria Limited	2,169,098,963	6.91%

k. Donations and Charitable Gifts

The Bank made contributions to charitable and non-political organisations amounting to N 716 million during the year (2010: N 503 million)

The beneficiaries are as follows:

	N' million
Lagos State Security Trust Fund	50.00
St. Augustine University (construction of School's Auditorium)	25.00
Day Waterman College (Indigent Student Scholarship Fund)	20.00
Evans Enwerem University (School Infrastructure Development)	19.96
Nigerian Basketball Federation (NBBF) Female League	15.00
Babcock University	14.29
ANAP Foundation	10.00
Digital Peers International	5.00
IMO State Foundation	5.00
Iga Idunganran Health Care Centre	142.60
Others below N5 million	409.15
	716.00

l. Post Balance Sheet Events

There were no significant events after the balance sheet date that could affect the reported amount of assets and liabilities as of the balance sheet date.

m. Human Resources

i. Employment of Disabled Persons

The Bank continues to maintain a policy of giving fair consideration to the application for employment made by disabled persons with due regard to their abilities and aptitude. The Bank's policy prohibits discrimination against disabled persons in the recruitment, training and career development of its employees. In the event of members of staff becoming disabled, efforts will be made to ensure that their employment continues and appropriate training arranged to ensure that they fit into the Bank's working environment.

ii. Health, Safety and Welfare at Work

The Bank enforces strict health and safety rules and practices at the work environment, which are reviewed and tested regularly. The Bank retains top-class private hospitals where medical facilities are provided for staff and their immediate families at the Bank's expense.

Fire prevention and fire-fighting equipment are installed in strategic locations within the Bank's premises.

The Bank operates both a Group Personal Accident and the Workmen's Compensation Insurance covers for the benefit of its employees. It also operates a contributory pension plan in line with the Pension Reform Act.

iii. Employee Training and Development

The Bank ensures, through various fora, that employees are informed on matters concerning them. Formal and informal channels are also employed in communication with employees with an appropriate two-way feedback mechanism.

In accordance with the Bank's policy of continuous development, training facilities are provided in our well-equipped training centres. In addition, employees of the Bank are nominated to attend both locally and internationally organized courses. These are complemented by on-the-job training.

n. Auditors

The auditors, Messrs. KPMG Professional Services have indicated their willingness to continue in office as auditors in accordance with Section 357 (2) of the Companies and Allied Matters Act, 1990.

By Order of the Board

Michael Osilama Otu
Company Secretary

a. Introduction

We note that an effective governance system is essential to retaining public trust and confidence in our business.

The Bank has in place a system that ensures a proper and effective oversight of the company's business by the Directors and other principal organs of the Bank.

The governance structure of the Bank is driven mainly by the Board of Directors, who not only possesses the requisite academic qualifications but has the needed experience and tools for their roles in the Bank.

Directors are conversant with the business of the Bank and are abreast of their duties and responsibilities as directors and as such are able to exercise sound and objective judgment on affairs of the Bank.

b. Shareholding

The Bank has a diversified shareholding base spanning a broad spectrum of the society and no single individual holds more than 10% of the Bank's total shareholding.

c. Board of Directors

The Board of the Bank has overall responsibility for approving and overseeing the implementation of the Bank's strategic objectives, risk management, corporate governance as well as providing oversight of senior management.

The Board comprises persons of mixed skills and experience in different fields of human endeavour. The Bank has a well articulated policy in place that ensures regular training and retraining of directors to keep them abreast of developments in the industry and the economy.

The Board is made up of a non-executive Chairman, five (5) non-executive Directors and six (6) executive Directors. Two (2) of the non-executive Directors are independent directors, appointed in compliance with the Central Bank of Nigeria (CBN) circular on appointment of independent directors by Banks.

The Managing Director/Chief Executive is responsible for the day to day running of the Bank, assisted by the Executive Committee (EXCO).

d. Responsibilities of the Board

The Board is responsible for:

- Reviewing and providing guidance for the Bank's corporate and business strategy, major plans of action and risk policy.
- Review and approval of annual budgets and business plans; setting performance objectives, monitoring implementation and corporate performance.
- Overseeing major capital expenditures, acquisitions and divestitures.
- Monitoring the effectiveness of the governance practices under which the Bank operates and making appropriate changes as necessary.
- Ensuring the integrity of the Bank's accounting and financial reporting systems, including the independent audit and that appropriate systems of control and risk monitoring are in place.
- Providing oversight of senior management.
- Establishment of the various Committees of the Bank including the terms of reference and review of reports of such Committees to address key areas of the Bank's business.

The current composition of the board is as follows:

Board of Directors

NAME	POSITION
Sir. Steve Omojafor	Chairman
Mr. Godwin Emefiele	GMD/CEO
Mr. Babatunde Adejuwon	Non Executive Director
Alhaji Baba Tela	Independent / Non Executive Director
Mr. Lawal Sani	Independent / Non Executive Director
Mr. Jeffrey Efeyini	Non Executive Director
Prof. Chukuka S. Enwemeka	Non Executive Director
Ms Amal Pepple *	Non Executive Director
Mr. Peter Amangbo	Executive Director
Mr. Apollos Ikpobe	Executive Director
Mr. Elias Igbinakenzua	Executive Director
Mr. Udom Emmanuel	Executive Director
Mr. Andy Ojei	Executive Director

* Resigned from the Board with effect from July, 2011 following her appointment as the Honourable Minister of Housing and Urban Development (Federal Republic of Nigeria).

The Board meets at least every quarter but may hold extra-ordinary sessions to address urgent matters requiring the attention of the Board.

e. Board Committees

The Board discharges its oversight functions through various Board Committees. This makes for efficiency and allows for a deeper attention to specific matters for the Board. The Committees are set up in line with statutory and regulatory requirements and consistent with global best practices.

Membership of the Committees of the Board is intended to make the best use of the skills and experience of non-executive directors in particular. The Committees have well defined terms of reference and Charters defining their scope of responsibilities in such ways as to avoid overlap of functions. The Committees of the Board meet quarterly but may hold extraordinary sessions as business of the Bank demand.

The following are the current standing Committees of the Board:

i. Board Credit Committee

The Committee is made up of six (6) members comprising three (3) non Executive Directors and three (3) Executive Directors of the Bank. The Board Credit Committee is chaired by a non-Executive Director. The Committee considers loan applications above the level of Management Credit Committee. It also determines the credit policy of the Bank or changes therein.

The membership of the Committee is as follows:

Mr. Jeffrey Efeyini – (Chairman)

Mr. Babatunde Adejuwon

Alhaji Baba Tela

Mr. Apollos Ikpobe

Mr. Elias Igbinakenzua

Mr. Godwin Emefiele

Committee's Terms of Reference

• To recommend criteria by which the Board of Directors can evaluate the credit facilities presented from various customers.

• To review the credit portfolio of the Bank.

• To consider all credit facilities above Management approval limit.

• To establish and periodically review the Bank's credit portfolio in order to align organizational strategies, goals, and performance.

• To evaluate on an annual basis the components of total credit facilities as well as market competitive data and other factors as deemed appropriate, and to determine the credit level based upon this evaluation.

• To make recommendations to the Board of Directors with respect to credit facilities based upon performance, market competitive data, and other factors as deemed appropriate.

• To recommend to the Board of Directors, as appropriate, new credit proposals, restructure plans, and amendments to existing plans.

• To select and retain independent experts and consultants in the field of credit analysis subject to Board's approval, to advise with respect to market data and assist the Committee with its duties, and to approve fees and set terms of engagement for such consultants.

• To report to the entire Board at such times as the Committee and Board shall determine, but not less than every quarter.

• To perform such other duties and responsibilities as the Board of Directors may assign from time to time.

• To recommend non-performing credits for write-off by the Board.

ii. Staff Matters, Finance and General Purpose Committee

This Committee is made up of six (6) members: three (3) non Executive Directors and three (3) Executive Directors. It is chaired by a non-executive Director. The Committee considers large scale procurement by the Bank, as well as matters bordering on staff welfare, discipline, staff remuneration and promotion.

The membership of the Committee is as follows:

Alhaji Baba Tela – (Chairman)
Mr. Lawal Sani *
Prof. Chukuka Enwemeka
Mr. Godwin Emefiele
Mr. Peter Amangbo
Mr. Andy Ojei

* - Appointed Committee member at the meeting of October 14, 2011 following the resignation of Ms. Amal Pepple.

Committee's Terms of Reference

• Review of all matters relating to staff welfare, including remuneration of staff, promotion and discipline;

• Consideration of all large scale procurement to be made by the Bank;

• Review of contracts award for significant expenditures;

• Consideration of promotions of senior Management staff of the Bank;

• Any other matter that may be referred to it by the Board.

iii. Risk Management Committee

The Board Risk Management Committee has oversight responsibility for the overall risk assessment of various areas of the Bank's operations and compliance.

The Chief Risk Officer has access to this Committee and makes quarterly presentations for the consideration of the Committee. Chaired by Mr. Adejuwon (a non executive Director), the Committee's membership comprises the following:

Mr. Babatunde Adejuwon – (Chairman) *

Ms. Amal Pepple ***

Alhaji Lawal Sani

Prof. Chukuka Enwemeka **

Mr. Jeffrey Efeyini

Mr. Godwin Emefiele

Mr. Udom Emmanuel

Mr. Andy Ojei

* Appointed Committee Chairman at the meeting of October 14, 2011 following CBN rule on Committee composition.

** Appointed Committee member at the meeting of October 14, 2011 following the resignation of Ms. Amal Pepple.

*** Resigned with effect from July 2011.

Committee's Terms of Reference

• The primary responsibility of the Committee is to 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.

• Design and implement risk management practices, specifically provide ongoing guidance and support for the refinement of the overall risk management framework and ensuring that best practices are incorporated;

• Ensure that Management understands and accepts its responsibility for identifying, assessing and managing risk;

• Ensure and monitor risk management practices, specifically determine which enterprise risks are most significant and approve resource allocation for risk monitoring and improvement activities, assign risk owners and approve action plans;

• Periodically review and monitor risk mitigation process and periodically review and report to the Board of Directors:

(a) magnitude of all material business risks;

(b) the processes, procedures and controls in place to manage material risks; and

(c) the overall effectiveness of the risk management process;

• Facilitate the development of a comprehensive risk management framework for the Bank and develop the risk management policies and processes and enforce its compliance.

• To establish and periodically review the Bank's Risk portfolio in order to align organizational strategies, goals, and performance.

• To evaluate on a periodic basis the components of risk as well as market competitive data and other factors as deemed appropriate, and to determine the risk level based upon this evaluation.

• To select and retain independent experts and consultants in the field of risk analysis subject to Board's approval, to advise with respect to market data and assist the Committee with its duties, and to approve fees and set terms of engagement for such consultants.

• To report to the entire Board at such times as the Committee and Board shall determine, but not less than every quarter.

• To perform such other duties and responsibilities as the Board of Directors may assign from time to time.

iv. Audit Committee

The Committee is established in line with Section 359(6) of the Companies and Allied Matters Act, 1990. The Committee's membership consists of three (3) representatives of the shareholders elected at the Annual General Meeting (AGM) and three (3) non-executive Directors. The Committee meets every quarter, but could also meet at any other time, should the need arise.

The membership of the Committee is as follows:

Shareholders

Alhaji Hamis B. Musa – (Chairman)

Mr. Michael Olusoji Ajayi

Ms. Angela Agidi

Directors

Mr. Babatunde Adejuwon

Alhaji Lawal Sani

Mr. Jeffrey Efeyini

Committee's Terms of Reference

• To meet with the independent Auditors, Chief Financial Officer, internal Auditor and any other Bank executive both individually and/or together, as the Committee deems appropriate at such times as the Committee shall determine to discuss and review:

- the terms of engagement for the independent auditors, the scope of the audit, and the procedures to be used;

- the Bank's quarterly and audited annual financial statements, including any related notes, the Bank's specific disclosures and discussion under "Managements Control Report and the independent auditors' report, in advance of publication;

- the performance and results of the external and internal audits, including the independent auditors' management letter, and management's responses thereto;

- the effectiveness of the Bank's system of internal controls, including computerized information systems and security; any recommendations by the independent auditor and internal auditor regarding internal control issues and any actions taken in response thereto; and, the internal control certification and attestation required to be made in connection with the Bank's quarterly and annual financial reports;

- such other matters in connection with overseeing the financial reporting process and the maintenance of internal controls as the Committee shall deem appropriate.

• To actively engage in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and to take appropriate action in response to the independent auditors' report to satisfy itself of the independent auditors' independence; to periodically evaluate the independent auditor's qualifications and performance including a review of the lead partner, taking into account the opinion of management and the internal auditor.

• To review critical accounting policies and financial statement presentation; to discuss with management and the independent auditors significant financial reporting issues and judgments made in preparation of the Bank's financial statements including the effect of alternative accounting methods; to review major changes in accounting policies.

• To initiate, at its discretion, investigations within the parameters of its responsibilities.

• To prepare the Committee's report for inclusion in the Bank's annual report.

• To report to the entire Board at such times as the Committee shall determine.

• To conduct an annual evaluation of the Committee's performance.

v. Executive Committee (EXCO)

The EXCO comprises of the Managing Director, who chairs it and all Executive Directors. The Committee meets twice weekly (or such other times as business exigency may require) to deliberate and take policy decisions on the effective and efficient management of the Bank. It also serves as a processing unit for issues to be discussed at the Board level. EXCO's primary responsibility is to ensure the implementation of strategies approved by the Board, provide leadership to the Management team and ensure efficient deployment and management of the Bank's resources. Its Chairman is responsible for the day-to-day running and performance of the Bank.

vi. Other Committees

In addition to the afore-mentioned Committees, the Bank has in place, other Standing Management Committees. They include:

(a) Management Committee (MANCO)
(b) Assets and Liabilities Committee (ALCO)
(c) Management Global Credit Committee (MGCC)
(d) Risk Management Committee (RMC)
(e) Information Technology (IT) Steering Committee

The table below shows the frequency of meetings of the Board of Directors, Board Committees and members' attendance at these meetings during the year under review.

Directors	Board	Credit Committee	Staff Matters, Finance & General Purpose Committee	Risk Management Committee
Number of Meetings	**4**	**4**	**4**	**4**
Attendance				
Sir Steve Omojafor	4	N/A	N/A	N/A
Mr. Babatunde Adejuwon	4	4	N/A	4 *
Alhaji Baba Tela	4	4	4	N/A
Alhaji Lawal Sani	3	N/A	1 **	3
Mr. Jeffrey Efeyini	4	4	N/A	4 (*)
Prof. Chukuka Enwemeka *	3	N/A	3	1 **
Ms. Amal Pepple	2 ***	N/A	2	2
Mr. Godwin Emefiele	4	4	4	4
Mr. Elias Igbinakenzua	4	4	N/A	N/A
Mr. Peter Amangbo	4	N/A	4	N/A
Mr. Apollos Ikpobe	4	4	N/A	N/A
Mr. Udom Emmanuel	3	N/A	N/A	4
Mr. Andy Ojei	4	N/A	4	4

Note:
* Appointed Committee Chairman at the meeting of October 14, 2011 following CBN rule on Committee composition.

** Appointed Committee member at the meeting of October 14, 2011 following the resignation of Ms. Amal Pepple.

*** Resigned from the Board with effect from July, 2011 following her appointment as the Honourable Minister of Housing and Urban Development (Federal Republic of Nigeria).

(*) Following CBN rule on Committee composition, reliquished position of Chairman of the Committee.
N/A Not applicable (not a committee member).

The table below shows the frequency of meetings of the Audit Committee and members' attendance at these meetings during the year under review.

Members	**Audit committee**
Number of Meetings	4
Attendance	
Alhaji Hamis B. Musa	4
Alade A. Akesode Esq	1 *
Mr. Michael Olusoji Ajayi	3 **
Ms. Angela Agidi	3
Mr. Babatunde Adejuwon	4
Mr. Jeffrey Efeyini	4
Alhaji Lawal Sani	3

Note:
* Retired at Annual General Meeting (AGM) of April 2011.
** Elected at the Annual General Meeting (AGM) of April 2011.

f. Relationship with Shareholders

As a deliberate policy, Zenith Bank maintains an effective and candid communication with its shareholders, which enables them understand our business, financial condition and operating performance and trends. Apart from our annual report and accounts, proxy statements and formal shareholders' meetings, we maintain a rich website (with suggestion boxes) that provide information on a wide range of issues for all stakeholders.

The Bank has an Investors Relations Unit which holds regular fora to brief all stakeholders on operations of the Bank.

The Bank also, from time to time, holds briefing sessions with market operators (stockbrokers, dealers, institutional investors, issuing houses, stock analysts, etc) to update them with the state of our business. These professionals, as advisers and purveyors of information, relate with and relay to the shareholders useful information about us. We also regularly brief the regulatory authorities, and file statutory returns which are usually accessible to the shareholders.

g. Customer ATM Complaint's Resolution

Number of complaints	Number resolved	Number not resolved	Number refered to CBN
60	40	20	Nil

Zenith Bank Plc
Statement Of Directors' Responsibility
In Relation To The Financial Statements
For The Year Ended 31 December 2011

The Directors accept responsibility for the preparation of financial statements set out on pages 18 to 90 that give a true and fair view in accordance with International Financial Reporting Standards.

The Directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied Matters Act of Nigeria and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

The Directors have made assessment of the Bank's ability to continue as a going concern and have no reason to believe that the Bank will not remain a going concern in the year ahead.

SIGNED ON BEHALF OF THE
BOARD OF DIRECTORS BY:

Sir Steven Omojáfor	Godwin Emefiele	Udom Emmanuel
Chairman	Group Managing Director / CEO	Executive Director/ CFO
30 August 2012	30 August 2012	30 August 2012

Report of the Audit Committee

for the period ended 31 December 2011

In compliance with Section 359(6) of the Companies and Allied Matters Act 1990, the members of the Audit Committee of Zenith Bank Plc, hereby report as follows:

1. The scope and planning of the audit were adequate in our opinion.

2. The accounting and reporting policies of the bank conformed with statutory requirements and agreed to ethical practices.

3. The internal control system was being constantly and effectively monitored; and

4. The external auditors' management controls report received satisfactory response from management.

5. Related party transactions and balances have been disclosed in note 40 to the Financial Statements in accordance with the Central Bank of Nigeria (CBN) circular BSD/1/2004.

Dated January 27, 2012.

Alhaji Hamis B. Musa
Chairman, Audit Committee

MEMBERS OF THE COMMITTEE

1. Alhaji Hamis B. Musa
2. Mr. Michael Olusoji Ajayi
3. Mr. Babatunde Adejuwon
4. Alhaji Lawal Sani
5. Mr. Jeffrey Efeyini
6. Ms. Angela Agidi

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INDEPENDENT AUDITOR'S REPORT

To the Members of **Zenith Bank Plc:**

We have audited the accompanying financial statements of Zenith Bank Plc ("the Bank") and its subsidiary companies (together "the Group"), which comprise the consolidated and separate statements of financial position as at 31 December, 2011, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 18 to 90.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements give a true and fair view of the financial position of Zenith Bank Plc ("the Bank") and its subsidiaries (together "the Group") as at 31 December, 2011, and of the Group's and Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

As described in note 2.1.a to the financial statements, the accompanying financial statements have been prepared in addion to the statutory financial statements of the Bank and the Group. The statutory financial statements were prepared in accordance with Statement of Accounting Standards applicable in Nigeria and we issued a report on those statutory financial statements.

KPMG

30 August 2012

Lagos, Nigeria

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

A 199442

Zenith Bank Plc
Statements of Comprehensive Income
For The Year Ended 31 December 2011

	Note	Group 2011	Group 2010	Bank 2011	Bank 2010
		N'million	N'million	**N'million**	N'million
Gross earnings		**243,948**	193,313	**214,980**	168,415
Interest and similar income	6	**163,192**	132,046	**155,871**	124,337
Interest and similar expense	7	**(34,906)**	(35,719)	**(33,407)**	(34,522)
Net interest income		**128,286**	96,327	**122,464**	89,815
Impairment charge for credit losses	8	**(16,514)**	(4,608)	**(15,900)**	(3,317)
Net interest income after impairment charge for credit losses		**111,772**	91,719	**106,564**	86,498
Fee and commission income	9	**42,197**	36,637	**36,590**	32,589
Net gains on financial instruments measured at fair value through profit or loss	10	**18,524**	11,912	**15,714**	10,823
Other income	11	**6,803**	704	**6,805**	666
Share of profit/(loss) of associates		**45**	27	**-**	-
Operating expenses	12	**(116,228)**	(96,179)	**(108,529)**	(89,107)
Profit before tax from continuing operations		**63,113**	44,820	**57,144**	41,469
Profit before tax from discontinued operations		**4,327**	5,294	**-**	-
Total Profit before tax		**67,440**	50,114	**57,144**	41,469
Income tax expense from continuing operations	13	**(17,261)**	(10,609)	**(15,843)**	(9,164)
Income tax expense from discontinued operations		**(1,475)**	(1,682)	**-**	-
Total Income tax expense		**(18,736)**	(12,291)	**(15,843)**	(9,164)
Profit from continuing operations (net of tax)		**45,852**	34,211	**41,301**	32,305
Profit from diccontinued operations (net of tax)		**2,852**	3,612	**-**	-
Profit for the year		**48,704**	37,823	**41,301**	32,305
Other comprehensive income					
Foreign currency translation differences		**(421)**	(507)	**-**	-
Fair value movements on equity instruments		**705**	210	**705**	210
Tax effect of equity instruments at fair value		**(211)**	(63)	**(211)**	(63)
Other comprehensive income for the year, net of tax		**73**	(360)	**494**	147
Total comprehensive income for the year		**48,777**	37,463	**41,795**	32,452
Profit attributable to:					
Equity holders of the parent		**48,423**	37,703	**41,301**	32,305
Non controlling interests		**281**	120	**-**	-
Total comprehensive income attributable to:					
Equity holders of the parent		**48,527**	37,331	**41,795**	32,452
Non controlling interests		**250**	132	**-**	-
Earnings per share for profit from total operations attributable to equity holders of					
Basic	15	**154 k**	120 k	**132 k**	103 k
Earnings per share for profit from continuing operations attributable to equity holders of					
Basic	15	**146 k**	109 k	**132 k**	103 k

The accompanying notes are an integral part of these consolidated and separate financial statements

Zenith Bank Plc
Statements Of Financial Position
As At 31 December 2011

	Note	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
Assets					
Cash and balances with central banks	16	**223,187**	141,724	**211,098**	130,604
Treasury bills	17	**510,738**	298,858	**494,253**	287,981
Due from other banks	18	**234,521**	399,478	**246,364**	374,604
Loans and advances	19	**893,834**	754,024	**827,035**	707,586
Reinsurance assets and insurance receivables	20	**-**	1,121	**-**	-
Investment securities	21	**308,231**	211,804	**267,050**	172,180
Investment in subsidiaries	22	**-**	-	**17,365**	37,134
Investment associates	23	**1,756**	2,443	**1,822**	2,509
Deferred tax assets	24	**186**	1,657	**-**	-
Other assets	25	**25,510**	20,457	**17,616**	15,402
Assets classified as held for sale	26	**52,482**	-	**12,818**	-
Investment property	27	**7,114**	7,342	**7,114**	6,895
Property and equipment	28	**68,366**	66,585	**65,877**	63,000
Intangible assets	29	**770**	827	**661**	784
Total assets		**2,326,695**	1,906,320	**2,169,073**	1,798,679
Liabilities					
Customers deposits	30	**1,655,458**	1,319,762	**1,577,290**	1,290,014
Claims payable		**-**	218	**-**	-
Current income tax	13	**13,348**	3,735	**11,934**	1,010
Deferred income tax liabilities	24	**10,742**	10,348	**10,732**	9,869
Other liabilities	31	**152,836**	143,373	**126,660**	86,470
Liabilities on insurance contracts	32	**-**	2,287	**-**	-
On-lending facilities	33	**49,370**	26,049	**49,370**	26,049
Borrowings	34	**21,070**	28,358	**21,070**	28,358
Liabilities classified as held for sale	35	**29,603**	-	**-**	-
Total liabilities		**1,932,427**	1,534,130	**1,797,056**	1,441,770
Capital and reserves					
Share capital	36	**15,698**	15,698	**15,698**	15,698
Share premium	37	**255,047**	255,047	**255,047**	255,047
Retained earnings		**75,072**	64,826	**55,028**	51,769
Other reserves		**45,765**	34,202	**46,244**	34,395
Attributable to equity holders of the parent		**391,582**	369,773	**372,017**	356,909
Non-controlling interest		**2,686**	2,417	**-**	-
Total shareholders' equity		**394,268**	372,190	**372,017**	356,909
Total liabilities and equity		**2,326,695**	1,906,320	**2,169,073**	1,798,679

The accompanying notes are an integral part of these consolidated and separate financial statements.

The financial statements were approved by the Board of Directors on 30 August 2012 and signed on its behalf by:

Sir Steve Omojafor (Chairman)

Godwin Emefiele (Group Managing Director and Chief Executive)

Udom Emmanuel (Executive Director and Chief Financial Officer)

Zenith Bank Plc
Statement Of Changes In Equity

Group	Share capital N'million	Share premium N'million	Retained earnings N'million	Statutory reserve N'million	SMIEIS reserve N'million	Contingency reserve N'million	Revaluation reserve (investment securities) N'million	Bonus issue reserve N'million	Credit risk reserve N'million	Foreign currency translation reserve N'million	Total N'million	Non-controlling interest N'million	Total equity N'million
At 1 January 2010	12,559	255,047	51,170	19,634	3,729	431	1,309	-	-	(303)	343,576	2,315	345,891
Profit	-	-	37,703	-	-	-	-	-	-	-	37,703	120	37,823
Foreign currency translation differences	-	-	-	-	-	-	-	-	-	(519)	(519)	12	(507)
Increase in shareholding	-	-	-	-	-	-	-	-	-	-	-	10	10
Share of revaluation reserve	-	-	-	-	-	-	129	-	-	-	129	-	129
instruments, net of tax	-	-	-	-	-	-	147	-	-	-	147	-	147
Changes in the revaluation surplus	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	37,703	-	-	-	276	-	-	(519)	37,460	142	37,602
Issue of new shares	-	-	-	-	-	-	-	-	-	-	-		
Issue of bonus shares	3,139	-	-	-	-	-	-	(3,139)	-	-	-	-	-
Share issue expenses	-	-	(11,303)	-	-	-	-	-	-	-	(11,303)		(11,303)
Dividends	-	-	(5,186)	5,000	-	186	-	-	-	-	-		-
Transfer from retained earnings	-	-	(7,598)	-	-	-	-	3,139	4,459	-	-		-
Changes in ownership interests in subsidiaries without loss of control and other changes	-	-	40	-	-	-	-	-	-	-	40	(40)	-
At 31 December 2010	15,698	255,047	64,826	24,634	3,729	617	1,585	-	4,459	(822)	369,773	2,417	372,190
Profit			48,423	-	-	-	-	-	-		48,423	281	48,704
Foreign currency translation differences	-	-	-	-	-	-	-	-	-	(421)	(421)	-	(421)
Fair value movements on equity instruments, net of tax	-	-	-	-	-	-	494	-	-	-	494	-	494
Changes in the revaluation surplus	-	-	-	-	-	-	-	-	-	-	-	(31)	(31)
Total comprehensive income	-	-	48,423	-	-	-	494	-	-	(421)	48,496	250	48,746
Issue of new shares													-
Issue of bonus shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	(26,687)	-	-	-	-	-	-	-	(26,687)	-	(26,687)
Transfer from retained earnings	-	-	(135)		-	135	-	-	-	-	-	-	-
Transfer between reserves	-	-	(11,355)	5,571	-	-	-	-	5,784	-	-	-	-
Changes in ownership interests in subsidiaries without loss of control and other changes	-	-	-	-	-	-	-	-	-	-	-	19	19
At 31 December 2011	15,698	255,047	75,072	30,205	3,729	752	2,079	-	10,243	(1,243)	391,582	2,686	394,268

The accompanying notes are an integral part of these consolidated and separate financial statements.

Zenith Bank Plc
Statement Of Changes In Equity

Bank	Share Capital N'million	Share Premium N'million	Retained earnings N'million	Statutory reserve N'million	SMIEIS reserve N'million	Revaluation reserve (investment securities) N'million	Bonus issue reserve N'million	Credit Risk reserve N'million	Total equity N'million
At 1 January 2010	12,559	255,047	43,365	19,633	3,729	1,427	-	-	335,760
Profit	-	-	32,305	-	-	-	-	-	32,305
Foreign currency translation differences	-	-	-	-	-	-	-	-	-
Fair value movements on equity instruments, net of tax	-	-	-	-	-	147	-	-	147
Total comprehensive income	-	-	32,305	-	-	147	-		32,452
Issue of new shares									
Issue of bonus shares	3,139	-	-	-	-	-	(3,139)	-	-
Share issue expenses	-	-	-	-	-	-	-	-	-
Dividends	-	-	(11,303)	-	-	-	-	-	(11,303)
Transfer from retained earnings	-	-	(5,000)	5,000	-	-	-	-	-
Transfer between reserves	-	-	(7,598)	-	-	-	3,139	4,459	-
At 31 December 2010	15,698	255,047	51,769	24,633	3,729	1,574	-	4,459	356,909
Profit		-	41,301	-	-	-	-	-	41,301
Foreign currency translation differences		-						-	-
Fair value movements on equity								-	-
Changes in the revaluation surplus		-				494		-	494
Total comprehensive income	-	-	41,300.65	-	-	494	-	-	41,795
Issue of new shares									
Issue of bonus shares	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Transfer from retained earnings			(26,687)	-	-	-	-	-	(26,687)
Transfer between reserves	-	-	(11,355)	5,571	-	-	-	5,784	-
At 31 December 2011	15,698	255,047	55,028	30,204	3,729	2,068	-	10,243	372,017

The accompanying notes are an integral part of these consolidated and separate financial statements.

Zenith Bank Plc
Consolidated And Separate Statements of Cash Flows
For The Year Ended 31 December

	Note	Group 2011	Group 2010	Bank 2011	Bank 2010
		N'million	N'million	**N'million**	N'million
Operating activities					
Profit after tax for the year		**48,704**	37,823	**41,301**	32,305
Impairment					
- on loans and advances		**17,837**	5,165	**16,346**	3,920
- on leases		**(357)**	358	**(357)**	358
- Insurance receivables		**0**	403		
- other assets		**(89)**	(949)	**(89)**	(961)
Fair value changes recognised in profit and loss		**(205)**	(813)	**(171)**	(804)
Depreciation and amortisation	25	**12,485**	12,446	**11,527**	11,452
Dividend income	11	**(240)**	-	**(249)**	-
Net interest income		**(128,286)**	(98,485)	**(122,464)**	(89,815)
Share of (profit)/loss of associates		**(45)**	(27)	**-**	-
(Profit)/loss on sale of property, plant and equipment		**(58)**	(68)	**(51)**	(59)
Tax expense		**18,736**	12,291	**15,843**	9,164
		(31,518)	(31,856)	**(38,364)**	(34,440)
Changes in operating assets:		**(504,444)**	(151,158)	**(473,053)**	(108,159)
Loans and advances		**(155,910)**	(51,894)	**(135,438)**	(34,104)
Other assets		**(4,950)**	2,844	**(2,125)**	7,152
Treasury bills with maturities greater than three months		**(153,640)**	(43,026)	**(146,684)**	(45,714)
Reinsurance assets and insurance receivables		**3,096**	70	**-**	-
Cash reserves		**(94,618)**	(2,075)	**(94,813)**	(1,808)
Statutory deposits		**500**	-	**-**	-
Decrease in long term prepayment		**-**	(6,754)	**-**	(6,754)
Debt securities		**(98,922)**	(50,323)	**(93,993)**	(26,931)
Changes in operating liabilities:		**342,654**	194,521	**327,466**	181,716
Claims payable		**(218)**	20	**-**	-
Liabilities on insurance contracts		**(2,287)**	126	**-**	-
Customers deposits		**335,696**	141,574	**287,276**	175,743
Other liabilities		**9,463**	52,801	**40,190**	5,973
Cash flows (used in)/generated from operating activities		**(193,308)**	11,507	**(183,951)**	39,118
Interest received		**163,192**	134,204	**155,871**	124,337
Interest paid		**(34,906)**	(35,719)	**(33,407)**	(34,522)
Tax paid	13	**(6,569)**	(12,652)	**(4,266)**	(10,286)
Cash flows from discontinued operations		**23,682**	-	**-**	-
Net cash flows (used in)/generated from operations		**(47,909)**	97,340	**(65,754)**	118,647
Investing activities					
Purchase of Property and equipment	28	**(14,725)**	(7,038)	**(13,995)**	(5,845)
Purchase of Intangible assets	29	**(275)**	(498)	**(175)**	(415)
Proceed from sale of property and equipment		**131**	614	**87**	496
Purchase of investment property		**(367)**	(768)	**(367)**	(736)
Proceed from sale of investment property		**447**	-	**-**	-
Purchase of equity securities	21	**-**	(8,039)	**-**	-
Proceeds from sale of equity securities	21	**2,769**	5,170	**-**	-
(Investment in)/ Disposal of associates		**687**	-	**687**	-
Dividends received		**285**	27	**249**	-
Investment in subsidiaries		**-**	-	**(239)**	(1,038)
Divestment from subsidiaries		**-**	-	**7,190**	-
Cash flows from discontinued operations		**(5,473)**	-	**-**	-
Net cash used in investing activities		**(16,521)**	(10,532)	**(6,563)**	(7,538)

Financing activities				
Dividend paid to shareholders	**(26,687)**	(11,303)	**(26,687)**	(11,303)
Borrowed funds				
- inflow from long term borrowing	**-**	6,877	**-**	6,877
- repayment of long term borrowing	**(7,288)**	(14,921)	**(7,288)**	(14,921)
Inflow from On-lending facilities	**23,321**	26,049	**23,321**	26,049
Net cash (used in)/generated from financing activities	**(10,654)**	6,702	**(10,654)**	6,702
Increase/(Decrease) in cash and cash equivalents	**(75,084)**	93,510	**(82,971)**	117,811
Analysis of changes in cash and cash equivalents:				
Cash and cash equivalents at start of year	**644,988**	550,668	**603,950**	486,139
Increase/(Decrease) in cash and cash equivalents	**(75,084)**	93,510	**(82,971)**	117,811
Cash and cash equivalents from discontinued operations	**(42,302)**	-	**-**	-
Exchange rate movements on cash and cash equivalents	**(1,986)**	810	-	-
	525,616	644,988	**520,979**	603,950

The accompanying notes are an integral part of these consolidated and separate financial statements.

1 General information

Zenith Bank Plc (the "Bank") was incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability company on May 30, 1990. It was granted a banking licence in June 1990, to carry on the business of commercial banking and commenced business on 16 June 1990. The Bank was converted into a Public Limited Liability Company on May 20, 2004. The Bank's shares were listed on October 21, 2004 on the Nigerian Stock Exchange.

The principal activity of the Bank is the provision of banking and other financial services to corporate and individual customers. Such services include granting of loans and advances, corporate finance and money market activities.

The Bank has twelve subsidiary companies namely, Zenith Securities Limited, Zenith General Insurance Company Limited, Zenith Bank (Ghana) Limited, Zenith Pension Custodian Limited, Zenith Bank (UK) Limited, Zenith Capital Limited, Zenith Registrars Limited, Zenith Medicare Limited, Zenith Trustees Limited, Zenith Life Assurance Company Limited, Zenith Bank (Sierra Leone) Limited and Zenith Bank (Gambia) Limited.

In 2008, the Bank changed its accounting year end from 30 June to 30 September and as a result, prepared financial statements for fifteen months. In 2009, the Bank also changed its accounting year end from 30 September to 31 December in compliance with CBN directive of uniform accounting year end of 31 December for all Nigerian banks and therefore prepared financial statements for fifteen months.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2011 comprise the Bank and its subsidiaries (together referred to as "the Group" and individually as "Group entities") and the Group's interest in associates. The separate financial statements comprise the Bank. The consolidated and separate financial statements for the year ended 31 December 2011 were approved for issue by the Board of Directors on 30 August 2012.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

a. Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs). They have been prepared in addition to the Group's statutory financial statements (not included herein), which were prepared in accordance with Statements of Accounting Standards applicable in Nigeria (Nigerian GAAP). The IFRS accounting policies have been consistently applied to all periods presented.

b. Basis of measurement

The financial statements have been prepared in accordance with the going concern principle under the historical cost convention as modified by the measurement of certain financial assets and financial liabilities held at fair value.

c. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated and separate financial statements are disclosed in note 4**.**

2.2 New standards, interpretations and amendments to existing standards that are not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these consolidated and separate financial statements.

The Group plans to apply the guidance below on their respective effective dates. Management is in the process of assessing the impact of the guidance on the Group.

● IAS 27 *Separate Financial Statements (effective on or after 1 January 2013)*
● IAS 28 *Investments in Associates (effective on or after 1 January 2013)*
● IFRS 9 (2010)*, Financial Instruments (effective on or after 1 January 2013)*
● IFRS 10 *Consolidated Financial Statements (effective on or after 1 January 2013)*
● IFRS 11 *Joint Arrangements (effective on or after 1 January 2013)*
● IFRS 12 *Disclosure of Interests in other Entities (effective on or after 1 January 2013)*
● IFRS 13 *Fair Value Measurement (effective on or after 1 January 2013)*

The following guidance is not expected to have a material impact on the Group's financial statements:

● IAS 1 *Presentation of Financial Statements - Improvements to IFRSs 2010 (effective on or after 1 January 2011),*
● Amendment to IFRIC 14 *Pre-payments of a Minimum Funding Requirement (effective on or after 1 January 2011)*
● IFRIC 19 *The Limits on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective on or after 1 July 2010)*

2.3 Basis of consolidation

(a) Subsidiaries

The financial statements of subsidiaries are consolidated from the date the Group acquires control, up to the date that such effective control ceases. For the purpose of these financial statements, subsidiaries are entities over which the Group, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from their activities.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners). Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Group.

Inter-company transactions, balances and unrealised gains on transactions between companies within the Group are eliminated on consolidation. Unrealised losses are also eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the separate financial statements, investments in subsidiaries and associates are measured at cost.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in profit or loss.

2.4 Foreign currency translations

(a) Functional and presentation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The parent entity's functional currency (Nigerian Naira) is adopted as the presentation currency for the consolidated financial statements. Except as otherwise indicated, financial information presented in Naira has been rounded to the nearest million.

(b) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On the disposal of a foreign operation, the Group recognises in profit or loss the cumulative amount of exchange differences relating to that foreign operation. When a subsidiary that includes a foreign operation is partially disposed of or sold, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In the case of any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of exchange differences recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the reporting date.

(c) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to the functional currency using the exchange rate at the transaction date, and those measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Exchange differences on non-monetary assets are accounted for based on the classification of the underlying items.

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on equities measured at fair value through other comprehensive income are included in the revaluation reserve in other comprehensive income.

Foreign currency gains and losses on intragroup loans are recognised in profit or loss unless settlement of the loan is neither planned nor likely to occur in the foreseeable future, in which case the foreign currency gains and losses are initially recognised in the foreign currency translation reserve in the consolidated financial statements. Those gains and losses are recognised in profit or loss at the earlier of settling the loan or at the time at which the foreign operation is disposed.

2.5 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

2.6 Financial instruments

(a) Initial recognition and measurement

Financial instruments at fair value through profit or loss are recognised at fair value with transaction costs, which are directly attributable to the acquisition or issue of the financial instruments, being recognised immediately through profit or loss. Financial instruments that are not carried at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instruments.

Financial instruments are recognised or derecognised on the date the Group commits to purchase or sell the instruments (trade day accounting).

The Group does not apply hedge accounting.

(b) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost depending on their classification.

(c) Classification and measurement

(i) Financial assets

The Group classifies its financial assets as subsequently measured at amortised cost or fair value.

A financial asset is subsequently measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest in this context is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. Interest income is recognised in Interest and similar income.

All other financial assets are subsequently measured at fair value. Financial assets which meet the requirement for measurement at amortised cost may also be designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch). Gains and losses arising from changes in the fair value of financial assets subsequently measured at fair value are recognised in profit or loss ("FVTPL"), except where the Group elects to present in other comprehensive income fair value gains and losses arising on investments in equity instruments which are not held for trading but for strategic purposes ("Fair value through OCI"). Gains and losses recognised directly in other comprehensive income are not subsequently transferred to profit or loss on disposal of the equity instrument.

(ii) Financial liabilities

Financial liabilities consist of financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

Financial liabilities that are not classified as at fair value through profit or loss are measured at amortised cost. Interest expenditure is recognised in Interest and similar expense.

No financial liabilities have been classified as at fair value through profit or loss at any of the reporting dates covered by this set of financial statements.

(d) Determination of fair value

At initial recognition, the best evidence of the fair value of a financial instrument is the transaction price (i.e. the fair value of the consideration paid or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models and option pricing models whose variables include only data from observable markets.

Subsequent to initial recognition, the fair value of a financial instrument is based on quoted market prices or dealer price quotation for financial instruments traded in an active market. If the market for a financial instrument is not active or the instrument is not listed, the fair value is determined using valuation techniques. Refer to note 3.3.6(c) for a description of the valuation techniques used by the Group.

(e) Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have expired or the Group has transferred the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or which the Group neither retains substantially all the risks and rewards of ownership and it does not retain control of the financial assets. Any interest in transferred financial assets that qualify for derecognitioon that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a fianncial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised in the statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a protion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(e) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

(f) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(g) Fair value

Fair value is the amount for which an asset could be exchanged , or a liability settled, between knowledgeable, willing parties in an arm's lenth transaction on the measurement date.

When available, the Group measures the fair value of an instrument using qouted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if availabl), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The choisen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs into valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

2.7 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of impairmement loss for financial assets carried at amortised cost is is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets are reflected and directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss under impairment charge for credit losses.

2.8 Impairment of non-financial assets

The carrying amounts of the Group's non-fianncial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit (CGU) exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax disccount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purposes of assessing impairment, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

2.9 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Where significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property and equipment are depreciated on the straight line basis to thier residual values over the estimated useful lives of the assets. The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each reporting date and the depreciation method is reviewed at each financial year end. Leasehold land and buildings are depreciated over the period of the lease or over such lesser period as is considered appropriate.

Depreciation is calculated on a straight line basis to write down the cost of property and equipment to their residual values over their estimated useful lives as follows:

Motor vehicles	- 4 years
Office equipment	- 5 years
Furniture and fittings	- 5 years
Computer hardware and equipment	- 3 years
Buildings	- 50 years

Depreciation is included in profit or loss.

Work in progress consists of items of property and equipment that are not yet available for use. Work in progress is carried at cost less any required impairment. An impairment loss is recognised if the asset's recoverable amount is less than cost. The asset is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Once the items are avaialable for use, they are transferred to relevant classes of property and equipment as appropriate.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

2.10 Intangible assets

(a) Computer software

Sotware not integral to the related hardware acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group, are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that the asset is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life is 5 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

2.11 Leases

(a) A Group company is the lessee

Leases, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(b) A Group company is the lessor

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in Loans and advances to customers in the statement of financial position.

Finance charges earned are computed using the effective interest method which reflects a constant periodic return on the investment in the finance lease. Initial direct costs paid are capitalised to the value of the lease amount receivable and accounted for over the lease term as an adjustment to the effective rate of return.

Leases of assets under which the Group effectively retains all the risks and rewards of ownership are classified as operating leases. Receipts of operating leases from properties held as investment properties in investment management and life insurance activities, net of any incentives given to lessees, are accounted for as income on the straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of penalty is recognised as income in the period in which termination takes place.

2.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements.

Provisions are recognised when the separate entities in the Group have a present or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount of the obligation can be made.

2.13 Employee benefits

(a) Post-employment benefits

The Group operates defined contributions plan based on percentage contribution pension fund by both employer companies and employees, the assets of which are generally held in separate trustee administered funds. Contributions to these plans are charged to profit or loss in the period to which they relate.

(b) Short-term benefits

Short-term benefits consist of salaries, accumulated leave allowances, profit share, bonuses and any non-monetary benefits.

Short-term employees' benefits are measured on an undiscounted basis and are expensed as the related services are provided.

A liability is recognised for the amount expected to be paid under short-term cash benefits such as accumulated leave and leave allowances if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

2.14 Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the end of the reporting period are dealt with in the subsequent events note.

(c) Treasury shares

Where the Bank or other members of the Group purchase the Bank's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

2.15 Recognition of interest income and expense

Interest income and expense for all financial assets and financial liabilities carried at amortised cost are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities oin the statement of financial position, are capitalised to the carrying amount of financial instruments, excluding financial instruments at fair value through profit or loss, and amortised as interest income or expense over the life of the asset as part of the effective interest rate.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Where the estimated cash flows on financial assets are subsequently revised, other than impairment losses, the carrying amount of the financial assets is adjusted to reflect actual and revised estimated cash flows.

Where a financial asset or a Group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.16 Fees, commissions and other income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income and expenses are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, are recognised on completion of the underlying transaction.

Dividend income is recognised in profit or loss in the period in which the right of receipt is established.

2.17 Insurance and investment

The Group issues contracts that transfer insurance risk, financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. The Group defines as significant insurance risk the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk without significant insurance risk. Financial risk refers to the risk of a possible future change in the value of an asset or financial instrument due to a change in interest rate, commodity price, index of prices, foreign exchange rate or other measurable variable.

(a) Insurance contracts

In terms of IFRS 4, insurance liabilities are measured under existing local practice at the date of adoption of IFRS 4.

The Group had, prior to the adoption of IFRS 4, valued insurance liabilities using certain actuarial techniques as described below. The Group has continued to value insurance liabilities in accordance with these.

Insurance contracts are classified into three broad categories, depending on the duration of the risk and the type of risk insured, namely Individual Life, Group Life and General insurance.

(i) Individual life

These contracts insure mainly against death. For the published accounts, the contracts are valued based on a gross premium valuation taking into account the present value of expected future premium, claim and associated expense cash flows.

Any resultant negative policyholder liabilities, measured on an individual policy level, are set to zero ("zeroised") so as not to recognise profits prematurely.

Where the same policy includes both insurance and investment components and where the policy is classified as insurance, the insurance and investment benefits are valued separately.

(ii) Group Life

These contracts insure against death on a group basis. These contracts are short term in nature and are typically renewed annually. For these contracts, gross premiums are recognised as revenue when due.

(iii) General Insurance

These contracts provide Fire, Accident, Motor, Marine, Bond, Engineering and Aviation insurance. For these contracts, gross premiums are recognised as revenue when due.

(iv) Outstanding claims provision

A full provision is made for the estimated cost of all claims notified but not settled at the reporting date, using the best information available at that time. Provision is also made for the cost of claims incurred but not reported ("IBNR") until after the reporting date.

Similarly, provisions are made for “unallocated claims expenses” being the estimated administrative expenses that will be incurred after the reporting date in settling all claims outstanding as at the date, including IBNR. Differences between the provision for outstanding claims at a reporting date and the subsequent settlement are included in the Revenue Account of the following year.

(b) Insurance contracts with Discretionary Participation Features

Zenith issues single premium contracts that provide primarily savings benefits to policyholders but also transfer insurance risk. The investment return credited to the policyholders is at Zenith’s discretion, subject to fair oversight and a minimum guaranteed.These contracts are valued on a retrospective basis.

(i) Embedded Investment Derivatives

Embedded derivatives are analysed and valued separately where significant to the total liability, taking into account variation in investment performance and interest rates.

(ii) Guaranteed Annuity Options

Guaranteed Annuity Options, where a guaranteed rate of conversion to a life annuity is provided, is offered on some products. This feature provides an option to the policyholder as is analysed and valued separately where significant to the total liability, taking into account expected take-up rates, mortality variation and investment variation.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity and subsequently recognised in profit or loss when the related deferred gain or loss is recognised.

(a) Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Bank’s subsidiaries and associates operate and generate taxable income.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.
Deferred tax is not recognised for the following temporary differences:
• the initial recognition of goodwill;
• the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and
• investments in subsidiaries and joint ventures (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax related to the fair value re-measurement of equity instruments which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is not subsequently transferred from equity to profit or loss.

2.19 Earnings per share

The Group presents basic earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

2.20 Segment reporting

An operating segment is a component of the Group engaged in business activities from which it can earn revenues, whose operating results are regularly reviewed by the Group's Executive [Management/Board] in order to make decisions about resources to be allocated to segments and assessing segment performance. The Group’s identification of segments and the measurement of segment results is based on the Group’s internal reporting to management.

2.21 Fiduciary activities

The Group acts as trustees and in other fiduciary capacities through Zenith Trustees Limited and Zenith Pension Custodians that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.22 Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or a geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

2.23 Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Intangible assets and property and equipment once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

2.24 Investment Property

An investment property is an investment in land or buildings held primarily for generating income, capital appreciation or both and not occupied substantially for use in the operations of the Group.

Investment property is initially recognized and subsequently measured at cost less accumulated depreciation and impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Investment property held by the Group is depreciated over an estimated useful life of 50 years. Fair values are determined at the end of each reporting period and disclosed.

3. Risk management

3.1 Enterprise Risk Review

The size and nature of the Zenith Group's business operations and the diversity of geographical locations require identification, measurement, aggregation and effective management of risks and efficient utilisation of capital to derive an optimal risk and return ratio.

Risks associated with the business of the Group include financial risks, namely, credit risk, liquidity risk and market risk (which includes currency risk, interest rate risk and other price risks) as well as other risks such as operational risk, strategic risk, legal risk, reputational risk, taxation risk, regulatory risk and insurance risk.

3.1.1 Risk Management Philisophy/Strategy

•The group considers sound risk management to be the foundation of a long lasting financial institution.
•The group continues to adopt a holistic and intergrated 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 Bank aims to build a shared perspective on risks that is grounded in consensus.
•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 Bank.
•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.

<u>3.1.2 Risk Appetite</u>

The Group's risk appetite is reviewed by the Board of Directors annually, at a level that minimises erosion of earnings or capital due to avoidable losses or from frauds and operational inefficiencies. This reflect the conservative nature of Zenith Group as far as risk taking is concerned.

The Group employs a range of quantitative indicators to monitor the risk profile. Specific limits have been set in line with the Group's risk appetite.

3.1.3 Risk Management Approach

The Group addresses the challenge of risks comprehensively through an enterprise-wide risk management framework by applying leading practices that is 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 commitee provides oversight on the systems of internal control, financial reporting and compliance. The Board credit commitee 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 (Global Credit commitee and Management Risk committee) that hep it develop and implement various risk strategies. The Global Credit commitee manages the credit approval and documentation activities. It ensures that the credit policies and procedures are aligned with the bank's business objectives and strategies. The Management Risk committee drives the management of the financial risks (Market, Liquidity and Credit Risk), operational risks as well as strategic and reputational risks.

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

The key features of the Group's risk management policy are:
• The Board of Directors provides overall risk management direction and oversight.
• The Group'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 competency of all its employees.
• The Group manages its credit, market, operational and liquidity risks in a co-ordinated manner within the organisation.
• The Group's risk management function is independent of the business divisions.
• The Group'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.

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, lie at the heart of the Group's management of risk.

The Board of Directors is committed to managing compliance with a robust compliance framework to enforce compliance with applicable laws, rules and standards issued by the industry regulators and other law enforcement agencies, market conventions, codes of practices promoted by industry associations and internal policies.
The Bank's culture emphasizes high standard of ethical behaviour at all levels of the Bank. Therefore the Bank's board of directors promotes sound organisation.

3.1.4 Methodology for risk rating

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 Group's activities.

All activities in the Group 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 Group:

• Develop and implement procedures and practices that translate the board's goals, objectives, and risk tolerances into operating standards that are well understood by Bank personnel.

• Establish lines of authority and responsibility for managing individual risk elements in line with the Board's overall direction

• Risk identification, measurement, monitoring and control procedures.

• Establish effective internal controls that cover each risk management process.
• Ensure that the bank's risk management processes are properly documented.

• Create adequate awareness to make risk management a part of the corporate culture of the Bank

• Ensure that risk remains within the boundaries established by the Board

• Ensure that business lines comply with risk parameters and prudent limits established by the Board.

The CBN Risk Management Guidelines prescribes quantitative and qualitative criteria for the identification of significant activities and sets a threshold of contributions for determining significant activities in Bank and its subsidiaries. This practice is essentially to drive the risk control focus of financial institutions.

Zenith Bank applies a mix of qualitative and quantitative techniques in the determination of its significant activities under the prescribed broad headings. The criteria used in estimating the materiality of each activity is essentially based on the following:
• The strategic importance of the activity and sector.
• The contribution of the activity/sector to the total assets of the Bank.
• The net income of the sector.
• The risk inherent in the activity and sector.

Risk Management structures and processes are continually reviewed to ensure, their adequacy and appropriateness for the Bank's risk and opportunities profile as well as bringing them up to date with changes in strategy, business environment, evolving thoughts and trends in risk management.

3.2 Credit Risk

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations resulting in a default situation and/or financial loss. Credit exposures arise principally in credit-related risk that is embedded in loans and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as letters of credit, guarantees and loan commitments.

The Group has dedicated credit standards, policies and procedures to control and monitor intrinsic and concentration risks through all credit levels of selection, underwriting, administration and control. Some of the policies are:

• Credit will only be 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.
• 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.
• Credit will not be 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.
• Credit will not be 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
• 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.
• A pricing model that reflects variations in the risk profile of various credits to ensure that higher risks are compensated by higher returns will be adopted.
• All insiders' related credits are limited to regulatory and strict internal limits and are disclosed as required
• The consequences for non-compliance with the credit policy and credit indiscipline are communicated to all staff and implemented.
• All conflict of interest situations must be avoided.

3.2.1 Credit Metrics and Measurement Tools

Over the years, Zenith Bank and its subsidiaries have been able to devote resources and harness its credit data into developing models to improve the determination of economic and financial threats due to credit risk. As a result some key factors are considered in credit risk measurement.

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

2. The possibility of failure to pay over the period stipulated in the contract.
3. The size of the facility in case default occurs.
4. 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.

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.

3.2.2 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.

(a) Loans and advances and amounts due from banks

Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the experience of the Bank and its various subsidiaries.

In order to allow for a meaningful distribution of exposures across grades with no excessive concentrations on the Group's borrower-rating and its facility-rating scale, the Group maintains the under listed rating grade which is applicable to both new and existing customers.

Zenith Group's internal rating:

Zenith Group Rating	Description of the grade	Equivalent of external rating
AAA	Investment Risk (Extremely Low Risk)	AAA
AA	Investment Risk (Very Low Risk)	AA
A	Investment Risk (Low Risk)	A
BBB	Upper Standard Grade (Acceptable Risk)	BBB
BB	Lower Standard Grade (Moderately High Risk)	BB
B	Non Investment Grade (High Risk)	B
CCC	Non Investment Grade (Very High Risk)	CCC
CC	Non Investment Grade (Extremely High Risk)	CC
C	Non Investment Grade (High Likelihood of Default)	C
D	Non Investment Grade (Lost)	D
Unrated	Unrated	Unrated

The credit rating system will seek to achieve the foundation level of the internal ratings based approach under Pillar 1 of Basle II, through continuous validation exercises over the next few years

(b) Other debt instruments

With respect to other debt instruments, the Group takes the following into consideration in the management of the associated credit risk:

- External ratings of such instruments/institutions by rating agencies like Fitch; Standard & Poor's; Agusto & Co. etc
- Internal and external research and market intelligence reports
- Regulatory agencies reports

In addition to the above, we have put in place a conservative limits structure which is monitored from time to time in order to limit our risk exposures on these securities.

Control mechanisms for the credit risk rating system

Zenith's credit risk rating system is reviewed periodically to confirm that the rating criteria and procedures are appropriate given the current portfolio and external conditions. As all models materially impacting the risk rating process are reviewed in accordance with the Groups model risk policy.
Furthermore, the ratings accorded to customers are regularly reviewed, incorporating new financial information available and the experience in the development of the banking relation. The regularity of the reviews increases in the case of clients who reach certain levels in the automatic warning systems.

3.2.3 Credit Processes
Zenith operates a Centralised Credit Approval Process System. Credits are originated from the branches/business groups and subjected to reviews at various levels before presentation to the Global Credit committee for approvals. All credit presented for approval are required to be in conformity with the documented and communicated Risk Acceptance Criteria(RAC).

1.2.4 Group Credit Risk Management

Zenith'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 enable the Group to deal with the emerging risks and challenges with a high level of confidence and determination.

The framework for credit Risk at Zenith Group is well defined and institutionally predicated on:
• Clear tolerance limits and risk appetite set at the Board level, well communicated to the business units and periodically reviewed and monitored to adjust as appropriate.
• Well-defined target market and risk asset acceptance criteria.
• Rigorous financial, credit and overall risk analysis for each customer/transaction.
• Portfolio quality examined on regular basis according to key performance indicators mechanism and periodic stress testing.
• Concentrations together with mitigation strategies are continuously assessed.
• Early warning system is continually validated and modified to ensure proper functioning for risk identification.
• Systematic and objective credit risk rating methodologies that are based on quantitative, qualitative and expert judgment.
• Systematic credit limits management enabling the Bank to monitor its credit exposure on daily basis at country, borrower, industry, credit risk rating and credit facility type levels.
• Solid documentation and collateral management process with proper coverage and top-up triggers and follow-ups.
• Annual and interim individual credit reviews to ensure detection of weakness signs or warning signals and considering proper remedies.

Our rigorous credit processes are supplemented by sectoral portfolio reviews focused on countries, regions or specific industries as well as multiple stress testing scenarios.

These are intended to identify any inherent risks in the portfolios resulting from changes in market conditions and are supplemented by independent reviews from our Group Internal Audit.

Additionally, the Bank continues to upgrade and fine-tune the above in line with the developments in the financial services industry environment and technology.

3.2.5 Group Credit Risk Limits

In managing credit risk, the Group applies credit risk limits, among other techniques. This is the practice of stipulating a maximum amount that the individual or counterparty can obtain as loan. Internal and regulatory limits are strictly adhered to.Through this, the Group not only protects itself, but also in a sense, protects the counterparty from borrowing more than they are capable of paying

The Group continues to focus on its concentration and intrinsic risks and further manage them to a more comfortable level. This is very important due to the serious risk implications that intrinsic and concentration risk pose to the Group. A thorough analysis of economic factors, market forecasting and prediction based on historical evidence will be used to mitigate the crystallization of these risks

The Group has set portfolio various concentration limits .These limits are closely monitored and reported from time to time.

The Group's internal credit approval limits for the various authorities levels are as indicated below

Approval Authority level	Approval limit (% of Shareholders' Fund)
Board Credit Committee	N10 billion and above (Not exceeding 20% of Total Shareholders' funds)
Global Credit Committee	Below N10 billion

These internal approval limits are set and approved by the Group Board and are reviewed frequently as the state of affairs of the Group and the wider financial environment demands.

3.2.6 Group Credit Risk Monitoring

The Group's exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting adverse 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 monthly and quarterly reporting to ensure senior management awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles

The capabilities of the credit review team has been strengthened in order to improve the facility monitoring activity and assure good quality Risk Assets Portfolio accross the Group.
A specialised and focused Loan Recovery and Workout team handles the management and collection of problem credit facilities

3.2.7 Credit Risk Mitigation, Collateral and other Credit Enhancements

Portfolio diversification is the cornerstone of the Group's credit risk mitigation strategy which is implemented through customer, industry and geographical limit structures. Nevertheless, Zenith uses a variety of techniques to reduce the credit risk arising from its lending activities.
Enforceable legal documentation establishes Zenith's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided.

(a) Collateral Security

A key mitigation step employed by the Group in its credit risk management process includes the use of collateral securities to secure its loans and advances as alternative sources of repayment during adverse conditions. All major credit facilities to our customers must be secured and the security instruments and documentations must be perfected and all conditions precedent must be met before drawdown or disbursement is allowed. Collateral analysis includes a good description of the collateral, its value, how the value was arrived at, and when the valuation was made. It is usually necessary to review the potential adverse changes in the value of collateral security for the foreseeable future.

Collateral securities that are pledged must be in negotiable form and usually fall under the following categories

- Real estate, plant and equipment collateral (usually all asset or mortgage debenture or charge) which have to be registered and enforceable under Nigerian law;
- Collateral consisting of inventory, accounts receivable, machinery equipment, patents, trademarks, farm products, general intangibles, etc. These require a security agreement (usually a floating debenture) which has to be registered and, must be enforceable under Nigerian law;

- Stocks and shares of publicly quoted companies;
- Domiciliation of contracts proceeds;
- Documents of title to goods such as shipping documents consigned to the order of Zenith Bank or any of its subsidiaries; and
- Letter of lien.

Collateral securities are usually valued and inspected prior to disbursement and on a regular basis thereafter until full repayment of the exposure. We regularly conduct a review of all collateral documentation in respect of all credits in the Bank and specific gaps in the collateral documentation are advised to the Lending Group/Zones/Branch for appropriate action and follow-up

The type and size of collateral held as security for financial assets other than loans and advances is usually a function of the nature of the instrument. Our debt securities, treasury and other eligible bills are normally unsecured but our comfort is on the issuer's credit rating.

(b) Balance Sheet Netting Arrangements

Risk reduction by way of current account set-off is recognised for exposures to highly rated and creditworthy customers domiciled in Nigeria only. Customers are required to enter into formal agreements giving Zenith the unfettered right to set-off gross credit and debit balances in their nominated accounts to determine the Groups net exposure. Cross-border set-offs are not permitted.

(c) Guarantees and Standby Letters of Credit

Guarantees and Standby Letters of Credit are considered to carry about the same level of credit risk as loans and advances. And in accordance with the Group's credit policies, banks and creditworthy companies and individuals with high net worth are accepted as guarantor, subject to credit risk assessment. Furthermore Zenith only recognises unconditional irrevocable guarantees or standby letters of credit provided they are not related to the underlying obligor.

3.2.7 Maximum exposure to credit risk before collateral held or credit enhancements

The Group's maximum exposure to credit risk at 31 December 2010 and 2009 respectively, is represented by the net carrying amounts of the financial assets, with the exception of financial and other guarantees issued by the Group for which the maximum exposure to credit risk is represented by the maximum amount the Group would have to pay if the guarantees are called on (refer note 41 Contingent liabilities and commitments).

3.2.8 Concentration of risks of financial assets with credit risk exposure

The Group monitors concentrations of credit risk by geographical location and by industry sector. An analysis of concentrations of credit risk at 31 December 2010 and 2009 respectively for loans and advances to customers and amounts due from banks, is set out below:

(a) Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by geographical region at 31 December 2011 and 2010 respectively. For this table, the Group has allocated exposures to regions based on the region of domicile of our counterparties.

	Group			Bank		
At 31 December 2011 (N'millions)	**Due from banks**	**Loans and advances to customers**	**Total**	**Due from banks**	**Loans and advances to customers**	**Total**
Nigeria	89,259	851,800	**941,059**	49,371	850,917	**900,288**
Rest of Africa	20,567	23,155	**43,722**	196,993	-	**196,993**
Outside Africa	124,695	45,666	**170,361**	-	-	**-**
	234,521	920,621	**1,155,142**	246,364	850,917	**1,097,281**
At 31 December 2010 (N'millions)	**Due from banks**	**Loans and advances to customers**	**Total**	**Due from banks**	**Loans and advances to customers**	**Total**
Nigeria	267,017	743,422	**1,010,439**	207,521	732,352	**939,873**
Rest of Africa	17,028	32,507	**49,535**	167,083	-	**167,083**
Outside Africa	115,433	5,655	**121,088**	-	-	**-**
	399,478	781,584	**1,181,062**	374,604	732,352	**1,106,956**

(b) Industry sectors

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	Loans and advances to customers N'millions	**Loans and advances to customers N'millions**	**Loans and advances to customers N'millions**	**Loans and advances to customers N'millions**
Agriculture	30,403	23,307	29,837	22,651
Oil and gas	153,497	126,738	142,336	116,389
Consumer Credit	47,060	9,225	44,432	9,225
Capital Market	-	8,827	-	5,955
Manufacturing	247,246	198,070	219,970	180,796
Real estate and construction	64,423	71,368	63,792	71,000
Finance and Insurance	18,043	10,961	15,816	8,961
Government	74,117	56,925	73,616	55,921
Power	22,007	38,621	14,248	38,621
Other public utilities	106	2,021	106	2,021
Transportation	48,179	57,958	48,179	57,958
Communication	114,617	76,744	101,209	72,442
Education	1,229	910	1,229	910
General Commerce	67,183	73,472	67,183	73,472
Others	32,511	26,437	28,964	16,030
	920,621	781,584	850,917	732,352

3.2.9 Credit quality

	Group		Bank	
At 31 December 2011 (N'millions)	**Due from banks**	**Loans and advances to customers**	**Due from banks**	**Loans and advances to customers**
Neither past due nor impaired	234,521	843,749	246,364	796,877
Past due but not impaired	-	17,104	-	16,750
Impaired				
Individually impaired	-	22,038	-	19,227
Collectively impaired	-	37,730	-	18,063
Gross	234,521	920,621	246,364	850,917
Impairment allowance				
Specific impairment	-	(12,408)	-	(10,168)
Collective impairment	-	(14,379)	-	(13,714)
	234,521	893,834	246,364	827,035

	Group		Bank	
	Due from banks	**Loans and advances to customers**	**Due from banks**	**Loans and advances to customers**
At 31 December 2010 (N'millions)				
Neither past due nor impaired	399,478	715,991	374,604	671,182
Past due but not impaired	-	8,472	-	8,457
Impaired				
Individually impaired	-	23,484	-	19,946
Collectively impaired	-	33,637	-	32,767
Gross	399,478	781,584	374,604	732,352
Impairment allowance				
Specific impairment	-	(7,235)	-	(6,544)
Collective impairment	-	(20,325)	-	(18,222)
	399,478	754,024	374,604	707,586

All other financial assets are neither past due nor impaired, with the exception of other assets No financial assets which are neither past due nor impaired have been renegotiated (2010: Nil).

(a) Credit portfolio neither past due nor impaired

The credit quality of the portfolio of loans and advances and amounts due from banks that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

	Group		Bank	
At 31 December 2011 (N'millions)	**Due from banks**	**Loans and advances to customers**	**Due from banks**	**Loans and advances to customers**
AAA to AA-	234,521	241,678	246,364	213,380
A+ to A-	-	507,233	-	478,828
BBB+ to BB-	-	84,049	-	77,685
Below BB-	-	24,739	-	22,866
Unrated	-	62,922	-	58,158
	234,521	920,621	246,364	850,917

	Group		Bank	
At 31 December 2010 (N'millions)	**Due from banks**	**Loans and advances to customers**	**Due from banks**	**Loans and advances to customers**
AAA to AA-	399,478	238,586	374,604	217,661
A+ to A-	-	409,798	-	389,097
BBB+ to BB-	-	21,911	-	21,191
Below BB-	-	27,353	-	25,774
Unrated	-	83,936	-	78,629
	399,478	781,584	374,604	732,352

The credit quality of cash and balances with central banks, treasury bills, investments in investment securities and other financial assets that were neither past due nor impaired can also be assessed by reference to the internal rating system adopted by the Group.

(a) Group

At 31 December 2011 (N'millions)	Cash and balances with central banks	Treasury bills	Investment securities	Reinsurance and insurance receivables
AAA to AA-	223,187	510,738	9,390	-
A+ to A-	-	-	298,841	-
BBB+ to BB-	-	-	-	
Below BB-	-	-	-	-
Unrated	-	-	-	-
	223,187	510,738	308,231	-

At 31 December 2010 (N'millions)	Cash and balances with central banks	Treasury bills	Investment securities	Reinsurance and insurance receivables
AAA to AA-	141,724	298,869	8,614	-
A+ to A-	-	-	203,190	-
BBB+ to BB-	-	-	-	
Below BB-	-	-	-	1,121
Unrated	-	-	-	-
	141,724	298,858	211,804	1,121

(b) Bank

At 31 December 2011 (N'millions)	Cash and balances with central banks	Treasury bills	Investment securities	Reinsurance and insurance receivables
AAA to AA-	211,098	494,253	257,660	-
A+ to A-	-	-	9,390	-
BBB+ to BB-	-	-	-	-
Below BB-	-	-	-	-
Unrated	-	-	-	-
	211,098	494,253	267,050	-

At 31 December 2010 (N'millions)	Cash and balances with central banks	Treasury bills	Investment securities	Reinsurance and insurance receivables
AAA to AA-	130,604	287,981	8,740	-
A+ to A-	-	-	163,440	-
BBB+ to BB-	-	-	-	
Below BB-	-	-	-	-
Unrated	-	-	-	-
	130,604	287,981	172,180	-

The credit risk associated with other financial assets that were neither past due nor impaired are considered to be low at 31 December 2011 and 2010.

(b) Credit portfolio past due but not impaired

	Group		Bank	
	2011	2010	2011	2010
	Loans and advances to customers	Loans and advances to customers	Loans and advances to customers	Loans and advances to customers
	N'millions	N'millions	N'millions	N'millions
Past due up to 30 days	11,617	7,154	11,412	7,139
Past due 30 - 60 days	4,822	877	4,747	877
Past due 60 - 90 days	665	441	591	441
	17,104	8,472	16,750	8,457

(c) Credit portfolio individually impaired

	Group		Bank	
	2011	2010	2011	2010
	Loans and advances to customers	Loans and advances to customers	Loans and advances to customers	Loans and advances to customers
	N'millions	N'millions	N'millions	N'millions
Gross amount				
Grade: Below BB-	24,739	27,353	22,866	25,774
Specific impairment	(12,408)	(7,235)	(10,168)	(6,544)
	12,331	20,118	12,698	19,230

Included in interest income on loans and advances are amounts totalling N 904 million (2010: N2,049 million) and N 357 million (2010: N1,502 million) for the Group and Bank respectively. These represent interest incomes on impaired financial assets, recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.2.10 Reinsurance credit risk

The credit quality of reinsurance assets by reference to the Group's internal ratings are as follows:

	2011 N'millions	2010 N'millions
AAA to AA-	-	-
BBB+ to BB-	-	1,121
Unrated	-	-
	-	1,121

3.3 Market risk

The Group undertakes activities which give rise to a considerable level of market risks exposures(i.e. the risk that the fair value of future cash flows of our trading and investment positions or other financial instrument will fluctuate because of changes 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 manage and control market risk exposure within acceptable parameters, while optimizing the return on risks taken.

3.3.1 Management of market risk

The group has an independent Market Risk Management unit which assesses, monitors , manages and reports on market risk taking activities across the group. We have continued to enhance our Market Risk Management Framework. The 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 Group'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:

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

The Group reduced exposures in the trading book significantly especially during the period of high volatility in the course of the financial year. This helped largely in minimising our losses attributable to such activities.

The Group's Market Risks exposures are broadly categorised into:
(i)**Trading Market Risks-** These are risks that arise primarily through trading activities and Market Making activities. These include position taking in foreign exchange and fixed income securities(Bonds and Treasury Bills).

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

3.3.2 Measurement of market risk

The Group's currently adopts Non-VAR approach for quantitative measurement and control of market risks in both trading and non trading books.Plan is however underway to introduce VAR measurement across the group in the next financial year. The measurements includes: Duration;Factor sensitivities(Pv01),Stress Testing,Aggregate Open position etc.
The measured risks are therefore monitored against the pre-set limits on a daily basis. All exceptions are investigated and report in line with our internal policies and guidelines.

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

The Group is currently implementing a Treasury Risk Management System, which when completed will further enhance our market risk measurement capabilities.

Zenith Group currently does not offer very complex derivative products. However, we are already building capacity (both systems and training/knowledge base) to enable us handle these products as at when they are introduced.

3.3.3 Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.The group manages part of the Foreign exchange risks through derivatives and hedges.The position is managed by Treasury group operating within approved limits. Internal limits for Overall Overnight and Intra-day positions are employed in managing the risks.In addition, Individual currency limits are set and monitored by Market Risk unit. There are other limits that are utilised in managing foreign exchange risks. These limits are set with the aim of minimizing the Group's risk exposures to exchange rates volatilities to an acceptable level. The more volatile currencies are assigned lower limits. The Bank operates mainly in seven (7) foreign currencies with a significant percentage of transactions involving the US Dollars.

(a) Group
The table below summarizes the Group’s exposure to foreign currency exchange rate risk at 31 December 2011, 31 December 2010. Included in the table are the Group’s financial instruments at carrying amounts, categorised by currency.

At 31 December 2011 (N'millions)	**Naira**	**Dollar**	**GBP**	**Euro**	**Others**	**Total**
Assets						
Cash and balances with central banks	218,549	363	4,215	48	12	223,187
Treasury bills	510,675	-	-	-	63	510,738
Due from other banks	7,395	179,940	30,931	16,192	63	234,520
Loans and advances to customers (gross)	800,421	70,946	45,901	3,295	58	920,621
Reinsurance assets and insurance receivables		-	-	-	-	-
Investment securities	283,767	-	21,682	-	2,782	308,231
Other assets (gross)	22,972	476	5,419	-	-	28,867
	1,843,779	251,725	108,148	19,535	2,978	2,226,165
Liabilities						
Deposits from customers	1,465,256	135,474	46,866	7,862	-	1,655,458
Claims payable	-	-	-	-	-	-
Other liabilities	4,173	66,426	69,783	12,321	133	152,836
On-lending facilities	49,370	-	-	-	-	49,370
Borrowings	-	21,070	-	-	-	21,070
	1,518,799	222,970	116,649	20,183	133	1,878,733
Net on-balance sheet position	324,980	28,755	(8,501)	(648)	2,845	347,432

At 31 December 2010 (N'millions)	**Naira**	**Dollar**	**GBP**	**Euro**	**Others**	**Total**
Assets						
Cash and balances with central banks	121,331	9,622	639	195	9,937	141,724
Treasury bills	288,028	-	-	-	10,830	298,858
Due from other banks	207,491	165,621	4,716	3,397	18,253	399,478
Loans and advances to customers (gross)	718,398	31,452	113	486	31,135	781,584
Reinsurance assets and insurance receivables	2,686	-	-	-	-	2,686
Investment securities	163,341	39957	7,490	1016	-	211,804
Other assets (gross)	20,996	420	1,249	2	1,886	24,553
	1,522,271	247,072	14,207	5,096	72,041	1,860,687
Liabilities						
Deposits from customers	975,346	251,485	5,139	3,361	84,431	1,319,762
Claims payable	218	-	-	-	-	218
Liabilities on insurance contracts	2,287	-	-	-	-	2,287
On-lending facilities	26,049	-	-	-	-	26,049
Borrowings	-	28,358	-	-	-	28,358
Other liabilities	100,675	30,456	1,520	1,026	9,696	143,373
	1,104,575	310,299	6,659	4,387	94,127	1,520,047
Net on-balance sheet position	417,696	(63,227)	7,548	709	(22,086)	340,640

The Group’s exposure to foreign currency risk is largely concentrated in the US Dollar. Movement in exchange rate between the US Dollar and the Nigerian Naira affects reported earnings through revaluation gain or loss and balance sheet size through increase or decrease in the revalued amounts of assets and liabilities denominated in US Dollars.

The table below shows the impact on the Group’s profit and balance sheet size if the exchange rate between the US Dollars and Nigerian Naira had increased or decreased by 10%, with all other variables held constant.

	2011	2010
Effect of 10% movement on profit before tax and balance sheet size (N'millions)	2,875	6,323

(b) Bank

The table below summarizes the bank’s exposure to foreign currency exchange rate risk at 31 December 2011, 31 December 2011. Included in the table are the Banks’s financial instruments at carrying amounts, categorised by currency.

At 31 December 2011 (N'millions)	Naira	Dollar	GBP	Euro	Others	Total
Assets						
Cash and balances with central banks	211,098	-	-	-	-	211,098
Treasury bills	494,253	-	-	-	-	494,253
Due from other banks	7,249	230,520	2,935	5,647	13	246,364
Loans and advances to customers (gross)	800,584	50,333	-	-	-	850,917
Investment securities	267,050	-	-	-	-	267,050
Other assets (gross)	20,973	-	-	-	-	20,973
	1,801,207	280,853	2,935	5,647	13	2,090,655
Liabilities						
Deposits from customers	1,465,272	103,312	1,611	7,095	-	1,577,290
Claims payable	-	-	-	-	-	-
Other liabilities	4,176	50,427	59,736	12,321	-	126,660
On-lending facilities	49,370	-	-	-	-	49,370
Borrowings	-	21,070	-	-	-	21,070
	1,518,818	174,809	61,347	19,416	-	1,774,390
Net on-balance sheet position	282,389	106,044	(58,412)	(13,769)	13	316,265

At 31 December 2010 (N'millions)	Naira	Dollar	GBP	Euro	Others	Total
Assets						
Cash and balances with central banks	121,331	1,639	329	7	7,298	130,604
Treasury bills	287,981	-	-	-	-	287,981
Due from other banks	207,521	143,561	2,351	3,101	18,070	374,604
Loans and advances to customers (gross)	718,589	13,763	-	-	-	732,352
Investment securities	163,352	-	-	-	8,828	172,180
Other assets (gross)	19,279	-	-	-	204	19,483
	1,518,053	158,963	2,680	3,108	34,400	1,717,204
Liabilities						
Deposits from customers	975,578	118,203	1,454	2,734	192,045	1,290,014
On-lending facilities	26,049	-	-	-	-	26,049
Borrowings	-	27,975	-	-	383	28,358
Other liabilities	86,263	-	-	-	207	86,470
	1,087,890	146,178	1,454	2,734	192,635	1,430,891
Net on-balance sheet position	430,163	12,785	1,226	374	(158,235)	286,313

The Bank’s exposure to foreign currency risk is largely concentrated in the US Dollar. Movement in exchange rate between the US Dollar and the Nigerian Naira affects reported earnings through revaluation gain or loss and balance sheet size through increase or decrease in the revalued amounts of assets and liabilities denominated in US Dollars.

The table below shows the impact on the Bank’s profit and balance sheet size if the exchange rate between the US Dollars and Nigerian Naira had increased or decreased by 10%, with all other variables held constant.

	2011	2010
Effect of 10% movement on profit before tax and balance sheet size (N'millions)	10,604	1,279

3.3.4 Interest rate risk

The Group is exposed to a considerable level of interest rate risk(which is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates). In the Finacial year, rate changes were quite common in the group's area of operations. The Nigerian environment for instance, saw the benchmark interest rate(MPR) adjusted upward a couple of times.Sierra Leone also recorded a upward adjustment in the benchmark rate. These changes tend to impact negatively on the Net Interest Income, if not properly managed. The Group however, has a significant portion of its liabilities in Non-Rate Sensitive Liabilities. This of course greatly assist the Group in managing its exposure to interest rate Risks. The Group also enjoys some form of flexibility in adjusting both lending and deposits rates to reflect current realities.

Sensitivities analysis are carried out from time to time to evaluate the impact of rate changes on the Net Interest Income(ranging from 1basis point to 500 basis points). The assessed impact has not been significant on Capital or earnings of the Group.

(a) Group
The table below summarizes the Group's interest rate gap position:

31 December 2011 (N'millions)	**Carrying amount**	**Rate sensitive**	**Non rate sensitive**
Assets			
Cash and balance with central banks	223,187	223,187	-
Treasury and other eligible bills (Amortized cost)	510,738	510,738	-
Due from other banks	234,521	234,521	-
Loans and advances to customers	920,621	920,621	-
Investment securities (Amortized cost and Fair value through OCI)	308,231	308,231	-
Deferred tax assets	186	-	186
Other assets	25,510	-	25,510
Investment property	7,114	-	7,114
Property and equipment	68,366	-	68,366
Intangible assets	770	-	770
Total assets	2,299,244	2,197,298	101,946
Liabilities			
Customer deposits	1,655,458	1,651,320	4,138
Borrowings	70,440	70,440	-
Current income tax	13,348	-	13,348
Other liabilities	152,836	-	152,836
Deferred income tax liabilities	10,742	-	10,742
Total liabilities	1,902,824	1,721,760	181,064
Total interest repricing gap	396,420	475,538	(79,118)

31 December 2011 (N'millions)	**Less than 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 years**	**More than 5 years**	**Total rate sensitive**
Financial assets						
Cash and balance with central banks	116,579	-	106,608	-	-	223,187
Treasury and other eligible bills (FVTPL)	-	-	-	-	-	-
Treasury and other eligible bills (Amortized cost)	177,329	191,977	141,432		-	- 510,738
Due from other banks	234,521	-	-	-	-	234,521
Loans and advances to customers	390,662	5,888	43,300	451,321	29,450	920,621
Investment Securities (Amortized cost and Fair value through OCI)	16,906	23,001	11,988	253,986	2,350	308,231
Total assets	935,997	220,866	303,328	705,307	31,800	2,197,298
Financial liabilities						
Customer deposits	1,636,019	344	750	14,207	-	1,651,320
Borrowings	-	270	15,365	54,805	-	70,440
Total liabilities	1,636,019	614	16,115	69,012	-	1,721,760
Total interest repricing gap	(700,022)	220,252	287,213	636,295	31,800	

31 December 2010 (N'millions)	**Carrying amount**	**Rate sensitive**	**Non rate sensitive**
Assets			
Cash and balance with central banks	141,724	141,724	-
Treasury and other eligible bills (FVTPL)	2,510	2,510	-
Treasury and other eligible bills (Amortized cost)	298,858	298,858	-
Due from other banks	399,478	399,478	-
Loans and advances to customers	754,024	754,024	-
Insurance receivables	1,121	-	1,121
Investment securities (FVTPL)	587	587	-
Investment securities (Amortized cost and Fair value through OCI)	211,217	198,787	12,430
Investment in associates	2,443		2,443
Deferred tax assets	1,657	-	1,657
Other assets	20,457	-	20,457
Investment property	7,342	-	7,342
Property and equipment	66,585	-	66,585
Intangible assets	827	-	827
Total assets	1,908,830	1,795,968	112,862
Liabilities			
Customer deposits	1,319,762	1,131,110	188,652
Claims payable	218	-	218
Liability on insurance contract	2,287	-	2,287
On-lending facilities	26,049	26,049	-
Borrowings	28,358	28,358	-
Current income tax	3,735	-	3,735
Other liabilities	143,373	-	143,373
Deferred income tax liabilities	10,348	-	10,348
Total liabilities	1,534,130	1,185,517	348,613
Total interest repricing gap	374,699	610,451	(235,751)

31 December 2010 (N'millions)	**Less than 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 years**	**More than 5 years**	**Total rate sensitive**
Financial assets						
Cash and balance with central banks	129,501	-	-	12,223	-	141,724
Treasury and other eligible bills (FVTPL)	250	750	1,510	-	-	2,510
Treasury and other eligible bills (Amortized cost)	87	114	296,147			296,348
Due from other banks	377,578	13,921	7,699	280	-	399,478
Loans and advances to customers	285,216	68,695	90,054	310,059		754,024
Investment securities (FVTPL)	-	587	-	-	-	587
Investment securities (Amortized cost and Fair value through OCI)				211,217		211,217
Total assets	792,632	84,067	395,410	533,779	-	1,805,888
Financial liabilities						
Customer deposits	1,038,932	12,445	3,055	76,679	-	1,131,110
On- lending facilities				26,049		26,049
Borrowing	253			28,105	-	28,358
Total liabilities	1,039,185	12,445	3,055	130,833	-	1,185,517
Total interest repricing gap	(246,553)	71,622	392,355	402,946	-	620,371

The management of interest risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various scenarios. Interest rate movement affects reported income by causing an increase or decrease in net interest income and fair value changes.

The table below shows the impact on the Group's profit before tax if interest rates on financial instruments held at amortized cost or at fair value had increased or decreased by 100 basis points, with all other variables held constant.

	2011	**2010**
Effect of 100 basis points movement on profit before tax (N'millions)	3,723	3,743

(b) Bank
The table below summarizes the Bank's interest rate gap position:

31 December 2011 (N'millions)	Carrying amount	Rate sensitive	Non rate sensitive
Assets			
Cash and balance with central banks	211,098	211,098	-
Treasury and other eligible bills (Amortized cost)	494,253	494,253	-
Due from other banks	246,364	246,364	-
Loans and advances to customers	827,035	827,035	-
Investment securities (Amortized cost and Fair value through OCI)	267,050	-	267,050
Other assets	17,616	-	17,616
Investment property	7,114	-	7,114
Property and equipment	65,877	-	65,877
Intangible assets	661	-	661
Total assets	2,137,068	1,778,750	358,318
Liabilities			
Customer deposits	1,577,290	1,574,152	3,138
Borrowings	70,440	70,440	-
Current income tax	11,934	-	11,934
Other liabilities	126,660	-	126,660
Deferred income tax liabilities	10,732	-	10,732
Total liabilities	1,797,056	1,644,592	152,464
Total interest repricing gap	340,012	134,158	205,854

31 December 2011 (N'millions)	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Total rate sensitive
Financial assets						
Cash and Balance with central banks	93,742	-	117,356	-	-	211,098
Treasury and other eligible bills (FVTPL)	-	-	-	-	-	-
Treasury and other eligible bills (Amortized cost)	156,381	201,768	136,104		-	- 494,253
Due from other banks	246,364	-	-	-	-	246,364
Loans and advances to customers	342,405	5,347	39,325	410,508	29,450	827,035
Investment securities (Amortized cost and Fair value through OCI)	23,010	24,206	11,988	196,106	11,740	267,050
Total assets	861,902	231,321	304,773	606,614	41,190	2,045,800
Financial liabilities						
Customer deposits	1,565,465	344	738	7,605	-	1,574,152
Borrowings	-	270	-	70,170	-	70,440
Total liabilities	1,565,465	614	738	77,775	-	1,644,592
Total interest repricing gap	(703,563)	230,707	304,035	528,839	41,190	401,208

31 December 2010 (N'millions)	Carrying amount	Rate sensitive	Non rate sensitive
Assets			
Cash and balance with central banks	130,604	130,604	-
Treasury and other eligible bills (FVTPL)	2,509	2,509	-
Treasury and other eligible bills (Amortized cost)	285,471	285,471	-
Due from other banks	374,604	374,604	-
Loans and advances to customers	707,586	707,586	-
Investment securities (FVTPL)	587	587	-
Investment securities (Amortized cost and Fair value through OCI)	172,180	172,180	-
Investment in associates	2,509	-	2,509
Other assets	15,402	-	15,402
Investment property	6,895	-	6,895
Property and equipment	63,000	-	63,000
Intangible assets	784	-	784
Total assets	1,762,131	1,673,541	88,590
Liabilities			
Customer deposits	1,290,014	1,286,580	3,434
On-lending facilities	26,049	26,049	-
Borrowings	28,358	28,358	-
Current income tax	1,010	-	1,010
Other liabilities	86,470	-	86,470
Deferred income tax liabilities	9,869	-	9,869
Total liabilities	1,441,770	1,340,987	100,783
Total interest repricing gap	320,361	332,554	(12,193)

31 December 2010 (N'millions)	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Total rate sensitive
Financial assets						
Cash and balance with central banks	118,881	-	11,723	-	-	130,604
Treasury and other eligible bills (FVTPL)	250	750	1,510	-	-	2,509
Treasury and other eligible bills (Amortized	39,657	70,882	104,368	70,564		285,471
cost)					-	-
Due from other banks	377,623	13,906	7,699	280	-	374,604
Loans and advances to customers	241,470	68,695	98,054	299,367		707,586
Investment securities (FVTPL)	11,583	587	-	-	-	587
Investment securities (Amortized cost and				172,180		172,180
Fair value through OCI)						-
Total assets	789,464	154,820	223,354	542,391	-	1,673,541
Financial liabilities						
Customer deposits	1,150,238	14,152	3,474	118,716	-	1,286,580
On- lending facilities				26,049		26,049
Borrowing	253			28,105	-	28,358
Total liabilities	1,150,491	14,152	3,474	172,870	-	1,340,987
Total interest repricing gap	(361,027)	140,668	219,880	369,521	-	332,554

The management of interest risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various scenarios. Interest rate movement affects reported income by causing an increase or decrease in net interest income and fair value changes.

The table below shows the impact on the Group's profit before tax if interest rates on financial instruments held at amortized cost or at fair value had increased or decreased by 100 basis points, with all other variables held constant.

	2011	2010
Effect of 100 basis points movement on profit before tax (N'millions)	4,786	4,490

The effect of 100 basis points movement on profit is considered moderate and we do not expect all the rates to move at the same time and in the same direction. This risk can largely be handled by the flexibility in the changing/adjustment rates on loans and deposits.

3.3.5 Equity and commodity price risk

The Group is exposed to equity price risk by holding investments quoted on the Nigerian Stock Exchange (NSE) and other non-quoted investments. Equity securities quoted on the NSE is exposed to movement based on the general movement of the all share index and movement in prices of specific securities held by the Group.

Unquoted equity security held by the Group is a 5% equity holding in African Finance Corporation (AFC) valued at N 9.3 billion (cost 6.4 billion) as at 31 December 2010. The AFC is a private sector-led investment bank and development finance institution which has the Central Bank of Nigeria (CBN) as the single major shareholder (42.5%) with other African financial institutions and investors holding the remaining shares. The AFC operates a US Dollar denominated balance sheet and provides financing in this currency. As at December 2011, the corporation had a balance sheet size of $1.3 billion.

The Group does not deal in commodities and is therefore not exposed to any commodity price risk.

3.3.6 Fair value of financial assets and liabilities

(a) Group

(a) Financial instruments measured at amortised cost

	At 31 December 2011		At 31 December 2010	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	N'millions	**N'millions**	**N'millions**	**N'millions**
Financial assets				
Cash and balances with central banks	223,187	223,187	141,724	141,724
Due from other banks	234,521	234,521	399,478	399,508
Treasury bills (FVTPL)	-	-	2,510	2,510
Treasury bills (Amortized cost)	510,738	491,813	-	284,894
Debt securities (Amortized cost)	298,841	283,899	199,645	183,440
Loans and advances to customers	-	885,057	-	749,746
Reinsurance assets and insurance receivables	-	-	1,121	1,121
Financial liabilities				
Deposits from customers	1,655,458	1,651,049	1,319,762	1,311,257
Other liabilities	152,836	151,311	143,373	142,630
Liabilities on insurance contracts	-	-	2,287	2,287
Borrowings	21,070	21,041	26,049	25,913
On-lending facilities	49,370	49,095	28,358	27,829

(b) Bank

(a) Financial instruments measured at amortised cost

	At 31 December 2011		At 31 December 2010	
	Carrying value	Fair value	Carrying value	Fair value
	N'millions	N'millions	N'millions	N'millions
Financial assets				
Cash and balances with central banks	211,098	211,098	130,604	130,604
Due from other banks	246,364	246,364	374,604	374,604
Treasury bills (FVTPL)	-	-	2,510	2,510
Treasury bills (Amortized cost)	-	489,310	285,471	283,984
Debt securities (Amortized cost)	257,660	255,083	163,495	162,060
Loans and advances to customers	827,035	791,987	707,586	703,901
Other assets	17,616	17,440	15,402	14,496
Financial liabilities				
Deposits from customers	1,577,290	1,561,818	1,290,014	1,283,295
Other liabilities	126,660	125,999	86,470	86,019
Borrowings	21,070	20,136	28,358	27,829
On-lending facilities	49,370	49,299	26,049	25,913

(b) Financial instruments measured at fair value

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

1 Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
2 Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or as prices) or indirectly (i.e. derived from prices).
3 Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

At 31 December 2011 (N'millions)	**Level 1**	**Level 2**	**Level 3**
Financial assets			
Treasury bills (FVTPL)	-	-	-
Bonds (FVTPL)	-	-	-
Investment securities (quoted)	-	-	-
Investment securities (unquoted)	-	-	9,390
	-	-	9,390

Reconciliation of Level 3 items	
At 31 December 2010 (N'millions)	8,685
Gains/(losses) recognised through profit or loss	-
Gains/(losses) recognised through other comprehensive income	705
Purchases	-
Sales	-
Issues	-
Settlements	-
At 31 December 2011 (N'millions)	9,390

At 31 December 2010 (N'millions)	Level 1	Level 2	Level 3
Financial assets			
Treasury bills (FVTPL)	2,510	-	-
Bonds (FVTPL)	587	-	-
Investment securities (quoted)	3,485	-	-
Investment securities (unquoted)	-	-	8,685
	6,582	-	8,685

Reconciliation of Level 3 items	
At 31 December 2009 (N'millions)	8,474
Gains/(losses) recognised through profit or loss	-
Gains/(losses) recognised through other comprehensive income	211
Purchases	-
Sales	-
Issues	-
Settlements	-
At 31 December 2010 (N'millions)	8,685

Sensitivity analysis of Level 3 items	**At 31 December 2011**		**At 31 December 2010**	
	Favourable changes	**Un-favourable changes**	**Favourable changes**	**Un-favourable changes**
	N'millions	**N'millions**	**N'millions**	**N'millions**
Financial assets				
Unqouted investment securities	273	(273)	82	(82)

The sensitivity analysis was determined based on 5% increase or decrease in profit of the investee company under normal operating conditions

(c) Fair valuation methods and assumptions

(i) Cash and balances with central banks

Cash and balances with Central banks represent cash held (including mandatory cash reserve requirements of 2011: N106.7 billion, 2010: N12.5 billion) with Central banks of the various jurisdictions in which the Group operates. The fair value of these balances is their carrying amounts.

(ii) Due from other banks

Due from other banks represents balances with local and correspondence banks, inter-bank placements and items in the course of collection. The fair value of the current account balances, floating placements and overnight deposits are their carrying amounts.

(iii) Treasury bills and investment securities

Treasury bills represent short term instruments issued by the Central banks of the jurisdiction where the Group has operations. The fair value of treasury bills and bonds at fair value through profit or loss are determined with reference to quoted prices (unadjusted) in active markets for identical assets. The estimated fair value of treasury bills and bonds at amortized cost represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The fair values of quoted equity securities are determined by reference to quoted prices (unadjusted) in active markets for identical instruments. The fair value of the unquoted equity holding in AFC is determined on the basis of the fair value of the entity's net assets.

(iv) Loans and advances to customers
Loans and advances are carried at amortized cost net of provision for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(v) Other assets
Other assets represent monetary assets which usually has a short recycle period and as such the fair values of these balances approximate their carrying amount.

(vi) Customer deposits and borrowings
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair values of fixed interest-bearing deposits and borrowings are determined using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

3.4 Liquidity risk

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

3.4.1 Liquidity risk management process

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

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

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

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

3.4.2 Funding approach

Our sources of liquidity are regularly reviewed by both the ALCO and the Treasury Group in order to avoid undue reliance on large individual depositors and ensure that a satisfactory overall funding mix is maintained at all times. The funding strategy is geared toward ensuring effective diversification in the sources and tenor of funding. The Group however places greater emphasis on demand deposits as against purchased funds in order to minimize the cost of funding.

3.4.3 Liquidity gap analysis

The table below presents the cash flows payable by the Group under financial liabilities, insurance liabilities and other liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

(a) Group

31 December 2011 (N'millions)	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**Less than 1 year**
Deposits from customers	1,606,489	29,530	344	750	1,637,113
Claims payable	-	-	218	-	218
Current income tax	-	-	-	13,348	13,348
Deferred tax	-	-	-	-	-
Other liabilities	40,596	-	-	96,647	137,243
Liabilities on insurance contracts	-	-	-	-	-
Borrowings	-	-	270	15,365	15,635
Total liabilities (contractual maturity)	1,647,085	29,530	832	126,110	1,803,557
Total assets (expected maturity)	696,789	257,575	190,866	332,990	1,478,220

	Less than 1 year	1 - 5 years	Over 5 years	Total
Deposits from customers	1,637,113	18,345	-	1,655,458
Claims payable	-	-	-	-
Current income tax	13,348	-	-	13,348
Deferred tax	-	-	-	-
Other liabilities	137,243	15,593	-	152,836
Liabilities on insurance contracts	-	-	-	-
Borrowings	15,635	54,805	-	70,440
Total liabilities (contractual maturity)	1,803,339	88,743	-	1,892,082
Total assets (expected maturity)	1,478,220	774,979	71,709	2,324,908

31 December 2010 (N'millions)	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**Less than 1 year**
Deposits from customers	1,038,932	52,693	4,113	17,237	1,112,975
Claims payable	-	218	-	-	218
Current income tax	-	-	-	3,735	3,735
Deferred tax	-	-	-	-	-
Other liabilities	37,664	18,640	1,206	60,745	118,255
Liabilities on insurance contracts	-	-	-	2,287	2,287
Borrowings	253	-	-	-	253
Total liabilities (contractual maturity)	1,076,849	71,551	5,319	84,004	1,237,723
Total assets (expected maturity)	743,285	160,001	149,460	266,157	1,318,903

	Less than 1 year	1 - 5 years	Over 5 years	Total
Deposits from customers	1,112,975	206,787	-	1,319,762
Claims payable	218	-	-	218
Current income tax	3,735	-	-	3,735
Deferred tax	-	10,348	-	10,348
Other liabilities	118,255	25,118	-	143,373
Liabilities on insurance contracts	2,287	-	-	2,287
Borrowings	253	54,154	-	54,407
Total liabilities (contractual maturity)	1,237,723	296,407	-	1,534,129
Total assets (expected maturity)	1,318,903	522,121	71,709	1,912,733

(a) Bank

31 December 2011 (N'millions)	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**Less than 1 year**
Deposits from customers	1,536,937	28,528	344	738	1,566,547
Claims payable	-	-	-	-	-
Current income tax	-	-	-	11,934	11,934
Deferred tax	-	-	-	10,732	10,732
Other liabilities	47,230	-	-	79,430	126,660
Liabilities on insurance contracts	-	-	-	-	-
Borrowings	-	-	270	15,365	15,635
Total liabilities (contractual maturity)	1,584,167	28,528	614	118,199	1,731,508
Total assets (expected maturity)	696,789	257,575	190,866	332,990	1,478,220

	Less than 1 year	1 - 5 years	Over 5 years	Total
Deposits from customers	1,566,547	10,743	-	1,577,290
Claims payable	-	-	-	-
Current income tax	11,934	-	-	11,934
Deferred tax	10,732	-	-	10,732
Other liabilities	126,660	-	-	126,660
Liabilities on insurance contracts	-	-	-	-
Borrowings	15,635	54,805	-	70,440
Total liabilities (contractual maturity)	1,731,508	65,548	-	1,797,056
Total assets (expected maturity)	1,478,220	774,979	71,709	2,324,908

31 December 2010 (N'millions)	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**Less than 1 year**
Deposits from customers	1,135,669	14,393	51	125	1,150,238
Claims payable	-	-	-	-	-
Current income tax	-	-	-	1,010	1,010
Deferred tax	-	-	-	9,869	9,869
Other liabilities	844	-	58,995	26,631	86,470
Liabilities on insurance contracts	-	-	-	2,287	2,287
Borrowings	-	-	-	-	-
Total liabilities (contractual maturity)	1,136,513	14,393	59,046	39,922	1,249,874
Total assets (expected maturity)	743,285	160,001	149,460	266,157	1,318,903

	Less than 1 year	1 - 5 years	Over 5 years	Total
Deposits from customers	1,150,238	139,776	-	1,290,014
Claims payable	-	-	-	-
Current income tax	1,010	-	-	1,010
Deferred tax	9,869	-	-	9,869
Other liabilities	86,470	-	-	86,470
Borrowings	-	54,407	-	54,407
Total liabilities (contractual maturity)	1,247,587	194,183	-	1,441,770
Total assets (expected maturity)	1,318,903	515,293	71,709	1,905,905

3.5 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 Group'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 Group's assessment and against the supervisory/regulatory capital requirements taking account of the Group business strategy and value creation to all its stakeholders.

The Group prides itself in maintaining very healthy capital adequacy ratio in all its areas of operations. Capital levels are determined either based on internal assesments or regulatory requirements.

The Capital Adequacy of the Group is reviewed regularly to meet regulatory requirements and standard of international best practises 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 Group 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.

The group has consistently met and surpassed the minimum capital adequacy requirments applicable in all areas of operations.

Most of the Group'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. We support and meet all capital requests from these regulatory jurisdictions and determine the adequacy based on our expansion strategies and internal Capital assessments.

The Group’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 Group's capital adequacy remains strong and the capacity to generate and retain reserves continues to grow.

The following sources of funds are available to the group to meet its capital growth requirements:
1. **Profit from Operations :**The Group has consistently maintained a profit retention rate of between 40 – 50% since inception. This practice is expected to continue into the foreseeable future.
2. **Issue of Shares:** The Group can successfully access the capital market to raise desired funds for its operations and needs.
3. **Issue of Bond and Debenture Stocks:** The Group recently secured approval to issue a N300billion Corporate Bond to enhance its capacity to take on long tenured project/infrastructural finance. This approval is available for utilization should the need arise.
4. **Bank Loans (Long Term/short Term):**
5. **Sale of Properties:**The Group has some investment properties and assets which can be converted to cash to fund operations should the need arise.

The table below shows the computation of the Group's capital adequacy ratio for the year ended 31 December 2011 as well as the 2010 comparatives. During those two years, the individual entities within the Group complied with all of the externally imposed capital requirements to which they are subject.

	Group 2011	Group 2010	Bank 2011	Bank 2010
	N'millions	N'millions	N'millions	N'millions
Tier 1 capital				
Share capital	15,698	15,698	15,698	15,698
Share premium	255,047	255,047	255,047	255,047
Statutory reserves	30,205	24,634	30,204	24,633
Contingency reserve	752	617	-	-
SMEIES reserve	3,729	3,729	3,729	3,729
Retained earnings	75,072	64,826	55,028	51,769
Total qualifying Tier 1 capital	380,503	364,551	359,706	350,876
Deferred tax assets	(186)	(1,657)	-	-
Intangible assets	(770)	(827)	(661)	(784)
Adjusted Total qualifying Tier 1 capital	379,547	362,067	359,046	350,092

Tier 2 capital					
Non- controlling interest		2,686	2,417	-	-
Revaluation reserve - investment		2,079	1,585	2,068	1,574
Translation reserve		(1,243)	(822)	-	-
Total qualifying Tier 2 capital		3,522	3,180	2,068	1,574
Total regulatory capital	(A)	383,069	365,247	361,114	351,666
Risk-weighted assets					
On-balance sheet		1,135,373	934,073	986,406	867,804
Off-balance sheet		210,327	25,074	166,691	129,621
Total risk-weighted assets	(B)	1,345,700	959,147	1,153,096	997,425
Risk-weighted Capital Adequacy Ratio (CAR)	**(A/B)**	**28%**	**38%**	**31%**	**35%**

3.6 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. Operational Risk is considered as a critical risk faced by the Group.

The group proactively identifies, assesses and manages all operational risks 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 includes the following:

- To provide clear and consistent direction in all Operations of the group
- To provide a standardised framework and appropriate guidelines for creating and managing all Operational risk exposures
- To enable the group identify and analyse events (both internal and external) that impact on its business.

The basic principles that guide the operational risk activities include:

Operational risks are identified by the assessments covering risks facing each business unit and risks inherent in processes, activities and products.

Risk assessment incorporates a regular review of risks identified to monitor significant changes.

Risk mitigation, including insurance, is considered where this is cost-effective.

The Operational Risk Unit constantly identifies and assesses the operational risk inherent in all material products, activities, processes and systems. It also ensure that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is identified clearly and subjected to adequate assessment procedures.

The techniques employed by the group in its measurements include the following: Key Control Self Assessment (KCSA): Key Risk Indicators (KRIs) and the Risk Register. These tools have been quite useful in the identification, measurement and analyses of operational risk in the group. These tools were reviewed and updated in the course of the financial year.

Training and sensitisation on operational risk is taken very seriously in Zenith. Apart from the series of training programs that were anchored by the Risk Management team, the Bank has also engaged consulting firms to conduct training for the entire staff of the Bank on Operational Risks and other aspects of Risk Management.

There was no significant operational risk incidence during the financial year

The Operational Risk Unit constantly identifies and assesses the operational risk inherent in all material products, activities, processes and systems. It also ensure that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is identified clearly and subjected to adequate assessment procedures.

3.7 Strategic risk

Strategic risk examines the impact of design and implementation of business models and decisions, on earnings and capital as well as the responsiveness to industry changes. This responsibility is taken quite seriously by the Board and Executive management of the Group and deliberate steps are taken to ensure that the right models are employed and appropriately communicated to all decision makers in the Group. The execution, processes and constant reviews ensures that strategic objectives are achieved. This has essentially driven the Group's sound banking culture and performance record to date.

3.8 Legal risk

Legal risk is defined as the risk of loss due to defective contractual arrangements, legal liability (both criminal and civil) incurred during operations by the inability of the organisation to enforce its rights, or by failure to address identified concerns to the appropriate authorities where changes in the law are proposed.

The Group manages this risk by monitoring new legislation, creation of awareness of legislation amongst employees, identification of significant legal risks as well as assessing the potential impact of these.

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

The Group also has a team of well experienced professionals who handle legal issues across the Group.

3.9 Reputational risk

It is recognised that the Group's reputation may suffer adversely due to bad publicity, non-compliance with regulatory rules and legislation, which may lead to a significant drop in new business and/or a significant increase in the number of lapses and/or withdrawals.

The Group promotes sound business ethics among its employees.

rules and legislation in order to minimise the risk of a fall in the reputation of the Group.

The Group did not record any issue with major reputational effect in the financial year.

3.10 Taxation risk

Taxation risk refers to the risk that new taxation laws will adversely affect the Group and/or the loss of non-compliance with tax laws.

The taxation risk is managed by monitoring applicable tax laws, maintaining operational policies that enable the Group to comply with taxation laws and, where required, seeking the advice of tax specialists.

This risk is well managed across the group.

3.11 Regulatory risk

The Group manages the regulatory risk it is potentially exposed to by monitoring new regulatory rules and applicable laws, and the identification of significant regulatory risks. The Group strives to maintain appropriate procedures, processes and policies that enable it to comply with applicable regulation.

The Group has continued to maintain zero tolerance posture for any regulatory breaches in all its area of operations
The strengthening of Compliance Group during the financial year has further enhanced the process of management of regulatory risk across the Group.

3.12 Insurance risk

Insurance risk is the risk that future risk claims and expenses will exceed the value placed on insurance liabilities. It occurs due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, persistency and expenses about which assumptions are made in order to place a value on the liabilities. Deviations from assumptions will result in actual cash flows differing from those projected in the policyholder liability calculations. As such, each assumption represents a source of uncertainty.

3.12.1 Mortality and morbidity risks

The risk that actual experience in respect of the rates of mortality and morbidity may vary from what is assumed in pricing and valuation, depending on the terms of different products. The material classes of business most affected by these risks are discussed below.

(a) Individual life products – Term assurance, Mortgage protection, Savings Plar

Products are sold directly to individuals providing a benefit on death. The main insurance risk relates to the possibility that rates of death may be higher than expected. This may be due to:

- Normal statistical variation due to the random nature if the insured events;
- Natural catastrophes such as floods, and unnatural catastrophes such as acts of terrorism;
- The impact of HIV/AIDS or other health epidemics;
- Anti-selection such as where a policyholder with a pre-existing condition or disease purchases a product where a benefit will be paid on death;
- The effect of selective withdrawal; and
- Concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area.

For contracts with fixed and guaranteed benefits (such as the minimum death benefits available on savings plan policies) and fixed future premiums, there are no mitigating terms that reduce the risk accepted by Group. The Group therefore employs some underwriting controls to ensure that only acceptable risks are accepted.
The following additional controls and measures are in place in order to ensure that the Group manages its exposure to mortality risk:

- Claims assessment processes to ensure only valid claims are paid;
- Reinsurance to limit liability on particularly large claims or substandard risks; and
- Concentration risk is reduced by diversification of business over a large number of independent lives, as well as by taking out catastrophe reinsurance.

(b) Group life products
Employee benefit products provide life cover to members of a group, such as employees of companies or members of trade unions.

An aggregate stop-loss reinsurance agreement is in place to ensure that the Group's exposure to the aggregate mortality risk in its group life business is managed and limited to a specified limit.

In addition, there is a catastrophe reinsurance treaty in place for both group business and individual business. Such a treaty is particularly important for the group life business as there are considerably more concentrations of risks compared to individual business.

(c) Deposit administration

Deposit administration contracts provide a guaranteed life annuity conversion at the maturity of the contract. The mortality risk in this case is that the policyholders may live longer than assumed in the pricing of the contract. This is known as the risk of longevity.

The Group manages this risk by allowing for improvements in mortality when pricing and valuing the contracts. The Group also performs more detailed actuarial experience investigations and adjust assumptions in pricing for new contracts and valuation of existing contracts when necessary.

3.12.2 Claims experience risk

In terms of the short-term insurance contracts held by the Group, the claims experience risk for these policies is that the number of claims and/or the monetary claim amounts are worse than that assumed in the pricing basis.

The Group manages this risk by charging premiums which are appropriate to the risks under the insurance contracts.

Under the short-term insurance products, the Group also holds a concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area. This risk is reduced by diversification over a large number of uncorrelated risks, as well as taking out catastrophe reinsurance.

3.12.3 Persistency risk

Persistency risk relates to the risk that policyholders may withdraw their benefits and terminate their contracts prior to the contractual maturity date of the contract. Expenses such a commission and acquisition expenses are largely incurred at the outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges from the contract. Therefore, if the contract is terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred.

Where a surrender benefit is payable, the benefit amount on withdrawal normally makes provision for recouping any outstanding expenses. However, losses may still occur if the expenses incurred in respect of the policy exceed the value of the policy, or where the withdrawal benefit does not fully allow for the recovery of all unrecouped expenses. This may either be due to a regulatory minimum surrender benefit applying, or because of product design.

3.12.4 Expense risk

There is a risk that the Group may experience a loss due to actual expenses being higher than those assumed when pricing and valuing policies. This may be due to inefficiencies, higher than expected inflation, lower than expected volumes of new business or higher than expected terminations resulting in smaller in-force policies.

To manage this risk, the Group performs expense investigations annually and sets pricing and valuation assumptions to be in-line with the actual expenses experience, with allowance for inflation.

The Group's exposure to unexpected increases in the inflation rate is expected to be minimal due to the short-term nature of their business and their ability to review premium rates at renewals (typically on an annual basis).

3.12.5 Business volume risk

There is a risk the Group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs are variable and relate directly to sales volumes.

3.12.6 Capital adequacy risk

There is a risk that the capital held by the Group to back to its insurance liabilities may prove to be inadequate on a regulatory solvency basis. This may then lead to intervention by the Regulator and may further lead to a fall in the reputation of the group (see Reputational risk below for further details). At an extreme, the Regulator may require the Group to close to new business. This will have a further negative impact on the Group.

This risk is monitored and assessed by performing annual valuations on the life insurance liabilities performed by an independent valuation actuary, calculating the outstanding claims reported (OCR) and Incurred But Not Reported (IBNR) contingency reserves, monitoring any regulatory rules applying to the assets and the adequacy of the assets to back the liabilities and adopting an investment strategy which is aimed a investing in admissible assets and maintaining adequate capital.

In addition, sensitivity and scenario analysis are performed to assess the Group capital adequacy under various scenarios and to ensure that the Group will remain financially sound under some stress economic conditions.

3.12.7 Asset liability matching risk

Due to the short-term nature of the Group's insurance business, most of the liability cash flows will be of short-term nature. The asset liability matching risk lies in the risk that the cash inflows from the assets held will not match liability cash outflows in terms of timing and/or amounts. Therefore, the risk arises that Group will be unable to meet policyholder obligations. In this case, the asset liability mismatch risk is similar to liquidity risk described in liquidity risk.

3.12.8 Assumption risk

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality, morbidity, termination rates, expenses and investment performance. The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected, and, in the extreme, that the actual claims and benefits exceed the liabilities. The risk is mitigated to an extent through:

- The addition of margins, specifically where there is evidence of moderate or extreme variation in experience;
- The use of appropriate sources of data; and
- Regular actual versus expected investigations.

Due to the short-term nature of the Group's business, exposure to unexpected changes in trends in experience is minimal since premium rates are reviewable at renewal.

3.12.9 Data risk

Data risk is the risk that data used in the policyholders' liabilities valuation calculations are inaccurate or incomplete and, therefore, are not a true and accurate view of the insurance contracts held by the Group. The data could be inaccurate or incomplete due to incorrect data or valuation extracts between the policy administration system and the actuarial valuation model and/or incorrect capturing of data on the policy administration system.

This risk is managed by the Group through regular data integrity testing in order to assess the appropriateness, accuracy and credibility of the various data sets as well as investigations into data exceptions reported.

Where insufficient internal data is available, the Group makes use of external sources to derive its pricing and valuation assumptions. Frequent monitoring of these external sources is performed, including actual versus expected investigations.

3.12.10 Model risk

There is a risk that the Group may suffer a loss if the model used to calculate the insurance liabilities does not project expected cash flows under the insurance contracts accurately. The expected cash flow projections may be inaccurate either due to the model itself being incorrect, inappropriate to the policies being valued or inaccurate and/or the underlying assumptions used in the model being inappropriate.

The Group makes use of an independent valuation actuary to value its liabilities. The models being used to value the liabilities are, therefore, not internal to but belong to an external third party. The model risk underlying the use of third party models are addressed by:

- Regular actual versus expected cash flow investigations to assess the appropriateness of the external models; and
- Detailed investigations are performed annually to ensure the integrity of the data used in the valuation process.

3.12.11 Insurance risk monitoring

Annual valuations of the liabilities under the existing life insurance contracts which are held by the Group are performed by an independent valuation actuary.

The Group assesses and monitors the unexpired risks it holds, by calculating the Outstanding Claims Reserve (OCR) and Incurred but not Reported Reserve (IBNR) on an annual basis. Reconciliations of the various insurance reserves are provided below:

Reconciliation of the OCR to the balance at the start of the financial year

	Group 2011	Group 2010
	N'millions	N'millions
Balance at the start of the financial year	218	38
Claims paid	(1,442)	(800)
Claims reported	1,644	980
- Incurred prior to the start of the financial year	60	50
- Incurred during the current financial year	1,584	930
Balance at the end of the financial year	420	218

Reconciliation of the IBNR claims to the balance at the start of the financial year

	Group 2011	Group 2010
	N'millions	N'millions
Balance at the start of the financial year	20	9
Claims reported that was incurred prior to the start of the financial year	(60)	(50)
New claims incurred but not reported during current financial year	78	61
Balance at the end of the financial year	38	20

3.12.12 Insurance premium rating

(a) Individual life products – Term-assurance, Mortgage protection and Savings Plar
The price for an individual life product is adjusted for the following risk factors:

- Age;
- Gender;
- Smoker status;
- Medical conditions;
- Financial condition; and
- Hazardous pursuits.

The Group employs the following additional controls and measures to ensure that only acceptable risks are accepted and risks are appropriately priced:

- Underwriting controls, with risk classification based on the above risk factors;
- Regular review of premium rates; and
- Appropriate policy conditions, including any exclusion on the cover on the individual's life.

Premium rates are guaranteed for the period up to the renewal of a policy, typically, after 1 year.

(b) Deposit administration
Premium rating on deposit administration policies distinguishes between the ages and gender of prospective policyholders. Annual premiums, payable up front, are repriced at renewal of the deposit administration policies.

(c) Group life products
Underwriting on group business is much less stringent than for individual business, as there is typically less scope for anti-selection. The main reason for this is that participation in the group schemes is normally compulsory, and members have limited choice in the level of the benefits.

Group policies are priced using standard mortality tables. The price for an individual scheme is adjusted for the following risk factors:

- Region;
- Salary structure;
- Gender structure; and
- Industry.

For large schemes, a scheme's past experience is a crucial input in setting rates for the scheme. The larger the scheme the more weight is given to the scheme's past experience. Rates are guaranteed for one year and reviewable at the renewal of the policy.

(d) Short-term insurance products
Underwriting on short-term insurance products takes the form of the insurance applicant completing a proposal form. The following risk factors are used in the risk classification:

- Age and gender of the insured driver or operator;
- Value of the item(s) to be covered;
- Use of the item(s) to be insured, for example, premium rates distinguish business and personal use for vehicle cover;
- Physical condition of the item(s) to be insured;
- Safety and security features installed; and
- Past claims experience, for example, the premium rate payable on vehicle cover reflects the past claims experience on the vehicle and driver to be insured.

Where the value of the item(s) to be insured exceeds a pre-specified limit, the underwriting becomes more stringent. This is particularly the case for marine and aviation cover. In this case the Group makes use of specialist underwriting agents to assess the risks and set an appropriate premium for cover.

Premium rates are guaranteed for the period up to the renewal of a policy, typically, after 1 year.

4. Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recognised, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The specific component of total allowance for impairment applies to credits evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgment about a customer's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimates of cash flows considered recoverable are independently reviewed and approved.

Collectively assessed impairment allowances cover credit losses inherent in portfolios with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot be identified. In assessing the need for collective loan assessment, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In estimating the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameter, based on historical experience and current economic conditions. The accuracy of allowance depends on how well future cash flows and the model assumptions and parameters are estimated.

4.2 Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market prices requires the use valuation techniques as described in note 3.3.6(c). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

4.3 Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the groupwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4.4 Determining the value of liabilities under insurance contracts

4.4.1 Mortality

The Group's life assurance business is very small and therefore the Group does not have sufficient credible data to set its own mortality assumptions based on the mortality experience of its policyholders. Zenith relies on an independent actuary to set the mortality assumptions based on standard mortality tables, with appropriate adjustments.

4.4.2 Expenses

(a) Group life, term-assurance and mortgage protection products
The Group makes an explicit allowance for expenses of 40% of the gross premiums received, consistent with past experience.

(b) Deposit administration, Savings plan
No explicit assumption has been set to the level of the expenses. It has been assumed that the interest margin will be sufficient to cover future expenses that will be incurred.

(c) Non-life insurance
Annual expense investigations are carried out on non-life insurance policies. Further expense analyses are performed to split expenses between different lines of business, e.g. motor vehicle, aviation and marine insurance, as well as different functions, e.g. initial, renewal and management, termination as well as investment expenses. The expense assumptions for non-life insurance products are then set in-line with this expense investigation, with an additional allowance for inflation.

4.4.3 Discount rate

The discount rate has been set to be 7% in-line with the yields on appropriate duration, traded and listed Government bonds.

5.Segment analysis

The Group has early adopted the provisions of IFRS 8, and the segment analysis below has therefore been prepared and presented based on management's reporting format. Prior to the country's adoption of the IFRS as a basis for the preparation of financial statements, Management prepared its financial records in accordance with Statements of Accounting Standards ("Nigerian GAAP") issued by the Nigerian Accounting Standards Board (now "Financial Reporting Council of Nigeria") , and Nigerian GAAP information is what the Group's Executive Board (the chief operating decision maker) reviews in assessing performance, allocating resources and making investment decisions.

The Group's operations are primarily organised on the basis of its products and service offerings in Nigeria, while the banking operations outside Nigeria are reported seperately for Africa and Europe. The following summary describes each of the Group's reportable segments:

(i) Corporate and Retail Banking - Nigeria

This segment provides a broad range of banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals.

(ii) Treasury and Investment Management - Nigeria

Provision of investment advisory, financial planning services and investment product offerings (primarily through separately managed accounts such as mutual funds and private investment funds) to a diverse group of institutions and individuals. It also includes brokerage services, financing services and securities lending services to institutional clients, including mutual funds, pension funds and to high-net-worth individuals.

(iii) Insurance - Nigeria

The Group's insurance operations in Nigeria write substantially all lines of insurance other than title insurance while its life and health insurance operations offer a broad line of individual and group life, annuity and accident and health policies.

(v) Outside Nigeria Banking - Africa and Europe

These segments provide a broad range of banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals outside Nigeria. The reportable segments covers banking operations in other parts of Africa (Ghana, Sierra Leone and The Gambia) and Europe (the United Kingdom).

(iv) All other segments

These segments provide share registration, pension custodial and funds trusteeship services in Nigeria. None of these individual activities or services constitutes a separate reportable segment.

Transactions between the business segments are on normal commercial terms and conditions.

	Nigeria			Outside Nigeria Banking					
	Corporate, Retail Banking and Pension custodial services (Continuing operations)	Treasury and Investment Banking (Discontinued operations)	Insurance (Discontinued operations)	Africa (Continuing operations)	Europe (Continuing operations)	Total reportable segments	all other segments (Discontinued operations)	Eliminations	Consolidated
	N'million	N'million	N'million	N'million	N'million	N'million	N'million	N'million	N'million
31 December 2011									
Revenue:									
Derived from external customers	217,719	765	9,487	12,731	3,352	244,054	16	-	244,070
Derived from other business segments	2	445	838	-	574	1,859	1,702	(3,561)	-
Total revenue*	217,721	1,210	10,325	12,731	3,926	245,913	1,718	(3,561)	244,070
Interest expense	(33,407)	-	-	(4,162)	(896)	(38,465)	-	3,559	(34,906)
Impairment charge for credit losses	(22,602)	(22)	(1,064)	(148)	(464)	(24,300)	(3)	-	(24,303)
Operating and underwriting expenses	(108,464)	(368)	(7,675)	(5,492)	(1,742)	(123,741)	(421)	2	(124,160)
Profit/(Loss) before tax	53,248	820	1,586	2,929	824	59,407	1,294	-	60,701
Tax	(14,568)	(136)	(520)	(626)	(224)	(16,074)	(435)	-	(16,509)
	38,680	684	1,066	2,303	600	43,333	859	-	44,192
Capital expenditure	13,994	-	28	621	75	14,718	148	-	14,866
Identifiable assets	2,154,713	8,017	16,932	74,832	123,196	2,377,690	33,869	(102,132)	2,309,427
Identifiable liabilities	1,793,844	1,883	5,435	62,649	112,667	1,976,478	22,848	(70,234)	1,929,092

** Revenues are allocated based on the location of the operations.*

	Nigeria			Outside Nigeria Banking		Total			
	Corporate and Retail Banking N'million	Treasury and Investment Banking N'million	Insurance N'million	Africa N'million	Europe N'million	reportable N'million	all other segments N'million	Eliminations N'million	Consolidated N'million
31 December 2010									
Revenue:									
Derived from external customers	169,355	1,206	7,174	10,075	2,595	190,405	2,083	-	192,488
Derived from other business segments	8	480	468	-	-	956	1,011	(1,967)	-
Total revenue*	169,363	1,686	7,642	10,075	2,595	191,361	3,094	(1,967)	192,488
Interest expense	(34,522)	-	-	(2,054)	(297)	(36,873)	-	1,959	(34,914)
Impairment charge for credit losses	(2,816)	406	(616)	(872)	-	(3,898)	22	-	(3,876)
Operating and underwriting expenses	(89,068)	24	(5,676)	(6,510)	(1,425)	(102,655)	(1,025)	8	(103,672)
Profit/(Loss) before tax	42,957	2,116	1,350	639	873	47,935	2,091	-	50,026
Tax	(9,622)	(571)	(962)	(240)	(255)	(11,650)	(962)	-	(12,612)
	33,335	1,545	388	399	618	36,285	1,129	-	37,414
Capital expenditure	6,937	-	43	-	-	6,980	142	-	7,122
Identifiable assets	1,789,458	18,670	15,622	71,981	96,832	1,992,563	25,784	(123,320)	1,895,027
Identifiable liabilities	1,439,044	13,221	5,070	61,665	87,394	1,606,394	17,246	(92,174)	1,531,466

** Revenues are allocated based on the location of the operations.*

Reconciliation of reportable segment revenues, profit and loss, assets and liabilities

Revenues

Segment revenue includes interest income, fee and commission income, gross premium income, commission earned, claims recovered, income from investments, and other income as determined under Nigerian GAAP. It is also referred to as 'gross earnings' under Nigerian GAAP. The measurement of these items differ from IFRS, and some of these items are presented differently under IFRS.

Segment profit/(loss)

Segment performance is based on segment profit/(loss) after tax, as included in the internal management reports under Nigerian GAAP. These differ from IFRS in certain respects. Some of the key differences include:

• Credit-related fees are recognised in profit or loss at the time of occurrence under Nigerian GAAP, while under IFRS, credit related fees are recognised as part of the effective interest rate over the period of the contract;

• Allowances for loan loss under Nigerian GAAP is determined based on Central Bank of Nigeria's Prudential Guidelines, while an incurred loss model is used to determine impairment loss under IFRS;

• Interest income on impaired assets is not recognised under Nigerian GAAP. Under IFRS, interest income on impaired loans is recognised at the rate used to discount cash flows for impairment purposes; and

	31 December 2011 N'millions	31 December 2010 N'millions
Total profit/(loss) after tax from reportable segments	44,192	37,414
Adjustments to reconcile profit/(loss) after tax to amounts reported under IFRS	4,512	409
Consolidated profit/(loss) after tax under IFRS	48,704	37,823

Segment assets

Segment assets include specifically identifiable assets as included in the internal management reports under Nigerian GAAP, but exclude certain shared assets. Consolidated assets reported under Nigerian GAAP differ from IFRS in certain respects. Some of the key differences include:

• Allowances for loan loss under Nigerian GAAP is determined based on Central Bank of Nigeria's Prudential Guidelines, while an incurred loss model is used to determine impairment loss under IFRS;

• Under Nigerian GAAP, unearned interest received in advance is recognised as a separate liability, resulting in the gross disclosure of the underlying asset. The effect of applying the effective interest method under IFRS results in a reclassification of other liabilities to treasury bills and loans and advances to customers; and

• Investments in equity securities are not measured at fair value under Nigerian GAAP. IFRS requires financial assets held for trading purposes, and financial assets at fair value through other comprehensive income, to be measured at fair value in the consolidated statement of financial position.

	31 December 2011 N'millions	31 December 2010 N'millions
Total consolidated assets from reportable segments	2,309,427	1,896,141
Adjustments to reconcile consolidated assets to amounts reported under IFRS	17,268	10,179
Consolidated assets under IFRS	2,326,695	1,906,320

Segment liabilities

Segment liabilities include specifically identifiable liabilities as included in the internal management reports under Nigerian GAAP, but exclude certain shared liabilities. Consolidated liabilities reported under Nigerian GAAP differ from IFRS in certain respects. Some of the key differences include:

• Under Nigerian GAAP, unearned interest received in advance is recognised as a separate liability, resulting in the gross disclosure of the underlying asset. The effect of applying the effective interest method under IFRS results in a reclassification of other liabilities to treasury bills and loans and advances to customers; and

• Deferred income taxes is provided using the liability method under Nigerian GAAP by referring to the Nigerian GAAP carrying amount of assets and liabilities. Under IFRS, deferred income taxes are provided by referring to the carrying amount under IFRS. The tax base of assets and liabilities remain the same under Nigerian GAAP and IFRS.

	31 December 2011 N'millions	31 December 2010 N'millions
Total consolidated liabilities from reportable segments	1,929,091	1,532,576
Adjustments to reconcile consolidated liabilities to amounts reported under IFRS	3,336	1,554
Consolidated liabilities under IFRS	1,932,427	1,534,130

Geographical information

The Group operates in three geographical regions, being
• Nigeria;
• Africa (comprising Ghana, Gambia and Sierra Leone); and
• Europe (United Kingdom).

Refer to the segment information above for the revenue and asset information in respect of the geographic information

Major customers

The Group does not have a single external customer that accounts for more than 10% of the Group's revenues.

Notes To The Financial Statements
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	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
6 Interest and similar income				
Placements	10,276	8,877	10,631	8,396
Treasury bills	39,590	14,649	38,297	13,487
Government and other bonds	20,040	12,760	17,440	11,180
Loans and advances to customers	92,308	93,751	88,526	89,283
Advances under finance lease	978	1,991	977	1,991
Investment deposits	-	18	-	-
	163,192	132,046	155,871	124,337

	Group 2011	Group 2010	Bank 2011	Bank 2010
7 Interest and similar expense				
Current accounts	2,383	3,416	2,194	3,376
Savings accounts	1,334	1,185	1,253	1,142
Time deposits	30,198	29,967	29,146	29,152
Inter-bank takings	177	299	-	-
Borrowed funds	814	852	814	852
	34,906	35,719	33,407	34,522

8 Impairment charge for credit losses

The net impairment charge for credit losses comprises:

	Group 2011	Group 2010	Bank 2011	Bank 2010
Overdrafts	16,472	2,163	16,914	1,763
Term loans	295	2,910	(761)	2,018
On-lending facilities	193	139	193	139
Advances under finance lease	(357)	358	(357)	358
Other assets	(89)	(962)	(89)	(961)
	16,514	4,608	15,900	3,317

	Group 2011	Group 2010	Bank 2011	Bank 2010
9 Fee and commission income				
Credit related fees	8,189	8,272	6,077	6,761
Commission on turnover	24,009	19,913	23,366	19,612
AGM administration fees	-	148	-	148
Fees on electronic products	3,293	2,224	3,256	2,213
Foreign currency transaction fees and commissions	1,269	1,084	1,223	945
Other fees and commissions	5,437	4,996	2,668	2,910
	42,197	36,637	36,590	32,589

10 Net gains on financial instruments measured at fair value through profit or loss

	Group 2011	Group 2010	Bank 2011	Bank 2010
Foreign exchange trading income	18,033	10,823	15,257	9,743
Treasury bill trading income	286	276	286	276
Bond trading income	205	813	171	804
	18,524	11,912	15,714	10,823

Foreign exchange trading income principally includes trading income on foreign denominated balances, as well as gains and losses from translated foreign currency assets and liabilities.

Notes to the financial statements For the year ended 31 December 2011	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
11 Other income				
Dividend income from equity investments	240	-	249	-
Gain on disposal of property and equipment	58	68	51	59
Gain on the disposal of loans	5,290	607	5,290	607
Income on cash handling	557	18	557	
Rental income	658	11	658	-
	6,803	704	6,805	666
12 Operating expenses				
Staff costs (Note 39)	47,386	33,462	44,605	31,428
Training and development	755	628	685	520
Depreciation and amortisation	12,485	12,283	11,527	11,452
Deposit insurance premium	6,130	6,338	6,130	6,338
Auditors' remuneration	254	200	212	140
Directors' emoluments (Note 39(b))	742	604	374	302
Professional fees	864	1,102	700	897
Information technology	4,082	1,635	1,677	1,596
Operating leases	2,154	2,367	1,534	1,698
AMCON premum	5,368	-	5,368	-
Other expenses	36,008	37,560	35,717	34,736
	116,228	96,179	108,529	89,107
13 Income tax expense				
Corporate tax	12,003	5,848	10,275	4,952
Information technology tax	506	462	506	425
Education tax	1,152	831	1,152	801
Current income tax - current period	13,661	7,141	11,933	6,178
Current income taxes referring to previous periods	3,257	(600)	3,257	(600)
	16,918	6,541	15,190	5,578
Origination and reversal of temporary deferred tax differences	343	4,068	653	3,586
Income tax expense from continuing operations	17,261	10,609	15,843	9,164
Income tax expense from discontinued operations	1,475	1,682	-	-

The movement in the current income tax payable balance is as follows:

	Group 2011	Group 2010	Bank 2011	Bank 2010
At start of the year	3,735	7,407	1,010	5,718
Classified as held for sale as start of the year	(1,946)	-	-	-
Tax paid	(6,569)	(12,652)	(4,266)	(10,286)
Tax paid (classified as held for sale)	1,214	-	-	-
Tax effect of translation	(4)	316	-	-
Prior period under/(over) provision	3,257	(600)	3,257	(600)
Income tax charge	13,661	9,264	11,933	6,178
At end of the year	13,348	3,735	11,934	1,010

Reconciliation of effective tax rate

	Group 2011	Group 2010	Bank 2011	Bank 2010
Profit before income tax	67,440	50,114	57,144	41,469
Tax calculated at the weighted average Group rate of 30% (2010: 30%)	20,232	15,034	17,143	12,441
Effect of tax rates in foreign jurisdictions	720	(222)	-	-
Non-deductible expenses	11,868	10,245	11,482	8,888
Tax exempt income	(18,611)	(12,889)	(17,039)	(12,238)
Information technology tax levy	152	(148)	(152)	(128)
Education tax levy	1,152	871	1,152	801
Prior period under / (over) provision	3,257	(600)	3,257	(600)
Tax loss effect	(34)	-	-	-
Income tax expense	18,736	12,291	15,843	9,164

Current income tax referring to prior periods represents an additional tax liability that arose in respect of income from certain treasury bills. The additional tax liability arose due to changes in the interpretation and application of the related tax legislation, which was not anticipated in the prior period, but arose upon assessment by the tax authorities during the year ended 31 December 2011.

Notes To The Financial Statements
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During the year, the group committed to a plan to sell all its non-banking subsidiaries with the exception of Zenith Pension Custodian Limited. This is in response to the Banking Reforms of the Central Bank of Nigeria which abolished the Universal Banking Regime in Nigeria. The subsidiaries to be disposed have been presented as discontinued operations in this financial statement. The related assets and liabilities of the discontinued operations have been classified as held for sale and are disclosed in notes 26 and 35 respectively.

Profit for the year from discontinued operations

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
Interest and similar income	2,805	2,158	-	-
Interest and similar expense	-	-	-	-
Net interest income	2,805	2,158	-	-
Impairment charge for credit losses	(877)	(369)	-	-
Net interest income after impairment charge for credit losses	1,928	1,789	-	-
Fee and commission income	931	1,428	-	-
Underwriting profit	3,563	**2,524**	-	-
Gross premium income	7,907	6,305	-	-
Reinsurances/ coinsurances	(2,357)	(1,991)	-	-
Return premiums	-	-	-	-
Net premiums underwritten	5,550	4,314	-	-
	-	-	-	-
Commission earned	659	448	-	-
Claims recovered	898	392	-	-
Claim expenses	(2,718)	(1,435)	-	-
Acquisition costs	(861)	(736)	-	-
Transfer to/ (from) profit and loss	35	(459)	-	-
	-	-	-	-
Other income	32	1,256	-	-
Operating expenses	(2,127)	(1,703)	-	-
Profit before tax on discontinued operations	4,327	5,294	-	-
Taxation	(1,475)	(1,682)	-	-
Profit after tax on discontinued operations	2,852	3,612	-	-
Basic earnings per share (discontinued operations)	9 k	12 k	-	-

Notes To The Financial Statements
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15 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. Where a stock split or bonus share issue has occurred, the number of shares in issue in the prior year is adjusted to achieve comparability.

	Group 2011	Group 2010	Bank 2011	Bank 2010
Profit attributable to shareholders of the Bank (total operations) (N'million)	48,423	37,703	41,301	32,305
Profit attributable to shareholders of the Bank (continuing operations) (N'million)	45,780	34,183	41,301	32,305
Number of shares in issue at end of the period (millions)	31,396	31,396	31,396	31,396
Weighted average number of ordinary shares in issue (millions)	31,396	31,396	31,396	31,396
Basic earnings per share (total operations)	154 k	120 k	132 k	103 k
Basic earnings per share (continuing operations)	146 k	109 k	132 k	103 k

16 Cash and balances with central banks

	Group 2011	Group 2010	Bank 2011	Bank 2010
Cash	39,913	39,582	36,714	36,473
Operating accounts with Central Banks	76,666	89,652	67,848	82,408
Mandatory reserve deposits with central bank	106,608	12,490	106,536	11,723
Cash reserves	106,608	11,990	106,536	11,723
Statutory deposits	-	500	-	-
	223,187	141,724	211,098	130,604

Mandatory reserve deposits are not available for daily use.

Statutory deposit represents the mandatory deposit required by the National Insurance Commission (NAICOM) to be made by the insurance subsidiaries i.e. Zenith General Insurance Company Limited and Zenith Life Assurance Company Limited. This amount of N500million reserved in compliance to this directive at year end has been classified as assets held for sale.

17 Treasury bills

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
Treasury bills (FVTPL)	-	2,510	-	2,510
Treasury bills (Amortized cost)	510,738	296,348	494,253	285,471
	510,738	298,858	494,253	287,981

Included in treasury bills is N6.93 billion (2010: N19.19 billion) worth of treasury bills pledged as collateral to Bank of Industry (BOI), Nigeria Interbank Settlement System (NIBBS) , Federal Inland Revenue Services, V-Pay, E-Tranzact International Limited and Interswitch.

	Group 2011	Group 2010	Bank 2011	Bank 2010
The following treasury bills have maturities less than three months and are classified as cash and cash equivalents for purposes of the statements of cash flows (Note 44).	174,516	116,276	170,053	110,465

Notes To The Financial Statements
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	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
18 Due from other banks				
Current balances with banks within Nigeria	5,309	13,308	-	-
Current balances with banks outside Nigeria	145,294	132,486	196,993	167,083
Placements with banks and discount houses	83,918	253,684	49,371	207,521
	234,521	399,478	246,364	374,604
19 Loans and advances to customers				
Overdrafts	273,788	270,480	259,950	232,458
Term loans	595,005	475,380	540,037	464,627
On-lending facilities	44,525	22,536	44,525	22,536
Advances under finance lease	7,303	13,188	6,405	12,731
Gross loans and advances to customers	920,621	781,584	850,917	732,352
Less: Allowances for impairment	(26,787)	(27,560)	(23,882)	(24,766)
Specific allowances for impairment	(12,408)	(7,235)	(10,168)	(6,544)
Collective allowance for impairment	(14,379)	(20,325)	(13,714)	(18,222)
Net loans and advances to customers	893,834	754,024	827,035	707,586
Overdrafts				
Gross overdrafts	273,788	270,480	259,950	232,458
Less: Allowances for impairment	(17,318)	(17,719)	(17,318)	(17,277)
Specific allowances for impairment	(8,721)	(3,352)	(8,721)	(2,904)
Collective allowance for impairment	(8,597)	(14,367)	(8,597)	(14,373)
Net overdrafts	256,470	252,761	242,632	215,181
Term loans				
Gross term loans	595,005	475,380	540,037	464,627
Less: Allowances for impairment	(9,071)	(9,279)	(6,166)	(6,927)
Specific allowances for impairment	(3,687)	(3,883)	(1,447)	(3,640)
Collective allowance for impairment	(5,384)	(5,396)	(4,719)	(3,287)
Net term loans	585,934	466,101	533,871	457,700
On- lending facilities				
Carrying amount	44,525	22,536	44,525	22,536
Less: Collective allowance for impairment	(332)	(139)	(332)	(139)
	44,193	22,397	44,193	22,397
Advances under finance lease				
Carrying amount	7,303	13,188	6,405	12,731
Less: Collective allowance for impairment	(66)	(423)	(66)	(423)
	7,237	12,765	6,339	12,308

ZENITH BANK PLC

Notes To The Financial Statements
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Reconciliation of impairment allowance on loans and advances to customers:

Group

	Overdrafts N'million	Term loans N'million	On-lending facilities N'million	Advances under finance lease N'million	Total N'million
Balance at 1 January 2011	17,719	9,279	139	423	27,560
Specific impairment	3,352	3,883	-	-	7,235
Collective impairment	14,367	5,396	139	423	20,325
Additional impairment charge for the year	16,472	295	193	(357)	16,603
Specific impairment	22,242	307	-	-	22,549
Collective impairment	(5,770)	(12)	193	(357)	(5,946)
Amounts recovered during the year	-	-	-	-	-
impairment no longer required	(6,098)	-	-	-	(6,098)
Foreign currency translation and other adjustments	-	(503)	-	-	(503)
Write-offs	(10,775)	-	-	-	**(10,775)**
Balance at 31 December 2011	**17,318**	**9,071**	**332**	**66**	**26,787**
Specific impairment	8,721	3,687	0	0	12,408
Collective impairment	8,597	5,384	332	66	14,379

Balance at 1 December 2010	**24,913**	**18,209**	**-**	**68**	**43,190**
Specific impairment	10,613	13,338	-	-	23,951
Collective impairment	14,300	4,871	-	68	19,239
Additional impairment charge for the year	2,116	2,910	139	358	5,523
Specific impairment	2,049	2,385	-	3	4,437
Collective impairment	67	525	139	355	1,086
Amounts recovered during the year	-	-	-	-	-
impairment no longer required	(1,652)	(11,772)	-	-	(13,424)
Foreign currency translation and other adjustments	-	(48)	-	(3)	(51)
Write-offs	(7,658)	(20)	-	-	(7,678)
Balance at 31 December 2010	**17,719**	**9,279**	**139**	**423**	**27,560**
Specific impairment	3,352	3,883	-	0	7,235
Collective impairment	14,367	5,396	139	423	20,325

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Reconciliation of impairment allowance on loans and advances to customers:
Bank

	Overdrafts N'million	Term loans N'million	On-lending facilities N'million	Advances under finance lease N'million	Total N'million
Balance at 1 January 2011	**17,277**	**6,927**	**139**	**423**	**24,766**
Specific impairment	2,904	3,640	0	0	6,544
Collective impairment	14,373	3,287	139	423	18,222
Additional impairment charge for the year	**16,914**	**(761)**	**193**	**(357)**	**15,989**
Specific impairment	22,690	(2,193)	-	-	20,497
Collective impairment	(5,776)	1,432	193	(357)	(4,508)
Amounts recovered during the year	-	-	-	-	-
impairment no longer required	(6,098)	-	-	-	(6,098)
Foreign currency translation and other adjustments	-	-	-	-	-
Write-offs	(10,775)	-	-	-	(10,775)
Balance at 31 December 2011	**17,318**	**6,166**	**332**	**66**	**23,882**
Specific impairment	8,721	1,447	-	-	10,168
Collective impairment	8,597	4,719	332	66	13,714

Balance at 1 January 2010	**24,824**	**16,681**	**-**	**65**	**41,570**
Specific impairment	10,524	13,279	-	-	23,803
Collective impairment	14,300	3,402	-	65	17,767
Additional impairment charge for the year	**1,763**	**2,018**	**139**	**358**	**4,278**
Specific impairment	1,690	2,133	-	-	3,823
Collective impairment	73	(115)	139	358	455
Amounts recovered during the year	-	-	-	-	-
impairment no longer required	(1,652)	(11,772)	-	-	(13,424)
Write-offs	(7,658)	-	-	-	(7,658)
Balance at 31 December 2010	**17,277**	**6,927**	**139**	**423**	**24,766**
Specific impairment	2,904	3,640	0	0	6,544
Collective impairment	14,373	3,287	139	423	18,222

Notes To The Financial Statements
For The Year Ended 31 December 2011

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
Advances under finance lease				
Gross investment	8,796	14,727	7,774	14,014
Less: Unearned income	(1,493)	(1,539)	(1,369)	(1,283)
Net Investment	7,303	13,188	6,405	12,731
The net investment may be analysed as follows:				
No later than 1 year	376	7,105	376	6,676
Later than 1 year and no later than 5 years	6,927	6,083	6,029	6,055
	7,303	13,188	6,405	12,731

The nature of security in respect of loans and advances is as follows:

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
Secured against real estate	368,260	350,104	363,954	349,590
Secured by shares of quoted companies	11,822	12,026	10,841	12,026
Otherwise secured	434,350	356,763	405,867	318,841
Unsecured	106,189	62,691	70,255	51,895
	920,621	781,584	850,917	732,352

20 Reinsurance assets and insurance receivables

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
Life insurance	-	9		
Reinsurers share of group life	-	8	-	-
Reinsurers share of individual life	-	1	-	-
Non-life insurance	-	401	-	-
Reinsurers share of outstanding reported claims	-	120	-	-
Reinsurers share of incurred but not reported claims	-	45	-	-
Reinsurers share of unearned premium reserve	-	236	-	-
Reinsurers' share of insurance liabilities (life and non-life insura	-	410	-	-
Other insurance receivables	-	711	-	-
Due from agents and brokers	-	2,686	-	-
Due from reinsurers	-	-	-	-
Less: impairment loss on doubtful	-	-	-	-
insurance receivables	-	(1,975)	-	-
	-	1,121	-	-

Notes To The Financial Statements
For The Year Ended 31 December 2011

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
The movement in specific impairment for insurance receivables may be analysed as follows:				
At start of the period	1,975	1,572	-	-
Classified as held for sale	(1,975)	-	-	-
Provision during the period	-	403	-	-
At end of the period	-	1,975	-	-

21 Investment securities

(a) Analysis of investments

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
Debt securities	298,841	199,645	257,660	163,495
Equity securities	9,390	12,159	9,390	8,685
	308,231	211,804	267,050	172,180

(b) Debt securities

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
Measured at fair value through profit or loss				
Federal Government of Nigeria	-	587	-	587
Measured at amortised cost				
Federal Government of Nigeria (Non-trading bonds)	166,924	136,042	165,963	135,613
Asset Management Corporation of Nigeria (AMCON) Bond	70,825	12,582	70,825	12,582
Ghana Government	2,027	1,864	-	-
Gabon Government	755	704	-	-
Lagos State Government	6,038	6,138	5,860	6,138
Delta State Government	5,000	-	5,178	-
GT Bank Plc	1,007	1,005	1,007	1,005
Flour Mills of Nigeria Plc	7,051	7,053	7,051	7,053
United Bank for Africa Plc	517	517	517	517
Tower Plc	1,259	-	1,259	-
GTB Finance B.V.	6,381	2,279	-	-
Merill Lynch	2,357	2,909	-	-
European Investment Bank	6,276	-	-	-
Royal Bank of Scotland	1,306	-	-	-
African Development Bank (AfDB)	2,078	5,978	-	-
FBN Capital Limited	2,985	2,290	-	-
African Export Import Bank (Afrexim)	2,086	1,963	-	-
Abbey National Treasury Services PLC London	6,326	1,016	-	-
Allied Irish Bank London	1,040	1,016	-	-
Bank of England	-	5,878	-	-
Citigroup Inc.	-	2,381	-	-
Countrywide Financial Services	-	1,184	-	-
Inter American Development Bank	2,226	2,114	-	-
Islamic Bank of Britain (IBB)	3,530	3,350	-	-
Rabo Bank	847	795	-	-
Total debt securities carried at amortised cost	298,841	199,058	257,660	162,908
Total debt securities	298,841	199,645	257,660	163,495

Notes To The Financial Statements
For The Year Ended 31 December 2011

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
(c) Equity securities measured at fair value through other comprehensive income				
Quoted securities	-	3,474	-	-
Unquoted securities	9,390	8,685	9,390	8,685
	9,390	12,159	9,390	8,685

The Group has elected to present the fair value gains and losses on the above equity instruments in other comprehensive income as these investments are not held for trading purposes but rather for strategic purposes.

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
(i) Federal Government of Nigeria Bonds (FVTPL) comprise:				
4th FGN Bond Series 3 (10.75%)	-	50	-	50
5th FGN Bond Series 2 (10.70%)	-	100	-	100
6th FGN Bond Series 3 (12.49%)	-	100	-	100
7th FGN Bond Series 5 (5.50%)	-	337	-	337
	-	587	-	587

The movement in investment securities may be summarised as follows:
Group

	Debt securities at fair value through profit and loss N'million	Debt securities at amortised cost N'million	Equity securities at fair value through other comprehensive income N'million	Total N'million
At 1 January 2011	587	199,058	12,159	211,804
Exchange differences	-	69	-	69
Additions	463,094	202,337	-	665,431
Disposals (sale and redemption)	(463,886)	(102,623)	(2,769)	(569,278)
Gains from changes in fair value recognised in profit or loss (Note10)	205	-	-	205
Gains from changes in fair value recognised in other comprehensive income	-	-	-	-
Interest accrued	-	-	-	-
Coupon received	-	-	-	-
Impairment losses	-	-	-	-
At 31 December 2011	-	298,841	9,390	308,231
At 1 January 2010	2,405	147,437	9,080	158,922
Exchange differences on monetary assets	-	(1,333)	-	(1,333)
Additions	885,950	399,698	8,039	1,293,687
Disposals (sale and redemption)	(888,581)	(346,744)	(5,170)	(1,240,495)
Gains from changes in fair value recognised in profit or loss (Note10)	813	-	-	813
Gains from changes in fair value recognised in other comprehensive income	-	-	210	210
Interest accrued	-	-	-	-
Coupon received	-	-	-	-
Impairment losses	-	-	-	-
At 31 December 2010	587	199,058	12,159	211,804

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	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million

The movement in investment securities may be summarised as follows:
Bank

	Debt securities at fair value through profit and loss N'million	Debt securities at amortised cost N'million	Equity securities at fair value through other comprehensive income N'million	Total N'million
At 1 December 2011	587	162,908	8,685	172,180
Exchange differences	-	-	-	-
Additions	462,923	197,369	-	660,292
Disposals (sale and redemption)	(463,681)	(102,617)	-	(566,298)
Gains from changes in fair value recognised in profit or loss (Note10)	171	-	-	171
Gains from changes in fair value recognised in other comprehensive income	-	-	705	705
Interest accrued	-	-	-	-
Coupon received	-	-	-	-
Impairment losses	-	-	-	-
At 31 December 2011	-	257,660	9,390	267,050
At 1 January 2010	2,405	133,400	8,475	144,280
Exchange differences on monetary assets	-	-	-	-
Additions	587	123,658	-	124,245
Disposals (sale and redemption)	(3,209)	(94,150)	-	(97,359)
Gains from changes in fair value recognised in profit or loss (Note10)	804	-	-	804
Gains from changes in fair value recognised in other comprehensive income	-	-	210	210
Interest accrued	-	-	-	-
Coupon received	-	-	-	-
Impairment losses	-	-	-	-
At 31 December 2010	587	162,908	8,685	172,180

22 Investment in subsidiaries

	%	Group 2011	Group 2010	Bank 2011	Bank 2010
Zenith Securities Limited	99.9890%	-	-	-	8,000
Limited	80.1224%	-	-	-	3,978
Zenith Registrars Limited	99.9969%	-	-	-	500
Zenith Pensions Custodian Limited	99.0000%	-	-	-	1,980
Zenith Life Assurance Company Limited	81.6132%	-	-	-	150
Zenith Capital Limited	99.9996%	-	-	-	5,400
Zenith Bank (Ghana) Limited	98.0722%	-	-	6,444	6,444
Zenith Bank (UK) Limited	100.0000%	-	-	8,527	8,527
Zenith Bank (Sierra Leone) Limited	100.0000%			1,356	1,117
Zenith Bank (Gambia) Limited	100.0000%	-	-	1,038	1,038
		-	-	17,365	37,134

i Apart from Zenith Bank (Ghana) Limited,Zenith Bank (UK) Limited, Zenith Bank (Gambia) Limited, Zenith Bank (Sierra Leone) Limited and Zenith Bank (Gambia Limited), all the subsidiaries are incorporated in Nigeria.

The bank also exercises control through indirect holding in two subsidiaries, namely Zenith Medicare Limited and Zenith Trustees Limited. The results of both subsidiaries have also been consolidated in these financial statements.

ii Zenith Securities Limited provides securities trading and assets management services. It was incorporated on 31 May 1990 and commenced operations in May 2004. The carrying amount of investment in Zenith Securities Limited in 2011 is included in investment in subsidiaries classified as held for sale(see Note 26).

Notes To The Financial Statements
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iii Zenith General Insurance Company Limited provides marine, motor, accident, fire and other non-life insurance services. It was incorporated on 8 January 1970 as Picadilly Insurance Company Limited and it traded in this name until 2003 when it was acquired by Zenith Bank PLC . The name was changed to Zenith General Insurance Company Limited on April 16, 2004. The carrying amount of investment in Zenith General Insurance Company Limited in 2011 is included in investment in subsidiaries classified as held for sale(see Note 26).

iv Zenith Registrars Limited provides registration and share transfer agency services. It was incorporated on May 7, 2004 and commenced operations on May 21, 2005. The carrying amount of investment in Zenith Registrars Limited in 2011 is included in investment in subsidiaries classified as held for sale(see Note 26).

v Zenith Bank (Ghana) Limited provides Corporate, Retail Banking and Pension custodial services (Continuing operations) services. It was incorporated on April 15, 2005 and commenced operations on September 16, 2005.

vi Zenith Pensions Custodian Limited provides pension funds custodial services to Licensed Pension Fund Administrators (PFAs) and Closed Pension Funds Administrators under the Pension (Reform) Act, 2004. It was incorporated on 1 March 2005. The name was changed from "Zenith Pensions Limited" to "Zenith Pensions Custodian Limited" on September 20, 2005. It was licensed by the National Pension Commission as a custodian of pension funds and assets on 7 December 2005 and commenced operations in December 2005 .

vii Zenith Life Assurance Company Limited provides group life and individual life policy cover. It was incorporated 30 March 2001 . Its name was changed from "Zenith Life Insurance Company Limited" to "Zenith Life Assurance Company Limited" on April 25, 2005. The company commenced operations in April 2006. The carrying amount of investment in Zenith Life Assurance Company Limited in 2011 is included in investment in subsidiaries classified as held for sale(see Note 26).

viii Zenith Bank (UK) Limited provides a range of commercial, wholesale, investment, retail banking and financial services in the United Kingdom. It was incorporated on 17 February 2006 and commenced operations on 30 March 2007.

ix Zenith Capital Limited provides investment banking services, including corporate finance and advisory, project finance, capital markets, syndication, asset management and principal investment. It was incorporated on 11 November 2005 and commenced operations in October 2006. On 21 November 2006, Its name was changed from "Zenith Capital Markets Limited" to "Zenith Capital Limited". The carrying amount of investment in Zenith Capital Limited in 2011 is included in investment in subsidiaries classified as held for sale(see Note 26).

x Zenith Bank (Sierra Leone) Limited provides Corporate, Retail Banking and Pension custodial services (Continuing operations) services. It was incorporated in Sierra Leone on 17 September 2007 and granted an operating license by the Bank of Sierra Leone on 10 September 2008. It commenced banking operations on 15 September 2008.

xi Zenith Medicare Limited provides health insurance and managed care services. It was incorporated on May 31, 2005 and commenced operations on January 1, 2006. Its name was changed from "Zenith Assurance Medicare Limited" to Zenith Medicare Limited" on September 28, 2006. The carrying amount of investment in Zenith Medicare Limited in 2011 is included in investment in subsidiaries classified as held for sale(see Note 26).

xii Zenith Trustees Limited provides trust services and non-pension fund custodial services. It was incorporated in Nigeria on July 5, 2004 and commenced operations in May 2006. The carrying amount of investment in Zenith Trustees Limited in 2011 is included in investment in subsidiaries classified as held for sale(see Note 26).

23 Investments in associates

The Group's investments under the Small and Medium Enterprises Equity Investment Scheme ("SMEEIS") is in compliance with the Policy Guidelines for 2001 Fiscal Year (Monetary Policy Circular No. 35). The Group generally holds 20 percent or more of the voting power of the investee and is therefore presumed to have significant influence over the investee. In instances where the Group holds less than 20 percent of the voting power of the investee, the Group concluded that it has significant influence due to the Group's representation on the board of the relevant investee, with such board generally limited to a small number of board members.

	Group 2011 N'million	Group 2010 N'million	**Bank 2011 N'million**	Bank 2010 N'million
Balance at beginning of the period	**2,443**	2,443	**2,509**	2,509
Share of profit/(loss)	**45**	27	**-**	-
Disposals	**(687)**	-	**(687)**	-
Dividends paid	**(45)**	(27)	**-**	-
Balance at end of the period	**1,756**	2,443	**1,822**	2,509

There were no published price quotations for any associates of the Group. Furthermore, there are no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends or repayment of loans and advances.

Notes To The Financial Statements
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	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
24 Deferred tax assets				
Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (**2010**: 30%).				
Deferred income tax assets and liabilities are attributable to the following items:				
Deferred tax assets				
Tax loss carried forward	186	1,657	-	-
Deferred tax liabilities				
Property and equipment	6,204	7,993	6,280	7,872
Other assets	579	580	493	579
Allowances for loan losses	3,073	1,337	3,073	1,338
Treasury bills and bonds (FVTPL)	-	145	-	17
Equity securities at fair value	886	293	886	63
	10,742	10,348	10,732	9,869
Net deferred tax liabilities	10,556	8,691	10,732	9,869
Deferred tax assets				
Deferred tax asset to be recovered within 12 months	-	876	-	-
Deferred tax asset to be recovered within more than 12 mont	186	781	-	-
	186	1,657	-	-
Deferred tax liabilities				
Deferred tax liability to be recovered within 12 months				
Deferred tax liability to be recovered within more than 12 moi	N'million	N'million	N'million	N'million
	10,742	10,348	10,732	9,869

Group	01 Jan 2011 N'million	Recognised in P&L N'million	Recognised in OCI N'million	31 Dec 2011 N'million
Movements in temporary differences during the year:				
Property and equipment	7,993	(1,407)	-	6,586
Other assets	580	-	-	580
Allowances for loan losses	1,337	1,735	-	3,072
Treasury bills and bonds (FVTPL)	145	(145)	-	-
Equity securities at fair value	293	-	211	504
	10,348	183	211	10,742
Tax loss carried forward	(1,657)	1,471	-	(186)
Tax expense	8,691	1,654	211	10,556
Foreign exchange differences		(1,311)		
		343		

	01 Jan 2010 N'million	Recognised in P&L N'million	Recognised in OCI N'million	31 Dec 2010 N'million
Movements in temporary differences during the year:				
Property and equipment	3,117	4,876	-	7,993
Other assets	60	520	-	580
Allowances for loan losses	2,348	(1,011)	-	1,337
Treasury bills and bonds (FVTPL)	145	(0)	-	145
Equity securities at fair value	230	-	63	293
	5,900	4,385	63	10,348
Tax loss carried forward	(966)	(691)	-	(1,657)
	4,934	3,694	63	8,691
Foreign exchange differences		374		
		4,068		

Notes To The Financial Statements
For The Year Ended 31 December 2011

Bank	01 Jan 2011 N'million	Recognised in P&L N'million	Recognised in OCI N'million	31 Dec 2010 N'million
Movements in temporary differences during the year:				
Property and equipment	7,133	(1,083)	-	6,050
Other assets	579	-	-	579
Allowances for loan losses	1,338	1,735	-	3,073
Treasury bills and bonds (FVTPL)	145	-	-	145
Equity securities at fair value	674	-	211	885
	9,869	652	211	10,732

	1 Jan 2010 N'million	Recognised in P&L N'million	Recognised in OCI N'million	31 Dec 2010 N'million
Movements in temporary differences during the year:				
Property and equipment	3,100	4,033	-	7,133
Other assets	60	519	-	579
Allowances for loan losses	2,348	(966)	-	1,338
Treasury bills and bonds (FVTPL)	145	0	-	145
Equity securities at fair value	611	0	63	674
	6,264	3,586	63	9,869

Deferred income tax assets are recognised for tax loss carry-forwards only to the extent that the realisation of the related tax benefit is probable.

Notes To The Financial Statements
For The Year Ended 31 December 2011

	Group N'million 2011	Group N'million 2010	Bank N'million 2011	Bank N'million 2010
25 Other assets				
Prepayments	14,658	13,421	14,093	12,898
Other receivables	14,209	11,132	6,880	6,585
Gross other assets	28,867	24,553	20,973	19,483
Less: Specific impairment	(3,357)	(4,096)	(3,357)	(4,081)
	25,510	20,457	17,616	15,402
Movement in specific impairment:				
At start of year	4,096	5,192	4,081	5,042
Specific impairment	133	-	118	-
Clasified as held for disposal	(15)	-	-	-
Impairment no longer required	(222)	(949)	(207)	(961)
Prior year impairment written off against other assets	(635)	(147)	(635)	-
At end of the year	3,357	4,096	3,357	4,081
26 Assets classified as held for sale				
Investment in subsidiaries	-	-	12,818	-
Cash and balances with central banks	500	-	-	-
Treasury bills	5,351	-	-	-
Due from other banks	36,451	-	-	-
Loans and advances	641	-	-	-
Reinsurance assets and insurance receivables	1,423	-	-	-
Investment securities	4,625	-	-	-
Deferred tax assets	1,628	-	-	-
Other assets	1,015	-	-	-
Property and equipment	809	-	-	-
Intangible assets	39	-	-	-
	52,482	-	12,818	-

27 Investment property

	Group N'million	Bank N'million
Cost		
At start of the year	7,501	7,036
Additions	367	367
Disposals	(465)	-
At end of the year	7,403	7,403
Accumulated amortization		
At start of the year	159	141
Charge for the year	148	148
Disposals	(18)	-
At 31 December 2011	289	289
Carrying amount		
At 31 December 2011	7,114	7,114
At 31 December 2010	7,342	6,895

The fair value of investment property as at 31 December 2011 was N14.75 billion(2010:14.3 billion)

28 Property and equipment

(a) GROUP

	Leasehold land & building N'million	Leasehold improvement N'million	Furniture, fittings & equipment N'million	Computer equipment N'million	Motor vehicles N'million	Work in progress N'million	Total N'million
Cost							
At start of the period	24,959	12,035	25,158	17,651	12,012	21,200	113,015
Exchange difference	(5)	(13)	(35)	(18)	(25)	(7)	(103)
Additions	3,655	616	2,068	2,692	1,232	4,462	14,725
Reclassifications	(108)	(66)	181	(15)	8	-	-
Transfers	2,184	710	1,819	258	420	(5,391)	-
Classified as held for sale	(551)	(156)	(218)	(83)	(272)	(34)	(1,314)
Disposals	-	-	(50)	(16)	(657)	(9)	(732)
At end of the period	30,134	13,126	28,923	20,469	12,718	20,221	125,591
Accumulated depreciation							
At start of the period	1,562	8,528	14,930	12,992	8,418	-	46,430
Exchange difference	(2)	(17)	(25)	(17)	(21)	-	(82)
Charge for the period	618	1,510	4,133	3,771	1,995	-	12,027
Reclassifications	140	(165)	22	(7)	10	-	-
Classified as held for sale	(6)	(94)	(116)	(72)	(203)	-	(491)
Disposals	-	-	(40)	(16)	(603)	-	(659)
At end of the period	2,312	9,762	18,904	16,651	9,596	-	57,225
Net book amount							
At 31 December 2011	**27,822**	**3,364**	**10,019**	**3,818**	**3,122**	**20,221**	**68,366**
At 31 December 2010	23,397	3,507	10,228	4,659	3,594	21,200	66,585

28 Property and equipment

(b) BANK

	Leasehold land & building N'million	Leasehold improvement N'million	Furniture, fittings & equipment N'million	Computer equipment N'million	Motor vehicles N'million	Work in progress N'million	Total N'million
Cost							
At start of the period	24,316	10,215	23,803	16,387	11,073	20,946	106,740
Additions	3,636	485	1,962	2,542	1,163	4,207	13,995
Reclassifications	(108)	(65)	181	(16)	8	-	-
Transfers	2,184	673	1,741	115	377	(5,090)	-
Disposals	-	-	(48)	(16)	(633)	-	(697)
At end of the period	30,028	11,308	27,639	19,012	11,988	20,063	120,038
Accumulated depreciation							
At start of the period	1,546	7,829	14,304	12,148	7,913	-	43,740
Charge for the period	616	1,244	3,897	3,480	1,845	-	11,082
Reclassifications	140	(165)	22	(7)	10	-	0
Disposals	-	-	(40)	(16)	(605)	-	(661)
At end of the period	2,302	8,908	18,183	15,605	9,163	-	54,161
Net book amount							
At 31 December 2011	**27,726**	**2,400**	**9,456**	**3,407**	**2,825**	**20,063**	**65,877**
At 31 December 2010	22,770	2,386	9,499	4,239	3,160	20,946	63,000

Notes To The Financial Statements
For The Year Ended 31 December 2011

	Group N'million 2011	Group N'million 2010	Bank N'million 2011	Bank N'million 2010
29 Intangible assets				
Computer software				
Cost				
At start of the year	1,751	1,253	1,668	1,253
Exchange difference		-	-	-
Additions	275	498	175	415
Classified as assets held for sale	(57)	-	-	-
At end of the year	1,969	1,751	1,843	1,668
Accumulated depreciation				
At start of the year	924	541	884	541
Charge for the year	310	383	298	343
Classified as assets held for sale	(35)	-	-	-
At end of year	1,199	924	1,182	884
Carrying amount				
At end of the year	770	827	661	784
30 Deposits				
Demand	1,062,387	835,465	1,032,526	846,910
Savings	139,532	103,467	130,679	101,298
Term	278,253	242,178	263,517	221,113
Domiciliary	175,286	138,652	150,568	120,693
	1,655,458	1,319,762	1,577,290	1,290,014
31 Other liabilities				
Customer deposits for letters of credit (Note 18)	44,208	45,927	44,208	45,927
Managers' cheques	14,729	13,373	14,250	13,068
Due to clients	-	4,761	-	-
Unclaimed dividend	-	10,858	-	-
Other payables	93,899	68,454	68,202	27,475
	152,836	143,373	126,660	86,470
32 Liabilities on insurance contracts				
Life contracts	-	644	-	-
Group life	-	530	-	-
Individual life	-	114	-	-
Insurance with DPF	-	-	-	-
Non-life insurance contracts	-	1,643		
Outstanding reported claims	-	200	-	-
Incurred but not reported claims	-	25	-	-
Unearned premium provision	-	1,418	-	-
	-	2,287	-	-

General insurance business fund represents the provision for unearned premiums, unexpired risk and provision for outstanding claims.

Notes To The Financial Statements
For The Year Ended 31 December 2011

33 On-lending facilities

This comprises:

	Group N'million 2011	Group N'million 2010	Bank N'million 2011	Bank N'million 2010
Central Bank of Nigeria (CBN) Commercial Agriculture Credit Scheme Loan (See (i)) below	20,535	13,835	20,535	13,835
Bank of Industry (BOI) Intervention Loan (See (ii)) below	16,326	12,214	16,326	12,214
Central Bank of Nigeria (CBN) / Bank of Industry(BOI) - Power & Aviation intervention Funds (See (iii)) below	12,509	-	12,509	-
	49,370	26,049	49,370	26,049

Included in on-lending facilities are amount totalling N4.8 billion (2010: N3.5 billion) received but not yet disbursed.

(i) The fund received under the Central Bank of Nigeria (CBN) Commercial Agriculture Credit Scheme represents a credit line granted to the Bank for the purpose of providing concessionary funding to the agricultural sector. The facility is secured by Nigerian Government Securities and has a tenor of 7 years except for an amount of N220 million meant for working capital refinancing which has a tenor of 1 year. The facility attracts an interest of 1% per annum and the Bank is under obligation to on-lend to customers at an all-in interest rate of not more than 9% per annum. Based on the structure of the facility, the Bank assumes the default risk of all amounts lent to the Bank's customers.

(ii) The Central Bank of Nigeria (CBN) / Bank of Industry (BOI)- SME / Manufacturing Intervention Fund represents an intervention credit granted to the Bank for the purpose of refinancing / or restructuring existing loans to Small and Medium Scale Enterprises (SMEs) and manufacturing companies. The total facility is secured by Nigerian Government Securities and has a 10 year tenor except for an amount of N220 million meant for working capital refinancing which has a tenor of 1 year. A management fee of 1% deductible at source is paid by the Bank under the on-lending agreement and the Bank is under obligation to on-lend to customers at an all-in interest rate of 7% per annum. The Bank is the primary obligor to CBN / BOI and therefore assumes the risk of default by customers.

(iii) The Central Bank of Nigeria (CBN) / Bank of Industry (BOI)- Power & Aviation Intervention Fund represents a credit line for the purpose of refinancing / or restructuring existing loans to companies in the power and aviation industries. The facility is secured by Nigerian Government Securities and has a tenor of 10 years. The facility attracts an interest of 1% per annum and the Bank is under obligation to on-lend to customers at an all-in interest rate of 7% per annum. The Bank is the primary obligor to CBN / BOI and therefore assumes the risk of default by customers.

Notes To The Financial Statements
For The Year Ended 31 December 2011

	Group N'million 2011	Group N'million 2010	Bank N'million 2011	Bank N'million 2010
34 Borrowings				
Long term borrowing comprise:				
Due to FMO (See Note(i))	261	1,255	261	1,255
Due to ADB (See Note(ii))	14,903	16,785	14,903	16,785
Due to ChinaExim	-	264	-	264
Due to EIB (See Note(iii))	120	824	120	824
Due to HSBC(Note (iv))	138	1,263	138	1,263
Due to PROPARCO (See Note (v))	4,015	5,523	4,015	5,523
Due to Private Exporters Funding Corporation(See Note (vi))	1,633	2,444	1,633	2,444
	21,070	28,358	21,070	28,358

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2010: nil).

(i) The amount due to Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) of **N261 million ($1.61 million)** comprises the outstanding balance of two facilities in the sums of **$5 million** and **$15 million** granted by FMO. The first tranch of the facility , along with another tranch for **$15 million** and which has been fully repaid during the year, was availed to Zenith Bank PLC in December 2005 while the second was disbursed in March 2009. The respective facilities are priced at LIBOR +2.65% and LIBOR + 3.5% per annum. The facilities are due for repayment in April 2012 and June 2012 respectively.

(ii) The amount due to African Development Bank (ADB) of **N 14.90 billion ($ 91.67 million)** represents the outstanding balance of two tranches of dollar facilities in the sums of **$100 million** and **$50 million** granted by ADB in May 2007 and March 2010 respectively. The tranches of the facility are repayable over 7 years and 5 years respectively. Interest is payable half-yearly at the rate of LIBOR + 2.2% per annum and LIBOR + 4.5% per annum respectively. The outstanding balance of the first tranch of **$ 46.67 million (N6.65 billion)** will mature in 2 years and 2 months while the second tranch **$50 million (N 7.98 billion)** will mature in 3 years and 2 months.

(iii) The amount of **N 119.04 million ($0.75 million)** represents the outstanding balance of three tranches of dollar facilities disbursed by European Investment Bank (EIB) in the sums of $ 5 million (granted in March 2007); **$4 million** (granted in November 2007) and **$2.98 million** (granted in December 2007). The facilities are priced at 2.9% per annum and will be due for repayment in September 2012

(iv) The amount of **N 138.04 million ($0.87 million)** represents the outstanding balance of the dollar facility granted by The Hongkong and Shanghai Banking Corporation in June 2007 for a tenor of five years. Interest is payable at the rate of LIBOR plus 0.6 % per annum. The facility will mature in May 2012.

(v) The amount of **N4.02 billion ($ 24.99 million)** represents the outstanding balance of two tranches of dollar facilities granted by Promotion et Participation pour la Coopération économique (PROPARCO) in August 2007 and June 2009 respectively.The first tranch will mature in October 2012 while the last payment on the second tranch will be in April 2015 . Interest is payable at LIBOR plus 2.50% per annum.

(vi) The amount of **N 1.63 billion ($ 10.23 million)** represents the outstanding balance of a 5-year dollar facility granted by Sovereign Bank in November 2008. In December 2008, however, the Sovereign Bank sold its outstanding receivable loan balance from Zenith Bank to Private Exporters Funding Corporation (PEFCO). Consequently, Zenith Bank Plc is now obligated to PEFCO under this revised agreement. Interest is payable at the rate of 3 months' LIBOR plus 0.60 % per annum. The facility will mature in 1 year and 9 months.

	Group N'million 2011	Group N'million 2010	Bank N'million 2011	Bank N'million 2010
35 Liabilities classified as held for sale				
Claims payable	420	-	-	-
Current income tax	1,882	-	-	-
Deferred income tax liabilities	500	-	-	-
Due to clients	819	-	-	-
Unclaimed dividend	12,452	-	-	-
Other payables	10,711	-	-	-
Liabilities on insurance contracts	2,819	-	-	-
	29,603	-	-	-
36 Share capital				
Authorised				
40,000,000,000 ordinary shares of 50k each (**2010**: 40,000,000,000)	20,000	20,000	20,000	20,000
Issued and fully paid				
31,396,493,786 ordinary shares of 50k each (**2010**: 31,396,493,786)	15,698	15,698	15,698	15,698
Movements during the period:				
At start	15,698	12,559	15,698	12,559
Issue of bonus shares	-	3,139	-	3,139
At end of the year	15,698	15,698	15,698	15,698

	Group N'million 2011	Group N'million 2010	Bank N'million 2011	Bank N'million 2010

37 Share premium, retained earnings and other reserves

There was no movement in the Share premium account during the current and prior year.

	Group N'million 2011	Group N'million 2010	Bank N'million 2011	Bank N'million 2010
At end of the period	255,047	255,047	255,047	255,047

The nature and purpose of the reserves in equity are as follows:

Share premium: Premiums from the issue of shares are reported in share premium.

Retained earnings: Retained earnings comprise the undistributed profits from previous years which have not been reclassified to the other reserves noted below.

Statutory reserve: Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by section 16(1) of the Bank and Other Financial Institutions Act of 1991 (amended), an appropriation of 30% of profit after tax is made if the statutory reserve is less than the paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid-up share capital.

SMIEIS reserve: The SMIEIS reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investments in qualifying small and medium scale enterprises. Under the terms of the guideline (amended by CBN letter dated 11 July 2006), the contributions will be 10% of profit after tax and shall continue after the first 5 years but banks' contributions shall thereafter reduce to 5% of profit after tax. The small and medium scale industries equity investment scheme reserves are non-distributable. Transfer to this reserve is no longer mandatory.

Contingency reserve: As required by insurance regulations, a contingency reserve is maintained for both the non-life insurance and life assurance contracts underwritten by the Group. The appropriation to contingency reserve for non-life underwriting contracts is calculated in accordance with section 21(2) and 22(1)(b) of the Insurance Act 2003. The reserve is calculated at the higher of 3% of gross premiums and 20% of net profits of the business for the year. The appropriation to contingency reserve for life underwriting contracts is calculated at the higher of 1% of the gross premium and 10% of net profits of the business for the year. The appropriations are charged to the Life Fund.

Revaluation reserve: Comprises fair value movements on equity instruments.

Bonus reserve: The bonus reserve represents retained earnings capitalised and used for bonus share issues.

Foreign Currency Translation Reserve: Comprises exchange differences resulting from the translation to Naira of the results and financial position of Group companies that have a functional currency other than Naira.

Statutory Reserve for Credit Risk: The Nigerian banking regulator requires the bank to create a reserve for the difference between impaired charge determined in line with the principles of IFRS and impaired charge determined in line with the prudential guidelines issued by the Central Bank of Nigeria (CBN). This reserve is not available for distribution to shareholders.

38 Pension contribution

In accordance with the provisions of the Pensions Act 2004, the bank and its subsidiaries commenced a contributory pension scheme in January 2005. The contribution by employees and the bank are 2.5% and 12.5% respectively of the employees' basic salary, housing and transport allowances. The contribution by the group and the bank during the period were **N 2.52 billion** and **N 2.41 billion** respectively (**2010: N 1.86 billion** and **N 1.77 billion**).

Notes To The Financial Statements
For The Year Ended 31 December 2011

	Group 2011 Number	Group 2010 Number	Bank 2011 Number	Bank 2010 Number
39 Employees				
(a) The average number of persons employed during the period by category:				
Executive directors	15	12	6	6
Management	476	443	426	424
Non-management	8,321	7,566	7,351	6,760
	8,812	8,021	7,783	7,190
Compensation for the above staff (excluding executive directors):				
	N'million	N'million	N'million	N'million
Salaries and wages	39,104	32,327	36,875	29,189
Other staff costs	5,761	-	5,316	-
Pension contribution (Note 38)	2,521	1,135	2,414	2,239
	47,386	33,462	44,605	31,428

The number of employees of the bank, other than directors, who earned salaries and emoluments (excluding pension and reimbursable expenses) are in the following ranges:

	Number	Number	Number	Number
N300,001 - N2,000,000	1,710	1,288	1,498	1,251
N2,000,001 - N2,800,000	1,967	43	1,862	-
N2,800,001 - N4,000,000	1,977	2,249	1,623	2,050
N4,000,001 - N6,000,000	1,108	2,616	905	2,093
N6,000,001 - N8,000,000	597	423	524	420
N8,000,001 - N9,000,000	457	432	407	426
N9,000,001 - and above	981	958	958	944
	8,797	8,009	7,777	7,184

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
(b) Directors' emoluments				
The remuneration paid directors to directors are as follows:				
Fees and sitting allowances	253	188	96	60
Executive compensation	480	414	271	240
Retirement Benefit costs	9	2	7	2
	742	604	374	302
Fees and other emoluments disclosed above include amounts paid to:				
The chairman	14	11	14	11
The highest paid director	37	37	37	37

The number of directors who received fees and other emoluments (excluding pension contributions and reimbursable expenses) in the following ranges was:

	Number	Number	Number	Number
N5,500,001 and above	15	12	7	7

	Group 2011 Number	Group 2010 Number	Bank 2011 Number	Bank 2010 Number

40 Related party transactions

Parent:
Zenith Bank Plc (incorporated in Nigeria) is the ultimate parent company of the Group.

Subsidiaries:
Transactions between Zenith Bank Plc and its subsidiaries which are eliminated on consolidation are not separately disclosed in the consolidated financial statements. The Group's effective interests and investments in subsidiaries as at 31 December 2011 are shown below.

Entity	Effective holding %	Nominal share capital held N'million
Foreign / banking subsidiaries:		
Zenith Bank (Ghana) Limited	98.07%	6,444
Zenith Bank (UK) Limited	100.00%	8,527
Zenith Bank (Sierra Leone) Limited	100.00%	1,356
Zenith Bank (Gambia) Limited	100.00%	1,038
Domestic / non-banking subsidiaries:		
Zenith General Insurance Limited	80.12%	3,978
Zenith Life Assurance Limited	81.61%	150
Zenith Securities Limited	99.98%	8,000
Zenith Capital Limited	99.99%	3,210
Zenith Registrars Limited	99.99%	500
Zenith Pension Custodians Limited	99.00%	1,980
Zenith Trustees Limited	99.99%	60
Zenith Medicare Limited	80.12%	80

Key management personnel

Key management personnel is defined as the Group's executive and non-executive directors, including their close members of family and any entity over which they exercise control. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with the Group.

Key management compensation

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
Salaries and other short-term benefits	733	602	367	300
Retirement benefit cost	9	2	7	2
Loans and advances				
At start of the period	1,315	1,214	1,239	1,214
Granted during the period	214	150	214	74
Repayment during the period	(100)	(49)	(96)	(49)
At end of of the period	1,429	1,315	1,357	1,239
Interest earned	41	43	41	43

Loans to key management personnel include mortgage loans and other personal loans which are given under terms that are no more favourable than those given to other staff. No impairment has been recognised in respect of loans granted to key management (2010: Nil). The mortgage loans are secured by the undelying assets. All other loans are unsecured.

	2011			
Name of company	Loans N' million	Deposits N' million	Interest received N' million	Interest paid N' million
Capri martins	2,700	-	351	-
Multibanc Savings & Loans	2,650	-	398	-
Visafone Comm ltd	5,552	3,219	777	29
Tadop Properties Ltd	4,400	250	572	1
Goodwork Properties Ltd	5,180	-	673	-
Cyberspace Limited	-	211	-	1
Cyberspace Networks limited	-	129	-	1
Accion Microfinance	-	-	-	-
At end of of the period	20,482	3,809	2,771	32

	2010			
	Loans	Deposits	Interest received	Interest paid
Name of company	N' million	N' million	N' million	N' million
Capri martins	2,700	-	378	-
Multibanc Savings & Loans	3,876	-	581	-
Visafone Comm ltd	10,931	992	1,530	74
Tadop Properties Ltd	6,738	335	876	5
Goodwork Properties Ltd	5,068	463	659	1
Cyberspace Limited	-	50	-	1
Cyberspace Networks limited	-	-	-	-
Accion Microfinance	-	181	-	1
At end of of the period	**29,313**	**2,021**	**4,024**	**82**

Interest charged on loans to related parties and interest and other fees paid to related parties are similar to what would be charged in an arms' length transaction. Loans granted to related parties are secured over real estate and other assets of the respective borrowers. No impairment has been recognised in respect of loans granted to related parties (2010: Nil).

41 Contingent liabilities and commitments

(a) Legal proceedings

The Bank is presently involved in 52 litigation suits in the ordinary course of business. The total amount claimed in the cases against the Bank is estimated at N2.99 billion. The actions are being contested and the Directors are of the opinion that none of the aforementioned cases is likely to have a material adverse effect on the bank and are not aware of any other pending or threatened claims and litigations.

(b) Capital commitments

At the balance sheet date, the bank had capital commitments amounting to **N2.79 billion** **(2010: N1.48 billion)** in respect of authorized and contracted capital projects.

Notes To The Financial Statements For The Year Ended 31 December 2011	**Group 2011 N'million**	Group 2010 N'million	**Bank 2011 N'million**	Bank 2010 N'million

(c) Confirmed credits and other obligations on behalf of customers

In the normal course of business the group is a party to financial instruments with off-balance sheet risk. These instruments are issued to meet the credit and other financial requirements of customers. The contractual amounts of the off-balance sheet financial instruments are:

	Group 2011 N'million	Group 2010 N'million	**Bank 2011 N'million**	Bank 2010 N'million
Performance bonds and guarantees	**229,206**	239,729	**218,299**	212,666
Usance	**69,830**	56,275	**57,541**	46,576
Letters of credit	**121,618**	-	**94,103**	-
Pension Funds (See Note (below))	**837,287**	606,927	**837,287**	606,927
	1,257,941	902,931	**1,207,230**	866,169

The transaction related performance bonds and gaurantees are, generally, short-term commitments to third parties which are not directly dependent on the customer's creditworthiness.

Letters of credit are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity dates, but are cancellable by the Group (as lender) subject to notice requirements. These letters of credit are provided at market-related interest rates and cannot be settled net in cash.

The amount of **N 837.29 billion** (**2010: N 606.93 billion**) represents the full amount of the bank's guarantee for the assets held by its subsidiary, Zenith Pensions Custodian Limited under the latter's custodial business as required by the National Pensions Commission.

Notes To The Financial Statements
For The Year Ended 31 December 2011

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million

42 Dividend per share

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
Dividend paid / proposed	29,827	26,687	29,827	26,687
Number of shares in issue and ranking for dividend	31,396	31,396	31,396	31,396
Dividend paid per share	95 k	85 k	95 k	85 k

The Board of Directors, pursuant to the powers vested in it by the provisions of section 379 of the Companies and Allied Matters Act (CAMA) of Nigeria, proposed a dividend of 95 kobo per share (2010: 85 kobo per share) from the retained earnings account as at 31 December 2011. This is subject to approval by shareholders at the next Annual General Meeting.

The number of shares in issue and ranking for dividend represents the outstanding number of shares as at 31 December 2011 and 31 December 2010 respectively.

Payment of dividends is subject to withholding tax at a rate of 10%.

43 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash and non-restricted balances with central banks, treasury bills and other eligible bills, operating account balances with other banks, amounts due from other banks and short-term government securities.

	Group 2011 N'million	Group 2010 N'million	Bank 2011 N'million	Bank 2010 N'million
Cash and balances with central banks (less restricted balances)	116,579	129,234	104,562	118,881
Treasury bills	174,516	116,276	170,053	110,465
Due from other banks	234,521	399,478	246,364	374,604
	525,616	644,988	520,979	603,950

44 Compliance with banking regulations

The bank did not contravene any regulation of the Banks and Other Financial Institutions Act, 1991 or any relevant circulars issued by the Central Bank of Nigeria.

45 Events after reporting date

No significant event that requires special disclosure occured between the reporting date and the date when the financial statements were issued.

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