Zenith Bank Plc.

2019 Pillar 3 Disclosures Report

Table of Contents

Glossary of Terms....8
1 Introduction and Executive Summary....11
1.1 The Bank....11
1.2 Business Activities....11
1.2.1 Corporate Banking....11
1.2.2 Retail Banking....12
1.2.3 Institutional and Investment Banking (IIBU)....12
1.2.4 Public Sector Banking....12
1.2.5 Other Business Activities....12
1.3 Zenith Bank's Legal Entities....13
1.4 Objectives....14
1.5 Scope of application....14
1.6 Key prudential metrics....14
1.6.1 IFRS9 static analysis....15
1.7 Minimum capital requirements....15
1.8 Updates on local regulatory landscape....17
2 Risk management....19
2.1 Enterprise risk management (ERM) Framework....19
2.2 Risk management philosophy / strategy....19
2.3 Risk management approach....19
2.4 Risk governance....19
2.5 Risk appetite....20
2.6 Stress testing....21
2.7 Global risk function....21
3 Capital Management and Leverage....22
3.1 Capital management approach and policy....22
3.1.1 Incorporating stress testing....22
3.1.2 Management approach for capital perseveration....22
3.2 Regulatory capital structure and capital adequacy....23
3.3 Leverage....23
4 Credit risk....25
4.1 Credit risk....25
4.2 Sources of risk....25

4.3 Mesurement of Credit Risk 27
4.3.1 Credit rating tools 28
4.4 Management of Credit Risk 29
4.5 Risk mitigation 29
4.5.1 Collateral security 30
4.6 Capitalisation 32
5 Market risk 33
5.1 Market Risk 33
5.2 Sources of risk 33
5.3 Management of market risk 33
5.4 Measurement of market risk 34
5.5 Risk mitigation 35
5.6 Capitalisation 35
6 Operational risk 36
6.1 Operational risk 36
6.2 Sources of risk 36
6.3 Risk mitigation 36
6.4 Capitalisation 36
7 Internal Capital Adequacy Assessment Process (ICAAP) 37
7.1 Pillar 2 Risk - Credit concentration risk 38
7.1.1 Sources of risk 38
7.1.2 Mitigation 38
7.1.3 Capitalisation 38
7.2 Pillar 2 Risk - Interest rate risk in the Banking book (IRRBB) 39
7.2.1 Sources of risk 39
7.2.2 Mitigation 39
7.2.3 Capitalisation 39
7.3 Pillar 2 Risk - Strategic Risk 40
7.3.1 Sources of risk 40
7.3.2 Mitigation 40
7.3.3 Capitalisation 40
7.4 Pillar 2 Risk - Liquidity risk 41
7.4.1 Sources of risk 41
7.4.2 Mitigation 41
7.4.3 Capitalisation 41

7.5 Pillar 2 Risk - Group risk 42
7.5.1 Sources of risk 42
7.5.2 Mitigation 42
7.5.3 Capitalisation 42
7.6 Pillar 2 Risk - Regulatory compliance risk 42
7.6.1 Sources of risk 43
7.6.2 Mitigation 43
7.6.3 Capitalisation 43
7.7 Fraud Risk 43
7.7.1 Sources of risk 43
7.7.2 Mitigation 43
7.7.3 Capitalisation 44
7.8 Pillar 2 Risk - Reputational risk 44
7.8.1 Sources of risk 44
7.8.2 Mitigation 44
7.8.3 Capitalisation 45
7.9 Pilar 2 Risk - Information Technology (IT) risk....45
7.9.1 Sources of risk 45
7.9.2 Mitigation 45
7.9.3 Capitalisation 45
7.10 Pillar 2 Risk - Cybersecurity risk....46
7.10.1 Sources of risk 46
7.10.2 Mitigation 46
7.10.3 Capitalisation 46
7.11 Pillar 2 Risk - Business risk....47
7.11.1 Sources of risk 47
7.11.2 Mitigation 47
7.11.3 Capitalisation 47
7.12 Pillar 2 Risk - Political risk 47
7.12.1 Sources of Risk....47
7.12.2 Mitigation 48
7.12.3 Capitalisation 48
7.13 Pillar 2 Risk - Legal risk....48
7.13.1 Sources of risk 48
7.13.2 Mitigation 48

7.13.3 Capitalisation 49
7.14 Pillar 2 Risk - Ratings downgrade risk 49
7.14.1 Sources of risk 49
7.14.2 Mitigation 49
7.14.3 Capitalisation 50
7.15 Pillar 2 Risk - Physical security risk 50
7.15.1 Sources of risk 50
7.15.2 Mitigation 50
7.15.3 Capitalisation 50
8 Liquidity 51
8.1 Liquidity risk 51
8.2 Internal Liquidity Adequacy Assessment Process (ILAAP) 51
8.2.1 Purpose of the ILAAP 51
8.2.2 The scope of application of the ILAAP 51
8.2.3 Sources of liquidity risk and materiality assessment 51
8.2.4 Liquidity risk management and monitoring 54
8.3 Liquidity coverage ratio (LCR) 55
8.4 Net Stable Funding Ratio (NSFR) 56
8.5 Overview of Zenith Bank's Contingency Funding Plan 57
8.5.1 Objective 57
8.5.2 Scope 57
8.5.3 Conducting CFP tests 57
9 Equity position: disclosure for banking book positions 58
9.1 Level 3 fair value measurements 58
10 Remuneration 60
10.1 Remuneration policy 60

List of Tables

Table 1:Key metrics 14
Table 2 IFRS9 static analysis 15
Table 3 Pillar 1 risk measurement approaches 16
Table 4:Pillar 1 RWAs and capital required 17
Table 5 Regulatory capital disclosure and capital adequacy 23

Table 6 Leverage ratio 24
Table 7:Credit risk by exposure class....25
Table 8 Credit quality of loans by industry or counterparty types....25
Table 9:Credit quality of performing and non-performing loans by geography....26
Table 10 Credit quality of loans by ratings....27
Table 11 Credit risk capital charge....32
Table 12: Market risk capital charge....35
Table 13 Operational risk capital charge....36
Table 14 Credit concentration risk capital charge....38
Table 15 IRRBB capital charge....39
Table 16 Strategic risk capital charge....40
Table 17 Liquidity risk capital charge....41
Table 18 Group risk capital charge....42
Table 19 Regulatory compliance risk capital charge....43
Table 20 Fraud risk capital charge....44
Table 21 Reputational risk capital charge....45
Table 22 IT risk capital charge....45
Table 23 Cybersecurity risk capital charge....46
Table 24 Business risk capital charge....47
Table 25 Political risk capital charge....48
Table 26 Legal risk capital charge....49
Table 27 Ratings downgrade risk capital charge....50
Table 28 Physical security risk capital charge....50
Table 29 Liquidity coverage ratio....56
Table 30 Net Stable Funding Ratio (NSFR)....56
Table 31 Directors' remuneration....60
Table 32 Directors' emoluments....60

List of Figures

Figure 1 Overview of Zenith Bank Group....13

Figure 2 Legal entity structure 13
Figure 4 Credit rating grade 28

Glossary of Terms

Acronym	Meaning
AIRB	Advanced Internal Rating Based Approach
ALCO	Asset and Liability Management Committee
ALM	Asset and Liability Management
AML	Anti-Money Laundering
BAU	Business as Usual
BCBS	Basel Committee on Banking Supervision
BCC	Board Credit Committee
BCP	Business Continuity Plan
BOD	Board of Directors
BRMC	Board Risk Management Committee
CAGR	Compound Annual Growth Rate
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
CCB1	Capital Conservation Buffer
CCB2	Countercyclical Buffer
CET1	Common Equity Tier 1
CFP	Contingency Funding Plan
CRO	Chief Risk Officer
DCF	Discounted Cash Flow
D-SIB	Domestic Systemically Important Bank

Acronym	Meaning
EBA	European Banking Authourity
ECL	Expected Credit Loss
ERM	Enterprise-wide Risk Management
EVE	Economic Value of Equity
EXCO	Executive Committee
FC&SP	Financial Control and Strategic Planning
HHI	Herfindahl-Hirschman Index (HHI)
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IFRS	International Financial Reporting Standard
IIBU	Institutional and Investment Banking
IMA	Internal Model Approach
IRRBB	Interest Rate Risk in the Banking Book
LeR	Leverage Ratio
LCR	Liquidity Coverage Ratio
NDIC	Nigerian Deposit Insurance Corporation
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
RMG	Risk Management Group
RWA	Risk weighted assets

Acronym	Meaning
SA	Standardised Approach
VaR	Value at Risk

1 Introduction and Executive Summary

1.1 The Bank

Zenith Bank Plc 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 license in June 1990 and commenced operations as a commercial banking institution on 16 June 1990. This was followed by the conversion of the Bank into a Public Limited Liability Company on 20 May 2004 and the listing of its shares on the Nigerian Stock Exchange on 21 October 2004.

The Bank's principal activity is the provision of banking and other financial services to corporate and individual customers.

As at December 2019, it had six subsidiaries, Zenith Bank (Ghana) Limited, Zenith Bank (UK) Limited, Zenith Bank (Sierra Leone) Limited, Zenith Bank (The Gambia) Limited, Zenith Pension Custodian Limited and Zenith Nominees Limited. It also has one representative office in China. The Bank's network spans over three hundred and eighty-four (384) branches with additional one hundred and fifty-five (155) as off-site locations, strategically located in various commercial centers of Nigeria.

Its businesses and affairs are conducted through local branch networks and subsidiary banks in other countries. All the branches are linked by technologically advanced systems, thereby aiding banking transactions across the country.

1.2 Business Activities

Zenith Bank Plc's service offerings cover most aspects of banking and cater to banking needs of public and private sector clients. The Bank's service offerings largely constitute its core business lines including Corporate Banking, Institutional and Investment Banking, Retail Banking and Public Sector Banking.

1.2.1 Corporate Banking

The Bank's corporate banking business line offers a wide range of services to multinationals, large-local conglomerates and corporate clients with an annual turnover in excess of ₦500 million and above. The unit is focused on providing superior banking services and customised banking products to the top tier of the market. Within this business line, industry specific desks or sub-units exist to facilitate efficient and effective management of the relationships with the unit's corporate customers. The sub-units include Transport & Aviation, Conglomerate, Breweries & Beverages, Oil & Gas, Power & Infrastructure and Construction.

1.2.2 Retail Banking

This segment focuses on Small and Medium Enterprises (SMEs), consumer businesses and commercial businesses with annual turnover of less than ₦500 million. The consumer business consists of personal, current and savings account customers and all unincorporated entities (e.g. societies, clubs, churches, mosques, etc.). The segment extends loans and advances in the forms of overdrafts, import finance lines, term loans and leases (for customers involved in sales and distribution of Fast-Moving Consumer Goods and key distributors).

1.2.3 Institutional and Investment Banking (IIBU)

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

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

1.2.4 Public Sector Banking

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

1.2.5 Other Business Activities

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

Figure 1 Overview of Zenith Bank Group

SOCIAL IMPACT/CSR

- Zenith Tech Fair
- Style by Zenith
- Aba Small & Medium Ent. (SME) Fair
- Aspire Music Festival
- Official Bank of the Nigerian National Football Teams
- Private Sector Health Alliance Project
- Zenith Bank National Women Basketball League
- Zenith Delta principal's Cup
- Zenith Bank Youth Parade
- The Muson Centre Project

CUSTOMERS/CHANNELS

	2019	2018
Number of Customers	9,575,733	7,835,024
Number of Cards Issued	7,880,411	5,732,820
Number of active POS Terminals	41,536	34,006
Number of ATM Terminals	2,009	1,891
Number of Branches	430	420
Number of Cash Centres	178	176
Number of Male Employees	3,776	3,902
Number of Female Employees	3,441	3,692

AWARDS

- Best Commercial Bank 2019 - World Finance
- Most Valuable Bank Brand 2019 - The Banker
- Best Digital Bank 2019 - Augusto & Co.
- Bank of the Year 2019 - BusinessDay
- Best Bank in Retail Banking 2019 - BusinessDay
- Most Innovative Bank of the Year 2019 - Tribute Newspaper
- Best Company Promoting Good Health and Well-being 2019 - The SERAS CSR Award

SHARE HOLDINGS

Number of Shareholders

640,358

RATINGS

- Fitch - **B+/Negative/B**
- Standard & Poors - **B/Stable/B**
- Moody - **B2/Stable/B3**

PRODUCT INNOVATIONS

- Emergency USSD Code ***966*911#**
- Save4Me
- Timeless Account
- Dubai Visa
- Borrow Me Power
- My Bank Statement

(Mobile App & Internet Banking)

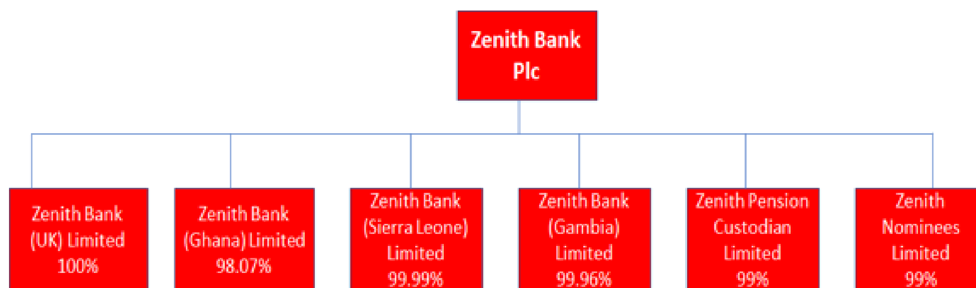
SOCIAL FOLLOWING

- 5,889,788
- 1,145,263
- 356, 656
- 25, 545, 948
- 101,427

1.3 Zenith Bank's Legal Entities

Zenith Bank Plc has controlling interest in banking and non-banking subsidiaries in Nigeria, Africa and Europe. Aside from Zenith Bank Pensions Custodian Limited and Zenith Nominees Limited, which are incorporated in Nigeria, the remaining subsidiaries are incorporated in their respective countries. The figure below shows the Bank's legal entities.

Figure 2 Legal entity structure



1.4 Objectives

The objective of this report is to enhance market discipline by providing relevant stakeholders with up-to-date information about the risk and capital management activities of the Bank.

1.5 Scope of application

This report applies to Zenith Bank Plc and it has been prepared in line with the disclosure requirements of the Central Bank of Nigeria Guidance Notes on Pillar III and the Basel Committee on Banking Supervision Disclosure Requirements.

1.6 Key prudential metrics

Table 1:Key metrics

		2019
	Available capital	**(N'million)**
1	Common Equity Tier 1 (CET1)	753,042.00
1a	Fully loaded ECL accounting model CET1	711,622.00
2	Tier 1 Capital	753,042.00
2a	Fully loaded ECL accounting model Tier 1	711,622.00
3	Total capital	759,458.00
3a	Fully loaded ECL accounting model total capital	718,038.00
	Risk-weighted assets	
4	Total risk-weighted assets (RWA)	3,669,402.00
	Risk-based capital ratios as a percentage of RWA	
5	Common Equity Tier 1 ratio (%)	20.52%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	19.39%
6	Tier 1 ratio (%)	20.52%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	19.39%
7	Total capital ratio (%)	20.70%
7a	Fully loaded ECL accounting model total capital ratio (%)	19.57%
	Additional CET1 buffer requirements as a percentage of RWA	
8	Capital conservation buffer requirement (%)	1.00%
9	Countercyclical buffer requirement (%)	0.00%
10	D-SIB additional requirements (%)	1.00%
11	Total of bank CET1 specific buffer requirements (%)	2.00%

12	CET1 available after meeting the Bank's minimum capital requirements (%)	18.52%
	Basel III leverage ratio	
13	Total Basel III leverage ratio exposure measure	5,526,434.00
14	Basel III leverage ratio (%)	13.74%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%)	12.99%
	Liquidity Coverage Ratio	
15	Total high-quality liquid assets (HQLA)	2,635,514.00
16	Total net cash outflow	1,969,922.06
17	LCR (%)	133.79%
	Net Stable Funding Ratio	
18	Total available stable funding	4,563,252.11
19	Total required stable funding	4,181,192.93
20	NSFR	109.14%

1.6.1 IFRS9 static analysis

Table 2 IFRS9 static analysis

		(N'million)
Day 1 Impact		103,549
Regulatory Risk Reserve (RRR) as at December 31, 2017 [1]		
RRR applied for IFRS 9 Impact (i.e., transferred to retained earnings) [2]		-
Adjusted Day 1 Impact		103,549
Adjusted Day 1 Relief (%)	40%	
Adjusted Day 1 Relief / IFRS 9 Transitional Adjustment (Naira)		41,420

1. Regulatory Risk Reserve (RRR) Balance just before IFRS 9 transition before any relief is transferred to General reserve/retained earnings
2. This should correspond to portion of RRR transferred to General Reserve allowed as IFRS 9 impact relief.

1.7 Minimum capital requirements

Pillar 1 of the Basel framework covers the minimum capital resource requirements for credit risk, market risk and operational risk. These requirements are expressed in terms of risk weighted

assets (RWAs) to determine the Bank's capital adequacy ratio. The table provides information on the scope of permissible approaches and our adopted approach by risk type.

Table 3 Pillar 1 risk measurement approaches

Risk category	Scope of permissible approaches	Approach adopted by Zenith Bank
Credit risk	The Basel framework applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories. The next level, the foundation IRB ('FIRB') approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), but subjects their quantified estimates of EAD and loss given default ('LGD') to standard supervisory parameters. Finally, the advanced IRB ('AIRB') approach allows banks to use their own internal assessment in determining PD and in quantifying EAD and LGD.	The Bank uses the Standardised Approach (SA) as prescribed by the CBN.
Market risk	Basel provides two options for calculating market risk capital requirements – the standardised approach and the internal model approach (IMA). The IMA requires the use of value at risk (VaR) to measure market risk and determine the respective capital requirement.	Zenith Bank applies the standardised approach to measure its market risk capital requirements.
Operational	Basel allows firms to calculate their operational risk	The Bank uses the basic

risk	capital requirement under the basic indicator approach, the standardised approach or the advanced measurement approach.	indicator approach to measure its operational risk capital requirements.

Table 4:Pillar 1 RWAs and capital required

		31-Dec-19 RWAs (N'million)	31-Dec-19 Capital charge (N'million)
1	Credit risk - standardised approach	2,806,711.48	421,006.72
2	Market risk - standardised approach	52,422.79	4,193.82
3	Operational risk - basic indicator approach	810,267.50	64,821.40
4	**Total exposure measure**	**3,669,401.77**	**490,021.94**

1.8 Updates on local regulatory landscape

The Central Bank of Nigeria (CBN) recently issued some exposure drafts with a view to transition Nigerian banks to Basel III from Basel II. In these drafts, the regulator also reviewed some existing guidelines on Regulatory Capital and Supervisory Review Process of Internal Capital Adequacy Assessment Process (ICAAP).

The aim of developing the draft guidelines and revising the existing guidelines is to:

- strengthen the regulation and supervision of Nigerian banks,
- promote the implementation of better risk management practices and governance arrangements within the Nigerian banks,
- enhance the implementation Basel II and III standards in Nigeria, and
- promote the build-up of capital and liquidity buffers by the Nigerian banks.

The draft Guidelines are:

- Guidelines on Liquidity Coverage Ratio (LCR)
- Guidelines on Liquidity Monitoring Tools
- Guidelines on Liquidity Risk Management and Internal Liquidity Adequacy Assessment Process (ILAAP)
- Guidelines on Leverage Ratio Requirements
- Guidelines on Large Exposures
- Revised Guidelines on Regulatory Capital

- Revised Guidelines on Supervisory Review and Evaluation Process of Internal Capital Adequacy Assessment Process (ICAAP).

The CBN aims to introduce and administer the LCR, Liquidity Monitoring Tools and the Leverage Ratio (LeR) as part of Pillar 1 requirements, while the new Large Exposure requirements will strengthen the current prudential requirements on Single Obligor Limit and enhance concentration risk management by banks.

2 Risk management

2.1 Enterprise risk management (ERM) Framework

Zenith Bank adopts an integrated approach to risk management by bringing all risks together under a limited number of oversight functions. The Bank addresses the challenge of risks comprehensively through the ERM Framework by applying practices that are supported by a governance structure consisting of Board-level and Executive Management Committees.

2.2 Risk management philosophy / strategy

Zenith Bank considers sound risk management practices to be the foundation of a long-lasting financial institution.

- The Bank adopts 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 Bank aims to build a collaborative 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 communicated across the Bank.
- Risk related issues are taken into consideration in all business decisions.

2.3 Risk management approach

The Bank addresses the challenge of risks comprehensively through an ERM Framework. The Framework provides the necessary foundations and organisational arrangements for managing risk across the Bank. It also outlines how the departments ensure that it manages risks effectively and efficiently.

Furthermore, it illustrates how ERM is embedded in our organisational systems to ensure it is integrated at all levels and work contexts. It describes the key principles, elements and processes to guide all staff in effectively managing risk, making it part of our day-to-day decision making and business practices.

2.4 Risk governance

The Bank maintains a robust risk governance policy by applying leading practices that are supported by an effective governance structure consisting of Board-level and Executive Management committees.

- The Board drives the risk governance and compliance process through its committees.
- The Board 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 Global Credit Committee.
- The Board Risk Management 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 (Executive Committee, ALCO and Risk Management Committee) that help it develop and implement various risk strategies.
- The Global Credit committee 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 Risk Management Committee and the ALCO drive the management of the financial risks (Market, Liquidity and Credit Risk), IT risk, cybersecurity risk, operational risks as well as strategic and reputational risks.
- The Chief Risk Officer develops, implements and updates risk governance framework for risk policies, risk appetite and associated risk limits. He also facilitates coordination between risk management function and other departments to leverage synergies in terms of risk methodologies, Basel compliance, risk monitoring etc.

2.5 Risk appetite

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

Zenith Bank Plc has a relatively modest risk appetite (comprising quantitative and qualitative parameters) and is conservative as far as risk taking is concerned.

We have defined risk appetite as the amount of risk we are willing to undertake in achieving our strategic business objectives. On a periodic basis, the risk appetite is defined and reviewed by the Board of Directors, at a level that minimises erosion of earnings or capital which may arise from avoidable losses, frauds or operational inefficiencies.

As a D-SIB, the Bank is aware of the various risks associated with the business of banking globally and particularly those risks to which it is exposed. These risks relate to the very nature

of banking activities which it engages in – sourcing of funds, the creation of assets, meeting operational needs and counterparty obligation. Consequently, the Bank will not undertake any business it has no clear and proper understanding of and would set appropriate processes and limits around the activities that it undertakes to assure its risk appetite and acceptable risks level. The Bank measures the risk categories and sets target levels for each, by developing targeted metrics to monitor capital, asset quality, liquidity, earnings volatility, credit rating, investments in financial instruments and foreign currency, operational losses and employee turnover.

Additionally, the Bank has defined acceptable levels it is willing to undertake for addressing aspects such as regulatory compliance, reputational impact and internal controls and risk governance.

All activities in the Bank have been profiled and the key risk drivers and threats in them identified. Mitigation and control techniques have been determined in tackling each of these threats in an ongoing basis.

2.6 Stress testing

Stress testing is an important risk management tool used by the Bank as part of its internal risk management practices. Stress testing alerts the Bank to adverse and unexpected events triggered by internal and/or external environmental factors and their potential impact on the Bank. It is used to determine how much capital might be needed to absorb losses, if exceptional but plausible events crystallise.

The Bank maintains a Stress testing policy which covers the following:

- Identification of risk factors for stress testing
- Guidelines for creating stress scenarios (e.g. historical or hypothetical events)
- Types of stress tests (e.g. idiosyncratic or external events)
- Analysis of stress test results and relevant remedial management actions.

2.7 Global risk function

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

3 Capital Management and Leverage

3.1 Capital management approach and policy

Zenith Bank ensures effective capital allocation decisions and the efficiency of its capital structure in determining the Bank's ability to generate adequate returns for shareholders.

The Bank's policy is to hold limited excess capital above the required amount to support growth plans, business strategy and future regulatory changes.

Broadly, the objectives of capital management are as follows:

- Providing consistent assessment of credit portfolio and investment strategies;
- Providing insight into operational decisions such as pricing, performance evaluation and capital allocation;
- Providing clarity on which financial activity create most value;
- Measuring risk appetite;
- Ensuring that adequate capital is held to cover severe events.

3.1.1 Incorporating stress testing

Stress testing is an integral part of the Bank's capital management framework for the management of economic capital. Stress testing is used to:

- assess the sensitivity of capital model to their assumptions;
- understand the risk profile of the Bank better;
- prepare the Bank for eventuality of adverse events/shocks and mitigating the impacts

3.1.2 Management approach for capital perseveration

In line with the Bank's Capital Management Framework, Zenith Bank has implemented suitable monitoring and escalating procedures for different capital positions as part of its risk reporting and stress testing framework.

If the Bank is faced with a capital planning decision, the Management and the Board will determine the appropriateness of actions under different scenarios and contemplate relevant considerations.

3.2 Regulatory capital structure and capital adequacy

Table 5 Regulatory capital disclosure and capital adequacy as at 31st December 2019

	Common Equity Tier 1 capital: instruments and reserves	N'million
1	Share capital	15,698.00
2	Share premium	255,047.00
3	Reserves	182,494.00
4	Retained earnings	302,028.00
5	IFRS9 transitional adjustment	41,420.00
6	**Common Equity Tier 1 capital before regulatory adjustments**	796,687.00
	Common Equity Tier 1 capital: regulatory adjustments	
7	Deferred tax assets (DTA)	(11,223.00)
8	Intangible assets	(15,109.00)
9	Investment in capital of financial subsidiaries	(17,313.00)
10	**Total regulatory adjustments to Common Equity Tier 1 capital**	(43,645.00)
11	**Common Equity Tier 1 capital (CET1)**	753,042.00
	Tier 2 capital: instruments and provisions	
12	Other comprehensive income	0
13	**Tier 2 capital**	6,416
14	**Total regulatory capital (= Tier 1 + Tier2)**	759,458.00
15	**Total risk-weighted assets**	3,669,402.00
	Capital adequacy ratios and buffers	**(%)**
16	**Common Equity Tier 1 capital (as a percentage of risk-weighted assets)**	20.52%
17	**Tier 1 capital (as a percentage of risk-weighted assets)**	20.70%
18	**Total capital (as a percentage of risk-weighted assets)**	20.70%

3.3 Leverage

The leverage ratio serves as a backstop to the risk-based capital measures and is intended to constrain excess leverage in the banking system and provide an extra layer of protection against

model risk and measurement error. It also benefits from being less-procyclical than capital as it is explicitly designed to be non-risk sensitive.

Table 6 Leverage ratio as at 31st December 2019

	Exposure measure	**N'million**
1	On-balance sheet exposures	5,281,395.00
2	Derivatives exposures	-
3	Securities financing transactions	-
4	Off-balance sheet exposures	245,039.00
5	**Total exposure measure**	**5,526,434.00**
	Capital measure	**N'million**
6	**Common equity tier 1 capital (CET1)**	759,321.00
7	**Additional buffer (1%)**	(7,593.21)
8	**Adjusted CET1**	**751,727.79**
	Leverage ratio	
9	**Leverage ratio**	**13.60%**

4 Credit risk

4.1 Credit risk

This is the risk of a financial loss if an obligor does not fully honour its contractual commitments to the Bank. We have identified this risk as the most significant risk facing the Bank in the normal course of business and operations.

4.2 Sources of risk

The Bank is not only exposed to credit risk through direct lending activities and transactions, but also through commitments to extend letters of credit and guarantees, securities purchased under reverse repurchase agreements, deposits with financial institutions, brokerage activities etc.

In addition, transactions carrying elements of settlement risk such as irrevocable fund transfers to third parties via electronic payment systems exposes the Bank to credit risk.

Table 7:Credit risk by exposure class as at 31st December 2019

	Net exposure (N'million)	Total RWA (N'million)	Capital charge (N'million)
Sovereigns and Central Banks	2,207,356	0	0
State Govt and Local Authorities	375,534	375,534	56,330
Public Sector Entities (PSEs)	4,208	4,107	616
Multilateral Development Banks (MDB)	0	0	0
Supervised Institutions	485,176	108,471	16,271
Corporate and Other Persons	1,945,701	1,868,273	280,241
Regulatory Retail Portfolio	72,102	53,996	8,099
Secured by Mortgages on Residential Properties	395	296	44
Exposures Secured by Mortgages on Commercial Real Estates	44,077	43,739	6,561
Past Due Exposures	51,919	51,729	7,759
High Risk Exposures	0	0	0
Unsettled and Failed Transactions	0	0	0
Other Assets	339,966	300,565	45,085
	5,526,434	**2,806,711**	**421,007**

Table 8 Credit quality of loans by industry or counterparty types

Industry	On-balance sheet gross exposure (N'million)	Non-performing (N'million)	Impairment allowance (N'million)	Carrying amount (N'million)
Agriculture	161,636	383	454	161,182
Oil and gas	617,978	32,537	53,713	564,265
Consumer credit	153,416	12,683	19,515	133,901
Manufacturing	474,411	5,064	8,199	466,212
Real estate & construction	76,195	9,795	11,520	64,675
Finance and insurance	14,798	513	944	13,853
Government	361,667	121	292	361,375
Power	81,630	0	32,872	48,757
Transportation	63,533	80	119	63,414
Communication	107,153	31,176	14,722	92,431
Education	8,802	1,193	1,020	7,782
General commerce	269,434	5,912	7,809	261,625
	2,390,651	**99,457**	**151,179**	**2,239,472**

Table 9:Credit quality of performing and non-performing loans by geography

Geography	Gross exposure (On-balance sheet) (N'million)	Non-performing (N'million)	Impairment allowance (N'million)	Carrying amount (N'million)
South-south	201,543	1,629	3,488	198,055
South-west	1,828,086	94,779	140,839	1,687,248
South-east	138,681	1,338	3,556	135,125
North-central	95,005	1,423	2,837	92,168
North-west	26,271	112	177	26,094
North-east	101,065	176	282	100,783
Rest of Africa	0	0	0	0
Outside Africa	0	0	0	0
	2,390,651	**99,457**	**151,179**	**2,239,472**

Table 10 Credit quality of loans by ratings

Ratings	12 months ECL (N'million)	Not credit impaired (N'million)	Credit impaired (N'million)	Total (N'million)
A	510,098	20,454	6,095	536,647
AA	716,791	5,178	0	721,969
AAA	385,478	0	14	385,492
B	19,375	4,544	8	24,287
BB	283,193	136,540	93,478	514,211
BBB	96,455	12,971	2,206	111,632
C	0	0	52	52
CC	0	1	190	191
CCC	0	0	1,281	1,281
D	47	0	49,282	49,329
Unrated	100,791	1,066	15,411	117,268
Gross amount	**2,113,588**	**180,754**	**168,017**	**2,462,359**
ECL – Impairment	(30,429)	(15,806)	(110,559)	(156,794)
Carrying amount	**2,083,159**	**164,948**	**57,458**	**2,305,565**

4.3 Mesurement of Credit Risk

Zenith Bank has devoted resources and harnessed credit data to develop models that will improve the determination of economic and financial threats resulting from credit risk. Some key factors are considered in credit risk assessment and measurement. These include:

- Adherence to the strict credit selection criteria, which includes defined target market, credit history, the capacity and character of customers;
- Credit rating of obligors;
- The likelihood of failure to pay over the period stipulated in the contract;
- The size and sector of the facility

- Estimated rate of recovery, which is a measure of the portion of the debt that can be recovered through realisation of assets and collateral should default occur.

4.3.1 Credit rating tools

The principal objective of the credit rating system is to produce a reliable assessment of the credit risk to which the Bank 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.

- **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, quantitative and industry-specific inputs. The associated loss estimates 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 exposure across grades with no excessive concentrations on the Bank's borrower-rating and its facility-rating scale, the Bank maintains the below listed rating grade, which is applicable to both new and existing customers.

Figure 3 Credit rating grade

Zenith Group Rating	Description of the grade
AAA	Investment Risk (Extremely Low Risk)
AA	Investment Risk (Very Low Risk)
A	Investment Risk (Low Risk)
BBB	Upper Standard Grade (Acceptable Risk)
BB	Lower Standard Grade (Moderately High Risk)
B	Non Investment Grade (High Risk)
CCC	Non Investment Grade (Very High Risk)
CC	Non Investment Grade (Extremely High Risk)
C	Non Investment Grade (High Likelihood of Default)
D	Non Investment Grade (Lost)
Unrated	Individually insignificant (unrated)

The credit rating system seeks to achieve the foundation level of the internal rating-based approach under Basel II, through continuous validation exercises over the years.

- **Other debt instruments**

  With respect to other debt instruments, the Bank takes the following into consideration in the management of the associated credit risk.

  - Internal and external research and market intelligence reports; and
  - Regulatory agencies reports.

4.4 Management of Credit Risk

Zenith's 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 credit standards, policies and procedures, risk methodologies and framework, solid structure and infrastructure, risk monitoring and control activities enable the Bank to deal with the emerging risks and challenges with a high level of confidence and determination.

The framework for credit risk management 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;
- Regular portfolio examination in line with ley performance indicators and periodic stress testing
- Continuous assessment of concentrations and mitigation strategies;
- Continuous validation and modification of early warning system to ensure proper functioning for risk identification;
- Systematic and objective credit risk rating methodologies that are based on quantitative, qualitative and expert judgement.
- Systematic credit limits management which enables 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 and;
- Annual and interim individual credit reviews to ensure detection of weakness signs or warning signals and considering proper remedies.

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

4.5 Risk mitigation

The Bank has put the following controls in place to mitigate credit risks:

- Robust credit standards, policies and procedures to control and monitor credit risk exposures. 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 fund;
  - Credit is not given to a customer where the ability of the customer to meet obligations is based in the most optimistic forecast of events. Risk considerations will always have priority over business and profit considerations.
  - Since repayment for all credits must be from an identifiable cash flow from the counterparty's normal business operations or other financial arrangements, realization of security remains a fall back option for the bank;
  - 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 credit is limited to regulatory and strict internal limits and are disclosed as required, and
  - The consequences for non-compliance with the credit policy and credit indiscipline are communicated to all staff and are implemented.
- Board defined internal credit approval limits.
- Centralised credit approval process system in conformity with well-defined target market and risk asset acceptance criteria.
- Use of identifiable cash flow from the counterparty's normal business operations as primary source of repayment.
- Use of collateral security as a fall back option
- Continuous monitoring of credit exposures.

4.5.1 Collateral security

A key mitigation step employed by the Bank 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 documentation 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 arrangement (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;
- Letter of lien and;
- Cash collateral

Collateral securities are usually valued and inspected prior to disbursement and on a regular basis thereafter until full repayment of the exposure. We conduct a regular review of all collateral documentation in respect of all credits in the Bank and specific gaps in the collateral documentation addressed immediately. Borrowers are required to confirm adherence to covenants including periodic confirmation of collateral values which are used by the Bank to provide early warning signs of collateral value deterioration. Periodic inspections of physical collateral are performed where appropriate and where reasonable means of doing so are available.

The type and size of collateral held as securities for financial assets other than loans and advances are 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) and other sovereigns.

4.6 Capitalisation

The table below sets out details of the Bank's credit risk capital charge by approach.

Table 11 Credit risk capital charge

Approach	Capital Charge N'million
Standardised approach	420,006.72
Advanced internal ratings-based approach (AIRB)	395,638.73

5 Market risk

5.1 Market Risk

Market risk is the risk that Zenith Bank will suffer a loss to earnings and capital due to adverse movements in market rates or prices.

5.2 Sources of risk

Zenith bank has identified market risks exposures as those that arise primarily through its trading and market making activities. These activities include position-taking in foreign exchange and fixed income securities (Bonds and Treasury Bills). The objective of market risk management activities is to continuously identify, manage and control market risk exposure within acceptable parameters, while optimizing the return on risks taken.

5.3 Management of market risk

The bank has an independent Market Risk Management unit which assesses, monitors, manages and reports on market risk taking activities. The Bank enhances its Market Risk Management Framework on a continuous basis. The operations of the unit are 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 optimising risk-reward trade-off."

- The Bank's market risk objectives, policies and processes are aimed at instituting a model that objectively identifies, measures and manages market risk in the Bank and ensures that:
- The individuals who take or manage risk clearly understand it;
- The Bank's risk exposure is within established limits;
- Risk taking decisions are in line with business strategy and objectives set by the Board of Directors;
- The expected payoffs compensate for the risk taken and;
- Sufficient capital, as a buffer, is available to take risk.

The Bank manages its market risk exposures in both the trading and non-trading books within the acceptable levels. Zenith Bank's market risk exposures are broadly classified into:

1. Trading market risks – These are risks that arise primarily through trading activities and market making activities. These activities include position-taking in foreign exchange and fixed income securities (Bonds and Treasury Bills).
2. Non-trading market risks – These are risks that arise from assets and liabilities that are usually on the books for a longer time, but where the intrinsic value is a function of the movement of financial market parameter.

The Naira exchange continues to be an important influence on consumer prices and output recovery. Stability in the naira exchange rate has been sustained for most part of the year through appropriate policies and reforms of the exchange rate market. There has also been some form of convergence in the various markets.

5.4 Measurement of market risk

The Bank adopts non-VaR (Value at Risk) approach for quantitative measurement and control of market risks in both trading and non-trading books. The non-VaR measurements include: Duration, Factor sensitivities (Pv01), Stress testing, Aggregate Open Position etc. the measured risks are therefore monitored against the pre-set limits on a daily basis. All exceptions are investigated and reported in line with internal polices and guidelines.

Limits are set 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 Instruments and Tenor Limits; Holding Period and Off Market Rate Tolerance Limit.

Stress testing is an important risk management tool that is used by the Bank as part of its enterprise-wide risk management. It is the evaluation of the Bank's financial position under severe but plausible scenarios to assist in decision-making. Stress testing provides the Bank with the opportunity to spot emerging risks, uncover weak spots and take preventive action. It also alerts management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur. The Bank adopts both single factor and multifactor stress testing approaches (sensitivity and scenario based) in conducting stress testing within the risk areas of liquidity, foreign exchange, interest rate, market and credit risks. Stress testing is conducted both on a regular and ad-hoc basis in response to changing financial, regulatory and economic environment/circumstances.

5.5 Risk mitigation

The Bank has put the following controls in place to mitigate market risks:

- An independent Market Risk Management unit charged with assessment, management, monitoring and reporting on market risk taking activities across the Bank;
- Adherence to regulatory limits;
- Establishment of internal limits which are monitored by the Market Risk Department on a daily basis;
- Limits are defined and approved by the Board;
- Foreign exchange risks are managed through basic derivative products and hedges (such as forwards and swaps);
- The market risk unit advises functions / divisions responsible and carry out suitable corrective actions in case of identified breaches during the risk monitoring process.

5.6 Capitalisation

The table below sets out details of the Bank's market risk capital charge by approach.

Table 12: Market risk capital charge

Approach	Capital Charge N'million
Standardised approach	4,194.00
Internal model approach (IMA) – VaR	4,810.31

6 Operational risk

6.1 Operational risk

This is the risk of loss resulting from inadequate and/or failed internal processes, people, and systems or from external events.

6.2 Sources of risk

Zenith Bank is exposed to operational risk across the breadth of its operations and banking activities. The various possible ways for operational risk to manifest include internal or external fraud, system downtime/disruption, Inadequate or failed internal processes and external events.

6.3 Risk mitigation

The Bank has put the following controls in place to mitigate operational risks:

- The Operational Risk unit conducts periodic reviews to identify and assess the operational risk inherent in all material products, activities, processes and systems.
- The Unit ensures that all business units within the Bank monitor operational risks within their operations in alignment with defined standards and indicators.
- Implementation of processes to identify and track key risk indicators
- Use of internal loss event data collection process for identification of operational risk events and the evaluation of the causes and impact of such event on the Bank's operations and activities.

6.4 Capitalisation

The table below sets out details of the Bank's operational risk capital charge by approach.

Table 13 Operational risk capital charge

Approach	Capital Charge N'million
Basic indicator approach (BIA)	64,821
Standardised measurement approach (SMA)	62,358

7 Internal Capital Adequacy Assessment Process (ICAAP)

Zenith Bank conducts an ICAAP annually to determine a forward-looking assessment of its capital requirements given its business strategy, risk profile and risk appetite.

The ICAAP provides information on:

- risk governance and management structure, risk management processes, strategies and systems;
- material risks and assessment of the likelihood of occurrence;
- the results of stress testing on profitability and capital adequacy;
- the adequacy of current and future capital in relation to the overall risk profile.

The Bank has established the process for embedding the ICAAP into its business practices and procedures.

The Chief Risk Officer is responsible for implementing the ICAAP in the Bank while the Chief Financial Officer takes responsibility for overall direction on capital management.

The Internal Audit team provides objective assurance to the Board on the effectiveness of the Bank's ICAAP activities.

The Board reviews, challenges and approves the ICAAP before submission in line with local regulatory requirements.

7.1 Pillar 2 Risk - Credit concentration risk

It refers to any single exposure or group of exposures with the potential to produce losses large enough (relative to a Bank's capital, total assets, or overall risk level) to threaten the Bank's financial health.

7.1.1 Sources of risk

It can arise as a result of inadequate diversification of the loan book, creating volatile returns under a wide range of economic conditions. The credit exposure could be by region, sector and individual obligor.

7.1.2 Mitigation

The Bank has put in place the following controls to mitigate credit concentration risks:

- Regular monitoring of credit concentration risk by geographical location and by industry sector.
- Implementation of a systematic credit limits management process.
- Use of portfolio concentration limits (which are subject to periodic review) and has defined maximum amount that the individual or counterparty can obtain as loan.
- Close monitoring and reporting of limits to appropriate levels of authority.

Clearly defined internal policies, debt service capability and balance sheet management guidelines.

7.1.3 Capitalisation

The table below sets out details of the Bank's credit concentration capital charge by approach.

Table 14 Credit concentration risk capital charge

Approach	Capital Charge N'million
CBN approach (standardised)	55,310.68
Herfindahl-Hirschman Index (HHI)	50,587.00

7.2 Pillar 2 Risk - Interest rate risk in the Banking book (IRRBB)

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

7.2.1 Sources of risk

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

7.2.2 Mitigation

The Bank has put in place the following controls to mitigate IRRBB:

- Significant portion of non-rate sensitive liabilities to minimise the impact of the exposure to interest rate risks.
- Flexibility in adjustment of lending and deposits rates to reflect market realities.
- ALCO, treasury and market risk management function are jointly responsible for controlling the mismatch in assets and liabilities.
- The management of interest risk against interest rate gap limits is supplemented by monitoring of the sensitivity of the Bank's financial assets and liabilities to various scenarios.

7.2.3 Capitalisation

The table below sets out details of the Bank's IRRBB capital charge by approach.

Table 15 IRRBB capital charge

Methodology	Capital Charge N'million
Net interest income approach	26,831.65
Economic value of equity approach	21,466.88

7.3 Pillar 2 Risk - Strategic Risk

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

7.3.1 Sources of risk

The key strategic risks affecting the Bank could be as a result of the following:

- poorly planned and executed decisions,
- inadequate corporate strategy,
- improper analysis that can impact the implementation of key decisions,
- inability to respond promptly to business opportunities and changes in customer profile,
- lack of responsiveness to technological, regulatory and industry changes,
- improper communication of the Bank's strategic objectives,
- inability to recruit personnel with skills and experience required to execute strategy and lack of complete and accurate information.

7.3.2 Mitigation

The Bank has put the following controls in place to mitigate strategic risk:

- Processes and procedures are in place to ensure that the right models are employed and appropriately communicated to all decision makers on issues relating to strategic risk management.
- Performance is measured against strategic plans and budgets and closely monitored on a regular basis.
- The Strategy Management and Risk Management Groups conduct periodic review to take account of changing circumstances, new management strategies and potential risks.
- Defined limits for lending activities.

7.3.3 Capitalisation

The table below sets out details of the Bank's strategic risk capital charge.

Table 16 Strategic risk capital charge

Risk type	Capital Charge N'million
Strategic risk	4,917.42

7.4 Pillar 2 Risk - Liquidity risk

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

7.4.1 Sources of risk

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

Considering the liquidity crisis that companies are facing around the world today due to the global pandemic, the issue of maintaining an adequate level of liquidity cannot be over-emphasized.

7.4.2 Mitigation

The Bank has put the following controls in place to mitigate liquidity risk:

- ALCO is charged with monitoring and management of liquidity risk exposures on a regular basis.
- As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets which can be readily sold to meet liquidity requirements.
- Performing liquidity gap analysis.
- Adequately diversification of funding structure and access to funding sources.
- Committed credit lines that can be drawn in case of liquidity crises.

7.4.3 Capitalisation

The table below sets out details of the Bank's liquidity risk capital charge.

Table 17 Liquidity risk capital charge

Risk type	Capital Charge N'million
Liquidity risk	23,531.88

7.5 Pillar 2 Risk - Group risk

This is the risk of loss from activities or operating performance of local and foreign subsidiary entities may impact negatively on the capital of Zenith Bank.

7.5.1 Sources of risk

Zenith Bank has banking subsidiaries operating in different countries across the globe – the UK, Ghana, Sierra Leone, Gambia and Nigeria.

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

7.5.2 Mitigation

The Bank has put the following controls in place to mitigate group risk:

- On a regular basis, Zenith Bank carries out risk analysis process to assess the risk associated with its subsidiaries.
- The bank sometimes transfers Senior management staff within the group as Executive Directors in the subsidiary to ensure that the core values and principles of the brand are seamlessly instilled across subsidiaries.
- On a regular basis, subsidiaries provide monthly and quarterly reports on their business and operational activities to the Bank.

7.5.3 Capitalisation

The table below sets out details of the Bank's group risk capital charge.

Table 18 Group risk capital charge

Risk type	Capital Charge N'million
Group risk	5,310.85

7.6 Pillar 2 Risk - Regulatory compliance risk

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

7.6.1 Sources of risk

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

7.6.2 Mitigation

The Bank has put the following controls in place to mitigate regulatory compliance risk:

- The Bank's designation of the role of Chief Compliance Officer and Executive Compliance Officer (ECO) at the management level
- Centralized compliance department to ensure seamless handling of information gathering, disclosure and exchange of information.
- Regular monitoring of compliance with all applicable regulatory requirements and pronouncements.
- At all times, the Bank's compliance universe is up to date and all parties are aware of their responsibilities.

7.6.3 Capitalisation

The table below sets out details of the Bank's regulatory compliance risk capital charge.

Table 19 Regulatory compliance risk capital charge

Risk type	Capital Charge N'million
Regulatory compliance risk	151.87

7.7 Fraud Risk

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

7.7.1 Sources of risk

This could be internal (perpetrated by staff) or external (customers, fraudsters, hackers etc.)

7.7.2 Mitigation

The Bank has put the following controls in place to mitigate fraud risk

- Prompt reporting and monitoring of fraud and forgery incidences.

- Fraud management process, tools and systems
- Segregation of duties in assigning tasks and responsibilities
- Different levels of approval within individual business units.

7.7.3 Capitalisation

The table below sets out details of the Bank's fraud risk capital charge.

Table 20 Fraud risk capital charge

Risk type	Capital Charge N'million
Fraud risk	3,052.94

7.8 Pillar 2 Risk - Reputational risk

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

7.8.1 Sources of risk

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

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

7.8.2 Mitigation

The Bank has put the following controls in place to mitigate reputational risk:

- Board and management set the right tone for ethical values.
- All staff are aware of the Bank's ethical practices and are mandatorily required to sign the code of conduct form.
- Strict compliance with regulatory standards
- Training and capacity building of staff in the risk and compliance functions
- Ensuring implementation of the Bank's corporate responsibilities.

7.8.3 Capitalisation

The table below sets out details of the Bank's reputational risk capital charge.

Table 21 Reputational risk capital charge

Risk type	Capital Charge N'million
Reputational risk	1,459.94

7.9 Pilar 2 Risk - Information Technology (IT) risk

This is the probability that a given threat will exploit vulnerabilities in our IT system and cause harm to the Bank's operations and activities.

7.9.1 Sources of risk

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

7.9.2 Mitigation

The Bank has put the following controls in place to mitigate IT risk:

- The Board and executives have oversight on cyber risks and activities.
- Implementation of IT risk management processes, tools and systems
- Information management and awareness processes
- Establishment of information Technology (IT) Steering Committee responsible for development and oversight of corporate information technology (IT) strategies and plans.
- Measures such as conduct of independent IT audits to guard against potential failures and to protect the Bank's network.
- Regular data back up and replication systems
- Use of disaster recovery servers.

7.9.3 Capitalisation

The table below sets out details of the Bank's IT risk capital charge.

Table 22 IT risk capital charge

Risk type	Capital Charge

	N'million
IT risk	3,569.77

7.10 Pillar 2 Risk - Cybersecurity risk

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

7.10.1 Sources of risk

Attempts on the Bank's digital banking platforms are a major source of this risk. Poor handling of customers' data and breach of privacy laws could also expose the Bank unduly.

7.10.2 Mitigation

The Bank has put the following controls in place to mitigate cybersecurity risk:

- The Board, executives and Information Security Steering Committee oversight on cyber risks and activities
- Oversight on cyber vulnerabilities across their banking groups
- Commenced the process to set up Security Operation Center (SOC)
- Measures in place for effective bank-wide responses to them.
- Installation of malwares to protect its network and guide against security threats from hackers and unwarranted intruders etc.
- Frequent review of risk controls in order to ensure safety of data and privacy.

7.10.3 Capitalisation

The table below sets out details of the Bank's cybersecurity risk capital charge.

Table 23 Cybersecurity risk capital charge

Risk type	Capital Charge N'million
Cybersecurity risk	1,586.94

7.11 Pillar 2 Risk - Business risk

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

7.11.1 Sources of risk

This risk could crystallise as a result of ineffective corporate strategy or adverse movements in macroeconomic variables (such as interest rate, inflation, government policies etc.). These could impact the Bank's ability to meet its performance target.

7.11.2 Mitigation

The Bank has put the following controls in place to mitigate business risk:

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

7.11.3 Capitalisation

The table below sets out details of the Bank's business risk capital charge.

Table 24 Business risk capital charge

Risk type	Capital Charge N'million
Business risk	9,577.93

7.12 Pillar 2 Risk - Political risk

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

7.12.1 Sources of Risk

These include changes in the legal system or disruptions such as terrorism, riots, coups, civil wars, international wars and elections. Such events may affect the Bank's ability to recover its loans and carry on its operations on a business as usual basis.

7.12.2 Mitigation

The Bank has put the following controls in place to mitigate political risk:

- Zenith has a political risk management strategy that include review of economic and political development and proper assessment of its impact on its businesses.
- Proper implementation of recommendations to close the identified gaps.
- Measures are in place to ensure that the Bank is seen as an independent and non-partisan organisation.

7.12.3 Capitalisation

The table below sets out details of the Bank's political risk capital charge.

Table 25 Political risk capital charge

Risk type	Capital Charge N'million
Political risk	4,244.75

7.13 Pillar 2 Risk - Legal risk

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

7.13.1 Sources of risk

Some of the ways the Bank is exposed to legal risk include:

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

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

7.13.2 Mitigation

The Bank has put the following controls in place to mitigate legal risk:

- Zenith Bank manages legal risk by monitoring new legislation, creating awareness of legislation among employees
- Timely identification of significant legal risks as well as assessing the potential impact of these risks.
- Management of contractual obligations via well documented Service Level Agreements and other contractual documents.

7.13.3 Capitalisation

The table below sets out details of the Bank's legal risk capital charge.

Table 26 Legal risk capital charge

Risk type	Capital Charge N'million
Legal risk	842.88

7.14 Pillar 2 Risk - Ratings downgrade risk

This is the risk of financial loss triggered by a downgrade to the Bank's credit rating or its debt securities' ratings. This risk also includes the possibility of credit rating downgrade of the Bank's customer/customers.

7.14.1 Sources of risk

The sources of downgrade risk to the Bank include a downgrade of the Bank's own credit rating resulting in the Bank paying more for wholesale funding. A downgrade may cause customers to demand for higher interest rates leading to tight margins for the Bank and subsequently, lower income.

Deterioration in customers' credit rating could lead to increased provisions and increase in RWA.

7.14.2 Mitigation

The Bank has put the following controls in place to mitigate ratings downgrade risk:

- Strategies are in place to continuously build Zenith's brand as a reputable international financial institution recognized for innovation, superior performance while creating premium value for all stakeholders.
- Regular tracking of external rating agencies and internal watch list.
- Monitoring of customers' performance.

7.14.3 Capitalisation

The table below sets out details of the Bank's ratings downgrade risk capital charge.

Table 27 Ratings downgrade risk capital charge

Risk type	Capital Charge N'million
Ratings downgrade risk	5,375.60

7.15 Pillar 2 Risk - Physical security risk

This is the risk of damage to the Bank's assets (including human assets) as a result of breach of physical controls and barriers. It also covers risk to customers' and staff health and safety.

7.15.1 Sources of risk

This include potential and actual harm to staff and persons within the Banking environment. Other sources include vandalization of properties and equipment.

7.15.2 Mitigation

The Bank has put the following controls in place to mitigate physical security risk:

- Trainings and awareness session to keep staff aware of security procedures.
- Cash holdings are kept to a minimum.
- Comprehensive insurance on properties and assets.
- Adequate security measures and security operatives at business offices and facilities.

7.15.3 Capitalisation

The table below sets out details of the Bank's physical security risk capital charge.

Table 28 Physical security risk capital charge

Risk type	Capital Charge N'million
Physical security risk	2,418.35

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8 Liquidity

8.1 Liquidity risk

Liquidity risk is the potential loss arising from the Group's inability to meet its obligations as they fall due or its inability 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 b consequences of other bank risks such as credit, market and operational risks.

8.2 Internal Liquidity Adequacy Assessment Process (ILAAP)

According to the European Banking Authority (EBA), ILAAP means the process for identification, measurement, management and monitoring of liquidity risk implemented by the institution.

The ILAAP is a process that aims for Board awareness of the overall liquidity risk framework and that concludes regarding the bank's liquid resources adequacy.

8.2.1 Purpose of the ILAAP

The ILAAP has the following objectives:

- Board awareness: information to the Board of liquidity management framework, and the liquid resources adequacy.
- Liquid resources adequacy: assess the liquidity needs and the available liquidity in business as usual as well as in stress situations.
- Documentation of the overall liquidity framework: demonstrate the robustness and comprehensiveness of the liquidity risk framework (identification, management, measurement, mitigation and reporting)

8.2.2 The scope of application of the ILAAP

The Bank's ILAAP document is prepared in line with the requirements of the CBN Guidelines on Liquidity Risk Management and ILAAP and other accompanying liquidity frameworks. It covers both qualitative and quantitative elements of the Bank's liquidity risk management practices.

The qualitative elements describe the liquidity risk governance structure, strategies, procedures, appetite and other measures implemented by the Bank.

The quantitative elements include limits, appetite, risk metrics and ratios, stress testing etc.

8.2.3 Sources of liquidity risk and materiality assessment

Zenith Bank's Liquidity Risk Management Framework takes into account all sources and uses of liquidity and seeks to optimise the balance sheet by balancing the trade-off between liquidity risk on the one hand and cost or profitability on the other. This optimisation process is managed by taking cognisance of:

- Bank contractual maturity mismatch between assets and liabilities.
- The business-as-usual (BaU) mismatch arising from normal market conditions.

- The stress-mismatch or stress funding requirement likely to arise from a continuum of plausible stress liquidity scenarios.
- The quantum of stress funding sources available to meet a scenario-specific stress funding requirement.

The table below summarises the Bank's liquidity risk drivers, materiality assessment and the mitigation techniques in place.

Table 29 Liquidity risk drivers and materiality assessment

S/N	Liquidity Risk Drivers	Definition /materiality assessment	Mitigation
1	Non-Marketable Asset Risk	These are typically securities that are difficult to buy or sell because they are not traded on any normal, major secondary market exchanges. Materiality assessment - Material	These assets can be monetised and then sold as covered bonds in foreign markets as this product is not currently trading in Nigeria.
2	Wholesale Funding Risk	This is the risk of wholesale funding being withdrawn or not rolled over upon maturity Materiality assessment - Material	The Bank would continue to maintain a good relationship with counterparties as this would play an important role when assessing the speed of outflow in the event of a liquidity crisis.
3	Retail Funding Risk	This is the risk of retail deposits being withdrawn or not rolled over upon maturity. Materiality assessment - Material	The Bank would continue to maintain a good relationship with depositors through excellent customer service and value creation as this would play an important role when assessing the speed of outflow in the event of a liquidity crisis.
4	Intra-day Funding Risk	This is the risk that a firm would not have sufficient liquidity to meet its intra-day liquidity requirements in response to changes in collateral and cash payment requirements	The Treasury team is responsible for ensuring that the Bank always has sufficient intraday liquidity to meet any obligations it may have in the clearing and settlement systems. In addition, net daily funding requirements are

		Materiality assessment - Material	forecast by estimating daily rollovers and withdrawals and managing the funding pipeline of new deals.
5	Intra-group Funding Risk	This is the liquidity risk that the firm might incur as a result of cessation of funding from, or of the need to provide funding to, other group members Materiality assessment - Material	The Bank would continually take and place foreign currencies in its subsidiaries to meet FX obligations, mitigate its foreign exchange risk thereby also improving liquidity of subsidiaries.
6	Off Balance Sheet Risk	The impact on a bank's cash flows from the triggering of contingent obligations, including commitments, acceptances, un-drawn facilities and revolving credit facilities. Materiality assessment - Material	The off-balance sheet liquidity risk is limited to performance guarantees, bonds, forwards, swaps and repurchase agreements. So, the liquidity risk is limited to the ability of the clients' performance against these off-balance sheet transactions.
7	Cross-Currency Risk	The ability of the firm to meet its liquidity requirements across the different currencies in which it operates Materiality assessment – non-material	Most foreign exchange transactions are borrowed and/or lent to customers in the same currency. The currency risks are therefore with the borrower. With regard to liquidity, the foreign currency loans are mainly made to clients that are receivers of foreign currency. The loans and the advances terms and conditions for repayment is matched to eliminate any timing differences and currency repayment mismatch positions.
8	Marketable Assets Risk	Ability to derive funding from the marketable assets (e.g. bonds) in a timely manner through either repo or sale.	The liquidity risk associated with these assets is limited as there are counterparties and CBN that will facilitate transactions to provide liquidity against the marketable securities through direct purchases or taking the

		Materiality assessment - Material	assets as security for funding in the form of repurchase agreements.
9	Funding Concentration Risk	Degree of diversification in the liquidity resources and potential stress points Materiality assessment - Material	The Bank analyses concentration along the lines of single client, industry sector or geographical exposure. This is important in order to determine the trigger that could be an identification of an impending liquidity crisis.
10	Franchise Viability	Assessment of the level of liquidity required to maintain its core business franchise under stress. Materiality assessment – Not material	Not applicable

8.2.4 Liquidity risk management and monitoring

Liquidity risk management reports are prepared by RMG on a periodic basis to assess the adequacy and completeness of the risk management process. Risk management reports are produced for the Bank as a whole and according to business unit, risk segment, geography and product or service group. The objective is to enable decision-makers to evaluate risk management performance monthly, weekly, daily or even in real time, as the nature of the risks and circumstances dictate.

The table below gives details of the liquidity risk reports prepared by the Bank:

Table 30 Liquidity risk reports

S/N	Report type	Description	Author	Recipient	Frequency
1	Liquidity Risk Analysis report	Quantification of the daily and cumulative funding gap for stress testing (5- and 30-days tests)	Market & Liquidity Risk Unit	Senior Management, Board Risk Management Committee	Monthly
2	Liquidity Maturity Profile Report	Shows contractual and behavioral liquidity maturity profile	Market & Liquidity Risk Unit	Risk Management Group, Senior Management	Daily Weekly

3	Deposit Analysis Report	Analysis of Deposit movements per class including variance and pricing	Market & Liquidity Risk Unit	ALCO, Risk Management Group	Weekly
4	Liquidity key indicators report	Monitors the key liquidity management indicators and Identifies current limit exceptions and excesses	Market & Liquidity Risk Unit	ALCO, Board Risk Management Committee	Daily Weekly
5	Market Analysis Report	Describes market and economic factors that may imply a change to market liquidity and access to markets	Treasury	ALCO	Weekly
6	Liquidity Ratios Report	Measures the various liquidity risk ratios monitored by the Bank	Market & Liquidity Risk Unit FC & SP	ALCO, Senior Management, Board Risk Management Committee	Daily
7	3 -day Liquidity Stress Test reports	Reports showing likely impact of the occurrence of stress situations on the liquidity of the Bank for 3 days	Market & Liquidity Risk Unit	Risk Management Group	Daily
8	Contingency Funding plan	Plan showing sources of funds in a stressed situation	Market & Liquidity Risk Unit FC & SP Treasury	ALCO, Treasury, Risk Management Group, Board Risk Management Committee/	Annually

8.3 Liquidity coverage ratio (LCR)

The Liquidity Coverage Ratio (LCR) is introduced to improve the short-term resilience of the liquidity risk profile of institutions, requiring them to hold a buffer of “high quality” liquid assets (HQLA) to match net liquidity outflows during a 30-day period of stress.

The standard aims to ensure that a bank has an adequate stock of unencumbered HQLA that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30-calendar day liquidity stress scenario.

The LCR has two components:

a) value of the stock of HQLA in stressed conditions; and
b) total net cash outflows calculated according to the scenario parameters outlined below.

Table 31 Liquidity coverage ratio

		N'million
1	Total qualifying high-quality liquid assets	2,635,514.00
2	Total net cash outflow	1,969,922.06
3	**Liquidity Coverage Ratio (LCR)**	**133.79%**
4	** Regulatory limit	100%
5	**LCR Buffer**	**33.79%**

***CBN Guidelines on LCR exposure draft*

Zenith Bank maintains a portfolio of HQLA to ensure compliance with requirements to honour any commitments due in the next 30 days.

8.4 Net Stable Funding Ratio (NSFR)

The NSFR guides the Bank in adopting more stable sources of funding over a longer-time horizon. It defines the amount of available stable funding (ASF) relative to the required stable funding (RSF) over a 1-year time scale.

The ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The RSF calculation is a function of the liquidity characteristics and residual maturities of the various on-and off-balance sheet assets specific to the Bank.

Table 32 Net Stable Funding Ratio (NSFR)

		N'million
1	Available amount of stable funding	4,563,252.11
2	Required amount of stable funding	4,181,192.93
3	**Net Stable Funding Ratio (NSFR)**	**109.14%**
4	** Basel limit	100%
5	**NSFR Buffer**	**9.14%**

***Basel Guidelines*

Zenith Bank maintains adequate level of available amount of stable funding to meet its required amount of stable funding over the next 12 months.

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8.5 Overview of Zenith Bank's Contingency Funding Plan

8.5.1 Objective

Contingency Funding Plan (CFP) addresses an institution's strategy for handling liquidity crises. Zenith Bank's CFP sets out the plan of action it would use to fund business activity in crisis situations and periods of market stress. It describes procedures for managing (and making up) cash flow shortfalls in stress situations. Effective CFP's are built upon the output of stress tests and scenario analysis.

Liquidity crises can occur both from internal as well as external events and the plan shall comprehensively address all the related contingencies. The Bank has created a structured funding program that will aid in liquidity management based on its own experience and the international practices in asset liability and liquidity management.

8.5.2 Scope

The CFP outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of and managing the liquidity crisis and/or market dislocation. The CFP also describes in detail the Bank's potential responses if its assessments indicate that the Bank has entered a liquidity crisis, which include pre-funding for what the Bank estimates will be its potential cash and collateral needs as well as utilising secondary sources of liquidity.

Mitigants and action items to address specific risks which may arise are also described and assigned to individuals responsible for execution. The CFP identifies key groups of individuals to foster effective coordination, control and distribution of information, all of which are critical in the management of a crisis or period of market stress. The CFP also details the responsibilities of these groups and individuals, which include making and disseminating key decisions, coordinating all contingency activities throughout the duration of the crisis or period of market stress, implementing liquidity maintenance activities and managing internal and external communication.

8.5.3 Conducting CFP tests

The Treasury and the RMG conduct regular stress tests to analyse the effectiveness of the CFP. For the purpose of capturing the essence of stress scenarios in CFP, the Bank has segregated the category of stress tests into two classes which are as follows:

- Market wide stress
- Zenith Bank specific stress

The results of this test are to the ALCO for review and actions.

9 Equity position: disclosure for banking book positions

Zenith Bank uses 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 Bank'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 assets and 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 indirectly (i.e. derived from prices).
3. Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable input).

The Bank considers relevant and observable market prices in its valuations where possible. Where available, the fair value of assets (such as loans and advances) is based on observable market transactions.

Where observable market transactions are not available, the fair value is estimated using valuation models such as discounted cash flow techniques. Inputs into the valuation techniques include expected lifetime credit losses, interest rates, prepayment rates, primary origination or secondary market spreads.

The fair value of liabilities (such as deposits) is estimated using the discounted cash flow techniques, applying the rates that are offered for depositors of similar maturities and terms.

9.1 Level 3 fair value measurements

- Unobservable inputs used in measuring

  The table below sets out information about significant unobservable inputs used as at December 31, 2019 in measuring financial instruments categorised as level 3 in the fair value hierarchy.

Type of financial instrument	Fair value as at December 31, 2019 (N'million)	Valuation technique	Significant unobservable input	Range of estimates (average) for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Unquoted equity investment	63.68	Equity DCF adjusted with recent similar transactions.	Discount rate Estimated cashflow	Risk premium of 10.63% above risk free rate (1.92%) 5-year compound annual growth rate (CAGR) of cashflow of 6.5%	A significant increase in the risk premium would result in a lower fair value. A significant increase in the CAGR of cashflow would result in a higher fair value.

- The effect of unobservable inputs on fair value measurements

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurement of fair value. For fair value measurement in level 3, changing one or more of the assumptions would have the following effects:

Effects on Other Comprehensive Income (OCI):

	Favourable changes N'million 2019	Unfavourable changes N'million 2019	Favourable changes N'million 2018	Unfavourable changes N'million 2018
Unquoted investment security	1,770	(1,662)	2,140	(870)

The favourable and unfavourable effects of using reasonably possible alternative assumptions for valuation of unquoted equity securities have been calculated by recalibrating the model values using unobservable inputs based on upper and lower quartile respectively of the Bank's range of possible estimates. Key inputs and assumptions used in the model at December 31, 2019 included a risk premium of 10.63% above the risk-free rate of 1.92% (December 31, 2018: 10.44% - 13.44%) respectively above the risk-free rate of 3.01%.

ZENITH BANK

10 Remuneration

10.1 Remuneration policy

Zenith Bank ensures that remuneration paid to its directors complies with the provisions of the code of corporate governance issued by its regulators.

In compliance with section 34(5) of the Code of Corporate Governance for public companies as issued by the Securities and Exchange Commission (SEC), the Bank makes disclosure of the remuneration paid to its directors as follows:

Table 33 Directors' remuneration

Type of package Fixed	Description	Timing
Basic salary	Part of gross salary package for executive directors only. Reflects the Banking industry competitive salary package and the extent to which the Bank's objectives have been met for the financial year.	Paid monthly during the financial year.
Other allowances	Part of gross salary package for executive directors only. Reflects the Banking industry competitive salary package and the extent to which the Bank's objectives have been met for the financial year.	Paid monthly during the financial year.
Productivity bonus	Paid to executive directors only and tied to performance of the line report. It is also a function of the extent to which the Bank's objectives have been met for the financial year.	Paid annually in arrears
Director fees	Paid annually on the day of the annual general meeting (AGM) to non-executive directors	Paid annually on the day of the AGM
Sitting allowances	Allowances paid to non-executive directors only, for attending board and board committee meetings.	Paid after each meeting

Table 34 Directors' emoluments

Emoluments	(N'Million)	(N'Million)	(N'Million)	(N'Million)
Executive compensation	2,043	1,048	1,428	550
Fees and sitting allowances	405	370	84	185
Total	**2,448**	**1,418**	**1,512**	**735**

Contacts

Additional information or enquiries relating to the Bank's disclosure report can be directed to:

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