Zenith Bank Plc.

Pillar 3 Disclosures

Report

June 2021

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GLOSSARY OF TERMS

Acronym	Meaning
AIRB	Advanced Internal Rating Based Approach
ALCO	Assets and Liabilities 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 Authority
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
IFRS	International Financial Reporting Standard
IIBU	Institutional and Investment Banking
ILAAP	Internal Liquidity Adequacy Assessment Process
IMA	Internal Model Approach
IRRBB	Interest Rate Risk in the Banking Book
LCR	Liquidity Coverage Ratio
LeR	Leverage Ratio
NDIC	Nigeria 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 Overview

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 30 June 2021, the Bank has six subsidiary companies namely, Zenith Bank (Ghana) Limited, Zenith Pensions Custodian Limited, Zenith Bank (UK) Limited, Zenith Bank (Sierra Leone) Limited, Zenith Bank (The Gambia) Limited and Zenith Nominees Limited. During the period under review, the Bank did not open any new branch, and neither was any existing branch closed. As at 30 June, 2021 the Group had 438 branches, 178 cash centers; 2,051 ATM terminals; 136,583 POS terminals and 12,275,259 cards issued to its customers (31 December 2020: 436 branches, 177 cash centers, 2,042 ATM terminals, 83,766 POS terminals and 9,905,449 cards issued).

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. The Bank focuses on cost effective deposits from the retail end of the market to lend to the corporate end with emphasis on emerging business opportunities. The unit is focused on providing superior banking services and customized 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 Bank uses its strong balance sheet and liquidity as well as efficient trade finance processes and services, to continuously grow and support businesses.

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.

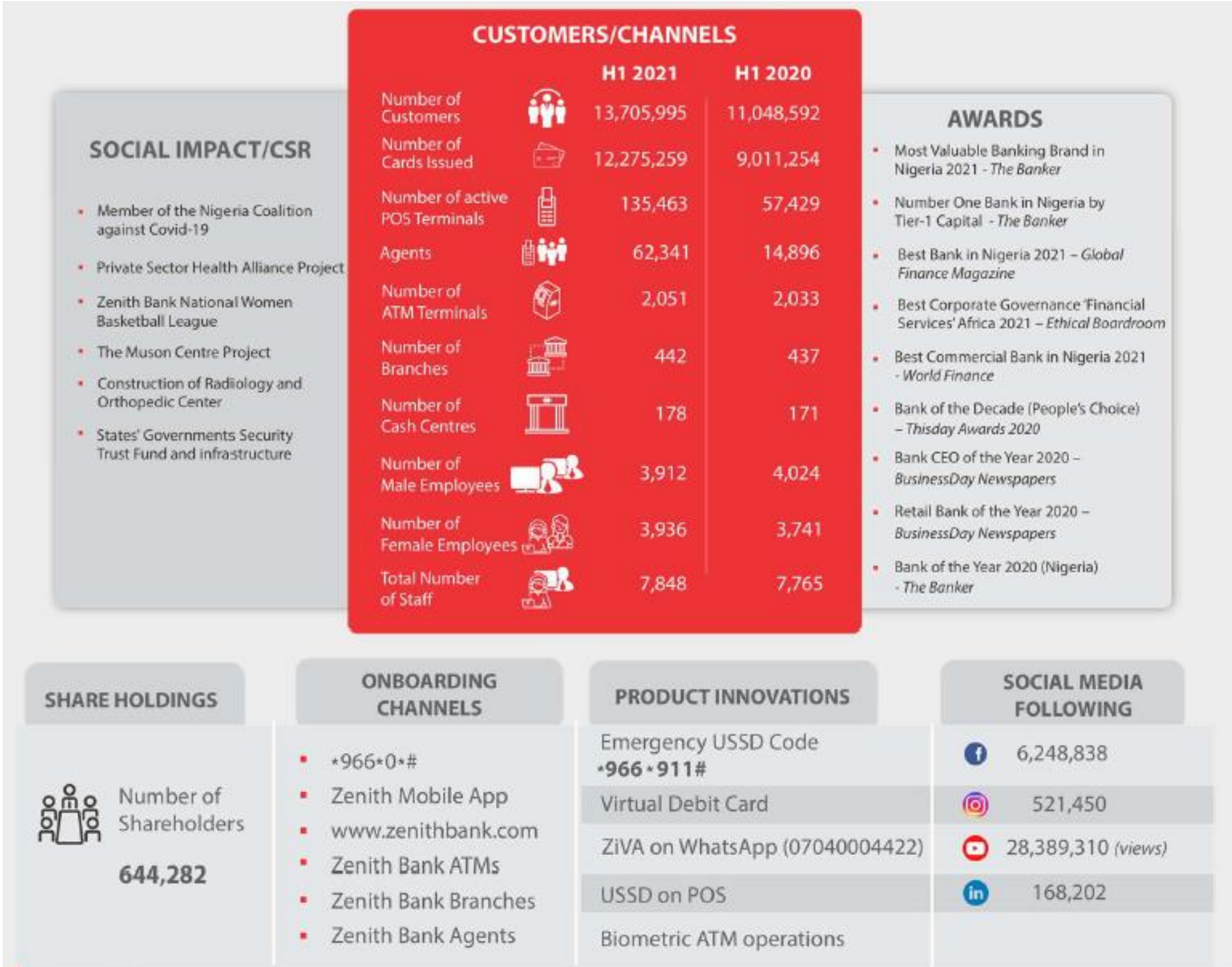
1.2.4 Public Sector Banking

The public sector business line provides services to all tiers of government (federal, state and local government), ministries, departments and agencies, non-profit organization, 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.

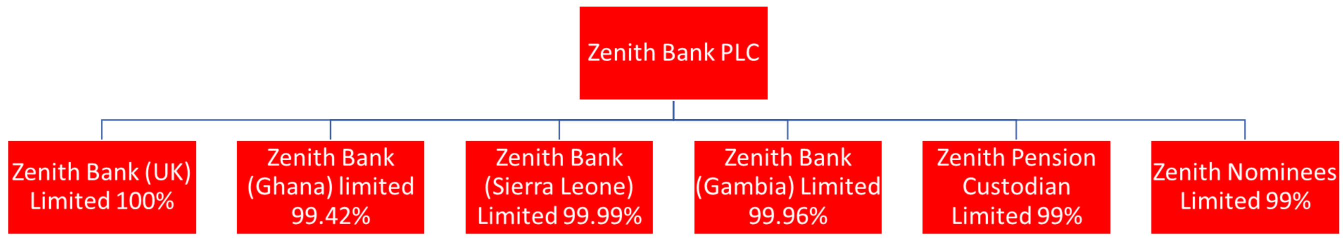
Figure 1: Overview of Zenith Bank Group



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

Zenith Bank Plc. consolidated, and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS') issued by the International Accounting Standards Board (IASB). Additional information required by national regulations is included where appropriate.

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

The Current Balance Sheet as at 30 June 2021 can be summarized as follows:

Figure 3: Zenith Bank's Plc. Statement of Financial Position as at 30 June 2021

Consolidated and Separate Statements of Financial Position as at 30 June, 2021

		Group		Bank	
In millions of Naira	**Note(s)**	**30-Jun-21**	**31-Dec-20**	**30-Jun-21**	**31-Dec-20**
Assets					
Cash and balances with central banks	15	1,424,811	1,591,768	1,346,248	1,503,245
Treasury bills	16	1,714,411	1,577,875	1,505,452	1,393,421
Assets pledged as collateral	17	394,175	298,530	365,691	298,530
Due from other banks	18	656,501	810,494	384,366	532,377
Derivative assets	19	69,899	44,496	67,378	41,729
Loans and advances	20	2,837,445	2,779,027	2,654,512	2,639,797
Investment securities	21	1,036,102	996,916	336,545	333,126
Investment in subsidiaries	22	-	-	34,625	34,625
Deferred tax asset	24	5,124	5,786	4,229	4,733
Other assets	25	171,445	169,967	160,492	159,625
Property and equipment	26	193,209	190,170	171,107	169,080
Intangible assets	27	12,349	16,243	10,933	14,699
Total assets		**8,515,471**	**8,481,272**	**7,041,578**	**7,124,987**
Liabilities					
Customers' deposits	28	5,770,434	5,339,911	4,545,060	4,298,258
Derivative liabilities	33	9,309	11,076	9,309	11,076
Current income tax payable	13	12,750	11,690	10,675	9,117
Other liabilities	29	480,876	703,292	431,386	599,464
On-lending facilities	30	390,081	384,573	390,081	384,573
Borrowings	31	664,258	870,080	682,467	874,090
Debt securities issued	32	44,316	43,177	44,316	43,177
Total liabilities		**7,372,024**	**7,363,799**	**6,113,294**	**6,219,755**
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	35	519,995	521,293	388,829	382,292
Other reserves	35	351,627	324,461	268,710	252,195
Attributable to equity holders of the parent		1,142,367	1,116,499	928,284	905,232
Non-controlling interest	35	1,080	974	-	-
Total shareholders' equity		**1,143,447**	**1,117,473**	**928,284**	**905,232**
Total liabilities and equity		**8,515,471**	**8,481,272**	**7,041,578**	**7,124,987**

Figure 4: Zenith Bank's Plc. Statement of Comprehensive Income as at 30 June 2021

Consolidated and Separate Statements of Profit or Loss and other Comprehensive Income for the six months period ended 30 June, 2021

		Group		Bank	
In millions of Naira	Note(s)	**30-Jun-21**	**30-Jun-20**	**30-Jun-21**	**30-Jun-20**
Interest and similar income	6	203,934	216,954	161,337	176,331
Interest and similar expense	7	(43,994)	(59,545)	(32,321)	(49,286)
Net interest income		**159,940**	**157,409**	**129,016**	**127,045**
Impairment loss on financial and non-financial instruments	8	(19,799)	(23,923)	(17,842)	(20,142)
Net interest income after impairment loss on financial and non-financial instruments		**140,141**	**133,486**	**111,174**	**106,903**
Net income on fees and commission	9	47,664	33,503	38,270	22,887
Trading gains	11	59,275	58,832	58,115	58,797
Other operating income	10	19,829	24,151	36,099	21,329
Depreciation of property and equipment	26	(12,925)	(12,471)	(11,797)	(11,302)
Amortisation of intangible assets	27	(1,770)	(1,778)	(1,395)	(1,409)
Personnel expenses	37	(37,577)	(38,868)	(28,440)	(29,787)
Operating expenses	12	(97,578)	(82,731)	(90,443)	(73,793)
Profit before tax		**117,059**	**114,124**	**111,583**	**93,625**
Income tax expense	13a	(10,940)	(10,298)	(4,162)	(3,225)
Profit for the period after tax		**106,119**	**103,826**	**107,421**	**90,400**

1.6 Key prudential metrics

Table 1: Key metrics as at 30 June 2021

	Description	(N' million)
1	Common Equity Tier 1 (CET1)	908,569
1a	Fully loaded ECL accounting model CET1	887,859
2	Tier 1 Capital	866,512
2a	Fully loaded ECL accounting model Tier 1	845,802
3	Total capital	889,624
3a	Fully loaded ECL accounting model total capital	868,914
4	Total risk-weighted assets (RWA)	4,310,947
Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	21.08%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	20.60%
6	Tier 1 ratio (%)	20.10%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	19.62%
7	Total capital ratio (%)	20.64%
7a	Fully loaded ECL accounting model total capital ratio (%)	20.16%
Additional CET1 buffer requirements as a percentage of RWA		
8	Capital conservation buffer requirement (%)	1.00%
9	Countercyclical buffer requirement (%)	0.00%
10	Domestic Systemically Important Bank (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 (%)	19.08%
Basel III leverage ratio		
13	Total Basel III leverage ratio exposure measure	7,124,439
14	Basel III leverage ratio (%)	12.75%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%)	12.46%
Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA)	3,715,163
16	Total net cash outflow	2,530,374
17	LCR (%)	146.82%
Net Stable Funding Ratio		
18	Total available stable funding	6,164,081
19	Total required stable funding	4,182,968
20	NSFR	147.36%

1.6.1 IFRS9 static analysis

Table 2: IFRS 9 Static analysis.

Day 1 Impact (N' million)	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 (N' million)	103,549
Adjusted Day 1 Relief (%)	20%
Adjusted Day 1 Relief / IFRS 9 Transitional Adjustment (N' million)	20,710

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 (CAR).

Table 3: Pillar 1 RWAs and capital required

		RWAs (N' million)	Capital charge (N' million)
1	Credit risk – The Standardized Approach	3,444,852.00	516,727.80
2	Market risk – The Standardized Approach	52,571.62	4,205.73
3	Operational risk – Basic Indicator Approach	813,523.75	65,081.09
	Total exposure measure	**4,310,947.37**	**586,014.62**

1.8 Updates on local regulatory landscape

The Central Bank of Nigeria (CBN) issued some regulatory guidelines with a view to transition Nigerian banks to Basel III from Basel II.

[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.

The aim of the regulatory 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.

The guidelines include:

- Guidelines on Liquidity Coverage Ratio (LCR);
- Guidelines on Liquidity Monitoring Tools;
- Guidelines on Liquidity Risk Management and Internal Liquidity Adequacy Assessment Process (ILAAP);
- Revised Guidelines on Regulatory Capital;
- Revised Guidelines on Supervisory Review and Evaluation Process of Internal Capital Adequacy Assessment Process (ICAAP);
- Guidelines on Leverage Ratio (LeR); and
- Guidelines on Large Exposures (LEX).

The new requirements are to strengthen the current prudential requirements including those on liquidity, single obligor limit and concentration risk management.

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 oversights 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; and
- 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 organizational 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 organizational 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 such that:

- 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; and
- 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.

The Bank has defined risk appetite as the amount of risk it is willing to undertake in achieving its strategic business objectives. On a periodic basis, the risk appetite is defined and reviewed by the Board of Directors, at a level that minimizes erosion of earnings or capital which may arise from avoidable losses, frauds or operational inefficiencies.

As a Domestic Systemically Important Bank (D-SIB), the Bank is aware of the various risks associated with the business of banking globally, particularly risks to which it is exposed. These risks arise due to the 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. It alerts the Bank to adverse and unexpected events that may occur which are 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 crystallize.

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); and
- 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 organizational 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 adequate 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; and
- 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; and
- Prepare the Bank for eventuality of adverse events/shocks and mitigating the impacts.

3.1.2 Management approach for capital preservation

In line with its 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

Zenith Bank's regulatory capital comprises of the two distinct elements which are classified as Tier 1 and Tier 2 capital; The CBN Guidance notes on Regulatory Capital provides the content for Tier 1 and Tier 2 capital. According to the CBN guidance note, the following qualify as Tier 1 capital.

- Paid-up share capital;
- Irredeemable preference shares;
- Share premiums;
- General reserve (retained profit),
- SMEEIS reserves,
- Statutory reserve; and
- Other reserves as may be determined by the CBN.

While Tier 2 Capital comprises of:

- Hybrid instruments;
- Subordinated debt; and
- Other comprehensive income.

The following are deductions made from capital include;

- Intangible assets
- Investments in unconsolidated subsidiaries
- Deferred tax assets
- Treasury shares

Table 4: Regulatory capital disclosure and capital adequacy as at 30th June, 2021

	Common Equity Tier 1 capital: instruments and reserves	**N' million**
1	Share capital	15,698.00
2	Share premium	255,047.00
3	Reserves	228,285.00
4	Retained earnings	388,829.00
5	IFRS9 transitional adjustment	20,709.82
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**908,568.82**
	Common Equity Tier 1 capital: regulatory deductions	**N' million**
7	Deferred tax assets (DTA)	4,229.00

8	Intangible assets	10,933.00
9	**Total regulatory adjustments to Common Equity Tier 1 capital**	**15,162.00**
10	Investment in capital of financial subsidiaries	17,312.50
11	Unsecured lending to subsidiaries within the same group	9,582.58
	Other Deductions	**26,895.08**
12	**Tier 1 capital**	**866,511.74**
	Tier 2 capital: instruments and provisions	**N' million**
13	Hybrid Instruments	-
14	Sub-ordinate Debt	-
15	Other comprehensive income	40,425.00
16	**Tier 2 capital before deductions**	**40,425.00**
17	**Other Deductions**	**17,312.74**
18	**Tier 2 capital**	**23,112.26**
17	**Total regulatory capital (= Tier 1 + Tier2)**	**889,624.00**
18	**Total risk-weighted assets**	**4,310,947.37**
	Capital adequacy ratios and buffers	**(%)**
19	**Tier 1 capital (as a percentage of risk-weighted assets)**	**20.10%**
20	**Total capital (as a percentage of risk-weighted assets)**	**20.64%**

3.3 Summary of Capital Adequacy

The Capital Adequacy Ratio set standards for banks by looking at a bank's ability to pay liabilities and respond to credit risks and operational risks. A bank that has a good CAR has enough capital to absorb potential losses. Thus, it has less risk of becoming insolvent and losing depositors' money. After the financial crisis in 2008, the Bank of International Settlements (BIS) began setting stricter CAR requirements to protect depositors. The Bank's Capital Adequacy Ratio as at 30 June 2021 stood at 20.64%, 5.64% above the CBN regulatory limit. Table 6 highlights the Bank's Capital Adequacy Ratio.

Table 5: Risk Weighted Assets as at 30th June 2021

	Risk Weighted Asset (N' million)
Market Risk	**52,572**
Position Risk	51,385
Settlement Risk	-
Commodity Risk	-
Foreign Exchange Risk	1,187
Operational Risk	**813,524**
Credit Risk	**3,444,852**

Total Risk Weighted Asset	**4,310,947**
Total Qualifying Capital	**889,624**
Capital Adequacy Ratio	**20.64%**
Tier I Capital Adequacy ratio	**20.10%**

3.4 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 30th June 2021

Leverage Ratio	
Exposure measure	**N' million**
On-balance sheet exposures	6,914,830.25
Derivatives exposures	9,145.57
Securities financing transactions	-
Off-balance sheet exposures	200,462.87
Total exposure measure	**7,124,438.68**
Capital measure	**N' million**
Common equity tier 1 capital (CET1)	**908,568.82**
Leverage ratio	
Leverage Ratio	**12.75%**

4 CREDIT RISK

4.1 Credit risk

This is the risk of a financial loss if an obligor does not fully honor 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.

4.3 General Disclosures

Past Due: an exposure where any amount due under the contract (interest, principal, fee or other amount) has not been paid in full at the date when it was due is deemed to be past due. An exposure should be considered past due even when the amount of the exposure or the past due amount, as applicable, is not considered material.

Impaired: The Bank estimates loan loss provisioning in line with IFRS 9 requirements, this includes provision to cover on-balance sheet exposures as well as off-balance sheet exposures such as guarantees issued and commitments undertaken with third parties.

Zenith Bank currently adopts the standardized approach to computing Credit Risk- weighted assets.

Table 7: Credit risk by exposure class as at 30th June, 2021.

On and Off-Balance Sheet Exposures	Net exposure (N' million)	Total RWA (N' million)	Capital charge (N' million)
Sovereigns and Central Banks	3,384,823	-	-
State Govt and Local Authorities	463,386	463,386	69,508
Public Sector Entities (PSEs)	76,016	40,837	6,126
Multilateral Development Banks (MDB)	-	-	-

On and Off-Balance Sheet Exposures	Net exposure (N' million)	Total RWA (N' million)	Capital charge (N' million)
Supervised Institutions	374,783	188,465	28,270
Corporate and Other Persons	1,937,176	2,113,305	316,996
Regulatory Retail Portfolio	85,664	64,150	9,623
Secured by Mortgages on Residential Properties	2,399	1,799	270
Exposures Secured by Mortgages on Commercial Real Estates	10,756	10,756	1,613
Past Due Exposures	105,560	109,798	16,470
High Risk Exposures	80,377	120,566	18,085
Unsettled and Failed Transactions	-	-	-
Other Assets	393,891	331,790	49,769
Total	**6,914,830**	**3,444,852**	**516,728**

Table 8: Credit quality of loans by Industry or counterparty types

Industry	On-balance sheet gross exposure (N' million)	Impairment allowance (N' million)	Carrying amount (N' million)
Agriculture	164,453	5,481	158,972
Oil and gas	679,325	60,571	618,754
Consumer credit	125,990	8,429	117,498
Manufacturing	679,685	7,470	672,215
Real estate & construction	111,459	8,880	102,579
Finance and insurance	2,977	143	2,834
Government	457,853	1,018	456,835
Power	70,413	12,869	57,544
Transportation	130,738	570	130,168
Communication	75,188	18,796	56,392
Education	11,513	1,090	10,432
General commerce	291,059	20,761	250,298
Total	**2,800,653**	**146,141**	**2,654,512**

Table 9: Credit quality of loans per geographical region

Geography	Gross exposure (On-balance sheet) (N' million)	Impairment allowance (N' million)	Carrying amount (N' million)
South-south	296,519	6,665	289,854
South-west	2,092,045	134,771	1,955,274
South-east	122,896	670	122,226
North-central	107,327	3,289	104,038
North-west	68,231	272	67,959
North-east	115,635	474	115,161
Rest of Africa	-	-	-
Outside Africa	-	-	-
	2,800,653	**146,141**	**2,654,512**

Table 10: Credit quality of loans by ratings

Ratings	12 months ECL (N' million)	Lifetime ECL Not credit impaired (N' million)	Lifetime ECL Credit impaired (N' million)	Total (N' million)
A	675,728	7,814	1,591	685,133
AA	301,002	5,048	1,627	307,677
B	-	-	18,686	18,686
BB	2,885	559,511	26,855	589,251
BBB	995,299	22,448	13,719	1,031,466
C	-		32,240	32,240
CC	-		3,671	3,671
CCC	-		72,304	72,304
D	-		60,225	60,225
Gross amount	**1,974,914**	**594,821**	**230,918**	**2,800,653**
ECL – Impairment	10,133	10,649	125,359	146,141
Carrying amount	**1,964,781**	**584,172**	**105,559**	**2,654,512**

Table 11: Credit quality of loans per residual contractual maturity

Maturity	Gross exposure (On- balance sheet) (N' million)	Impairment allowance (N' million)	Carrying amount (N' million)
Up to 1month	586,147	81,791	504,357
1-3 months	246,936	13,757	233,179
3-6 months	87,774	505	87,269
6-12 months	169,672	1,857	167,815
1- 5 years	876,368	22,357	854,011
Over 5year	833,756	25,875	807,881
Total	**2,800,653**	**146,141**	**2,654,512**

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

4.4.1 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.

4.4.1.1 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 5: 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.

4.5 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.

4.6 Risk mitigation

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

- Board defined internal credit approval limits.
- Centralized 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 fallback option
- Continuous monitoring of credit exposures.
- Robust credit standards, policies and procedures to control and monitor credit risk exposures. Some of the policies are:
    i. Credit is only extended to suitable and well identified customers and never where there is any doubt as to the ethical standards and record of the intending borrower;
    ii. Exposures to any industry or customer will be determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines;
    iii. Credit is not extended to customers where the source of repayment is unknown or speculative, and where the destination of funds is unknown. There must be clear and verifiable purpose for the use of the fund;
    iv. 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.
    v. 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 fallback option for the bank;
    vi. A pricing model that reflects variations in the risk profile of various credits to ensure that higher risks are compensated by higher returns is adopted;
    vii. All insiders' related credit is limited to regulatory and strict internal limits and are disclosed as required, and
    viii. The consequences for non-compliance with the credit policy and credit indiscipline are communicated to all staff and are implemented.

4.6.1 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 must 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.

4.7 Capitalization

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

Table 12: Credit Risk Capital Charge

Approach	Capital Charge (N' million)
Standardized approach	516,727.80

The Bank has adopted The Standardised Approach (TSA) as prescribed by the CBN in measure it credit risk requirements.

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 optimizing risk- reward trade-off."

- The Bank's market risk objectives, policies and processes are aimed at instituting a model that objectively identifies, measures and manages market 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 the Value at Risk (VaR) and non-VaR 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 daily. 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 Capitalization

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

Table 13: Market risk capital charge

Approach	Capital Charge (N' million)
Standardized approach	4,205.72
Internal model (VaR) approach	8,375.67

Zenith Bank has adopted The Standardised Approach (TSA) in measuring its market risk capital requirements.

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 Capitalization

In computing the Operational Risk capital charge for Zenith Bank, the basic indicator approach was used. The Basic Indicator Approach allocates operational risk capital using a single indicator, gross income, as a proxy for the institution's overall operational risk exposure. Banks using this approach must hold capital for operational risk equal to the average of a fixed percentage of annual gross income over the previous three years (this percentage has been set at 15% by the Basel Committee). Gross income is defined as NII plus net non-interest income.

There are no qualifying criteria for the Basic Indicator approach, as it is meant to be applicable by any Bank, regardless of its sophistication or complexity.

The charge may be expressed as follows:

$$(\boldsymbol{KBIA}) = \frac{\sum(\boldsymbol{GI}_{\mathbf{1-n}}\, X\ \ \boldsymbol{a})}{\mathbf{n}}$$

Where:

KBIA	The capital charge under the Basic Indicator Approach
GI	Annual Gross Income, where positive, over the previous three years
N	Number of the previous three years for which gross income is positive
a	15%, which is set by the Basel Committee, relating the industry wide level of required capital to the industry wide level of the indicator

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

Table 14 Operational risk capital charge.

Approach	Capital Charge (N' million)
Basic Indicator Approach	65,081.90

7 INTERNAL CAPITAL ADEQUACY AND ASSESMENT 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; and
- 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 Material Risk Identification and Assessment

One of the key activities in the ICAAP process is the Material Risk Identification and Assessment (MRIA) process. The process sets out the key risks that apply to the Bank, management's assessment of the residual risk exposures, and the incremental capital requirements for residual risk exposures. In conducting the MRIA process, the Risk Management Group carried out the following:

- Mobilized the respective business units and support functions to participate in the MRIA exercise, coordinated and facilitated the process.
- Identified the Bank's inventory of material risks and updated it as relevant;
- Defined and documented the sources of material risks identified;
- Assigned the assessment of the risk to the responsible business unit risk owners;
- Coordinated and collated the results of the MRIA; and

- In coordination with management, risk owners and other relevant personnel, reviewed and challenged the results of the MRIA.

The risk definitions, sources, assessment of controls and mitigation techniques, as well as methodology for computation of pillar 2 capital charges are described in detail below.

7.2 Credit Concentration Risk

This is the risk of loss due to inadequate diversification of the loan book, creating volatile returns under a wide range of economic conditions.

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

7.2.1 Sources of risk

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

7.2.2 Mitigation

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

Our exposures to any industry or customer will be determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines.

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

The Bank's internal policy requires that all major accounts that are concentrated in different location across the nation (geography) are centrally managed at the Head office.

The Bank has a team of individuals with specialized competencies to manage the highly exposed accounts. These processes are in place to manage the bank's concentration risk exposures.

Our assessment of the adequacy of controls in place within the Bank coupled with the performance of the loan and advances informed our choice of a reasonable likelihood of occurrence scale rating.

Also, we have implemented a systematic credit limits management process to enable the Bank to monitor its credit exposure on daily basis at country, borrower, industry, credit risk rating and credit facility type levels. The lending limits are further broken down into business sector limits to ensure the Bank is not over-exposed in any single business sector.

7.3 Interest Rate Risk in the Banking Book

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

7.3.1 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.

These sources include:

- Repricing/Matching risk: mismatches in interest rate fixation periods;
- Yield curve risk: which is caused by changes in the slope and shape of the yield curve;
- Basis risk: imperfect correlation in the adjustment of the rates earned and paid on different products with otherwise similar repricing characteristics; and
- Option risk: primarily from options (Gamma and Vega effect) that are embedded in banking book positions (e.g. early redemption rights in the case of loans).

7.3.2 Mitigation

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

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

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

7.4 Strategic Risk

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

7.4.1 Sources of risk

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

7.4.2 Mitigation

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

Our performance is measured against strategic plans and budgets and closely monitored on a regular basis. A financial review is presented to the Board at each Board Meeting. Also, we have set limits for our lending activities to ensure that an acceptable ratio is maintained between customer deposits and lending.

7.5 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.

7.5.1 Sources of risk

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

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 at all times cannot be overemphasized.

The contractual maturity gapping summary does not depict the business as usual scenario of our liquidity profile. The Bank has evaluated that the key assumption, based on the outright liquidation of its current and demand deposit accounts within a day, to be highly improbable.

7.5.2 Mitigation

Zenith Bank has implemented a comprehensive liquidity risk management framework that ensures that adequate liquidity, including a cushion of unencumbered and high-quality liquid assets is maintained at all times.

ALCO is charged with monitoring and management of our liquidity risk exposures on a regular basis.

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

In addition, the Bank has implemented system and processes to effectively stimulate and predict the behavioral gapping summary which depicts the interaction of its assets and liabilities.

In alignment with the Bank’s annual internal liquidity adequacy assessment process, our regulatory liquidity ratios and buffers have been comfortably above regulatory requirements and industry average. We expect that the ratios remain so on a forward-looking basis.

Furthermore, we have put in place ample credit lines and other credible actions necessary to mitigate against the crystallization of liquidity risk within the Bank.

7.6 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.

7.6.1 Sources of risk

Zenith Bank has some subsidiaries operating in different countries across the globe; in UK, Ghana, Sierra Leone, and Gambia and some are in 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.

7.6.2 Mitigation

On a regular basis, Zenith Bank carries out risk analysis process to assess the risk associated with its subsidiaries. The activities of the foreign subsidiaries are governed by structures put in place by the Group Head Office to ensure efficient and effective operations. The governance framework establishes the scope, method of performance management, periodic reviews, and feedback mechanism for operating within the local laws in their jurisdiction.

The activities of the subsidiaries are closely monitored by Zenith Bank Plc and has established a Foreign Subsidiaries Department. The Department serves as an interface between Zenith and its offshore subsidiaries; it also provides guidance on optimization of synergy within the Group. The Internal Control & Audit Department carries out an annual audit of each of the offshore subsidiaries in line with the Annual Audit Program.

We have also appointed senior management staff to act as the Executive Director of each subsidiary while other key staff are seconded to assist in the supervision of critical departments of the subsidiaries. The objective of this management structure is to ensure that the core values and principles of the Zenith Bank brand are seamlessly instilled across subsidiaries.

On a regular basis, Zenith's subsidiaries provide monthly and quarterly reports on their business and operational activities. The reports cover the subsidiaries' financial performance, risk assessment, regulatory and compliance matters amongst others. Furthermore, the Managing Directors and senior management team of the respective Subsidiaries of the Bank attend the annual Group's Performance & Strategy Review/Budget Session during which their performances are analyzed, and recommendations made towards achieving continuous improvement.

7.7 Regulatory Compliance Risk

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

7.7.1 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.

7.7.2 Mitigation

In order to ensure that this risk does not crystalize, the internal control, Compliance and audit Group ensure compliance with, and assess the effectiveness of the measures in place to adhere to applicable regulatory pronouncements and requirements.

We have designated the role of chief compliance officer at the management level at the head office and have zonal compliance officers for the six geo-political zones in the country. The compliance department centrally handles information gathering, disclosure and exchange of information. The team ensure enforcement and monitors adherence to relevant internal and external policies. At all times, it ensures that the Bank's compliance universe is up to date and all parties are aware of their responsibilities.

We ensure regular training and awareness program for every employee of the Bank. Also, relevant staff are mandated to attend all trainings stipulated by CBN and other regulatory bodies.

7.8 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.

7.8.1 Sources of risk

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

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

7.8.2 Mitigation

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

7.9 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.

7.9.1 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.

7.9.2 Mitigation

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

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

7.10 Information Technology Risk

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

7.10.1 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.

7.10.2 Mitigation

The Board and Executives have adequate oversight on Information Technology (IT). The IT Steering Committee is responsible for amongst others, development of corporate information technology (IT) strategies and plans that ensure cost effective application and management of resources throughout the Bank.

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

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

7.11 Cyber Security Risk

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

7.11.1 Sources of risk

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

7.11.2 Mitigation

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

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

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

7.12 Business Risk

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

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

7.12.1 Sources of risk

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

7.12.2 Mitigation

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

7.13 Legal Risk

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

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

7.13.1 Sources of risk

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

7.13.2 Mitigation

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

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

7.14 Ratings Downgrade Risk

This is the risk of financial loss triggered by a downgrade to the Bank's credit rating or its debt securities' ratings and thereby resulting in increased cost of funding. This risk also 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. Changes in the Bank's ratings will characteristically have an effect on entities who have a significant amount of funds in the Bank e.g. corporate customers. A downgrade may cause customers to demand for higher interest rates leading to tight margins for the Bank and subsequently, less profit.

Furthermore, downgrade of credit rating of a customer/customers for which Pillar 1 credit risk capital charge is based would lead to increased provisions, thereby reducing interest income of the Bank.

7.14.2 Mitigation

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

7.15 Model Risk

Model risk is the risk of adverse consequences (e.g., financial loss, poor business or strategic decisions, reputational damage) arising from decisions based on incorrect or misused model outputs.

7.15.1 Sources of risk

The sources of Model risk to the Bank includes risks arising from the rating Risk Rating Models and ECL Models. Errors from these models could lead to material misstatement of the Bank's impairment.

The Financial instrument valuation models can also be a major source of model risk in the Bank.

7.15.2 Mitigation

Zenith Bank continues to put in place trainings session to build capacity for relevant model users and stakeholders regularly and the Bank also subjects models to audits and validation processes with sign-off and approval before adoption.

The Bank has a model risk management policy which sets out its model risk management process; Version control management has been put in place and there is limited access to the Bank's models to protect against accidental or unauthorized changes. Hence, only approved staff can alter a model's code/parameters.

The Bank has ensured proper retention and safekeeping of model inputs, documentations, results, and validation reports.

In addition to the above, the Bank also outsources the external validation of its models to recognized model experts.

8 LIQUIDITY RISK

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 considers all sources and uses of liquidity and seeks to optimize the balance sheet by balancing the trade-off between liquidity risk on the one hand and cost or profitability on the other. This optimization process is managed by taking cognizance 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 15: 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 monetized 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

S/N	Liquidity Risk Drivers	Definition /Materiality Assessment	Mitigation
			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 Materiality assessment - Material	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 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	The Bank would continually take and place foreign currencies in its subsidiaries to meet FX obligations, mitigate its foreign exchange risk

S/N	Liquidity Risk Drivers	Definition /Materiality Assessment	Mitigation
		Materiality assessment - Material	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

S/N	Liquidity Risk Drivers	Definition /Materiality Assessment	Mitigation
		Materiality assessment - Material	through direct purchases or taking the 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.

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 16: Liquidity Coverage Ratio

		N' million
1	Total qualifying high-quality liquid assets	3,715,162.98
2	Total net cash outflow	2,530,373.98
3	**Liquidity Coverage Ratio (LCR)**	**146.82%**
4	Regulatory limit[3]	100%
5	LCR Buffer	46.82%

Zenith Bank maintains a portfolio of HQLA to ensure compliance with requirements to honor 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 17 Net Stable Funding Ratio (NSFR)

		N' million
1	Available amount of stable funding	6,164,081
2	Required amount of stable funding	4,182,968
	Net Stable Funding Ratio (NSFR)	**147.36%**

[3] CBN Guidelines on LCR

3	Basel limit[4]	100%
4	NSFR Buffer	47.36%

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

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 utilizing 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

[4] Basel Guidelines on NSFR

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 FROM THE BANKING BOOKS

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

9.1.1 Unobservable inputs used in measuring

The table below sets out information about significant unobservable inputs used at 30 June, 2021 and 31 December, 2020 in measuring financial instruments categorized as level 3 in the fair value hierarchy

Table 18: Unobservable inputs used for level 3 fair value measurements

Type of financial instrument	Fair value as at June 30, 2021	Valuation technique	Significant unobservable input
Unquoted equity investment	N80.38 billion	Equity DCF model	-Cost of equity. -Terminal growth rate.

9.1.2 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 measurements of fair value. For fair value measurement in Level 3, changing one or more of the assumptions would have the following effects.

Table 19: Effect of unobservable inputs on fair value measurements

In millions of Naira	The lowest and highest values if the cost of equity and terminal growth rate decrease or increase by 1% and 0.25% respectively		
	Lowest Value	Highest Value	Actual Value
AFC	71,260	85,911	77,927
FMDQ	926	1,069	993
NIBSS	1,288	1,420	1350
UPSL	49	54	51

The table below shows the effect of changes in cost of equity and terminal growth rate on other comprehensive income

Table 20: Effect of changes in cost of equity and terminal growth rate on OCI

In millions of Naira	Lowest Value	Actual Value
Effect of 1% decrease in cost of equity and 0.25% increase in terminal growth rate	8,133	55
Effect of 1% increase in cost of equity and 0.25% decrease in terminal growth rate	(6,798)	(53)

10 RENUMERATIONS

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 21: Directors renumerations

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 22: Directors emoluments

Emoluments	**30-Jun-21 (N' Million)**	**30-Jun-20 (N' Million)**
Executive compensation	286	286
Fees and sitting allowances	54	101
Retirement Benefit Cost	4	7

CONTACTS

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