ZENITH BANK (UK) LIMITED

PILLAR 3 DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2008

Reviewed May 2009

Contents

1. Introduction

Zenith Bank (UK) Limited (ZBL) is an authorized institution under the Financial Services and Markets Act 2000 and is regulated by the Financial Services Authority (FSA). The company was incorporated in the UK on 17th February 2006 and is a 100% owned subsidiary of Zenith Bank Plc, Nigeria. ZBL received authorization from the FSA as a wholesale bank licensed to accept deposits on 30th March 2007. On 15th July 2008 the FSA granted a variation to ZBL's original permissions to include the provision of private banking and investment advice and services to retail customers, professional customers and eligible counterparties.

1.1. Business Profile

The current business profile of ZBL is that of a retail and wholesale banking institution with the following activities:

- Trade Services – including inward and outward Letters of Credit.
- Corporate Banking – banking large Nigerian and West African companies and European manufacturing and trading companies.
- Correspondent banking – providing banking services to financial institutions within the West African sub-region.
- Governments and parastatals – provision of banking services to the Government and parastatals of Nigeria.
- Interbank – ZBL is active in the inter-bank market in products such as money market loans and deposits, negotiable certificates of deposit, various types of securities and foreign exchange.
- Private Banking – offering a bespoke range of private banking services to the Zenith Group customer base and the West African Diaspora in the United Kingdom.

1.2. Risk Management Overview

The Basel II Capital Requirements Directive (CRD) introduced comprehensive disclosure requirements for banks operating under the new legislative framework. The disclosure requirements fall under Pillar 3 of the CRD and require that ZBL publishes certain information relating to its risk management and capital adequacy. The disclosure requirements compliment the two other pillars of the CRD, the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) which have been captured within ZBL's Internal Capital Adequacy Assessment Process (ICAAP) report. In terms of the Pillar 1 requirements the bank has adopted the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. The aim of the disclosures is to encourage market discipline and allow market participants and stakeholders to assess key pieces of information on risk exposures and the risk assessment process.

1.3. Basis of Disclosures

ZBL's disclosures have been prepared in accordance with the FSA Handbook BIPRU Chapter 11 and cover the qualitative and quantitative disclosure requirements therein. The disclosures should be read in conjunction with the ZBL Annual Report and Financial Statements for the corresponding financial year and which will be published in March each year.

1.4. Frequency

The Pillar 3 Disclosures Report will be made on an annual basis and will be published on the bank's website at "www.zenith-bank.co.uk" together with or shortly after the Annual Report and Financial Statements. Before publication this report will be formally presented to the Board of Directors for review and approval.

2. Risk Governance

2.1. Overview

ZBL's risk management focuses on the major areas of credit risk, liquidity risk, market risk (including interest rate risk and foreign exchange risk) and operational risk. The management of these risks ultimately rests with the Board of Directors as the ultimate governing authority of the bank.

2.2. Board of Directors

The Board is responsible for approving the bank's risk strategy, establishing its risk appetite and ensuring that all key risks are effectively managed and controlled. It currently comprises two Executive Directors, two Non-Executive directors from Zenith Bank Plc and three independent Non-Executive directors. All directors have extensive banking experience.

The business and affairs of ZBL are managed under the direction of the Board. The Board's responsibility is to provide direction and oversight. The Board establishes the strategic direction of the bank and oversees the performance of the business and management. The management of the bank through the Executive Committee is responsible for presenting strategic plans to the Board for review and approval and for implementing the banks strategic direction and ensuring that the bank is managed in a sound, prudent and ethical manner. In performing their duties, the primary responsibility of the directors is to exercise their business judgement in the best interests of the bank.

2.3. Board sub-committees

The ZBL Board has four sub-committees reporting into it:

2.3.1. Audit and Risk Committee

The Committee supports the Board's Corporate Governance responsibilities primarily as regards Risk Management. Its key role is the assessment of controls that are in place to mitigate risks.

2.3.2. Board Credit Committee

The Committee supports the Board's Corporate Governance responsibilities in relation to Credit risk management and has the Management Credit Committee reporting to it.

2.3.3. Remuneration and Appointments Committee (RAC)

The Committee determines the remuneration, appointment and contractual arrangements of individual executive directors, non-executive directors and senior staff, having regard to a general policy framework for executive remuneration established by the Board.

2.3.4. Executive Committee (EXCO)

ZBL is managed on a daily basis by EXCO, which formulates strategy and ensures the bank is managed in accordance with the agreed strategy and in a sound, prudent and ethical manner.

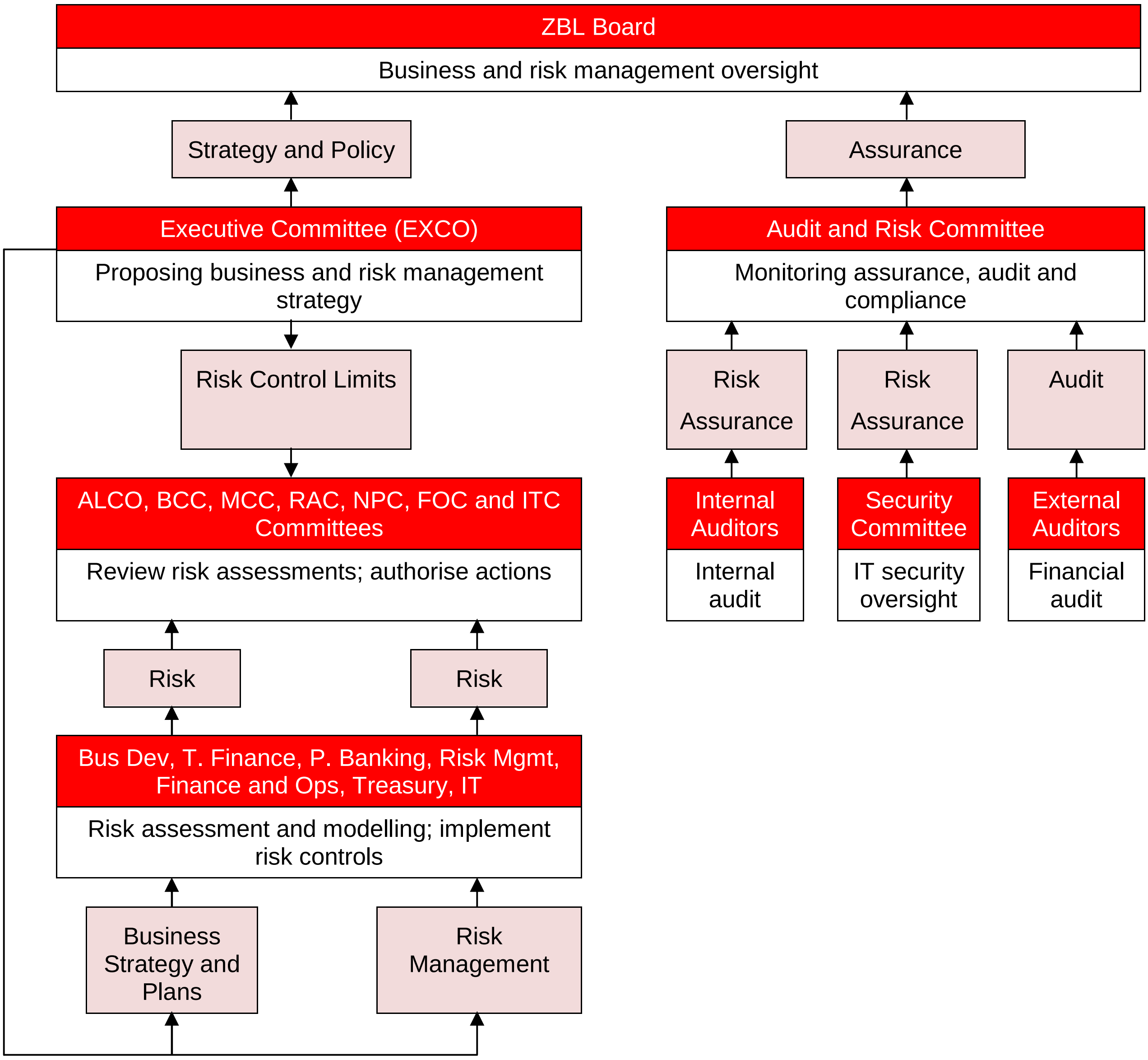
To support these aims EXCO has the following sub-committees reporting to it:

- Asset and Liability Committee (ALCO) which is responsible for monitoring and managing the bank's liquidity, capital and liability exposures and trading (with the support of a sub-committee for Market Risk (MRC));
- Management Credit Committee (MCC) which implements credit policies and sanctions or declines routine credit facilities within its credit approval and provisioning limits as delegated by the Board Credit Committee;
- New Products Committee (NPC) which approves the introduction of new products and ensures that all risk inherent in them is subject to adequate assessment;
- Anti-Money Laundering Committee (AMLC) which implements AML policy, including monitoring of the potential risk of money laundering and of potentially suspicious or unusual transactions;
- Security Committee (SC) which is responsible for the physical and virtual security of the bank, its staff, information and assets;

- IT Steering Committee (ITC) which approves IT plans, policies and major expenditures and oversees IT activities;
- Finance and Operations Committee (FOC) which approves financial information including budgets and forecasts, considers operational risk issues and oversees operational risk policies and procedures; and
- Marketing Committee (MC) which reviews marketing strategy, authorises marketing plans and monitors performance.

2.4. Oversight of Strategy, Policies and Procedures

Set out below is a diagrammatic overview of how risk management assurance and oversight operates within ZBL, which has been assessed in relation to recommended Committee of European Banking Supervisors (CEBS) Internal Governance guidelines and is subject to annual review by the Board.



- Business strategy, plans and budgets are formulated by the appropriate business units, which are recommended to the Board for approval following review by the Executive Committee.
- Credit risk and liquidity risk are monitored and controlled according to agreed policies and procedures.
- Internal control incorporates the identification and monitoring of risks by Risk Management using a Risk Register, which is subject to regular review.

- Risk management strategy, policies and procedures are the responsibility of the Head of Risk Management reporting to the Chief Executive Officer and working in conjunction with the members of EXCO.

2.5. Assurance

Assurance evaluation is provided to the Board through the Audit and Risk Committee which monitors assurance, auditing, operational risk and compliance.

2.5.1. Internal Audit

ZBL has a dedicated non-executive Internal Audit department. The internal audit programme seeks the promotion of accuracy and efficiency in ZBL's accounting, administrative procedures and risk management controls. The Head of Internal Audit reports to the Audit and Risk Committee and prepares an annual audit programme which is presented to the Committee for review and approval.

2.5.2. External Audit

External audit is undertaken by the bank's appointed Auditors to approve the validity of the financial statements and valuations and to provide feedback to the Audit and Risk Committee and the Board on the operation of the internal financial controls which are reviewed as part of the annual audit.

2.5.3. Compliance

The compliance function exists to monitor and maintain the quality of the bank's business activities and to ensure that the business remains in full compliance with the UK regulatory regime.

- The Head of Compliance reports directly to the Chief Executive Officer and ensures that all staff are aware of their regulatory and legal responsibilities.
- Regulatory returns are prepared within Finance Department and reviewed by the Head of Risk Management and subsequently the Chief Executive Officer prior to submission.
- The bank operates a strict and comprehensive anti-money laundering policy with all members of staff receiving regular training to industry standards and access to the bank's Customer Due Diligence and Account Opening Manuals.

3. Risk Appetite and Risk Management Policies

3.1. Risk Appetite

ZBL has a relatively modest risk appetite as the bank is well aware of the various risks associated with the business of banking globally and particularly those risks to which ZBL is exposed. The bank is aware substantial franchise value may be eroded if ZBL is considered high risk and therefore risk management is of critical importance.

3.2. Credit Risk

- ZBL mainly lends to major West African corporate and financial institutions who are long established customers of the Zenith Group and to UK and European trading companies against underlying trade transactions.
- International interbank lending will predominantly be to A+ and above rated organisations in line with the bank's credit policies.
- Retail lending will only be to well known and established customers of the group in accordance with strict credit and security parameters.

3.2.1. Management of Credit Risk

The bank's objectives are:

- to have a high quality, diversified loan portfolio which will generate profits commensurate with the risks incurred and the bank's target return on investments,
- To be able to identify potential problem loans and keep non-performing assets and impairments to a minimum.

Responsibility for Credit Risk ultimately rests with the Board of Directors of the bank, which has delegated this responsibility to the Board Credit Committee chaired by a Non-Executive Director. In turn daily responsibility for credit has been delegated to the MCC chaired by the Chief Executive Officer.

- The MCC is responsible for reviewing and approving all credit under its delegated authorities and is supported in this process by Risk Management.
- Daily management of credit within policy limits and guidelines is the responsibility of business line departments, with Risk Management responsible for monitoring compliance with these limits and guidelines.
- All credit is independently assessed by Risk Management and any exposures in excess of the limits delegated to the MCC is submitted to the Board Credit Committee for final approval.

All credit limits in ZBL are based on the bank's own capital resources, with limits covering all areas and types of credit to which the bank provides lending.

3.3. Liquidity Risk

Liquidity risk is a critical issue for the bank. In mitigating this risk the bank strives to:

- diversify its sources of deposits and minimise concentration,
- minimise reliance on purchased funds,
- maintain an appropriate level of liquid assets,
- ensure an effective management control over mismatching of assets and liabilities and
- maintain emergency standby credit lines with A+ and above rated banks.

3.3.1. Management of Liquidity Risk

Liquidity risk is defined in the FSA Handbook as "the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost".

In terms of the regulations the bank must:

- satisfy the FSA on an ongoing basis that it has a prudent liquidity policy and adequate management systems in place to ensure that the policy is adhered to at all times,
- adopt the minimum guidelines set by the FSA which are based on cumulative mismatch positions expressed as a percentage of total deposit liabilities, and
- set its own internal minimum standards and the contingency plans and stress testing imposed to maintain these standards.

3.4. Market Risk

At present the bank does not operate a Trading Book Policy as trading is currently below the minimum requirements for such a policy. However, the bank does operate a modest trading book in spot and forward foreign exchange. The bank also executes foreign exchange contracts to manage its own inherent FX exposures and for customer orders.

3.5. Interest Rate Risk

The structure of the bank's balance sheet is not complex. The deposit base is mainly from parastatals and financial institutions using the bank as a correspondent. Lending is predominantly in US dollars and referenced to a margin over LIBOR. All retail lending and borrowing will also be referenced to LIBOR to avoid basis risk.

3.6. Operational Risk

As a new operation, ZBL is able to benefit from having a "green field" in which to set up its operations thus avoiding the problems of legacy systems and practices.

The bank has implemented its own Operational Risk policy and further mitigates risk as follows:

- by recruiting experienced professional and well qualified staff,
- adoption of industry best practice in all operations,

- ongoing consultation with risk management experts to ensure processes remain robust, and
- institutionalisation of due diligence procedures to meet regulatory requirements.

3.7. Other Key Risks and Sensitivities

As well as the risks highlighted above other key risks and sensitivities are covered within the capital assessment process highlighted under the Pillar 2 process. These risks include:

- Concentration Risk,
- Residual Risk,
- Business Risk,
- Strategic Risk,
- Reputational Risk, and
- their various sensitivity analyses and other risks such as Macro/Economic Risks.

These are all taken into account when conducting the internal capital assessment, the results of which are included in the next section.

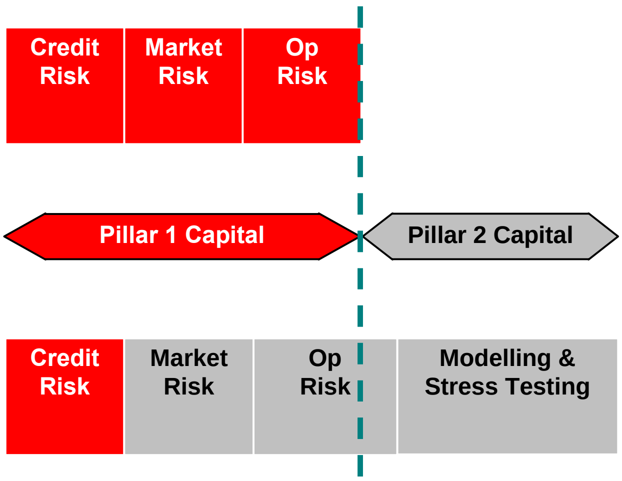
4. Capital Adequacy Overview & Resources

4.1. Capital Management

ZBL measures its capital on both an economic and regulatory basis daily throughout the financial year. Regulatory Capital covers all Pillar 1 risks and the bank's minimum Capital Resource Requirement as defined in BIPRU is reported to senior management for review on a daily basis. Economic capital includes all other material risks which do not require the provision of regulatory capital, and which are covered within the Pillar 2 process.

ZBL undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which is an internal assessment of its capital needs. The ICAAP is performed at least annually and is formally presented to the Board of Directors for review and approval.

The diagram below illustrates the approach taken to formulate the bank's internal capital requirements:



The boxes in red represent the minimum regulatory allocations of capital for credit risk, market risk and operational risk i.e. Pillar 1 Capital. The grey coloured boxes represent the bank's own capital assessments for market risk, operational risk, stress testing and other risks.

- **Credit Risk:** Pillar 1 minimum capital requirement for credit risk based on the Standardised Approach is taken as the starting point. The internal capital assessment includes consideration as to whether Pillar 1 capital calculation fully covers the credit risk faced by the bank.
- **Market Risk:** ZBL does not operate a trading book but in terms of the regulatory framework it is required to hold capital against market risk in the non-trading book for foreign currency risk. The bank's own assessment covers foreign exchange rate risk, investment risk, interest rate risk and currency valuation risk.

- **Operational Risk:** ZBL calculates this risk using the Basic Indicator Approach which is calculated as 15% of the bank's average operating income over the last three years. In its own assessment, operational risk covers all material risks that do not fall in the elements shown in the diagram.
- **Modelling and Stress Testing:** This element covers risks that have been assessed from stress testing and modelling, namely concentration risk.
- **Pillar 2 Capital** is the bank's internal capital assessment over and above Pillar 1 credit, market and operational risk capital elements. This is arrived at by simply deducting the regulatory Pillar 1 capital requirement from the bank's overall internal assessment.

4.2. Capital Resources

The Bank's entire capital base is Tier 1 capital which consists of fully issued ordinary shares satisfying all the criteria for a Tier 1 instrument (as outlined in GENPRU 2.2.83 R) and audited reserves.

Tier 1 capital as at 31 December 2008 audited accounts is as follows:

Tier 1	£000's
Share capital at 31 December 2007	20,001
Share capital increase May 2008	15,000
Profit and loss reserve	42
Total tier 1 capital	**35,043**

4.3. Capital Allocation

4.3.1. Pillar 1 Allocation

The total capital requirements for Pillar 1 as at 31 December 2008 are detailed in the following table:

	Pillar 1 Capital Requirements £000's
Credit Risk	13,908
Market Risk	1
Operational Risk	712
Total	**14,621**
Regulatory Available Capital	33,528
Risk Asset Ratio & Solvency Ratio (capital divided by Total amount)	229%

As previously indicated the calculations for Credit and Market Risk have been based on the standardised approach for the Pillar 1 capital requirements, while Operational Risk has been based on the basic indicator approach. The main calculations used in this assessment are provided below.

4.3.2. Pillar 1 Credit Risk

The following table details the bank's minimum capital requirement for credit risk under the standardised approach, which is expressed as 8% of the risk weighted exposure amounts for each of the applicable risk exposures as at 31 December 2008:

Capital requirement (8%)	£000's
Financial Institutions	9,395
Corporates	2,423
Retail	2
Bonds	1,967
Fixed and other assets	119
Total credit risk capital requirement	**13,908**

4.3.3. Pillar 1 Operational Risk

The following table details the bank's minimum capital requirement for operational risk using the basic indicator approach. This states that regulatory capital is calculated by taking a single risk-weighted multiple (15%) of the bank's average gross operating income. Since the bank has not been long in operation, a yearly average based on the last three half-year periods has been taken.

£ Actual	2007 (6 months	2008
Interest Income		
Interest receivable	5,582,716	13,540,012
Less: Interest payable	(4,684,418)	(9,612,209)
Net Interest Income	**898,298**	**3,927,803**
Fees and commissions receivable	247,265	1,715,949
Exchange Profits/Losses	5,974	320,088
Net Non-Interest Income	**253,239**	**2,036,037**
OPERATING INCOME	**1,151,537**	**5,963,840**
Capital Requirement:	**711,538**	
Based on 15% of average yearly income:	**4,743,585**	

4.3.4. Pillar 1 Market Risk

The calculation for Market Risk covers the position risk requirement (PRR) for Foreign Currency risk which is based 8% of the net open currency position.

4.4. Pillar 2 Assessment Process

Certain methodology has been adopted by ZBL to assist with the final allocation of capital for all risks identified. ZBL maintains a Risk Register for assessing risks, which is subject to regular review at a frequency reflecting the nature and degree of threat to the business. Assessing these risks includes probability and impact assessment, modelling and stress testing, the standardised approach for credit risk weightings, capital planning models and materiality.

4.5. Pillar 2 Allocation

A summary of the Pillar 2 calculations detailing the overall internal capital requirements are set out in the following table:

		Regulatory Capital £000's	Own Capital Assessment £000's
Credit risk		13,908	13,908
	Country/document'n risks	-	18
Market risk	Foreign exchange	1	0
	Investment risk	-	455
	Interest Rate risk	-	807

Currency valuation risk	-	50
Operational risk	712	742
'Basic Risks' total	**14,621**	**15,980**
Capital Add-on Concentration risk	-	1,609
Total capital required	**14,621**	**17,589**
Capital resources (at assessment date)	33,527	33,527
Capital Adequacy Ratio	229%	191%

The Pillar 1 amounts are as assessed. The items detailed under our own assessment use the Risk Register weighted for volatility and aggregation and various other stress test scenarios and as provided in more detail below.

5. Credit Risk

5.1. Definition of Credit Risk

Credit risk is defined as the risk of a financial loss resulting from counterparty's inability, for whatever reason, to meet fully its financial obligations and/or contractual obligations when they fall due. It includes and consists of country risk, counterparty/borrower risk and delivery/settlement risk.

5.2. Credit Exposure by Counterparty

Total credit exposure by counterparty as at 31 December 2008 after full credit risk mitigation is summarised in the following table:

Counterparty	£000's
Financial Institutions	457,084
Corporates	30,287
Retail	21
Bonds	24,607
	511,999

5.3. Credit Exposure by Region

Total credit exposure by Region as at 31 December 2008 is provided in the following table:

£000's	Africa	Asia	Europe (incl EU)	North America	UK	Total
Financial Institutions	55,463	44,969	222,019	52,869	81,763	**457,084**
Corporates	29,739			459	89	**30,287**
Retail					21	**21**
Bonds	24,607					**24,607**
Totals	**109,809**	**44,969**	**222,019**	**53,328**	**81,873**	**511,999**

5.4. Provisioning

The bank's credit portfolio and other assets are subject to a regular comprehensive review by the Risk Management department with a view to determining any deterioration in quality. Credit facilities are classified into performing and non-performing categories, a task which is initially undertaken by the business line. This task is subsequently confirmed by Risk Management and then ratification is sought at the appropriate Management Credit Committee.

Non-performing assets and credit facilities are further classified as:

- Sub-standard (between 90 and 180 days past due),
- Doubtful (180 to 365 days past due) or
- Lost (over 1 year).

These assets are managed in accordance with the bank's policies for such accounts and monitored daily by Risk Management. The status of all overdue and non-performing accounts is reported to the Management Credit Committee on a monthly basis, with a quarterly report being provided to the Board Credit Committee.

At present ZBL's provisioning policy requires that specific provisions are made for Sub-standard (10%), Doubtful (50%) and Lost (100%) in the accounts of the bank.

As at 31 December 2008, ZBL had no credit exposures which were overdue or non-performing and there were no provisions on non-performing loans in place.

5.5. Credit Risk by credit quality steps

The bank uses its own internal credit rating system, with grades being assigned to the counterparty on the basis of business risk, financial risk and structural risk. Where external agency ratings are available for the counterparty, these are also mapped into the internal credit grades. ZBL primarily uses Fitch Ratings ("Fitch") as its External Credit Assessment Institution (ECAI), but also utilises the ratings available from Moody's and Standard and Poors as appropriate.

5.5.1. Controls and Mitigation

Limits are allocated for all countries (sovereigns), banks, corporate counterparties and personal customers in accordance with the ZBL's credit policies. As such the bank uses various ways to minimise its credit risk exposure, with formal assessments signed off by the MCC, and the BCC when appropriate. Such assessments will consider the ability of the counterparty to service the proposed debt, and where necessary security will be obtained to mitigate the risk further.

5.5.2. Credit Quality Steps

Total credit exposures by credit quality step as at 31 December 2008 are provided in the following table in £000's:

Credit Quality Steps	1	2	3	5	N/a	Total
Bank	149,152	236,990	30,966	39,975		**457,084**
Corporates				30,287		**30,287**
Retail					21	**21**
Bond				24,607		**24,607**
Totals	**149,152**	**236,990**	**30,966**	**34,665**	**52,788**	**511,999**

The breakdown of credit exposures in terms of external ratings based on Fitch are as follows in £000's:

Fitch Rating	Bank	Corporate	Individual	Bond	Total
AA+	26,841				**26,841**
AA	1,703				**1,703**
AA-	86,273				**86,273**
A+	171,633				**171,633**
A	30,947				**30,947**
A-	34,411				**34,411**
BBB	30,966				**30,966**

B+	22,256			21,105	**43,361**
B	5,567			3,502	**9,069**
Unrated	46,487	30,287			**76,774**
N/a			21		**21**
Totals	**457,084**	**30,287**	**21**	**24,607**	**511,999**

5.6. Country Risk and Documentation Risk

As part of the Pillar 2 process, Credit Risk has been further assessed in respect to both Country Risk and Documentation risk.

5.6.1. Country Risk

Country risk is a type of concentration risk pertaining to significant exposures to groups of counterparties whose likelihood of default is driven by factors relating to the country in which they operate. As detailed earlier the bank operates within country limits in line with the bank's credit policies. The risk assessment for country risk takes into account political stability and economic risk. This is the subject of the section on Concentration Risk detailed below.

5.6.2. Documentation Risk

The aspect of documentation risk that has been considered in the Pillar 2 assessment is the risk that trade finance transaction documents do not provide concrete legal recourse to the customer. Documentation risk can manifest itself in other ways, such as facility letters and risk participation agreements. These have been considered within the bank's risk register under other headings such as collateral risk and legal risk. The size of transactions that pass through the bank have been considered and the assessment reflects the potential legal costs in the event that documents may be challenged.

6. Market Risk

6.1. Definition of Market Risk

Market risk is the risk that changes in financial market prices and interest and exchange rates will (adversely) impact the bank's financial condition. As ZBL does not have a trading book, market risk as it pertains to the bank consists of foreign exchange risk, interest rate risk and investment risk.

6.2. Interest Rate Risk

The source of interest rate risk to earnings is twofold;
- mismatches in the characteristics of products offered by the bank including cash flows and repricing dates; and
- fluctuations in interest income funded by own (shareholder's) funds and non-interest paying deposits assuming the spread of margins on interest payable/receivable remain constant.

The impact of interest rate movements on the bank's balance sheet is calculated on a regular basis and reported to ALCO. The report details the modelling of the effect of an increase/decrease of up to 200 basis points in the LIBOR rate against the bank's three main currenciessterling, US dollars and euros. The table below details the impact of a 200 basis point increase or reduction in the LIBOR rates for these currencies as at 31 December 2008:

£000's	200 basis points increase	200 basis points decrease
GBP	(98)	98
USD	(710)	710
EUR	1	(1)

Assessing the potential impact on “economic value” for regulatory purposes, the bank’s capital base has been chosen to provide a very conservative determinant of “economic value”. The modelled decline in pre-tax profit is about 2.4% of capital.

6.3. Foreign Exchange Risk

The bank operates in the three main currencies, namely sterling, US dollars and euros, with its capital base in sterling. However about 80% of all transactions are in US dollars. The position is managed by the bank’s Treasury Department operating within defined foreign exchange limits as agreed by ALCO. ZBL generally maintains a square or near square position in all currencies, and if any overnight position is taken these are always against an agreed stop loss. Customer positions are usually matched with the market, with deals agreed and then covered prior to execution.

The overall position is monitored by Risk Management throughout the day, and then reconciles the closing position separately in line with the Dealers own position. Individual dealer positions are also set within the overall daily position.

As stated above the currency of the bank’s share capital and the base currency of the bank’s financials is sterling. The “valuation risk” has been assessed as part of the Pillar 2 process, and this shows the effect that theoretical exchange rate movements would have had on the balance sheet as at 31 December 2008. The table below summarises the results of this assessment:

	GBP	USD	EUR	Other	Total
Net Ccy position	103,502	(126,387)	17,808	5,077	0
Dec 08 Valuation Rate	1.00000	1.45670	1.04980	1.00000	
Ccy totals	103,502	(184,108)	18,695	5,077	
Scenario valuation					**Gain/Loss**
• Exchange rate	1.00	1.00	0.72	1.00	
• Scenario valuation	103,502	(184,108)	25,941	5,077	**(49,588)**

The scenario shown here reflects the impact of a 32% adverse movement (fall) in the USD/GBP exchange rate and is reflected in the Pillar 2 assessment above.

6.4. Investment Risk

This is the risk of investment failing to achieve expected returns and the assessment has been based on the possible loss of interest on investments worth around £35 million.

7. Operational Risk

As previously indicated the bank has adopted the basic indicator approach for Operational Risk and the Pillar 1 calculations are set out in paragraph 4.3.3. above. However the bank faces a number of risks and has an Operational Risk policy in place. As part of this policy a Risk Register has been implemented and various risks have been assessed using the Risk Register, with the risks weighted for volatility and aggregation. The various risks covered involve:

- Reputational risk
- Fraud
- Insurance risk
- Third party dependency such as software
- Business continuity
- Processing failure and data integrity
- Staffing issues
- Regulatory and compliance risk

Each of these risks have been individually assessed with weightings used to apportion impact across the likely occurrence time interval for aggregation of internal capital assessments, and volatility weightings to compensate for the possible margin of error in estimating. The result of this assessment is provided in the Pillar 2 assessment above.

8. Concentration Risk (Large Exposures)

8.1. Definition

Concentration risk is defined as any single exposure or group of exposures with the potential to produce losses large enough to threaten a bank's health or ability to maintain its core operations. Risk concentrations are arguably the single most important cause of major problems in banks and can arise through the execution or processing of transactions, or through a combination of exposures.

8.2. Sensitivity analysis

For the Pillar 2 analysis the bank has assessed the concentration risk to Nigerian and other West African banks and corporate entities. The assessment has been based on the bank's internal credit rating system focusing on those with high risk grades. The capital allocation based on this process amounts to £8.1 million. The Pillar 1 allocation for these exposures was £6.5 million, giving £1.6 million as the capital add-on for concentration risk.

9. Notices

The disclosures herein are based on the ICAAP as at 31 December 2008 and should be considered in line with the Annual Report and Financial Statements for the corresponding financial year, where more detailed information is available. The disclosures are subject to periodic review, update and audit and will reflect any changes or updates to the ICAAP. The information contained in this Pillar 3 disclosure has not been audited by the bank's external auditors.

For further information on any aspect of this report please contact the bank at info@zenith-bank.co.uk