ZENITH BANK (UK) LIMITED

PILLAR 3 DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2016

Contents

1. Introduction

Zenith Bank (UK) Limited ("ZBUK" or 'the Bank') is an authorised institution under the Financial Services and Markets Act 2000 and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The company was incorporated in the UK on 17 February 2006 and is a wholly owned subsidiary of Zenith Bank Plc, Nigeria. ZBUK received authorization from the former FSA to operate as a wholesale bank licensed to accept deposits on 30 March 2007. On 15 July 2008 the FSA granted a variation to ZBUK'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 ZBUK is that of a wholesale banking institution with the following activities:

- Infrastructure financing – participation in large infrastructure project financing in selected African countries
- Investment in Bonds – investing in selected government, financial institution and multilateral development bank bonds
- Trade Services – including inward and outward Letters of credit; discounting / refinancing; contract guarantees and import and export collections
- Governments and parastatals – provision of banking services to the governments and parastatals of Nigeria and West Africa
- 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
- Interbank – ZBUK is active in the inter-bank market in products such as money market loans and deposits, various types of securities, including bonds and foreign exchange
- Bond and Fx trading – limited trading activities
- Dubai Branch Office – relationship management office, covering Trade Services and other corporate banking issues, with all input and documentation being processed in ZBUK in London (the Dubai Branch is not a booking centre)
- Wealth Management – offering a bespoke range of wealth management services to the Zenith Group customer base and customers in the United Kingdom, including Current accounts; Saving and fixed term deposit accounts and Investment mortgages

1.2. Risk Management Overview

The Basel II Capital Requirements Directive (CRD) introduced comprehensive disclosure requirements for banks operating under the then legislative framework. The disclosure requirements fall under Pillar 3 of the CRD and require that ZBUK 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 has been captured within ZBUK'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

ZBUK's disclosures have been prepared in accordance with the PRA/FCA Handbook and cover the qualitative and quantitative disclosure requirements therein. The disclosures should be read in conjunction with the ZBUK Directors' Report and Financial Statements for the corresponding financial year and which are published 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 Directors' 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

ZBUK's risk management focuses on the major areas of credit risk, concentration risk, liquidity risk, market risk (including interest rate risk, counterparty 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 four independent Non-Executive Directors. All directors have extensive banking experience. The business and affairs of ZBUK 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 Bank's 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 ZBUK Board has three sub-committees reporting into it:

2.3.1. Board Risk Committee (BRC)

The BRC supports the Board's corporate governance responsibilities in relation to risk management. The Committee considers and recommends to the Board the Bank's risk management framework including policies relating to the management of current and future risks. BRC recommends the Internal Capital Adequacy Assessment process (ICAAP) the Individual Liquidity Adequacy Assessment Process (ILAAP), Recovery & Resolution Policy (RRP) the Risk Appetite Statement (RAS) and others as well as reviewing Credit Risk Management and Risk Governance Framework

2.3.2. Audit and Compliance Committee (ACC)

The ACC supports the Board's Corporate Governance responsibilities in respect of all aspects of Audit and Compliance. The Committee approves internal, external audit and compliance arrangements including monitoring of the operation of the internal control framework. The ACC also recommends the Financial Statements, approves policies governance controls and procedures and reviews 'whistleblowing' arrangements.

2.3.3. Remuneration and Appointments Committee (RAC)

The RAC considers the remuneration, 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. RAC also has responsibility to consider and monitor how the Bank actively demonstrates promotion of diversity.

To support the work of these committees the management have established the following Management Committees:

- Executive Committee (EXCO) which formulates strategy and ensures the Bank is managed in accordance with the agreed strategy, in a sound, prudent and ethical manner.

- 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 Risk Committee;
- New Products Committee (NPC) which approves the introduction of new products and ensures that all risks inherent in them is subject to adequate assessment;
- Security Committee (SC) which is responsible for the physical and virtual security of the Bank, its staff, information and assets, including the monitoring and audit of security;
- IT Steering Committee (ITSC) which approves IT plans, policies and major expenditures and oversees all IT activities;
- Marketing Committee (MC) which reviews marketing strategy, authorises marketing plans and monitors performance;
- Human Resources Committee (HRC) which considers and recommends changes to existing HR policies, proposes new HR policies, provides the RAC with Salary and Bonus recommendations and discusses any HR matters that need urgent consideration.

2.4. Oversight of Strategy, Policies and Procedures

Risk management assurance and oversight framework of ZBUK operates within the recommended guidelines published by the European Banking Authority (the "EBA Guidelines on Internal Governance") 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 Chief Risk Officer reporting to the Chief Executive Officer and working in conjunction with the other members of EXCO.

2.5. Assurance

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

2.5.1. Internal Audit

ZBUK has a dedicated Internal Audit department. The internal audit programme seeks the promotion of accuracy and efficiency in ZBUK's accounting, administrative procedures and risk management controls. The Head of Internal Audit reports to the Chairman of the Audit and Risk Committee (an independent Non-Executive Director) 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 (KPMG L.L.P) to approve the validity of the financial statements and valuations and to provide feedback to the Audit and Compliance 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 Head of Compliance and MLRO is responsible for compliance oversight. The compliance function exists to monitor and maintain the quality of the Bank's business activities and to ensure that the business remains in full compliance with the UK regulatory regime.

- The Head of Compliance and MLRO reports directly to the Chief Executive Officer and ensures that all staff are aware of their regulatory and legal responsibilities.
- Regulatory returns are prepared and reviewed by Finance Department. Other teams including Risk, Compliance and Internal audit have oversight on these as appropriate.

- 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, Account Opening, Customer Acceptance and Customer Classification Manuals.
- In accordance with the Bribery Act 2010, the Bank maintains an Anti-Bribery and Corruption policy and supporting procedures.

3. Risk Appetite and Risk Management Policies

3.1. Risk Appetite

The Bank's risk appetite is set out in its Risk Appetite Statement ("RAS"), which articulates the nature and extent of the material risks that the Bank is prepared to accept in order to meet its strategic objectives, business plan and regulatory obligations. ZBUK is well aware of the various risks associated with the business of banking globally and particularly those risks to which ZBUK is exposed. The Bank is also aware that substantial franchise value may be eroded if ZBUK is considered high risk and therefore risk management is of critical importance.

3.2. Credit Risk

ZBUK mainly lends to major West African corporate and financial institutions who are long established customers of the Zenith Group, UK and European trading companies against underlying trade transactions and invests in selected government and financial institution bonds. International interbank lending will predominantly be to Investment Grade rated organisations in line with the Bank's credit policies. The Wealth Management business facilities are made available to 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 and bond portfolio which will generate profits commensurate with the risks incurred and the Bank's target return on investments, and
- 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 Risk Committee chaired by an independent 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.
- The Group Credit Committee (GCC) provides final approval
- 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 exposure in excess of the limits delegated to the MCC is submitted to the Board Risk Committee for final approval

All credit limits in ZBUK 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,
- adopt prudent liquidity policies to manage liquidity requirements,
- minimise reliance on purchased funds,
- maintain an appropriate level of liquid assets,
- ensure effective management control over mismatching of assets and liabilities

3.3.1. Management of Liquidity Risk

Liquidity Risk is managed within the terms of the Individual Liquidity Guidance (ILG) provided to us by the PRA, whilst maintaining liquidity adequacy ratios and standards set out by PRA and best practices (e.g. LCR, NSFR, Funding concentration), and as set out in the latest Individual Liquidity Adequacy Assessment Process ("ILAAP") report as at 31 December 2016 under the Individual Liquidity Adequacy Standards ("ILAS") set by the PRA.

3.4. Market Risk

As at 31 December 2016 the Bank did not maintain a Trading Book Policy as trading was below the minimum requirements for such a policy. The Bank operated a modest trading book in spot and forward foreign exchange and in the trading of Eurobonds. It also executed 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, corporate customers and financial institutions using the Bank as a correspondent. Lending is predominantly in US dollars and referenced to a margin over LIBOR.

3.6. Operational Risk

The Bank maintains an 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,
- by keeping up-to-date with market leading software to mitigate cyber and other emerging industry risks, 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,
- Conduct 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

ZBUK 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 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.

ZBUK 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.

Capital requirement assessment

- **Credit Risk:** Pillar 1 minimum capital requirement for credit risk is based on the Standardised Approach. The internal capital assessment includes consideration as to whether Pillar 1 capital calculation fully covers the credit risk faced by the Bank.

- **Market Risk:** As at 31 December 2016 ZBUK did 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, including a Credit Valuation Adjustment for Counterparty Risk.

- **Operational Risk:** ZBUK 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 other elements shown in the diagram.

- **Pillar 2 Capital** is the Bank's internal capital assessment over and above Pillar 1 credit, market and operational risk capital elements. Pillar 2A represents the Bank's assessment of capital requirement for other risks which includes inter-alia concentration risk, market risk capturing the market value losses of long term assets, interest rate risk and a comprehensive list of operational risk items. Pillar 2B capital represents the CRD IV buffers and PRA's guided buffers.

4.2. Capital Resources

The Bank's entire capital base qualifies as Common Equity Tier 1 capital ('CET-1') which consists of fully issued ordinary shares and audited reserves.

CET-1 capital as at 31 December 2016 audited accounts is as follows:

US$000's	2016	2015
Share capital at 31 December	136,702	136,702
Profit and loss reserve	56,457	53,819
Regulatory deductions	(169)	-
Total CET-1 capital	**192,990**	**190,521**

4.3. Capital Allocation

4.3.1. Pillar 1 Allocation

The total capital requirements for Pillar 1 as at 31 December 2016 are detailed in the following table:

	Pillar 1 Capital Requirements US$000's 2016	Pillar 1 Capital Requirements US$000's 2015
Credit Risk	47,135	68,766
Market Risk	633	451
Operational Risk	5,172	4,755
Total	**52,940**	**73,972**
Regulatory Available Capital	192,990	190,521

Solvency Ratio against Pillar 1 (Available capital / Required capital)	**365%**	**258%**

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 each year end:

Capital requirement (8%)	US$000's 2016	US$000's 2015
Central governments & central banks	5,619	6,717
Multilateral development banks	1,692	2,658
Institutions	10,316	6,144
Corporates	29,157	52,860
Retail	51	13
Other items	300	374
Total credit risk capital requirement	**47,135**	**68,766**

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.

US$000's	2014	2015	2016
Interest Income			
Interest income	53,164	43,898	37,726
Less: Interest cost	(29,768)	(21,600)	(9,027)
Net Interest Income	**23,396**	**22,298**	**28,699**
Fees and commissions receivable	7,780	7,525	5,344
Trading and other income	2,771	2,491	3,141
Net Non-Interest Income	**10,551**	**10,016**	**8,485**
OPERATING INCOME	**33,947**	**32,314**	**37,184**
Average annual operating income			**$34,482**
Capital Requirement (15%)			**$5,172**

4.3.4. Pillar 1 Market Risk

The calculation for market risk covers the position risk requirement (PRR) for Foreign Currency risk, a small bond trading position and the CVA for Counterparty Risk. The total regulatory capital cost amounts to US$633,000.

4.4. Pillar 2 Assessment Process

Certain methodology has been adopted by ZBUK to assist with the final allocation of capital for all risks identified. ZBUK 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 (Pillar 1) US$000's	Own Capital Assessment (Pilar 2A add-on's) US$000's	Total Pillar 1 + Pillar 2A Capital requirement
Credit risk	47,135		47,135
Concentration risk:			
Single name concentration risk		20,174	20,174
Sector concentration risk		3,744	3,744
Geographic concentration risk		2,018	2,018
Market risk:			
Foreign exchange	589	633	1,222
CVA Counterparty risk	44		44
Interest rate risk		6,891	6,891
Market risk of Investment portfolio		4,671	4,671
Operational risk			
Basic Indicator approach	5,172		5,172
Additional risk capital add-on's		3,604	3,604
Total capital required	**52,940**	**41,735**	**94,675**
Capital resources			192,990
Solvency Ratio against Pillar 1+ Pillar 2A (Required capital divided by available capital)			**204%**

The Pillar 1 amounts are as assessed based on regulatory standards as described earlier. The items detailed under the Bank's own assessment use the Risk Register weighted for volatility and aggregation and various other stress test scenarios.

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 each year end after full credit risk mitigation is summarised in the following table:

Counterparty	US$000's 2016	US$000's 2015
Central governments/central banks	70,452	84,213
Multilateral developments banks	132,963	155,489
Institutions	633,672	288,701
Corporates	322,967	564,292
Retail	1,638	222
Other items	3,777	4,674
Total	**1,165,469**	**1,097,591**

5.3. Provisioning

The Bank's credit portfolio and other assets are subject to regular comprehensive impairment reviews by both Finance and Risk Management departments, with a view to determining any deterioration in quality and value. Impairment provisions are assessed based on the principles of IAS 39 (IFRS 9 from 2018) and are recommended to the Audit and Compliance Committee.

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 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).

There may be special circumstances that may require different treatment however, this would be approved by the Management Credit Committee.

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 Risk Committee.

As at 31 December 2016, ZBUK's non-performing loans resulted in a total cumulative provision of US$26 million.

5.4. 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. ZBUK primarily uses Fitch Ratings ("Fitch") as its External Credit Assessment Institution (ECAI), but also utilises the ratings available from Moody's and Standard and Poor's as appropriate.

5.4.1. Controls and Mitigation

Limits are allocated for all countries (sovereigns), banks, corporate counterparties and personal customers in accordance with the ZBUK's credit policies. As such the Bank uses various ways to minimise its credit risk exposure, with formal assessments signed off by the MCC, the BRC and the GCC as 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.

5.4.2. Credit Quality Steps

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

Fitch Rating	Central Govts	Multilateral Devt Banks	Financial Institutions	Corporates and non-approved Third country FI's	Retail	Other items	Total
AAA		111,818					**111,818**
AA+			14,723				**14,723**
AA-			8,021	15			**8,036**
A+			8,157	150			**8,307**
A			253,707	200			**253,907**
A-			206,941				**206,941**
BBB+			1,057				**1,057**
BBB-	417	10,992	140,941				**152,350**
BB		10,153					**10,153**
BB-	36,006						**36,006**
B+	9,204			30,176			**39,380**
B	20,749		125	63,967			**84,841**
B-							**-**
Unrated	4,076			228,459	1,638	3,777	**237,950**
Totals	**70,452**	**132,963**	**633,672**	**322,967**	**1,638**	**3,777**	**1,165,469**

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 ZBUK's Trading book falls below the regulatory minimum of EUR 15 million, market risk as it pertains to the Bank consists of foreign exchange risk, the counterparty risk as measured by Credit Value Adjustment ("CVA"), interest rate risk and investment risk (which includes a small bond trading portfolio, the mark-to-market position of these securities and the Liquid Asset Buffer portfolio).

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 currencies; US dollars, Sterling and Euros. The table below details the impact of a 200 basis point increase or reduction in the LIBOR rates for all exposures as at 31 December 2016:

	200 basis points increase	200 basis points decrease
US$000's	(6,524)	6,891

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 3.5% of capital.

6.3. Foreign Exchange Risk

The Bank operates primarily in US dollars, with Sterling and Euros as the other main currencies with its capital base now in US dollars, the currency accounts for 95% of the Bank's balance sheet. The position is managed by the Bank's Treasury Department operating within defined foreign exchange limits as agreed by ALCO. ZBUK 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 US dollars. 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 2016.

6.4. Investment Risk

This represents the risk of income and capital loss of investment portfolios. The assessment has been made on investments worth US$140 million. The capital allocated against this risk for Pillar 2A purposes is assessed as US$4.7 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 is maintained and various risks have been assessed using the Risk Register, with the risks weighted for volatility and aggregation. The various risks covered are aligned to the Basel definitions:

- Internal fraud
- External fraud
- Employment practises and workplace safety
- Clients, products and business practises
- Damage to physical assets
- Business disruption and system failures
- Execution, delivery and process failures

Each risk in these categories has 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

Credit concentration risk is defined as the risk of losses arising as a result of concentrations of exposures due to imperfect diversification. This imperfect diversification can arise from a small size of portfolio or a large number of exposures to specific obligors (single name concentration) or from imperfect diversification with respect to economic sectors or geographical regions.

8.2. Sensitivity analysis

For the Pillar 2A analysis the Bank has assessed the concentration risk in terms of both lending by industry sector and lending by single obligor basis. 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 US$3.7 million for sector concentration risk, US$2.0 million for geographic (international) concentration risk and US$20.2 million for single name obligor concentration risk.

9. Remuneration

9.1. Remuneration Policy

ZBUK is committed to building a leading emerging markets bank that attracts and retains top quality staff. We aim to develop a depth and calibre of human resource that is capable of delivering sustainable growth, within an acceptable risk tolerance;

- The Bank's remuneration policy ("the policy") specifically supports our business strategy within our agreed risk management framework. The policy is designed to ensure that cost effective packages are provided which attract and retain staff of the highest calibre and which will motivate them to perform to the highest standards;
- The objective is to align individual rewards with ZBUK's performance, the interests of its shareholders, and a prudent approach to risk management. In this way we balance the requirements of our various stakeholders: customers, shareholders, employees, and regulators. The policy seeks to reward long-term value creation whilst not encouraging excessive risk taking;
- Where practical we aim to ensure that the totality of remuneration for executives is competitive against our benchmark banks (other small/medium sized emerging market banks operating in the UK). We aim to be competitively, but conservatively, positioned against the market;

- The annual incentive for executives is linked to four key performance areas ("KPAs") and their performance against the targets set for these KPAs;
- In accordance with the PRA/FCA Remuneration Code, we ensure that contract notice provisions are limited for executives to a maximum of six months.

9.2. Remuneration and Appointments Committee

The Bank has a robust governance framework with an independent Remuneration & Appointments Committee ("RAC") which reviews all compensation decisions. The Committee is chaired by an Independent Non-Executive director and consists of three other Non-Executive Directors. The Chief Executive Officer and the Head of Human Resources attend the committee meetings, have the right to speak, but do not vote.

- The RAC is responsible for the Bank's remuneration philosophies, structures and practices, giving particular attention to:
  - Reward strategies and remuneration to enable the Bank, in a highly competitive environment, to attract, motivate and retain high-calibre people at all levels within the organisation;
  - Remuneration designs must motivate strong and sustained performance in teams, but also promote risk management in line with the Bank's stated strategy and risk tolerance;
  - Consideration is given to the appropriate balance between fixed and variable pay for all employees, depending on seniority and roles, and particularly within risk and control areas; and
  - Transparency on remuneration designs and processes is maintained with employees and the Bank's shareholder;
- Members of RAC have unrestricted access to all information that forms their independent judgements of the possible effects that remuneration may have on compliance with risk, regulatory and behavioural controls across the Bank;
- Within such guidelines and financial parameters as may be set by the Board and giving due regard to the contents of the Bank's Governance Code, the FCA's Remuneration Code and associated guidance, the RAC considers and recommends to the Board approval of:
  - the appointment and individual remuneration packages for each of the Executive Directors (including any individual performance related bonus scheme);
  - departmental and Bank level incentive schemes;
  - the policy for and scope of pension arrangements;
  - compensation payments for loss of office;
  - severance payments; and
  - the terms and conditions of the Non-Executive Directors' contracts.
- The RAC recommends and monitors the level and structure of remuneration for senior management and is aware of and advice on any major changes to the employee benefit structures in the Bank.

9.3. Incentive Calculations

- Economic profit is a key measure by which the Bank manages its business as it takes into account the level of capital required to generate profits as well as the risks taken. It also measures risk based on an assessment of how the business will perform through the economic cycle and encourages a prudent approach to risk.
- ZBUK also have non-financial measures of performance against risk objectives in the performance areas for Executives, which enables a more rounded assessment of risk-taking behaviour to be made;
- The Bank's incentive plan targets are directly linked to the business strategy which has been prepared within the Bank's risk appetite. This not only ensures alignment with the Bank's performance, but also means that the targets are meaningful and also motivating for staff;
- Incentive pools are allocated to business areas based on their performance. These pools are shaped by a combination of departmental profitability and Bank level economic profit, which take into account the risks assumed to achieve these profits and an evaluation of the business area's future development and growth prospects
- Individual performance is measured according to a number of absolute and relative levels, including the person's quantitative delivery against specific criteria, qualitative individual behaviour

and competitive performance through the KPA mechanism. This measurement is integral to our remuneration practice.

10. Notices

The disclosures herein are based on the ICAAP as at 31 December 2016 and should be considered in line with the Directors' 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