Top 10 Business Risks in 2018/19

APRIL 2018

KPMG in Nigeria

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Contents

Foreword

I am pleased to present to you the second edition of our Report on the Top 10 Business Risks in 2018/19. This report highlights risks considered to be of highest concern to Nigerian Executives.

The Risk Consulting practice of KPMG Nigeria conducted a Risk Management survey ('the survey') aimed at identifying the key risks that Executives believe will impact their organisations over the next two (2) years. The survey was used to obtain and aggregate the key risks likely to affect businesses in the consumer & industrial markets, energy & natural resources, financial services and telecommunications sectors. The rich and diverse representation of our respondents has helped us in reaching logical conclusions on the top 10 risks and the notable drivers of these risks.

To give our readers a complete and in-depth look into the risk landscape in this second edition, we increased the scope of our survey to cover the financial services sector, thus improving the depth of the analysis and ultimately the overall quality of the report. Additionally, we split macro-economic risk, assessed in 2016 into its individual components to afford respondents the opportunity to evaluate its elements, such as foreign exchange, crude oil price, interest rate, amongst others.

Overall, the Nigerian business environment continues to show signs of an improving business climate as exhibited by economic growth, resurgence in consumer confidence, moderating inflation rate and improvement in macro-economic indices. The environment is no doubt rapidly evolving, creating new opportunities for a diverse range of businesses and industries. Nonetheless, uncertainties in fiscal and monetary policies, regulatory complexities, crude oil price volatility, foreign exchange volatility, and the loss of reputation or brand value, alongside other significant drivers of risk, vividly illustrate the realities of the types of risks that organisations within the Nigerian environment are faced with. To this end, the ability to properly identify, prioritize and mitigate these business risks remains crucial to business growth and survival.

It is my desire that various stakeholders find this report valuable in understanding business risks within the Nigerian context and advancing key discussions and initiatives to mitigate the impact of such risks. I specifically hope that directors and senior management staff, find this report beneficial in directing and managing the affairs of their organisations. I also hope that existing and potential investors would find this report essential in monitoring their investment portfolio and making guided investment decisions.

Following the nature of some of the risks rated High, there is no doubt that some of these challenges are multi-faceted and require strategic regulatory interventions. To this end, we enjoin policy makers, regulators and capital market operators to support the Nigerian private sector and capital market to continue to embrace carefully coordinated initiatives for sustainable economic growth.

I would like to thank all the survey respondents for their invaluable time and insights. For us at KPMG, we believe this report would be beneficial to the collective growth and development of our economy by bringing the key business risks within our business environment to the forefront.

Tomi Adepoju
Partner, Risk Consulting
KPMG in Nigeria

1.0 Executive Summary

This report presents the top 10 risks for businesses operating in key sectors of the Nigerian economy in 2018 /19.

The objective of the report is to enable business executives compare their views on the key risks with those of their peers. In order to gain the perspectives of business executives about the nature of potential risks in 2018/19 relative to the risks noted in 2016, KPMG in Nigeria recently surveyed 94 business executives to obtain their views about the risks they envisage would affect their organisations. The survey offers insights across different company types, and multiple industry groups.

We computed an average score of the 31 risks to provide an overall sense of the magnitude of the risks faced by organisations in achieving their strategic objectives or hitting their profitability targets over the next 24 months.

The perspective of executives with respect to the magnitude and severity of risks in Nigeria environment is 3.12, which depicts a "Medium Risk" environment for Nigerian Businesses in 2018/19 (based on the legend illustrated herein)

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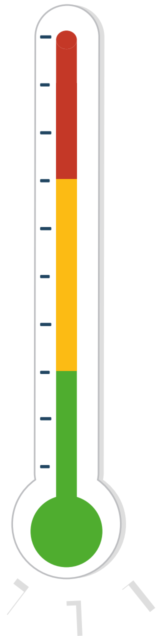


Relative to 2016, there was an upward shift from 2.77 to 3.12, suggesting an increase in the overall risk profile of the Nigerian business environment. This may not be unconnected with the fact that the top 5 risks have risk scores of >3.5, in contrast to 2016 where we had only the top 2 risks in that range.

Year	2018	2016	Change
Overall Risk Score	3.12	2.77	↑

Top 10 Risks for 2018/19 vis-à-vis 2016

	Risk	Score	Trend
1	Foreign exchange risk	3.91	○
2	Fiscal and monetary policy risk	3.67	↓
3	Regulatory risk	3.57	↑
4	Crude oil price risk	3.56	↓
5	Brand & reputational risk	3.52	★
6	Customer attrition risk	3.48	★
7	Political risk	3.44	↓
8	Liquidity risk	3.41	↓
9	Insecurity risk	3.41	↓
10	Interest rate risk	3.27	↓

Up from 2016 ↑ Down from 2016 ↓ Same as 2016 ○ New to the list ★

Three risks stand out as being the highest concerns for Nigerian executives, across most industries, all types of organisations and from most of the respondents. They are as follows:

1

Foreign Exchange Risk:
Despite notable measures undertaken by the Central Bank of Nigeria, the residual effects from the devaluation of the naira continue to weigh on corporates. Hence, executives are significantly concerned about foreign exchange and its impact on profitability.

2

Fiscal and Monetary Policy Risk:
Executives are also considerably concerned about the effects that this risk may have on their strategic planning and the management of their core operations.

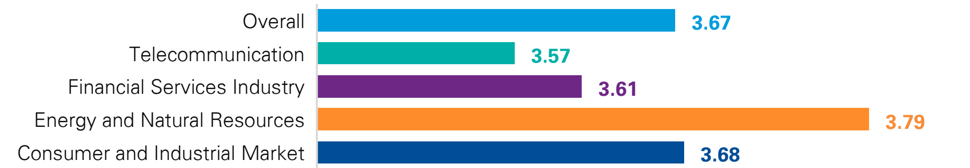
3

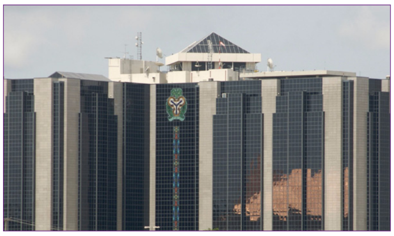
Regulatory Risk:
This reflects the significant anxieties executives continue to have over regulatory uncertainty and sanctions, in light of increased regulatory scrutiny within the country.

An Overview of the top 10 business risks in 2018/19 by Industry is as detailed below:

Foreign exchange risk

Fiscal and monetary policy risk

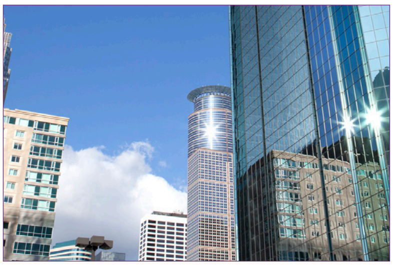




Regulatory risk

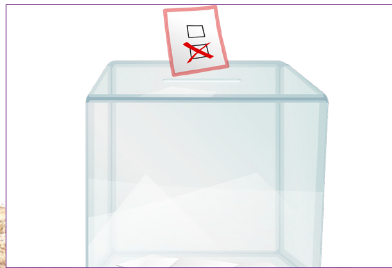
Crude oil price risk

Brand & reputational risk



Customer attrition risk

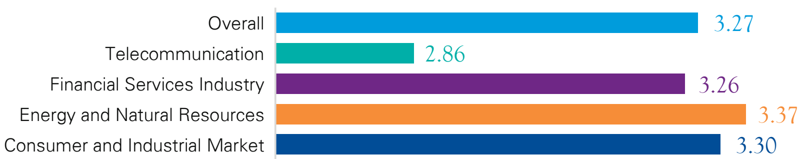
Political risk



Liquidity risk

Insecurity risk

Interest rate risk



Key Findings

31
Risk Assessed

1 An array of 31 risks was assessed by C-Suite Officers. 5 of which were rated high, 23 as medium and 3 as low, based on our rating methodology.

3.12
Medium Risk

2 The aggregate score for the risk assessment was **3.12**, depicting a **"Medium Risk"** environment for Nigerian businesses in 2018.

3 There was an upward shift in the aggregate risk score from **2.77 in 2016 to 3.12** in 2018, suggesting an **increase in the overall risk profile** of the Nigerian business environment.

4 The **number one (1)** risk for organisations in 2018 is **Foreign Exchange Risk** arising from the high exchange rate in the foreign exchange market.

5 There are **two (2) new entrants** to the list of the top ten (10) risks that were presented in 2016, namely: **reputational risk and customer attrition risk**.

50%

6 **50%** of the top 10 risks are reflective of the developments in the Nigerian political and macro-economic environment over the last two (2) years and their outlook over the next two (2) years. This comprises risks related to foreign exchange, fiscal & monetary uncertainty, crude oil price, interest rate and politics.

7 **50%** of the top 10 risks are operational risks that can be managed for sustainable performance through deliberate focus and the right level of attention from the board and management. This comprises risks related to regulatory compliance, reputational loss, customer attrition, liquidity and insecurity

50%

8 **Regulatory risk** is increasingly becoming a stay-awake issue for the C-Suite, being the only risk within the top 10 that experienced an upward shift, moving from **number 7 in 2016 to the number 3 spot in 2018**. This risk can be attributed to regulatory uncertainty and increased pressure from regulators for organisations to comply.

9 **Supply Chain Risk,** which did not make the list of top 10 risks, is one of the **top five** (5) risks for the manufacturing industry. This implies that opportunities exist for companies in this sector to critically review their supply chain processes with a view to reducing their cost of sales and improving margins.

10 **Cybersecurity Risk,** which did not make the list of top 10 risks, is one of the **top five (5)** risks for the financial service institutions and Nigerian Companies with Multinational Operations. This indicates that C-Suite Officers are increasingly concerned that they may not be sufficiently prepared to manage cyber threats that could significantly disrupt their core operations or damage their brand.

11 Uncertainties arising from the prior recession and financial crisis remains the **number one (1)** factor influencing the risk profile of the Nigerian economy over the last one year

#1

12 Other factors influencing the risk profile of the Nigerian economy include **the pressure from regulators and regulatory compliance** as well as the **unstable geo-political environment.**

Outlook

The macro-outlook is likely to be characterised by political instability, economic uncertainty, and social unrest, in the build up to the 2019 general elections that could potentially distract policy-makers and delay investment decisions.

The good news, however, can be found in Nigeria's evolving democracy, in terms of its credibility and capacity for smoother political transitions, ensuring that the economy progresses relatively unencumbered. Despite this, we anticipate an enormous influence of the imminent elections on economic and political stakeholders as 2018 winds down, hopefully only at a minor cost to economic activities. In addition, increased agitations by several interest groups, including labour unions, civil society groups, civil workers etc., for the payment of salary arrears, allowances and other fringe benefits, through industrial strikes and demonstrations towards the election period, may lead to higher wages. It is also expected that spending patterns might witness some improvement, in view of the upcoming election campaign spending.

Following the external nature of some of the highly rated risks, there is no doubt that some of our economic challenges, as a nation, are multi-faceted and require strategic regulatory interventions. There must be consistency around the policies of various regulators, which should tie into the overall policy thrust of the government. Government policies should be continually targeted towards making the Nigerian business environment sufficiently competitive to attract long-term investments. To this end, we enjoin policy makers, regulators and capital market operators to support the Nigerian Private Sector and Capital Market to continue to embrace carefully coordinated initiatives for sustainable economic growth. Organisations are also encouraged to actively identify and engage their key stakeholders with a view to reaching policy agreements that are mutually acceptable to all parties. They should periodically scan their business environment to ascertain opportunities and threats that could arise because of governmental policies or actions, and define appropriate response plans for addressing them

While a number of external risks were noted, the survey also highlights several risks that can be managed internally. This implies that opportunities exist for organisation to look inward with a view to optimising risks and minimising losses. One of the ways to enable executives achieve this is through the strengthening of their organisation's risk management framework for sustainable performance and competitive advantage. Organisations are enjoined to establish and implement a comprehensive risk management framework. For organisations that have commenced their risk management journey, it is essential for the board and senior management to determine which aspects of the process require enhancement and take active steps in addressing them.

2.0 About the Survey

2.1 Background & Objectives

KPMG in Nigeria is pleased to present its second risk survey report. This report presents our findings from the survey of 94 directors and executives of large-sized public and private companies across a number of industries in Nigeria. The objective of the survey was to obtain the perspectives of these executives on the potential impact of 31 specific risk issues across 4 dimensions:

2.2 Methodology

The risk survey was conducted among Nigerian business executives comprising: Managing Directors/Chief Executive Officers (CEOs), Chief Finance Officers (CFOs)/Heads of Finance, Executive Directors (EDs), Chief Risk Officers (CROs), Heads of Internal Audit/ Chief Inspectors and Chief Compliance Officers (CCOs) of publicly and privately owned large-sized companies in industries such as consumer & industrial markets, energy and natural resources, financial services and telecommunications sectors in Nigeria.

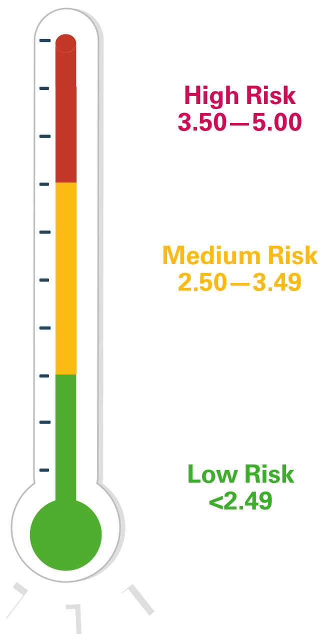
The opinion of respondents on the present and future risks was sought through a web based survey that was conducted between December 2017 and February 2018.

Each respondent was requested to assess the impact of 31 risks to their organisations over the next 12 months, using a 5-point scale, as represented below:

- 5 Extreme Impact
- 4 Major Impact
- 3 Moderate Impact
- 2 Minor Impact
- 1 Insignificant Impact

For each of the 31 risk issues, we computed the average scores reported by all the respondents and ranked from the highest to the lowest score. The risks were then grouped as high, medium or low on the basis of their average scores

Legend:

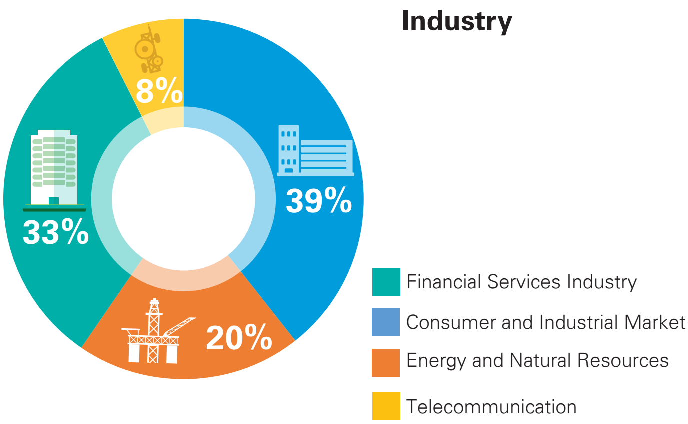


Profile of Respondents

The respondents comprised a mix of 94 business executives across various dimensions as follows:

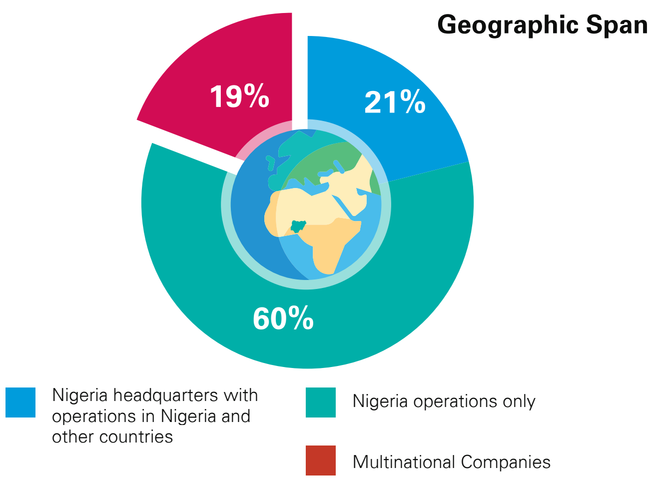
A. Survey Respondents by Industry

33% of the respondents work in the financial services industry, 39% in the consumer & industrial market, 20% in energy & natural resources, and 8% in telecommunications sectors.



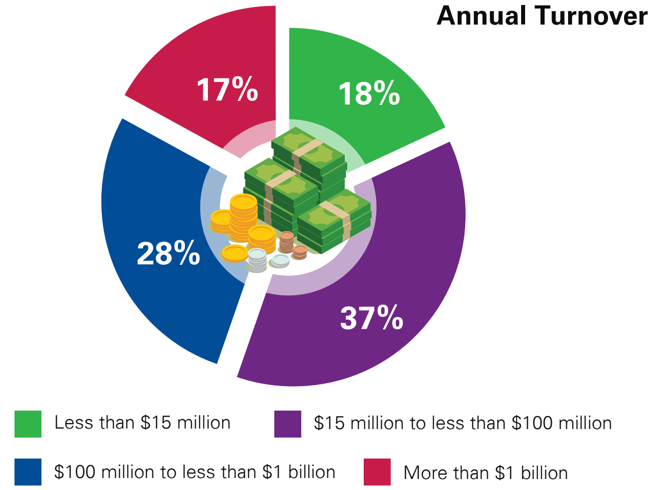
B. Survey Respondents by Geographical Span

About 81% are Nigerian businesses (Nigerian owned companies) while 19% constitute multinational companies (foreign owned companies)



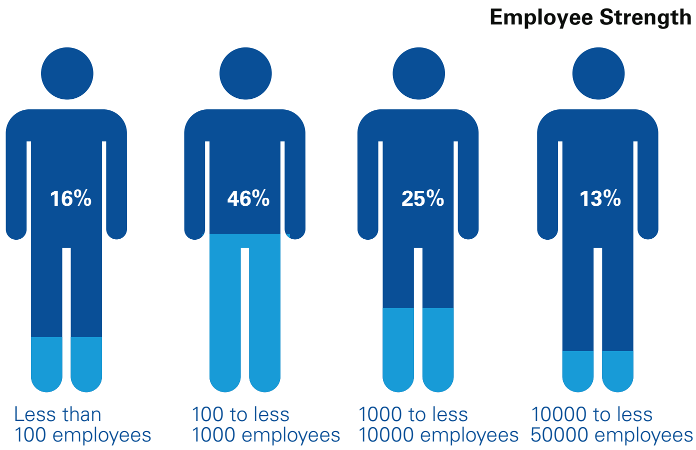
C. Survey Respondents by Annual Turnover in 2017

A substantial proportion (45%) of the respondents are in organisations whose turnovers exceed $100 million annually.



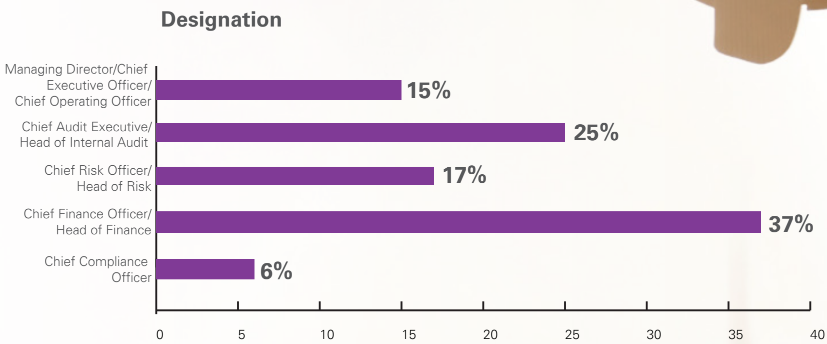
D. Survey Respondent by Number of Employees

About 40% of the respondents are in organisations that have over 1000 employees



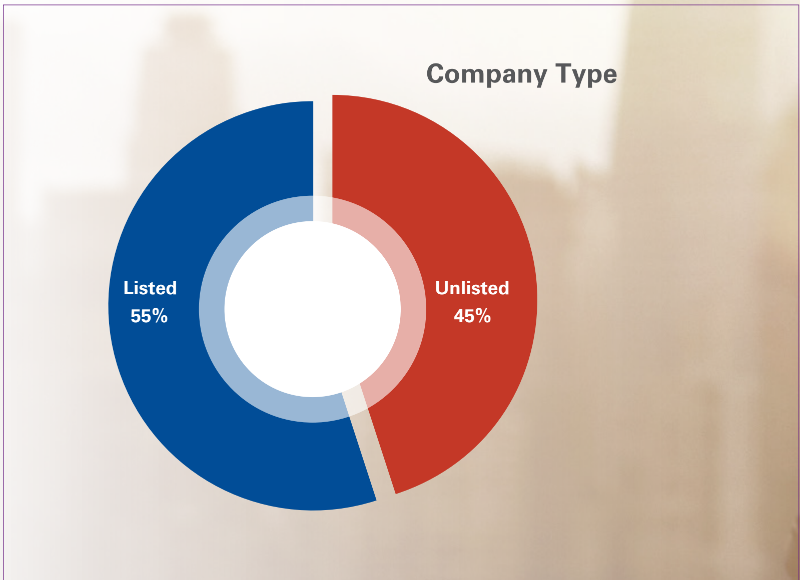
E. Survey Respondents by Designation

37% of the respondents are Chief Finance Officers/Heads of Finance in their companies, followed by 25% who are Heads of Internal Audit/Chief Inspectors of the organisations that they work for. 17% are Chief Risk Officers/Heads of Risk, 15% are Managing Directors/Chief Executive Officers of their firms, whilst 6% are Chief Compliance Officers in the corporations they work for.



F. Survey by Ownership Structure

A considerable number of the respondents (55%) work with listed companies, while the others work with unlisted entities.



3.0 Risk Survey Results

3.1 Overview

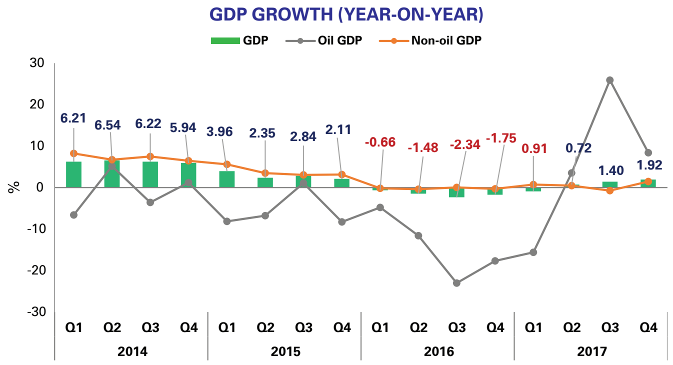
The survey respondents assessed an array of 31 risks across macroeconomic, strategic, financial and operational dimensions. We have classified the risks into the following 3 categories, on the basis of their average scores on a scale of 1.00 to 5.00:

- **High Risk** — 3.50 - 5.00
- **Medium Risk** — 2.50 - 3.49
- **Low Risk** — 2.49 or lower

1	Foreign exchange risk	3.91
2	Fiscal & monetary policy risk	3.67
3	Regulatory risk	3.57
4	Crude oil price risk	3.56
5	Brand & reputational risk	3.52
6	Customer attrition risk	3.48
7	Political risk	3.44
8	Liquidity risk	3.41
9	Insecurity risk	3.41
10	Interest rate risk	3.29
11	Cyber security risk	3.23
12	People management risk	3.22
13	Governance risk	3.17
14	Competition risk	3.16
15	Strategy & budget management risk	3.16
16	Financial misstatement risk	3.16
17	Tax management risk	3.12
18	Corporate culture risk	3.10
19	Money laundering, bribe & corruption risk	3.07
20	Supply chain disruption risk	3.06
21	Asset missappro-priation risk	3.05
22	IT infrastructure risk	3.00
23	Data analytics risk	2.97
24	Health, safety and environment risk	2.93
25	Litigation risk	2.91
26	Disruptive business model risk	2.88
27	Outsourcing/ third party risk	2.83
28	Capital adequacy risk	2.62
29	Commodity price risk	2.46
30	ESG or carbon footprint risk	2.37
31	Equity risk	2.13

50% of the top 10 risks are linked to the Nigerian political and macro-economic environment within the last two (2) years and forecasts over the next two (2) years. This indicates substantial apprehension about the overall political and economic climate, which could restrict growth or hinder growth opportunities.

2017 was a year of recovery for the Nigerian economy as reflected in the economic growth of 0.8% during the year.



Source: National Bureau of Statistics

Some of the other notable events of the year are as follows:

- Oil GDP grew by 4.3%, the first expansion in six years.
- The non-oil economy grew a modest 0.5%, led by the Agriculture sector, which grew 3.45%.
- Led by a 59.5% surge in exports, trade volumes grew by 33.5% relative to 2016.
- Nigeria attracted US$12.2bn in capital inflows (a 179% increase over 2016)
- US$7.5bn in portfolio inflows (a 582% increase over 2016).

The recovery of the Nigerian economy from recession was largely induced by an improvement in the global and local environment. As supply cuts from a coalition of OPEC/non-OPEC members outweighed shale oil production in North America, oil prices recovered, improving Nigeria's terms of trade. Matching this was a recovery in oil production, as negotiations with militants in the Niger Delta led to a cessation of attacks on oil installations. In addition, the CBN introduced the Importers and Exporters FX window in the FX market, encouraging the return of portfolio investors to the Nigerian market.

The pointers in 2018 are to a broadly positive outlook, as the economy moves to consolidate on its recovery. The opinion of respondents on key risks faced by their businesses are anchored around four key levers:

1. The 2019 Elections

The 2019 elections is a critical factor that would drive the business decisions and sentiments of the public and private sector players within the Nigerian business environment in 2018/19. The 2019 elections is likely to increase fiscal spending, consequently pushing up inflation. The uncertainties surrounding elections may also slow down or reverse capital flows, which could in turn mount pressure on foreign exchange.

2. Crude Oil

The global price of crude oil and its volume of production in Nigeria were the basic levers of recovery in 2017 and would be critical in 2018. The international oil market is positively poised for Nigeria at the moment and is expected to remain so for the rest of the year, due to combined effects of the OPEC/Non-OPEC output restriction and global economic growth. Against this backdrop, oil prices are expected to hover inside a $55–$70 range, which is comfortably above the benchmark price of $47b indexed in the national budget. Sustained calm in the Niger Delta should see to robust oil production, making the government's 2.3mbpd assumption in the budget attainable, assuming no political agitations arise as the elections draw closer.

3. Fiscal Policy

Government spending in 2018, which is mirrored by the FG's N8.6trillion 2018 budget and the combined budget outlay of N9.6trillion by the states, a 43% increase over 2017, is indicative of the impact of elections. The possibility exists that this spending increase will carry inflationary consequences, with the potential to upset the moderation in inflation being witnessed at the beginning of 2018. In addition, the ongoing reconfiguration of FGN debt obligations to reduce domestic borrowing and increase foreign borrowing is expected to continually drive down yields on government instruments.

4. Monetary Policy

CBN's commitment to curtailing inflation and maintaining stability of exchange rates suggests that it will be mindful of the inflationary impact of the elections as well as election-related reversals in capital flows. Also, the rising international interest rates (led by tightening monetary policy in the United States) and narrower differentials between domestic and international interest rates already reduce the incentive for portfolio inflows into Nigeria. In light of the above factors, it is expected that CBN may choose to maintain high policy rates.

3.2 Analysis of Risk Survey Results

3.2.1. Results based on Industry

We analysed the responses across 4 industry groups to determine whether the industries rank risks differently. We have provided below an overview of the differences in the perspectives of the executives across industry lines.

All industry groups rated the foreign exchange risk and uncertainty in fiscal and monetary policies as "High Risk" as most industry groups believe that these risks could significantly affect their ability to operate effectively and efficiently. On the other hand, all industry groups rated equity risk as "Low Risk", indicating minimal impact on their business.

3.2.1.1 Consumer and Industrial Markets Industry

Foreign exchange risk is the top risk for this Industry, with a risk score of 4.11. This may have resulted from the fact that many companies in this space are highly dependent on imported raw, auxiliary and packaging materials. Hence, while foreign exchange is relatively more accessible compared to the last two years, the cost of sales based on the high rates and limited price elasticity in a highly competitive market continue to stifle margins.

Interestingly, the 20th overall risk, Supply Chain Disruption, happens to be among the top 5 risks in this Industry. This is the risk resulting from ineffective or inefficient procurement, production, inventory management and distribution processes. Given the operational nature of this risk, this implies that opportunities exist for companies in this sector to critically review their supply chain processes with a view to reducing their cost of sales and improving margins.

S/N	Risk	Risk Score
1	Foreign exchange risk	**4.11**
2	Customer attrition risk	**3.78**
3	Fiscal and monetary policy risk	**3.68**
4	Regulatory risk	**3.57**
5	Supply chain disruption risk	**3.54**

Table 1: Top 5 risks in the consumer and industrial markets industry

3.4.1.2. Energy Industry

The volatility in crude oil price is the top risk for this sector, with a high risk score of 4.26. Liquidity and regulatory risks were also noted as "High Risk" for the industry. Both risks are highly intertwined as some of the segments in this sector operate based on government regulated tariffs/prices which impacts their liquidity. Also, the industry's liquidity is threatened by the large volume of outstanding receivables of the Downstream companies, Gas Producers, Power Generating Companies (GENCOs) and Power Distribution Companies (DISCOs).

S/N	Risk	Risk Score
1	Crude oil price risk	**4.26**
2	Liquidity risk	**4.11**
3	Regulatory risk	**4.05**
4	Political risk	**3.89**
5	Insecurity risk	**3.89**

Table 2: Top 5 risks in the energy industry

3.4.1.3. Financial Services Industry

Foreign exchange risk is at the top of the spectrum for this Industry, with a high risk score of 3.71. We also see regulatory complexity and uncertainty featuring strongly, which is expected as the industry operates in a highly dynamic regulatory environment.

Interestingly, cyber security, the 11th overall risk, happens to be third most critical concern for the Industry, as the Executives are concerned that they may not be sufficiently prepared to manage cyber threats that have the potential to significantly disrupt their core operations or damage their brand.

Finally, the concern about sustaining customer loyalty and retention is top of mind for executives as it is becoming increasingly difficult due to evolving customer preferences and demographic shifts in customer base

S/N	Risk	Risk Score
1	Foreign exchange risk	**3.71**
2	Brand & reputational risk	**3.68**
3	Cybersecurity risk	**3.65**
4	Fiscal and monetary policy risk	**3.61**
5	Customer attrition risk	**3.39**

Table 3: Top 5 risks in the financial services industry

3.4.1.4. Telecommunications Industry

Foreign exchange is the top risk for this industry group, with a high risk score of 4.43. We can attribute this risk concern to the fact that most of the infrastructure required within these industries are imported, creating a significant exposure to foreign exchange risk. We also see third party risk as keen for this cluster based on the typical value-chain partnerships that exist within the industry.

Lastly, a number of the companies in these sectors are not listed hence have not been bound by governance codes applicable to listed entities. With the NCC code of corporate governance becoming mandatory, enhancing governance practices has been a critical area of focus.

S/N	Risk	Risk Score
1	Foreign exchange risk	4.43
2	Outsourcing/third-party risk	4.14
3	Political risk	3.86
4	Governance risk	3.71
5	Fiscal and monetary policy risk	3.57

Table 4: Top 5 risks in the financial services industry

3.4.2 Results Based on Geographic Span

We analyzed the responses across three geographic spans to determine whether respondents rank risks differently based on location. The analysis below provides an overview of the differences across geographic locations.

3.4.2.1. Nigerian Companies with Multinational Operations :

Firms with operations in Nigeria as well as other countries pointed to foreign exchange volatility and uncertainties in fiscal and monetary policies as the two top risks confronting them. We see these risks as key concerns, as unpredictable fiscal and monetary policies could impede their ability to plan effectively whilst foreign exchange volatility, regulatory complexity and uncertainty could have tremendous costs implications for them.

S/N	Risk	Risk Score
1	Foreign exchange risk	3.80
2	Fiscal and monetary policy risk	3.75
3	Brand & reputational risk	3.70
4	Regulatory risk	3.60
5	Cybersecurity risk	3.45

Table 5: Top 5 risks in companies with multinational operations

3.4.2.3. Nigerian Companies Only:

Companies operating in Nigeria only, consider the foreign exchange risk and uncertainty in fiscal and monetary policies as critical, as these risks can have tremendous costs implications for them and affect their profitability goals. We consider their concerns as legitimate as Nigeria continues to face challenges of foreign exchange instability resulting from fluctuations in the price of crude oil.

S/N	Risk	Risk Score
1	Foreign exchange risk	3.89
2	Fiscal and monetary policy risk	3.71
3	Crude oil price risk	3.64
4	Liquidity risk	3.59
5	Brand & reputational risk	3.59

Table 6: Top 5 risks in Nigerian companies only

3.4.2.4 Multinational Companies in Nigeria:

These companies considered foreign exchange volatility and commodity price volatility (crude oil) as the two top risks for them. This is understandable as these organisations generally need to repatriate funds to their home countries and, as such, are exposed to foreign exchange risks.

S/N	Risk	Risk Score
1	Foreign exchange risk	4.11
2	Commodity price risk	3.67
3	Insecurity risk	3.67
4	Customer attrition risk	3.50
5	Regulatory risk	3.50

Table 7: Top 5 risks in multinational companies in Nigeria

3.4.3 Results Based on Area of Responsibility:

We analyzed the responses to determine the trends across various areas of responsibility. Almost all the executives rated risks relating to economic conditions and regulatory complexity and uncertainties as "High risk". Below are the details:

3.5.5.1. Managing Director/Chief Executive Officers

CEOs rated the risk associated with uncertainties arising from foreign exchange volatility as being of foremost concern to them. They also considered associated risks including the volatility of crude oil price, uncertainties in fiscal and monetary policies, security and loss of reputation & brand value as being noteworthy in their business operations.

S/N	Risk	Risk Score
1	Foreign exchange risk	4.50
2	Crude oil price risk	3.79
3	Security risk	3.79
4	Brand & reputational risk	3.64
5	Liquidity risk	3.50

Table 8: Top 5 risks for managing director/chief executive officers

3.5.5.2. Chief Finance Officer/Head of Finance

CFOs rated the risk associated with uncertainties in fiscal and monetary policies as "High Risk". They also considered risks arising from foreign exchange volatility, regulatory complexity and uncertainties, and liquidity as key concerns in the operating environment. They are also concerned about the ability to sustain the loyalty of their customers, which could impact on their top line performance figures.

S/N	Risk	Risk Score
1	Fiscal and monetary policy risk	3.83
2	Foreign exchange risk	3.83
3	Regulatory risk	3.57
4	Customer attrition risk	3.54
5	Liquidity risk	3.46

Table 9: Top 5 risks for chief finance officers/head of finance

3.5.5.3. Chief Risk Officer

CROs named two additional risks as "High Risk" to their corporate operations, asides the risks associated with uncertainties in fiscal and monetary policies, regulatory complexity and uncertainty and Oil price volatility. CROs tend to have broader perspectives of the risks arising from different aspects of their companies' operations and this is exhibited in their view-points in the assessment of overall risk conditions in the environment.

S/N	Risk	Risk Score
1	Fiscal and monetary policy risk	3.81
2	Brand & reputational risk	3.69
3	Crude oil price risk	3.63
4	Regulatory risk	3.56
5	Political risk	3.56

Table 10: Top 5 risks for chief risk officers

3.5.5.4. Chief Audit Executive

CAEs considered the risk associated with uncertainties arising from foreign exchange volatility as being foremost to their companies. They equally regarded the risks from supply chain disruptions, regulatory complexity and uncertainties, and the inability to sustain customer loyalty as key concerns.

S/N	Risk	Risk Score
1	Foreign exchange risk	4.04
2	Supply chain disruption risk	3.65
3	Regulatory risk	3.61
4	Commodity price risk	3.57
5	Customer attrition risk	3.57

Table 11: Top 5 risks for chief audit executives

3.5.5.5. Chief Compliance Officers

CCOs regarded the risk associated with the uncertainties arising from foreign exchange volatility as primary to their companies. They also rated risks from regulatory complexity and uncertainty, uncertainties in fiscal and monetary policies and political risks as being notable in their operating environment. They are equally concerned that their organisations may not be sufficiently prepared to manage cyber threats that have the potential to significantly disrupt their core operations or damage their company brand

S/N	Risk	Risk Score
1	Foreign exchange risk	3.83
2	Fiscal and monetary policiy risk	3.67
3	Customer attrition risk	3.67
4	Cyber security risk	3.67
5	Regulatory risk	3.67

Table 12: Top 5 risks for chief compliance officers

3.5.6. Results Based on Ownership Structure

Participants in this survey represent two types of organisation – publicly and privately held companies. According to the survey results, all the organisational types have concerns about foreign exchange volatility, regulatory complexity and uncertainties, as well as uncertainties in fiscal and monetary policies, which they all consider as "High Risk". Interestingly, across both organisational types, most other risks were ranked as having "Medium Risk" on their operations.

3.5.6.1 Listed

S/N	Risk	Risk Score
1	Foreign exchange risk	3.98
2	Fiscal and monetary policiy risk	3.76
3	Regulatory risk	3.57
4	Brand & reputational risk	3.52
5	Political risk	3.48

Table 13: Top 5 risks for listed companies

3.5.6.2 Non-Listed

S/N	Risk	Risk Score
1	Foreign exchange risk	3.87
2	Commodity price risk	3.65
3	Fiscal and monetary policy risk	3.60
4	Customer attrition risk	3.60
5	Regulatory risk	3.58

Table 14: Top 5 risks for non-listed companies

4.0 Top 10 Business Risks

This section provides in-depth analysis and context about each of the top 10 risks. It describes the risks and illustrates the realities that organisations within the Nigerian environment are facing. It further highlights the factors responsible for the business risks and some suggestions of how the risks could be managed.

1 Foreign Exchange Risk 3.91

This constitutes the topmost risk for Nigerian businesses in 2018 as about 70% of our respondents rated this risk to have a major or extreme impact to their business. Foreign exchange (FX) risk refers to the risk of losses as a result of adverse movement in exchange rate or potential scarcity of foreign exchange. It can be manifested through financial losses arising from transactional or translational FX risk.

While foreign exchange rates have been relatively accessible since the devaluation of the naira, a number of organisations have continued to reel from the effect of the devaluation. Currently, corporates require foreign exchange to meet foreign currency-denominated input costs, service foreign currency credit liabilities, and repatriate profits (in the case of multinational corporations). On the flipside, indigenous corporates with substantial international footprint might earn foreign exchange from their export proceeds. Given the import dependent nature of the Nigerian economy, the latter scenario is rare outside the upstream oil and commercial agriculture sectors, implying that FX risk for most Nigerian corporates pertain to payments as opposed to receipts.

In the non-financial service sector, the high FX rates have significantly increased the cost of sales for companies. This, coupled with the limited price elasticity for the goods produced by most companies in a highly competitive market, has reduced margins. In the financial sector, the depreciation of the Naira has increased the size of non-performing loans and weakened the capital adequacy ratios of Nigerian banks. Furthermore, corporates who had foreign-currency denominated exposures saw significant increases in their debt liabilities, which weakened their balance sheets.

The active management of FX risk has become imperative, due to the CBN's flexible FX rate policy which seeks to improve the dynamics of the Nigerian FX market. In addition, Nigeria is still behind the levels of foreign exchange liquidity generated from export proceeds and capital inflows in 2013. This is despite improved terms of trade and significantly higher capital inflows (in part due to the introduction of the I&E FX window) which helped ease concerns about FX availability and rate stability in 2017.

In light of the above, Executives are enjoined to continually monitor the country's trade level, external reserves, policy direction and capital inflows which could impact FX availability and rates. In managing this risk, organisations are encouraged to:

- Identify and convert opportunities to source raw materials and services locally
- Evaluate opportunities to diversify into export markets to generate avenues for foreign exchange earnings
- Identify and quantify existing foreign exchange risk by modelling potential impact from exchange rate volatility on earnings and revenue
- Identify potential hedging instruments and other strategic initiatives to effectively mitigate volatility
- Analyse feasibility of hedging instrument or strategic initiative considering cost and benefit
- Implement enhanced risk management tools using earnings-at-risk, cash flow-at-risk, value-at-risk (VaR) and other management information metrics

2 Fiscal and Monetary Policy Risk 3.67

Uncertainty in Fiscal and Monetary Policy" represents the second highest risk among the major organisations. About 62% of respondents regarded this risk as being major or extreme to their businesses.

Directly or indirectly, corporates face risks emanating from uncertainty about the direction of fiscal or monetary policy. Uncertainty is often heightened during adverse economic circumstances, which may compel policy reactions that distort the decision-making function of corporates. Nigeria's macroeconomic challenges in the past few years have induced a number of policy reactions, some of which have been consequential for businesses. Some of the policy changes over the last few years that heightened these risks are as follows:

1. The CBN, in 2015, placed 41 importable items on a list of embargoed items for which prospective importers could not access FX at the official window. In addition, between September 2015 and July 2016, the direction of monetary policy shifted in opposing directions across 5 decision cycles, which depicted a movement from tightening to easing within a 10-month period, a scenario which was challenging to planning at the business level.
2. Beyond the expansion of the tax base to include more eligible payers, the government has tinkered with raising rates on existing taxes or introducing new taxes. Proposals to raise Value Added Tax (VAT) and Excise Duties as well as introduce new taxes (such as the Communications Service Tax, 2016) all raise concern for increased future tax liabilities for corporates. Other considerations, such as the proposal, not yet implemented, to settle contractor liabilities through the issuance of promissory notes, are among the unanticipated scenarios in fiscal policy that could affect business planners.
3. The reluctance of policy makers to increase the tariffs or fully deregulate certain sectors due to the perceived socio-economic impact on the masses, at the detriment of

growth within the Nigerian private sector. This includes the downstream sector, the power sector, amongst others.

4. The delay in passing the 2018 federal budget which creates uncertainties within the Nigerian economy.

Policy stability and its positive impact on the Nigerian economy cannot be over-emphasized. To this end, policy makers and regulators are enjoined to continually create an enabling environment for businesses to thrive in the Nigerian economy.

There must be consistency around the policies of various regulators which should tie into the overall policy thrust of the government . Government policies should be continually targetted toards making Nigerian business environment sufficiently competitive to attract long term investments

3 Regulatory Risk 3.57

This is the third highest risk among the major organisations. About 59% of the respondents to the survey considered this as major or extreme. Companies continue to have significant anxieties over how regulatory challenges can affect their strategic directions, their operations and their ability to compete on a level playing field.

A recent wave of landmark fines issued against major commercial players, signal significant drive towards the implementation of stricter regulatory compliance, following years of relatively lax enforcement. Over the last two years, more than 10 companies across various industries have been hit with fines ranging from N1 billion to N1trillion. Several organisations are periodically sanctioned by their industry regulator and a number of listed entities are being examined, suspended, or fined for flouting one post listing requirement or the other.

The regulatory environment in Nigeria is complex and creates challenges even for companies that strive hard to be compliant. The country has an array of legislations and by-laws to regulate almost every area of economic activity. The abundance of laws also means that there are frequently overlaps, creating room for arbitrary interpretation or ambiguity. For instance, operators have to deal with two or three regulatory bodies, functioning independently of, and sometimes in competition with, each other. While this may have provided a lacuna for some companies, it also means that companies are sometimes unaware of legislation that applies (or does not apply) to them, thereby increasing the risk of regulatory breach.

Within this challenging state of regulatory uncertainty, we also see an opportunity for companies to improve their local positioning and risk management approaches. In the short term, organisations can achieve this by developing and maintaining an up-to-date regulatory rulebook as a comprehensive repository of all regulations impacting it. The rulebook may be further enhanced by automating the process for notifying responsible officers of their compliance obligations and escalating noncompliance to supervisors in a timely manner. It should also set up relevant oversight structures at the board and management level for periodically monitoring and receive assurance on regulatory compliance. Subsequently, organisations are encouraged to conduct periodic compliance audits and invest in internal capacity building around compliance issues

In the longer term, companies should develop a framework for engaging and managing their regulatory stakeholders. This includes identifying the regulators, prioritizing them based on defined criterion and developing new strategies for managing them with a view to building sustainable relationships not just with regulators but across a broader base of key public sector stakeholders. This will help to ensure a structured and consistent approach to managing regulators while streamlining the company's time and efforts. It will deepen the understanding of regulators' priorities, improve trust, facilitate dialogue that will improve policy formulation, and consequently help companies to shape the business environment around their operations.

4 Crude Oil Price Risk 3.56

The fall in oil prices from the post-financial crisis high of $115/ per barrel, which began in June 2014 to its lowest level of about $27/per barrel in January 2016, was occasioned by a supply glut instigated by a combination of the following:

1. The emergence of significant competition from the producers of shale oil, aided by technological advances.

2. The initial response by major producers i.e. the OPEC countries (led by Saudi Arabia), but also Russia to preserve their market share by ramping up production;

3. Geopolitical factors, such as the return of Iranian oil to the global market, as sanctions were lifted in the event of the 2015 Nuclear Deal;

4. The anticipated and eventual tightening of US monetary policy, which reduced global U.S. dollar liquidity levels, curtailing speculative demand for oil, whilst strengthening the dollar, and leading to the pricing down of oil.

Present Context

Oil prices are now recovering, having crossed the $60 per barrel mark for the first time in 27 months in October 2017, and trading in the vicinity of $70 per barrel presently. Underlying factors behind the changing circumstance include:

1. A deal between OPEC and non-OPEC members, led by Saudi Arabia and Russia, which is currently in place

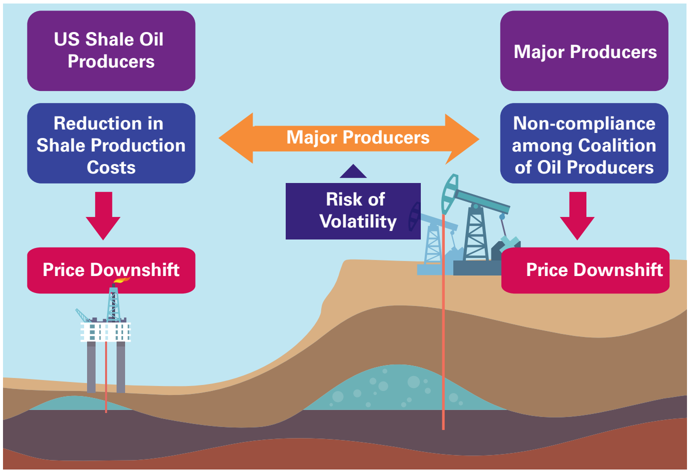
until the end of 2018, with the possibility of an extension beyond that, which has led to significant reductions in world oil supply and reduced impact of competing U.S. Shale supplies. Compliance with this deal, first negotiated late in 2016 and renewed in 2017, has enabled oil prices to recover by over $40 since January 2016;

2. The impending privatisation of the Saudi national oil company, Aramco, which has created an incentive for Saudi Arabia to push up the price of oil in order to raise the valuation of the company when it goes public. This strategic objective was at the heart of the Saudi government's switch from market share preservation to price optimisation

3. The firming up of demand for commodities, in general, and oil, in particular, by the recovering global economic growth

The present outlook for global growth in crude oil prices remains positive and the incentive for the Saudi Arabians to maintain their current price optimization strategy in light of the Aramco privatization points to the possibility of oil prices staying around current levels, with the likelihood of further increases.

Hence, the risk of volatility – embodied by occasional or steady downswings in prices is present and reflected as follows:



Given the contribution of Oil (more than 90%) to Nigeria's non-debt foreign exchange inflows, policy makers should continually seek ways to diversify the economy thereby reducing the impact of the volatility of oil prices on it; shoring up external reserves while crude oil prices are high.

Oil and gas companies are also encouraged to continually monitor macro-economic and socio-political trends which could impact the global price of crude oil, with a view to adopting suitable hedging strategies should the need arise.

5 *Brand & Reputational Risk* 3.52

This constitutes the fifth rated risk among the major organisations that participated in the survey. About 53% of respondents regarded this as a major risk. The loss of reputation or brand value risk, often called reputation risk, is the erosion of brand value perceived by stakeholders including investors, regulators, customers, suppliers, employees, etc.

These are usually consequent upon an adverse event or violation of any of the elements that impact reputation. For instance, unethical practices such as accounting fraud, bribery, corruption and other illegal activities, which can be a major cause of the loss of reputation or brand value which can have a significant impact on the business as a whole.

With the rapid evolution of social media and advent of the millennial age, there has been considerable increase in the number of ways a company's reputation can be damaged. Even a minor ethical issue can spiral out of control once it hits the air waves, causing serious harm to a company's reputation in just a few hours. Reputational issues, especially in large corporations, are highly publicized and make their way to the public very quickly.

Third parties may be unwilling to continue working with a company that is having reputational issues which could impact business operations and cause profits to plummet.

To manage this risk, there is a need for organisations to implement a sustainability framework comprising governance, social, ethical and environmental standards and performance indicators that evaluate metrics that can be proven to directly impact the brand and reputation of an organisation. This includes:

- Implementing the right corporate governance practices that promote transparency and accountability at the Board and management level within the organisation
- Developing an effective system for managing internal stakeholders through effective human resource strategies that sufficiently attracts and retains high performing staff. Some of the tools that could be deployed include adequate staff performance management, talent development, compensation, periodic staff engagement, amongst others.
- Implementing a process for managing external stakeholders through corporate social responsibility appropriate corporate disclosures, robust investor relations, amongst others
- Implementing a strong ethics program that provide guidance on the prevention, detection and response to ethical issues.
- Establishing processes and systems to effectively monitor, report and manage unethical practices.

This includes instituting an effective whistle-blower mechanism that is supported by an effective investigation and consequence management system

- Implementing an effective communication process for disclosing information regarding the company and defining the process for addressing rumors, leakages and speculations that could adversely impact the company's reputation.

6 Customer Attrition Risk 3.48

The rapid pace of change and disruptive innovations are leading to drastic changes in the market place. Sustaining customer loyalty and retention is becoming increasingly difficult as customer preferences and demographics evolve.

Not only is preserving customer loyalty more cost effective than acquiring new customers but loyal customers are more likely to purchase higher margin products and services over time. Loyal customers equally reduce marketing costs as well as costs associated with educating customers. This is why ensuring customer loyalty & retention is a high priority for customer-focused organisations.

Winning corporates need to be passionate about customers with a view to meeting and exceeding their expectations. Investing in understanding the customer and their interactions with the company across all touch points will be a major lever for driving customer-focused initiatives. Some of the initiatives that can explored by organisations include:

- Delivery of superior customer experience across all channels by embedding a customer-centric culture across the organisaton.
- Reviewing the organisation's route-to-market periodically to ensure brand visibility, product availability and customers' accessibility to the company's products
- Instituting a process for receiving and responding to feedback from customers
- Investing in enhancing knowledge of the customers' businesses. This includes leveraging market surveys and data & analytics to provide business intelligence and insights around what their customers want, their buying patterns and emerging trends
- Seeking opportunities to leverage technology and data & analytics to improve the quality of solutions to customers.
- Establishing a process that swiftly identifies and responds to signals of change in the industries

7 Political Risk 3.44

Nigeria is effectively within an electoral cycle. Whilst the off-cycle gubernatorial elections have begun – with the governorship election that held in Anambra in November 2017 and the upcoming elections in Ekiti (July) and Osun (September) States respectively, the 2019 general elections timetable are already in the public domain. As such, the dynamics of electoral politics are beginning to crystallise.

From the business standpoint, the risks posed by the electoral period arise from two (2) ways. The first way is through political calculations by policy actors which may affect policymaking, with consequences for business. The second way is incidental on concerns of critical non-policy actors about the political climate which may affect their sentiment and decision-making calculus.

Notwithstanding the delay in passage of the federal budget, the upcoming elections are expected to lead to an uplift in government spending across the various federating units.

Although some of the state governments still owe significant salary arrears and contractor payments. In the scheme of electoral calculations, the payment of salary arrears. For example, is heightened in the period leading up to the elections. Businesses with significant exposures to state governments may find themselves down the priority scale of those governments, as the electoral cycle unfolds and progresses.

The uncertainties surrounding periodic elections in democracies tend to induce a cautionary posture in the international direct and portfolio investment community about the safety of investments in destination economies. We anticipate that capital inflows would become slower in the second half of 2018 as the electoral rhetoric intensifies, with the potential for portfolio investors with significant positions to head for the exit by the first quarter of 2019 when the polls hold. Investors who make this move would linger in a wait-and-see mode for the outcome of the polls before undertaking a general assessment of the risk-reward situation as the post-electoral scenarios unfold. The upshot of this is the potential for reduction in the levels of available FX liquidity in the domestic market.

8 Liquidity Risk 3.41

Liquidity risk arises from the potential that a company may be unable to raise funds on a timely basis or at a reasonable cost to fund asset growth or settle liabilities. It is the risk that the company may not have adequate access to capital and/ or cash to fund operations or strategic initiatives and meet capital requirements.

For financial institutions, the major sources of liquidity are deposits and shareholders' funds. Liquidity risk can arise from deposit concentration, where a significant depositor or class of depositors withdraw their funds without sufficient notice, deterioration in the quality of the credit portfolio, rapid assets funded by volatile deposits or the inability of the institution to sell out of a position or dispose of an asset without incurring significant losses can all create liquidity risk. Financial institutions could face difficulties in meeting its obligations if all its short term deposit liabilities are called and it fails to secure financing from funding markets, or it is unable to sell, or pledge its liquid assets without suffering material losses in order to obtain funds.

For non-financial institutions, the main sources of liquidity are usually cash in the bank, cash inflows from normal trading operations, short-term investments that can be converted to cash quickly and overdraft facilities or other sources of borrowing. Liquidity risk could arise from poor inventory management resulting in excessive inventory, inadequate credit management resulting in excessive or poor receivables, poor working capital management and mismatches between its assets and liabilities. The risk may demonstrate itself through late payment to employees, suppliers and other providers of credit.

Executives are responsible for the identification, measurement, monitoring, controlling and reporting of liquidity risk on an ongoing basis. In managing this risk, companies are encouraged to:

- Ensure the strategic alignment of risk appetite and liquidity risk management practices in the organisation
- Establish an adequate monitoring and reporting structure by which the organisation is able to present regularly its liquidity risk profile and coverage
- Ensure adequate oversight and governance by the Board of Directors and top management and their involvement in liquidity adequacy processes of their entity
- Regularly review and ensure the implementation of the organisation's liquidity risk policies
- Carry out internal analysis of the adequacy and reliability of the early warning indicators pertaining to the institution's liquidity risk management system
- Incorporate stress testing and scenario analysis to capture liquidity shocks
- Establish a crisis management system and contingent funding plan which include response plans for liquidity crises
- Set control limits and ratios such as liquidity gap limit, loan to deposit ratio and top significant funding sources to total deposit

9 Insecurity Risk 3.41

Three prominent flashpoints stand out in Nigeria's security configuration. They include the Niger Delta (addressed above); the Middle Belt, where clashes between herdsmen and crop farmers appear to have degenerated to wholesale attacks on communities and security personnel by the herdsmen, mutating into Nigeria's gravest security challenge.

Also, in the North East, despite being dislodged significantly from their base of operations in 2016, Boko Haram continues to wreak attacks on civilian populations, suggesting that the insurgency would fester. The highpoint of the defiance of Boko Haram in the face of the Nigerian military's efforts to destroy the terror group is its recent kidnapping of 110 schoolgirls from a school in Dapchi, Yobe State in February.

In none of the foregoing cases is a permanent solution in sight. Recent history indicates that the Niger Delta is the most amenable to a political solution. Boko Haram remains the subject of a military operation. So far, Nigeria's security forces are yet to get on top of the situation in the Middle Belt with the herdsmen. It is conceivable that these challenges would remain teething problems over the next three years.

10 Interest Rate Risk 3.29

Nigeria's high interest rate environment predisposes corporates to interest rate risk, either directly through their borrowing liabilities or through the liabilities of their affiliates including the businesses on their route-to-market. For non-financial corporates, the risk arises from increases in bank lending rates that arise from a change in policy rate anchor (the MPR), and its transmission across the interest rate terms structure, or from government borrowing in domestic markets that crowd-out private borrowing or raise lending rates. In a higher rates environment, loan servicing and refinancing, where necessary, are more expensive.

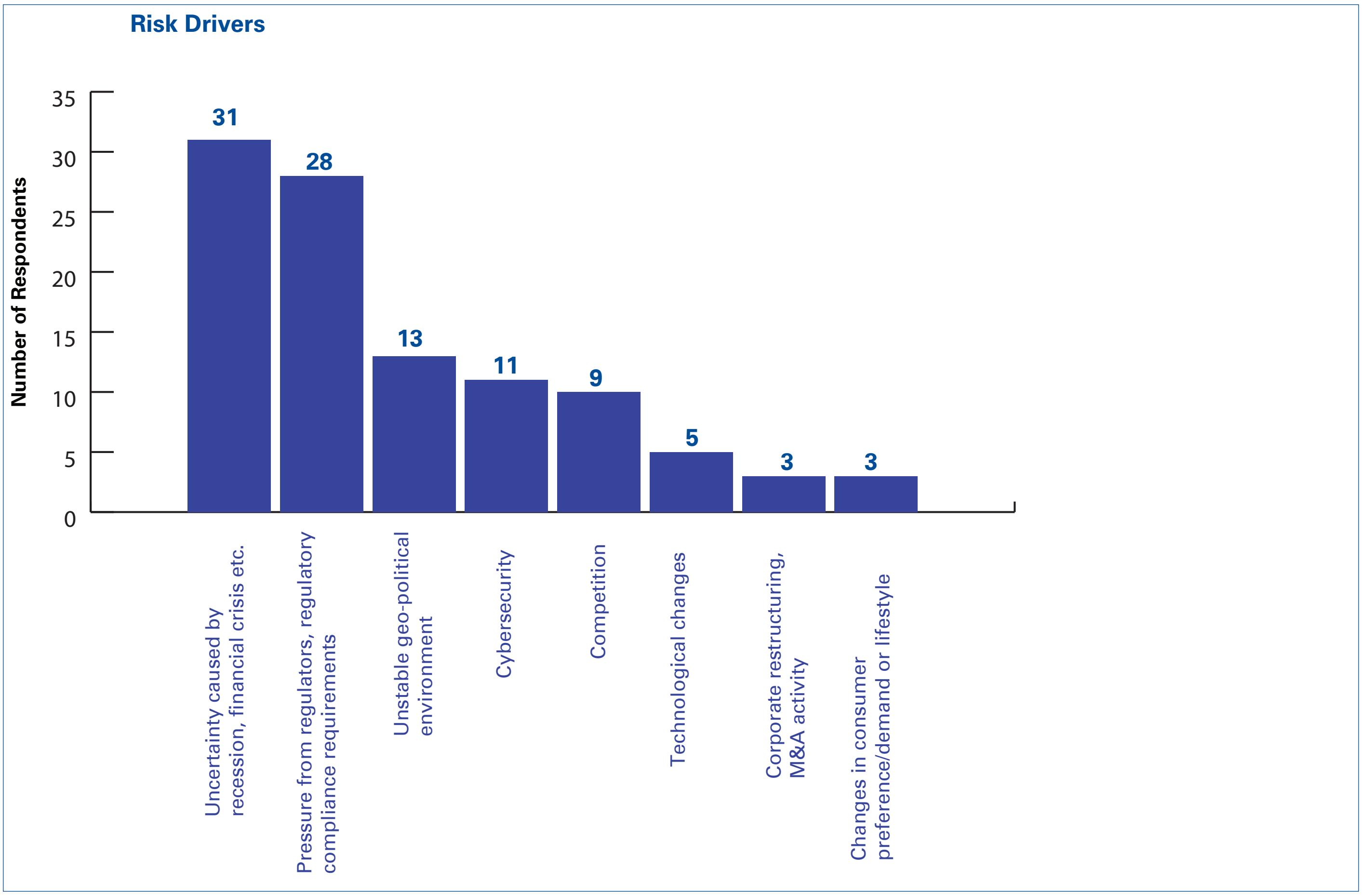
The current interest rate environment is reflective of the tight policy stance. Recently, yields on Naira-denominated sovereign instruments have moderated, a reflection of markets' anticipation of a lowering of the MPR in 2018, but also reflective of the FGN's plan to refinance $3billion (24.2% of the outstanding treasury bills as at September 2017) worth of outstanding treasury bills with longer tenure Eurobonds.

The FG also plans to reconfigure government borrowing by increasing foreign financing to 72% of deficit financing by 2020 (according to the Medium-Term Expenditure Framework, 2018–2020) presents the possibility of interest rate moderation.

4.2. Risk Drivers

Respondents were asked to select key factors that have given rise to the increased risks, they face. The top three (3) factors chosen by the respondents resonate with the risks that emerged top 10 from the risk assessment survey. The top three (3) factors from highest to lowest are shown below:

1. Uncertainty due to recession and financial crisis;
2. Pressure from regulators and regulatory compliance requirements and
3. Unstable geo-political environment



5.0 Outlook

The macro-outlook is likely to be characterised by political instability, economic uncertainty, and social unrest, in the build up to the 2019 general elections that could potentially distract policy-makers and delay investment decisions.

The good news, however, can be found in Nigeria's evolving democracy, in terms of its credibility and capacity for smoother political transitions, ensuring that the economy progresses relatively unencumbered. Despite this, we anticipate an enormous influence of the imminent elections on economic and political stakeholders as 2018 winds down, hopefully only at a minor cost to economic activities. In addition, increased agitations by several interest groups, including labour unions, civil society groups, civil workers etc., for the payment of salary arrears, allowances and other fringe benefits, through industrial strikes and demonstrations towards the election period, may lead to higher wages. It is also expected that spending patterns might witness some improvement, in view of the upcoming election campaign spending.

Following the external nature of some of the highly rated risks, there is no doubt that some of our economic challenges, as a nation, are multi-faceted and require strategic regulatory interventions. There must be consistency around the policies of various regulators, which should tie into the overall policy thrust of the government. Government policies should be continually targeted towards making the Nigerian business environment sufficiently competitive to attract long-term investments. To this end, we enjoin policy makers, regulators and capital market operators to support the Nigerian Private Sector and Capital Market to continue to embrace carefully coordinated initiatives for sustainable economic growth. Organisations are also encouraged to actively identify and engage their key stakeholders with a view to reaching policy agreements that are mutually acceptable to all parties. They should periodically scan their business environment to ascertain opportunities and threats that could arise because of governmental policies or actions, and define appropriate response plans for addressing them

While a number of external risks were noted, the survey also highlights several risks that can be managed internally. This implies that opportunities exist for organisation to look inward with a view to optimising risks and minimising losses. One of the ways to enable executives achieve this is through the strengthening of their organisation's risk management framework for sustainable performance and competitive advantage. Organisations are enjoined to establish and implement a comprehensive risk management framework. For organisations that have commenced their risk management journey, it is essential for the board and senior management to determine which aspects of the process require enhancement and take active steps in addressing them.

About Us

KPMG Risk Consulting Services is a leading provider of risk solutions to clients, helping them to optimize risks and minimise losses.

We have deep understanding and extensive experience in providing practical risk advisory services to our clients across all key sectors. Over the years, we have proffered bespoke solutions on how various business and operational risks can be mitigated, and also assisted our clients in optimising their risk management function.

Our risk advisory services help organisations implement sustainable risk management systems, as they pursue more profitable and competitive operations. Our services comprise enterprise risk management, financial risk management, fraud risk management, regulatory compliance, corporate governance, internal audit and accounting advisory services.

Based on our extensive experience working with boards of directors and management teams, our team helps provide predictive capabilities that enable clients react to risks and respond in a manner that enhances business value. We help companies stay on track and deal with risks that could hinder their corporate performance and survival.

We will work with you to implement fit-for-purpose risk solutions. We will also share with you our deep risk consulting expertise and industry knowledge, to help you navigate your business environment in a controlled and effective manner.

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