ZENITH

ZENITH BANK (UK) LTD.

ANNUAL REPORT

2019

Contents

Officers and professional advisers

Directors

Jim Ovia	Chairman
Ebenezer Onyeagwu	Non-Executive (appointed to the Board on June 1, 2019)
Peter Amangbo	Non-Executive (resigned from the Board on May 31, 2019)
Jeffrey Efeyini	Non-Executive
David Somers	Non-Executive
Ian Ogilvie	Non-Executive
Andrew Gamble	Non-Executive
Pamela Yough	Chief Executive
Henry Onwuzurigbo	Executive (appointed to the Board on June 3, 2019)
Anthony Uzoebo	Executive (resigned from the Board on March 5, 2019)

Company secretary

Joseph Crowley	Appointed on October 11, 2019

Registered office
39 Cornhill
London
EC3V 3ND

Bankers
Barclays Bank Plc, London
Citigroup, London and New York
Deutsche Bank AG, Germany
HSBC, London

Solicitors
Dentons LLP, London
Berwin Leighton Paisner LLP, London

Independent Auditor
KPMG LLP
Chartered Accountants
London

Board of Directors

Jim Ovia – Chairman

Jim Ovia is Co-founder and pioneer Managing Director/Chief Executive of Zenith Bank Plc. He has about three decades cognate banking experience. He is a member of the Governing Council of Lagos State University, Lagos and also a member of the Board of Trustees, Redeemer's University For Nations, Lagos. He is the promoter of the proposed University of Information and Communication Technology, Agbor, Delta State and he served on the board of American International School, Lagos [2001 -2003].

Ebenezer Onyeagwu – Non-Executive Director

Mr. Ebenezer N. Onyeagwu is a graduate of accounting from Auchi Polytechnic, Nigeria. He qualified as a Chartered Accountant (ACA) of the Institute of Chartered Accountants of Nigeria (ICAN) in 1986 and became a Fellow (FCA) of ICAN in 2003. Mr Onyeagwu is an alumnus of the University of Oxford, England, where he studied Macroeconomics. He also undertook extensive executive-level education in Wharton Business School of the University of Pennsylvania, Columbia Business School of Columbia University, and the Harvard Business School of Harvard University, in the United States.

He has over 29 years of experience in the banking industry in Nigeria, out of which 17 is in Zenith Bank Plc. Before he became the Group Managing Director/CEO of Zenith Bank Plc with effect from June 1, 2019 he was the Deputy Managing Director. Mr Onyeagwu is on the board of FMDQ Securities Exchange Plc and Shared Agent Network Expansion Facilities Limited (SANEF). He is the chairman of Zenith Pensions Custodian Limited and Zenith Nominees Limited. He also served on the Boards of Zenith Bank Ghana and African Finance Corporation (AFC). Mr Onyeagwu is committed to sustainable banking and shares the belief that businesses should be a force for the creation of shared prosperity.

David Somers – Senior Independent Director

David is a Non Executive Director for National Bank of Egypt UK; Chairman of the investment committees of Fujitsu Technologies Pension Scheme and TCF Fund Managers; Chairman of the Zenith Bank (UK) Ltd Audit & Compliance Committee. David is an Economics graduate and a qualified accountant (FCCA). Before taking early retirement in 2005, David spent over 30 years at a senior level in institutional investment management, travelling extensively in the Middle East and Far East.

Ian Ogilvie – Non-Executive Director

Ian is an International Director with executive and non-executive experience in financial services and fintech. He is chairman of Ariadne Regtech limited and an adviser to a number of financial technology companies in the UK and Asia. Ian held senior global and regional positions during a 34 year career with HSBC working in Europe and Asia across a range of businesses functions, particularly focused on transformational change across retail and corporate banking. His commercial expertise includes strategy implementation, proposition development, technology, operations, risk and financial management.

Ian holds an honours degree from Cambridge University, has an ACCA Accounting & Finance qualification and has completed international Business Management courses at both Insead and University of Michigan.

Andrew Gamble – Non-Executive Director

Andrew is a Non-Executive Director of African Export-Import Bank and sits on the Bank's Executive Committee. He is Chairman of the Zenith Bank (UK) Ltd Board Risk Committee. He sits on the Boards of various other companies in a non-executive capacity and acts as a legal and business consultant for banks and law firms. Andrew is a law graduate and qualified English solicitor. He retired from the international law firm of Hogan Lovells at the end of 2013. During his career of 37 years at that firm he held various positions including London Regional Managing Partner, Head of International Banking and Head of Africa.

Jeffrey Efeyini – Non-Executive Director

Chairman of Zenith Bank (UK) Limited Remuneration and Appointments Committee, Mr. Efeyini is a fellow of the Chartered Institute of Bankers, United Kingdom. He holds a Masters degree from the London School of Economics and Political Science as well as an MBA from the University of Lagos, Nigeria. Between 2003 to 2009, he was an Independent Director with Union Bank UK Plc, London. He was also a Director and later Chairman of Britain Nigeria Business Council, London. He started his professional banking career with Barclays Bank International, United Kingdom, later Union Bank of Nigeria and rose to the position of the pioneer Chief Executive/General Manager, Union Bank of Nigeria Plc, London.

Pamela Mimi Yough, Chief Executive Officer

Pamela joined Zenith Bank (UK) Limited on 12 June 2017. She has a wealth of experience in banking with a career spanning over 25 years. She holds a BSC in Marketing from Pace University in New York and an MBA from Long Island University, USA. She worked in Zenith Bank PLC for over 13 years, heading several departments including MCP Group (Multilateral, Conglomerates & Private Banking) and Investor Relations where she was the General Manager arranging all the long term foreign loans of the Zenith Group. Other departments she headed in ZPLC were Treasury, Head Office Operations, Public Sector, Correspondent Banking and Revenue Collection. Pamela has served as a Non-Executive Director on the Boards of various subsidiaries of Zenith Group, including Zenith Registrars and Zenith Realtors. She is also an Honorary Senior Member (HCIB) of the Chartered Institute of the Bankers of Nigeria. She is an alumnus of Oxford, Stanford and Cambridge Universities.

Henry Onwuzurigbo – Executive Director, Business Development

Henry joined Zenith Bank (UK) Limited from Zenith Bank PLC in September 2017. He has spent 21 years of his Banking career with Zenith Bank group and has held various Senior Management positions ranging from Head Of Operations, Head Of Marketing, Branch Management, Regional/Zonal Management, Head Of Inspection and Deputy Group Chief Inspector, before joining the Zenith Bank (UK) team. He was also once the Head Of Internal Audit of Zenith Pensions Custodian Limited (a subsidiary of Zenith Bank PLC). He joined Zenith Bank group from Coopers & Lybrands Chartered Accountants (now PriceWaterhouse Coopers) where he practiced and qualified as a Chartered Accountant. He is currently a Fellow of the Institute Of Chartered Accountant of Nigeria (FCA), a member of Institute Of Internal Auditors (UK), an associate of the Chartered Institute of Taxation of Nigeria, Senior member of the Chartered Institute of Bankers of Nigeria and also a member of the Financial Reporting Council of Nigeria.

Directors' report

The directors present their annual report and the audited statutory financial statements of Zenith Bank (UK) Limited (the "Bank") for the year ended 31 December 2019.

Principal activities

The Bank is authorised under The Financial Services and Markets Act 2000, (as amended). It is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA.

The Bank is a wholly owned subsidiary of Zenith Bank PLC (the "Parent") a leading Nigerian financial institution. The Bank markets and offers a range of banking products and services with its target market being Sub-Saharan African companies, international corporations, commodity traders, investment banks, institutional investors, governments and supranational organisations as well as high net worth individuals.

The Bank generates revenues through the extension of credit to corporate customers and high net worth individuals, participating in revolving credit facilities, commercial mortgages, syndicated structured trade finance facilities, and infrastructure and project financing; the investment in Eurobonds and securities issued by governments and banks; and the processing of Letters of Credit and related trade services and payments.

The Treasury Department supports these activities and carefully manages the Bank's capital, liquidity and the asset and liability mismatches arising from the Bank's activities and monitors limits in line with the Bank's Risk Management Framework. Forex trading has grown significantly over the years.

Nigeria's long-term economic performance is expected to pick up moderately, driven by gradual improvements in infrastructure provision and policy reform. Despite the challenging macroeconomic environment recently, Nigeria remains Africa's largest economy with strong growth potential. Nigeria's Gross Domestic Product (GDP) was worth US$395.8 billion in 2019.

Trade related business and other fee-based income improved along with the economic recovery during the year, although the volumes are well below the pre-downturn levels. We continue to deal as a correspondent and trade finance bank for the Central Bank of Nigeria, and act as a confirming bank for Letter of Credit (LC) transactions within key Organisation for Economic Co-operation and Development (OECD) markets. We aim to build on these and other relationships for the long term to address the needs of our customers, while maintaining the high standards of service we have set. This has involved continued investment in people and systems to leave us well positioned to be a leading trade finance business.

The support and relationship with the Bank's parent company and other members of the Zenith Group, have enabled the Bank to grow and develop into a competitive bank with a continued focus on providing value to our stakeholders.

In October 2015 the Bank obtained its formal DFSA (Dubai Financial Services Authority) licence in Dubai, permitting it to open its first branch (Zenith Bank (UK) Limited – (DIFC Branch)).

The Bank's main competitors are international banks and other West African financial institutions operating within the international financial services industry.

Going Concern

The Bank's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic Report on pages 8 to 13, including the impact of the recent domestic events in Nigeria and Brexit. The directors have also considered the potential impact of recent emerging risks including COVID-19 outbreak and the fall in oil prices. The directors have satisfied themselves that there is no material uncertainty that the Bank will not be able to continue as a going concern. The Bank has maintained adequate capital and liquidity, remaining above regulatory requirements, and continues to maintain healthy reserves.

In 2019, the Bank's performance was in line with the approved business plan in terms of revenue and profitability. This, combined with the level of financial resources held, we expect the Bank to continue in business in the foreseeable future. The Bank believes that the going concern basis of accounting is appropriate for the preparation of the financial statements.

Directors' report (continued)

Capital

There has been no change to the existing capital structure in 2019 (as detailed in the Statement of Changes in Equity on page 18 of the financial statements).

Results and dividend

The Bank's profit for the year after taxation amounted to US$27.9 million (2018: profit US$27.5 million). The directors do not recommend the payment of a dividend for the year ended 31 December 2019 (2018: Nil).

Directors and directors' interests

The directors who held office during the year were as follows:

Jim Ovia	Chairman
Ebenezer Onyeagwu	Non-Executive (appointed to the Board on June 1, 2019)
Peter Amangbo	Non-Executive (resigned from the Board on May 31, 2019)
Jeffrey Efeyini	Non-Executive
David Somers	Non-Executive
Ian Ogilvie	Non-Executive
Andrew Gamble	Non-Executive
Pamela Yough	Chief Executive
Henry Onwuzurigbo	Executive (appointed to the Board on June 3, 2019)
Anthony Uzoebo	Executive (resigned from the Board on March 5, 2019)

None of the directors who held office at the end of the financial year had any direct or indirect disclosable interest in the shares of the Bank except below:

The following Directors held indirect interests in the Bank shares via their associations with the Parent entity

- Mr. Jim Ovia is the Chairman, the founder and a significant shareholder (owns 11.29%) of the Parent entity
- Mr. Ebenezer Onyeagwu is the Group CEO & MD and a shareholder (owns 0.12%) of the Parent entity
- Mr. Peter Amangbo (retired) was the Group CEO & MD and a shareholder (owns 0.06%) of the Parent entity
- Mr. Jeffrey Efeyini is a Non-Executive Director and a shareholder (owns 0.002%) of the Parent entity

Employees

The Bank recognises its corporate social responsibility and statutory duty as an equal-opportunities employer and builds its business in the belief that people from different cultures and different walks of life create value. The Bank believes that it has the right mix of people and the fusion of different ideas that provide the essential components for progress and success.

A commitment to equality and diversity helps the Bank to attract and retain talented staff. The Bank wants the best people to help meet its business priorities and supports existing employees to realise and achieve their full potential. The Bank is committed to employee development and training and seeks to assist employees to develop the knowledge, skills and competencies required of employees to ensure that customers and stakeholders continue to receive excellent services.

The Bank also seeks to ensure that employees continue to deliver the core values, which are embedded in the culture of the organisation namely: Customer focus, Integrity, Professionalism, People/one team, Proactive and Commercial.

Policy on payment of creditors

The Bank's policy in relation to all its suppliers is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms. It is the Bank's policy to pay all its suppliers within 30 days of receipt of the goods or services.

Directors' report (continued)

Political and charitable contributions

During the year the Bank made charitable donations of US$ 660 (2018: US$ 657). No payments were made to political parties during the year (2018: Nil).

Auditor

Under EU audit reform, it is mandatory for all Public Interest Entities ("EU PIEs") to tender the audit contract at least every 10 years and rotate statutory auditors at least every 20 years. Additionally, the tenure of the Parent's statutory auditor, KPMG, will be 10 years by 31 December 2019. In accordance with section 5.2.12 of the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks and Discount houses in Nigeria, KPMG will not be eligible for reappointment as the Parent's auditor in the next annual general meeting. Accordingly, we will propose a resolution for the appointment of a new statutory auditor of the Bank.

Disclosure of information to the auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware, and each director has taken all the steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

I would like to take this opportunity to thank our valued customers for their continued support and all our staff for their continued commitment and professionalism.

Other information

An indication of likely future developments in the business and particulars of significant events, which have occurred since the end of the financial year have been included in the Strategic report.

By order of the Board,

PYough

Pamela Yough
Chief Executive

16 March 2020

39 Cornhill, London, EC3V 3ND

Statement of directors' responsibilities in respect of the Annual Report, Strategic Report, Directors' Report and financial statements for the year ended 31 December 2019

The directors are responsible for preparing the Annual Report, Strategic Report, Directors' Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board of Directors and signed on its behalf by:

PYough

Pamela Yough
Chief Executive

16 March 2020

Company registration no. 05713749

Strategic Report

Pamela Yough
Chief Executive

Strategic report

Zenith Bank (UK) Limited ("Bank", "Zenith UK") continued its drive to improve its shareholder's value, despite the prolonged and significant market-related challenges of 2019.

For an organisation like Zenith, these challenges - notable among which are three US Fed rate cuts, tightening credit spreads, and limited supply of Eurobonds in Sub-Saharan Africa - also presented opportunities to innovate by exploring alternate avenues of lending in line with the Bank's risk appetite. The Bank successfully combined its strong leadership, domain expertise, creativity and capacity to execute, leading to more diversification of its risks and revenue base.

The results are consistent with the Bank's goals to maximise shareholder value, properly aligned with its strategy which has manifested as financial gains and the development of capabilities. We hope these levers will further enhance the Bank's success at identifying and transforming new business opportunities into sustainable business for years to come.

Purpose – to be the International hub for Zenith Group and its customers.

Vision – to become the leading UK bank, providing a specialist range of financial services to customers transacting with Africa.

Mission – to deliver the Zenith Group products and services to our customers globally.

Business Model

Zenith UK provides clients with high-quality product offerings and reliable services, which assure convenience and are delivered through the Bank's differentiated services, in-depth understanding of client's business needs, expert local knowledge of several African markets and efficient execution of transactions.

The Bank's clients include corporates, small and medium scale organisations, financial institutions, banks, individuals (Wealth Management clients).

Its core business lines, and target markets are:

- Serving Zenith Group which comprises the Parent company and subsidiaries namely Zenith Bank (Ghana) Limited, Zenith Bank (Sierra Leone) Limited, Zenith Bank (Gambia) Limited, Zenith Pensions Custodian Limited and Zenith Nominee Limited and its customers;
- Arranging Trade Finance and working capital requirements for West African and Sub-Saharan Africa Corporates;
- Structuring Foreign currency (FX) transactions, managing Treasury positions, and trading in Sub-Saharan Eurobonds;
- Delivering correspondent and cash management solutions to banks, financial institutions, governments and parastatals; and
- Providing Banking services to High Net-worth Individuals ("HNIs")

2019 Business Review

The Bank's financial results and explanatory notes are set out in pages 20 to 62. Highlights of these are presented as follows:

- Operating income of $58.1m (2018: $49.7m)
  - Of which Net interest income: $44.2m (2018: $38.6m), Non-interest income: $13.9m (2018: $11.0m)
- Impairment charge reversals of $0.2m (2018: Reversals of $4.5m)
- Profit before tax of $34.7m (2018: $33.8m)
- Profit after tax of $27.9m (2018: $27.5m)
- Cost-to-Income ratio (excluding impairment reversals) of 40.3% (2018: 41.0%)
- Return on Equity of 11% (2018: 12%)

Strategic Report (continued)

Operating Environment

As a UK-regulated entity with exposures in primarily five countries, the Bank is faced with a mix of evolving macroeconomic, political, regulatory, technological and accounting developments. Consequently, the Bank is exposed to changes in multiple jurisdictions.

However, the countries whose macroeconomic development are believed to have potential impacts on the Bank's business are the United States, the United Kingdom and Nigeria. This is because the Bank's balance sheet significantly comprises US Dollar-denominated assets (and is therefore subject to US Dollar interest rate and exchange risks). The Bank is domiciled in and also subject to regulations in the UK, a Sterling-based economy, mainly making operating expenditures in GB Pound and the fact that the Bank transacts several of its businesses through its Nigerian-based parent company, Zenith Bank PLC.

The Bank measures the sensitivity of its business to fluctuations in the price of crude in the international market. Fluctuations in prices of crude have direct impact on Nigeria's foreign reserves and availability of foreign currency, which is a key driver of import and export business. International Trade Financing business which the Parent facilitates through the Bank is impacted by fluctuations in import and export volumes. Uncertainties regarding Brexit and the Bank's impact assessment are addressed under "Brexit".

The Bank mitigates the effects of such economic changes by staying abreast of developments in these countries and determining appropriate risk management responses (See "***Significant Risks***").

Business Structure

Business activities are organised into Corporate Banking ("Business Development"), Wealth Management, Financial Institutions & Correspondent Banking departments respectively. The Business Development function is subdivided into the UK and Dubai operations (through the Bank's branch that is registered with the Dubai Financial Services Authority - DFSA).

The Bank also has a Treasury function that is responsible for ensuring proper management of the Bank's liquidity and open positions. The function also manages the Bank's trading activities in bonds, foreign currencies and other financial instruments.

Percentage contribution to operating income by the business units is presented below:

Treasury	71%	(2018: 72%)
Corporate Banking (internally known as Business Development)	13%	(2018: 18%)
Financial Institutions & Correspondent Banking	15%	(2018: 9%)
Wealth Management	1%	(2018: 1%)

Year-on-year, the mix of operating income across the business lines changed due to growth in lending to Financial Institutions & Correspondent Banking while Corporate Banking business showed a downward trend. Treasury business declined slightly due to decrease in income generated from short-term placements with financial institutions and investments in High Quality Liquid Assets (HQLA). Treasury income continued to form a substantial part of the income, based on the significant amount of deposits from the Central Bank of Nigeria (CBN), albeit, there was a reduction during the year.

Strategy

The Bank's strategy for delivering its business model combines the following:

- Leveraging the strength of the Zenith brand and focussing on longstanding and new relationships from the Sub-Saharan Africa ("SSA") and other parts of the world to drive international business network expansion.
- Maintaining robust risk management, regulatory compliance and corporate governance structure to grow cross border business.
- Utilising in-depth understanding of specific trade and correspondent banking requirements, to develop business relationships with banks and financial institutions in the West African sub-region and encouraging them to use the Bank's services for business.
- Focussing lending activities on international trade and export transactions, including discounting trade bills for companies and providing short-term credit to financial institutions, which are using the bank as their correspondent bank.

Strategic Report (continued)

- Building up on SSA knowledge and extending Treasury product offerings to meet the needs of clients that require comprehensive services (e.g. foreign exchange to institutional and corporate; SSA bonds trading offering to institutional and wealth management clients).
- Promoting cross selling of products and services by the Bank's business units: enabling client acquisition growth, creating capital capacity for trade finance activities and efficiently managing the Bank's liquidity, offering long term investment advisory and wealth management solutions to HNIs and ultimate beneficial owners (UBOs) of large corporates; through various marketing visits and introduction of key customers to other areas of the Bank that could provide them with additional services.

With effective risk management, the Bank seeks to ensure that its portfolio of assets is well-diversified across industries and geographies.

Significant Risks

The business and operational risks faced by the Bank are managed through the implementation of a robust Risk Management Framework and the development of a strong risk culture for the Bank's operations.

The following are significant risks faced by the Bank:

(a) **Credit Risk:** This is the risk arising from the uncertainty of obligor's ability to perform its contractual obligations. The Bank is exposed to credit risks, not only through its direct lending activities and transactions, but also through commitments to extend credits, letters of guarantee, letters of credit and securities purchased under reverse repurchase agreements.

It is also exposed to risk arising from placing deposits with financial institutions, central banks, brokerage activities and transactions, and settlement risks such as those resulting from irrevocable fund transfers to third parties via electronic payment systems. Credit risk is the most significant of the Bank's risks because of its potential impact on regulatory capital.

Despite the increase in Bank's gross lending exposure to US$337.0 million during the year, mainly driven by trade bills discounting, the risk of deterioration in credit was mitigated by periodic credit reviews and creation of assets with good credit quality. Money Market placements were held with counterparties with acceptable ratings. As a result of this, no non-performing loans were recorded during the year (2018: nil).

(b) **Market Risk:** This is the risk that changes in financial market prices, interest rates and exchange rates will adversely impact the Bank's financial performance and position.

The Bank mitigates this risk by imposing a limit of Euro 15 million (approx. $16 million) on its total trading position. Trading in excess of this limit are monitored by the Bank's Assets and Liability Committee (ALCO). Further, a stop-loss of $35,000 is in force in the Bank and is monitored by Risk Management department. All overnight positions are kept within tolerance limit. The Bank's net open foreign exchange position is limited to $4 million. During the year under review, the Bank stayed within all pre-established limits.

Risk Management department monitors the Bank's overall positions against approved risk limits daily and reconciles the position separately to the dealers' position, in line with the Bank's Three Lines of Defence model. Daily market risk reports detailing the profile of market risk are reported to the Market Risk Committee on a weekly basis.

(c) **Regulatory and Conduct Risks:** This risk could arise from inappropriate or non-application of anti-money laundering procedures, unsatisfactory response to regulatory / legal compliance directives, market practices, poor customer service, lack of effective Board engagement, staff's non-adherence to company's values, staff incompetence, inappropriate use of confidential information, lack of robust product development process and reputational risk.

This risk is mitigated by ensuring that staff adhere to the Bank's procedures, organisation of regular training and online tests for staff, monitoring of customers' activities, internal audits, use of monthly Key Risk Indicators ("KRIs") to record customers' complaints and sample checks on calls to ensure that there are no market malpractices.

Strategic Report (continued)

(d) **Liquidity Risk:** This is the risk that the Bank encounters difficulty in realising assets or otherwise raising funds to meet commitments associated with its liabilities or financial obligations.

The Bank aims to mitigate liquidity risks by continuing to focus on and strengthening its liquidity position. The Bank's Risk department and ALCO review the liquidity positions periodically with a view to identifying and addressing exceptions, where applicable, on a timely basis.

(e) **Operational risk:** Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems, or from external events.

Operational risks are managed and controlled within the individual business lines and robust procedures to address operational risks have been developed as an important part of the Bank's risk management culture.

Key Performance Indicators

The Chief Executive Officer has overall responsibility for the Bank's performance and is supported by the EXCO comprising of Executive Director: Business Development, Head of Compliance and Money Laundering Reporting Officer, Chief Operations Officer, Chief Financial Officer, Head of Markets, Chief Risk Officer, Head of Human Resources, Head of Internal Audit, Head of IT, Head of Business Development, Head of Legal/ Company Secretary, Head of Financial Institutions & Correspondence Banking and Senior Executive Officer (Dubai Branch).

The Bank's Board-approved financial strategy is translated into annual budgets. Budgets are operationalised into measurable financial metrics that are used to drive business and evaluate executive performance. Some of these metrics are translated into Key Performance Indicators (KPIs), in line with the approach adopted by the Chief Operating Decision Maker (CODM) at Group level, and are as follows:

(a) **Returns on Equity (RoE):** This measures the Bank's ability to generate returns for its shareholder. It is calculated as Profit after Tax (PAT) as a percentage of average shareholders' equity. The target RoE set for 2019 was 11% (Actual 2019: 11%, Actual 2018: 12%).

(b) **Operating Income:** The Bank seeks to ensure that it covers its funding and operational costs, and this was achieved during the year. Operating income reported in 2019 was $58.1m (2018: $49.7m).

(c) **Cost-to-Income ratio:** This ratio reflects the Bank's efficiency in its use of human and other resources for creating value. Generally, a lower ratio indicates relatively higher efficiency but in the context of the Bank's operations, a target ratio around 40% is considered reasonable (2019 Actual: 40.3%, 2018 Actual: 40.5%).

Significant Events in 2019

During the year, UK Government obtained an extension to the Brexit process from March 29, 2019 to 30 June 2019. Two further extensions were requested, until 31 October 2019 and 31 January 2020 respectively.

It is widely believed that Brexit will likely impact UK's economy and reduce its real per capita income in the long term. Some of the possible repercussions discussed were increased import costs, higher inflation and significant depreciation of the sterling. Analysts suggested that there could be significant short-term impacts on the UK economy if the country were to leave the EU without a deal.

Please refer to the next paragraph for the Bank's assessment of Brexit impact.

Brexit

Following UK's exit from the European Union (EU) in January 2020, the Bank has reviewed its initial assessments of the impact. As UK begins its transition period that will last until the end of 2020, it is expected that the UK and EU will enter into some negotiations. The UK government has advised that the current rules on trade, travel, and business for the UK and EU will continue to apply during the transition period.

Overall, the Bank does not anticipate any negative impact on its ability to continue to do business profitably. This assessment covers business model, capital, liquidity and operations and is premised on the fact that it does not have any significant exposure to EU markets. Furthermore, the Bank believes that none of its significant sources of revenue is at risk due to Brexit.

Strategic Report (continued)

Further, the Bank does not anticipate any impact on Eurobond trading as bonds are usually traded globally and settled via Euroclear. It is expected that this will be unchanged, and that UK's exit will have minimal impact on pricing. Eurobond client base is mostly in Nigeria and UK. European Fund Managers mainly have UK offices and it is believed that they would not be restricted from dealing with the Zenith UK. Similarly, minimal impact is anticipated on the Bank's Non-Deliverable Forwards (NDF) trading as all counterparties are based in London or Africa.

Most of the Bank's liquid assets are denominated in US Dollar. For the portion held in UK Gilts (US$74.3 million), the Bank does not believe there will be any material impact even if the market reacts adversely to UK's exit. The Bank's position is also buttressed by the fact that these UK Gilts are short termed in nature and can be easily converted to cash if this becomes necessary.

The Bank does not anticipate that retail funding, which is denominated in Sterling, will be impacted as funding base is entirely UK-based. It is however anticipated that there is a likelihood that competition for liability generation will increase.

Additionally, the possible risks that the Bank envisages are the possibility of rates remaining static due to the heightened level of fragility and uncertainty; the anticipation that regulation for banks conducting business across the European Union ("EU") will increase, in view of expected changes to EU regulation; and the risk to financial stability.

The Bank believes that the above factors are unlikely to have a significant effect on the Bank as it has very little direct interaction with Europe since its main operations are in Africa, Middle East and the UK. The Bank believes that it will be able to cope with the regulatory demands. Finally, the Bank believes that the current capital position is robust to weather any short-term financial instability.

Outlook: 2020 and Beyond

The Bank intends to consolidate on its past achievements. To continue creating value for its customers sustainably, the bank will focus on the development of its human resources, business, processes and technology.

Growth of the investment mortgage and wealth management businesses will be prioritised in 2020. More resources will be allocated towards the development of sophisticated business intelligence solutions in order to identify opportunities for the improvement of service delivery and enhancement of customer experience.

The Bank will continue to focus on generating deposit liabilities, specifically in US Dollar termed funds, from small and medium scale enterprises (SMEs) and individuals. Internal processes will be improved and streamlined, while systems will be enhanced to ensure that the Bank remains compliant with regulatory requirements. The Bank will also continue to invest in technology that will support its business and strategy as enhancing and improving the IT environment are key priorities for the Bank.

The Bank will scale its corporate lending business to attract more financing opportunities that are of acceptable risk threshold. Zenith UK's business development processes will continue to take into consideration the environment and the effect of business operations of its clients and business partners.

Coronavirus (COVID-19)

While the Bank does not have presence or specific exposure to China, the recent Coronavirus (COVID-19) outbreak, which has caused economic disruption since the beginning of 2020, particularly in mainland China and Hong Kong, is a new emerging risk to the global economy, which could dampen investor and business confidence. It has been declared as a global pandemic and the outlook and duration of the disruption caused by the virus remains uncertain, and the Bank continues to monitor the situation closely. However, it is too early to assess the impact on the Bank's performance in 2020 but a prolonged continuation of the outbreak and disruption to global economy can lead to challenges in achieving our budgeted results.

Strategic Report (continued)

Section 172 statement

The directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Bank for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

- the likely consequences of any decision in the long term;
- the interest of the Bank's employees;
- the need to foster the Bank's business relationships with suppliers, customers and others;
- the impact of the Bank's operations on the community and the environment;
- the desirability of the Bank in maintaining a reputation for high standard of business conduct; and
- the need to act fairly as between members of the Bank.

The directors also considered the views and interests of a wider set of stakeholders, including the Bank's regulators, the Government and non-governmental organisations. Considering this broad range of interest is an important part of the way the Board makes decisions, although in balancing those different perspectives it may not always be possible to deliver to every stakeholder's desired outcome.

By order of the Board,

Pamela Yough
Chief Executive

16 March 2020

39 Cornhill, London, EC3V 3ND

Independent Auditor’s Report to the Members of Zenith Bank (UK) Limited

1 Our opinion is unmodified

We have audited the financial statements of Zenith Bank (UK) Limited (“the Bank”) for the year ended 31 December 2019 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statement give a true and fair view of the state of Bank’s affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors for the year ended 31 December 2010. The period of total uninterrupted engagement is for the 10 financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Bank in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Key audit matters		**vs 2018**
Brexit	The impact of uncertainties due to the UK exiting the European Union on our audit	◀▶
Recurring risks	Expected credit losses on loans and advances to customers	◀▶
	NEW: General IT Controls	

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
The impact of uncertainties due to the UK exiting the European Union on our audit **Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular those relating to impairment of loans and advances to customers and those relating to adopting the going concern basis of preparation of the financial statements (see below). Each of these depend on assessments of the future economic environment and the company’s future prospects and performance.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: **Our Brexit knowledge** We considered the directors’ assessment of Brexit-related sources of risk for the Company’s business and financial resources compared with our own understanding of the risks. We considered the directors’ plans to take action to mitigate the risks.

Independent Auditor's Report to the Members of Zenith Bank (UK) Limited (continued)

Key audit matter	How our audit addressed the key audit matter
Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	**Sensitivity analysis** When addressing expected credit loss on loans and advances to customers' in key audit matter and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. **Assessing transparency** As well as assessing individual disclosures as part of our procedures on impairment of loans and advances to customers, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under expected credit losses on loans and advances to customers, we found the resulting estimates and related disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
General IT Controls Effective general IT controls are integral to the operational stability of the Bank's systems as it is highly dependent on IT systems for the processing and recording of significant volume of transactions. Our audit approach relies extensively on automated controls over IT systems. Certain staff have privileged user access to the production environment for the Bank's IT systems. There is a risk that this access can be used to intentionally or erroneously impact the financial reporting result. Changes are made by the IT team to the applications present within the IT environment of the Bank. There is a risk that, if change management controls are not designed, implemented and operating effectively, these changes can be made to intentionally or erroneously impact the financial statements.	Our procedures included: **Control testing:** With the assistance of our IT specialists, we tested the design and implementation of the general IT controls over change management and privileged user access, including monitoring of privileged user access, review of privileged user access actions and monitoring of the changes made to the applications. **Our results** Our testing identified that the general IT controls relating to privileged user access and change management were not designed and implemented effectively. As a result we were unable to place reliance on application level controls and reassessed our initial testing approach. Consequently, we performed additional substantive tests of detail, including obtaining external confirmations of balances and agreeing transaction details to underlying records for an increased number of samples. The result of our additional test of details were satisfactory.

Independent Auditor's Report to the Members of Zenith Bank (UK) Limited (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss on loans and advances to customers Refer to pages 20 – 22 and 29 (accounting policies) and pages 33-34, 43-46, 49-51 (financial disclosures) **Subjective Estimate** Recognition of expected credit losses (ECL) on loans and advances involves significant judgement and estimates. The carrying value of financial instruments within the scope of IFRS 9 ECL may be materially misstated if judgements or estimates made by the Bank are inappropriate. The risk is also in respect of key inputs to the ECL calculation (described below) involving judgement along with the adequacy of management's assessment of the required provisions for stage 3 loans. Specifically, the key areas where we identified greater levels of management judgement and therefore increased levels of audit focus are ● Probability of Default (PD) – Probability of default (PD), which is an estimate of the likelihood of default over a given time horizon is a key driver in the Bank's ECL result and is therefore a significant judgemental aspect of the client modelling approach. Significant Increase in Credit Risk ("SICR") – For the customer portfolios the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation as these are driven mainly by the judgemental application of credit grades. ● Determination of Stage 3 customers based on management definition of default	Our procedures included: **Control testing:** We tested the design and implementation of controls over ECL computation. **Test of details:** Key aspects of our testing involved: – We assessed and challenged the appropriateness of the methodology by considering qualitative factors, including recent loss history, performance and risk characteristics of the portfolio. – We critically accessed the financial performance of the borrower for a sample of loans and advances to customers and challenged management's assumptions regarding the Bank's IFRS 9 impairment methodologies, including the appropriateness of staging and identification of significant increase in credit risk (SICR). – We tested the key assumptions used by management in the calculation of ECL such as the probability of default by checking to external independent sources. **Our results** Based on our test of details we considered the ECL provision to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at $1.5m (2018: $1.1m), determined with reference to a benchmark of profit before tax, of which it represents 4.3% (2018:3.3%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $75,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Bank was undertaken to the materiality level specified above and was all performed at the Bank's office in London.

Independent Auditor's Report to the Members of Zenith Bank (UK) Limited (continued)

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Bank or to cease its operations, and as they have concluded that the Bank's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Bank will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Bank's business model and analysed how those risks might affect the Bank's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Bank's available financial resources over this period were:

- Ability to meet budgeted revenue forecasts and the impact of any macroeconomic deterioration on the recoverability of the loan book.

As these were risks that could potentially cast significant doubt on the Bank's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Bank's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent Auditor’s Report to the Members of Zenith Bank (UK) Limited (continued)

7 Respective responsibilities

Directors’ responsibilities

As explained more fully in their statement set out on page 7, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor’s report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC’s website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Bank’s regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Bank is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Bank is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Bank’s license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, financial crime and certain aspects of company legislation recognising the financial and regulated nature of the Bank’s activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Independent Auditor's Report to the Members of Zenith Bank (UK) Limited (continued)

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Suvro Dutta (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square,
Canary Wharf,
London,
E14 5GL

16 March 2020

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Note	2019 US$	2018 US$
Interest income	4	**55,620,170**	44,010,593
Interest expense	4	**(11,444,742)**	(5,389,317)
Net interest income		**44,175,428**	38,621,276
Fee and commission income	5	**6,214,426**	6,231,760
Trading and other income	6	**7,678,545**	4,809,574
Operating income		**58,068,399**	49,662,610
Personnel expenses	7	**(15,264,115)**	(13,552,715)
Depreciation and amortisation	15 &16	**(1,876,779)**	(1,042,000)
Other expenses	8	**(6,229,315)**	(5,751,386)
Operating expenses		**(23,370,209)**	(20,346,101)
Operating profit before impairment provision and taxation		**34,698,190**	29,316,509
Net impairment credit/(charge) on financial assets	14	**23,518**	4,522,490
Profit before tax		**34,721,708**	33,838,999
Income tax expense	9	**(6,791,020)**	(6,329,242)
Profit for the year		**27,930,688**	27,509,757
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of debt investments at fair value through other comprehensive income		**1,362,245**	(464,633)
Net change in fair value of debt investments reclassified to profit or loss		**(349,794)**	344,388
Income tax on items that are or may be reclassified subsequently to profit or loss		**(172,117)**	20,442
Other comprehensive income for the year (net of tax)		**840,334**	(99,803)
Total comprehensive income for the year attributable to equity holders of the Bank		**28,771,022**	27,409,954

The 2019 and 2018 results are all from continuing operations.

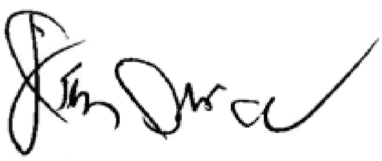
The notes on the accompanying pages 24 to 62 form an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2019

	Note	31 December 2019 US$	31 December 2018 US$
Assets			
Cash and cash equivalents	10	**572,254,591**	710,130,745
Securities designated at fair value through profit or loss	11	**9,230,962**	50,484,784
Securities designated at fair value through other comprehensive income	11	**637,735,288**	791,564,517
Securities measured at amortised cost	12	**129,654,918**	90,201,310
Derivative financial assets	21	**2,799,287**	–
Loans and advances to banks	13	**265,692,663**	171,079,202
Loans and advances to customers	14	**65,286,592**	84,944,158
Property and equipment	15	**4,817,131**	1,217,934
Intangible assets	16	**2,018,933**	1,877,831
Deferred tax assets	17	**1,050,871**	1,476,943
Other assets	18	**1,031,802**	1,357,582
Total assets		**1,691,573,038**	1,904,335,006
Liabilities			
Deposits from banks	19	**1,021,102,222**	1,348,249,858
Deposits from customers	20	**401,039,700**	320,923,844
Derivative financial liabilities	21	**415,114**	1,753,497
Current tax liabilities		**4,538,570**	3,780,840
Impairment on off balance sheet assets		**1,440,717**	–
Lease obligation	25	**3,760,787**	–
Other liabilities	22	**5,105,347**	4,227,408
Total liabilities		**1,437,402,457**	1,678,935,447
Equity			
Capital	26	**136,701,620**	136,701,620
Reserves		**740,531**	(99,803)
Retained earnings		**116,728,430**	88,797,742
Total equity attributable to equity holders of the Bank		**254,170,581**	225,399,559
Total liabilities and equity		**1,691,573,038**	1,904,335,006

These statutory financial statements were approved by the board of directors and were signed on its behalf on 16 March 2020 by:



Jim Ovia
Chairman

Pamela Yough
Chief Executive Officer

Adeyemi Paul-Taiwo
Chief Financial Officer

The notes on the accompanying pages 20 to 57 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2019

	Share Capital US$	FVOCI Reserves US$	Retained Earnings US$	Total Equity US$
Balance as at 1 January 2019	136,701,620	(99,803)	88,797,742	225,399,559
Profit for the year	–	–	27,930,688	27,930,688
Fair value reserve net of tax (debt instruments)	–	840,334	–	840,334
Balance at 31 December 2019	136,701,620	740,531	116,728,430	254,170,581
Balance as at 1 January 2018	136,701,620	–	70,085,676	206,787,296
Impact of adopting IFRS 9 at 1 January 2018	–	(63,947)	(8,797,691)	(8,861,638)
Balance as at 1 January 2018 (restated)	136,701,620	(63,947)	61,287,985	197,925,658
Profit for the year	–	–	27,509,757	27,509,757
Fair value reserve net of tax (debt instruments)	–	(35,856)	–	(35,856)
Balance at 31 December 2018	136,701,620	(99,803)	88,797,742	225,399,559

The balance in "FVOCI Reserves" comprises fair value movements on debt instruments that are carried at fair value through other comprehensive income.

The notes on the accompanying pages 24 to 62 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 US$	2018 US$
Cash flows from operating activities			
Profit for the year		**27,930,688**	27,509,757
Adjustments for:			
Depreciation of property and equipment	15	**924,552**	226,148
Amortisation of intangible assets	16	**952,227**	815,852
Impairment provision (reversal)/charge	14	**(23,518)**	(4,522,490)
Interest expense (transition to IFRS 16)		**33,523**	–
Income tax expense	9	**6,791,020**	6,308,800
Exchange difference on property and equipment		**–**	(109,316)
Exchange difference on intangible assets		**–**	(362,033)
		36,608,492	29,866,718
Change in loans and advances to banks		**(96,133,912)**	(24,710,757)
Change in loans and advances to customers		**22,399,433**	36,689,839
Change in securities designated at fair value through profit or loss		**41,253,822**	469,510,216
Change in securities designated at fair value through other comprehensive income		**153,839,342**	(784,800,380)
Change in other assets		**325,780**	1,509,055
Change in deposits from banks		**(327,147,636)**	90,327,688
Change in deposits from customers		**80,115,856**	117,073,807
Change in derivative financial instruments		**(4,137,670)**	3,083,521
Change in other liabilities		**877,939**	2,108,560
Income tax paid		**(5,607,218)**	(8,816,591)
Net cash used in / generated from operating activities		**(97,605,772)**	(68,158,324)
Cash flows from investing activities			
Acquisition of securities measured at amortised cost		**(55,163,699)**	(49,210,034)
Proceeds from redemption of securities measured at amortised cost		**16,783,131**	65,702,517
Acquisition of property and equipment	15	**(191,136)**	(148,552)
Acquisition of intangible assets	16	**(1,093,329)**	(1,339,945)
Net cash from investing activities		**(39,665,033)**	15,003,986
Cash flows from financing activities			
Repayment of lease obligation (transition to IFRS 16)		**(571,826)**	–
Interest payment on lease obligation (transition to IFRS 16)		**(33,523)**	–
Net cash from financing activities		**(605,349)**	–
Net increase/(decrease) of cash and cash equivalents		**(137,876,154)**	(53,154,338)
Cash and cash equivalents as at 01 January		**710,130,745**	763,285,083
Cash and cash equivalents at 31 December	10	**572,254,591**	710,130,745

The notes on the accompanying pages 20 to 57 form an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 General information

Zenith Bank (UK) Limited ('the Bank') is a private company, limited by shares. The Bank was incorporated, domiciled and registered in England and Wales in 2006. The Bank's registered number is 05713749 and registered office (and principal place of business) is situated in England, and is at 39, Cornhill, London EC3V 3ND. The Bank is fully owned by the parent and ultimate parent undertaking, Zenith Bank Plc, a Bank incorporated in Nigeria. The Bank primarily provides trade finance, treasury services, corporate and correspondent banking, infrastructure and project financing, and wealth management services to customers.

The Bank is an authorised person under the Financial Services and Markets Act 2000 (as amended in 2012). It is authorised by the PRA and regulated by the FCA and the PRA.

Statement of compliance

The Bank's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and the Companies Act 2006.

2 Basis of preparation and significant accounting policies

Basis of preparation

The financial statements have been prepared in the Bank's functional and presentation currency, US Dollars, using historical cost convention modified to include the fair valuation of financial instruments to the extent required or permitted under IFRS as adopted by the European Union as set out in the relevant notes.

(a) Going concern

The Bank's performance is in line with the approved business plan along the defined matrix of profitability and liquidity. Thus, the management believes that the Bank will continue in business in the foreseeable future. The Bank believes that the going concern basis of accounting is appropriate for the preparation of the financial statements.

The directors consider that the Bank has adequate resources to continue its operations for the foreseeable future. The directors have satisfied themselves that no material uncertainty exists that may cast significant doubt about the ability or willingness of the parent to continue with the current financing arrangements.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the Bank's financial statements.

(b) IFRS 9 Financial Instruments

i. Classification and Measurement of Financial Assets and Liabilities

There are three measurement classifications under IFRS 9: amortised cost, fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications based on the business model within which they are held, and their contractual cash flow characteristics.

The business model reflects how groups of financial assets are managed to achieve a particular business objective. Financial assets can only be held at amortised cost if the instruments are held in order to collect the contractual cash flow ('hold to collect') and where those contractual cash flows are solely payments of principal and interest ('SPPI'). Financial asset debt instruments where the business model objectives are achieved by both collecting the contractual cash flows and selling the assets ('hold to collect and sell') are held at FVOCI, with unrealised gains and losses deferred within reserves until the asset is derecognised. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

2 Basis of preparation and significant accounting policies (continued)

Financial assets

Subsequent to initial recognition, all financial assets within the Bank are measured at:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL)

The Bank has assessed the business models that it operates and loans to banks and customers are held within a 'hold to collect' business model. Investment debt securities are held within a 'hold to collect' portfolio. The majority of the remaining investment debt securities are held within a 'held to collect and sell' business model or trading portfolio. Where the objective of a business is to hold the assets to collect the contractual cash flows or where the objective is to hold the assets to collect contractual cash flows and sell, a further assessment has been undertaken to determine whether the cash flows of the assets are deemed to meet the SPPI criteria. Where these instruments have cash flows that meet the SPPI criteria, the instruments are measured at amortised cost (for hold to collect business models) or FVOCI (for hold to collect and sell business models). Instruments that do not meet the SPPI criteria are measured at FVTPL regardless of the business model in which they are held.

Amortised cost

The Bank's financial assets are subsequently measured at amortised cost if they meet both of the following criteria and are not designated as at FVTPL:

- 'Held to collect' business model test – The asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- 'SPPI' contractual cash flow characteristics test – The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding on a specified date. Interest in this context is consideration of the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

Debt instruments are measured at amortised cost by the Bank if they meet both of the following criteria and are not designated as at FVTPL:

- 'Held to collect' business model test – The asset is held within a business model whose objective is achieved by both holding the financial asset in order to collect contractual cash flows and selling the financial asset; and
- 'SPPI' contractual cash flow characteristics test – The contractual terms of the financial asset give rise on a specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair value through other comprehensive income

This category of financial assets represents non-derivative financial assets classified on initial recognition because they are being held to collect contractual cashflows and for sale. FVOCI assets are measured at fair value and any changes are recognised in other comprehensive income. Interest, impairments and foreign exchange differences on assets classified at FVOCI are recognised in the Income statement. The cumulative gain or loss that was recognised in other comprehensive income is recognised in profit or loss when an asset designated at FVOCI is derecognised.

All other financial assets (equity investments) are measured at fair value.

Fair value through profit or loss

Financial assets are classified and measured at FVTPL by the Bank if the financial asset is:

- A debt instrument that does not qualify to be measured at amortised cost or FVOCI;
- An equity investment which the Bank has not irrevocably elected to classify as at FVOCI and present subsequent changes in fair value in OCI;
- A financial asset where the Bank has elected to measure the asset at FVTPL under the fair value option.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

2 Basis of preparation and significant accounting policies (continued)

Financial liabilities

Financial liabilities are either classified by the Bank as:

- Financial liabilities at amortised cost, or
- Financial liabilities as at FVTPL.

Financial liabilities are measured at amortised cost by the Bank unless either:

- The financial liability is held for trading and is therefore required to be measured at FVTPL, or
- The bank elects to measure the financial liability at FVTPL (using the fair value option).

ii. Impairment of Financial Assets, Loan Commitments and Financial Guarantee Contracts

The measurement of the significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk;
- determining the credit risk grades;
- generating the term structure of the probability of default;
- determining whether credit risk has increased significantly;
- incorporation of forward-looking information;
- establishing groups of similar financial assets for the purposes of measuring ECL.

IFRS 9 requires a forward-looking expected credit loss (ECL) impairment framework for financial assets not measured at FVTPL and certain off-balance sheet loan commitments and guarantees. It replaces the 'incurred loss model' in IAS 39. The new ECL framework results in an allowance for expected credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the historic approach under IAS 39 where the allowance recorded on performing loans is designed to capture only losses that have been incurred, whether or not they have been specifically identified.

The impairment model applies to the following financial instruments that are not measured at fair value through profit or loss:

– financial assets that are debt instruments; and
– loan commitments and financial guarantee contracts issued

IFRS 9 Impairment model uses a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default events occurring over the next 12 months. This Stage 1 approach is different from the IAS 39 based approach, which estimates a collective allowance to recognise losses that have been incurred but not reported on performing loans.

Stage 2 – When a financial asset experiences a Significant Increase in Credit Risk (SICR) subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of all possible default events occurring over the remaining life of the financial asset. Provisions are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

The ECL requirements of IFRS 9 are complex and require management judgments, estimates and assumptions, particularly in the areas of assessing whether the credit risk of an instrument has increased significantly since initial recognition and incorporating forward-looking information into the measurement of ECLs.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

2 Basis of preparation and significant accounting policies (continued)

Definition of default

Under IFRS 9, the Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising collaterals (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information. The Bank applies a methodology and framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition and this is aligned to the internal credit risk management process, which corresponds to external credit rating agency. The criteria for determining whether credit risk has increased significantly varies on individual circumstances of each loan, given the nature of the loan book but includes a backstop based on delinquency of 30 days past due, and a decrease in credit ratings based on Credit Quality Steps ("CQS") as explained under Note 25 (Sensitivity and impact analysis of ECL assessment section). In certain instances, using its judgement, and where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so as the quantitative analysis may not capture it on a timely basis.

Measuring ECL

The key inputs to the measurement of ECLs are term structures of the following variables:

- Probability of Default (PD)
- Loss given default (LGD); and
- Exposure at default (EAD)

The Bank has its own internal rating based on internally available information which has been mapped to statistics obtained from a ratings agency. The PD is derived based on the internal rating and the data from the external ratings agency, the LGD which has been estimated to be 45% (based on the regulatory default LGD) and Exposure at Default (EAD) net of cash collateral, which represents the outstanding exposure. Off-balance sheet items are a part of the EAD within the ECL computation.

If, in a subsequent period, the amount of impairment loss decreased and the decrease could be objectively related to an event occurring after the impairment was recognised (such as improvement in debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the impairment allowance account. The amount of the reversal is recognised in profit or loss under "Net Impairment credit/(loss) on financial assets".

Forward-looking information ('FLI')

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

FLI is required to be incorporated into the measurement of ECL as well as into the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

Forecasts for key macroeconomic variables that most closely correlate with the bank's portfolio are used to produce four economic scenarios comprising a central case, upside case, downside case and a stressed downside case, and the impacts of these scenarios are then probability weighted. The estimation and application of this forward-looking information will require significant judgement. External information is used to produce the forecast information.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

2 Basis of preparation and significant accounting policies (continued)

iii. Hedge Accounting

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. The Bank currently does not apply hedge accounting to any of its financial instruments.

(c) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in 'Interest income' and 'Interest expense' in the statement of profit and loss using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument excluding future credit losses. The calculation includes all amounts paid or received that are an integral part of the effective interest rate, including fees and commission income, transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by any allowance for impairment.

(d) Trading and other income

Trading and other income comprises of gains less losses relating to trading assets and liabilities and includes all fair value changes, interest, dividends, foreign exchange differences and recoveries of loan written off.

(e) Fee and commission income

The Bank earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

(i) if the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third party such as the arrangement for the acquisition of securities);

(ii) if the income is earned as services are provided, it is recognised as revenue as the services are provided (for example, documentary credit confirmation fees, custody and banking service fees);

(iii) if the income relates to a financial instrument, it is recognised as an adjustment to the effective interest rate (for example, loan origination fees) and recorded in fee and commission income;

(iv) the Bank provides certain guarantee facilities which are dependent on uncertain future events. These facilities include surety, fidelity, performance, bid and advance payment bonds. Fees and commissions arising from the provision of such services are recognised over the period for which the service is provided; and

(v) Point in time fees are service fees which are earned upon completion of service and recognised directly in Statement of profit or loss. Point over time fees are fees integral to loans and are suspended in Statement of financial position and recognised over tenor of the facility.

(f) Foreign currencies

The directors regard US Dollar ('US$') as the currency of the primary economic environment in which the Bank operates. Accordingly US$ is regarded as being the functional currency of the Bank, which is also the reporting currency of the Bank.

Income and expense in foreign currencies are recorded in US$ at the rate of exchange prevailing at the time of each transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Resulting exchange differences are included in the income statement.

Non-monetary assets and liabilities in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

2 Basis of preparation and significant accounting policies (continued)

(g) Income tax

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit for the year calculated using tax rates enacted or substantially enacted by the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

(h) Derivatives

The Bank uses derivative financial instruments for risk management purposes. The Bank uses forward foreign exchange, interest rate and other derivative products.

Fair values are obtained from quoted market prices in active markets or by using valuation techniques, including recent market transactions, where an active market does not exist. All derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

(i) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(j) De-recognition of financial assets and liabilities

Financial assets are de-recognised when the rights to receive cash flows from the assets have expired or where the Bank has transferred its contractual right to receive the cash flows of the financial assets and either:

i. substantially all the risks and rewards of ownership have been transferred; or

ii. substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are de-recognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expires.

(k) Property and equipment

Property and equipment are stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives as follows:

Leasehold improvements:	10 years or the length of the lease, if less
Computer equipment:	3 years
Furniture, fixtures and fittings:	5 years

Leasehold premises improvements comprise the Bank's offices in London. All equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

2 Basis of preparation and significant accounting policies (continued)

statement during the financial period in which they are incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(l) Intangible assets

Acquired computer software licenses and development costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programs are expensed as incurred.

The capitalised cost of computer software is amortised over 3 years using the straight-line method.

(m) Cash and cash equivalents

Cash and cash equivalents include unrestricted highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash, notes and coin, treasury bills and other eligible bills, professional market placements to banks, amounts held at correspondents and certificates of deposit.

(n) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed, unless they are remote.

(o) Employee benefits

The Bank provides a defined contribution pension plan for its staff. The assets of the schemes are held separately from those of the Bank. The Bank pays contributions to the Zenith Retirement Benefit Scheme. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(p) Share capital

Share issue costs - Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares - Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

(q) Deposits

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without a quoted market price is based on discounted cash flows using market interest rates for debts with similar remaining maturity.

(r) Loans written off

The amount of loan write off is assessed on a case by case basis. Full or partial write-offs of loans and advances are generally recorded when management believes there is no realistic prospect of a full recovery or of interest and principal payments being made on a timely basis.

(s) Changes in accounting policies

Except as noted below, the Bank has consistently applied the accounting policies as set out in Note 2(a)-(p) to all periods presented in these financial statements. The Bank has adopted the following new standards and amendments including any consequential amendments to other standards with initial date of application of January 1, 2019.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

2 Basis of preparation and significant accounting policies (continued)

The effect of initially applying these standards is mainly attributed to the following:

1. Recognition of right-of-use assets and lease liability for operating leases.
2. Additional depreciation on the right-of-use assets. Also, additional interest expense as a result of the unwinding of the lease liability.
3. Disclosures on IFRS 16.

i. IFRS 16 Leases

The Bank has adopted IFRS 16- Leases as issued by the IASB in July 2014, which has given rise to changes in the Bank's accounting policies.

As permitted by the transitional provision of the standard, the Bank has adopted the modified retrospective approach to the application of IFRS 16. This approach allows the Bank not to restate comparative financial information. The major impact of the adoption of this standard is that the Bank will be required to capitalise all leases (i.e. recognise a right-of-use asset and a lease liability) with the exemption of certain short-term leases and leases of low-value assets.

Leases

The Bank has initially adopted IFRS 16 Leases from 1 January 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for leases. As a result, the Bank, as a lessee has recognized the right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessors accounting remains similar to previous accounting policies.

The major lease transaction wherein the Bank is a lessee relates to the lease of Bank's premises.

As permitted by the Standard, the Bank has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below:

A. Definition of a lease

The Bank has elected to apply the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17- Leases and IFRIC 4 - Determining whether an Arrangement Contains a Lease, will continue to apply to those leases entered or modified before 1 January 2019.

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The change in definition of a lease mainly relates to the concept of control.

IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Bank will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Bank has elected not to separate non-lease components and will instead account for the lease and non-lease component as a single component.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

2 Basis of preparation and significant accounting policies (continued)

B. Bank is a lessee

Leases, under which the Bank possess a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration is disclosed in the Bank's statement of financial position and recognized as a leased asset.

To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Bank assesses whether, throughout the period of use, it has both of the following:

(a) the right to obtain substantially all of the economic benefits from use of the identified asset, and

(b) the right to direct the use of the identified asset.

The Bank has elected not to recognize right-of-use assets and lease liabilities for some leases of low value assets. The Bank recognizes expenses associated with these leases as an expense on straight line basis over the lease term.

The Bank presents right-of-use assets as a separate class under 'property and equipment'. The Bank presents lease liability in other liabilities in the statement of financial position.

i. Accounting policies

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

ii. Transition

Previously, the Bank classified property leases as operating leases under IAS 17. These properties are the Bank's premises.

- At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments - the Bank applied this approach to all other leases.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

C. Bank is a lessor

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in Loans and advances to customers in the statement of financial position.

Finance charges earned are computed using the effective interest method which reflects a constant periodic return on the investment in the finance lease. Initial direct costs paid are capitalised to the value of the lease amount receivable and accounted for over the lease term as an adjustment to the effective rate of return.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

2 Basis of preparation and significant accounting policies (continued)

The accounting policies applicable to the Bank as a lessor are not different from those under IAS 17. The Bank is not required to make any adjustments on transition to IFRS 16 for lease in which it acts as a lessor.

The Bank recognizes assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. Initially, the Bank will recognize a finance lease receivable at the amount equal to the net investment in the lease. Subsequently, finance income will be recognized at a constant rate on the net investment. During any 'payment free' period, this will result in the accrued finance income increasing the finance lease receivable.

For finance leases, the lease payments included in the measurement of the net investment in a lease at commencement date includes variable lease payments that depend on an index or a rate; other variable payments (e.g. those linked to future performance or use of an underlying asset) are excluded from the measurement of the net investment and are instead recognized as income when they arise. The treatment adopted for variable lease payments under operating leases should be consistent with these requirements.

D. Impacts on the financial statements

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities as summarised below:

	In US$ 1 January 2019
Right-of-use assets: Office Premises	4,214,098
Lease liability	4,214,098

In measuring the liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rates as at 1 January 2019. The rates applied are 1.11% for GB Sterling and 3.99% for UAE Dirham.

Operating lease presented as part of prepayments was US$ 147,061 as at 31 December 2018.

Right-of-use asset recognised as at 1 January 2019	US$ 4,214,098

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Bank recognised $3,669,475 of right-of-use assets (net of accumulated depreciation) and $3,760,787 of lease liabilities as at 31 December 2019 for both London and Dubai office. Also, in relation to those leases under IFRS 16, the Bank has recognised depreciation and interest cost, instead of operating lease expense. During the year, the Bank recognised US$ 663,137 of depreciation charges and US$ 33,523 of interest cost from the lease liabilities.

ii. IFRIC 23 Uncertainty over income tax treatment

The amendment clarifies how to determine the accounting tax position when there is uncertainty over income tax treatments.

The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a Bank; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Bank has adopted IFRIC 23 effective 1 January 2019.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

2 Basis of preparation and significant accounting policies (continued)

iii. Amendments to IFRS 9

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

(t) Future accounting developments

At 31 December 2019, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for the Bank's financial statements as at 31 December 2019.

New standards and interpretations not yet adopted

IFRS 17 Insurance Contracts (IFRS 17) requires insurance liabilities to be measured at a current fulfilment value and provide a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

3 Critical accounting judgements and key sources of estimation uncertainty

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by the EU, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The Bank's principal accounting policies are set out above. UK company law and IFRS, as adopted by the EU, require the directors to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. The directors consider that the estimates made in respect of the impairment of loans and advances are appropriate for the preparation of these financial statements.

3.1 Impairment of Loans and Advances – key judgements

All individually significant loans and advances are assessed for impairment. In determining whether a specific impairment loss should be recorded in profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger. In determining the appropriate level of provision and estimating future cash flows, management makes judgements about the level of financial difficulty of the debtor, the net realisable value of any underlying collateral and the probability that the debtor will enter bankruptcy or financial reorganisation. Significant delinquency in payments are also considered. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit function.

Some of the key concepts in IFRS 9 (which have already been noted within the accounting policies section) that have the most significant impact and require a high level of judgement are:

- Assessment of Significant Increase in Credit Risk
- Macroeconomic Factors, Forward Looking Information and Multiple Scenarios
- Expected Life
- Definition of Default and Write-off

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

4a Interest Income

	2019 US$	2018 US$
Derived from:		
Cash and cash equivalents	23,449,729	14,037,880
Securities designated at fair value through profit or loss	3,056,172	568,826
Securities designated at fair value through other comprehensive income	14,675,065	10,741,261
Securities measured at amortised cost	6,332,553	8,240,899
Loans and advances to banks	3,400,563	3,146,769
Loans and advances to customers	4,706,088	7,274,958
Total	55,620,170	44,010,593

4b Interest Expense

	2019 US$	2018 US$
Incurred on:		
Deposits from banks	8,862,678	4,341,419
Deposits from customers	2,582,064	1,047,898
Total	11,444,742	5,389,317

5 Fee and Commission income

	2019 US$	2018 US$
Derived from:		
Loans	1,335,322	1,777,069
Trade Finance	4,675,149	4,346,931
Other	203,955	107,760
Total	6,214,426	6,231,760

6 Trading and other income

	2019 US$	2018 US$
Derived from:		
Fixed income trading	2,030,303	604,682
Forex trading	5,298,448	4,549,280
Other sources	349,794	(344,388)
Total	7,678,545	4,809,574

Included in 'Other sources' are the realised gains/(losses) on securities designated at fair value through other comprehensive income.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

7 Personnel expenses

	2019 US$	2018 US$
Employment costs are as follows:		
Wages and salaries - staff	10,813,465	9,649,897
Wages, salaries and other - Directors	583,141	519,532
Non-executive directors' fees and emoluments	479,866	415,996
Pension contributions under defined contribution scheme	970,623	842,851
Compulsory social security obligations	1,062,003	881,692
Other staff costs	1,355,017	1,242,747
Total	15,264,115	13,552,715

	2019	2018
Number of employees at year-end including Directors	127	106
Average number of employees across the year including Directors	113	99

At year-end the Bank had 29 (2018: 21) employees involved in customer facing roles and 98 (2018: 85) in administration.

Included within employment costs are:	2019 US$	2018 US$
Directors' remuneration and fees		
Directors' fees, emoluments, salaries and other	1,063,007	935,528
Pension contributions	70,024	66,432
Total	1,133,031	1,001,960

The highest paid Director who served during 2019 received total emoluments of US$ 356,305 (2018: US$ 344,698) and pension contributions of US$ 44,136 (2018: US$ 35,123).

8 Other expenses include

	2019 US$	2018 US$
Premises cost	469,202	1,342,444
Other administration costs	5,439,900	4,115,852
Total fees paid to the auditors	320,213	293,090
Total	6,229,315	5,751,386

	2019 US$	2018 US$
Audit of UK statutory accounts	267,427	208,390
Non-audit services:		
Other assurance related services	52,786	92,610
Total	320,213	301,000

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

9 Taxation

The tax charge in the Statement of profit or loss for 2019 is US$ 6.8m (2018: US$ 6.3m). These can be reconciled to the profit/(loss) per the Statement of profit or loss as follows:

	2019 US$	2018 US$
UK corporation tax on profit/(loss) of the current year	**6,400,520**	6,284,779
Bank surcharge	**142,990**	–
Adjustments in respect of prior periods	**(6,445)**	(101,140)
Current tax	**6,537,065**	6,183,639
Deferred tax - current year	**259,130**	56,284
Deferred tax - prior year	**(5,175)**	89,319
Deferred tax	**253,955**	145,603
Total tax charge/(credit)	**6,791,020**	6,329,242
Effective tax rate	19.56%	18.70%
Tax relating to equity		
Deferred tax		
IFRS 9 transitional adjustment	**172,117**	(20,442)
Tax debit/(credit) in equity	**172,117**	(20,442)
Factors affecting tax charge:		
Profit/(loss) on ordinary activities before taxation	**34,721,708**	33,838,999

	2019		2018	
Profit/(loss) on ordinary activities multiplied by the UK corporation tax rate of 19% (2018: 19%)	6,597,125	19.00%	6,429,410	19.00%
Effects of:				
– Expenses not deductible for tax	10,782	0.03%	44,260	0.13%
– Effect of tax rate change	(33,567)	-0.10%	10,407	0.03%
– Adjustments of tax charge in respect of previous periods	(11,620)	-0.03%	(11,822)	-0.03%
– IFRS 9 transitional adjustment	(198,785)	-0.57%	(198,785)	-0.59%
– Depreciation in excess of capital allowances	24,965	0.07%	37,488	0.11%
– Other adjustments	–	0.00%	(38,000)	-0.11%
– Deferred tax recognised	259,130	0.75%	56,284	0.17%
– Bank surcharge	142,990	0.41%	–	
Actual total tax charge/(credit)	**6,791,020**	**19.56%**	**6,329,242**	**18.70%**

Factors that may affect future tax charges:

The Directors have reviewed the level of the deferred tax asset carried forward and believe that this is fairly stated. The recovery of the recognised asset is dependent on the expected generation of future taxable profits.

With effect from 1 April 2017, the UK main corporation rate changed from 20% to 19%. The UK main rate of corporation tax will reduce from 19% to 17% from 1 April 2020. These changes have all been substantively enacted at the reporting date and the deferred tax balance at 31 December 2019 has been recognised at the 17% rate.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

10 Cash and Cash Equivalents

	2019 US$	2018 US$
Petty cash	51,687	28,515
Cash with other banks	150,552,548	150,021,878
Money market placements	421,650,356	560,080,352
Total	572,254,591	710,130,745

The above table reflects money market placements maturing in less than 90 days.

11 Securities designated at fair value

11.1 Securities designated at fair value through profit or loss

	2019 US$	2018 US$
Securities (Sovereigns, Multi-lateral Development Banks)	9,230,962	50,484,784
Total	9,230,962	50,484,784

11.2 Securities designated at fair value through other comprehensive income

	2019 US$	2018 US$
Commercial paper	18,915,523	–
US, UK and France Government Treasury bills	184,157,479	277,442,412
Other HQLAs (Bonds issued by Multi-lateral Development Banks, Nigerian Treasury bills)	348,984,909	467,949,346
Fixed interest rate bonds	25,667,429	–
Variable interest rate bonds	60,009,948	46,172,759
Total	637,735,288	791,564,517

12 Securities measured at amortised cost

	2019 US$	2018 US$
Fixed interest rate bonds	131,486,989	91,487,657
Variable interest rate bonds	958,518	2,577,282
Less: IFRS 9 Impairment loss allowance	(2,790,589)	(3,863,629)
Total	129,654,918	90,201,310

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

13 Loans and advances to banks

	2019 US$	2018 US$
Loans and advances to banks	76,812,082	84,309,510
Trade bills discounted and refinanced	192,648,696	89,017,356
Less: IFRS 9 Impairment loss allowance	(3,768,115)	(2,247,664)
Total	265,692,663	171,079,202

14 Loans and advances to customers

	2019 US$	2018 US$
Loans and advances to individuals	4,260,806	1,528,733
Loans and advances to corporates	63,407,789	88,539,295
Less: IFRS 9 Impairment loss allowance	(2,382,003)	(5,123,870)
Total	65,286,592	84,944,158
Movements in Impairment:		
Opening balance	(11,268,649)	(33,402,223)
(Charge)/reversal for the year – IFRS 9 ECL Stage 1 and Stage 2 (P&L impact)	853,739	4,489,004
(Charge)/reversal for the year – IFRS 9 ECL Stage 1 and Stage 2 (OCI impact)	(830,221)	33,486
Loans and advances written off	–	28,073,467
Impact of adopting IFRS 9 at 1 January 2018	–	(15,306,732)
Reversal of IAS 39 Collective Impairment Provision	–	4,844,349
Closing balance	(11,245,131)	(11,268,649)

Loans and advances written off during prior year relate to loans and advances to customers fully impaired in prior years.

Reconciliation of IFRS 9 Impairment loss allowance is as follows:

	2019 US$	2018 US$
Securities designated at fair value through other comprehensive income	(863,707)	(33,486)
Securities measured at amortised cost (Note 12)	(2,790,589)	(3,863,629)
Loans and advances to banks (Note 13)	(3,768,115)	(2,247,664)
Loans and advances to customers (Note 14)	(2,382,003)	(5,123,870)
Impairment on off balance sheet assets	(1,440,717)	–
Closing balance	(11,245,131)	(11,268,649)

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

15 Property and equipment

	Right-of-use assets US$	Leasehold improvements US$	Computer equipment US$	Furniture US$	Total US$
Cost					
Balance at 1 January 2019	–	1,492,597	1,016,957	632,430	3,141,984
Recognition of right-of-use assets on initial recognition of IFRS 16	4,332,613	–	–	–	4,332,613
Additions	–	109,479	49,723	31,934	191,136
Disposals	–	–	–	–	–
Translation difference	–	–	–	–	–
Balance at 31 December 2019	**4,332,613**	**1,602,076**	**1,066,680**	**664,364**	**7,665,733**
Depreciation					
Balance at 1 January 2019	–	488,079	910,341	525,630	1,924,050
Recognition of right-of-use assets on initial recognition of IFRS 16	663,137	–	–	–	663,137
Charge for the year	–	152,613	53,051	55,751	261,415
Disposals	–	–	–	–	–
Translation difference	–	–	–	–	–
Balance at 31 December 2019	**663,137**	**640,692**	**963,392**	**581,381**	**2,848,602**
Net book value					
Balance at 31 December 2019	**3,669,476**	**961,384**	**103,288**	**82,983**	**4,817,131**

	Leasehold improvements US$	Computer equipment US$	Furniture US$	Total US$
Cost				
Balance at 1 January 2018	3,761,046	877,921	554,820	5,193,787
Additions	26,489	107,064	14,999	148,552
Disposals	–	–	–	–
Translation difference	(2,294,938)	31,972	62,611	(2,200,355)
Balance at 31 December 2018	**1,492,597**	**1,016,957**	**632,430**	**3,141,984**
Depreciation				
Balance at 1 January 2018	2,755,176	833,549	418,848	4,007,573
Charge for the year	132,847	43,379	49,922	226,148
Disposals	–	–	–	–
Translation difference	(2,399,944)	33,413	56,860	(2,309,671)
Balance at 31 December 2018	**488,079**	**910,341**	**525,630**	**1,924,050**
Net book value				
Balance at 31 December 2018	**1,004,518**	**106,616**	**106,800**	**1,217,934**

Translation differences reported in prior year represent the exchange difference that arose in the pre-2018 translation of Property and equipment at spot rate rather than at historic exchange rates on the relevant dates of purchase. The net effect of US$109,316 from the cost and accumulated depreciation was corrected in 2018.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

16 Intangible assets

	2019 US$	2018 US$
Cost		
Balance at beginning of the year	7,989,585	5,304,243
Additions	1,093,329	1,339,945
Translation difference	–	1,345,397
Balance at end of the year	9,082,914	7,989,585
Amortisation		
Balance at beginning of the year	6,111,754	4,312,538
Charge for the year	952,227	815,852
Translation difference	–	983,364
Balance at end of the year	7,063,981	6,111,754
Net book value		
Balance at end of the year	2,018,933	1,877,831
Balance at beginning of the year	1,877,831	991,705

The intangible assets relate to software licenses purchased and software development.

Translation differences reported in prior year represent the exchange difference that arose in the pre-2018 translation of Intangible assets at spot rate rather than at historic exchange rates on the relevant dates of purchase. The net effect of US$362,033 from the cost and accumulated amortisation was corrected in 2018.

17 Deferred tax

2019

	Brought forward US$	Charge for the year - P&L US$	Charge for the year - OCI	Carried forward US$
Assets				
Accelerated capital allowances	(153,656)	(66,951)	–	(220,607)
Provisions	9,412	8,795	–	18,207
IFRS 9 transitional adjustments	1,600,745	(177,861)	–	1,422,884
FVOCI reserve	20,442	–	(172,117)	(151,675)
FRS 26 adjustments	–	(17,938)	–	(17,938)
Total	1,476,943	(253,955)	(172,117)	1,050,871

2018

	Brought forward US$	Charge for the year - P&L US$	Charge for the year - OCI	Carried forward US$
Assets				
Accelerated capital allowances	1,359	(155,015)	–	(153,656)
Provisions	–	9,412	–	9,412
IFRS 9 transitional adjustments	–	1,600,745	–	1,600,745
FVOCI reserve	–	–	20,442	20,442
Total	1,359	1,455,142	20,442	1,476,943

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

18 Other assets

	2019 US$	2018 US$
Prepayments	832,858	936,210
Other receivables	198,944	421,372
Total	1,031,802	1,357,582

19 Deposits from banks

	2019 US$	2018 US$
Term deposits	275,971,081	367,100,443
Demand deposits	745,131,141	981,149,415
Total	1,021,102,222	1,348,249,858

Demand deposits include interest-free funds from the Central Bank of Nigeria.

20 Deposits from customers

	2019 US$	2018 US$
Term deposits	296,580,891	222,669,823
Demand deposits	94,126,692	91,099,981
Saving deposits	10,332,117	7,154,040
Total	401,039,700	320,923,844

21 Derivative financial instruments

	2019 US$	2018 US$
Forward foreign exchange contracts:		
Receivable	2,799,287	–
(Payable)	(415,114)	(1,753,497)
Total	2,384,173	(1,753,497)

Derivative financial instruments consist of short-term foreign exchange contracts. These are held for day to day cash management rather than for trading purposes and are held at fair value. All derivative contracts open at the year-end have intended settlement dates within twelve months. All derivative financial instruments are considered to be level two for IFRS 7 purposes and are priced with reference to observable market data. The fair values of foreign exchange contracts are reflected in the table above.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

22 Other Liabilities

	2019	2018
	US$	US$
Provisions	**3,767,844**	4,121,386
Other payables	**1,337,503**	106,022
Total	**5,105,347**	4,227,408

'Provisions' relate to bonuses (US$ 2.0 million), legal fees (US$ 1.0 million), audit fees (US$ 0.3 million), bank charges (US$ 0.3 million) and professional fees (US$ 0.2 million). These are current items which will be paid during the next financial year.

'Other payables' mainly comprises unearned income and current obligations regarding pension and tax deducted from personnel salaries.

23 Commitments and contingencies

Pension commitments

During the year, pension costs of US$ 970,623 (2018: US$ 842,851) were charged to the income statement. Pension obligations outstanding on 31 December 2019 US$ 99,170 (2018: US$ 79,483).

	2019	2018
	US$	US$
Trade finance contingencies		
Letters of credit and acceptances (including cash backed)	**117,070,339**	89,971,478
Guarantees	**100,522,712**	17,510,144
Undrawn committed facilities	**202,158,644**	3,479,708
Total	**419,751,695**	110,961,330
Cash collateral and other high-quality mitigations	**285,169,662**	27,823,665

Cash collateral and other high-quality mitigations include cash, property, plant and equipment, guarantees, back-to-back letters of credit and other forms of collateral.

24 Financial Instruments

Accounting classifications and fair values

Derivatives

Derivative instruments are carried at fair value and changes in values are recognised through the Statement of Profit or Loss. For instruments where a listed market price is available, fair value is equal to market value.

Fair value through profit and loss

The Bank designates some investment securities at fair value, with fair value changes recognised in the Statement of Comprehensive Income.

Fair value through other comprehensive income

These financial assets are classified at fair value through other comprehensive income (FVOCI) at initial recognition and are measured at fair value in the Balance sheet.

Amortised cost

These are debt instruments held by the Bank with the intention to hold to collect. These instruments are carried at amortised cost using the effective interest rate method.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

24 Financial Instruments (continued)

Other financial assets and financial liabilities

Other financial assets and financial liabilities that mainly include 'Loans and Advances' and 'Deposits' are carried at amortised cost. Fair values of these instruments are calculated based upon the value of future cash flows discounted at the market value of interest at the balance sheet date. Most Loans and advances are either on variable rate or fixed and short-term structures. Accordingly, the movements in yields get factored in to fair values within a short period. Further, some loans and advances are collateralised.

Management expects the fair values of 'Loans and advances to banks' approximate the book values given these are mostly short-term placements and/or attract floating rates. Valuation of 'Loans and Advances to customers' considers the impact of movement in credit spreads and other client specific risk factors.

The fair value of each class of financial assets and financial liabilities are shown in the statement of financial position as follows:

2019	Designated as at FVTPL US$	FVOCI – debt instruments US$	Amortised cost US$	Total carrying amount US$	Total fair value US$
Cash and cash equivalents	–	–	572,254,591	572,254,591	572,254,591
Securities designated at fair value through profit or loss	9,230,962	–	–	9,230,962	9,230,962
Securities designated at fair value through other comprehensive income	–	637,735,288	–	637,735,288	637,735,288
Securities measured at amortised cost	–	–	129,654,918	129,654,918	135,990,114
Loans and advances to banks	–	–	265,692,663	265,692,663	265,692,663
Loans and advances to customers	–	–	65,286,592	65,286,592	65,011,137
Derivative financial assets	2,799,287	–	–	2,799,287	2,799,287
Total financial assets	**12,030,249**	**637,735,288**	**1,032,888,764**	**1,682,654,301**	**1,688,714,042**
Deposits from banks	–	–	1,021,102,222	1,021,102,222	1,021,102,222
Deposits from customers	–	–	401,039,700	401,039,700	401,039,700
Derivative financial liabilities	415,114	–	–	415,114	415,114
Total financial liabilities	**415,114**	**–**	**1,422,141,922**	**1,422,557,036**	**1,422,557,036**

2018	Designated as at FVTPL US$	FVOCI – debt instruments US$	Amortised cost US$	Total carrying amount US$	Total fair value US$
Cash and cash equivalents	–	–	710,130,745	710,130,745	710,130,745
Securities designated at fair value through profit or loss	50,484,784	–	–	50,484,784	50,484,784
Securities designated at fair value through other comprehensive income	–	791,564,517	–	791,564,517	791,564,517
Securities measured at amortised cost	–	–	90,201,310	90,201,310	87,915,836
Loans and advances to banks	–	–	171,079,202	171,079,202	171,079,202
Loans and advances to customers	–	–	84,944,158	84,944,158	84,356,565
Total financial assets	50,484,784	791,564,517	1,056,355,415	1,898,404,716	1,895,531,649
Deposits from banks	–	–	1,348,249,858	1,348,249,858	1,348,249,858
Deposits from customers	–	–	320,923,844	320,923,844	320,923,844
Derivative financial liabilities	1,753,497	–	–	1,753,497	1,753,497
Total financial liabilities	1,753,497	–	1,669,173,702	1,670,927,199	1,670,927,199

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

24 Financial Instruments (continued)

Fair value hierarchy

The Bank measures fair value using the following fair value hierarchy:

- Level 1 inputs are quoted prices (i.e. unadjusted) in active markets for identical assets or liabilities that the entity can assess at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 inputs are unobservable inputs for the asset or liability (i.e. not based on observable market data).

The following table outlines the fair value hierarchy of instruments carried at fair value:

Please refer to table above for fair values of loans and advances. All loans and advances are categorised as level 3 assets.

2019	**Level 1 US$**	**Level 2 US$**	**Level 3 US$**	**Total US$**
Assets				
Securities designated at fair value through profit or loss	9,230,962	–	–	9,230,962
Securities designated at fair value through other comprehensive income	619,004,826	18,730,462	–	637,735,288
Securities measured at amortised cost	129,654,918	–	–	129,654,918
Derivatives financial assets	–	2,799,287	–	2,799,287
	757,890,706	**21,529,749**	**–**	**779,420,455**

2018	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets				
Securities designated at fair value through profit or loss	50,484,784	–	–	50,484,784
Securities designated at fair value through other comprehensive income	791,564,517	–	–	791,564,517
Securities measured at amortised cost	90,201,310	–	–	90,201,310
Derivatives financial assets	–	–	–	–
	932,250,611	–	–	932,250,611

25 Financial risk management

The Bank is exposed to the following risks from financial statements:

- credit risk;
- liquidity risk;
- market risk;
- operational risk;
- foreign exchange risk;
- interest rate risk;
- reputational risk;
- country risk; and
- compliance risk.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

Risk management framework

The Bank is firmly committed to the management of risks, recognising that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volatility of markets, facilitated by advances in technology and communications. Risk management activities are given due recognition in the Bank's business decision making process.

Responsibility for risk management policies and limits in the level of risks assumed lies with the Board of Directors. The Board charges management with developing, presenting, updating and implementing these policies, controls and limits. The structure is designed to provide assurance that no single event or combination of events will materially affect the Bank.

The Bank's Board of Directors and the Executive Committee monitor compliance with risk management, assist in assessing market trends, economic and political developments, and in providing global strategic direction for all aspects of risk management. The Asset and Liability Committee and the Market Risk Committee provide a forum for in-depth review and analysis of the market and liquidity risks to which the Bank is subjected.

The following fundamental principles of sound risk management apply to all financial instruments including derivatives:

- appropriate review by the Board of Directors and senior management;
- adequate risk management processes;
- sound measurement and information systems; and
- segregation of duties, comprehensive internal controls and internal audit procedures.

Credit Risk Management

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's receivables from customers and investment securities.

The Bank mainly lends and takes risk on the major West African corporate and financial institutions which, are long established customers of the Zenith Group, and UK and European trading companies against an underlying trade transaction evidenced by an incoming Nigerian or other West African bank letter of credit.

International interbank lending is predominantly made to investment grade-rated organisations and in line with the Credit Scoring Policy & Procedures manual. All limits are set against the Bank's capital resources as set out in its Credit Risk Policy. Retail lending are made to only established customers of the Group in accordance with strict credit and security parameters.

The Bank's Credit Risk Policy covers the credit, limits structures, delegated authorities and credit risk grading issues for the Bank, taking account of the Bank's appetite for risk. The Bank's objective is to have a high quality, diversified loan portfolio which will generate profits commensurate with the risks and the Bank's target return on investments and enable the Bank to identify potential problem loans.

The ultimate responsibility for credit risk rests with the Board of Directors, who have delegated this responsibility to the Board Risk Committee ("BRC") chaired by a Non-Executive Director. In turn, responsibility for day-to-day credit issues including assessing credit proposals, has been delegated to the Management Credit Committee ("MCC"), which is chaired by the CEO.

The MCC is responsible for reviewing and approving all credit matters, which are submitted to it in line with approved policies and within its delegated authority, and which are supported in this process by Risk Management. The day to day management of facilities within limits and guidelines set by the MCC is the responsibility of the business line departments. Risk Management is responsible for monitoring compliance with these limits.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

All credit applications and reviews are submitted to Credit Risk Management for independent assessment before they are forwarded for approval. All credit applications must be approved by the Bank's MCC prior to submission to the Group Credit Committee ("GCC") of Zenith Bank Plc in Lagos, Nigeria for final approval. All such approved facilities in excess of defined limits are forwarded to BRC for ratification.

All limits in the Bank are based on the Bank's own capital resources, with limits covering countries, sovereign entities, banks and commercial entities and individuals. These limits operate within the PRA's Large Exposure requirements within the Capital Requirement Regulation ("CRR"), as outlined in The PRA's Approach to Banking Supervision.

All limits are set against the Bank's capital resources and are dependent on the individual internal credit risk grade of the counterparty. International money market and foreign exchange limits are dependent on the credit rating of the counterparty and the internal credit risk grade ("CRG").

All country limits are determined in accordance with the Credit Scoring Policy & Procedures Manual and all country limits override any individual customer limits.

Forbearance practices

Forbearance occurs when a lender decides to modify the terms and conditions of a loan or debt security as a result of financial difficulty. Examples may include reducing interest rates, delaying payment of principal and amending or not enforcing covenants.

Lending subject to forbearance as at the year-end 2019 was nil (2018: Nil).

Sensitivity and impact analysis of ECL assessment

The Bank's relatively simple balance sheet which comprises exposures in the form of Trade Finance loans, Money Market placements and commercial loans. Currently, there are no complex transactions that require more sophisticated models than the one being applied. Hence, the Bank employs a well-governed but relatively simplified process for measuring the expected credit loss ("ECL") on its exposures. The Bank does not apply the Monte Carlos approaches for calculating ECL.

ECL is currently calculated as the expected value resulting from four scenarios as contained in the Bank's IFRS 9 ECL model documentation:

Scenario	Impact	Probability
Scenario A	Ratings stay the same (base case)	55%
Scenario B	Ratings improve by 1 notch	15%
Scenario C	Ratings worsen by 1 notch	15%
Scenario D	Ratings worsen by 2 notches	15%

The probability of 55% assigned to the base case is premised upon an internal assessment of factors including GDP growth of sovereigns, credit ratings of counterparty exposures in SSA region and oil prices.

The Bank adopts internal counterparty ratings which correspond to those of an external credit rating agency for each of the counterparties. Unrated counterparties are assigned ratings based on internal assessments.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

Residual maturity of each exposure is computed in 15-year time horizon buckets of 365 days apart. Exposures are organised in arrays corresponding to their maturities in the buckets.

Credit ratings are assigned to each counterparty. This is compared to the rating for same counterparty in the prior review period to determine the extent of migration (i.e. increase or decrease in rating). For the purpose of determining significant increase in credit risk ("SICR"), the credit ratings must have dropped within buckets based on the credit quality steps ("CQS"). For example, a change in credit rating from AA+ to AA- does not constitute SICR as both ratings are classified as 'High Grade'. However, a change in credit rating from A ('Upper Medium Grade') to BBB+ ('Lower Medium Grade') will result in SICR. The movement in buckets is reflected below:

Ratings	CQS	SICR Trigger
AAA	1	PRIME
AA+	1	HIGH GRADE
AA	1	HIGH GRADE
AA-	1	HIGH GRADE
A+	2	UPPER MEDIUM GRADE
A	2	UPPER MEDIUM GRADE
A-	2	UPPER MEDIUM GRADE
BBB+	3	LOWER MEDIUM GRADE
BBB	3	LOWER MEDIUM GRADE
BBB-	3	LOWER MEDIUM GRADE
BB+	4	NON-INVESTMENT GRADE SPECULATIVE
BB	4	NON-INVESTMENT GRADE SPECULATIVE
BB-	4	NON-INVESTMENT GRADE SPECULATIVE
B+	5	HIGHLY SPECULATIVE
B	5	HIGHLY SPECULATIVE
B-	5	HIGHLY SPECULATIVE
CCC+	6	SUBSTANTIAL RISKS
CCC	6	EXTREMELY SPECULATIVE
CCC-	6	IN DEFAULT WITH LITTLE PROSPECT OF RECOVERY
CC	6	IN DEFAULT WITH LITTLE PROSPECT OF RECOVERY
C	6	IN DEFAULT WITH LITTLE PROSPECT OF RECOVERY
D	6	IN DEFAULT

A favourable movement in CQS buckets above results in a decrease in credit risk.

Where SICR is established for a counterparty, the exposure to the counter party is re-staged based on the following table:

Current Staging	Next Staging	ECL Estimate
Stage 1	Stage 2	12-month ECL
Stage 2	Stage 3	Lifetime ECL
Stage 3	Stage 3	Lifetime ECL

Pro-rating of PDs for ECL Stage 1

Probability of Defaults (PDs) for transactions with a contractual maturity of less than twelve months have been pro-rated accordingly.

12-month ECL and lifetime ECL are determined with reference to the period-on-period change in the credit rating of counterparties. Depending on the stage of each exposure, it is aligned the applicable Global Corporate Average Cumulative Default Rates by Rating Modifier issued by External Credit Assessment Institution ("ECAI").

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

IFRS 9 ECL Staging Analysis:

2019 US$	ECL Stage 1	ECL Stage 2	ECL Stage 3	Total ECL
Securities designated at fair value through other comprehensive income	824,768	38,939	–	863,707
Securities measured at amortised cost	1,634,332	1,156,257	–	2,790,589
Loans and advances to banks	3,768,115	–	–	3,768,115
Loans and advances to customers	1,401,300	980,703	–	2,382,003
Impairment on off balance sheet assets	1,185,984	254,733	–	1,440,717
Total	8,814,499	2,430,632	–	11,245,131

2018 US$	ECL Stage 1	ECL Stage 2	ECL Stage 3	Total ECL
Securities designated at fair value through other comprehensive income	33,486	–	–	33,486
Securities measured at amortised cost	401,076	3,462,553	–	3,863,629
Loans and advances to banks	2,247,664	–	–	2,247,664
Loans and advances to customers	86,118	5,037,752	–	5,123,870
Total	2,768,344	8,500,305	–	11,268,649

Disclosures around measures of uncertainty and sensitivity

The accuracy of the Bank's ECL model depends significantly on the probabilities assigned to the various scenarios highlighted above.

Sensitivity Analysis: Change in the Probabilities assigned to the scenarios applied

The cases below consider alternative probability distributions stressed for an increase and decrease in the base case scenario:

Case 1: Probability distribution changes to 60%, 15% 15% and 10% respectively for Scenarios A, B, C and D respectively

2019 US$	Base Case	Case 1	Change Over/(Under)	% Change Over/(Under)
Stage 1	8,814,499	8,263,581	(550,918)	-6%
Stage 2	2,430,632	2,306,443	(124,189)	-5%
Stage 3	–	–	–	0%
Total	11,245,131	10,570,024	(675,107)	-6%

2018 US$	Base Case	Case 1	Change Over/(Under)	% Change Over/(Under)
Stage 1	2,768,344	2,392,701	(375,643)	-14%
Stage 2	8,500,305	8,056,581	(443,724)	-5%
Stage 3	–	–	–	0%
Total	11,268,649	10,449,282	(819,367)	-7%

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

In this case, the ECL reduces by US$675,107 (or 6%) (2018: US$819,637 (or 7%)), requiring less impairment allowance than what was recognised in the books.

Case 2: Probability distribution changes to 45%, 20% 20% and 15% respectively for Scenarios A, B, C and D respectively

2019 US$	Base Case	Case 2	Change Over/(Under)	% Change Over/(Under)
Stage 1	8,814,499	8,894,397	79,898	1%
Stage 2	2,430,632	2,452,232	21,600	1%
Stage 3	–	–	–	0%
Total	**11,245,131**	**11,346,629**	**101,498**	**1%**

2018 US$	Base Case	Case 2	Change Over/(Under)	% Change Over/(Under)
Stage 1	2,768,344	2,810,885	42,541	2%
Stage 2	8,500,305	8,554,107	53,802	1%
Stage 3	–	–	–	0%
Total	**11,268,649**	**11,364,992**	**96,343**	**1%**

In this case, the ECL increases by US$101,498 (or 1%) (2018: US$96,343 (or 1%)), requiring more impairment allowance than what was recognised in the books.

Case 3: Probability distribution changes to 40%, 20% 20% and 20% respectively for Scenarios A, B, C and D respectively

2019 US$	Base Case	Case 3	Change Over/(Under)	% Change Over/(Under)
Stage 1	8,814,499	9,445,288	630,789	7%
Stage 2	2,430,632	2,576,421	145,789	6%
Stage 3	–	–	–	0%
Total	**11,245,131**	**12,021,709**	**776,578**	**7%**

2018 US$	Base Case	Case 3	Change Over/(Under)	% Change Over/(Under)
Stage 1	2,768,344	3,186,505	418,161	15%
Stage 2	8,500,305	8,997,827	497,522	6%
Stage 3	–	–	–	0%
Total	**11,268,649**	**12,184,332**	**915,683**	**8%**

In this case, the ECL increases by US$776,578 (or 7%) (2018:US$915,683 (or 8%)), requiring more impairment allowance than what was recognised in the books.

In all cases, the change is not significant to require an adjustment in the ECL estimate presented in this financial statement.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

Collateral

Collateral and security are an important mitigant of credit risk.

The Bank routinely obtains collateral and security and ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed.

The maximum exposure to credit risk (net of mitigations) on 'bank balances and money market placements', 'securities', 'loans and advances to banks' and 'loans and advances customers' and 'off balance sheet items' at the statement of financial position date was US$ 2.03bn (2018: US$ 1.98bn).

The following table sets out the principal types of collateral pertaining to 'loans and advances to banks' and 'loans and advances to customers' held by the Bank:

Collateral analysis

	2019 US$	2018 US$
Cash	65,341,727	26,432,665
Property, plant and equipment	11,014,150	1,391,000
Total	76,355,877	27,823,665

'Cash' in the above table includes pledge over account balances US$ 59.7 million (2018: US$ 26.4 million) placed by the Parent with the Bank which are used as collateral for Trade Finance transactions.

'Property, plant and equipment' represents collateral which is held to mitigate risk for commercial mortgage business and the value disclosed is where the Bank has legal charge over the properties.

There are other forms of collateral which pertain to off-balance sheet transactions and include 'Guarantees' (US$ 39.3 million), 'Back-to-back letters of credit' (US$ 84.0 million) and 'Other collateral' comprising confirmation letters, assignment of proceeds on letters of credit, debentures over fixed and floating assets and other forms of collateral (US$ 85.5 million).

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

Country risk

The Bank has established procedures to manage country risk with limits determined in accordance with the Credit Scoring Policy & Procedures Manual. The Bank takes limited sovereign risk and mitigates this through its on-the-ground knowledge of the economies concerned, the logistics of how the sovereign entities operate and the Zenith Group relationship network supporting those entities. The table below summarises exposure to credit risk as at statement of financial position date by geographical area:

2019 Assets	Europe US$	United Kingdom US$	Nigeria US$	Rest of Africa US$	United States of America US$	Rest Of World US$	Total US$
Cash and cash equivalents	92,756,265	337,688,049	15,278,884	26,220,237	99,598,239	712,917	572,254,591
Securities designated at fair value through profit or loss	–	–	8,608,987	352,090	–	269,885	9,230,962
Securities designated at fair value through other comprehensive income	17,651,816	88,729,140	65,363,044	6,633,950	128,030,034	331,327,304	637,735,288
Securities measured at amortised cost	–	–	30,546,165	76,705,277	–	22,403,476	129,654,918
Loans and advances to banks	–	90,617,937	145,153,771	29,920,955	–	–	265,692,663
Loans and advances to customers	8,199,627	29,827,827	8,789,618	10,456,033	–	8,013,487	65,286,592
Derivative financial assets	–	–	2,799,287	–	–	–	2,799,287
Total assets	118,607,708	546,862,953	276,539,756	150,288,542	227,628,273	362,727,069	1,682,654,301

2018 Assets	Europe US$	United Kingdom US$	Nigeria US$	Rest of Africa US$	United States of America US$	Rest Of World US$	Total US$
Cash and cash equivalents	541,584,691	87,398,351	5,187,570	97,376	75,380,880	481,877	710,130,745
Securities designated at fair value through profit or loss	–	–	50,016,656	334,873	–	133,255	50,484,784
Securities designated at fair value through other comprehensive income	62,064,407	4,944,835	9,136,728	49,631,796	289,071,084	376,715,667	791,564,517
Securities measured at amortised cost	–	–	25,148,681	59,291,884	–	5,760,745	90,201,310
Loans and advances to banks	244,930	1,511,591	149,047,760	20,274,921	–	–	171,079,202
Loans and advances to customers	8,440,686	31,494,858	1,282,687	9,858,230	–	33,867,697	84,944,158
Total assets	612,334,714	125,349,635	239,820,082	139,489,080	364,451,964	416,959,241	1,898,404,716

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

An analysis of the credit quality of the maximum credit exposure based on an external credit rating agency where applicable. These are grouped by CQS as prescribed by the Regulator.

	2019 US$	2018 US$
Securities designated at fair value through profit or loss		
Rated A+ to A-	15,031	–
Rated BBB+ to BBB-	254,854	522,350
Rated B+ to B-	8,961,077	49,962,434
Total	9,230,962	50,484,784
Securities designated at fair value through other comprehensive income		
Rated AAA to AA-	499,679,612	749,470,714
Rated A+ to A-	41,787,895	26,882,613
Rated BBB+ to BBB-	24,238,902	15,211,190
Rated BB+ to BB-	6,633,950	–
Rated B+ to B-	65,394,929	–
Total	637,735,288	791,564,517
Securities measured at amortised cost		
Rated BBB+ to BBB-	22,403,476	22,355,824
Rated BB+ to BB-	23,294,207	11,341,922
Rated B+ to B-	82,768,518	55,350,114
Rated CCC+ and below	1,188,717	1,153,450
Total	129,654,918	90,201,310
Loans and advances to banks		
Rated B+ to B-	265,692,663	171,079,202
Total	265,692,663	171,079,202

Credit exposure to loans and advances to customers by industry as reporting date is as presented below:

Loans and advances to customers	2019 US$	2018 US$
Industry:		
Consumer Credit	4,106,609	1,286,769
Government	5,065,757	–
General Commerce	19,462,430	42,877,248
Manufacturing	2,612,156	–
Oil and Gas	6,173,008	16,677,144
Transportation	10,664,026	23,917,522
Others	17,202,606	185,475
	65,286,592	84,944,158

Included in 'Others' is the amount of US$ 17.2 million which represents football financing transactions (2018: nil).

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

Loan loss allowance

The following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument:

Loans and advances to banks	2019 12-month ECL US$	2019 Lifetime ECL not credit-impaired US$	2018 12-month ECL US$	2018 Lifetime ECL not credit-impaired US$
Balance at 1 January	2,247,664	–	261,495	–
Net measurement of loss allowance	(140,364)	–	702,574	–
New financial assets originated or purchased	2,785,830	–	1,283,595	–
Financial assets that have been derecognised	(1,125,015)	–	–	–
Balance at 31 December	3,768,115	–	2,247,664	–

Loans and advances to customers	2019 12-month ECL US$	2019 Lifetime ECL not credit-impaired US$	2018 12-month ECL US$	2018 Lifetime ECL not credit-impaired US$
Balance at 1 January	86,118	5,037,752	–	7,562,844
Net measurement of loss allowance	(29,549)	(75,458)	–	132,122
New financial assets originated or purchased	2,534,460	282,727	86,118	1,878,615
Financial assets that have been derecognised	(3,745)	(4,009,585)	–	(4,535,829)
Balance at 31 December	2,587,284	1,235,436	86,118	5,037,752

The above table includes movements on Impairment on off balance sheet assets.

Securities designated at fair value through other comprehensive income	2019 12-month ECL US$	2019 Lifetime ECL not credit-impaired US$	2018 12-month ECL US$	2018 Lifetime ECL not credit-impaired US$
Balance at 1 January	33,486	–	114,928	–
Net measurement of loss allowance	2,301	–	(16,573)	–
New financial assets originated or purchased	818,352	38,939	28,348	–
Financial assets that have been derecognised	(29,371)	–	(93,217)	–
Balance at 31 December	824,768	38,939	33,486	–

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

Securities measured at amortised cost	2019 12-month ECL US$	2019 Lifetime ECL not credit-impaired US$	2018 12-month ECL US$	2018 Lifetime ECL not credit-impaired US$
Balance at 1 January	401,076	3,462,553	–	6,510,843
Net measurement of loss allowance	73,028	(267,128)	–	(802,095)
New financial assets originated or purchased	1,192,926	8,300	368,075	56,600
Financial assets that have been derecognised	(32,698)	–	–	(2,302,795)
Changes in models/risk parameters	–	(2,047,468)	33,001	–
Balance at 31 December	1,634,332	1,156,257	401,076	3,462,553

Liquidity risk

Liquidity risk management

Liquidity risk is the risk that the Bank will not be able to meet its financial obligations as they fall due.

Liquidity management is conducted as per the PRA's liquidity guidelines, primarily the Liquidity Coverage Ratio ('LCR'). Although not a regulatory requirement, the Bank internally monitors the Net Stable Funding Ratio ('NSFR'), which covers the stable funding requirement. The NSFR regulation will take effect from June 2021.

The on-going management of liquidity is aimed at balancing cash flows within forward rolling time bands so that, under normal conditions, the Bank is comfortably placed to meet all its payment obligations as they fall due. Further, the Bank has developed an Internal Liquidity Adequacy Assessment Process (ILAAP) report, as required by the PRA, in order to assess the liquidity adequacy under specific stress scenarios, the results of which are reviewed by senior management on a regular basis.

The responsibility for ensuring that the Bank can meet its obligations as they fall due rests with the Bank's management. Under the regulations the Bank must satisfy the PRA on an on-going basis that it has a prudent liquidity policy and adequate management systems in place to ensure that the policy is always adhered to:

- the Board of Directors is ultimately responsible for ensuring that the liquidity policy remains relevant and up to date at all times and that it is consistent with the Bank's business activities and expressed risk tolerance;
- the Asset and Liability Committee ("ALCO") is responsible for reviewing the policy and recommending it to the Board of Directors. ALCO is supported by Risk Management, which is responsible for monitoring compliance with the policy on a daily basis;
- the Bank has developed an Internal Liquidity Adequacy Assessment Process (ILAAP) as required by the PRA, which includes a series of stress tests and limits;
- the responsibility for the day-to-day management of the Bank's liquidity position is delegated to the Bank's Treasurer through the funding desk in the Treasury Department; and
- the responsibility for the day to day monitoring of the Bank's liquidity position is delegated to the Risk Management department, which supports ALCO in ensuring that the Bank complied with its liquidity risk management framework and policy.

Total amount of the repurchase agreements outstanding at the year-end is nil (2017: nil). Deposits from banks include placements from the Group, short term deposits from the Central Bank of Nigeria and other banks.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

The discounted contractual cashflow maturity analysis of assets and liabilities is presented in the table below:

2019	On demand (contractual) US$	Less than 3 months US$	Between 3 & 12 months US$	1 to 5 Years US$	Greater than 5 years US$	Carrying amount US$
Assets						
Cash and cash equivalents	150,604,235	421,650,356	–	–	–	572,254,591
Securities designated at fair value through profit or loss	–	191,072	6,669	7,979,252	1,053,969	9,230,962
Securities designated at fair value through other comprehensive income	–	204,775,050	174,702,207	258,258,031	–	637,735,288
Securities measured at amortised cost	–	1,815,320	4,100,660	90,401,793	33,337,145	129,654,918
Loans and advances to banks	117,028	161,664,555	78,218,593	25,692,487	–	265,692,663
Loans and advances to customers	3,831,338	14,587,729	8,808,128	33,121,767	4,937,630	65,286,592
Derivative financial assets	–	–	2,799,287	–	–	2,799,287
Total assets	**154,552,601**	**804,684,082**	**268,635,544**	**415,453,330**	**39,328,744**	**1,682,654,301**
Liabilities						
Deposits from banks	817,717,901	142,996,420	60,387,901	–	–	1,021,102,222
Deposits from customers	105,341,624	92,349,690	106,729,573	96,618,813	–	401,039,700
Derivative financial liabilities	–	–	415,114	–	–	415,114
Total Liabilities	**923,059,525**	**235,346,110**	**167,532,588**	**96,618,813**	**–**	**1,422,557,036**

2018	On demand (contractual) US$	Less than 3 months US$	Between 3 & 12 months US$	1 to 5 Years US$	Greater than 5 years US$	Carrying amount US$
Assets						
Cash and cash equivalents	150,050,393	560,025,984	54,368	–	–	710,130,745
Securities designated at fair value through profit or loss	–	12,387,257	37,254,576	651,401	191,550	50,484,784
Securities designated at fair value through other comprehensive income	–	333,991,742	174,625,319	282,823,006	124,450	791,564,517
Securities measured at amortised cost	–	837,643	14,326,662	58,812,006	16,224,999	90,201,310
Loans and advances to banks	367,010	94,832,107	294,745	75,585,340	–	171,079,202
Loans and advances to customers	7,725,575	47,669,811	3,814,984	25,733,788	–	84,944,158
Derivative financial assets	–	–	–	–	–	–
Total assets	**158,142,978**	**1,049,744,544**	**230,370,654**	**443,605,541**	**16,540,999**	**1,898,404,716**
Liabilities						
Deposits from banks	1,284,068,832	2,527,217	33,821,763	27,832,046	–	1,348,249,858
Deposits from customers	11,225,658	211,124,349	71,512,859	27,060,978	–	320,923,844
Derivative financial liabilities	–	1,753,497	–	–	–	1,753,497
Total Liabilities	**1,295,294,490**	**215,405,063**	**105,334,622**	**54,893,024**	**–**	**1,670,927,199**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

Cash and cash equivalents include petty cash. Deposits from banks under 'On demand (contractual)' bucket consist primarily of a single call deposit placed with the bank by the Central Bank of Nigeria (CBN). The use of these funds is limited to overnight and short-term Money Market placements and investments in high quality liquid assets.

The maturity analysis of outstanding lease liability under IFRS 16 is presented in the table below:

31 December 2019	US$
Less than 3 months	221,552
Between 3 & 12 months	493,087
1-5 years	3,046,148
Lease obligation	**3,760,787**

The lease was accounted for as a non-cancellable operating lease under IAS 17 in prior year.

Market risk

Market risk management

Market risk is the risk of loss from changes in market prices and rates, the correlations among them, and their levels of volatility.

The Bank's trading activities are accounted for on a mark-to-market basis; and financial assets, financial liabilities and derivatives which form part of such activities are accounted for at fair value through the profit and loss account.

The Bank's trading activities are limited to transactions in financial instruments, which mainly comprise the trading in foreign exchange and debt securities. Market risk is primarily related to currencies and interest rates. Exposure to those markets together with a description of the risk management policies arising from both banking and trading activities is set out below. Market risk exposures are measured and monitored daily and are formally reviewed on a weekly basis by the Bank's Asset and Liability Committee.

Exchange rate risk

The Bank originates loans and takes deposits in multiple currencies. Payments made on behalf of customers in one currency may be settled from balances held in another currency. Further, the Bank is active in the international foreign exchange markets both for own account trading and for the management of Bank assets and liabilities.

The Bank manages its exposures to foreign exchange risk by way of limits on the size of permitted positions, both intra-day and overnight. Overnight positions are protected by stop-loss orders placed with reputable correspondent banks. The size of the position limits is aimed at being consistent with the amount of profit that the Bank is prepared to place at risk in the foreign exchange markets.

Foreign exchange exposure arises from normal banking activities, particularly from the receipt of deposits and the placement of funds denominated in foreign currencies. It is the policy of the Bank to match the currencies and its assets and liabilities as far as is practicable. It is also the policy of the Bank to adhere to the limits laid down by the Board in respect of the "overall net open position". The tables below give details of the Bank's net foreign currency exposures as at 31 December 2019 as a basis of disclosing the Bank's foreign currency sensitivity analysis.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

2019	US Dollars US$	Sterling Pounds US$	Euro US$	Other US$	Total US$
Assets	1,339,167,689	190,687,241	81,614,588	70,769,669	1,682,239,187
Liabilities	(1,101,436,844)	(257,979,202)	(58,585,838)	(4,140,038)	(1,422,141,922)
Net open position	**237,730,845**	**(67,291,961)**	**23,028,750**	**66,629,631**	**260,097,265**

2018	US Dollars US$	Sterling Pounds US$	Euro US$	Other US$	Total US$
Assets	1,617,314,643	80,249,493	150,301,182	49,852,031	1,897,717,349
Liabilities	(1,471,134,900)	(141,726,478)	(47,324,299)	(8,988,025)	(1,669,173,702)
Net open position	**146,179,743**	**(61,476,985)**	**102,976,883**	**40,864,006**	**228,543,647**

Foreign currency sensitivity

Foreign currency sensitivity analysis has been performed on the foreign currency exposures inherent in the Bank's financial assets and financial liabilities at the reporting dates presented, net of FX derivatives.

The sensitivity analysis provides an indication of the impact on the Bank's profit or loss of reasonably possible changes in the currency exposures embedded within the functional currency environment in which the Bank operates. Reasonable possible changes are based on an analysis of historical currency volatility, together with any relevant assumptions regarding near term future volatility.

The Bank believes that for each foreign currency net exposure it is reasonable to assume a 5% appreciation / depreciation against the Bank's functional currency. If all other variables are held constant the tables below present the impact on the Bank profit or loss if these currency movements had occurred.

2019	Sterling Pounds US$	Euro US$	Other US$
Net foreign currency exposure	(67,291,961)	23,028,750	66,629,631
Impact of 5% increase against US$	(3,364,598)	1,151,438	3,331,482
Impact of 5% decrease against US$	3,364,598	(1,151,438)	(3,331,482)

2018	Sterling Pounds US$	Euro US$	Other US$
Net foreign currency exposure	(61,476,985)	102,976,883	40,864,006
Impact of 5% increase against US$	(3,073,849)	5,148,844	2,043,200
Impact of 5% decrease against US$	3,073,849	(5,148,844)	(2,043,200)

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that arises due to the possibility of a change in rates, and how that impacts on pricing structure of the Bank's assets and liabilities.

The Bank's Asset and Liability Committee (ALCO), which is assisted by Risk Management, meets weekly to monitor these issues and changes in interest rates in various currencies arising from gaps in the future dates of repricing of assets, liabilities and derivative instruments. The Bank manages part of that risk by match-funding certain deposits to loans. A change of 2% in interest rates at the Statement of Financial Position date would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the Statement of Financial Position date and had been applied to risk exposures existing at that date.

2019	**Less than 3 months US$**	**Between 3 & 12 months US$**	**1 to 5 Years US$**	**Greater than 5 years US$**	**Total US$**
Gap sensitivity					
Net gap	101,702,304	104,363,604	324,025,119	(530,091,028)	–
Profit or Loss Impact (Increase)	(1,062,943)	(176,373)	(4,378,594)	(4,223,936)	(9,841,845)
Profit or Loss Impact (Decrease)	1,086,768	180,733	4,817,710	4,928,971	11,014,183

2018	Less than 3 months US$	Between 3 & 12 months US$	1 to 5 Years US$	Greater than 5 years US$	Total US$
Gap sensitivity					
Net gap	360,629,322	60,403,810	87,053,538	(508,086,670)	–
Profit or Loss Impact (Increase)	(867,899)	(617,067)	(4,204,575)	(1,714,204)	(7,403,746)
Profit or Loss Impact (Decrease)	887,173	636,669	4,564,257	1,995,704	8,083,803

The year-on-year movement is primarily due to the origination of assets with longer maturities and a change in the funding mix compared to prior year.

Operational risk (unaudited)

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems, or from external events.

Operational risks are managed and controlled within the individual business lines and a wide variety of checks and balances to address operational risks have been developed as an important part of the Bank's risk management culture.

The Bank maintains an operational risk policy and further mitigates risk by:

- recruiting experienced professional and well qualified staff;
- adopting industry best practice in all operations;
- engaging in on-going consultation with risk management experts to ensure processes remain robust; and
- institutionalising due diligence procedures to meet regulatory requirements.

Operational risk is taken as a necessary consequence of the Bank undertaking its core business and it is the Bank's policy to minimise its risks to the extent possible through any entity wide control framework setting quantitative limits and through the use of internal audit, risk management and compliance. The Bank aims to minimise operational risk at all times through a strong and well-resourced control and operational infrastructure.

The Board Risk Committee seeks to ensure strong governance at all times.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

Capital management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital at 31 December 2019 is US$ 254.2m (2018: $ 225.4m).

Regulatory capital is determined in accordance with the requirements stipulated by the FCA and the PRA in the UK. Capital adequacy and the use of regulatory capital are monitored by the Bank's management. The policy is to employ techniques based on the guidelines developed by the Basel Committee and European Community Directives as implemented by the FCA and the PRA in the UK, for supervisory purposes. Each bank is required to maintain a ratio of total regulatory capital to risk- weighted exposures at or above a level determined for each institution.

Bank's total regulatory capital qualifies as Tier 1 capital, which is the total of the issued share capital and retained earnings.

Capital Resources	**2019 US$**	2018 US$
Share capital	136,701,620	136,701,620
Reserves	740,531	(99,803)
Retained earnings	116,728,430	88,797,742
Total statutory capital	**254,170,581**	225,399,559
IFRS 9 transition adjustment	–	8,861,638
Profit for the year	(27,930,688)	(27,509,757)
Other regulatory adjustments		
IFRS 9 transition adjustment	(3,544,655)	(1,772,328)
Value adjustments due to the requirements for prudential valuation (unaudited)	(649,575)	(842,446)
Other intangible assets before deduction of deferred tax liabilities	(2,018,933)	(1,877,831)
Total regulatory capital (Tier 1) excl. audited Profit or loss attributable to owners	**220,026,730**	202,258,835
Profit for the year	27,930,688	27,509,757
Total regulatory capital (Tier 1) incl. audited Profit or loss attributable to owners	**247,957,418**	229,768,592

Compliance risk (unaudited)

We define Compliance Risk, based on the FCA's Senior Management Arrangements, Systems and Controls (SYSC) Rules, as "the risk that the Bank or any of its employees or directors fail to comply with an applicable obligation under the regulatory system".

We undertake a bank-wide risk assessment of compliance risk on an annual basis. This risk assessment sets out the following key processes:

– Regulatory development
– Policy & Documentary Development
– Internal Compliance

A weakness in any of the above key processes could result in the Bank failing to meet its compliance obligations. For example, staff could be complying fully with internal procedures but if those procedures have not been updated to reflect regulatory change then the Bank will not meet its compliance obligations. Similarly, a regulatory change could be correctly reflected in an updated procedure but if staff fails to follow the updated procedure then the Bank will not meet its compliance obligations.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

The Bank has a Compliance Department responsible for drafting policies and procedures to enable staff to comply with relevant regulatory obligations. The Bank operates three lines of defence approach to compliance with those policies and procedures. It is the responsibility of all staff in the first instance to comply with the Bank's policies and procedures (i.e. the first line). The Compliance Department develops an annual Compliance Monitoring Programme to check that policies and procedures are being complied with (i.e. the second line). Finally, the Internal Audit Department undertakes audit reviews of the Compliance Department and other departments of the Bank (i.e. the third line).

26 Share capital

	2019	2018
	US$	US$
Issued:		
35,001,000 ordinary shares of GB£1 each	**56,701,620**	56,701,620
- Redenominated into 56,701,620 shares of US$1 each		
30,000,000 ordinary shares of US$1 each	**30,000,000**	30,000,000
50,000,000 ordinary shares of US$1 each	**50,000,000**	50,000,000
	136,701,620	136,701,620

Allocated and called up and fully paid

During September 2014 fifty million new ordinary shares of $1 each were issued and fully subscribed to by the parent entity. Further, as a part of the translation of the functional currency from GBP to USD in 2017, the 35,001,000 British Pound shares were redenominated in to 56,701,620 US$ shares.

As at 31 December 2019 and 2018, the issued share capital comprises 136,701,620 ordinary shares with a par value of $1 each.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

27 Related party transactions

Key Management Personnel ("KMP") are considered to be the Directors and other Senior Management Functions ("SMF") of the Bank. Disclosures regarding Directors' emoluments and other transactions are given in note 7. The total transactions with KMP are US$ 34,094 (loans) and US$ 111,269 (deposits) as at 31 December 2019.

A number of banking transactions were entered into with related counterparties within the Zenith Bank Plc Group in the normal course of business. These include loans and deposits. Outstanding balances at the end of the year and related party income for the year are as follows:

	2019 US$	2018 US$
Assets (amounts included in note 13)		
Amounts due from parent company	75,795,589	85,717,316
Amounts due from fellow subsidiaries	20,359,773	22,524,930
Total	96,155,362	108,242,246
Liabilities (amounts included in note 19)		
Amounts due to parent company	244,666,792	213,959,790
Amounts due to fellow subsidiaries	18,668,788	23,765,788
Total	263,335,580	237,725,578
Fees and commissions		
Received from parent company	(2,553,415)	(6,624,093)
Received from fellow subsidiaries	420,213	332,643
Total	(2,133,202)	(6,291,450)

The above table includes Trading and other income.

Interest income		
Received from parent company	3,771,037	3,232,567
Received from fellow subsidiaries	1,142,410	855,325
Total	4,913,447	4,087,892
Interest expense		
Paid to parent company	1,483,080	227,022
Paid to fellow subsidiaries	238,808	154,886
Total	1,721,888	381,908

28 Ultimate parent company and controlling party

The Bank's immediate and ultimate parent and the sole shareholder is Zenith Bank Plc, a Bank incorporated in Nigeria. Group accounts into which the Bank's results are consolidated are available from Zenith Bank Plc at Plot 84, Ajose Adeogun Street, Victoria Island, Lagos, Nigeria.

29 Significant events after the reporting period

The Directors confirm that there are no significant events since 31 December 2019 that require disclosure or adjusting in the financial statements.