Zenith Bank (UK) Limited

Annual Report and Accounts

2017

Contents

Officers and professional advisers

Directors

Jim Ovia	Chairman
Peter Amangbo	Non-Executive
Jeffrey Efeyini	Non-Executive
David Somers	Non-Executive
Ian Ogilvie	Non-Executive
Andrew Gamble	Non-Executive
Pamela Yough	Chief Executive
Anthony Uzoebo	Executive

Company secretary
Susan McBride

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 UKMEA 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].

Peter Amangbo – Non-Executive Director

Peter has over two decades' of experience with Zenith Bank Plc which cuts across corporate finance and investment banking, business development, credit and marketing, financial control and strategic planning and operations. He was appointed to the board of the bank and its subsidiary companies in 2005. He was a pioneer Non Executive Director of Zenith Bank (UK) Ltd. Prior to joining the Banking Industry, he was a consultant with PriceWaterhouse where he covered assignments in financial services, manufacturing and General Commerce.

He is an alumnus of INSEAD and a fellow of the Institute of Chartered Accountants of Nigeria. He holds an MBA from the Warwick Business School and a B Eng in Electrical & Electronics Engineering.

Ian Ogilvie – Senior Independent 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

David Somers – Non-Executive 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 & Risk 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.

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. Prior to joining ZBUK she managed and ran a self-owned Consulting Firm, engaging in financial advisory services. She worked in Zenith Bank PLC for over 13 years (1999-2012) in various capacities, 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 funding 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 an alumnus of Oxford and Stanford Universities.

Tony Uzoebo – Executive Director, Business Development

Tony joined Zenith Bank (UK) Ltd from Zenith Bank Plc, South Africa where he was instrumental in the start up of the representative office and held the position of the chief representative officer. He has spent over 20 years of his banking career with Zenith Bank Group and has held various senior management positions ranging from bank operations to corporate banking where he combined marketing and credit functions with business development. Prior to his banking career, he was a lecturer of Mathematics at Ahmadu Bello University, Zaira, Nigeria. He is an alumnus of London Business School.

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 2017.

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 West 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, syndicated structured trade finance facilities, and infrastructure and project financing; the investment and trading of government, bank and corporate securities, and eurobonds; and the processing of Letters of Credit and related trade services and payments.

The Treasury Department supports these activities and prudently manages the Bank's capital, liquidity and the asset and liability mismatches arising from the Bank's activities. Forex trading has grown significantly year-on-year and the continued growth of the Eurobond trading desk has built on the success of 2015 and 2016, and addresses the growing demand from customers to invest in Sub Saharan Africa bonds.

The reduced commodity prices, the depreciation of Naira, and the restriction of access to USD imposed by the Central Bank of Nigeria ("CBN"), had a negative impact on the Nigerian economy. Although macroeconomic fundamentals improved during the latter part of 2017 the path to recovery would have its own challenges. The Bank was at some risk to the macro-economic issues in Nigeria through its exposures to Nigerian corporates. However, during 2017 the Bank reduced its lending exposures to certain sectors while maintaining our key relationships developed over the last few years. The current stability in the oil price and the initiatives taken by the Nigerian Government to rebalance their economy has provided the much needed platform for economic reforms.

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 within key OECD (Organisation for Economic Co-operation and Development) 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 our parent, and other members of the Zenith Group, has 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 our formal DFSA (Dubai Financial Services Authority) licence in Dubai, allowing us to open our 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 11, including the impact of the recent domestic events in Nigeria. 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 managed to maintain adequate capital and liquidity, remaining above regulatory requirements, and continues to maintain healthy reserves after impairments on the loan book. The Bank therefore continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Capital

There has been no change to the existing capital structure in 2017 (as detailed in the Statement of Changes in Equity on page 19 of the financial statements).

Results and dividend

The Bank's profit for the year after taxation amounted to US$ 13.6 million (2016: profit US$ 2.6 million). The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: Nil).

Directors and directors' interests

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

Jim Ovia	Chairman
Peter Amangbo	Non-Executive
Jeffrey Efeyini	Non-Executive
David Somers	Non-Executive
Ian Ogilvie	Non-Executive
Andrew Gamble	Non-Executive (appointed 29 March 2017)
Pamela Yough	Chief Executive (appointed 23 June 2017)
Anthony Uzoebo	Executive
John Weguelin	Chief Executive (resigned 10 June 2017)
Quentin Aylward	Non-Executive (resigned 21 January 2017)
Llewellyn Charles Llewellyn	Non-Executive (resigned 21 January 2017)

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 14.459%) of the Parent entity
- Mr. Peter Amangbo is the Group CEO & MD and a shareholder (owns 0.023%) of the Parent entity
- Mr. Jeffrey Efeyini is a Non-Executive Director and a shareholder (owns 0.002%) of the Parent entity
- Mr. Anthony Uzoebo is a shareholder (owns 0.003%) 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 provides 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 in order to maintain and develop the knowledge, skills and competencies of employees to ensure excellent service to customers and stakeholders.

A key part of the Bank's purpose, vision and mission, is for employees to continue to deliver the core values which are embedded within the culture of the organisation namely; customer focus, integrity, professional, people/one team, proactive and commercial.

Policy on payment of creditors

The Bank's policy in relation to all of 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 of its suppliers within 30 days of receipt of the goods or services.

Political and charitable contributions

During the year the Bank made charitable donations of US$ 455 (2016: US$ 1,500) to several registered charities. No payments were made to political parties (2016: Nil).

Directors' report (continued)

Auditor

In accordance with the Companies Act 2006, a resolution for the appointment of KPMG LLP as auditor of the Bank was proposed and approved by the Directors of the Bank on 20 January 2017.

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 he ought to have taken as a director to make himself 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.

By order of the Board,

Pamela Yough
Chief Executive

9 March 2018

39 Cornhill, London, EC3V 3ND

Statement of directors' responsibilities in respect of the Directors' Report, Strategic Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the 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 Company 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 judgments 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 Company'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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company 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 Company and to prevent and detect fraud and other irregularities.

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

Pamela Yough
Chief Executive

9 March 2018

Company registration no. 05713749

Strategic Report

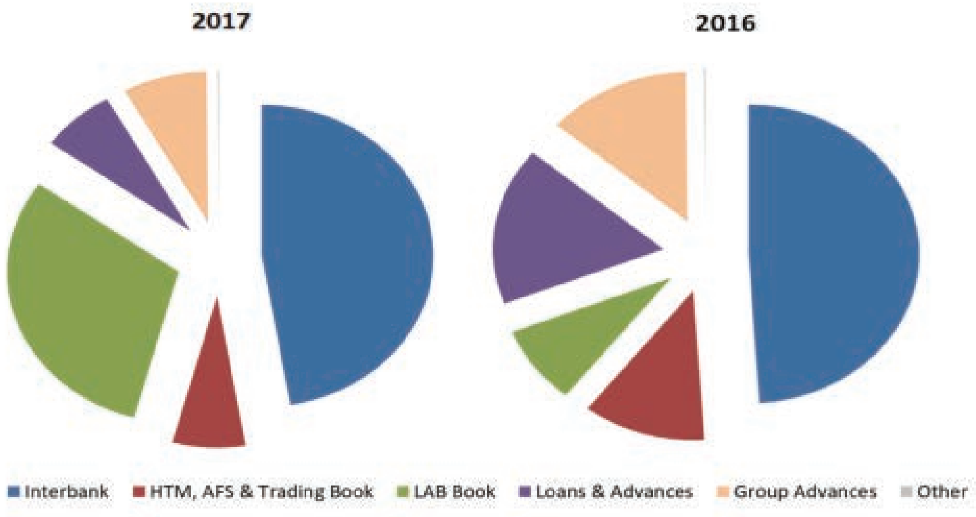
Strategic Review

2017 has been a successful year for the Bank, making clear strategic progress and delivering a strong financial performance despite challenging economic conditions. The strategies implemented to negotiate the economic turbulence were successful, showcasing the Bank's ability to adapt and evolve.

The Bank's primary focus in 2017 was as follows:

- continuing to de-risk the balance sheet;
- expanding low risk income streams, specifically increasing the contribution of fee and trading income to the overall profits; and
- increasing the Bank's funding base via attracting significant short term governmental funds.

Loans to high risk sectors were reduced with excess funds temporarily invested in low risk interbank lending and in the LAB portfolio (High Quality Liquid Assets), awaiting other appropriate opportunities.



The Bank took a conscious decision to de-risk the balance sheet in 2017, the impact of which was largely negated by our adaptable income streams, specifically the ability to augment the fee and commission based revenues. In 2017 the proportion of non-interest income contributing to the operating income increased to 29%, in comparison to 23% in 2016.

The Bank continued to focus on West African government relations and this has resulted in the attraction of significant short term funds from government institutions.

Core Markets

The Bank's core business lines and target markets are:

- supporting the Zenith Group and its customers;
- trade finance and working capital for West African and Sub-Saharan Corporates;
- treasury, FX structured deals and Sub Saharan Eurobond trading and distribution;
- correspondent and cash management solutions to financial institutions, governments and parastatals; and
- high net worth individuals.

2017 Business Review

The results for the year are set out in the Statement of Profit and Loss on page 17. The key results were as follows:

- An operating income of $40.0m (2016: $37.2m) with non-interest income contributing $11.7m (2016: $8.5m);
- Specific impairments of $2.9m and collective impairments of $3.9m (2016: specific impairment of $17.3m and collective impairment of $1.0m);
- Profit after tax for the year of $13.6m (2016: profit of $2.6m); and
- Cost to Income ratio of 43% (2016: 42%) (excluding impairment charges).

The de-risking of the balance sheet provides the Bank with strong foundations for future growth; dominated by low risk, liquid assets awaiting investment opportunities.

Capital, Liquidity and Market risk

Capital and liquidity have been successfully managed throughout the year. We have considered the impact of specific stress scenarios (Global Financial crisis – light, systemic failure in the Nigerian banking system, Parent liquidation etc.) and the findings illustrate that the Bank has sufficient capital and liquidity to meet these stresses. The Bank currently holds significant capital and liquidity surpluses; this is partly driven by the aforementioned de-risking of the balance sheet and also due to the prudent management of capital and liquidity. The stress testing is continually updated to cover likely future significant events. Market volatility has been monitored and managed daily by Treasury and by; Asset and Liability Committee ("ALCO"), Market Risk Committee ("MRC") and Executive Committee meetings ("EXCO") weekly.

Corporate Banking

During the year the Bank continued its disciplined lending approach which has seen a decrease in the loans and advances to corporate customers, reducing to 7% of the balance sheet at year end (2016: 15%). Revenues generated on the corporate lending portfolio of US$7.3m (2016: US$15.4m) accounted for 23% (2016: 41%) of the Bank's interest revenues for the year.

Trade Finance

Despite the tough market conditions, the Bank benefited from deep customer relationships to realise increase in volumes. This resulted in a slightly improved fee income of US$4.3m (2016: $4.0m)

Fixed Income

Investment debt securities held decreased to $110.6m in 2017, representing a decrease of 21% compared to the previous year (2016: $139.4m) predominantly due to a lack of suitable replacements for the maturing assets.

In accordance with the United Kingdom regulatory liquidity regime, the Bank maintained a portfolio of 'very high quality liquid assets' ('VHQLA'). These highly liquid assets mainly represent government Treasury bills and supranational Eurobonds, and the majority are rated AAA by external rating agencies. The portfolio is prudently managed and is diversified with regard to maturity.

Treasury

The mandate of the Bank's Treasury operation is to prudently manage liquidity and asset and liability mismatches which may arise from the Bank's funding activities. Another function of Treasury is to remain alert to new possible funding sources in order reduce the overall cost of funding.

The Treasury department trades a number of foreign currency products including spot and forward foreign exchange, non-deliverable forwards and FX options, mainly to address customer requirements. Treasury also uses derivative instruments to manage future cash flows arising in the normal course of activities.

Eurobond trading during 2017 continued to be very successful, with a growing customer base and healthy turnover. The Treasury department also managed to successfully exploit Naira arbitrage opportunities available in the market, the resulting Eurobond and FX trading income amounted to US$5.9 million during the year, an 87% increase against the previous year (2016: $3.1m).

Strategic Report (continued)

Target Market Prospects

Despite the challenging macroeconomic environment and the recession experienced in 2016, Nigeria remains Africa's largest economy with strong growth potential. Nigeria emerged out of recession in Q2 2017 with real GDP growth of 0.55% which further improved to 1.4% in Q3. This growth is primarily driven by a recovery of the oil sector resulting from increased world demand and a restoration of peace in the Niger Delta (non-oil GDP slightly contracted by 0.76%).

In addition to the oil price recovery, the Nigerian government launched an Economic Recovery and Growth Plan (ERGP) in 2017 focused upon diversifying the economy through increased infrastructure spending in order to bring stability back to the Nigerian economy.

Other key economic indicators paint a positive picture for the immediate future of Nigeria:

- Foreign reserves grew to $38.8bn in Dec-17 (source: CBN.gov);
- Headline inflation moderated to 15.37% in Dec-17 – a decline from 18.55% in December 2016 (source: CBN.gov); and
- Crude oil production increased to 2.1m barrels per day (bpd) in Dec-17 (source: Federal Ministry of Petroleum Resources) from 1.58m bpd in Dec-16 (source: CBN.gov).

These positive economic indicators paint a picture of recovery for Nigeria and for which we are cautiously optimistic.

Principal risks and uncertainties

The Bank has identified Credit risk as its principle risk. Management is therefore committed to strengthen the controls and the culture surrounding them. It recognises the importance of a sound internal risk management processes, particularly with the growing complexity and volatility of our markets.

The macro-economic events in Nigeria have had an impact on our business model. The restrictions imposed by the CBN on the outflows of USD have resulted in delayed payments by customers in the past. Careful management of our Liquidity Asset Buffer ('LAB') and daily cash management have ensured that we have not been presented with any liquidity issues following the introduction of the new liquidity regime. As at the year end the Bank met all the relevant regulatory thresholds related to Capital and Liquidity.

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

The Bank's Board of Directors, Audit and Compliance Committee, Remuneration and Appointments Committee, Board Risk Committee, Executive Committee, Management Credit Committee, Asset and Liability Committee and Market Risk Committee assist in assessing market trends, economic and political developments, concentration, liquidity and reputational risk, and providing strategic direction for all aspects of risk management.

Active hands-on senior management involvement plays a key role in the identification, evaluation and management of all risks. All credit and new product decisions require approval by respective committees and the loan portfolio is continuously reviewed by Management Credit Committee. Management is supported by a comprehensive structure of independent controls and systems, analysis, reporting processes and periodic examination by the Bank's Internal Audit function.

The Bank has in place an extensive range of limits, controls and management information systems to facilitate an effective management overview and periodic limit compliance reports are submitted to the Board Risk Committee. All credit limits are approved by Management Credit Committee, Group Credit Committee of Zenith Bank Plc in Lagos, Nigeria and Board Risk Committee (for significant credit limits). The Bank's geographical exposures are mainly concentrated to Europe, Nigeria and Sub-Saharan Africa. Management closely monitors events throughout these geographies, particularly Nigeria and West Africa, running regular stress testing scenarios and reviewing weekly at the Assets and Liability Committee and Market Risk Committee meetings.

The following basic elements of sound risk management are applied to all the Bank's financial products and services:

- appropriate review by the Board of Directors and senior management;
- adequate risk management processes which integrate product risk limits;
- sound measurement procedures and information systems;
- continuous risk monitoring and frequent management reporting;
- regular stress testing;
- segregation of duties, comprehensive internal controls and internal audit procedures; and
- any new products are subject to the same control evaluation and subject to review and challenge by the Board of Directors.

Disclosures relating to the Bank's principal risks are detailed in Note 25 are as follows:

Market Risk, Liquidity Risk, Operational Risk, Credit Risk, Foreign Exchange Risk, Interest Rate Risk, Compliance Risk.

IFRS 9 implications

The Bank will adopt IFRS 9 from 1 January 2018. Accordingly, an adjustment to its opening 1 January 2018 retained earnings to reflect the application of the new requirements is estimated to reduce the shareholders' equity by approximately $10m before tax as at 1 January 2018. However due the adoption of 'transitional provisions' as permitted by the Regulation (EU) 2017/2395 of the European Parliament and Council, this provision would be phased in against the 'regulatory capital' over 5 years.

Under IFRS 9, it is estimated that the Bank's CET1 ratio would reduce by approximately 6 basis points after transitional relief (114 basis points before transitional relief). This is mainly driven by the increase in IFRS 9 ECL for standardised portfolios that directly impacts CET1 as there is no regulatory deduction to absorb the increase.

CET 1 ratio (phasing in of transition):

– 35.53% under IAS 39 at 31 December 2017
– 34.40% under IFRS 9 at 1 January 2018 before transitional relief
– 35.47% under IFRS 9 at 1 January 2018 after transitional relief

By order of the Board,

Pamela Yough
Chief Executive

9 March 2018

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 2017 which comprise the Statement of Profit and Loss, 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 statements:

- the financial statements give a true and fair view of the state of Bank's affairs as at 31 December 2017 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 ending 31 December 2010. The period of total uninterrupted engagement is for the eight financial years ended 31 December 2017. 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.

2. Key audit matters: 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.

	The risk	Our response
Loans and advances to customers ($121.4 million; 2016: $199.4 million) (Impairment provision $33.4 million; 2016: $26.6 million) *Refer to page 8 Strategic Report, page 21 accounting policy and page 30 financial statement disclosures.*	**Impairment of loans and advances to customers:** The carrying value of loans and advances to customers held at amortised cost may be materially misstated, if impairments are not appropriately identified and estimated. The identification of impaired loans and advances to customers on an individual basis and the calculation of the collective provision involves significant management judgment and estimation.	Our procedures included: **Control design, observation and operation:** We tested the design and operation of manual and automated controls including: – The approval of new loans by inspecting the relevant management and Committee approvals; and – Key controls over ongoing monitoring of the loan book including inspecting watch list reports and testing if annual reviews of accounts were performed.

Our response

Assessment of individual loans:

- We performed a risk assessment of the performing loans and advances to customers by applying certain criteria including the size of the loan, the type of industry, geography, the level of collateralisation and changes in the risk rating; and
- We tested the recoverability of loans and advances to customers for both the performing and non-performing loans. For performing loans including the watch list we performed credit file reviews for the sample of loans and advances to customers identified in our risk assessment discussed above. We challenged management's assumptions regarding identification of impairment triggers in case of the performing book. In case of the non-performing book, we challenged the level of provisioning required for individual loans by assessing cash flows from the business, valuation of collateral, and other possible sources of repayment.

Challenge collective provision model methodology and inputs:

- We evaluated the methodology used in the calculation and we tested the key inputs and assumptions (e.g. the probability of default and loss given default) by validating data used by management in the model; and
- We assessed and challenged the judgmental overlays to the modelled collective provision by considering qualitative factors including recent loss history, performance and risk characteristics of the portfolio.

Disclosures: We assessed whether disclosures appropriately reflect the exposure to credit risk.

Our results

We considered the credit impairment charge and the related disclosures to be acceptable (2016: acceptable).

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

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 $0.6 million (2016: $1.0 million), determined with reference to a benchmark of the average profit before tax for the past five years, of which it represents 5% (2016: 5%[1]). This approach mitigates undue volatility in determining our materiality focusing on underlying profitability of the Bank over the last five years.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $30,000 (2016: $50,000), 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 performed at the Bank's office in London.

Scope – disclosure of IFRS 9 effect

The Bank is adopting IFRS 9 Financial Instruments from 1 January 2018 and has included an estimate of the financial impact of the change in accounting standard in accordance with IAS 8 Changes in Accounting Estimates and Errors as set out in note 3. This disclosure notes that the estimate has been prepared under an interim control environment with models and methodology that continue to undergo validation. While further testing of the financial impact will be performed as part of our 2018 year end audit, we have performed sufficient audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. Specifically we have:

- Considered the appropriateness of key technical decisions, judgments, assumptions and elections made in determining the estimate;
- Considered key classification and measurement decisions, including business model assessments and solely payment of principal and interest outcomes; and
- Considered interim controls and governance processes related to the calculation and approval of the estimated transitional impact.

4. We have nothing to report on going concern

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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

[1] This was set as a percentage of normalised profit before tax for the year.

- 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.

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 relevant areas of laws and regulations from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Bank's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, conduct and financial crime including money laundering, sanctions list and market abuse regulations recognising the financial and regulated nature of the Bank's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual accounts items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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.

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

9 March 2018

Statement of Profit and Loss

For the year ended 31 December 2017

	Note	2017 US$	2016 US$
Income			
Interest income	4	**32,593,165**	37,726,147
Interest expense	4	**(4,289,571)**	(9,027,106)
Net interest income		**28,303,594**	28,699,041
Fees and commission income	5	**5,715,902**	5,344,589
Trading and other income	6	**5,938,513**	3,140,792
Operating income		**39,958,009**	37,184,422
Expenses			
Personnel expenses	7	**(11,094,584)**	(9,582,063)
Depreciation and amortisation	15/16	**(676,971)**	(782,432)
Other expenses	8	**(5,378,682)**	(5,393,488)
Total operating expenses		**(17,150,237)**	(15,757,983)
Operating profit before impairment provision and taxation		**22,807,772**	21,426,439
Impairment provision	14	**(6,798,273)**	(18,000,806)
Operating profit before tax		**16,009,499**	3,425,633
Taxation	9	**(2,380,602)**	(787,896)
Profit for the year		**13,628,897**	2,637,737

The 2017 and 2016 results are all from continuing operations.

The notes on pages 21 to 50 are an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2017

	Note	31 December 2017 US$	31 December 2016 US$
Assets			
Cash and cash equivalents	10	**763,285,083**	639,648,140
Securities designated at fair value	11	**519,995,000**	125,421,660
Securities available for sale	11	**6,833,479**	–
Securities investment – held to maturity	12	**110,557,422**	139,419,045
Loans and advances to banks	13	**148,616,109**	212,684,055
Loans and advances to customers	14	**121,429,111**	199,388,737
Property, plant and equipment	15	**1,186,214**	1,216,627
Intangible assets	16	**991,705**	554,602
Deferred tax assets	17	**1,359**	168,609
Other assets	18	**2,866,637**	928,423
Total assets		**1,675,762,119**	1,319,429,898
Liabilities			
Deposits from banks	19	**1,257,922,170**	818,951,535
Deposits from customers	20	**203,850,037**	303,070,736
Other liabilities	21	**7,202,616**	4,249,228
Total liabilities		**1,468,974,823**	1,126,271,499
Equity			
Capital	26	**136,701,620**	136,701,620
Retained earnings		**70,085,676**	56,456,779
Total equity attributable to the equity holders of the Bank		**206,787,296**	193,158,399
Total liabilities and equity		**1,675,762,119**	1,319,429,898

These statutory financial statements were approved by the board of directors on 9 March 2018 and were signed on its behalf by:

Jim Ovia
Chairman

Pamela Yough
Chief Executive Officer

Sam Perera
Chief Financial Officer

The notes on pages 21 to 50 are an integral part of these financial statements.

Company registration no: 05713749

Statement of Changes in Equity

For the year 31 December 2017

	Share Capital US$	Retained Earnings US$	AFS Reserve US$	Total Equity US$
Balance as at 1 January 2017	136,701,620	56,456,779	–	193,158,399
Profit for the year	–	13,628,897	–	13,628,897
Balance at 31 December 2017	136,701,620	70,085,676	–	206,787,296
Balance as at 1 January 2016	136,701,620	53,819,042	–	190,520,662
Profit for the year	–	2,637,737	–	2,637,737
Balance at 31 December 2016	136,701,620	56,456,779	–	193,158,399

The notes on pages 21 to 50 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 US$	2016 US$
Cash flows from operating activities			
Profit for the period		**13,628,897**	2,637,737
Adjustments for:			
Depreciation of property, plant and equipment	15	**198,830**	258,695
Amortisation of intangible assets	16	**478,141**	523,737
Impairment provision	14	**6,798,273**	18,000,806
Income tax expense	9	**2,380,602**	787,896
Change in loans and advances to banks		**64,067,945**	(29,148,835)
Change in loans and advances to customers		**71,161,353**	150,160,319
Change in securities designated at fair value		**(394,573,340)**	(1,919,752)
Change in available for sale securities		**(6,833,479)**	–
Change in other assets		**(1,964,229)**	1,281,923
Change in deposits from banks		**438,970,636**	51,915,837
Change in deposits from customers		**(99,220,699)**	111,499,841
Change in other liabilities		**572,785**	(890,837)
Income tax paid		**–**	(651,696)
Net cash from operating activities		**95,665,715**	304,455,671
Cash flows from investing activities			
Net sale and purchase of investment securities		**28,861,623**	44,348,388
Acquisition of property, plant and equipment	15	**(50,492)**	(269,604)
Acquisition of intangible assets	16	**(839,903)**	(300,251)
Net cash from investing activities		**27,971,228**	43,778,533
Net increase of cash and cash equivalents		**123,636,943**	348,234,204
Cash and cash equivalents as at 1 January		**639,648,140**	291,413,936
Cash and cash equivalents at 31 December	10	**763,285,083**	639,648,140

The notes on pages 21 to 50 are an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2017

1 General information

Zenith Bank (UK) Limited ('the Bank') is a private company, limited by shares. The Bank was incorporated in England and Wales in 2006. The Bank's 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, corporate banking and wealth management services to customers.

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

Statement of compliance

The financial statements have been prepared 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 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. In addition the directors have considered the impact of the economic events in Nigeria on its financial statements and do not consider the going concern assumption to be significantly impacted. Accordingly the Bank continues to adopt the going concern basis in preparing these financial statements.

(b) 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.

Significant accounting policies

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

(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.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

2 Basis of preparation and significant accounting policies (continued)

(d) 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 is an integral part of the effective interest rate of 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; and

(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.

(e) 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. Any 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.

(f) 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.

(g) 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.

(h) Financial assets

The Bank has classified its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments.

Management has determined the classification of its investments on initial recognition.

2 Basis of preparation and significant accounting policies (continued)

(i) Financial Liabilities

Financial liabilities are measured either at amortised cost or fair value if designated at fair value through profit or loss. Financial liabilities at fair value through profit or loss are those liabilities that are held for trading.

(j) Financial assets at fair value through profit and loss

Financial assets are classified as fair value through profit and loss ('FVTPL') where the financial asset is held for trading or designated as FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages and has a recent actual pattern of short-term profit-taking.

(k) Available-for-sale financial assets ('AFS')

AFS assets represent non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. AFS assets are measured at fair value and any changes are recognised in equity (via statement of changes in equity and comprehensive income). Interest, impairments and foreign exchange differences on AFS assets are recognised in the Income statement. The cumulative gain or loss that was recognised in equity is recognised in profit or loss when an available-for-sale financial asset is derecognised.

(l) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans to customers and banks are classified as loans and advances and are initially recorded at fair value plus any attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method, less impairment losses, where applicable.

(m) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to maturity assets the entire category would be tainted and reclassified as available-for-sale.

(n) 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.

(o) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or portfolio of financial assets is impaired. A financial asset or a portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or portfolio of financial assets that can be reliably estimated. Objective evidence that a financial asset or portfolio of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

2 Basis of preparation and significant accounting policies (continued)

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or

observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio; or
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

(p) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for companies of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Collective impairment was determined by performing an assessment of the financial assets portfolios, considering their internal credit rating, loss given default and probability of default.

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

(q) Property, plant and equipment

Property, plant 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

2 Basis of preparation and significant accounting policies (continued)

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 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) Guarantees

Financial guarantee contract liabilities are measured initially at their fair value and subsequently measured at the higher of:

- the amount of the obligation under the contract; or
- the amount initially recognised less, where appropriate, cumulative amortisation recognised.

(w) 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.

(x) Earnings per share

The Bank presents earnings per share data for its ordinary shares by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the period.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

2 Basis of preparation and significant accounting policies (continued)

(y) 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.

(z) Loans written off

The amount of loan write off is assessed on a case by case basis, including appropriate advice and counsel sought from the Parent, Zenith Bank plc. 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 interest and principal payments being made on a timely basis.

(aa) Repurchase and Reverse Repurchase Agreements

Securities purchased under resale agreements ("reverse repurchase agreements") and securities sold under agreements to repurchase ("repurchase agreements") are treated as collateralised financings and are recognised initially at fair value, being the amount of cash disbursed and received, respectively. The party disbursing the cash takes possession of the securities serving as collateral for the financing and having a market value equal to, or in excess of the principal amount loaned. The securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognised on, or derecognised from, the balance sheet, unless the risks and rewards of ownership are obtained or relinquished.

(ab) Future accounting developments

At 31 December 2017, 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 2017.

(ac) New standards and interpretations not yet adopted

(ac -1) Adoption of IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments (IFRS 9). IFRS 9 replaces IAS 39 Financial instruments: Recognition and measurement and is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank will apply IFRS 9 as issued in July 2014 initially on 1 January 2018.

In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendment to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. This Amendment does not have an impact on bank's financial assets' classification and measurement.

The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. The changes in measurement arising on initial application of IFRS 9 will be incorporated through an adjustment to the opening reserves and retained earnings position as at 1 January 2018.

The assessment below is preliminary because not all transitional work has been finalised yet. The actual impact of adopting IFRS 9 on 1 January 2018 may change because the bank is still refining its models and methodology for expected credit loss (ECL) calculations, revision of governance and internal controls (including IT systems) required for adoption of IFRS 9 are not yet complete and neither is the testing of these controls. Further, the assumptions, judgements and estimation techniques employed are subject to change until the bank finalises its first financial statements that include the date of initial application.

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 for financial assets, fair value through other comprehensive income (FVOCI). The existing IAS 39 financial asset categories have been removed. Financial assets are classified into these measurement classifications based on the business model within which they are held, and their contractual cash flow characteristics.

2 Basis of preparation and significant accounting policies (continued)

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.

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 held within held-to-maturity under IAS 39 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.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities, except for changes in presentation of fair value changes of financial liabilities designated at FVTPL attributable to changes in liability credit risk (under IFRS 9 these changes are presented within other comprehensive income). There has been no change in a way the bank classifies and measures its financial liabilities.

Based on the current assessment of reclassification and measurement of financial assets and liabilities, there has been no impact on retained earnings and reserves. The Bank is in the process of completing its SPPI assessment, but does not expect to have material impact on shareholders equity.

ii. Impairment of Financial Assets, Loan Commitments and Financial Guarantee Contracts
IFRS 9 introduces a new forward-looking expected credit loss (ECL) impairment framework for all 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 will result 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 current approach 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 new 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 current approach which estimates a collective allowance to recognize losses that have been incurred but not reported on performing loans.

Stage 2 – When a financial asset experiences a 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

2 Basis of preparation and significant accounting policies (continued)

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.

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 will consider 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 has applied 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, but also considers the equivalent external rating (based on a mapping table between the banks internal rating and external rating). The criteria for determining whether credit risk has increased significantly will vary on individual circumstances of each loan, given the nature of the loan book but will include a backstop based on delinquency of 30 days past due. 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 likely to be term structures of the following variables:

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

The Bank has their 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 EAD which represents the outstanding exposure. Off-balance sheet items are a part of the EAD within the ECL computation.

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 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 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.

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.

iv. Transition impact including impact on capital

The Bank will record an adjustment to its opening 1 January 2018 retained earnings to reflect the application of the new requirements at the adoption date and will not restate comparative periods.

The Bank estimates the IFRS 9 transition amount will reduce shareholders' equity by approximately $10m before tax as at 1 January 2018.

The bank is planning to adopt the transitional relief for ECL permitted of by Regulation (EU) 2017/2395 of the European Parliament and Council. Under this approach, the balance of ECL allowances in excess of the regulatory excess EL and standardised portfolios are phased into the CET1 capital base over 5 years. Refer to page • for the impact.

v. Impact on Governance and Controls

The bank plans to apply its existing governance framework to ensure that appropriate controls and validations are in place over key processes and judgments to determine the ECL. As part of the implementation, we are in the process of refining existing internal controls and implementing new controls where required in areas that are impacted by IFRS 9, including controls over the development and probability weighting of macroeconomic scenarios, credit risk data and systems, and the determination of a significant increase in credit risk.

(ac -2) IFRS 15: Revenue from contracts with customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. IFRS 15 is not expected to have a significant impact on the Bank.

(ac -3) IFRS 16: Leases

This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as required by IAS 17 and introduces a single lease accounting model. Applying that model, a lessee is required to recognise:

– assets and liabilities for leases with a term of more than 12 months, unless the underlying assets is of low value;
– depreciation of lease assets separately from interest on lease liabilities in profit or loss.

The standard is effective for annual periods beginning on or after 1 January 2019. The Bank is currently in the process of assessing the impact that the initial application would have on its business and will adopt the standard for the year ending 31 December 2019.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

3 Critical accounting judgements and key sources of estimation uncertainty

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 valuation of loans and advances and deferred tax are appropriate for the preparation of these financial statements.

3.1 Valuation 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.

A collective component of the total allowances is established for groups of assets that are individually significant but that were not found to be individually impaired (loss not 'incurred but not reported' or IBNR)

The collective allowance is determined for each loan, using probability of default derived from the internal credit grade (which in turn is mapped to an external grade) and the loss given default, after considering collaterals, if any. The emergence period is a significant judgement and arrived at after considering the fact patterns associated with past losses along with the profile and performance of the existing loan book. Additionally, management overlays are added, based on management's judgement regarding the profile of the book, including factors such as past loss history and concentrations to certain industries and geographies

4 Interest income

	2017	2016
	US$	US$
Derived from:		
Loans and advances to banks	**12,655,047**	8,995,336
Loans and advances to customers	**7,344,152**	15,392,598
Investment securities	**12,593,966**	13,338,213
Total	**32,593,165**	37,726,147

Interest Expense

	2017	2016
	US$	US$
Incurred on:		
Deposits from banks	**3,561,260**	8,651,281
Deposits from customers	**728,311**	375,825
Total	**4,289,571**	9,027,106

5 Fee and commission income

	2017 US$	2016 US$
Derived from:Loans	**1,318,191**	1,323,430
Trade finance	**4,302,252**	3,957,886
Other	**95,459**	63,273
Total	**5,715,902**	5,344,589

6 Trading and other income

	2017 US$	2016 US$
Derived from:		
Fixed income trading	**2,458,016**	2,023,948
Forex trading	**3,392,513**	1,109,328
Other	**87,984**	7,516
Total	**5,938,513**	3,140,792

7 Information regarding directors and employees

Employment costs are as follows:	2017 US$	2016 US$
Wages and salaries – staff	**6,778,973**	6,402,664
Wages, salaries and other – Directors	**1,316,985**	679,401
Non-executive directors' fees and emoluments	**424,549**	369,603
Pension contributions under defined contribution scheme	**870,447**	955,819
Compulsory social security obligations	**933,156**	729,162
Other staff costs	**770,474**	445,414
Total	**11,094,584**	9,582,063

The comparatives have been restated to conform with the current year presentation.

	2017	2016
Number of employees at year end including Directors	**92**	71
Average number of employees during the year including Directors	**82**	72

At the year-end there were 17 (2016: 14) employees involved in customer facing roles and 75 (2016: 57) in administration.

Included within employment costs are:	2017 US$	2016 US$
Directors' remuneration and fees		
Directors' fees, emoluments, salaries and other	**1,741,534**	1,049,004
Pension contributions	**76,725**	72,108
	1,818,259	1,121,112

The highest paid Director who served during 2017 received total emoluments of US$ 683,980 (2016: US$ 403,614) and pension contributions of US$ 18,600 (2016: US$ 41,227). The highest paid director who was serving as at 31 December 2017 received emoluments of US$ 339,235 and pension contributions of US$ 30,153.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

8 Other expenses include

	2017 US$	2016 US$
Premises cost	**1,498,485**	1,539,760
Other administration costs	**3,609,827**	3,625,683
Total fees paid to the auditors	**270,370**	228,045
Total	**5,378,682**	5,393,488

	2017 US$	2016 US$
Auditors' remuneration		
Audit of UK statutory accounts	**208,390**	124,526
Non audit services:		
Other services relating to corporation tax	**–**	22,954
Other assurance related services	**92,610**	80,565
Sub total	**92,610**	103,519
Total	**301,000**	228,045

9 Taxation

The tax charge in the income statement for 2017 is US$ 2.4m (2016: a tax charge of US$ 0.8). These can be reconciled to the profit/(loss) per the income statement as follows:

Tax on profit on ordinary activities

	2017 US$	2016 US$
Analysis of tax charge during period:		
UK Corporation tax at 19.00% (2016: 20%):		
– current year tax charge	**3,251,612**	788,487
– over provision in relation to prior year	**(1,038,260)**	(35,152)
	2,213,352	753,335
Deferred tax:		
– current year deferred tax charge/(reversal)	**(30,353)**	34,561
– prior year deferred tax charge	**197,603**	–
	167,250	34,561
Tax charge on profits on ordinary activities	**2,380,602**	787,896
Effective tax rate	**14.87%**	23.00%
Factors affecting tax charge:		
Profit on ordinary activities before taxation	**16,009,499**	3,425,633

	2017		2016	
Profit on ordinary activities multiplied by rate of UK corporation tax at 19.25% (2016: 20%)	3,081,829	19.25%	685,127	20.00%
Effects of:				
Expenses not deductible for tax purposes	108,625	0.68%	354,486	10.35%
Effect of rate change	30,805	0.19%	(9,856)	–0.29%
Adjustment to tax charge in respect of previous periods	(840,657)	–5.25%	(241,861)	–7.06%
Total tax charge on profits on ordinary activities	**2,380,602**	**14.87%**	**787,896**	**23.00%**

9 Taxation (continued)

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 further 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 2017 has been recognised at the 17% rate.

10 Cash and cash equivalents

	2017 US$	2016 US$
Petty cash	**42,864**	3,899
Cash with other banks	**209,265,458**	228,154,218
Money market placements	**553,976,761**	411,490,023
Total	**763,285,083**	639,648,140

11 Securities measured at fair value

11.1 Fair value through profit & loss securities

	2017 US$	2016 US$
US and UK Government Treasury bills	**295,296,200**	–
Other high quality liquid assets	**198,801,166**	111,568,719
Other securities	**25,897,634**	13,852,941
Total	**519,995,000**	125,421,660

11.2 Available for sale securities

Variable interest rate bonds	6,833,479	–
Total	6,833,479	–

No fair value gain or loss incurred on AFS securities during 2017.

12 Securities investment

	2017 US$	2016 US$
(HTM: amortised cost)		
Fixed interest rate eurobonds	**107,582,021**	135,344,224
Variable interest rate eurobonds	**2,975,401**	4,074,821
Total	**110,557,422**	139,419,045

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

13 Loans and advances to banks

	2017 US$	2016 US$
Loans and advances to banks	**20,203,455**	51,851,562
Trade bills discounted and refinanced	**128,412,654**	160,832,493
Total	**148,616,109**	212,684,055

14 Loans and advances to customers

	2017 US$	2016 US$
Loans to individuals	**1,819,833**	1,977,696
Loans and advances to corporates	**153,011,501**	224,014,991*
Individual impairment charge	**(28,557,874)**	(25,624,667)*
Collective impairment charge	**(4,844,349)**	(979,283)
Total	**121,429,111**	199,388,737
Movements in Impairment:		
Opening balance	**(26,603,950)**	(8,338,078)
Charge for the year – individual impairment	**(2,933,207)**	(17,021,523)
Other adjustments – individual impairment	**–**	(265,066)*
Charge for the year – collective impairment	**(3,865,066)**	(979,283)
Closing balance	**(33,402,223)**	(26,603,950)

* The comparatives have been restated to conform with the current year presentation.

15 Property, plant and equipment

	Leasehold improvements US$	Computer equipment US$	Furniture US$	Total US$
Cost				
Balance at 1 January 2017	3,422,580	769,371	487,778	4,679,729
Additions	1,184	31,214	18,094	50,492
Disposals	–	–	–	–
Translation difference	337,282	77,336	48,948	463,566
Balance at 31 December 2017	**3,761,046**	**877,921**	**554,820**	**5,193,787**
Depreciation				
Balance at 1 January 2017	2,389,053	734,880	339,169	3,463,102
Charge for the year	125,227	25,186	48,417	198,830
Disposals	–	–	–	–
Translation difference	240,896	73,483	31,262	345,641
Balance at 31 December 2017	**2,755,176**	**833,549**	**418,848**	**4,007,573**
Net book value				
At 31 December 2017	**1,005,870**	**44,372**	**135,972**	**1,186,214**

15 Property, plant and equipment (continued)

	Leasehold improvements US$	Computer equipment US$	Furniture US$	Total US$
Cost				
Balance at 1 January 2016	3,933,017	905,205	519,826	5,358,048
Additions	184,582	19,191	65,831	269,604
Disposals	–	–	–	–
Translation difference	(695,019)	(155,025)	(97,879)	(947,923)
Balance at 31 December 2016	**3,422,580**	**769,371**	**487,778**	**4,679,729**
Depreciation				
Balance at 1 January 2016	2,683,139	850,039	357,475	3,890,653
Charge for the year	179,873	32,320	46,502	258,695
Disposals	–	–	–	–
Translation difference	(473,959)	(147,479)	(64,808)	(686,246)
Balance at 31 December 2016	2,389,053	734,880	339,169	3,463,102
Net book value				
At 31 December 2016	**1,033,527**	**34,491**	**148,609**	**1,216,627**

16 Intangible assets

	2017 US$	2016 US$
Cost		
Balance at the beginning of the year	4,026,404	4,523,324
Additions	839,903	300,251
Translation difference	437,936	(797,171)
Balance at end of the year	**5,304,243**	**4,026,404**
Amortisation		
Balance at the beginning of the year	3,471,802	3,606,474
Charge for the year	478,141	523,737
Translation difference	362,595	(658,409)
Balance at end of the year	**4,312,538**	**3,471,802**
Net book value		
Balance at end of the year	**991,705**	**554,602**
Balance at the beginning of the year	554,602	916,850

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

17 Deferred tax

2017			US$
	Brought forward	Charge for the year	Carried forward
Assets			
Accelerated capital allowances	157,555	(156,196)	1,359
Provisions	11,054	(11,054)	–
Total	**168,609**	**(167,250)**	**1,359**

2016			
Assets			
Accelerated capital allowances	192,116	(34,561)	157,555
Provisions	11,054	–	11,054
Total	**203,170**	**(34,561)**	**168,609**

18 Other assets

	2017 US$	2016 US$
Prepayments	**1,485,161**	904,856
Derivative financial instruments (see Note 22)	**1,330,024**	–
Other receivables	**51,452**	23,567
Total	**2,866,637**	928,423

19 Deposits from banks

	2017 US$	2016 US$
Term deposits	**356,850,381**	109,989,038
Deposits received for securities lent	**–**	48,952,065
Other short term deposits	**901,071,789**	660,010,432
Total	**1,257,922,170**	818,951,535

20 Deposits from customers

	2017 US$	2016 US$
Term deposits	**106,543,878**	95,305,765
Demand deposits	**90,266,799**	200,652,458
Saving deposits	**7,039,360**	7,112,513
Total	**203,850,037**	303,070,736

21 Other Liabilities

	2017 US$	2016 US$
Other taxes and social security costs	**7,209**	205,976
Derivative financial instruments (see Note 22)	**–**	1,142
Current tax creditor	**3,330,271**	970,868
Other creditors	**3,865,136**	3,071,242
Total	**7,202,616**	4,249,228

22 Derivative financial instruments

	2017 US$	2016 US$
Forward foreign exchange contracts:		
Receivable/(Payable)	**1,330,024**	(1,142)
Total	**1,330,024**	(1,142)

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.

23 Commitments and contingencies

Pension commitments

The Bank provides a defined pension contribution scheme for all staff. The assets of the scheme are held separately from those of the Bank in independently administered funds.

During the year, pension costs of US$ 870,447 (2016: US$ 955,819) were charged to the income statement. Pension obligations outstanding on 31 December 2017 US$ 32,899 (2016: US$ 69,480).

Trade finance contingencies

	2017 US$	2016 US$
Letters of credit and acceptances (including cash backed)	**164,345,276**	242,687,614
Guarantees	**21,704,824**	24,276,211
Undrawn committed facilities	**8,698,740**	7,337,498
Total	**194,748,840**	274,301,323
Cash collateral and other high quality mitigations	**172,561,512**	259,107,388

Operating Leases on Premises Non-cancellable operating lease payables:	2017 US$	2016 US$
Less than 1 year	**1,032,075**	1,065,755
1 – 5 Years	**1,548,113**	2,258,331
Total	**2,580,188**	3,324,086

During 2014 the Bank renewed its lease of its London office for a term of ten years, with the right to break the tenure in five years.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

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 & 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.

Available for sale ('AFS')

These financial assets are designated on initial recognition as AFS and are measured at fair value in the Balance sheet.

Held-to-maturity

Debt instruments with the Bank's intention and ability to hold the investment to maturity. These instruments are carried at amortised cost using the effective interest rate method.

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. For impaired assets, the carrying value is the best estimate of fair value.

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' consider the impact of movement in credit spreads and other client specific risk factors.

24 Financial Instruments (continued)

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

2017	Loans and receivables US$	Fair value through P&L US$	Held to maturity US$	Available for Sale US$	Total carrying value US$	Total fair value US$
Assets						
Cash and cash equivalent	763,285,083	–	–	–	763,285,083	763,285,083
Securities FVTPL	–	519,995,000	–	–	519,995,000	519,995,000
Securities AFS	–	–	–	6,833,479	6,833,479	6,833,479
Securities investment	–	–	110,557,422	–	110,557,422	112,086,005
Loans and advances to banks	148,616,109	–	–	–	148,616,109	148,616,109
Loans and advances to customers	121,429,111	–	–	–	121,429,111	121,373,061
Derivatives	–	1,330,024	–	–	1,330,024	1,330,024
Total assets	**1,033,330,303**	**521,325,024**	**110,557,422**	**6,833,479**	**1,672,046,228**	**1,673,518,761**

	Financial instruments at amortised cost US$	Fair value through P&L US$	Total carrying value US$	Total fair value US$
Liabilities				
Deposits from banks	1,257,922,170	–	1,257,922,170	1,257,922,170
Deposits from customers	203,850,037	–	203,850,037	203,850,037
Derivatives	–	–	–	–
Total liabilities	**1,461,772,207**	**–**	**1,461,772,207**	**1,461,772,207**

2016	Loans and receivables US$	Fair value through P&L US$	Held to maturity US$	Total carrying value US$	Total fair value US$
Assets					
Cash and cash equivalent	639,648,140	–	–	639,648,140	639,648,140
Securities FVTPL	–	125,421,660	–	125,421,660	125,421,660
Securities investment	–	–	139,419,045	139,419,045	134,554,874
Loans and advances to banks	212,684,055	–	–	212,684,055	212,684,055
Loans and advances to customers	199,388,737	–	–	199,388,737	190,681,298
Total assets	**1,051,720,932**	**125,421,660**	**139,419,045**	**1,316,561,637**	**1,302,990,027**

	Financial instruments at amortised cost US$	Fair value through P&L US$	Total carrying value US$	Total fair value US$
Liabilities				
Deposits from banks	818,951,535	–	818,951,535	818,951,535
Deposits from customers	303,070,736	–	303,070,736	303,070,736
Derivatives	–	1,142	1,142	1,142
Total liabilities	**1,122,022,271**	**1,142**	**1,122,023,413**	**1,122,023,413**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

25 Financial risk management

The Bank has exposure to the following risks from financial statements:

- credit risk;
- liquidity risk;
- market risk;
- operational risk;
- foreign exchange risk;
- interest rate risk;
- reputational risk;
- sovereign 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.

Risk management framework

The Bank is firmly committed to the management of risk, 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 well-being of 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 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 to.

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 who, in the main, 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 will predominantly be 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 will only be to well-known and established customers of the Group in accordance with strict credit and security parameters.

25 Financial risk management (continued)

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 is supported in this process by Risk Management. The day to day management of facilities within limits and guidelines set by the MCC will be the responsibility of the business line departments. Risk Management is responsible for monitoring compliance with these limits.

All credit applications and reviews are submitted to Credit Risk Management for independent assessment prior to being forwarded to the approval process. All credit applications are submitted to the Group Credit Committee ("GCC") of Zenith Bank Plc in Lagos, Nigeria for final approval and must carry the support of MCC. All such approved facilities in excess of significant 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 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 is 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 2017 was nil (2016: US$ 46.7m).

Collateral

Collateral and security can be 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 to customers' and 'off balance sheet items' at the statement of financial position date was US$ 1.52bn (2016: US$ 1.11bn).

In the normal course of business, the Bank receives collateral on certain transactions to reduce its exposure to counterparty credit risk.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

25 Financial risk management (continued)

The following table reflects the types of collateral received by the Bank. The collateral values are based upon the best estimates of the recoverable values and are capped at the exposure value.

Collateral analysis

	2017 US$	2016 US$
Cash	**205,420,552**	445,072,484
Property, plant and equipment	**32,561,985**	40,261,008
Guarantees from AAA rates entities	**105,094,913**	–
	343,077,450	485,333,492

Sovereign 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 it's 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 maximum exposure to credit risk as at statement of financial position date by geographical area.

2017 Assets	**Europe**	**Nigeria**	**Rest of Africa**	**Rest of the World**	**Total**
Cash and cash equivalents	611,125,860	2,254	25,096,579	127,060,390	763,285,083
Securities designated at fair value	125,864,484	21,877,384	18,653,216	353,599,916	519,995,000
Securities Available for Sale	3,244,223	–	–	3,589,256	6,833,479
Securities investments	–	74,232,700	26,567,139	9,757,583	110,557,422
Loans and advances to banks	–	148,616,109	–	–	148,616,109
Loans and advances to customers	79,404,477	7,506,345	14,039,547	20,478,742	121,429,111
Total assets	**819,639,044**	**252,234,792**	**84,356,481**	**514,485,887**	**1,670,716,204**

2016 Assets	Europe	Nigeria	Rest of Africa	Rest of the World	Total
Cash and cash equivalents	452,705,101	30,145,365	163,154	156,634,520	639,648,140
Securities designated at fair value	10,129,104	12,708,566	5,727,429	96,856,561	125,421,660
Securities investments	–	77,871,351	51,812,158	9,735,536	139,419,045
Loans and advances to banks	–	183,833,937	28,850,118	–	212,684,055
Loans and advances to customers	80,989,181	49,492,312	31,667,742	37,239,502	199,388,737
Total assets	**543,823,386**	**354,051,531**	**118,220,601**	**300,466,119**	**1,316,561,637**

25 Financial risk management (continued)

An analysis of the credit quality of the maximum credit exposure based on rating agency Fitch and Moody ratings where applicable. These are grouped by Credit Quality Steps (CQS) as prescribed by the regulator.

CQS	Assets	2017 US$	2016 US$
	Cash and cash equivalent		
1	Rated AAA to AA–	**71,276,574**	27,584,001
2	Rated A+ to A–	**536,739,715**	372,831,595
3	Rated BBB+ to BBB–	**145,188,153**	183,893,807
4	Rated BB+ to BB–	**10,078,387**	8,699
5	Rated B+ to B–	**2,254**	30,136,667
6	Unrated	**–**	25,193,371
	Total	**763,285,083**	**639,648,140**
	Securities designated at fair value		
1	Rated AAA to AA–	**494,097,365**	111,568,719
2	Rated A+ to A–	**–**	–
3	Rated BBB+ to BBB–	**–**	718,923
4	Rated BB+ to BB–	**3,630,750**	12,381,124
5	Rated B+ to B–	**22,266,885**	752,894
6	Unrated	**–**	–
	Total	**519,995,000**	**125,421,660**
	Available for Sale Securities		
1	Rated AAA to AA–	**2,013,895**	–
2	Rated A+ to A–	**1,575,360**	–
3	Rated BBB+ to BBB–	**3,244,224**	–
	Total	**6,833,479**	**–**
	Securities investment		
1	Rated AAA to AA–	**–**	–
2	Rated A+ to A–	**–**	–
3	Rated BBB+ to BBB–	**10,700,439**	17,796,765
4	Rated BB+ to BB–	**9,757,583**	53,966,820
5	Rated B+ to B–	**90,099,400**	67,655,460
6	Unrated	**–**	–
	Total	**110,557,422**	**139,419,045**
	Loans and advances to banks		
1	Rated AAA to AA–	**–**	–
2	Rated A+ to A–	**–**	–
3	Rated BBB+ to BBB–	**–**	–
4	Rated BB+ to BB–	**–**	–
5	Rated B+ to B–	**148,616,109**	212,684,055
6	Unrated	**–**	–
	Total	**148,616,109**	**212,684,055**
	Loans and advances to customers (unrated)		
	Neither past due nor impaired	**87,067,554**	165,003,312
	Past due but not impaired (1)	**6,236,160**	34,385,425
	Past due and impaired (2)	**28,125,397**	–
	Total	**121,429,111**	**199,388,737**

(1) Past due but not impaired loans and advances to customers of $6.2m was settled after 31 December 2017.

(2) Included in past due and impaired is a single loan of $31.1m, against which a provision of $3.1m was recorded. Subsequent to the balance sheet date the net exposure of $28.1m was repaid. As a result, as at the date of this report, loans past due and impaired reduced to $3.1m, which was fully provided.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

25 Financial risk management (continued)

Credit exposure to loans and advances to customers as at the statement of financial position date by industry:

Loans and advances to customers	**2017 US$**	2016 US$
Industry:		
Agriculture	–	4,090,637
Communications	–	39,825,930
Oil and Gas	**52,380,945**	100,566,848
Commodities trading	**25,400,740**	5,191,489
Transportation	**32,189,506**	32,432,059
General Commerce	**9,517,363**	15,169,586
Others	**1,940,557**	2,112,188
	121,429,111	199,388,737

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'). In addition, the Bank employs the Net Stable Funding Ratio ('NSFR'), which covers the stable funding requirement, coming into effect from January 2018. 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 adhered to at all times:

- the Board of Directors is ultimately responsible for ensuring that the liquidity policy remains relevant and up-to-date at all times and 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 and is managed by 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 the assurance of compliance with the Bank's liquidity risk management framework and policy.

Total amount of the repurchase agreements outstanding at the year-end is nil (2016: US$ 48,952,065). Deposits from banks include placements from the Group, short term deposits from government institutions and other banks.

25 Financial risk management (continued)

Liquidity 2017	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	763,285,083	–	–	–	763,285,083
Securities designated at fair value	308,342,219	107,051,030	104,341,141	260,610	519,995,000
Securities Available for Sale	1,243,501	351,075	5,238,903	–	6,833,479
Securities investment	435,143	41,037,352	60,122,454	8,962,473	110,557,422
Loans and advances to banks	128,313,547	20,302,562	–	–	148,616,109
Loans and advances to customers	47,516,007	32,105,089	41,808,015	–	121,429,111
Derivatives	1,330,024	–	–	–	1,330,024
Total assets	**1,250,465,524**	**200,847,108**	**211,510,513**	**9,223,083**	**1,672,046,228**
Liabilities					
Deposits from banks	1,249,906,615	8,015,555	–	–	1,257,922,170
Deposits from customers	170,364,249	17,241,454	16,244,334	–	203,850,037
Derivatives	–	–	–	–	–
Total liabilities	**1,420,270,864**	**25,257,009**	**16,244,334**	**–**	**1,461,772,207**

Liquidity 2016	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	639,640,452	7,688	–	–	639,648,140
Securities designated at fair value	7,931,910	64,569,925	52,506,854	412,971	125,421,660
Securities investment	1,359,785	58,329,794	76,565,299	3,164,167	139,419,045
Loans and advances to banks	110,267,623	102,416,432	–	–	212,684,055
Loans and advances to customers	44,849,432	27,183,358	127,355,947	–	199,388,737
Total assets	**804,049,202**	**252,507,197**	**256,428,100**	**3,577,138**	**1,316,561,637**
Liabilities					
Deposits from banks	812,461,549	6,489,986	–	–	818,951,535
Deposits from customers	284,335,224	16,954,877	1,780,635	–	303,070,736
Derivatives	1,142	–	–	–	1,142
Total liabilities	**1,096,797,915**	**23,444,863**	**1,780,635**	**–**	**1,122,023,413**

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.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

25 Financial risk management (continued)

The Bank's trading activities are limited to transactions in financial instruments mainly comprising the trading of 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 are set out below. Market risk exposures are measured and monitored daily and are formally reviewed weekly by the Bank's Asset and Liability Committee.

Exchange rate risk

The Bank makes loans and takes deposits in a number of currencies. Payments made on behalf of customers in one currency may be met 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 table below sets out the concentrations of the currency assets and liabilities in the Bank's statement of financial position.

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 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 2017 as a basis of disclosing the Bank's foreign currency sensitivity analysis.

2017	**US Dollars US$**	**Sterling US$**	**Other US$**	**Total US$**
Assets	1,479,825,985	133,617,147	62,318,987	1,675,762,119
Liabilities	(1,534,826,437)	(93,918,012)	(47,017,669)	(1,675,762,119)
Derivative foreign exchange contracts	59,715,582	(44,414,265)	(13,971,293)	1,330,024
Net open position	**4,715,130**	**(4,715,130)**	**1,330,024**	**1,330,024**

2016	US Dollars US$	Sterling US$	Other US$	Total US$
Assets	1,251,251,889	38,370,883	29,807,126	1,319,429,898
Liabilities	(1,251,610,375)	(38,012,397)	(29,807,126)	(1,319,429,898)
Derivative foreign exchange contracts	(2,556,931)	3,095,657	(539,868)	(1,142)
Net open position	**(2,915,417)**	**3,454,143**	**(539,868)**	**(1,142)**

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 / deprecation 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.

25 Financial risk management (continued)

2017	Sterling Pounds US$	Other US$
Net foreign currency exposure	**(4,931,661)**	1,330,024
Impact of 5% increase against US$	**(246,583)**	66,501
Impact of 5% decrease against US$	**246,583**	(66,501)

2016	Sterling Pounds US$	Other US$
Net foreign currency exposure	**3,454,143**	(539,868)
Impact of 5% increase against US$	**172,707**	(26,993)
Impact of 5% decrease against US$	**(172,707)**	26,993

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 ALCO (Asset and Liability Committee), 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.

Profit or Loss Impact	2017 US$	2016 US$
Increase	**(12,147,000)**	(6,524,000)
Decrease	**13,016,000**	6,891,000

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 as follows:

- by recruiting experienced professional and well qualified staff;
- adoption of industry best practice in all operations;
- on-going consultation with risk management experts to ensure processes remain robust; and
- institutionalisation of 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 2017

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 2017 is US$ 206.8m (2016: $193.2m).

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, who requires each bank 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	**2017 US$**	2016 US$
Share capital	**136,701,620**	136,701,620
Retained earnings	**70,085,676**	56,456,779
Total Tier 1 capital	**206,787,296**	193,158,399

Critical accounting judgements in applying the Bank's accounting policies

Fair value hierarchy

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

Level 1 fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2 fair value measurements using 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), and

Level 3 fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs)

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

2017	**Level 1 US$**	**Level 2 US$**	**Level 3 US$**	**Total US$**
Assets				
Securities FVTPL	494,097,366	25,897,634	–	519,995,000
Securities Available for Sale	6,833,479	–	–	6,833,479
Securities investment	–	110,557,422	–	110,557,422
Derivatives	–	1,330,024	–	1,330,024
	500,930,845	**137,785,080**	**–**	**638,715,925**

25 Financial risk management (continued)

2016	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets				
Securities FVTPL	111,368,341	14,053,319	–	125,421,660
Securities investment	–	139,419,045	–	139,419,045
Derivatives	–	(1,142)	–	(1,142)
	111,368,341	153,471,222	–	264,839,563

Please refer to note 24 for fair values of loans and advances. All loans and advances are categorised as level 3 assets.

Compliance risk (unaudited)

We define Compliance Risk, based on the FCA's 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.

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 both the Compliance Department and the other departments of the Bank (i.e. the third line).

26 Share capital

	2017 US$	2016 US$
Issued:		
35,001,000 ordinary shares of £1 each		
– Redenominated into 56,701,620 shares of $1 each	**56,701,620**	56,701,620
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 called up and fully paid

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

As at 31 December 2016 and 2017 the issued share capital comprises 136,701,620 ordinary shares with a par value of $1 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Bank. All shares rank equally with regards to the Bank's residual assets.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2017

27 Related party transactions

Key management personnel are considered to be the Directors. Disclosures regarding Directors emoluments and other transactions are given in note 7.

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:

	2017 US$	2016 US$
Assets (amounts included in note 13)		
Amounts due from parent company	**128,535,565**	155,410,328
Amounts due from fellow subsidiaries	**–**	25,882,639
Total	**128,535,565**	181,292,967
Liabilities (amounts included in note 19)		
Amounts due to parent company	**252,494,303**	406,884,496
Amounts due to fellow subsidiaries	**25,189,754**	26,998,752
Total	**277,684,057**	433,883,248
Fees and commissions		
Received from parent company	**1,594,813**	3,064,215
Received from fellow subsidiaries	**340,830**	348,059
Total	**1,935,643**	3,412,274
Interest income		
Received from parent company	**3,989,767**	4,125,876
Received from fellow subsidiaries	**889,399**	523,810
Total	**4,879,166**	4,649,686
Interest expense		
Paid to parent company	**97,415**	2,619,798
Paid to fellow subsidiaries	**364,721**	274,671
Total	**462,136**	2,894,469

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 is 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 2017 that require disclosure or adjusting in the financial statements, except the recovery of $28.1m from impaired loans.

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