ZENITH BANK (UK) LIMITED
ANNUAL REPORT AND ACCOUNTS
2018

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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
Nick Hornsey

Registered office
39 Cornhill
London
EC3V 3ND

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

Solicitors
Clifford Chance LLP, London
Dentons LLP, London
Berwin Leighton Paisner LLP, London

Independent Auditor
KPMG LLP
Chartered Accountants
London

Board of Directors

Jim Ovia – Chairman

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

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.

David Somers – Senior Independent Director

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

Ian Ogilvie – Non-Executive Director

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

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

Andrew Gamble – Non-Executive Director

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

Jeffrey Efeyini – Non-Executive Director

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

Pamela Mimi Yough, Chief Executive Officer

Pamela joined Zenith Bank (UK) Limited on 12 June 2017. She has a wealth of experience in banking with a career spanning over 25 years. 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 2018.

Principal activities

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

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

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

The Treasury Department supports these activities and carefully manages the Bank's capital, liquidity and the asset and liability mismatches arising from the Bank's activities by implementing new strategies and monitoring limits in line with the Bank's Risk Management Framework. Forex trading has grown significantly over the years. Eurobond trading desk addresses the growing demand from customers to invest in Sub Saharan Africa bonds.

Nigeria's long-term economic performance is expected to pick up moderately, driven by gradual improvements in infrastructure provision and policy reform. Despite the challenging macroeconomic environment recently, Nigeria remains Africa's largest economy with strong growth potential. In 2018, Nigeria's Gross Domestic Product (GDP) increased by 1.93% from US$375.77 billion reported in 2017.

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 Organisation for Economic Co-operation and Development (OECD) markets. We aim to build on these and other relationships for the long term to address the needs of our customers, while maintaining the high standards of service we have set. This has involved continued investment in people and systems to leave us well positioned to be a leading trade finance business.

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

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

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

Going Concern

The Bank's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic Report on pages 8 to 12, including the impact of the recent domestic events in Nigeria and Brexit. The directors have satisfied themselves that there is no material uncertainty that the Bank will not be able to continue as a going concern. The Bank has maintained adequate capital and liquidity, remaining above regulatory requirements, and continues to maintain healthy reserves. The Bank therefore continues to adopt the going concern basis of accounting for the preparation of its annual financial statements.

Capital

There has been no change to the existing capital structure in 2018 (as detailed in the Statement of Changes in Equity on page 20 of the financial statements).

Results and dividend

The Bank's profit for the year after taxation amounted to US$27.5 million (2017: profit US$13.6 million). The directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017: 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
Pamela Yough	Chief Executive
Anthony Uzoebo	Executive

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 14.46%) of the Parent entity
- Mr. Peter Amangbo is the Group CEO & MD and a shareholder (owns 0.11%) 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 provide the essential components for progress and success.

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

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

Policy on payment of creditors

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

Political and charitable contributions

During the year the Bank made charitable donations of US$ 657 (2017: US$ 455) to several registered charities. No payments were made to political parties during the year (2017: Nil).

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 March 2019.

Directors' report (continued)

Disclosure of information to the auditor

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

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

By order of the Board,

Pamela Yough
Chief Executive

25 March 2019

39 Cornhill, London, EC3V 3ND

Statement of directors' responsibilities in respect of the Strategic Report and the Directors' 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 judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the 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.

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

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

Pamela Yough
Chief Executive

25 March 2019

Company registration no. 05713749

Strategic Report

Pamela Yough
Chief Executive

Strategic report

2018 was a truly historic year for Zenith Bank (UK) Limited ("the Bank") as it made significant progress in its focus on delivering shareholder value through the highest profitability since inception while also operating within acceptable risk thresholds .

Inspired by a strong leadership team, the staff demonstrated strong drive, determination, resilience and tenacity that resulted in the Bank's unprecedented performance in 2018 and a year-on-year increase on profits of 113% was recorded. We believe that the Bank is on the right course towards achieving its strategic goal of becoming the international hub of the Zenith Group and to be a leading subsidiary amongst the UK-based African banks. All these achievements led the Bank to win the Global Trade Review's (GTR) "Best Trade Finance Bank in West Africa" in 2018. In addition to trade finance services, the Bank continues to improve on its mix of value-added, client-driven activities whilst also ambitiously but cautiously exploring new business opportunities.

The Bank's strong capital position at the end of 2018, which reflects a Common Equity Tier 1 (CET1) ratio of 32.38%, is driven by organic growth through its retained earnings over the years. The Bank has demonstrated its ability not only to generate profits but also to do so sustainably over time, in pursuit of its strategy.

2018 Business Review

The Bank's financial results and explanatory notes are set out in pages 18 to 60. Highlights of these are presented as follows:

- Operating income of $49.7m (2017: $40.0m)
    - Of which Net interest income: $38.6m (2017: $28.3m), Non-interest income: $11.0m (2017: $11.7m)
- Impairment charge reversals of $4.5m (2017: Charge of $6.8m)
- Profit before tax of $33.8m (2017: $16.0m)
- Profit after tax of $27.5m (2017: $13.6m)
- Cost-to-Income ratio (excluding impairment reversals) of 41.0% (2017: 42.9%)
- Return on Equity of 12% (2017: 7%)

Despite these significant achievements and milestones passed during the year, its financial performance for 2018 highlights the important need to diversify its revenue base in the future and concentrate on generating a higher proportion of income through the growth of loans and advances, in a sustainable manner. This is one of the main thrusts of the budget for FY 2019 and the coming years.

Operating Environment

As a UK-regulated entity with exposures in primarily five countries, the Bank is faced with a complex mix of evolving macroeconomic, political, regulatory, technological and accounting developments. Consequently, we are exposed to these changes in multiple jurisdictions. However, the countries whose macroeconomic development can potentially impact the Bank most significantly are the United States, the United Kingdom and Nigeria. This is because the Bank's balance sheet is significantly comprised of US Dollar-denominated assets (and is therefore subject to US Dollar interest rate and exchange risks). Other reasons are that the Bank is subject to regulations in the UK, a Sterling-based economy, where it is domiciled, and the fact that the Bank transacts several of its businesses through its Nigerian-based parent company, Zenith Bank PLC. The Bank follows keenly and constantly measures the sensitivity of its fundamentals to fluctuations in the price of crude in the international market and the uncertainties regarding Brexit. Issues relating to the latter are addressed under "Brexit".

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

Business Structure

The Bank's business is conducted through its business units, which are largely client-facing, and processed, managed, controlled and reported by the non-client facing service units. Business activities are organised into Corporate Banking ("Business Development"), Wealth Management, Financial Institutions & Correspondent Banking departments respectively. The Business Development function is subdivided into the UK and Dubai operations (through the Bank's branch that is registered with the Dubai Financial Services Authority – DFSA). The Bank also has a Treasury function that, among other things, is responsible for ensuring proper management of the Bank's liquidity and open positions respectively. The function also manages the Bank's trading in Bonds, foreign currencies and other financial instruments.

Percentage mix of the Bank's operating income for 2018 by business unit is presented below:

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

Business Model

The Bank's customers and clients include corporates, small and medium scale organisations, financial institutions, banks, individuals (Wealth Management clients). Its core business lines and target markets are as follows:

- Serving Zenith Group and its customers;
- Arranging Trade Finance and working capital requirements for West African and Sub-Saharan Corporates;
- Structuring FX transactions, managing Treasury positions, and trading and distributing Sub-Saharan Eurobonds;
- Delivering correspondent and cash management solutions to banks, financial institutions, governments and parastatals; and
- Providing Banking services to High Net-worth Individuals ("HNIs")

Strategy

The Bank's strategy for delivering its business model entails a combination of the following:

- Leverage on strength of the Zenith brand and focus on longstanding and new relationships from the Sub-Saharan Africa ("SSA") and diaspora to drive international business network expansion.
- Maintain strong risk management, regulatory compliance and corporate governance structure and take advantage of the market trust in a UK-regulated bank to grow cross border business.
- Utilise in-depth understanding of specific trade and correspondent banking requirements, to develop business relationships with banks and financial institutions in the West African sub-region and encourage them to use our services for business.
- Focus lending activities on international trade and export transactions, including discounting trade bills for companies and providing short-term credit to financial institutions, which are using the Bank as their correspondent bank.
- Build upon SSA knowledge and extend Treasury products to meet the needs of clients requiring comprehensive services (e.g. foreign exchange to institutional and corporate; SSA bonds trading offering to institutional and wealth management clients).
- Promote cross selling of products and services by departments within the bank; to enable client acquisition growth, create capital capacity for trade finance activities and efficiently manage the Bank's liquidity, offer long term investment advisory and wealth management solutions to HNIs and ultimate beneficial owners (UBOs) of large corporates; through various marketing visits and introduction of key customers to other areas of the Bank that could provide them with additional services.

Strategic Report (continued)

With effective risk management, we seek to ensure that the Bank's portfolio of assets is well-diversified across industries and geographies to target profitable markets and stay within tolerable credit risk thresholds. The Bank has continued its investments in technology that will support its business and strategy. Among such technologies are Client Relationship Management ("CRM") Project, Debit Card issuance, Mobile Banking solution, and Second Payment Services Directive ("PSD2") also known as open banking.

Significant Risks

Like most organisations, the Bank is subject to business and operational risks. To create a strong risk culture that ensures such risks are properly identified, measured and managed, the Bank implements a robust Risk Management Framework in its daily operations. The significant risks faced by the Bank are as follows:

(a) **Credit Risk:** This is the risk arising from the uncertainty of obligor's ability to perform its contractual obligation. Credit risk is one of the risks assumed in pursuit of the Bank's business objectives. The Bank is exposed to credit risks not only through its direct lending activities and transactions but also through commitments to extend credits, letters of guarantee, letters of credit and securities purchased under reverse repurchase agreements . It is also exposed to risk arising from deposits with financial institutions, central banks, brokerage activities and transactions, and settlement risks such as those resulting from irrevocable fund transfers to third parties via electronic payment systems. According to the Bank's assessment, this component of risk is the most significant of the risks it is exposed to that can potentially impact on its regulatory capital.

To mitigate this risk, the Bank allocates limits for all countries, banks, supranational institutions, corporate counterparties and personal customers in accordance with its Credit and Large Exposure policy statements. The credit risk appetite is set by the Bank's Board of Directors ("the Board") in conjunction with the Executive Committee ("the EXCO"). The Risk department implements and monitors these policies.

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

The Bank mitigates this risk by imposing a limit of Euro 15 million (approx. $16 million) on its total trading position. A stop loss of $35,000 is in force and overnight positions are kept within tolerance limit. The Bank's net open FX position is limited to $4 million. Risk Management department monitors the Bank's overall positions against approved risk limits daily and reconciles the position separately to the dealers' position, in line with the Bank's Three Lines of Defence model. Daily market risk reports detailing the profile of market risk are generated by the market risk teams and reported to the Market Risk Committee on a weekly basis.

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

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

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

This risk is mitigated through the production and reporting, by Finance department, of the Bank's liquidity position, which is reviewed by Risk Management, in line with the Three Lines of Defence model. The Risk department is responsible for highlighting the positions distributed to the Assets & Liabilities committee ("ALCO") using the Red-Amber-Green ("RAG") thresholds, in line with the Bank's risk appetite.

Key Performance Indicators

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

The Bank's Board-approved financial strategy is translated into annual budgets, which are operationalised into measurable financial metrics that are used to drive business and evaluate executive performance. Some of these metrics are translated into Key Performance Indicators (KPIs), which for 2018, are as follows:

(a) **Returns on Equity (RoE):** This measures the Bank's ability to generate returns for its shareholder. It is calculated as Profit after Tax (PAT) as a percentage of average shareholders' equity. The target RoE set for 2018 was 11% (Actual 2018: 12%, Actual 2017: 7%).

(b) **Operating Income:** In absolute terms, this fundamentally measures the Bank's ability to create, capture and retain value in excess of its direct costs of exploring business opportunities. In relative terms, it measures how efficiently and profitably the Bank's activities were run during any given review period. Generally, the Bank seeks to ensure that it covers its funding and operational costs and this was achieved during the year. Operating income reported in 2018 was $50.2m (2017: $40.0m).

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

Significant Events in 2018

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments (IFRS 9). IFRS 9 has replaced 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 has applied IFRS 9 as issued in July 2014 effective 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 any impact on bank's financial assets' classification and measurement.

The Bank has taken 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 have been incorporated through an adjustment to the opening reserves and retained earnings position as at 1 January 2018.

During July 2018, assets classified as Stage 3 loans and fully impaired under the impairment principles per International Financial Reporting Standards 9 – Financial Instruments carried forward from prior year and amounting to $28.1m were written off. The Bank has reassessed its credit risk appetite in favour of better-quality assets and the credit risk management function has been strengthened significantly to ensure that only credits with acceptable performance quality are written by the Bank.

In spite of this, however, efforts are still being made to recover part, if not all, of the loans. Recoveries totalling $0.5m were made in 2018.

Brexit

We enhanced our Brexit preparations to ensure that the Bank does continue to operate profitably. Overall, we do not anticipate a significant impact from Brexit, given the low exposure to EU. Our assessments are based on the anticipated impact on our business model, capital, liquidity and operations.

There will be no impact on Eurobond trading as bonds are usually traded globally and settled via Euroclear. This will be unchanged post-Brexit and UK's exit will have zero impact on pricing. Eurobond client base is mostly in Nigeria and UK. European Fund Managers mainly have UK offices and would not be restricted in dealing with the Bank. Similarly, there will be no impact on the Bank's NDF trading as all counterparties are based in London or Africa.

Strategic Report (continued)

The Bank's liquid assets are primarily denominated in US Dollar. The only potential impact could be the change in return of UK Gilts and similar assets depending on how the Bank of England reacts to the outcome of Brexit. Given the short-term nature of assets, the Bank does not anticipate a significant impact.

The Bank does not anticipate that retail funding will be impacted as funding base is entirely UK-based. Potential increase in competition for liability generation is likely.

Additionally, the possible risks that the Bank envisages are the possible loss of passporting rights which could result in the Bank's inability to carry out primary banking functions with Europe; the possibility of rates remaining static due to the heightened level of fragility and uncertainty; the anticipation that regulation for banks conducting business across the European Union ("EU") will increase, in view of expected changes to EU regulation; and the risk to financial stability, given UK's high current account deficit and the possible adverse effect of uncertainty.

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

Outlook: 2019 and Beyond

The Bank's performance in 2018 paved the way for the reinforcement of its strategic intent. In 2019, the Bank will focus on providing trade finance, delivering excellent banking services to corporates and wealth management clients, and trading profitably in foreign currencies and financial instruments on a higher scale. We will seek to develop clientele by targeting the business partners of our clients. We will deploy sophisticated trade finance solutions to consolidate on our high-quality product offerings, improve service delivery and enhance customer experience.

Our deposit liability generation efforts will focus on tenured funds from small and medium scale enterprises (SMEs) and individuals. We will continue to match our funding with exposures of acceptable quality, in line with our risk appetite. The Bank will continue its zero-tolerance stance for compliance and regulatory infractions.

Zenith Bank (UK) Limited will continue to invest in its people through trainings across all levels. We will continue seeking to attract, train and retain the best quality of staff to complement our operations and services.

By order of the Board,

Pamela Yough
Chief Executive

25 March 2019

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 Company") for the year ended 31 December 2018 which comprise the Statement of Profit or 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 Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the directors for the year ended 31 December 2010. The period of total uninterrupted engagement is for the 9 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company 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 decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to pages 8 and 11 (Strategic Report), and page 43 (financial disclosures) **Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the impairment of loans and advances to customers below and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: ● **Our Brexit knowledge:** We considered the directors' assessment of Brexit related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; ● **Sensitivity analysis:** When addressing the impairment of loans and advances to customers and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted at a rate other than the original effective interest rate, considered adjustments to discount rates for the level of remaining uncertainty;

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

Key audit matter	How our audit addressed the key audit matter
Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	• **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the impairment of loans and advances to customers, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results:** As reported under the impairment of loans and advances to customers (below), we found the resulting estimates and related disclosures relating to the impairment of loans and advances to customers and disclosures in relation to uncertainty due to Brexit to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
Impairment of loans and advances at amortised cost Refer to pages 22 – 25 and 27 (accounting policy) and page 37, 45 – 49 and 51 – 53 (financial disclosures) **Subjective estimate** IFRS 9 was implemented by the Company on 1 January 2018. This new standard requires the Company to recognise expected credit losses (ECL) on loans and advances which involves significant judgement and estimates. The carrying value of financial instruments within the scope of IFRS 9 ECL may be materially misstated if judgements or estimates made by the Company are inappropriate.	Our procedures included: **Control design, observation and operation:** For a sample of loans, we tested the design and operating effectiveness of controls over ECL including: – The accuracy of data input into the system used for credit grading and the approval of credit facilities; – The approval of new loans by inspecting the relevant management and Committee approvals; and – The ongoing monitoring and identification of loans displaying indicators of impairment and whether they are migrating, on a timely basis to the watch list report, and testing if annual reviews of accounts were performed. **Tests of details:** Key aspects of our testing involved: – We performed credit file reviews for a sample of loans and advances to customers and challenged management's assumptions regarding the Company's IFRS 9 impairment methodologies, including the significant increase in credit risk (SICR) criteria used. – We tested the key inputs and assumptions in the ECL calculation such as the probability of default and loss given default by validating data used by management in the calculation. – We assessed and challenged the appropriateness of the methodology by considering qualitative factors, including recent loss history, performance and risk characteristics of the portfolio. **Our results:** We considered the credit impairment charge and provision recognised and the related disclosures to be acceptable (2017: acceptable).

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

Materiality for the financial statements as a whole was set at $1.1m (2017: $0.6m), determined with reference to a benchmark of profit before tax, of which it represents 3.3% (2017: 5.0%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $55,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

4. We have nothing to report on going concern

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

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

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

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

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

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

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

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

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

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

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

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

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

We have nothing to report in these respects.

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 Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

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

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

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

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, financial crime and certain aspects of company legislation recognising the financial and regulated nature of the company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any.

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

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

This report is made solely to the Company'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 Company'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 Company and the Company'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

25 March 2019

Statement of Profit or Loss

For the year ended 31 December 2018

	Note	2018 US$	2017 US$
Interest income	4	**44,010,593**	32,593,165
Interest expense	4	**(5,389,317)**	(4,289,571)
Net interest income		**38,621,276**	28,303,594
Fee and commission income	5	**6,231,760**	5,715,902
Trading and other income	6	**4,809,574**	5,938,513
Operating income		**49,662,610**	39,958,009
Personnel expenses	7	**(13,552,715)**	(11,094,584)
Depreciation and amortisation	15 & 16	**(1,042,000)**	(676,971)
Other expenses	8	**(5,751,386)**	(5,378,682)
Operating expenses		**(20,346,101)**	(17,150,237)
Operating profit before impairment provision and taxation		**29,316,509**	22,807,772
Net impairment credit/(charge) on financial assets	14	**4,522,490**	(6,798,273)
Profit before tax		**33,838,999**	16,009,499
Income tax expense	9	**(6,329,242)**	(2,380,602)
Profit for the year		**27,509,757**	13,628,897
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Gains/(losses) on financial assets measured at fair value through other comprehensive income		**(120,245)**	–
Deferred tax expense/(credit) on gains and losses on financial assets measured at fair value through other comprehensive income		**20,442**	–
Other comprehensive income for the year (net of tax)		**(99,803)**	–
Total comprehensive income for the year attributable to equity holders of the Bank		**27,409,954**	13,628,897

The 2018 and 2017 results are all from continuing operations.

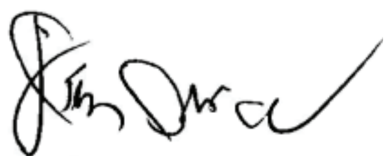
The notes on the accompanying pages 22 to 60 form an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2018

	Note	31 December 2018 US$	31 December 2017 US$
Assets			
Cash and cash equivalents	10	**710,130,745**	763,285,083
Securities designated at fair value through profit or loss	11	**50,484,784**	519,995,000
Securities designated at fair value through other comprehensive income	11	**791,564,517**	6,833,479
Securities measured at amortised cost	12	**90,201,310**	110,557,422
Loans and advances to banks	13	**171,079,202**	148,616,109
Loans and advances to customers	14	**84,944,158**	121,429,111
Property and equipment	15	**1,217,934**	1,186,214
Intangible assets	16	**1,877,831**	991,705
Deferred tax assets	17	**1,476,943**	1,359
Other assets	18	**1,357,582**	2,866,637
Total assets		**1,904,335,006**	1,675,762,119
Liabilities			
Deposits from banks	19	**1,348,249,858**	1,257,922,170
Deposits from customers	20	**320,923,844**	203,850,037
Other liabilities	21	**9,761,745**	7,202,616
Total liabilities		**1,678,935,447**	1,468,974,823
Equity			
Capital	26	**136,701,620**	136,701,620
Reserves		**(99,803)**	–
Retained earnings		**88,797,742**	70,085,676
Total equity attributable to equity holders of the Bank		**225,399,559**	206,787,296
Total liabilities and equity		**1,904,335,006**	1,675,762,119

These statutory financial statements were approved by the board of directors on 25 March 2019 and were signed on its behalf by:



Jim Ovia
Chairman

Pamela Yough
Chief Executive Officer

Adeyemi Paul-Taiwo
Chief Financial Officer

The notes on the accompanying pages 22 to 60 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2018

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

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

The notes on the accompanying pages 22 to 60 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 US$	2017 US$
Cash flows from operating activities			
Profit for the period		**27,509,757**	13,628,897
Adjustments for:			
Depreciation of property and equipment	15	**226,148**	198,830
Amortisation of intangible assets	16	**815,852**	478,141
Impairment provision (reversal)/charge	14	**(4,522,490)**	6,798,273
Income tax expense	9	**6,308,800**	2,380,602
Exchange difference on property and equipment		**(109,316)**	(117,925)
Exchange difference on intangible assets		**(362,033)**	(75,341)
		29,866,718	23,291,477
Change in loans and advances to banks		**(24,710,757)**	64,067,945
Change in loans and advances to customers		**36,689,839**	71,161,353
Change in securities designated at fair value through profit or loss		**469,510,216**	(394,573,340)
Change in securities designated at fair value through other comprehensive income		**(784,800,380)**	(6,833,479)
Change in other assets		**1,509,055**	(1,770,963)
Change in deposits from banks		**90,327,688**	438,970,636
Change in deposits from customers		**117,073,807**	(99,220,699)
Change in other liabilities		**2,108,560**	572,785
Income tax paid		**(5,733,070)**	–
Net cash used in/generated from operating activities		**(68,158,324)**	95,665,715
Cash flows from investing activities			
Acquisition of securities measured at amortised cost		**(49,210,034)**	(32,614,931)
Proceeds from sale of securities measured at amortised cost		**65,702,517**	61,476,554
Acquisition of property and equipment	15	**(148,552)**	(50,492)
Acquisition of intangible assets	16	**(1,339,945)**	(839,903)
Net cash from investing activities		**15,003,986**	27,971,228
Net increase/(decrease) of cash and cash equivalents		**(53,154,338)**	123,636,943
Cash and cash equivalents as at 1 January		**763,285,083**	639,648,140
Cash and cash equivalents at 31 December	10	**710,130,745**	763,285,083

The notes on the accompanying pages 22 to 60 form an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2018

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, 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 reviewed the impact of the economic events in Nigeria and Brexit on the Bank's 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) Adoption of IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments (IFRS 9). IFRS 9 has replaced 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 has applied IFRS 9 as issued in July 2014 effective 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 any impact on bank's financial assets' classification and measurement. The Bank has adopted consequential amendments to IAS 1 – Presentation of Financial Statements as required by IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8.28).

The Bank has taken 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 have been incorporated through an adjustment to the opening reserves and retained earnings position as at 1 January 2018.

2 Basis of preparation and significant accounting policies (continued)

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.

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.

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 the way the Bank classifies and measures its financial liabilities.

Based on the current assessment of reclassification and measurement of financial assets and liabilities, there is no impact on retained earnings and reserves.

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 financial assets not measured at FVTPL and certain off-balance sheet loan commitments and guarantees. It replaces the 'incurred loss model' in IAS 39. The new ECL framework results in an allowance for expected credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the 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 IAS 39 based approach, which estimates a collective allowance to recognise losses that have been incurred but not reported on performing loans.

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

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

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

2 Basis of preparation and significant accounting policies (continued)

Definition of default

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

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

Significant increase in credit risk

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

Measuring ECL

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

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

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

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

Forward-looking information ('FLI')

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

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

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

2 Basis of preparation and significant accounting policies (continued)

iii. Hedge Accounting

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

iv. Transition impact including impact on capital

The Bank has recognised 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. Shareholders' equity was reduced by $8,861,638 (net of tax).

The Bank has adopted 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 are phased into the CET1 capital base over 5 years.

(d) Adoption of IFRS 15 Revenue from contracts with customers

The Bank adopted IFRS 15 Revenue from contracts with customers (IFRS 15) with effect from 1 January 2018. No transition adjustments were required on adoption of IFRS 15 and the transition of IFRS 15 had no material impact on the financial statements of the Bank.

(e) 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.

(f) Fee and commission income

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

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

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

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

(g) Foreign currencies

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

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

2 Basis of preparation and significant accounting policies (continued)

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.

(h) 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.

(i) 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.

(j) Financial assets

Policy before 1 January 2018

The Bank has classified its financial assets in the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity (HTM) investments, and available-for-sale (AFS) investments.

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

Fair value through profit or loss (FVTPL)

Financial assets are classified as 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.

Loans and receivables

Loans and receivables 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.

2 Basis of preparation and significant accounting policies (continued)

Held-to-maturity (HTM)

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.

The Bank's management has not identified any assets as falling within this category.

Available-for-sale (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 other 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.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or 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 investment measured ar amortised cost 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.

Investments measured at amortised cost 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.

Policy after 1 January 2018

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

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

2 Basis of preparation and significant accounting policies (continued)

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.

Amortised cost

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

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

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

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

Fair value through other comprehensive income

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

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

Fair value through profit or loss

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

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

2 Basis of preparation and significant accounting policies (continued)

(k) Financial Liabilities

Financial liabilities are either classified by the Bank as:

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

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

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

There has been no change to the policy adopted before 1 January 2018.

(l) 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.

(m) Impairment of financial assets

Policy before 1 January 2018

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:

- 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

2 Basis of preparation and significant accounting policies (continued)

Policy after 1 January 2018

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

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

Refer to Impairment of Financial Assets, Loan Commitments and Financial Guarantees Contracts (Note 2c(ii)).

(n) Property and equipment

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

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

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

(o) 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.

(p) 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.

(q) 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.

2 Basis of preparation and significant accounting policies (continued)

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) IFRS 15 Revenue from contracts with customers

The IASB issued IFRS 15 revenue from Contracts with Customers (IFRS 15), which replaces the previous revenue standard IAS 18 Revenue, and the related Interpretations on revenue recognition.

The standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards and provides a single principle-based framework to be applied to all contracts with customers that are in scope of the standard. Under the new standard, revenue is recognised when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. The standard introduces a five-step model governing revenue recognition to be applied to contracts with customers. The Bank must also determine whether its performance obligation is to provide the service itself (i.e. the Bank acts as a principal) or to arrange another party to provide the service (i.e. the Bank acts as an agent).

(w) Future accounting developments

At 31 December 2018, 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 2018.

New standards and interpretations not yet adopted

(w-1) 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.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases or finance leases, and to account for these two types of leases differently.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

2 Basis of preparation and significant accounting policies (continued)

The Bank has assessed the impact of the proposed standard on its business. Other than the operating leases on its offices in London and Dubai, the bank has no other transaction to which it is a lessee or lessor. None of its lending transactions is in substance, a lease arrangement that requires the application of IFRS 16. Accordingly, the Bank will adopt the applicable principles of IFRS 16 for the year ending 31 December 2019 to its office lease.

The Bank does not expect the quantitative impact of this standard on the financial statements to be material.

(w-2) IFRIC 23 Uncertainty over income tax treatments

These amendments provide clarity on the accounting for income tax treatments that have yet to be accepted by the tax authorities. The amendments clarify that the key test for determining the amounts to be recognised in the financial statements is whether it is probable that the tax authority will accept the chosen tax treatment. This could result in an increase in the tax liability or a recognition of an asset depending on the current practice of the Group.

The Bank will adopt the amendments for the year ending 31 December 2019.

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 impairment of loans and advances are appropriate for the preparation of these financial statements.

3.1 Impairment of Loans and Advances – key judgements

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

Prior to 1 January 2018

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' ("IBNR")) .

The collective allowance is determined for each loan, using probability of default derived from the internal credit grade corresponds 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.

After 1 January 2018

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

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

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

The critical judgements relate to Classification and Measurements (which are described in detail within the accounting policies section) are the following:

- Business Model Test
- Contractual Cash Flow (SPPI) Test

4a Interest Income

	2018 US$	2017 US$
Derived from:		
Cash and cash equivalents	**14,037,880**	8,375,168
Securities designated at fair value through profit or loss	**568,826**	393,952
Securities designated at fair value through other comprehensive income	**10,741,261**	2,615,739
Securities measured at amortised cost	**8,809,725**	9,978,227
Loans and advances to banks	**3,146,769**	4,279,879
Loans and advances to customers	**7,274,958**	7,344,152
Total	**44,010,593**	32,593,165

4b Interest Expense

	2018 US$	2017 US$
Incurred on:		
Deposits from banks	**4,341,419**	3,561,260
Deposits from customers	**1,047,898**	728,311
Total	**5,389,317**	4,289,571

5 Fee and Commission income

	2018 US$	2017 US$
Derived from:		
Loans	**1,777,069**	1,318,191
Trade Finance	**4,346,931**	4,302,252
Other	**107,760**	95,459
Total	**6,231,760**	5,715,902

6 Trading and other income

	2018 US$	2017 US$
Derived from:		
Fixed income trading	**604,682**	2,458,016
Forex trading	**4,549,280**	3,392,513
Other sources	**(344,388)**	87,984
Total	**4,809,574**	5,938,513

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

7 Personnel expenses

	2018 US$	2017 US$
Employment costs are as follows:		
Wages and salaries – staff	**9,649,897**	6,778,973
Wages, salaries and other – Directors	**519,532**	1,316,985
Non-executive directors' fees and emoluments	**415,996**	424,549
Pension contributions under defined contribution scheme	**842,851**	870,447
Compulsory social security obligations	**881,692**	933,156
Other staff costs	**1,242,747**	770,474
Total	**13,552,715**	11,094,584

Number of employees at year-end including Directors	**94**	92
Average number of employees at year-end including Directors	**85**	82

At year-end there were 23 (2017: 17) employees involved in customer facing roles and 71 (2017: 75) in administration.

Included within employment costs are:	2018 US$	2017 US$
Directors' remuneration and fees		
Directors' fees, emoluments, salaries and other	**935,528**	1,741,534
Pension contributions	**66,432**	76,725
Total	**1,001,960**	1,818,259

The highest paid Director who served during 2018 received total emoluments of US$ 344,698 (2017: US$ 339,235) and pension contributions of US$ 35,123 (2017: US$ 30,153). There were two highest paid Directors who served the Bank in the previous year.

8 Other expenses include

	2018 US$	2017 US$
Premises cost	**1,342,444**	1,498,485
Other administration costs	**4,115,852**	3,609,827
Total fees paid to the auditors	**293,090**	270,370
Total	**5,751,386**	5,378,682

Total fees paid to the auditors comprise:

Audit of UK statutory accounts	**209,305**	208,390
Non-audit services:		
Other assurance related services	**83,785**	92,610
Total	**293,090**	301,000

9 Taxation

The tax charge in the Statement of profit or loss for 2018 is US$ 6.3m (2017: US$ 2.4m). These can be reconciled to the profit/(loss) per the Statement of profit or loss as follows:

	2018 US$	2017 US$
UK corporation tax on profit/(loss) of the current year	**6,284,779**	3,251,612
Adjustments in respect of prior periods	**(101,140)**	(1,038,260)
Current tax	**6,183,639**	2,213,352
Deferred tax – current year	**56,284**	(30,353)
Deferred tax – prior year	**89,319**	197,603
Deferred tax	**145,603**	167,250
Total tax charge/(credit)	**6,329,242**	2,380,602
Effective tax rate	**18.70%**	14.87%
Tax relating to items charged or credited to other comprehensive income		
Deferred tax		
IFRS 9 transitional adjustment	**(1,600,745)**	–
Tax debit/(credit) in the statement of other comprehensive income	**(1,600,745)**	–
Factors affecting tax charge:		
Profit/(loss) on ordinary activities before taxation	**33,838,999**	16,009,499

	2018		2017	
Profit/(loss) on ordinary activities multiplied by the UK corporation tax rate of 19% (2017: 19.25%)	6,429,410	19.00%	3,081,829	19.25%
Effects of:				
– Expenses not deductible for tax	44,260	0.13%	108,626	0.68%
– Effect of tax rate change	10,407	0.03%	30,804	0.19%
– Adjustments of tax charge in respect of previous periods	(11,822)	–0.03%	(840,657)	–5.25%
– IFRS 9 transitional adjustment	(198,785)	–0.59%	–	
– Depreciation in excess of capital allowances	37,488	0.11%	–	
– Other adjustments	(38,000)	–0.11%	–	
– Deferred tax recognised	56,284	0.17%	–	
Actual total tax charge/(credit)	**6,329,242**	**18.70%**	**2,380,602**	**14.87%**

Factors that may affect future tax charges:

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

With effect from 1 April 2017, the UK main corporation rate changed from 20% to 19%. The UK main rate of corporation tax will reduce from 19% to 17% from 1 April 2020. These changes have all been substantively enacted at the reporting date and the deferred tax balance at 31 December 2018 has been recognised at the 17% rate.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

10 Cash and Cash Equivalents

	2018 US$	2017 US$
Petty cash	**28,515**	42,864
Cash with other banks	**150,021,878**	209,265,458
Money market placements	**560,080,352**	553,976,761
Total	**710,130,745**	763,285,083

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

11 Securities designated at fair value

11.1 Securities designated at fair value through profit or loss

	2018 US$	2017 US$
(2017: Fair value through profit & loss securities)		
US and UK Govt Treasury bills	**–**	295,296,200
Other HQLAs	**–**	198,801,166
Other securities	**50,484,784**	25,897,634
Total	**50,484,784**	519,995,000

11.2 Securities designated at fair value through other comprehensive income

	2018 US$	2017 US$
(2017: Available for sale securities)		
US and UK Govt Treasury bills	**277,442,412**	–
Other HQLAs	**467,949,346**	–
Variable interest rate bonds	**46,172,759**	6,833,479
Total	**791,564,517**	6,833,479

12 Securities measured at amortised cost

	2018 US$	2017 US$
(2017: Securities investment – Held to maturity)		
Fixed interest rate Eurobonds	**91,487,657**	107,582,021
Variable interest rate Eurobonds	**2,577,282**	2,975,401
Less: IFRS 9 Impairment loss allowance	**(3,863,629)**	–
Total	**90,201,310**	110,557,422

13 Loans and advances to banks

	2018 US$	2017 US$
Loans and advances to banks	**84,309,510**	20,203,455
Trade bills discounted and refinanced	**89,017,356**	128,412,654
Less: IFRS 9 Impairment loss allowance	**(2,247,664)**	–
Total	**171,079,202**	148,616,109

14 Loans and advances to customers

	2018 US$	2017 US$
Loans and advances to individuals	**1,528,733**	1,819,833
Loans and advances to corporates	**88,539,295**	153,011,501
Specific Impairment provisions	**–**	(28,557,874)
Portfolio Impairment provisions	**–**	(4,844,349)
Less: IFRS 9 Impairment loss allowance	**(5,123,870)**	–
Total	**84,944,158**	121,429,111

	2018	2017
Movements in Impairment:		
Opening balance	**(33,402,223)**	(26,603,950)
Charge for the year – individual impairment	**–**	(2,933,207)
Charge for the year – collective impairment	**–**	(3,865,066)
Reversal for the year – IFRS 9 ECL Stage 1 and Stage 2 (P&L impact)	**4,489,004**	–
Reversal for the year – IFRS 9 ECL Stage 1 and Stage 2 (OCI impact)	**33,486**	–
Loans and advances written off	**28,073,467**	–
Impact of adopting IFRS 9 at 1 January 2018	**(15,306,732)**	–
Reversal of IAS 39 Collective Impairment Provision	**4,844,349**	–
Closing balance	**(11,268,649)**	(33,402,223)

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

Reconciliation of IFRS 9 Impairment loss allowance is as follows:

	US$
2018	
Securities designated at fair value through other comprehensive income	(33,486)
Securities measured at amortised cost (Note 12)	(3,863,629)
Loans and advances to banks (Note 13)	(2,247,664)
Loans and advances to customers (Note 14)	(5,123,870)
Closing balance	**(11,268,649)**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

15 Property and equipment

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

	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				
Balance at 31 December 2017	**1,005,870**	**44,372**	**135,972**	**1,186,214**

During the year, the Bank translated its property and equipment at the approximate exchange rates ruling on the dates of acquisition. Pre-2018 the balance was being translated using the spot rate as at the reporting date. Consequently, this gave rise to exchange differences of US$109,316 in the current year and this has been accounted for in the current year, without any adjustments made to the opening Retained Earnings, to reflect the balances at the appropriate exchange rates in line with IAS 21 – The Effect of Changes in Foreign Exchange Rates.

16 Intangible assets

	2018 US$	2017 US$
Cost		
Balance at beginning of the year	**5,304,243**	4,026,404
Additions	**1,339,945**	839,903
Translation difference	**1,345,397**	437,936
Balance at end of the year	**7,989,585**	5,304,243
Amortisation		
Balance at beginning of the year	**4,312,538**	3,471,802
Charge for the year	**815,852**	478,141
Translation difference	**983,364**	362,595
Balance at end of the year	**6,111,754**	4,312,538
Net book value		
Balance at end of the year	**1,877,831**	991,705
Balance at beginning of the year	**991,705**	554,602

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

During the year, the Bank translated its tangible assets at the approximate exchange rates ruling on the dates of acquisition. Pre-2018 the balance was being translated using the spot rate as at the reporting date. Consequently, this gave rise to exchange differences of US$362,033 in the current year and this has been accounted for in the current year, without any adjustments made to the opening Retained Earnings, to reflect the balances at the appropriate exchange rates in line with IAS 21 – The Effect of Changes in Foreign Exchange Rates.

17 Deferred tax

2018	Brought forward US$	Charge for the year US$	Carried forward US$
Assets			
Accelerated capital allowances	1,359	152,297	153,656
Provisions	–	(9,412)	(9,412)
IFRS 9 transitional adjustments	–	(1,600,745)	(1,600,745)
FVOCI reserve	–	(20,442)	(20,442)
Total	**1,359**	**(1,478,302)**	**(1,476,943)**

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

18 Other assets

	2018 US$	2017 US$
Prepayments	**936,210**	1,485,161
Derivative financial instruments (see Note 22)	**–**	1,330,024
Other receivables	**421,372**	51,452
Total	**1,357,582**	2,866,637

19 Deposits from banks

	2018 US$	2017 US$
Term deposits	**367,100,443**	356,850,381
Demand deposits	**981,149,415**	901,071,789
Total	**1,348,249,858**	1,257,922,170

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

20 Deposits from customers

	2018 US$	2017 US$
Term deposits	**222,669,823**	106,543,878
Demand deposits	**91,099,981**	90,266,799
Saving deposits	**7,154,040**	7,039,360
Total	**320,923,844**	203,850,037

21 Other Liabilities

	2018 US$	2017 US$
Derivative financial instruments (see Note 22)	**1,753,497**	–
Other taxes and social security costs	**–**	7,209
Current tax creditor	**3,780,840**	3,330,271
Other creditors	**4,227,408**	3,865,136
Total	**9,761,745**	7,202,616

22 Derivative financial instruments

	2018 US$	2017 US$
Forward foreign exchange contracts:		
Receivable/(Payable)	**(1,753,497)**	1,330,024
Total	**(1,753,497)**	1,330,024

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

23 Commitments and contingencies

Pension commitments

During the year, pension costs of US$ 842,851 (2017: US$ 870,447) were charged to the income statement. Pension obligations outstanding on 31 December 2017 US$ 79,483 (2017: US$ 32,899).

	2018 US$	2017 US$
Trade finance contingencies		
Letters of credit and acceptances (including cash backed)	**89,971,478**	164,345,276
Guarantees	**17,510,144**	21,704,824
Undrawn committed facilities	**3,479,708**	8,698,740
Total	**110,961,330**	194,748,840
Cash collateral and other high-quality mitigations	**27,823,665**	172,561,512

	2018 US$	2017 US$
Operating Leases		
Non-cancellable operating lease payables:		
Less than 1 year	**689,820**	1,032,075
1 – 5 Years	**2,759,279**	1,548,113
Total	**3,449,099**	2,580,188

During 2014 the Bank renewed the 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 2018

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.

Fair value through other comprehensive income (2017: Available for sale ('AFS'))

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

Amortised cost (2017: Held-to-maturity)

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

Other financial assets and financial liabilities

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

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

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

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

24 Financial Instruments (continued)

2017	Loans and receivables US$	Fair value through profit or loss US$	Held to maturity US$	Available for Sale US$	Total carrying value US$	Total fair value US$
Assets						
Cash and cash equivalents	763,285,083	–	–	–	763,285,083	763,285,083
Securities designated at fair value through profit or loss	–	519,995,000	–	–	519,995,000	519,995,000
Securities designated at fair value through other comprehensive income	–	–	–	6,833,479	6,833,479	6,833,479
Securities measured at amortised cost	–	–	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 profit or loss 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**

25 Financial risk management

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

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

25 Financial risk management (continued)

Risk management framework

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

Responsibility for risk management policies and limits in the level of risks assumed lies with the Board of Directors. The Board charges management with developing, presenting, updating and implementing these policies, controls and limits. The structure is designed to provide assurance that no single event or combination of events will materially affect the 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 in providing global strategic direction for all aspects of risk management. The Asset and Liability Committee and the Market Risk Committee provide a forum for in-depth review and analysis of the market and liquidity risks to which the Bank is subjected.

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

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

Brexit

We enhanced our Brexit preparations to ensure that the Bank does continue to operate profitably. Our assessments are based on the anticipated impact on our business model, capital, liquidity and operations:

Our assessments are based on the anticipated impact(s) on our business model, capital, liquidity and operations. Specific factors taken into consideration were access to the single-market, extended lower rate regime, increasing regulatory demand and volatility in the Sterling.

The Bank has adequate financial resources, i.e. capital and liquidity, above regulatory requirements to weather any short-term financial instability arising from some of the above factors. Furthermore, the Bank's balance sheet is predominantly denominated in US dollar. Forward contracts are purchased to cover sterling expenses and protect against volatility in the currency's exchange rate to the USD dollar. Any sharp fall in Sterling will be advantageous to the Bank as a lower rate will help lock down future expenses. Otherwise, the Bank anticipates a limited impact in the longer term.

Credit Risk Management

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

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

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

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

25 Financial risk management (continued)

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

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

All credit applications and reviews are submitted to Credit Risk Management for independent assessment before they are forwarded for approval. All credit applications must be approved by the Bank's MCC prior to submission to the Group Credit Committee ("GCC") of Zenith Bank Plc in Lagos, Nigeria for final approval. All such approved facilities in excess of 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 are dependent on the individual internal credit risk grade of the counterparty. International money market and foreign exchange limits are dependent on the credit rating of the counterparty and the internal credit risk grade ("CRG").

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

Forbearance practices

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

Lending subject to forbearance as at the year-end 2018 was nil (2017: Nil).

Sensitivity and impact analysis of IFRS 9 implementation

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

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

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

The probability of 55% assigned to the base case is premised upon an internal assessment of factors including GDP growth of sovereigns, credit ratings of counterparty exposures in SSA region and oil prices. The Bank's model relies significantly on external ratings provided by Standard & Poor's ("S&P").

The Bank adopts internal counterparty ratings which correspond to the credit ratings grade provided by S&P for the counterparties. Unrated counterparties are assigned ratings based on internal assessments.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

25 Financial risk management (continued)

Residual maturity of each exposure is computed in 15-year time horizon buckets of 365 days apart as follows:

Residual Maturity	Minimum Days	Maximum Days
Bucket 1	–	365
Bucket 2	366	730
Bucket 3	731	1,095
Bucket 4	1,096	1,460
Bucket 5	1,461	1,825
Bucket 6	1,826	2,190
Bucket 7	2,191	2,555
Bucket 8	2,556	2,920
Bucket 9	2,921	3,285
Bucket 10	3,286	3,650
Bucket 11	3,651	4,015
Bucket 12	4,016	4,380
Bucket 13	4,381	4,745
Bucket 14	4,746	5,110
Bucket 15	5,111	5,475

Exposures are organised in arrays corresponding to their maturities in the buckets described above.

The following table shows original classification of the assets under IAS 39 compared to the new classification under IFRS 9:

2017	Accounting classifications		Carrying amount	
US$	IAS 39	IFRS 9	IAS 39	IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost	763,285,083	763,285,083
Securities designated at fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	25,897,634	25,897,634
Securities designated at fair value through profit or loss	Fair value through profit or loss	Fair value through other comprehensive income	494,097,366	494,097,366
Securities designated at fair value through other comprehensive income	Available-for-sale	Fair value through other comprehensive income	6,833,479	6,833,479
Securities measured at amortised cost	Held-to-maturity	Amortised cost	110,557,422	110,557,422
Loans and advances to banks	Loans and receivables	Amortised cost	148,616,109	148,616,109
Loans and advances to customers	Loans and receivables	Amortised cost	121,429,111	121,429,111
Financial liabilities				
Deposits from banks	Amortised cost	Amortised cost	1,257,922,170	1,257,922,170
Deposits from customers	Amortised cost	Amortised cost	203,850,037	203,850,037

25 Financial risk management (continued)

Credit ratings are assigned to each counterparty. This is compared to the rating for same counterparty in the prior review period to determine the extent of migration (i.e. increase or decrease in rating). For the purpose of determining significant increase in credit risk ("SICR"), the credit ratings must have dropped within buckets based on the credit quality steps ("CQS"). For example, a change in credit rating from AA+ to AA- does not constitute SICR as both ratings are classified as 'High Grade' or fall under bucket 2. However, a change in credit rating from A ('Upper Medium Grade' or bucket 3) to BBB+ ('Lower Medium Grade' or bucket 4) will result in SICR. The movement in buckets is reflected below:

Ratings	CQS	SICR Trigger	Buckets
AAA	1	PRIME	1
AA+	2	HIGH GRADE	2
AA	3	HIGH GRADE	2
AA-	4	HIGH GRADE	2
A+	5	UPPER MEDIUM GRADE	3
A	6	UPPER MEDIUM GRADE	3
A-	7	UPPER MEDIUM GRADE	3
BBB+	8	LOWER MEDIUM GRADE	4
BBB	9	LOWER MEDIUM GRADE	4
BBB-	10	LOWER MEDIUM GRADE	4
BB+	11	NON-INVESTMENT GRADE SPECULATIVE	5
BB	12	NON-INVESTMENT GRADE SPECULATIVE	5
BB-	13	NON-INVESTMENT GRADE SPECULATIVE	5
B+	14	HIGHLY SPECULATIVE	6
B	15	HIGHLY SPECULATIVE	6
B-	16	HIGHLY SPECULATIVE	6
CCC+	17	SUBSTANTIAL RISKS	7
CCC	18	EXTREMELY SPECULATIVE	8
CCC-	19	IN DEFAULT WITH LITTLE PROSPECT OF RECOVERY	9
CC	20	IN DEFAULT WITH LITTLE PROSPECT OF RECOVERY	9
C	21	IN DEFAULT WITH LITTLE PROSPECT OF RECOVERY	9
D	22	IN DEFAULT	10

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

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

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

12-month ECL and lifetime ECL are determined with reference to the period-on-period change in the credit rating of counterparties. Depending on the stage of each exposure, it is aligned the applicable Global Corporate Average Cumulative Default Rates By Rating Modifier issued by S&P.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

25 Financial risk management (continued)

IFRS 9 ECL Staging Analysis:

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

The following table reconciles the carrying amounts of the groups assets under IAS 39 to the carrying amount under IFRS 9

2017 US$	Accounting classifications	Opening Balance IAS 39	Reclassifications	Carrying amount IFRS 9
Cash and cash equivalents	Loans and receivables	763,285,083	(763,285,083)	–
Securities designated at fair value	Fair value through profit or loss	519,995,000	(494,097,366)	25,897,634
Securities available for sale	Available-for-sale	6,833,479	(6,833,479)	–
Securities investment – held to maturity	Held-to-maturity	110,557,422	(110,557,422)	–
Loans and advances to banks	Loans and receivables	148,616,109	(148,616,109)	–
Loans and advances to customers	Loans and receivables	121,429,111	(121,429,111)	–
Cash and cash equivalents	Fair value	–	763,285,083	763,285,083
Securities designated at fair value through other comprehensive income	Fair value through other comprehensive income	–	500,930,845	500,930,845
Securities measured at amortised cost	Amortised cost	–	110,557,422	110,557,422
Loans and advances to banks	Amortised cost	–	148,616,109	148,616,109
Loans and advances to customers	Amortised cost	–	121,429,111	121,429,111

There have been no remeasurement between the carrying amount as at 31 December 2017 and the opening amount as at 1 January 2018 of financial assets and liabilities. There has been no change to the accounting classification of liabilities under IFRS 9.

Securities which were previously designated at fair through profit or loss under IAS 39 have been reclassified to fair value through other comprehensive income under IFRS 9. The amount transferred from opening retained earnings to OCI reserves in the current year is US$77,044 (US$63,947 next of tax).

Disclosures around measures of uncertainty and sensitivity

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

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

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

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

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

25 Financial risk management (continued)

In this case, the ECL reduces by US$819,367 (or 7%), requiring less impairment allowance than what was recognised in the books.

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

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

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

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

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

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

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

Collateral

Collateral and security are an important mitigant of credit risk.

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

The maximum exposure to credit risk (net of mitigations) on 'bank balances and money market placements', 'securities', 'loans and advances to banks' and 'loans and advances customers' and 'off balance sheet items' at the statement of financial position date was US$ 1.98bn (2017: US$ 1.63bn).

Collateral analysis

	2018 US$	2017 US$
Cash	**26,432,665**	205,420,552
Property, plant and equipment	**1,391,000**	32,561,985
Total	**27,823,665**	237,982,537

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 its on-the-ground knowledge of the economies concerned, the logistics of how the sovereign entities operate and the Zenith Group relationship network supporting those entities.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

25 Financial risk management (continued)

The table below summarises maximum exposure to credit risk as at statement of financial position date by geographical area:

2018 Assets	Europe US$	Nigeria US$	Rest of Africa US$	United States of America US$	Rest of World US$	Total US$
Cash and cash equivalents	608,142,212	5,187,570	15,191,334	75,380,880	6,228,749	710,130,745
Securities designated at fair value through profit or loss	–	50,016,656	334,873	–	133,255	50,484,784
Securities designated at fair value through other comprehensive income	67,009,242	9,136,728	49,631,796	289,071,084	376,715,667	791,564,517
Securities measured at amortised cost	–	25,148,681	59,291,884	–	5,760,745	90,201,310
Loans and advances to banks	244,930	149,047,760	21,786,512	–	–	171,079,202
Loans and advances to customers	41,447,135	1,282,687	8,346,639	–	33,867,697	84,944,158
Total assets	**716,843,519**	**239,820,082**	**154,583,038**	**364,451,964**	**422,706,113**	**1,898,404,716**

2017 Assets	Europe US$	Nigeria US$	Rest of Africa US$	United States of America US$	Rest of World US$	Total US$
Cash and cash equivalents	611,125,860	2,254	25,096,579	126,112,651	947,739	763,285,083
Securities designated at fair value	125,864,484	21,877,384	18,653,216	273,658,447	79,941,469	519,995,000
Securities available for sale	3,244,223	–	–	1,222,855	2,366,401	6,833,479
Securities investment – held to maturity	–	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**	**400,993,953**	**113,491,934**	**1,670,716,204**

25 Financial risk management (continued)

An analysis of the credit quality of the maximum credit exposure based on rating agency S&P (2017: Fitch and Moody's ratings) where applicable. These are grouped by CQS as prescribed by the regulator.

		2018 US$	2017 US$
	Securities designated at fair value through profit or loss		
1	Rated AAA to AA-	–	494,097,365
3	Rated BBB+ to BBB-	**522,350**	–
4	Rated BB+ to BB-	–	3,630,750
5	Rated B+ to B-	**49,962,434**	22,266,885
	Total	**50,484,784**	519,995,000
	Securities designated at fair value through other comprehensive income		
1	Rated AAA to AA-	**749,470,714**	2,013,895
2	Rated A+ to A-	**26,882,613**	1,575,360
3	Rated BBB+ to BBB-	**15,211,190**	3,244,224
	Total	**791,564,517**	6,833,479
	Securities measured at amortised cost		
3	Rated BBB+ to BBB-	**22,355,824**	10,700,439
4	Rated BB+ to BB-	**11,341,922**	9,757,583
5	Rated B+ to B-	**55,350,114**	90,099,400
6	Unrated	**1,153,450**	–
	Total	**90,201,310**	110,557,422
	Loans and advances to banks		
5	Rated B+ to B-	**171,079,202**	148,616,109
	Total	**171,079,202**	148,616,109
	Loans and advances to customers		
	Neither past due nor impaired	**84,944,158**	87,067,554
	Past due but not impaired (1)	–	6,236,160
	Past due and impaired (2)	–	28,125,397
	Total	**84,944,158**	121,429,111

(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 the report, loans past due and impaired reduced to $3.1m, which was fully provided.

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

Loans and advances to customers	2018 US$	2017 US$
Industry:		
Consumer Credit	**1,286,769**	–
Commodities trading	–	25,400,740
General Commerce	**42,877,248**	9,517,363
Oil and Gas	**16,677,144**	52,380,945
Transportation	**23,917,522**	32,189,506
Others	**185,475**	1,940,557
	84,944,158	121,429,111

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

25 Financial risk management (continued)

Amounts arising from ECL

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Adjustments to the carrying amounts of financial assets and financial liabilities, where applicable at the date of transition, were recognised in the opening retained earnings.

Loan allowance

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

Loans and advances to banks	**12-month ECL US$**	**Lifetime ECL not credit-impaired US$**
Balance at 1 January	261,495	–
Net measurement of loss allowance	702,574	–
New financial assets originated or purchased	1,283,595	–
Balance at 31 December	**2,247,664**	**–**

Loans and advances to customers	**12-month ECL US$**	**Lifetime ECL not credit-impaired US$**
Balance at 1 January	–	7,562,844
Net measurement of loss allowance	–	132,122
New financial assets originated or purchased	86,118	1,878,615
Financial assets that have been derecognised	–	(4,535,829)
Balance at 31 December	**86,118**	**5,037,752**

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

25 Financial risk management (continued)

Securities measured at amortised cost

	12-month ECL US$	Lifetime ECL not credit-impaired US$
Balance at 1 January	–	6,510,843
Net measurement of loss allowance	–	(802,095)
New financial assets originated or purchased	368,075	56,600
Financial assets that have been derecognised	–	(2,302,795)
Changes in models/risk parameters	33,001	–
Balance at 31 December	**401,076**	**3,462,553**

Liquidity risk

Liquidity risk management

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

Liquidity management is conducted as per the PRA's liquidity guidelines, primarily the Liquidity Coverage Ratio ('LCR'). Although not a regulatory requirement, the Bank internally monitors the Net Stable Funding Ratio ('NSFR'), which covers the stable funding requirement. The on-going management of liquidity is aimed at balancing cash flows within forward rolling time bands so that, under normal conditions, the Bank is comfortably placed to meet all its payment obligations as they fall due. Further, the Bank has developed an Internal Liquidity Adequacy Assessment Process (ILAAP) report, as required by the PRA, in order to assess the liquidity adequacy under specific stress scenarios, the results of which are reviewed by senior management on a regular basis.

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

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

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

25 Financial risk management (continued)

The maturity analysis of assets and liabilities based on their contractual maturities is presented in the table below:

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

2017	On demand US$	Less than 3 months US$	Between 3 & 12 months US$	1 to 5 Years US$	Greater than 5 years US$	Carrying amount US$
Assets						
Cash and cash equivalents	209,306,729	553,978,354	–	–	–	763,285,083
Securities designated at fair value	29,696,435	278,645,784	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 – held to maturity	–	435,143	41,037,352	60,122,454	8,962,473	110,557,422
Loans and advances to banks	120,122	128,193,425	20,302,562	–	–	148,616,109
Loans and advances to customers	33,354,633	14,161,374	32,105,089	41,808,015	–	121,429,111
Derivatives	–	1,330,024	–	–	–	1,330,024
Total assets	**272,477,919**	**977,987,605**	**200,847,108**	**211,510,513**	**9,223,083**	**1,672,046,228**
Liabilities						
Deposits from banks	1,136,029,366	113,877,249	8,015,556	–	–	1,257,922,171
Deposits from customers	97,312,362	73,051,887	17,241,453	16,244,334	–	203,850,036
Derivatives	–	–	–	–	–	–
Total Liabilities	**1,233,341,728**	**186,929,136**	**25,257,009**	**16,244,334**	**–**	**1,461,772,207**

25 Financial risk management (continued)

Market risk

Market risk management

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

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

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

Exchange rate risk

The Bank originates loans and takes deposits in multiple currencies. Payments made on behalf of customers in one currency may be settled from balances held in another currency. Further, the Bank is active in the international foreign exchange markets both for own account trading and for the management of Bank assets and liabilities. The 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 is practicable. It is also the policy of the Bank to adhere to the limits laid down by the Board in respect of the "overall net open position". The tables below give details of the Bank's net foreign currency exposures as at 31 December 2018 as a basis of disclosing the Bank's foreign currency sensitivity analysis.

2018	**US Dollars US$**	**Sterling Pounds US$**	**Other US$**	**Total US$**
Assets	1,621,043,728	82,402,291	200,888,987	1,904,335,006
Liabilities	(1,697,912,751)	(148,164,652)	(58,257,603)	(1,904,335,006)
Derivative Foreign Exchange Contracts	74,801,917	67,829,467	(144,384,881)	(1,753,497)
Net open position	**(2,067,106)**	**2,067,106**	**(1,753,497)**	**(1,753,497)**

2017	US Dollars US$	Sterling Pounds 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)	(47,017,670)	(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**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

25 Financial risk management (continued)

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.

2018	**Sterling Pounds US$**	Other US$
Net foreign Currency Exposure	**2,067,106**	(1,753,497)
Impact of 5% increase against US$	**103,355**	(87,675)
Impact of 5% decrease against US$	**(103,355)**	87,675

2017	Sterling Pounds US$	Other US$
Net foreign Currency Exposure	**(4,715,130)**	1,330,024
Impact of 5% increase against US$	**(235,757)**	66,501
Impact of 5% decrease against US$	**235,757**	(66,501)

Interest rate risk

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

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

Profit or Loss Impact	**2018 US$**	2017 US$
Increase	**(7,409,000)**	(12,147,000)
Decrease	**8,086,000**	13,016,000

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.

25 Financial risk management (continued)

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

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

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

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

Capital management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital at 31 December 2018 is US$ 225.4m (2017: $206.8m).

Regulatory capital is determined in accordance with the requirements stipulated by the FCA and the PRA in the UK. The Bank maintained surplus capital over the minimum requirements prescribed by the PRA throughout the year.

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

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

Capital Resources	**2018 US$**	2017 US$
Share capital	**136,701,620**	136,701,620
Reserves	**(99,803)**	–
Retained earnings	**88,797,742**	70,085,676
Total statutory capital	**225,399,559**	206,787,296
IFRS 9 transition adjustment	**8,861,638**	–
Profit or loss attributable to owners of the parent	**(27,509,757)**	(13,628,897)
Other regulatory adjustments		
IFRS 9 transition adjustment – Year 1 impact	**(1,772,328)**	–
Value adjustments due to the requirements for prudential valuation (unaudited)	**(842,446)**	–
Other intangible assets before deduction of deferred tax liabilities	**(1,877,831)**	–
Total regulatory capital (Tier 1)	**202,258,835**	193,158,399

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2018

25 Financial risk management (continued)

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

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

2018	**Level 1 US$**	**Level 2 US$**	**Level 3 US$**	**Total US$**
Assets				
Securities designated at fair value through profit or loss	–	50,484,784	–	50,484,784
Securities designated at fair value through other comprehensive income	791,564,517	–	–	791,564,517
Securities measured at amortised cost	–	90,201,310	–	90,201,310
Derivatives	–	–	–	–
	791,564,517	**140,686,094**	**–**	**932,250,611**

2017	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets				
Securities designated at fair value	494,097,366	25,897,634	–	519,995,000
Securities available for sale	6,833,479	–	–	6,833,479
Securities investment – held to maturity	–	110,557,422	–	110,557,422
Derivatives	–	1,330,024	–	1,330,024
	500,930,845	137,785,080	–	638,715,925

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.

25 Financial risk management (continued)

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

26 Share capital

	2018 **US$**	2017 US$
Issued:		
35,001,000 ordinary shares of GB£1 each	**56,701,620**	56,701,620
– Redenominated into 56,701,620 shares of US$1 each		
30,000,000 ordinary shares of US$1 each	**30,000,000**	30,000,000
50,000,000 ordinary shares of US$1 each	**50,000,000**	50,000,000
	136,701,620	136,701,620

Allocated and called up and fully paid

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

As at 31 December 2017 and 2018, 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 2018

27 Related party transactions

Key management personnel are considered to be the Directors of the Bank. 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:

	2018 US$	2017 US$
Assets (amounts included in note 13)		
Amounts due from parent company	**85,717,316**	128,535,565
Amounts due from fellow subsidiaries	**22,524,930**	–
Total	**108,242,246**	128,535,565
Liabilities (amounts included in note 19)		
Amounts due to parent company	**213,959,790**	252,494,303
Amounts due to fellow subsidiaries	**23,765,788**	25,189,754
Total	**237,725,578**	277,684,057
Fees and commissions		
Received from/(paid to) parent company	**(6,624,093)**	1,594,813
Received from fellow subsidiaries	**332,643**	340,830
Total	**(6,291,450)**	1,935,643
Interest income		
Received from parent company	**3,232,567**	3,989,767
Received from fellow subsidiaries	**855,325**	889,399
Total	**4,087,892**	4,879,166
Interest expense		
Paid to parent company	**227,022**	97,415
Paid to fellow subsidiaries	**154,886**	364,721
Total	**381,908**	462,136

28 Ultimate parent company and controlling party

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

29 Significant events after the reporting period

The Directors confirm that there are no significant events since 31 December 2018 that require disclosure or adjusting in the financial statements.

Perivan Financial Print 253807