2020
ANNUAL REPORT
ZENITH BANK (UK) LTD.

Contents

Officers and professional advisers

Directors

Jim Ovia	Chairman
Ebenezer Onyeagwu	Non-Executive
Jeffrey Efeyini	Non-Executive
David Somers	Non-Executive
Ian Ogilvie	Non-Executive (appointment to the Board expired on 1 December 2020)
Andrew Gamble	Non-Executive
Pamela Yough	Chief Executive
Henry Onwuzurigbo	Executive
Udu Ovbiagele	Executive (appointed to the Board on 9 October 2020)

Company secretary
Joseph Crowley

Chief Financial Officer
Adeyemi Paul-Taiwo

Registered office
39 Cornhill
London
EC3V 3ND

Bankers
Barclays Bank Plc, London
Citigroup, London and New York
KBC, Brussels
HSBC, London

Solicitors
Clifford Chance LLP, London

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London
SE1 2RT

Board of Directors

Jim Ovia – Chairman

Jim Ovia is the founder and Chairman of Zenith Bank Plc, one of Africa's largest banks with over $20 billion in assets as at June 2021. Zenith Bank is a global brand listed on the London Stock Exchange and the Nigerian Stock Exchange. In addition to major operations in Nigeria and other West African countries, the Bank has sizeable operations in London and Dubai.

Jim Ovia is the founder and Chancellor of James Hope University Lekki, Lagos which was recently approved by the National Universities Commission (NUC) to offer postgraduate degrees in business courses.

Through his philanthropic venture, the Jim Ovia Foundation, he has shown the importance he accords to good education. In support of Nigerian youth, the Jim Ovia Foundation offers scholarships to indigent students through the Mankind United to Support Total Education (MUSTE) initiative. Most of the beneficiaries of Jim Ovia Foundation scholarship are now accountants, business administrators, lawyers, engineers, doctors etc.

He is the author of "Africa Rise And Shine", published by ForbesBooks. The book which encapsulates Zenith Bank's meteoric rise, details the secrets of success in doing business in Africa.

He is an alumnus of the Harvard Business School (OPM), University of Louisiana (MBA), and Southern University, Louisiana, (B.Sc. Business Administration).

Jim Ovia is a member of World Economic Forum Community of Chairpersons, and a champion of the Forum's EDISON Alliance.

Ebenezer Onyeagwu – Non-Executive Director

Ebenezer Onyeagwu is the Group Managing Director/CEO of Zenith Bank Plc.

Mr Onyeagwu is a graduate of Accounting and Fellow of the Institute of Chartered Accountants of Nigeria (FCA). He is an alumnus of the University of Oxford, England where he obtained a certificate in Macroeconomics and Postgraduate Diploma in Financial Strategy. He has MBA from Delta State University, Nigeria and Masters Degree in Financial Services Management from the Salford Business School, University of Salford, Manchester, United Kingdom. He also undertook extensive executive level education in Wharton Business School of the University of Pennsylvania, Columbia Business School of Columbia University, the Harvard Business School of Harvard University, in the United States.

Mr Onyeagwu is the Chairman of Zenith Pensions Custodian Limited and Zenith Nominees Limited. He is also on the Board of FMDQ Holdings Plc, Shared Agent Network Expansion Facilities (SANEF) Limited and Lagos State Security Trust Fund (LSSTF). Mr. Onyeagwu is a member of the International Monetary Conference (IMC), Wall Street Journal CEO Council, and member of the African Trade Gateway Advisory Council of the Africa Export-Import Bank (Afreximbank).

He is committed to sustainable banking and shares the belief that businesses should be a force for the creation of shared prosperity.

David Somers – Senior Independent Director

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

Ian Ogilvie – Non-Executive Director

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

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

Andrew Gamble – Non-Executive Director

Andrew sits on the Governing Council of the Pan-African Payments and Settlement System as the representative for African Export-Import Bank. 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 Yough is the CEO of Zenith Bank (UK) Limited. She joined the Bank on 6 March 2017. She has a wealth of experience in banking with a career spanning over 30 years. She holds a Bachelors degree in Marketing from Pace University, New York and an MBA in International Business from Long Island University, USA. Prior to joining Zenith Bank PLC in 1999 she worked in IMB (International Merchant Bank Nigeria Limited, an affiliate of First National Bank of Chicago) where she started her banking career and later moved to Citizens International Bank Nigeria Ltd. She worked in Zenith Bank Plc for over 13 years, heading several departments including MCP Group (Multilateral, Conglomerates & Private Banking) and Investor Relations. She was the General Manager arranging all the long term foreign loans of the Group. Other departments she headed in ZB PLC were Treasury, Head Office Operations, Public Sector, Correspondent Banking and Revenue Collections.

Pamela has served as a Non-Executive Director on the Boards of various subsidiaries of Zenith Group, including Zenith Registrars and Zenith Realtors. She is also an Honorary Senior Member (HCIB) of the Chartered Institute of Bankers of Nigeria. She has attended various programs including the Advanced Management Program (AMP) at Oxford University and several Leadership Courses at Stanford University and University of Cambridge.

Henry Onwuzurigbo – Executive Director

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

Udu Ovbiagele – Executive Director

Udu holds a Bachelor's degree in Economics and International Relations from the University of Reading, England, and an MBA in International Business from The Birmingham Business School, University of Birmingham, England. He is also an Associate of the Chartered Institute of Bankers. (ACIB).

Udu commenced his banking career in Zenith Bank Plc's Domestic Operations Group which offered him a firm grounding of the various aspects of the Bank's operations, prior to him venturing into the wide spectrum of Corporate Banking at the Group's Head Office. His vast banking experience spans over two decades and cuts across various sectors including manufacturing, trading, hospitality, non-bank financial institutions, commercial real estate & Infrastructure, Project finance, Investment Banking, development finance, Telecomms, Agency Banking, Financial Technology and international trade and finance.

He has served in various supervisory capacities over the years, and as such has been actively involved in business development, business strategy, credit risk management, facility structuring, loan syndication and income optimisation.

Directors' report

The Directors are pleased to present their annual report and the audited statutory financial statements of Zenith Bank (UK) Limited (the "Bank", "Zenith UK", "ZBUK") for the year ended 31 December 2020.

Principal activities

Details of the Bank's principal activities are contained in the Strategic Report.

Financial Results and dividend

The Bank's profit for the year after taxation amounted to $17.9m (2019: $27.9m). The Directors recommend the payment of a dividend of $8.96m for the year ended 31 December 2020 (2019: Nil).

Political contributions and charitable donations

During the year, the Bank made charitable donations of $18,737 (2019: $660). No political donations were made during the year (2019: nil).

Directors and Directors' interests

The Directors of the Bank who were in office during the year and up to the date of signing the financial statements were:

Jim Ovia	Chairman
Ebenezer Onyeagwu	Non-Executive
Jeffrey Efeyini	Non-Executive
David Somers	Non-Executive
Ian Ogilvie*	Non-Executive
Andrew Gamble	Non-Executive
Pamela Yough	Chief Executive
Henry Onwuzurigbo	Executive
Udu Ovbiagele**	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 (16.155% ownership)
- Mr. Ebenezer Onyeagwu is the Group CEO & MD and a shareholder (0.148% ownership)
- Mr. Jeffrey Efeyini is a Non-Executive Director and a shareholder (0.002% ownership)
- Mr. Henry Onwuzurigbo is a shareholder (less than 0.002% ownership)
- Mr. Udu Ovbiagele is a shareholder (less than 0.002% ownership)

* Appointment to the Board expired on December 01, 2020.
** Appointed to the Board on October 09, 2020.

Directors' report (continued)

Future prospects and 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, including the impact of the events in Nigeria and UK's exit from the European Union.

The Directors have also considered the impact of the COVID-19 pandemic on the Bank's future results and financial condition. The Directors are satisfied that there is no material uncertainty that precludes the Bank from continuing in business and confirm that there are no plans to terminate the Bank's operations or significantly curtail its activities.

The Directors have reviewed the Bank's profitability, capital, and liquidity positions. Zenith UK's capital and liquidity ratios as at 31 December 2020 exceeded the minimum regulatory requirements. The Directors will continue to exercise effective oversight of the Bank's operations to ensure that the Bank maintains strong capital and liquidity positions.

The Directors have reviewed the impact on the Bank of the current economic environment in Nigeria and are satisfied that no material uncertainty exists that may cast doubts on the Bank's ability to continue as a going concern.

The Directors are satisfied that it is appropriate to continue to adopt the going concern basis in preparing the Bank's financial statements.

Directors Duties

The Directors of the Bank are required to act in accordance with the requirements of section 172 of the UK Companies Act 2006. Directors of companies must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of the shareholders as a whole and, in so doing, have regard to:

- The likely consequence of any decisions in the long term;
- The interest of the company's employees;
- The need to foster the Bank's business relationships with suppliers, customers and others;
- The impact of the Bank's operations on the community and environment;
- The desirability of the Bank maintaining a reputation for high standards of business conduct; and
- The need to act fairly between shareholders of the Bank.

The Directors fulfil their duties partly through a governance framework that delegates day-to-day decision making to the management of the Bank.

Employees

The Bank remains committed to investing in the development of its employees. The Directors are pleased to report that the Bank has received silver status accreditation by Investors in People.

The Bank engages with employees through briefing sessions for the purpose of disseminating information on matters of concern to them. Employees are consulted regularly to obtain their views, especially on matters that involve decisions that are likely to affect their interests. The Bank encourages the involvement of employees by means of regular staff briefings and staff surveys.

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 it has the right mix of people and the fusion of different ideas that provide the essential components for progress and success. 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***.

Directors' report (continued)

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 in developing the knowledge, skills and competencies required of employees to ensure that customers and stakeholders continue to receive excellent services. Details of the processes of engaging with employees are contained in the Strategic Report.

Customers

As set out in the Strategic Report, the Bank maintains close contact with its clients. A team of experienced relationship managers interacts with the Bank's customers regularly, to ensure that views and perspectives are taken into consideration in developing the Bank's business strategy. In addition, the Bank complies with the FCA's requirements regarding "Treating Customers Fairly".

Investor

The Bank has one shareholder, Zenith Bank Plc. To gain an understanding of the views of its sole investor, the Group Chief Executive Officer (Group CEO) sits on the Board of the Bank and represents the interest of Zenith Bank Plc. Expectations of the parent company, including financial targets and alignment with Group strategy are regularly communicated by the Group CEO.

All views expressed are deliberated on by the Board and decisions reached are approved for execution/ implementation by Senior Management. Quarterly Board meetings are held to strengthen this oversight and governance responsibility.

Third party indemnities

The Articles of the Bank provide that the Bank shall indemnify to any extent any person who is a director against all costs, charges, losses, expenses, liabilities incurred or to be incurred by the director in the execution and/or discharge of his/her duties.

Disclosure of information to the auditors

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 that 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.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, were appointed by the Board during the current year and will continue to hold office in accordance with section 487 of the Companies Act 2006.

Other information

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

Approved by the Board of Directors and signed on behalf of the Board.

Pamela Yough
Chief Executive

9 June 2021

Company Registration No. 05713749

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements for the Year Ended 31 December 2020

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 the financial statements comply with the Companies Act 2006.

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

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

Pamela Yough
Chief Executive

9 June 2021

Company registration no. 05713749

Strategic Report

Pamela Yough
Chief Executive

Strategic report

The 2020 financial year presented a lot of challenges to the Global Banking Industry in view of the COVID 19 Pandemic, which created a worldwide economic crisis. Zenith Bank (UK) Limited ("Bank", "Zenith UK", "ZBUK") was not immune to these challenges as the effects of the Global health crisis on world markets negatively impacted the Bank's performance for the year. At the end of the first quarter, the rapid change in global market conditions resulted in significant valuation losses on the Bank's trading position as well as unprecedented levels of Quarter-on-Quarter (q-o-q) credit loss provisioning. Even with the slight economic reprieves in Q2-2020 and Q3-2020, it was evident that a number of the challenges and uncertainties remained.

Despite the Pandemic, however, the Bank remained profitable, reporting Profit After Tax of $17.9m for the full year (2019: $27.9m), which corresponds to a Return on Average Equity of 7% (2019: 11%). Expected credit losses (ECL) recognised in the year were $1.4m (2019: ECL credit of $0.02m) arising on higher ECL on existing exposures as well as credit losses on new assets written during the year. However, the Bank's non-performing loan (NPL) ratio was negligible at less than 0.1% and the Bank is well capitalised, with Shareholders' Funds of $275.6m (2019: $254.2m).

Business Model

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.

Zenith UK's high-quality product offerings and reliable services are aimed at enhancing clients' experience and creating convenient banking arrangements for its clients. Products and services are delivered through differentiated services, which reflect the Bank's in-depth understanding of its clients' business needs, proven knowledge of several African markets and efficient execution of transactions.

The Bank generates revenues through the provision of credit facilities to corporate customers and high net worth individuals, participating in revolving credit facilities, commercial mortgages, syndicated structured trade finance facilities, and infrastructure and project financing. The Bank also invests in Eurobonds and securities issued by governments and banks, and processes Letters of Credit and related trade services and payments. Its clients include members of the Zenith Group, corporate, small and medium scale organisations, financial institutions, banks and individuals (wealth management clients).

Its core target markets and business lines are as follows:

Target Markets	Service/ Business Lines
Zenith Group	Correspondent Banking and Trade Finance
West African and Sub-Saharan African corporates	Trade, Working Capital, and Project Financing
Sub Saharan Africa	Structure of Foreign Currency (FX) transactions and trading in Eurobonds
Banks, Financial Institutions, Governments and Government Agencies	Correspondence Banking and cash management solutions
High Net Worth Individuals (HNIs)	Private Banking Services

Strategic Report (continued)

2020 Business Review

The Bank's financial results and explanatory notes are set out in pages 31 to 79.

Highlights of these are presented below as follows:

- Operating Income: $49.4m (2019: $58.1m), made up of:
  - Net interest income $36.0m (2019: $44.2m).
  - Non-interest income $13.4m (2019: $13.9m).
- Impairment Charge: $1.4m (2019: Impairment reversal of $0.02m)
- Profit Before Tax: $21.9m (2019: $34.7m)
- Profit After Tax: $17.9m (2019: $27.9m)
- Cost to Income Ratio (excluding credit losses): 52.9% (2019: 40.2%)
- Return on Equity: 7% (2019: 11%)

Zenith UK's performance in 2020 was significantly impacted by the highly competitive, low-yield environment and the pandemic- induced weakening of market conditions that challenged Bank's top-line income (Interest income) and resulted in the recognition of higher expected credit losses.

Other than Q1-20, when a loss was reported, the Bank recorded profits in all quarters of 2020. Total Income in the current year was $59.1m, down by 15%, due to the following:

Income earned on cash placements fell by $13.6m, as returns declined significantly since the 150-basis point rate cut on US Treasury Bills by US Federal Reserve Bank in March 2020.

Income from loans and advances increased by $5.0m, indicating the continued diversification efforts in 2020 that resulted in expanded business outreach to banks, sovereigns, financial institutions, and corporates. Interest and fees recognised from commercial mortgage business doubled, although there was slight contraction in mortgage exposures at the end of 2020 due to some early principal repayments. In the year under review, the Bank's participation in asset receivables financing went up by 75% to close at $30m.

Investments income on amortised costs, FVOCI and FVTPL assets came down by $1.32m, driven by limited availability of SSA paper in the first four months of the year, which was marginally offset by opportunities to invest in Bonds at high yields in the later part of 2020.

Bond Trading & Custody Income increased by $4.3m, rebounding from the valuation losses recorded at the end of Q1-20. The overall performance was driven by increased trading activities and price recovery, which were stimulated by partial pick-up of the market.

Revaluation losses totalling $2.18m were recorded in the current year as compared to $0.16m in the prior year. This mainly resulted from the steep depreciation in the Nigerian Naira to US Dollar (NGN/USD) exchange rate, especially in December 2020. At the end of the year, ZBUK's investment holdings in NGN-denominated Treasury bills totalled $48.1m (2019: $43.9m)

Credit loss charges recognised were $1.40m (2019: credit $0.02m), arising from the perceived higher default probabilities that were applied across the Bank's exposures due to the economic effects of the COVID-19 pandemic.

Operating expenses increased by 12%, reflecting the combined effect of increased rental and depreciation charges on the expansion to the office work spaces, enhancements to IT systems and associated acquisition costs of laptops and remote working facilities in the current year. The increase is also accounted for by the significant volatility in GBP/USD exchange rate during 2020. Over 60% of ZBUK's operating expenses are incurred in GBP Sterling and reported in US Dollars.

Personnel expenses increased by 8%, partly in connection with the increase in employees during the year and partly due to the volatility in GBP/USD. Consequently, average workforce in 2020 increased to 129 from 113 in 2019. Recruitments were made during the year to advance the strategic plan of staffing the organisation with requisite skills and resources to support the projected business growth and expansion. Given the importance of this strategic priority, no employee was furloughed or made redundant during the year (2019: nil).

Strategic Report (continued)

Zenith UK's total assets growth of 36% in 2020 was partly financed by increased term funding from customers that increased by $244m (or 82%) during the year. Growth in this stable source of funding is expected to increase over the next few years, in line with the Bank's funding plan.

In 2020, the Nigerian economy continued to experience pressures to devalue its currency. The restrictions imposed by the Central Bank of Nigeria (CBN) regarding access to foreign currency, particularly the US Dollar, remained with only slight easing during the year.

Nigeria's Foreign exchange reserves increased to US$36.4Bn in January 2021 from US$35.4Bn in December of 2020. Currently at $35.2Bn, the reserves are expected to close at $38Bn at the end of 2021. Nigeria's crude Oil production increased to 1.38m barrels per day (bpd) in January 2021 from 1.17m bpd in December 2020 and currently trades at c.$60/ barrel. With the anticipated further global economic recovery, resumption of more business activities and travel, the reserves are forecasted to increase to $40Bn in 2022.

The gradual easing of movement restrictions is anticipated to strengthen domestic and external demand, and also boost the oil sector as demand for the commodity picks up due to higher levels of fuel usage in transportation and recovering trade levels. However, downside risks and uncertainties still exist, notable among which is the uncertainty regarding how OPEC+ will sustain the currently higher oil prices.

Availability of the COVID-19 vaccines and pace of the global recovery may also improve the oil price trajectory and increase the country's economic fortunes. This optimism is moderated by the existence and possible continuation of inflationary pressures, high unemployment, security challenges and social tensions.

Against the backdrop of persisting foreign currency restrictions, the Board discussed, considered and approved a number of extensions to trade finance loans denominated in US Dollars for some Nigerian banks whose trade transactions were confirmed by the Bank. This was to allow time for these Banks to source the required foreign currency. The related exchange rate risks are borne by applicants of the underlying trade transactions. The Board is pleased to report that some of these facilities have been paid down subsequently.

Transition from London Inter Bank Offer Rate ("LIBOR")

As of 31 December 2020, the Bank had 77 deals whose prices reference the LIBOR, which will cease to be published from the end of 2021. These deals comprise floating rate notes with an aggregate notional value of $304.7m, and loans and advances with notional values totalling $136.5m.

The Bank has progressed with its efforts towards implementing systems and processes to support seamless transition to replacement price benchmark rates. Back-end capabilities have been successfully developed and tested to support negative benchmark rates. Further, all facility documentation includes the clause that, upon the transition away from LIBOR, the applicable replacement benchmark will be adopted for pricing of existing contracts until they mature.

The Bank does not consider that it has a material risk arising from the transition from LIBOR.

UK's Exit from the European Union

On 24 December 2020, the United Kingdom ("the UK") and European Union ("EU") successfully reached a trade deal - the EU-UK Trade and Cooperation Agreement. However, the exit deal has left a great deal of uncertainties, particularly in relation to financial services matters, which may lead to significant implications for the financial services sector in the UK and the rest of the EU.

In assessing the Bank's going concern status, the Directors evaluated the risks and uncertainties facing the British banking sector and concluded that the potential impact of these on the Bank is low.

Operating Environment

Zenith UK has exposures in different countries. However, those with significant implications for its business and profitability are the United States of America, United Kingdom and Nigeria. The Bank's reporting currency is the US Dollar, and with over 60% of its balance sheet comprising in US Dollar-denominated assets, it is subject to USD Dollar interest and exchange rate risks. Due to ZBUK's domicile in the United Kingdom, it is subject to UK regulations as well as GBP Sterling exchange rate risks because it incurs a significant portion of its expenditures in GB Pound. Finally, Nigeria is of strategic business importance as the Bank transacts several of its businesses through its parent company, Zenith Bank Plc, that is domiciled in the West African country.

Strategic Report (continued)

The Bank mitigates the effects of economic changes by monitoring the changes in these countries and determining the appropriate risk management responses to the operational, conduct, capital, liquidity, asset quality, and profitability implications respectively.

Business Structure

The Bank's business activities are organised into Corporate Banking (formerly known as "Business Development", including the Multinational subsegment), Wealth Management, Financial Institutions & Forfaiting, respectively. The Corporate Banking business is subdivided into the UK and Dubai operations (through the Bank's registered branch, which is regulated by the Dubai Financial Services Authority DFSA).

The Bank also has a Treasury function that is responsible for managing the Bank's liquidity, capital and open positions. The Treasury function also handles the Bank's trading activities in bonds, foreign currencies, and other derivative financial instruments.

Each of these Strategic Business Units (SBU) is responsible for generating revenue and developing business in its area of specialisation. Collectively, the SBUs are responsible for promoting cross-selling opportunities across the Bank's spectrum of businesses in order to ensure that clients' needs are well understood and fulfilled, if such capabilities exist within the Bank. The Bank gives serious consideration to client retention and is constantly seeking ways to evolve its value creation capabilities in the interest of its clients.

The relative proportions of contribution to operating income by each business unit are follows:

Treasury	61% (2019: 58%)
Corporate Banking	18% (2019: 31%)
Financial Institutions & Forfaiting	19% (2019: 9%)
Wealth Management	1% (2019: 1%)

Strategy

The Bank's strategy for delivering its business model involves the following combination of activities:

- Leveraging the strength of the Zenith brand and focusing on longstanding and new relationships from Sub-Saharan African ("SSA") and other parts of the world to drive international business network expansion.
- Maintaining a robust risk management, regulatory compliance, and corporate governance structure to grow cross border business.
- Utilising the Zenith Group's in-depth understanding of specific trade and correspondent business to develop its relationships with banks and financial institutions in the West African sub-region and encouraging them to use the Bank's service for their businesses.
- Focusing lending activities on international trade and export transactions, including discounting trade bills for companies, and providing short-term credits to financial institutions.
- Building upon SSA knowledge and extending treasury product offerings to meet the needs of clients that require comprehensive services (including foreign currency exchange to financial and corporate institutions, and SSA bond trade offering to institutional and wealth management clients)
- Promoting cross-selling of products and services by the Bank's business units: enabling client acquisition growth, creating capital capacity for trade finance activities, and efficiently managing the Bank's liquidity. This also involves offering long-term investment advisory and wealth management solutions to HNIs and ultimate beneficial owners (UBOs) of large institutions. Activities such as making marketing calls, visits (where physically permissible in the current circumstance) and introduction of key customers to other business units within the Bank are also adopted in these efforts.

The Bank seeks to ensure that its portfolio of assets is well-diversified across industries and geographies.

Significant Risks

The business and operational risks faced by the Bank are managed through the implementation of a robust Risk Management Framework ("Risk Framework") and the development of a strong risk culture within the Bank. The Bank's risk management structure includes established processes of compiling and reporting on key risk indicators that provide an early warning system for the Bank's significant risks.

Strategic Report (continued)

The Bank's risk management model adopts the "three lines of defence" approach. The first line of defence comprises the revenue-generating and client-facing units. This group is responsible for establishing controls and escalating risk events, when they occur, to the second line of defence. The second line of defence comprises Risk, Finance and Compliance functions. The third line of defence comprises the Internal Audit function, which provides assurance to the Executive Committee and Board on the effectiveness of governance, risk management and control over the current and emerging risks.

Management of risks is embedded into each level of the business with mitigating control activities documented to ensure that everyone within the Bank takes part in the responsibility for identifying and controlling risks. The Bank's risk appetite statement (RAS) defines the level of risk that ZBUK is prepared to accept across the different risk types. The RAS is key to decision-making processes as it covers financial planning, strategy formulation, development of new products and changes to business initiatives.

Zenith UK's RAS sets out quantitative metrics that cover capital, credit, operational, market and liquidity risks respectively. The Board receives regular information in respect of the Bank's risk profile. New and emerging risks are also identified and evaluated. Where these are considered significant to the Bank, appropriate metrics are defined for measuring and monitoring them. The Risk Management department is responsible for identifying, monitoring and reporting these risks at different Executive and Board Committees for deliberation and action as considered necessary. Capital and liquidity requirements are managed through detailed planning and stress assumptions contained in the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) documents. These are updated regularly by the Bank's Executives and reviewed by the Board Risk Committee.

The Bank produces its Recovery and Resolution Plan documents, with appropriate triggers for specific management actions for each stressed scenario considered plausible.

During 2020, the Bank's performance was within its risk appetite limits.

The Bank's structure and governance support it in managing risks associated with the changes in economic, political and market environments. The following significant risks are defined by the Bank's Risk Framework:

Significant Risk	Definition	How Risks are Mitigated
Credit Risk	Risk arising from the uncertainty of an obligor's ability to perform its contractual obligations including the risk of default or a borrower failing to make required payments when they fall due. The Bank is exposed to credit risks not only through its direct lending activities and transactions but also through commitments to extend credit, letters of guarantees, letters of credit, securities purchased and other derivative instruments where counterparties owe a financial obligation to the Bank. The Bank is also exposed to risk arising from placing deposits with financial institutions and central banks, through settlement risks such as those resulting from funds transfer via electronic systems and through brokerage activities and transactions. In 2020, the Bank re-evaluated this risk component determining it to be elevated and reflected this in both its origination strategies as well as the level of credit loss provisioning taken. Weakening global market conditions led to rating downgrades throughout the year, predominantly in Q1-2020. Credit risk remains the most significant risk to which the Bank is exposed.	The Bank's Credit Risk team monitors and limits all the Bank's credit exposures. The team provides independent analysis of each client's business, financial, management and security risks in order to analyse and rate counterparty risks to which the Bank is exposed. The analyses and internal scorecards produced for the Credit committee give an indication of the probability of default of counterparties and expected credit losses in the event of any default. The Credit Risk team also monitors the quality and value of security / collateral provided against credit exposures. The Bank's Credit Risk assessment process complies with the credit policy as approved by the Board. Approval delegations are determined by the Bank's Board. Three distinct levels of review and approval process exist at the Bank, Group and Board levels, respectively.

Strategic Report (continued)

<table>
<tr><th>Significant Risk</th><th>Definition</th><th>How Risks are Mitigated</th></tr>
<tr><td>Market Risk</td><td>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.</td><td>A range of complementary approaches is used to identify and evaluate this component of risk:
• A limit of USD35m applies to the Bank's trading position, with reports presented and discussed at the Banks Assets and Liability Committee (ALCO).
• A stop-loss limit of USD350,000 is in force and monitored closely by the Risk department.
• All overnight limits are kept within the Bank's tolerance limit.
• The Bank's net open foreign exchange position is capped at USD7.5m.
• Risk Management monitors the Bank's overall positions against approved limits daily and reconciles the position separately to dealers' positions. Daily market risk reports that detail the profile of risks are reported to the Market Risk Committee on a weekly basis.</td></tr>
<tr><td>Regulatory and Conduct Risks</td><td>These are risks that could arise from any or a combination of the following:
• Inappropriate or non-application of anti-money laundering procedures;
• Unsatisfactory response to regulatory/legal compliance directives;
• Market malpractice;
• Poor customer service;
• Lack of effective Board engagement or oversight;
• Staff non-adherence to the company's values;
• Staff incompetence/inappropriate use of confidential information;
• Lack of robust product development process;
• Reputational issues resulting from action, inaction or transactions, events, decisions, or business relationships that reduce trust or confidence in the Bank.</td><td>All employees are required to adhere to the Bank's procedures. Line management, the second line of defence and audit all serve the Bank to ensure activities are monitored appropriately. Controls are installed and tested frequently. This includes the monitoring of customer activities by the Bank's compliance department.

Sample checks are performed on calls made to clients to ensure that there are no actual or perceived market malpractices. Exceptions are escalated for Executive and Board information and appropriate action.

Training covering a wide range of conduct and regulatory matters is organised for staff on a regular basis with online tests to check understanding.

The Bank's Compliance department monitors customer complaints and conflicts of interest.

Both the Board and the Senior Management receive regular updates from the Compliance department regarding regulatory changes that are relevant to the Bank.

The Bank's Internal Audit function provides assurance to the Board and Executive Management regarding the effectiveness of governance, risk management and control over current and emerging risks.</td></tr>
<tr><td>Liquidity Risk</td><td>The risk that the Bank could encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with its liabilities or financial obligations.</td><td>A range of approaches is used monitor, report on and conduct stress tests on the Banks liquidity position.

The Bank's Risk department and ALCO receive and review daily reports on liquidity for review and challenge.</td></tr>
</table>

Strategic Report (continued)

Significant Risk	Definition	How Risks are Mitigated
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, human behaviour, and systems, or from external events.	Operational risk is owned by all employees and departments and is controlled through individual accountabilities. This framework is supported by operational procedures and internal controls that include mitigating activities designed to identify and control risk at each business or operational process level. The Operational Risk function regularly tests the environment and supports staff across the Bank to ensure the framework is operating effectively. Internal controls are embedded in the Bank's day-to-day business and processes, designed to ensure, to the extent possible, that the Bank's activities are efficient, effective and not prone to failure, information is reliable, timely and complete and the Bank is compliant with all applicable laws and regulations. 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.
Cybercrime Risk	Cybercrime is any technology-based activity, which defrauds clients, distributes illicit material or compromises the Banks computers or networks. It includes financial theft, data theft, denial of service, social engineering, takeover fraud and reputational compromise.	The Bank's IT security strategy involves multiple security controls to reduce the impact of a direct attack on its IT systems and customer data. Staff are trained and regularly reminded of their responsibilities in terms of security and safe email handling. Personal security, ingress and egress procedures are followed that are consistent with industry practices and audited against ISO27001 standards. Internal internet 'firewalls' are employed to protect the Bank's systems from rogue attacks. The Bank's external and internal electronic security and firewalls are frequently tested by various internal and external penetration tests.

Strategic Report (continued)

Significant Risk	Definition	How Risks are Mitigated
Compliance Risk	This is the risk that the Bank or any its Directors or employees fails to comply with any regulatory obligation. Weakness in any of the Bank's processes that covers the monitoring of regulatory, policy and documentary developments or inability to strengthen the internal compliance function can lead to compliance risks.	Annual bank-wide assessment of compliance risk is undertaken, covering regulatory policy and documentary developments. The Bank's Compliance department develops monitoring programmes and ensures that policies and procedures are being complied with. The Bank's Internal Audit function reviews the effectiveness of the Compliance department and reports its findings to the Board and Senior Management.

Environmental risk

The Zenith Bank Group is committed "To conduct our business in a way that promotes long-term environmental and social sustainability". Therefore, we consider potential environmental and social impacts when making business decisions and when managing our resources and infrastructure. We take a positive approach towards environmental risk and aim to ensure that the environmental impact of our activities is considered at all times, whether they originate from our own enterprise or from the activities of our customers, vendors or other stakeholders.

In response to Supervisory Statement SS3/19 the Bank is evolving its approach and expects to meet the PRA's requirements to have fully embedded our approach to managing climate related financial risks by the end of 2021.

As we develop a deeper understanding of our client exposures to climate related financial risks, appropriate stress testing will naturally follow, all of which support the objectives of regulation and the spirit of the Supervisory Statement.

The impact of climate change on Zenith UK's business

Global interest is increasing in relation to the risks posed by climate change. In light of this and in response to regulatory requirements, Zenith UK is developing a programme to evaluate and embed the management and monitoring of climate related financial risk into its Risk Management Framework. Efforts are being directed towards identifying and quantifying the potential financial impact of climate risk on the Bank's counterparties and consequently our business strategy and operations.

Climate change has led to uncertainty surrounding both the impact and expectations of long-term changes to business, business models and economies the world over. Extreme weather events and long-term adaptations to evolving climactic change have the potential to shock economies significantly as they are forced to adapt to more sustainable approaches to raw materials, production techniques, transportation and operational locations, to name a few. Overall, the risks associated with climate change have the potential to depress GDP growth, drive higher levels of unemployment and create inflationary pressure, forcing some sectors to struggle or close while others thrive.

Indirectly, Zenith UK's business could be impacted if climate change exacerbates defaults which in turn crystallise into credit losses. The Bank could also be directly affected if its physical assets suffer physical damage that necessitate extensive repair or outright impairment that would reduce its profitability.

The Board and Senior Management understand that the Bank's regulators and stakeholders require Zenith UK to support initiatives to promote lower-carbon usage through its business strategies, policies and regulatory compliance. As a consequence, Zenith UK's lending activities will evolve and become more sensitive to climate change.

The nature of the Zenith Group's origins in Nigeria and Zenith UK's role in supporting Group customers from the Sub-Saharan African region, mean a certain concentration of exposure to this high carbon intensity region (including Nigeria) will remain a constant.

The region faces physical climate risks from rising sea levels along its long and low coastline in the Niger Delta. The location of much of the nation's oil and gas assets in this area represent an increased exposure to physical risk to these assets. Declining rainfall and population migration are other features of the landscape in the region that will evolve into a changing economy over time.

Strategic Report (continued)

Unsurprisingly, transition risks in the region will materialise over the longer term. Economies in Sub Saharan Africa will need to adapt thoughtfully given their present heavy reliance on high carbon intensive industries. The adjustment in poorer areas will be particularly challenging on account of the often-limited low carbon alternatives available.

The Board's Risk Committee oversees the Bank's efforts regarding climate risk and the adoption of regulations relating to climate related financial risk. The Bank's Chief Risk Officer (CRO) has been nominated as the Senior Manager responsible for developing methodologies for measuring and monitoring climate related financial risk and risk methodologies are being designed and implemented to assess this.

Portfolio Dimensions with respect to Climate Related Financial Risks

Much of these factors are expressed in the readiness to change and vulnerability measure captured in the ND Gain Country Index as follows:

Country	ND-Gain Country Index (rank out of 181)
Nigeria	160 (improving)
Ghana	109 (stable)
Sierra Leone	151 (improving)
Gambia	141 (declining)

Streamlined Energy and Carbon Reporting

The methodology used to calculate the Bank's GHG emissions is the 'Greenhouse Gas Protocol (GHG): A Corporate Accounting and Reporting Standard (Revised Edition)', defined by the World Resources Institute/World Business Council for Sustainable Development (ERI/WBCSD). The Bank has adopted the operational control approach on reporting boundaries to define its reporting boundary.

Where the Bank is responsible for the utility costs, these emissions are included. For 2020, the Bank has applied the latest emission factors available at the time of reporting.

Scope 1 covers GHG emissions from activities for which the Bank is responsible, including emissions from the direct combustion of fuels and the operation of facilities. The Bank has assessed its Scope 1 emissions during the year to be nil.

Scope 2 covers GHG emissions from electricity, heat, cooling and steam purchased for the Bank's use. The Bank has assessed its Scope 2 emissions during the year to be 172,596 Kilo-watt Hour (KwH). This is analysed as 164,081 KwH for the premises and 8,515 KwH for the outsourcing of servers.

Scope 3 covers indirect emissions from business travel. Business travel for these purposes comprises of: global flights and ground transport within the UK and Nigeria. The Bank has assessed its Scope 3 emissions during the year to be 4.7t $CO2$.

Energy consumption data is captured through utility billing, meter reads or estimates.

Strategic Report (continued)

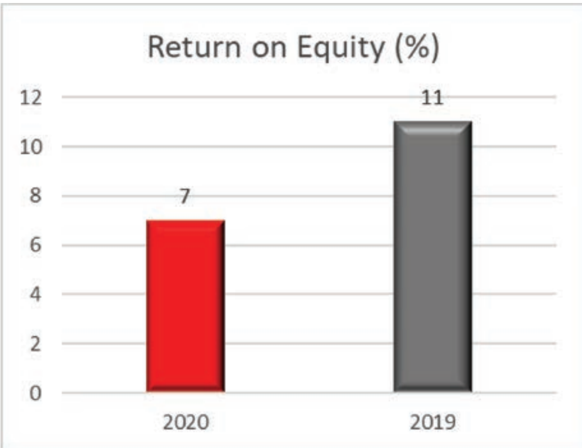
Key Performance Indicators

The Bank's Senior Management analyses a range of financial measures to ensure that the Bank's strategy is effective. The Chief Executive Officer (CEO) has overall responsibility for the Bank's performance and is supported by the Executive Committee (EXCO) members.

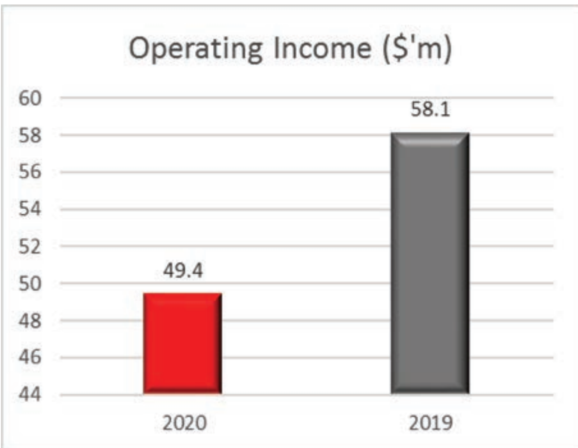
Approved financial projections comprise annual budgets, which are translated to metrics that are used to monitor performance, drive business, and evaluate performance over time. Qualitative measures are also adopted to gauge the effectiveness of the Bank's engagement with its stakeholders. Please refer to ***Engaging with stakeholders*** for more details.

Some of the financial metrics are adopted as Key Performance Indicators (KPIs) based on the advice received from the Zenith Group's head office. These are as follows:

A. Return on Equity (ROE): measures the Bank's ability to generate returns for its shareholder. It is expressed as Profit After Tax as a percentage of the average shareholders' equity during the reporting period. Actual ROE achieved in 2020 was 7% (2019: 11%). Target ROE for 2020 was 10%.



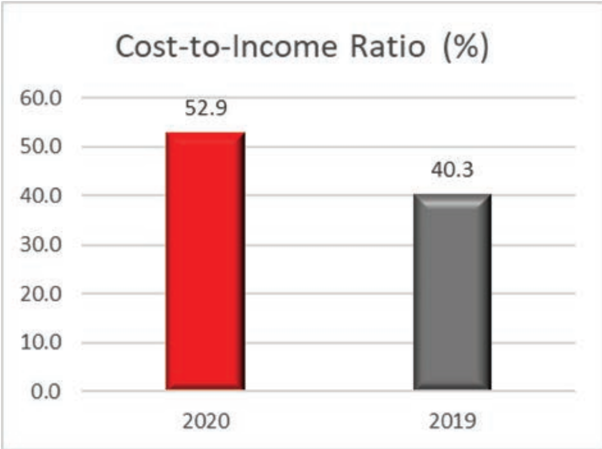
B. Operating Income: measures the Bank's ability to cover its direct operating costs. Operating income in 2020 totalled $49.4m (2019: $58.1m)



Strategic Report (continued)

C. Cost-to-Income (CIR): measures operating expenses as a percentage of operating income. This ratio reflects the Bank's efficiency in its use of human and other resources in creating financial value. Generally, a lower ratio indicates relatively higher efficiency. However, ZBUK targets 40%.

CIR achieved in 2020 was 52.9% (2019: 40.3%)



The Bank targets CIR of 40% or below.

Although the Bank's performance in 2020 is behind target in terms of these KPIs, it was able to report profitability and maintain acceptable asset quality and sound capital levels. The Bank's Board and Senior Management approached the current year's challenges with expectations of cautious growth, seeking to balance the achievement of its financial targets with the need to maintain a strong balance sheet in this downturn period.

It is anticipated that business will pick up in 2021 and that the Bank will continue to pursue its growth strategy. Please refer to ***Outlook: 2021 and Beyond*** for our planned approach to restoring the Bank to its expected level of profitability in line with its five-year financial projection.

Strategic Report (continued)

Significant Events in 2020

COVID-19

The lingering economic and health effects of the pandemic continue to impact Zenith UK and its stakeholders in different ways. The Directors understand that there will be long-term changes to the way we interact, live, and conduct our business as part of the corporate community.

The pandemic has challenged existing healthcare infrastructure and created unprecedented economic shocks whose full effects will only be known in years to come. Supply chains, which have become more vulnerable and interdependent due to globalisation, have also been significantly disrupted. Disruption of global production has created imbalance between demand and supply, leading to unprecedented levels of volatility in financial and capital markets worldwide. Global trades and interest rates have declined considerably. The Bank's Trade Finance volumes have plummeted with resultant drop in fees and commission income.

At national levels, the pandemic has led to contraction of Gross Domestic Product (GDP). Travel restrictions, closure of schools and lockdown measures resulted in several health and socio-economic issues. The transport sector, as well as the hospitality and tourism industries were most significantly impacted. The overall effect on the Bank is reflected in lower volume of business written during the year.

Slowdown of global economic activities increased corporate defaults, especially among micro, small, and medium enterprises (MSMEs). Accordingly, the Bank recognises that several of its customers have a greater tendency to default and has had to estimate a higher probability of default rate for assessing credit losses during the current year. Furthermore, market disruptions have resulted in higher level of foreign exchange valuation losses on the Bank's open position.

As mentioned in the Strategic Report, Zenith UK's financial performance was impacted by the need to increase the level of ECL allowance, recognise market valuation losses and revise its operations to enable it to maintain resilience and flexibility. Arrangements were made to ensure health and wellbeing of employees in addition to the provision of remote working facilities.

The Bank made significant capital investments in order to modify its premises, to ensure that adequate social distancing can be observed by those employees who have to be at the office premises unavoidably.

From a business perspective, the Bank reviews market development, paying particular attention to customer performance.

Expectations of the Future and Uncertainties

The pace and scale of global recovery are expected to be uneven across nations. The forecast is that the perception of elevated credit risks will linger until 2023. Some industries are expected to recover faster than others.

It remains to be seen how easily Central banks and Governments can withdraw their support to allow market forces determine how resources will be allocated, post pandemic. Therefore, it is likely that withdrawal will be phased in and that the market performance will not totally reflect economic fundamentals of the participants in the short term.

From a credit risk perspective, the Bank recognises that there is higher risk that some or all its clients may not be able to repay- fully or in part- the outstanding principal and/or interest on facilities due from them. This has been taken into consideration in its assessment of the expected credit losses (ECL) by adopting a higher Probability of Default (PD) in FY 21.

The Bank also anticipates that some moderate overall market volatility will continue in 2021, which will be balanced by some market correction, and will reflect in prices and exchange rates. The Bank's response is to maintain trading positions in line with its risk appetite and continue to trade in financial instruments that it has expertise in. Specifically, the Bank will avoid high risk and complex trades that are inherently subject to more volatility.

The roll out of vaccines across the world kindles the optimism that businesses and economic activities will pick up substantially in the next two years or less. However, there is still uncertainty regarding how quickly things will be restored to pre-pandemic levels.

Revised IFRS 9 Transitional Arrangements

Zenith UK has elected to take advantage of the transitional regulatory capital rules in respect of expected credit losses following the adoption of IFRS 9. The Capital Regulations Requirement (CRR) COVID-19 amendment now allows for the movement in stage 1 and stage 2 ECL to be added back to the CET1, with effect from 1 January 2020 over the next two years. The IFRS 9 transitional arrangement impact on Zenith UK's CET1 regulatory capital as at 31 December 2020 is US$ 7.4 million (2019: US$ 9.2 million).

Strategic Report (continued)

Outlook: 2021 and Beyond

The Bank's main priorities in 2021 include diversification - in terms of the geographies in which it conducts business as well as in terms of its product offerings. This aspiration may lead to changes to the risk profile of the Bank's existing exposures. To address this, the Bank will conduct periodic risk assessments and ensure that only risks within its approved risk appetite are undertaken.

There are strong indications that the low interest rate regime is likely to be sustained for the next two years at least. Accordingly, driving higher business volumes to compensate for lost profitability in a sustainable manner will therefore be in focus over the next few years.

To keep the Bank well-capitalised in 2021 and beyond, the Bank's financial projections have been revised to account for forward-looking information, especially regarding anticipations of an increase in global default rates that impact on credit losses. Our assumption of a sustained severe credit deterioration scenario, among other things reflects the lessons learned from our credit risk experience in 2020 and the plausibility that the economic impact of the pandemic is far from over.

The Bank's Board and Senior Management ("we") are aware that the year 2020 was especially challenging for some the Bank's clients. We plan to continue supporting them by seeking to understand their financing needs and responding within the Bank's risk appetite. In 2021, the Bank will continue to ensure that it does not assume any significant concentration to any geography, sector, or business segment.

Following UK's exit from the European Union (EU), we anticipate that there will be changes to regulatory frameworks applied by the UK government going forward. The Bank plans to continue its proactive engagement with the regulatory authorities and to ensure compliance with these regulations as they change. We will also continue to monitor the regulatory changes in other jurisdictions insofar as they affect the Bank's business. Notably, regulations and regulatory changes in Nigeria will be monitored closely in collaboration with experts who possess local and industry knowledge and expertise, specifically because of its strategic importance as the domicile of the Bank's parent company.

Since global growth and the underlying macroeconomic environment remain largely in the early recovery stages, economic forecasts for 2021 remain modest. It is plausible but unlikely that various economic, political and other risks and uncertainties could create a more volatile operating environment and impact Zenith UK's businesses and future results than they did in 2020. For a discussion of risks that could impact Zenith UK's businesses, operating results and financial condition during 2021, please refer to the "Significant Risk" section of this report.

The Bank plans to expand its business using the leverage of diversification and technology to deliver its targeted profitability in keeping with its objective to maximise its shareholder's value, consistent with its five-year rolling financial plan. The Bank aims to remain flexible and adapt to market and economic conditions as they develop.

A business restructuring exercise was undertaken at the end of 2020, taking inventory of the skills and products available to meet clients' needs and directing efforts towards deepening the client-bank business relationship and exploring new businesses. The exercise is a first step in our journey of rethinking our business and segmenting the market to ensure an effective diversification of businesses.

Corporate Banking business has been expanded with a mandate to cover Europe, Asia and the Middle East. Business growth expectations are stated at a minimum of 30% in 2021. We plan to pursue our strategy of developing specialised skills across different verticals including businesses in the shipping & transport and oil refinery industry, as well as project financing through the newly constituted Multinationals/conglomerate business. The Bank's asset receivables financing business is anticipated to grow by a minimum of 50%, starting in 2021. The Bank's Mortgage business is expected to double in 2021, both to facilitate more efficient use of capital and to generate sustainable GBP income and vary the Bank's mix of revenue by currency. The Bank's forfaiting sub-function will look to develop capabilities for efficient skimming activities, for effective management of facility limits and earning of stable levels of fee income.

The Bank plans to rollout mobile banking service to its corporate and retail customers in the near term.

Zenith UK plans to utilise its trade finance capabilities to penetrate Asian markets while still playing a key role in facilitating trade flows for the Zenith Group in Nigeria and the rest of Africa.

Strategic Report (continued)

Section 172 Statement

Engaging with stakeholders

To discharge their fiduciary duties and governance responsibilities, the Directors of the Bank regularly consider the views and interests of its stakeholders. The Directors act based on their understanding of the importance of these views and interests in promoting a well-governed organisation that conducts its operations responsibly, remains responsive to its stakeholders and effectively uses the insights gained from these interactions to drive the Bank's growth strategy.

How Stakeholders are identified

The Bank's stakeholders ("stakeholders") are identified as parties who will potentially benefit if the Bank is properly run and governed in such a way that it successfully delivers its strategic plans and complies with legal and regulatory requirements either directly or indirectly. Conversely, these parties are exposed to potential financial and other losses if Zenith UK fails to meet its strategic objectives or if there are non-compliance and associated reputational consequences with legal and regulatory requirements that apply within the Bank's operating environment or those in other jurisdictions that can impact it indirectly.

Stakeholders include providers of capital and funding, those involved in the Bank's value creation processes (employees), those who acquire the value in return for financial consideration, regulatory bodies and the tax authority HMRC respectively.

Description of Relationship/ Interaction/ Obligation	**Generic Name**	**Potential Benefits to parties**	**Potential Losses to parties**
Providers of capital	Investors	• Increased shareholders value • Brand recognition • Dividend payment	• Partial or total loss of investment
Providers of funding	Depositors	• Interest on deposits • Repayment of deposits	• Partial or total loss of deposits
Parties involved in the Bank's value creation chain	Employees	• Financial security • Job security • Job enrichment and satisfaction	• Unemployment • Loss of income due to job losses.
Parties that purchase the created value in return for financial considerations	Clients	• Strong business relationship • Convenience • Satisfaction with product or service • Continuous flow of client's business • Access to credit facilities for business continuity and expansion	• Client dissatisfaction with product or service • Disruptions to client's business • Violation of client's policies (e.g. Environmental, sustainability) • Liquidity challenges
Regulatory Authorities	Regulatory Authorities	• Financial system stability • Healthy market competition • Fair market practices • Fair treatment of customers.	• Financial system instability (deteriorating asset quality, poor capitalisation, fragility of financial systems) • Monopoly and monopolistic competition • Market malpractices • Unfair treatment of customers.
Tax Authority	HMRC	• Tax revenues • Compliance with fiscal policies • Prevention and early detection of tax evasion	• Loss of Tax revenues • Non-compliance with fiscal policies • Failure to prevent or detect tax evasion

Strategic Report (continued)

The Directors adopt several approaches in engaging with stakeholders, aware that different perspectives exist. Depending on the situation and matter at hand, engagement could be direct while others could be indirect. Indirect engagement principally involves the process of receiving regular communication from the Executive Management on specific aspects of the Bank's business, strategy, or operations. These are discussed and decisions reached are either reflected as changes to practices or communicated through the Bank's Chief Executive Officer as appropriate.

The Bank welcomes diverse perspectives and recognises these as important must-haves for its success. However, in practice the Directors' decisions may not always result in desired or positive outcomes for all stakeholders.

Starting in early March 2020, the Board has been deliberating on actions and initiatives required to help the Bank navigate the challenges of COVID-19 and ensure that it continues to keep within sight the interests of its stakeholders, especially those whose businesses and lives were impacted or likely to be impacted. The Board oversaw Senior Management's actions of constituting the Crisis Management Committee to provide remote working facilities and ensure that the Bank's staff can continue to work from home without undue exposure or threat to their health and wellbeing.

Clients and Depositors

The Board also received updates from, and discussed the efforts made by, Senior Management to maintain regular check-ins with their clients, including constant review of clients' financial performance. The discussions were aimed at ensuring that the Bank sustain its commitment to supporting its clients by understanding their needs. The Board Audit & Compliance Committee (ACC) and the Board Risk Committee (BRC) requested regular updates on the impact of the emerging pandemic situation on various aspects of the Bank's operations, business, and general control environment. Quarterly Board Strategy committees review management's actions regarding client management and business developments. On-going discussions are held regarding clients' expectations and/or needs along with the business requirements to address these.

Surveys are administered on a periodic basis, and the outcomes are discussed and considered by the Executive Management team, with appropriate oversight by the Board.

Engagement and Support During the Pandemic

The Board and Senior Management supported clients through various actions. Firstly, relationship managers were provided with mobile communication and teleconferencing facilities to support remote communications. Clients' requests (especially those that could not be fulfilled remotely) were expeditiously handled by individuals who, on a rota basis, visited the office. Registered mailing services were utilised when it was necessary for clients to have physical copies of documentation. In dealing with its clients, the Bank is guided by and complies with, FCA's requirements regarding "Treating Customers Fairly".

The Board and Senior Management will continue to monitor clients' needs, behaviours and preferences and use the insights received to shape the Bank's business strategy in the future.

Employees

Briefing sessions are held with all employees of the Bank on a quarterly basis to discuss various staff-related matters including staff policies (and changes), working conditions, changes to staff and management, and financial performance of the Bank. Q&A sessions are held, and opportunities are created to receive feedback from employees. The Board oversees effective employee engagement in this respect by setting out a minimum number of these meetings as one of the Chief Executive Officer's yearly objectives. The outcomes of these quarterly briefings are discussed and considered at the Board's Remuneration and Appointment Committee (RAC).

The Board receives a report on the Bank's accreditation from the Investors in People (IIP) as a proxy measure of the level and quality of engagement with employees. The Board was pleased to learn that the Bank's status was elevated to 'silver' status in 2019, an indicator of significant improvement in the management efforts to engage and interact with its employees.

Engagement and Support During the Pandemic

The Board ensured that staff were provided with laptops, mobile telephony services and video conferencing capabilities to enable them work from home. Increased IT support was made available. Furthermore, the Board supported management efforts for the provision of training- Work-from-Home (WFH) and mental wellbeing to all staff.

Strategic Report (continued)

The Board furthered its commitment to this cause, by ensuring that staff who had to undertake unavoidable travel to the Bank's premises were safeguarded as much as practicable. The Board were pleased to know that approval was given to employees to stagger their work hours, specifically for employees who travelled by public transport to the office premises to discharge their duties. The aim was to ensure that they did not have to travel at peak periods, which increased the likelihood of contracting the corona virus. Health and safety measures were adopted in the Bank's premises with the spacing of work desks, provision of sanitisers, clear signages indicating directions for movement, expansions to existing work areas and introduction of two teams across the Bank who work from the office on a rotational basis, where this was absolutely necessary.

Consideration was given to those who live with vulnerable people, are themselves vulnerable or prefer to work from home for other reasons. The choice to come to the office was made voluntary and the Board oversaw the application of the Bank's non-discriminatory employee policy in this regard as well. The Bank is an equal opportunities employer and is committed to equality and diversity. The Board ensures that employee's safety is prioritised.

Finally, although the pandemic challenged the Bank's profitability, the Board decided to retain staff levels even when there was opportunity to reduce overheads either through the government furlough scheme or redundancy. This decision was aimed at providing financial support to our employees (by preventing job losses) and fostering a strong sense of belonging among them, especially during the uncertain times.

As the lock-down eases, possibly with people being able to return to work, Zenith UK welcomes the opportunity for its colleagues to work together to facilitate the Bank's usual collaboration. Necessary measures, including risk assessments, have been undertaken to ensure employees' safety and wellbeing.

The Bank's Board and Management have a lot of takeaways about the benefits and challenges of working more flexibly. It is hoped that the Bank's future people strategy will be shaped by these learnings.

Regulatory and Tax Authorities

At least on a quarterly basis, the Board receives updates regarding management's correspondences with Regulatory authorities and Her Majesty's Revenue and Customs (HMRC) through the Audit and Compliance Committee. Extensive discussions are held regarding new regulations and expectations of the regulatory and tax authorities from the Bank.

The Board encourages management to maintain regular contact with the representatives through the Compliance and Finance functions.

Investors

The Directors ensure that management acts prudently in the use of the Bank's capital resources. An important aspect of this governance and oversight is achieved through the Board's Business Risk Committee (BRC), which is mandated to review and approve/decline lending applications which pre-determine risk and/or limit thresholds. The BRC also monitors the changes to risk limits and ensures that the Bank's businesses are conducted within the approved risk appetite.

To gain an understanding of the views of its sole investor, Zenith Bank Plc, the Group Chief Executive Officer (Group CEO) sits on the Board of the Bank and represents the interest of Zenith Bank Plc. Expectations of the parent company, including financial targets and alignment with Group strategy are regularly communicated by the Group CEO. All views expressed are deliberated on by the Board and decisions reached are approved for execution/ implementation by senior management. Quarterly Board meetings are held regularly to strengthen this oversight and governance responsibility.

In consideration of the long-term support of its investor, the Board has recommended the distribution of dividend, starting in 2020.

Approved by the Board of Directors and signed on behalf of the Board.

Pamela Yough
Chief Executive

9 June 2021

39 Cornhill, London, EC3V 3ND

Independent Auditors' Report to the Members of Zenith Bank (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Zenith Bank (UK) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2020; the Statement of Comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Compliance Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Context

We were first appointed as auditor by the directors for the year ended 31 December 2020. The core business activities of the company have not significantly changed in the year. In designing our audit, we understood the company's key processes and business activities, including obtaining an understanding of the company's control environment. As part of our initial audit procedures we reviewed the predecessor auditor's working papers.

Overview

Audit scope

- As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where more subjective judgements were required, for example in respect of significant accounting estimates.

Key audit matters

- Expected Credit Losses - Loans and advances to customers
- The effect of COVID-19 on the audit and the financial statements

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

Materiality

- Overall materiality: US$1,094,142 based on 5% of profit before tax from continuing operations.
- Performance materiality: US$820,607.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Expected Credit Losses – Loans and advances to customers Refer to Note 3: Critical accounting judgements and key sources of estimation uncertainty, and Note 25: Financial risk management). The company has a portfolio of loans and advances to customers amounting to $160.8m at 31 December 2020 with an associated allowance for Expected Credit Losses ("ECL") of $2.2m. Models are used to collectively assess and determine the allowance for expected credit losses. The Probabilities of Default (PDs) relating to these counterparties are obtained from a variety of sources including external rating agencies and expert management judgement. We focussed on this area because internal default experience is very limited and external ratings are not available for the majority of these counterparties. Therefore, there is subjectivity in determining an appropriate PD.	Our audit procedures comprised the following: • We understood and evaluated the design and implementation of controls relating to the determination of the allowance for ECL; • We used our independent credit modelling specialists to critically assess the conceptual soundness of the methodology applied in the impairment model, to evaluate whether it was compliant with IFRS 9 requirements, and tested the key assumptions and judgements used in the ECL calculation; • We agreed the default rates used by management as PDs to independent sources. We also assessed whether these PDs were reasonable given the nature of the portfolio and future expectations regarding the short-term economic outlook; • We tested a sample of management's internal loan file reviews to determine whether the rating, and therefore the PD, assigned to individual counterparties was reasonable; • We critically assessed the appropriateness of the disclosures in relation to the PDs used; and • We sent confirmations to a sample of loan counterparties to confirm outstanding balances and key terms of the loans. Based on the evidence obtained, we concluded that the impairment provision has been calculated in accordance with IFRS 9 and is reasonable.

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

Key audit matter	How our audit addressed the key audit matter
The effect of COVID-19 on the audit and the financial statements The impact of the COVID-19 pandemic has resulted in unprecedented economic conditions and resulting government support programmes and regulatory interventions to support businesses and people. The COVID-19 pandemic has also changed the way that companies operate their businesses, with one of the most substantial impacts being the transition to remote working. A number of the company's employees have been working remotely during 2020. Our audit team has also been working remotely for most of the audit. The impact of the COVID-19 pandemic and resulting uncertainty has impacted a number of the estimates in the company's financial statements. The impact on the most significant accounting estimate, and our audit work in relation to it, is set out in the Expected Credit Losses – loans and advances to customers Key Audit Matter. In addition, the Directors considered the impact of the pandemic on the company's ability to continue as a going concern. Given the financial performance during the year and the capital and liquidity position, the Directors have concluded that there is no material uncertainty and the company will continue as a going concern for a period of at least twelve months from the date of the Directors report.	We critically assessed the areas in which COVID-19 had a significant impact on our audit. In particular: ● As part of our planning, we assessed the impact of the disruption caused by COVID-19 on the risk of material misstatement. We concluded that no significant changes to our plan were required during the audit; ● We made inquiries of management to understand the current and future impact of COVID-19 on the company's recent financial performance and business operations; ● We read correspondence with regulators and met with the company's lead regulator, the Prudential Regulation Authority; ● We reviewed the company's going concern assessment, which considered the potential impact of COVID-19 on future profitability. We discuss our conclusions related to going concern, including the effect of COVID-19, later in our report; and ● We evaluated the adequacy of the disclosures made in the financial statements with respect to the impact of COVID-19. We adapted our own working practices to remote working, including our initial audit procedures such as reviewing the predecessor auditor's working papers. We ensured we gathered appropriate audit evidence. Substantially all of the information and audit evidence we need for our audit is provided in electronic format. Based on the work performed, we are satisfied that our audit addressed the impact of any disruption caused by COVID-19. We have also concluded that the impact of COVID-19 has been appropriately evaluated and reflected in the preparation of these financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The company provides corporate, personal and private banking services to clients, primarily in the UK and Africa.

Our overall approach to setting our audit scope was to focus our audit in areas where we identified a higher risk of material misstatement to the financial statements, including areas where the Directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events, including the impact of the COVID-19 pandemic on the company and broader global economic forecasts.

As part of this risk assessment, we considered the inherent risks facing the company arising from its respective business operations, how the company manages these risks, and how these risks have been impacted by COVID-19.

Consideration was also given to the company's control environment and the complexity and scale of operations when determining the audit scope and approach.

The use of the going concern basis of accounting preparation was also assessed as part of our planning procedures.

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

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	US$1,094,142
How we determined it	5% of profit before tax from continuing operations
Rationale for benchmark applied	We determined materiality by applying 5% to the profit before tax. The parent company, management, the Board and the company's regulators are the primary users of the financial statements. We consider profit before tax to be the most appropriate benchmark given profitability of the company is the focus for these users and it is a generally accepted auditing benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to US$820,607 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Compliance Committee that we would report to them misstatements identified during our audit above US$54,707 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- A detailed risk assessment to identify factors that could impact the going concern basis of accounting, including the effect of COVID-19;
- Evaluation of management's going concern assessment, including the company's capital and liquidity position and financial forecasts over the going concern period and reviewing the ICAAP and ILAAP submissions to the PRA; and
- Evaluation of stress testing performed by management.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the Annual Report, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority's regulations and the Prudential Regulatory Authority's regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including inquiry of whether there were any known or suspected instances of non-compliance with laws and regulations or fraud;

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

- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the allowance for expected credit losses;
- Review of correspondence with the PRA and the FCA; and
- Identifying journal entries including, but not limited to, journals with unexpected account combinations, journals posted by unexpected persons and certain journals posted after the balance sheet date.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Compliance Committee, we were appointed by the directors on 10 July 2020 to audit the financial statements for the year ended 31 December 2020. This is therefore our first year of uninterrupted engagement.

Ian Godsmark (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

10 June 2021

Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	2020 US$	2019 US$
Interest income	4a	**45,697,001**	55,620,170
Interest expense	4b	**(9,687,863)**	(11,444,742)
Net interest income		**36,009,138**	44,175,428
Fee and commission income	5	**7,537,541**	6,214,426
Trading and other income	6	**8,071,784**	7,839,532
Revaluation loss		**(2,178,091)**	(160,987)
Operating income		**49,440,372**	58,068,399
Personnel expenses	7	**(16,505,084)**	(15,264,115)
Depreciation and amortisation	15 and 16	**(2,131,922)**	(1,876,779)
Other expenses	8	**(7,524,345)**	(6,229,315)
Operating expenses		**(26,161,351)**	(23,370,209)
Operating profit before impairment provision and taxation		**23,279,021**	34,698,190
Net impairment (charge)/credit on financial assets	14	**(1,396,175)**	23,518
Profit before tax		**21,882,846**	34,721,708
Income tax expense	9	**(3,971,499)**	(6,791,020)
Profit for the year		**17,911,347**	27,930,688
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of debt instruments at fair value through other comprehensive income		**5,396,456**	1,362,245
Net change in fair value of debt instruments reclassified to profit or loss		**(1,063,043)**	(349,794)
Income tax on items that are or may be reclassified subsequently to profit or loss		**(842,123)**	(172,117)
Other comprehensive income for the year (net of tax)		**3,491,290**	840,334
Total comprehensive income for the year attributable to equity holders of the Bank		**21,402,637**	28,771,022

The 2020 and 2019 results are all from continuing operations.

The notes on the accompanying pages 35 to 79 form an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2020

	Note	31 December 2020 US$	31 December 2019 US$
Assets			
Cash and cash equivalents	10	**787,588,384**	572,254,591
Securities designated at fair value through profit or loss	11.1	**11,054,949**	9,230,962
Securities designated at fair value through other comprehensive income	11.2	**971,378,629**	637,735,288
Securities measured at amortised cost	12	**175,451,938**	129,654,918
Derivative financial assets	21.1	**10,468,197**	2,799,287
Loans and advances to banks	13	**183,248,463**	265,692,663
Loans and advances to customers	14	**160,807,529**	65,286,592
Property and equipment	15	**4,512,682**	4,817,131
Intangible assets	16	**1,395,348**	2,018,933
Deferred tax assets	17.1	**202,142**	1,050,871
Other assets	18	**1,146,492**	1,031,802
Total assets		**2,307,254,753**	1,691,573,038
Liabilities			
Deposits from banks	19	**1,291,398,297**	1,021,102,222
Deposits from customers	20	**727,848,497**	401,039,700
Derivative financial liabilities	21.2	**3,256,422**	415,114
Current tax liabilities	17.2	**363,468**	4,538,570
Impairment on off balance sheet assets		**287,850**	1,440,717
Lease obligation	22.1	**4,252,988**	3,760,787
Other liabilities	22.2	**4,274,013**	5,105,347
Total liabilities		**2,031,681,535**	1,437,402,457
Equity			
Capital	26	**136,701,620**	136,701,620
Reserves		**4,231,821**	740,531
Retained earnings		**134,639,777**	116,728,430
Total equity		**275,573,218**	254,170,581
Total liabilities and equity		**2,307,254,753**	1,691,573,038

The financial statements and accompanying notes on pages 35 to 79 were approved by the Board of Directors on 9 June 2021 and signed on its behalf by:

Jim Ovia
Chairman

Pamela Yough
Chief Executive Officer

Adeyemi Paul-Taiwo
Chief Financial Officer

Statement of Changes in Equity

For the year ended 31 December 2020

	Share Capital US$	FVOCI Reserves US$	Retained Earnings US$	Total Equity US$
Balance as at 1 January 2020	136,701,620	740,531	116,728,430	254,170,581
Profit for the year	–	–	17,911,347	17,911,347
Fair value reserve net of tax (debt instruments)	–	3,491,290	–	3,491,290
Balance at 31 December 2020	136,701,620	4,231,821	134,639,777	275,573,218
Balance as at 1 January 2019	136,701,620	(99,803)	88,797,742	225,399,559
Profit for the year	–	–	27,930,688	27,930,688
Fair value reserve net of tax (debt instruments)	–	840,334	–	840,334
Balance at 31 December 2019	136,701,620	740,531	116,728,430	254,170,581

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 35 to 79 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 US$	2019 US$
Cash flows from operating activities			
Profit for the year		**17,911,347**	27,930,688
Adjustments for:			
Impairment provision charge/(reversal)	14	**1,396,175**	(23,518)
Depreciation of property and equipment	15	**1,124,032**	924,552
Amortisation of intangible assets	16	**1,007,890**	952,227
Interest expense on Right-of-use lease obligations	22.1	**39,715**	33,523
Income tax expense	9	**3,971,499**	6,791,020
Foreign currency translation effect - Lease obligation	22.1	**100,768**	–
Foreign currency translation effect - Corporation tax liability	17.2	**256,863**	–
Impairment on equity investments	8	**715,000**	–
		26,523,289	36,608,492
Change in loans and advances to banks		**84,541,499**	(96,133,912)
Change in loans and advances to customers		**(96,046,865)**	22,399,433
Change in securities designated at fair value through profit or loss		**(1,823,987)**	41,253,822
Change in securities designated at fair value through other comprehensive income		**(330,316,519)**	153,839,342
Change in other assets		**(201,692)**	325,780
Change in deposits from banks		**270,296,075**	(327,147,636)
Change in deposits from customers		**326,808,797**	80,115,856
Change in derivative financial instruments (net)		**(4,827,602)**	(4,137,670)
Change in other liabilities		**(831,334)**	877,939
Income tax paid	17.2	**(8,396,858)**	(5,607,218)
Net cash generated from / (used in) operating activities		**265,724,803**	(97,605,772)
Cash flows from investing activities			
Acquisition of securities measured at amortised cost		**(55,052,328)**	(55,163,699)
Proceeds from redemption of securities measured at amortised cost		**5,513,488**	16,783,131
Acquisition of property and equipment	15	**(285,977)**	(191,136)
Additions to Right-of-use assets	15	**(533,606)**	–
Acquisition of intangible assets	16	**(384,305)**	(1,093,329)
Net cash (used in) investing activities		**(50,742,728)**	(39,665,033)
Cash flows from financing activities			
Repayment of lease obligation	22.1	**(181,888)**	(571,826)
Addition of new lease obligation	22.1	**533,606**	–
Interest payment on lease obligation	22.1	**–**	(33,523)
Net cash generated from / (used in) financing activities		**351,718**	(605,349)
Net increase/(decrease) of cash and cash equivalents		**215,333,793**	(137,876,154)
Cash and cash equivalents as at 01 January		**572,254,591**	710,130,745
Cash and cash equivalents at 31 December	10	**787,588,384**	572,254,591

The notes on the accompanying pages 35 to 79 form an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2020

1 General information

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

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

Statement of compliance

The Bank's financial statements have been prepared and approved by the directors in accordance with international accounting standards, in conformity with the requirements of 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 international accounting standards, in conformity with the requirements of the Companies Act 2006 ("IFRS") as set out in the relevant notes.

Restatement of prior year disclosure

The maturity analysis disclosure for prior year under Note 25 (Liquidity risk section) has been restated. This results in an increase in total assets of US$ 71.6 million and an increase in total liabilities of US$ 8.0 million respectively. The restatement was required to correctly disclose cashflows on an undiscounted basis in line with principles of IFRS 7. In the prior year, the disclosure was prepared on a discounted basis. See Note 25 for further details.

(a) 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, including the impact of the events in Nigeria and UK's exit from the European Union.

The Directors have also considered the impact of the COVID-19 pandemic on the Bank's future results and financial condition. The Directors are satisfied that there is no material uncertainty that precludes the Bank from continuing in business and confirm that there are no plans to terminate the Bank's operations or significantly curtail its activities.

The Directors have reviewed the Bank's profitability, capital, and liquidity positions. Zenith UK's capital and liquidity ratios as at 31 December 2020 exceeded the minimum regulatory requirements. The Directors will continue to exercise effective oversight of the Bank's operations to ensure that it maintains strong capital and liquidity positions.

The Directors have reviewed the impact on the Bank of the current economic environment in Nigeria and are satisfied that no material uncertainty exists that may cast doubts on the Bank's ability to continue as a going concern.

The Directors are satisfied that it is appropriate to continue to adopt the going concern basis in preparing the Bank's financial statements.

Significant accounting policies

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

2 Basis of preparation and significant accounting policies (continued)

(b) IFRS 9 Financial Instruments

i. Classification and Measurement of Financial Assets and Liabilities

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

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

Financial assets

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

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

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

Amortised cost

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

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

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

- 'Held to collect' business model test – The asset is held within a business model whose objective is achieved by both holding the financial asset in order to collect contractual cash flows and selling the financial asset; and
- 'SPPI' contractual cash flow characteristics test – The contractual terms of the financial asset give rise 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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

2 Basis of preparation and significant accounting policies (continued)

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.

Financial liabilities

Financial liabilities are either classified by the Bank as:

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

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

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

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

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

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

IFRS 9 requires a forward-looking expected credit loss (ECL) impairment framework for financial assets not measured at FVTPL and certain off-balance sheet loan commitments and guarantees. The 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.

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

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

2 Basis of preparation and significant accounting policies (continued)

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.

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.

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

In 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, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information. The Bank applies a methodology and framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition and this is aligned to the internal credit risk management process, which corresponds to external credit rating agency.

The criteria for determining whether credit risk has increased significantly varies on individual circumstances of each loan, given the nature of the loan book but includes a backstop based on delinquency of 30 days past due, and a decrease in credit ratings based on Credit Quality Steps ("CQS") as explained under Note 25 (***Sensitivity and impact analysis of ECL assessment*** section). In certain instances, using its judgement, and where possible relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so as the quantitative analysis may not capture it on a timely basis.

Measuring ECL

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

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

2 Basis of preparation and significant accounting policies (continued)

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% for all exposure classes other than Corporates which are estimated to be 40% (based on the regulatory default LGD) and Exposure at Default (EAD) net of cash collateral, which represents the outstanding exposure. Off-balance sheet items are a part of the EAD within the ECL computation.

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

Forward-looking information ('FLI')

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

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

Forecasts for key macroeconomic variables that are expected to correlate most closely to the Bank's portfolio are used to produce four economic scenarios. These comprise: a central case, upside case, downside case and a stressed downside case. Judgement is used to infer the impact of such scenarios on rating downgrades within the portfolio which then impacts the ECL calculation. The estimated ECL under each scenario is probability-weighted to produce the final ECL.

iii. Hedge Accounting

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

(c) Interest income and expense

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

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

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

(d) Trading and other income

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

2 Basis of preparation and significant accounting policies (continued)

(e) Fee and commission income

The Bank identifies the specific performance obligations in its contracts with its clients. The contractual terms define the transaction price (fee or commission to be earned) and the bank allocates the transaction price for distinct service(s) under each contract.

Depending on the nature of the performance obligation for which a fee or commission is to be earned by the Bank, the following policies apply:

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

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

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

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

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

(f) Foreign currencies

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

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

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

(g) Income tax

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

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

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

(h) Derivatives

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

2 Basis of preparation and significant accounting policies (continued)

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

(i) Offsetting

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

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

(j) De-recognition of financial assets and liabilities

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

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

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

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

(k) Property and equipment

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

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

Leasehold premises improvements comprise the Bank's offices in London. All equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(l) Intangible assets

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

The capitalised cost of computer software is amortised over 3 years using the straight-line method. For intangible assets which have useful lives of more than 3 years, the capitalised costs are amortised over the useful lives.

(m) Cash and cash equivalents

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

2 Basis of preparation and significant accounting policies (continued)

(n) Provisions

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

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

(o) Employee benefits

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

(p) Share capital

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

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

(q) Deposits

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

(r) Loans written off

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

(s) Leases

IFRS 16 applies to all leases with the exception of licenses of intellectual property, rights held by licensing agreement within the scope of IAS 38 Intangible Assets, service concession arrangements, leases of biological assets within the scope of IAS 41 Agriculture and leases of minerals, oil, natural gas and similar non-regenerative resources. IFRS 16 includes an accounting policy choice for a lessee to elect not to apply IFRS 16 to remaining assets within the scope of IAS 38 Intangible Assets which the Bank has decided to apply. When the Bank is the lessee, it is required to recognise both:

- a lease liability, measured at the present value of remaining cash flows on the lease, and
- a right of use (ROU) asset, measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

Subsequently the lease liability will increase for the accrual of interest, resulting in a constant rate of return throughout the life of the lease, and reduce when payments are made.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

2 Basis of preparation and significant accounting policies (continued)

The right of use asset will amortise to the income statement over the life of the lease. The lease liability is remeasured when there is a change in one of the following:

- future lease payments arising from a change in an index or rate,
- the Bank's estimate of the amount expected to be payable under a residual value guarantee, or
- the Bank's assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in the income statement if the carrying amount of the ROU asset has been reduced to nil. On the balance sheet, the ROU assets are included within property, plant and equipment and the lease liabilities are included within other liabilities.

When the Bank is the lessor, the lease must be classified as either a finance lease or an operating lease. A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee. An operating lease is a lease where substantially all the risks and rewards of the leased asset remain with the lessor.

When the lease is deemed a finance lease, the leased asset is not held on the balance sheet; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. When the lease is deemed an operating lease, the lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. The Bank holds the leased assets on-balance sheet within property, plant and equipment.

The depreciation on right-of-use asset is calculated over the lease period.

(t) Changes in accounting policies

Except as noted below, the Bank has consistently applied the accounting policies as set out in Note 2(a)-(s) to all periods presented in these financial statements. The Bank has adopted the following new standards and amendments including any consequential amendments to other standards with initial date of application of January 1, 2020.

i. IBOR reforms Phase 1 amendments

On 26 September 2019, the IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

The Bank does not currently apply hedge accounting. Therefore, there is no impact to the Bank as there are no arrangements or transactions that require the Bank to adopt this standard.

ii. New materiality definitions

On 31 October 2018, the IASB issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

iii. Updated references to the Conceptual Framework

Together with the revised 'Conceptual Framework' published in March 2018, the IASB also issued 'Amendments to References to the Conceptual Framework in IFRS Standards'. The amendments are effective for annual periods beginning on or after 1 January 2020.

iv. IFRS 3 amendments

On 22 October 2018, the IASB issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

There is no impact to the Bank as there are no arrangements or transactions that require the Bank to adopt this standard.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

2 Basis of preparation and significant accounting policies (continued)

v. IFRS 16 amendment

On 28 May 2020, the IASB published 'Covid-19-Related Rent Concessions (Amendment to IFRS 16)' amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

There is no impact to the Bank as there was no change in lease payments that would lead to modification of the lease arrangement.

(u) Future accounting developments

At 31 December 2020, 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 2020.

New standards and interpretations not yet adopted

IBOR reform Phase 2 amendments

On 27 August 2020, the IASB issued 'Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after 1 January 2021.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts (IFRS 17) requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.

3 Critical accounting judgements and key sources of estimation uncertainty

Use of estimates and judgements

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

The Bank's principal accounting policies are set out above. UK company law and IFRS, 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 all financial assets – 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 impairment 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 Risk department.

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:

Judgements

The following represent critical judgements adopted:

- Ascertaining what constitutes significant increase in credit risk.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

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

- Determining the lifetime and point of initial recognition of overdrafts and undrawn commitments.
- Making management adjustments for data limitations including non-availability of external credit ratings for some corporate customers.
- Defining "Default".

Estimates

The following approach was adopted to determine estimates:

- Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions. The Bank determines PD to be the most critical estimate.
- Selecting model inputs including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss.
- Determining balances to write off.

During the year, the Bank revised its estimated expected credit losses, in response to uncertainties, elevated credit risks and weakening global market conditions due to the pandemic.

The financial impact of the downturn in global economies on the Bank's financial instruments was reassessed with changes made to the Probability of Default (PD) rates and Loss Given Default (LGD). The probability weightings assigned to possible loss scenarios were also revised. In determining what was considered to be appropriate levels for these critical inputs, reference was made to the past financial crisis period of 2008/2009 and industry averages. Some judgement was also applied, based on our credit experience with the Bank's borrowing clients.

The section entitled, 'Measurement uncertainty and sensitivity analysis of ECL estimates' sets out the assumptions used in determining ECL and provides an indication of the sensitivity of different weightings and changes to PD being applied under different scenarios.

The Board has delegated the review and approval of judgments and assumptions applied to Management Credit Committee (MCC) and Executive Committee (EXCO). Discussions are held regarding assumptions at MCC.

Please refer to Note 25 for further details on consideration on sources of estimation and sensitivity analysis.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

4a Interest Income

	2020 US$	2019 US$
Derived from:		
Cash and cash equivalents	9,869,180	23,449,729
Securities designated at fair value through profit or loss	1,183,175	3,056,172
Securities designated at fair value through other comprehensive income	11,798,860	14,675,065
Securities measured at amortised cost	9,760,558	6,332,553
Loans and advances to banks	5,768,554	3,400,563
Loans and advances to customers	7,316,674	4,706,088
Total	45,697,001	55,620,170

Interest income recognised during the year from financial assets measured at amortised cost totalled US$ 22,845,786 (2019: US$ 14,439,204).

4b Interest Expense

	2020 US$	2019 US$
Incurred on:		
Deposits from banks	4,330,822	8,862,678
Deposits from customers	5,317,326	2,548,541
Interest expense on Right-of-use lease obligations	39,715	33,523
Total	9,687,863	11,444,742

5 Fee and Commission income

	2020 US$	2019 US$
Derived from:		
Loans	2,162,924	1,335,322
Trade Finance	5,369,089	4,675,149
Other	5,528	203,955
Total	7,537,541	6,214,426

6 Trading and other income

	2020 US$	2019 US$
Derived from:		
Fixed income trading	6,317,056	2,030,303
Forex trading	691,685	5,459,435
Other sources	1,063,043	349,794
Total	8,071,784	7,839,532

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

7 Personnel expenses

	2020 US$	2019 US$
Employment costs are as follows:		
Wages and salaries - staff	10,967,598	10,813,465
Wages, salaries and other - Directors	1,046,604	583,141
Non-executive directors' fees and emoluments	459,140	479,866
Pension contributions under defined contribution scheme	1,211,932	970,623
Compulsory social security obligations	1,812,338	1,062,003
Other staff costs	1,007,472	1,355,017
Total	16,505,084	15,264,115

Number of employees at year end including Directors	133	127
Average number of employees at year end including Directors	129	113

At year end the Bank had 34 (2019: 29) employees involved in customer facing roles and 99 (2019: 98) in administration.

Included within employment costs are:	2020 US$	2019 US$
Directors' remuneration and fees		
Directors' fees, emoluments, salaries and other	1,505,744	1,063,007
Pension contributions	80,267	70,024
Total	1,586,011	1,133,031

The highest paid Director who served during 2020 received total emoluments of US$ 628,734 (2019: US$ 356,305), and their pension contributions were US$ 49,527 (2019: US$ 44,136).

8 Other expenses include

	2020 US$	2019 US$
Premises cost	782,307	469,202
Impairment on equity investments	715,000	–
Other administration costs	5,305,656	5,439,900
Total fees paid to the auditors	721,382	320,213
Total	7,524,345	6,229,315

Auditors' remuneration;		
Audit of UK statutory financial statements	614,814	267,427
Non-audit services:		
Other assurance related services	106,568	52,786
Total	721,382	320,213

Impairment on equity investments of US$ 715,000 relates to impairment of an equity holding received as part of a debt-for-equity swap on a legacy credit exposure.

The original amount of US$ 964,459 was the recoverable portion of legacy credit exposure and was recognised as such in 2018 and 2019. However, the Bank has been advised subsequently that only a portion of the sum will be paid in full and final settlement.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

9 Income tax expense

The tax charge in the Statement of comprehensive income for 2020 is US$ 4.0m (2019: US$ 6.8m). This can be reconciled to the profit/(loss) per the Statement of comprehensive income as follows:

	2020 US$	2019 US$
UK corporation tax on profit/(loss) of the current year	**4,055,511**	6,400,520
Bank surcharge	–	142,990
Adjustments in respect of prior periods	**(90,618)**	(6,445)
Current tax	**3,964,893**	6,537,065
Deferred tax - current year	**88,832**	259,130
Deferred tax - prior year	**35,740**	(5,175)
Deferred tax - rate change (from 17.0% to 19.0%)	**(117,966)**	–
Deferred tax	**6,606**	253,955
Total tax charge/(credit)	**3,971,499**	6,791,020
Effective tax rate	**18.15%**	19.56%
Tax relating to equity		
Deferred tax		
Fair value movement of securities	**842,123**	172,117
Tax charge in equity	**842,123**	172,117
Factors affecting tax charge:		
Profit/(loss) on ordinary activities before taxation	**21,882,846**	34,721,708

Profit/(loss) on ordinary activities multiplied by the UK corporation tax rate of 19% (2019: 19%)	4,157,741	19.00%	6,597,125	19.00%
Effects of:				
– Expenses not deductible for tax	4,444	0.02%	10,782	0.03%
– Effect of tax rate change	132,537	0.61%	(33,567)	-0.10%
– Adjustments of tax charge in respect of previous periods	(90,618)	-0.41%	(11,620)	-0.03%
– IFRS 9 transitional adjustment	(198,785)	-0.91%	(198,785)	-0.57%
– Depreciation in excess of capital allowances	79,825	0.36%	24,965	0.07%
– Other adjustments	12,286	0.06%	–	0.00%
– Deferred tax recognised	(125,931)	-0.58%	259,130	0.75%
– Bank surcharge	–	0.00%	142,990	0.41%
Actual total tax charge/(credit)	**3,971,499**	**18.15%**	**6,791,020**	**19.56%**

Factors that may affect future tax charges:

The Directors have reviewed the level of the deferred tax asset of US$ 202,142 carried forward and believe that this is fairly stated. The recovery of the recognised deferred tax asset depends on the expected generation of future taxable profits.

With effect from 1 April 2017, the UK main corporation rate changed from 20% to 19%. Legislation to reduce the rate of corporation tax further from 19% to 17% from 1 April 2020 was withdrawn through the Finance Act 2020. Consequently, the deferred tax balance at 31 December 2020 has been recognised at the 19% rate (2019: 17%). The Government has confirmed that the corporation tax rate will increase from 19% to 25% with effect from 1 April 2023.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

10 Cash and Cash Equivalents

	2020 US$	2019 US$
Petty cash	38,397	51,687
Cash with other banks	198,037,503	150,552,548
Money market placements	589,512,484	421,650,356
Total	787,588,384	572,254,591

The above table reflects money market placements, with maturities of less than 90 days from the origination date.

11 Securities designated at fair value

11.1 Securities designated at fair value through profit or loss

	2020 US$	2019 US$
Securities (Sovereigns, Multilateral Development Banks)	11,054,949	9,230,962
Total	11,054,949	9,230,962

11.2 Securities designated at fair value through other comprehensive income

	2020 US$	2019 US$
Commercial paper	10,946,935	18,915,523
US, UK and France Government Treasury Bills	409,177,792	184,157,479
Other HQLAs (Bonds issued by Multilateral Development Banks, Nigerian Treasury bills)	434,035,422	348,984,909
Fixed interest rate bonds	60,907,474	25,667,429
Variable interest rate bonds	56,311,006	60,009,948
Total	971,378,629	637,735,288

Included in Other HQLAs (Bonds issued by Multilateral Development Banks, Nigerian Treasury bills) above are fifteen Variable interest rate bonds with a nominal value of US$ 253,345,629 in the current year.

12 Securities measured at amortised cost

	2020 US$	2019 US$
Fixed interest rate bonds	181,984,347	131,486,989
Variable interest rate bonds	–	958,518
Less: IFRS 9 Impairment loss allowance	(6,532,409)	(2,790,589)
Total	175,451,938	129,654,918

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

13 Loans and advances to banks

	2020 US$	2019 US$
Loans and advances to banks	40,947,560	76,812,082
Trade bills discounted and refinanced	143,971,719	192,648,696
Less: IFRS 9 Impairment loss allowance	(1,670,816)	(3,768,115)
Total	183,248,463	265,692,663

14 Loans and advances to customers

	2020 US$	2019 US$
Loans and advances to individuals	4,309,152	4,260,806
Loans and advances to corporates	158,691,308	63,407,789
Less: IFRS 9 Impairment loss allowance	(2,192,931)	(2,382,003)
Total	160,807,529	65,286,592

Movements in Impairment:		
Opening balance	(11,245,131)	(11,268,649)
(Charge)/reversal for the year – IFRS 9 Expected Credit Loss (P&L impact)	(389,584)	853,739
Charge for the year – IFRS 9 Expected Credit Loss (OCI impact)	(1,006,591)	(830,221)
Total (charge)/reversal for the year – IFRS 9 Expected Credit Loss	(1,396,175)	23,518
Closing balance	(12,641,306)	(11,245,131)

Reconciliation of IFRS 9 Impairment loss allowance is presented as follows:

	2020 US$	2019 US$
Securities designated at fair value through other comprehensive income	(1,870,298)	(863,707)
Securities measured at amortised cost (Note 12)	(6,532,409)	(2,790,589)
Loans and advances to banks (Note 13)	(1,670,816)	(3,768,115)
Loans and advances to customers (Note 14)	(2,192,931)	(2,382,003)
Impairment on off- balance sheet assets - Undrawn commitments	(287,850)	(1,440,717)
Other assets	(87,002)	–
Closing balance	(12,641,306)	(11,245,131)

Impairment charge on 'Securities designated at fair value through other comprehensive income' is recognised in the FVOCI Reserves.

'Impairment on off- balance sheet assets' represents ECL allowance on undrawn committed Corporate facilities, which are expected to be drawn within the next twelve months.

'Other assets' represent impairment on outstanding receivables of US$ 87,002 as at year-end (2019: Nil). Please refer to Note 18.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

15 Property and equipment

	Right-of-use assets US$	Leasehold improvements US$	Computer equipment US$	Furniture US$	Total US$
Cost					
Balance at 1 January 2020	4,332,613	1,602,076	1,066,680	664,364	7,665,733
Additions to right-of-use assets	533,606	–	–	–	533,606
Additions	–	218,431	57,253	10,293	285,977
Disposals	–	–	–	–	–
Balance at 31 December 2020	**4,866,219**	**1,820,507**	**1,123,933**	**674,657**	**8,485,316**
Accumulated depreciation					
Balance at 1 January 2020	663,137	640,692	963,392	581,381	2,848,602
Charges on right-of-use assets	744,381	–	–	–	744,381
Charge for the year	–	250,843	74,667	54,141	379,651
Disposals	–	–	–	–	–
Balance at 31 December 2020	**1,407,518**	**891,535**	**1,038,059**	**635,522**	**3,972,634**
Net book value					
Balance at 31 December 2020	**3,458,701**	**928,972**	**85,874**	**39,135**	**4,512,682**

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

16 Intangible assets

	2020 US$	2019 US$
Cost		
Balance at beginning of the year	9,082,914	7,989,585
Additions	384,305	1,093,329
Balance at end of the year	9,467,219	9,082,914
Accumulated amortisation		
Balance at beginning of the year	7,063,981	6,111,754
Charge for the year	1,007,890	952,227
Balance at end of the year	8,071,871	7,063,981
Net book value		
Balance at end of the year	1,395,348	2,018,933
Balance at beginning of the year	2,018,933	1,877,831

Intangible assets represent software licenses purchased and internally developed software.

17.1 Deferred tax asset

2020	Brought forward US$	Credit/(charge) for the year - P&L US$	Charge for the year - OCI US$	Carried forward US$
Assets				
Accelerated capital allowances	(220,607)	12,416	–	(208,191)
Provisions	18,207	4,404	–	22,611
IFRS 9 transitional adjustments	1,422,884	(31,387)	–	1,391,497
FVOCI reserve	(151,675)	–	(842,123)	(993,798)
FRS 26 adjustments	(17,938)	7,961	–	(9,977)
Total	1,050,871	(6,606)	(842,123)	202,142

2019	Brought forward US$	(Charge)/credit for the year - P&L US$	Charge for the year - OCI US$	Carried forward US$
Assets				
Accelerated capital allowances	(153,656)	(66,951)	–	(220,607)
Provisions	9,412	8,795	–	18,207
IFRS 9 transitional adjustments	1,600,745	(177,861)	–	1,422,884
FVOCI reserve	20,442	–	(172,117)	(151,675)
FRS 26 adjustments	–	(17,938)	–	(17,938)
Total	1,476,943	(253,955)	(172,117)	1,050,871

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

17.2 Corporation tax liability

	2020 US$	2019 US$
Opening balance	4,538,570	3,780,840
Current year tax	3,964,893	6,364,948
Tax payments	(8,396,858)	(5,607,218)
Translation difference	256,863	–
Closing balance	363,468	4,538,570

18 Other assets

	2020 US$	2019 US$
Prepayments	887,641	832,858
Other receivables	345,853	198,944
Less: Impairment allowance (see Note 14)	(87,002)	–
Total	1,146,492	1,031,802

'Other receivables' mainly comprises accrued charges and VAT related receivables.

19 Deposits from banks

	2020 US$	2019 US$
Term deposits	237,082,123	275,971,081
Demand deposits	1,054,316,174	745,131,141
Total	1,291,398,297	1,021,102,222

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

20 Deposits from customers

	2020 US$	2019 US$
Term deposits	540,219,765	296,580,891
Demand deposits	169,987,121	94,126,692
Saving deposits	17,641,611	10,332,117
Total	727,848,497	401,039,700

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

21 Derivative financial instruments

	2020 US$	2019 US$
Forward foreign exchange contracts:		
21.1 Receivable	10,468,197	2,799,287
21.2 (Payable)	(3,256,422)	(415,114)

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.

22.1 Lease obligations

Movements in Lease obligations:

	2020 US$	2019 US$
Opening balance	3,760,787	–
Implementation of IFRS 16	–	4,299,090
Additions during the year	533,606	–
Payments made during the year	(181,888)	(571,826)
Interest expense on Right-of-use lease obligations	39,715	33,523
FX translation loss	100,768	–
Closing balance	4,252,988	3,760,787

22.2 Other Liabilities

	2020 US$	2019 US$
Accruals	3,163,010	3,767,844
Other payables	1,111,003	1,337,503
Total	4,274,013	5,105,347

'Accruals' relate to bonuses US$ 1,444,500 (2019: US$ 1,951,498), legal fees US$ 532,949 (2019: US$ 1,036,416), audit fees US$ 439,933 (2019: US$ 341,321), bank charges US$ 132,672 (2019: US$ 264,721), professional fees US$ 113,631 (2019: US$ 173,888), personnel related of US$ 483,095 (2019: Nil) and other smaller provisions. These are current items which will be paid during the next financial year.

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

During the year, pension costs of US$ 1,211,932 were charged to the income statement (2019: US$ 970,623). Pension obligations outstanding on 31 December 2020 were US$ 119,006 (2019: US$ 99,170).

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

23 Commitments and contingencies

	2020 US$	2019 US$
Trade finance contingencies		
Letters of credit and acceptances (including cash-backed)	126,450,789	117,070,339
Guarantees	43,279,808	100,522,712
Undrawn committed facilities	115,492,351	202,158,644
Total	285,222,948	419,751,695
Cash collateral and other high-quality mitigations	303,922,232	285,169,662

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

ECL Impairment allowance on Undrawn committed facilities is disclosed under in 14.

24 Financial Instruments

Accounting classifications and fair values

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

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

2020	Designated as at FVTPL US$	FVOCI – debt instruments US$	Amortised cost US$	Total carrying amount US$	Total fair value US$
Cash and cash equivalents	–	–	787,588,384	787,588,384	787,588,384
Securities designated at fair value through profit or loss	11,054,949	–	–	11,054,949	11,054,949
Securities designated at fair value through other comprehensive income	–	971,378,629	–	971,378,629	971,378,629
Securities measured at amortised cost	–	–	175,451,938	175,451,938	187,041,953
Loans and advances to banks	–	–	183,248,463	183,248,463	181,933,909
Loans and advances to customers	–	–	160,807,529	160,807,529	166,766,390
Derivative financial assets	10,468,197	–	–	10,468,197	10,468,197
Total financial assets	21,523,146	971,378,629	1,307,096,314	2,299,998,089	2,316,232,411
Deposits from banks	–	–	1,291,398,297	1,291,398,297	1,290,141,396
Deposits from customers	–	–	727,848,497	727,848,497	723,659,306
Derivative financial liabilities	3,256,422	–	–	3,256,422	3,256,422
Total financial liabilities	3,256,422	–	2,019,246,794	2,022,503,216	2,017,057,124

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

24 Financial Instruments (continued)

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

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 tables outline the fair value hierarchy of financial instruments:

2020	**Level 1 US$**	**Level 2 US$**	**Level 3 US$**	**Total US$**
Assets				
Securities designated at fair value through profit or loss	11,054,949	–	–	11,054,949
Securities designated at fair value through other comprehensive income	971,378,629	–	–	971,378,629
Securities measured at amortised cost	175,451,938	–	–	175,451,938
Derivative financial assets	9,594,638	873,559	–	10,468,197
	1,167,480,154	873,559	–	1,168,353,713

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

24 Financial Instruments (continued)

2019	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets				
Securities designated at fair value through profit or loss	9,230,962	–	–	9,230,962
Securities designated at fair value through other comprehensive income	619,004,826	18,730,462	–	637,735,288
Securities measured at amortised cost	129,654,918	–	–	129,654,918
Derivative financial assets	2,580,639	218,648	–	2,799,287
	760,471,345	**18,949,110**	**–**	**779,420,455**

The following are not included in the above table:

- Cash and cash equivalents
- Loans and advances to banks
- Loans and advances to customers

'Cash and cash equivalents' are categorised as Level 1 assets. 'Loans and advances to banks' and 'Loans and advances to customers' are categorised as Level 3 assets.

25 Financial risk management

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

- credit risk;
- liquidity risk;
- market risk;
- foreign exchange risk;
- interest rate risk;

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

Risk management framework

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

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

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

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

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

Credit Risk Management

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

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

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

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

Forbearance practices

Forbearance occurs when a lender decides to modify the terms and conditions of a loan or debt security because of financial difficulty. Examples may include reducing interest rates, delaying payment of principal, and amending or not enforcing covenants or any combinations or any combination. When considering facilities that demonstrate areas of heightened concern leading to potential forbearance, management look to the full breadth of the relationship with the Bank and the wider Group where support, both tangible and intangible, may lie. Similarly, valuable revenue producing opportunities also present in this context and a balances judgement is therefore necessary in such areas.

Since the arrival of the COVID pandemic, international markets and economies have witnessed material disruption. Among the sectors most affected are tourism, hospitality, and retail along with their associated supply chains. The low oil price has led to an impact on US Dollar liquidity in Nigeria which has had a knock-on effect to a limited number of the Bank's clients. The Bank has no direct exposure to these worst affected sectors.

Some of the economic impacts being felt across markets in which the Bank has exposure are appearing on a substantially lagged timeframe. Management therefore cannot rule out the need for limited isolated cases of forbearance in the future.

Lending subject to forbearance as at the year-end 2020 was nil (2019: Nil).

Sensitivity and impact analysis of ECL assessment

The Bank's balance sheet comprises exposures in the form of Trade Finance loans, Money Market placements, Securities and Commercial Lending. The Bank employs a well-governed process for measuring the Expected Credit Loss ("ECL") on its exposures. The Bank does not adopt the Monte Carlo simulation technique for the purpose of ECL assessments.

Forecast Economic Scenarios

Key scenario assumptions are developed internally, and reference data publicly available data on global default rates (for PD), thus reflecting the use of independent and verifiable information. For all scenarios, the key macroeconomic variables used to extrapolate forward looking information (FLI) are GDP, unemployment, and oil crude prices.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

Forecasts for each of the variables below are considered by country using judgement. These forecasts are taken to infer four separate modelling scenarios and associated probability weightings (described in the section below), based on the impact that such scenarios would be expected to have on the internal credit risk ratings of counterparties on the Bank's books.

Credit Loss Modelling Scenarios

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

Scenario	Impact	Probability assigned
Scenario A	Ratings stay the same (base case)	75% (2019: 55%)
Scenario B	Ratings improve by 1 notch CQS	10% (2019: 15%)
Scenario C	Ratings deteriorate by 1 notch CQS	10% (2019: 15%)
Scenario D	Ratings deteriorate by 2 notches CQS	5% (2019: 15%)

Credit risk ratings

The Bank adopts internal credit risk grades which have been mapped to those of an external credit rating agency. Unrated counterparties are assigned ratings based upon internal credit risk grade.

Internal Credit Risk Grades are assigned to each counterparty. These ratings are compared to the rating for same counterparty at inception to determine the extent of migration (i.e. increase or decrease in rating). For the purpose of determining significant increase in credit risk ("SICR"), the credit ratings must have dropped within buckets based on the credit quality steps ("CQS"). For example, a change in credit rating from AA+ to AA- does not constitute SICR as both ratings are classified as 'High Grade'. However, a change in credit rating from A ('Upper Medium Grade') to BBB+ ('Lower Medium Grade') would be considered a SICR.

The movement in buckets is reflected below:

Ratings	CQS	SICR Trigger
AAA	1	Prime
AA+	1	High Grade
AA	1	High Grade
AA-	1	High Grade
A+	2	Upper Medium Grade
A	2	Upper Medium Grade
A-	2	Upper Medium Grade
BBB+	3	Lower Medium Grade
BBB	3	Lower Medium Grade
BBB-	3	Lower Medium Grade
BB+	4	Non-investment Grade Speculative
BB	4	Non-investment Grade Speculative
BB-	4	Non-investment Grade Speculative
B+	5	Highly Speculative
B	5	Highly Speculative
B-	5	Highly Speculative
CCC+	6	Substantial Risks
CCC	6	Extremely Speculative
CCC-	6	In Default with little prospect of recovery
CC	6	In Default with little prospect of recovery
C	6	In Default with little prospect of recovery
D	6	In Default

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

Expected credit loss measurement

Under IFRS 9, financial assets (other than those measured at fair value through profit or loss) are classified into three stages, based on the definition below:

- Stage 1- assets or exposures with no significant increase in credit risk.
- Stage 2- assets with indication of significant increase in credit risk since inception.
- Stage 3- assets that are deemed to be in default or credit-impaired.

Transfers within Stages

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition as described in the table below. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described in the table below.

An asset is deemed to be in default or credit-impaired if it is more than 90 days past due and/or whose rating drops by at least one-notch CQS since its classification to Stage 2 (or 2 successive CQS notch downgrades since its inception). In this case, it is classified to stage 3.

The following table describes the basis of reclassification from Stage 1 to 2 and from Stage 2 to 3 respectively:

Stage Reclassification	Quantitative Assessment	Qualitative Assessment
Stage 1 to Stage 2 reclassification occurs when an exposure is assessed to have experienced significant increase in credit risk:	As a default assumption any asset whose credit ratings (internal and external) drop corresponds to a drop in credit quality step (CQS) of at least one-notch or for which a payment of principal and/or interest is past due by more than 30 days and will transferred from stage 1 to Stage 2. CQS refers to the categorisation of external credit assessment institutions (ECAI) recognised under the Regulation (EU) No 575/2013 of the European Parliament of the Council.	The Bank considers several factors in assessing whether there is an indication of a significant increase in credit risk. These include breaches in facility covenants, adverse developments, or information. The risk of default occurring at the reporting date is compared with that at initial recognition, considering reasonable and supportable information, including information about past events, current conditions, and future economic conditions.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

Stage Reclassification

Stage 2 to Stage 3 reclassification, which are in default or which have become credit impaired.

Quantitative Assessment

Any exposure which is more than 90 days past due and/or whose credit ratings (internal and external) drop corresponds to a drop in credit quality step (CQS*) of at least one-notch CQS since its classification to Stage 2 (or 2 successive CQS notch downgrades since its inception) is deemed to be in default.

Qualitative Assessment

The Bank considers several factors in assessing whether there is an indication of a significant increase in credit risk. These include, but are not limited to the following:

(a) Continued losses or significant decrease in revenue or, in general, in the client's recurring cash flows.

(b) Generalised delay in payments or insufficient cash flows to service debts.

(c) Significantly inadequate economic or financial structure or inability of client to obtain additional financing.

(d) Existence of an internal or external credit rating, which shows that the client is in default.

(e) Existence of overdue customer commitments with a significant amount to public institutions or employees.

(f) Continual requests for the rolling or extension of the exposure, which prompt a requirement for enhanced scrutiny.

(g) Covenant breaches.

(h) Continued security shortfalls.

(i) Adverse developments regarding the obligor.

In summary, 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	Lifetime ECL (from 12-month ECL)
Stage 2	Stage 3	Lifetime ECL
Stage 3	Stage 3	Lifetime ECL

Factors influencing the ECL loss allowance estimate

The ECL Loss allowance by the Bank recognised results from a combination of factors. These are as follows:

- Changes to PDs applied due to unwind of exposure's contractual period to maturity e.g. if an exposure with over 12 months past the reporting date whose residual contractual maturity falls below 12 months at the reporting date. PDs are prorated with reference to the residual contractual days.
- Changes to basis of ECL calculation due to classifications from one stage to another due indication of credit risk increases or decreases.
- Additional ECL allowances recognised on assets written or recognised during the period.
- ECL release arising from the derecognition of assets during the year.
- Changes in ECL estimates due to changes in PDs, EADs and LGDs in the period.
- Measurement changes resulting from changes made to the model and the underlying assumptions.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

- Effects of foreign currency translations at different review periods, for assets denominated in foreign currencies.
- Changes to ECL allowance resulting from repayments of outstanding balances.

The measurement of expected credit losses (ECL) is complex and involves the use of judgment and estimation including the application of forward-looking economic conditions into the credit loss modelling processes. The Bank currently reviews economic variables, which are believed to be representative of the Bank's forecast economic conditions and support the calculation of unbiased ECL.

The probability of loss is measured considering past events, the present situation, and future trends of macroeconomic factors. In this regard, the Bank uses publicly available PD data (global default rates) and makes adjustments based on expected credit loss experience of specific borrowers on a case-by-case basis.

The EAD represents the expected balance at default, considering the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, considering, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

In general, Zenith UK calculates ECL as the product of the probability of default (PD), the loss given default (LGD) and exposure at default (EAD) of each outstanding balance as at each reporting date. The probability of default applied depends on whether the exposure is in stage 1 (in which case a 12-month PD applies or lifetime (in which case, the exposure is either in stage 2 or 3). 12-month ECL is calculated by multiplying the 12-month PD, LGD & EAD. Lifetime ECL is calculated by multiplying the lifetime PD, LGD & EAD. The PD adopted by the Bank reference publicly available PD data, which are adjusted as necessary to reflect the current economic cycle i.e., downturn or benign. In 2020, the PD data used were weighted to reflect the possibility of a default situation that closely corresponds to those of the 2008-09 financial crisis as this was believed to be a fair approximation for the current situation. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument, respectively.

A LGD rate of 45% is applied to exposures in line with the Basel II requirements. However, LGD of 40% is applied to Corporate loans.

The input risk parameters (PD and LGD) and probabilities assigned to each scenario were revised to reflect the current economic situation and more recently available data. However, the credit modelling tool has not been significantly modified in the current year.

For Stage 1 analysis, Probabilities of Defaults (PDs) for transactions with a residual maturity of less than twelve months have been pro-rated. For Stage 2 analysis, PDs are pro-rated depending on the time horizon buckets the residual maturity of transactions falls under.

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

IFRS 9 ECL Staging Analysis:

2020 US$	ECL Stage 1	ECL Stage 2	ECL Stage 3	Total ECL
Securities designated at fair value through other comprehensive income	1,782,264	88,034	–	1,870,298
Securities measured at amortised cost	4,336,911	2,195,498	–	6,532,409
Loans and advances to banks	1,670,816	–	–	1,670,816
Loans and advances to customers	2,157,893	35,038	–	2,192,931
Impairment on off balance sheet assets	287,850	–	–	287,850
Other assets	–	–	87,002	87,002
Total	10,235,734	2,318,570	87,002	12,641,306

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

Sectoral breakdown of ECL on Loans and advances:

	2020			2019 (unaudited)		
Loans and advances to customers	Gross exposure US$	Impairment US$	Impairment as % of Gross exposures US$	Gross exposure US$	Impairment US$	Impairment as % of Gross exposures US$
Industry:						
Consumer Credit	4,309,152	188,889	4.4%	4,260,806	154,197	3.6%
Government	38,741,536	635,775	1.6%	5,128,902	63,145	1.2%
General Commerce	64,281,152	429,092	0.7%	19,774,634	312,204	1.6%
Oil and Gas	24,178,608	789,654	3.3%	9,042,130	256,966	2.8%
Transportation	–	–	0.0%	11,622,360	958,334	8.2%
Real Estate and Construction	1,368,628	57,129	4.2%	–	–	0.0%
Others	30,121,384	92,392	0.3%	17,839,763	637,157	3.6%
	163,000,460	2,192,931	1.3%	67,668,595	2,382,003	3.5%

Measurement uncertainty and sensitivity analysis of ECL estimates

The ECL calculation is sensitive to changes in scenario weightings and Probability of Default (PD) as explained below.

Scenario Weightings

Across the portfolio, the credit loss allowance is sensitive to change in the weightings (sensitive to a change in the weighting of each scenario). A 10% increase in the weightings of the base case scenario (with corresponding 5% decrease in other scenarios) across the portfolio would result in a decrease of US$ 117,869 in the credit loss allowance. Conversely, 20% points decrease in the base case scenario (reflecting 15%, 15% and 15% respectively weightings for the other three scenarios) across the portfolio would result in an increase of US$ 1,794,173 in the credit loss allowance.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

Finally, if the base case scenario were adjusted to reflect a decrease of 35% (with other scenarios at 20% each), credit loss allowances will increase by US$ 2,750,191. please refer to the tables presented below.

Sensitivity Analysis: Change in scenario weightings assigned

The cases below consider alternative scenario weightings to reflect both an increase or decrease in risk from the base case scenario above:

Case 1: Scenario weightings changes to 85%, 5%, 5% and 5% (2019: 60%, 15% 15% and 10%) respectively for Scenarios A, B, C and D respectively

2020	Base Case (Weightings 75% : 10% : 10% : 5%)	Case 1 (Weightings change to 85% : 5% : 5% : 5%)	Change in ECL Allowance Incr/(Decr)	
	US$	US$	US$	%
Stage 1	10,235,734	10,134,462	(101,272)	-1%
Stage 2	2,318,570	2,301,973	(16,597)	-1%
Stage 3	87,002	87,002	–	0%
Total ECL Allowance	12,641,306	12,523,437	(117,869)	–1%

2019	Base Case (Weightings 55% : 15% : 15% : 15%)	Case 1 (Weightings change to 60% : 15% : 15% : 10%)	Change in ECL Allowance Incr/(Decr)	
	US$	US$	US$	%
Stage 1	8,814,499	8,263,581	(550,918)	(6)%
Stage 2	2,430,632	2,306,443	(124,189)	(5)%
Stage 3	–	–	–	0%
Total ECL Allowance	11,245,131	10,570,024	(675,107)	(6)%

Case 2: Scenario weightings changes to 55%, 15$, 15% and 15% (2019: 45%, 20% 20% and 15%) respectively for Scenarios A, B, C and D respectively

2020	Base Case (Weightings 75% : 10% : 10% : 5%)	Case 2 (Weightings change to 55% : 15% : 15% : 15%)	Change in ECL Allowance Incr/(Decr)	
	US$	US$	US$	%
Stage 1	10,235,734	11,760,126	1,524,392	15%
Stage 2	2,318,570	2,588,351	269,781	12%
Stage 3	87,002	87,002	–	0%
Total ECL Allowance	12,641,306	14,435,479	1,794,173	14%

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

2019	Base Case (Weightings 55% : 15% : 15% : 15%)	Case 1 (Weightings change to 45% : 20% : 20% : 15%)	Change in ECL Allowance Incr/(Decr)	
	US$	US$	US$	%
Stage 1	8,814,499	8,894,397	79,898	1%
Stage 2	2,430,632	2,452,232	21,600	1%
Stage 3	–	–	–	0%
Total ECL Allowance	**11,245,131**	**11,346,629**	**101,498**	**1%**

Case 3: Scenario weightings changes to 40%, 20%, 20% and 20% (2019: 40%, 20% 20% and 20%) respectively for Scenarios A, B, C and D respectively

2020	Base Case (Weightings 75% : 10% : 10% : 5%)	Case 3 (Weightings change to 40% : 20% : 20% : 20%)	Change in ECL Allowance Incr/(Decr)	
	US$	US$	US$	%
Stage 1	10,235,734	12,572,957	2,337,223	23%
Stage 2	2,318,570	2,731,538	412,968	18%
Stage 3	87,002	87,002	–	0%
Total ECL Allowance	**12,641,306**	**15,391,497**	**2,750,191**	**22%**

2019	Base Case (Weightings 55% : 15% : 15% : 15%)	Case 1 (Weightings change to 40% : 20% : 20% : 20%)	Change in ECL Allowance Incr/(Decr)	
	US$	US$	US$	%
Stage 1	8,814,499	9,445,288	630,789	7%
Stage 2	2,430,632	2,576,421	145,789	6%
Stage 3	–	–	–	0%
Total ECL Allowance	**11,245,131**	**12,021,709**	**776,578**	**7%**

Probability of Default (PD)

The credit allowance estimate is also sensitive to changes in PD. Worsening PDs by 5bps results in an increase of US$569,570 and increases to US$ 1,139,127 if a 10bps increase in PD is adopted. A reduction in PDs by 5bps will result in a decrease of US$ 569,577.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

Sensitivity Analysis: Change in PDs assigned

The cases below consider alternative PDs to reflect both an increase or decrease in risk from the base case scenario above:

Case 1: PDs deteriorate by 5 basis points for each CQS incrementally for Scenarios A, B, C and D respectively

2020	Base Case	Case 1 (PDs worsen by 5bps)	Change in ECL Allowance Incr/(Decr)	
	US$	US$	US$	%
Stage 1	10,235,734	10,744,374	508,640	5.0%
Stage 2	2,318,570	2,379,500	60,930	2.6%
Stage 3	87,002	87,002	–	0.0%
Total ECL Allowance	12,641,306	13,210,876	569,570	4.5%

Case 2: PDs deteriorate by 10 basis points for each CQS incrementally for Scenarios A, B, C and D respectively

2020	Base Case	Case 2 (PDs worsen by 10bps)	Change in ECL Allowance Incr/(Decr)	
	US$	US$	US$	%
Stage 1	10,235,734	11,253,002	1,017,268	9.9%
Stage 2	2,318,570	2,440,429	121,859	5.3%
Stage 3	87,002	87,002	–	0.0%
Total ECL Allowance	12,641,306	13,780,433	1,139,127	9.0%

Case 3: PDs improve by 5 basis points for each CQS incrementally for Scenarios A, B, C and D respectively

2020	Base Case	Case 3 (PDs improve by 5bps)	Change in ECL Allowance Incr/(Decr)	
	US$	US$	US$	%
Stage 1	10,235,734	9,727,089	(508,645)	-5.0%
Stage 2	2,318,570	2,257,638	(60,932)	-2.6%
Stage 3	87,002	87,002	–	0.0%
Total ECL Allowance	12,641,306	12,071,729	(569,577)	-4.5%

The focus of the simulations is on ECL allowance requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other. The potential ECL impacts reflect the simulated impact as at 31 December 2020.

Scenario impacts on SICR are considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure and exposure by stage were the same. Stage 3 provisions are not subject to the same level of measurement uncertainty – default is an observed event as at the balance sheet date. Stage 3 provisions therefore have not been considered in this analysis.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

Collateral

Collateral and security are an important mitigant of credit risk.

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

The maximum exposure to credit risk (net of mitigations) on 'bank balances and money market placements', 'securities', 'loans and advances to banks' and 'loans and advances customers' and 'off balance sheet items' at the statement of financial position date was US$ 2.7bn (2019: US$ 2.0bn).

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

Collateral analysis

	2020 US$	2019 US$
Cash	93,290,488	65,341,727
Property, plant and equipment	9,439,728	11,014,150
Total	102,730,216	76,355,877

'Cash' in the above table includes pledges over account balances of US$ 87,625,965 (2019: US$ 59,677,204) placed by the Parent with the Bank which are used as collateral for certain Trade Finance transactions.

'Property/Real estate' represents collateral which is held to mitigate risk in the Wealth Management (mortgages) business and the value disclosed is where the Bank has legal charge over the properties.

There are other forms of collateral which pertain to off-balance sheet transactions and include 'Guarantees' of US$ 61,564,233 (2019: US$ 39,280,800), 'Structured Trade Finance transactions' of nil (2019: US$ 84,000,000) and 'Other collateral' comprising confirmation letters, assignment of proceeds on letters of credit, debentures over fixed and floating assets and other forms of collateral of US$ 139,627,783 (2019: US$ 85,532,985).

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2019

25 Financial risk management (continued)

Country risk

The Bank has established procedures to manage country risk with limits determined by business strategy and in accordance with internal Credit Policy. The Bank takes limited direct sovereign risk. The majority of country risk is the notional record of exposure the Bank has to entities domiciled with said jurisdictions mitigated through its on-the-ground knowledge of the economies and borrowers concerned, and the Zenith Group relationship network supporting those entities. The table below summarises exposure to credit risk as at statement of financial position date by geographical area:

2020 Assets	**Europe** **US$**	**United Kingdom** **US$**	**Nigeria** **US$**	**Rest of Africa** **US$**	**United States of America** **US$**	**Rest Of World** **US$**	**Total** **US$**
Cash and cash equivalents	67,764,445	560,582,225	5,097,372	25,694,154	121,424,146	7,026,042	787,588,384
Securities designated at fair value through profit or loss	–	–	5,083,439	5,883,873	–	87,637	11,054,949
Securities designated at fair value through other comprehensive income	30,617,553	87,655,437	59,063,619	13,366,997	398,226,400	382,448,623	971,378,629
Securities measured at amortised cost	–	–	50,154,332	98,132,016	–	27,165,590	175,451,938
Loans and advances to banks	27,019,597	–	146,265,617	9,963,249	–	–	183,248,463
Loans and advances to customers	21,526,843	23,760,823	35,629,430	39,935,184	–	39,955,249	160,807,529
Derivative financial assets	–	9,803,453	664,744	–	–	–	10,468,197
Total assets	146,928,438	681,801,938	301,958,553	192,975,473	519,650,546	456,683,141	2,299,998,089

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

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

	2020 US$	2019 US$
Securities designated at fair value through profit or loss		
Rated AAA to AA-	990,000	–
Rated A+ to A-	15,053	15,031
Rated BBB+ to BBB-	72,584	254,854
Rated BB+ to BB-	1,133,555	–
Rated B+ to B-	8,034,950	8,961,077
Rated CCC+ and below	808,807	–
Total	11,054,949	9,230,962
Securities designated at fair value through other comprehensive income		
Rated AAA to AA-	793,968,673	499,679,612
Rated A+ to A-	40,817,839	41,787,895
Rated BBB+ to BBB-	53,534,343	24,238,902
Rated BB+ to BB-	24,054,549	6,633,950
Rated B+ to B-	59,003,225	65,394,929
Total	971,378,629	637,735,288
Securities measured at amortised cost		
Rated BBB+ to BBB-	27,165,590	22,403,476
Rated BB+ to BB-	33,551,157	23,294,207
Rated B+ to B-	109,673,022	82,768,518
Rated CCC+ and below	5,062,169	1,188,717
Total	175,451,938	129,654,918
Loans and advances to banks		
Rated B+ to B-	183,248,463	265,692,663
Total	183,248,463	265,692,663

Credit exposure to loans and advances to customers by industry (net of ECL impairment) as reporting date is as presented below:

Loans and advances to customers	2020 US$	2019 US$
Industry:		
Consumer Credit	4,120,263	4,106,609
Government	38,105,761	5,065,757
General Commerce	63,852,060	19,462,430
Oil and Gas	23,388,954	8,785,164
Transportation	–	10,664,026
Real Estate and Construction	1,311,499	–
Others	30,028,992	17,202,606
	160,807,529	65,286,592

'Others' represents football receivables financing transactions of US$ 30,028,992 booked during the year (2019: US$ 17,202,606).

In 2019, an exposure of US$ 2,612,156 was reported under 'Manufacturing' which has been restated and classified under 'Oil and Gas' as at year-end.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

Loan loss allowance

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

Loans and advances to banks	2020 12-month ECL US$	2020 Lifetime ECL not credit-impaired US$	2019 12-month ECL US$	2019 Lifetime ECL not credit-impaired US$
Balance at 1 January	3,768,115	–	2,247,664	–
Net measurement of loss allowance	–	–	(140,364)	–
New financial assets originated or purchased	2,969,689	–	2,785,830	–
Financial assets that have been derecognised	(3,768,115)	–	(1,125,015)	–
Due to changes in methodology and risk parameters	(1,298,873)	–	–	–
Balance at 31 December	1,670,816	–	3,768,115	–

Loans and advances to customers	2020 12-month ECL US$	2020 Lifetime ECL not credit-impaired US$	2019 12-month ECL US$	2019 Lifetime ECL not credit-impaired US$
Balance at 1 January	2,587,284	1,235,436	86,118	5,037,752
Net measurement of loss allowance	(1,137,366)	–	(29,549)	(75,458)
New financial assets originated or purchased	2,553,143	–	2,534,460	282,727
Financial assets that have been derecognised	(1,285,641)	(980,703)	(3,745)	(4,009,585)
Due to changes in methodology and risk parameters	(271,677)	(219,695)	–	–
Balance at 31 December	2,445,743	35,038	2,587,284	1,235,436

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

Securities designated at fair value through other comprehensive income	2020 12-month ECL US$	2020 Lifetime ECL not credit-impaired US$	2019 12-month ECL US$	2019 Lifetime ECL not credit-impaired US$
Balance at 1 January	824,768	38,939	33,486	–
Net measurement of loss allowance	30,116	4,151	2,301	–
New financial assets originated or purchased	1,669,809	73,938	818,352	38,939
Financial assets that have been derecognised	(742,429)	(9,131)	(29,371)	–
Due to changes in methodology and risk parameters	–	(19,863)	–	–
Balance at 31 December	1,782,264	88,034	824,768	38,939

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

Securities measured at amortised cost	2020 12-month ECL US$	2020 Lifetime ECL not credit-impaired US$	2019 12-month ECL US$	2019 Lifetime ECL not credit-impaired US$
Balance at 1 January	1,634,332	1,156,257	401,076	3,462,553
Net measurement of loss allowance	1,586,136	206,707	73,028	(267,128)
New financial assets originated or purchased	1,505,361	1,025,714	1,192,926	8,300
Financial assets that have been derecognised	(388,918)	(11,781)	(32,698)	–
Due to changes in methodology and risk parameters	–	(181,399)	–	(2,047,468)
Balance at 31 December	4,336,911	2,195,498	1,634,332	1,156,257

The table below represents year-on-year movements in Gross exposures and changes to Impairment. Given additional data has been generated to support this new disclosure, the prior year comparatives are not available.

31 December 2020	Gross exposures				Impairment			
	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$
Balance at beginning of the year	1,073,022,096	34,288,072	–	1,107,310,168	8,814,499	2,430,632	–	11,245,131
Reassessment of ECL allowance on exposures brought forward from prior year	69,979,988	1,572,504	–	71,552,492	565,888	210,858	–	776,746
Assets originated or purchased during the year	1,110,631,186	11,025,845	–	1,121,657,031	8,698,002	1,099,652	–	9,797,654
Assets de-recognised during the year (including assets that matured)	(783,186,084)	(15,335,892)	–	(798,521,976)	(6,185,103)	(1,001,615)	–	(7,186,718)
Write-offs	(715,000)	–	–	(715,000)	–	–	–	–
Attributable to changes in risk parameters	–	–	–	–	(1,570,550)	(420,957)	–	(1,991,507)
Transfer to (from):								
Stage 1	(87,002)	–	87,002	–	(87,002)	–	87,002	–
Stage 2	–	–	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–	–
Balance at end of year, excluding off-balance sheet exposures	1,469,645,184	31,550,529	87,002	1,501,282,715	10,235,734	2,318,570	87,002	12,641,306
Off-balance sheet items (Undrawn committed facilities)	5,555,556	–	–	5,555,556	–	–	–	–
Balance at end of year, including off-balance sheet exposures	1,475,200,740	31,550,529	87,002	1,506,838,271	10,235,734	2,318,570	87,002	12,641,306
Less: Allowance for credit losses on off- balance sheet exposures	–	–	–	–	(287,850)	–	–	(287,850)
Balance at end of the year	1,475,200,740	31,550,529	87,002	1,506,838,271	9,947,884	2,318,570	87,002	12,353,456

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

Liquidity risk

Liquidity risk management

Liquidity risk refers to how a bank's inability to meet its obligations as they fall due threatens its financial position or existence.

Liquidity management is conducted in accordance with the Prudential Regulation Authority's ("PRA") liquidity guidelines, primarily the Liquidity Coverage Ratio ("LCR"). Although not a regulatory requirement, the Bank internally monitors the Net Stable Funding Ratio ("NSFR"), which expresses its stable funding requirement. New NSFR regulation will take effect from June 2021.

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

The responsibility for ensuring that the Bank can meet its obligations as and when they fall due rests with the Bank's Executive Management. The Bank is required to satisfy itself and 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 consistent with the Bank's business activities and expressed risk tolerances;
- 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 overseeing 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 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
- responsibility for day-to-day oversight of the Bank's liquidity position is delegated to the Risk Management department, which supports ALCO in ensuring compliance with the liquidity policy.

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

2020	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	198,075,917	589,555,111	–	–	–	787,631,028
Securities designated at fair value through profit or loss	–	7,442	1,180,007	1,578,942	8,485,250	11,251,641
Securities designated at fair value through other comprehensive income	–	199,836,266	569,594,011	214,312,733	2,084,405	985,827,415
Securities measured at amortised cost	–	1,295,844	18,546,590	155,142,710	54,070,095	229,055,239
Loans and advances to banks	27,495,983	116,925,701	9,958,250	37,303,281	–	191,683,215
Loans and advances to customers	10,970,029	31,589,703	43,937,814	41,433,762	56,046,723	183,978,031
Derivative financial assets	–	292,645	11,428,147	29,833	–	11,750,625
Total assets	**236,541,929**	**939,502,712**	**654,644,819**	**449,801,261**	**120,686,473**	**2,401,177,194**
Liabilities						
Deposits from banks	1,164,437,457	126,013,121	1,006,300	–	–	1,291,456,878
Deposits from customers	187,928,561	218,716,077	181,287,372	145,248,767	–	733,180,777
Derivative financial liabilities	–	294,179	4,269,496	32,039	–	4,595,714
Total Liabilities	**1,352,366,018**	**345,023,377**	**186,563,168**	**145,280,806**	**–**	**2,029,233,369**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

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

2019 (Adjustments to remove the impact of discounting)	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	229	291,782	–	–	–	292,011
Securities designated at fair value through profit or loss	–	–	–	130,083	19,316	149,399
Securities designated at fair value through other comprehensive income	–	381,581	2,076,849	10,244,701	–	12,703,131
Securities measured at amortised cost	–	38,394	142,526	23,233,549	15,170,799	38,585,268
Loans and advances to banks	–	2,979,824	2,775,528	3,456,368	–	9,211,720
Loans and advances to customers	237,317	467,666	541,266	5,631,868	2,698,995	9,577,112
Derivative financial assets	–	57,773	994,324	–	–	1,052,097
Total assets	**237,546**	**4,217,020**	**6,530,493**	**42,696,569**	**17,889,110**	**71,570,738**
Liabilities						
Deposits from banks	320	196,836	486,975	–	–	684,131
Deposits from customers	84	77,390	1,416,502	4,280,050	–	5,774,026
Derivative financial liabilities	–	11,616	1,523,314	–	–	1,534,930
Total Liabilities	**404**	**285,842**	**3,426,791**	**4,280,050**	**–**	**7,993,087**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

2019 (Restated)	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	150,604,464	421,942,138	–	–	–	572,546,602
Securities designated at fair value through profit or loss	–	191,072	6,669	8,109,335	1,073,285	9,380,361
Securities designated at fair value through other comprehensive income	–	205,156,631	176,779,056	268,502,732	–	650,438,419
Securities measured at amortised cost	–	1,853,714	4,243,186	113,635,342	48,507,944	168,240,186
Loans and advances to banks	117,028	164,644,379	80,994,121	29,148,855	–	274,904,383
Loans and advances to customers	4,068,655	15,055,395	9,349,394	38,753,635	7,636,625	74,863,704
Derivative financial assets	–	57,773	3,793,611	–	–	3,851,384
Total assets	**154,790,147**	**808,901,102**	**275,166,037**	**458,149,899**	**57,217,854**	**1,754,225,039**
Liabilities						
Deposits from banks	817,718,221	143,193,256	60,874,876	–	–	1,021,786,353
Deposits from customers	105,341,708	92,427,080	108,146,075	100,898,863	–	406,813,726
Derivative financial liabilities	–	11,616	1,938,428	–	–	1,950,044
Total Liabilities	**923,059,929**	**235,631,952**	**170,959,379**	**100,898,863**	**–**	**1,430,550,123**

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

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

31 December	**2020 US$**	2019 US$
Less than 3 months	**759,271**	221,552
Between 3 & 12 months	**608,917**	493,087
1-5 years	**2,884,800**	3,046,148
Lease obligation	**4,252,988**	**3,760,787**

The current lease arrangement expires in 2025 and is subject to renewal.

Market risk

Market risk management

Market risk is the risk of losses on financial investments from changes in market prices, rates, the correlations among them, and their volatility.

The Bank's trading activities are accounted for on a mark-to-market basis; and financial assets, financial liabilities and derivatives which form a 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 trading in debt securities and foreign exchange. Market risk is primarily related to currencies and interest rates. Exposure to those markets together with a description of the risk management policies governing 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

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 its own account trading and for the management of the Bank assets and liabilities.

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

Foreign exchange exposure arise 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 currencies of its assets and liabilities as far as practicable. It is also the policy of the Bank to adhere to the limits laid down by the Board in respect of the "overall net open position". The tables below give details of the Bank's net foreign currency exposures at 31 December 2020 as a basis of disclosing the Bank's foreign currency sensitivity analysis.

2020	**US Dollars US$**	**Sterling Pounds US$**	**Euro US$**	**Other US$**	**Total US$**
Assets	1,876,077,246	204,842,961	130,391,887	88,685,995	2,299,998,089
Liabilities	(1,503,684,134)	(422,202,092)	(82,214,370)	(14,402,620)	(2,022,503,216)
Net open position	372,393,112	(217,359,131)	48,177,517	74,283,375	277,494,873

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

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 shown provides an indication of the impact on the Bank's profit or loss following reasonable potential changes in currency exposures. Reasonable changes are based on an analysis of historical currency volatility, together with our 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's profit or loss if these currency movements had occurred.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

2020	Sterling Pounds US$	Euro US$	Other US$
Net foreign currency exposure	(217,359,131)	48,177,517	74,283,375
Impact of 5% increase against US$	(10,867,957)	2,408,876	3,714,169
Impact of 5% decrease against US$	10,867,957	(2,408,876)	(3,714,169)

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

Interest rate risk

Interest rate risk is the risk that arises due to the potential for investment losses resulting from a change in interest rates, and how that might impact on pricing structures within the Bank's assets and liabilities.

The Bank's Asset and Liability Committee (ALCO), assisted by Risk Management, meets weekly to monitor changes in interest rates in various currencies across the forward yield curve and the potential impact on the 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.

2020	Less than 3 months US$	Between 3 & 12 months US$	1 to 5 Years US$	Greater than 5 years US$	Total US$
Gap sensitivity					
Net gap	438,716,179	217,153,290	172,241,708	(828,111,177)	–
Profit or Loss Impact (Increase)	(1,083,618)	(2,351,749)	(10,690,518)	(4,699,603)	(18,825,488)
Profit or Loss Impact (Decrease)	1,108,257	2,428,867	11,718,631	5,571,861	20,827,616

2019	Less than 3 months US$	Between 3 & 12 months US$	1 to 5 Years US$	Greater than 5 years US$	Total US$
Gap sensitivity					
Net gap	101,702,304	104,363,604	324,025,119	(530,091,027)	–
Profit or Loss Impact (Increase)	(1,062,943)	(176,373)	(4,378,594)	(4,223,936)	(9,841,846)
Profit or Loss Impact (Decrease)	1,086,768	180,733	4,817,710	4,928,971	11,014,182

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

Capital management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total statutory capital at 31 December 2020 is US$ 275.6 million (2019: $ 254.2 million).

Regulatory capital is determined in accordance with the requirements stipulated by the FCA and the PRA in the UK. Capital adequacy and the use of regulatory capital are monitored by the Bank's Executive Management in accordance with the guidelines developed by the Basel Committee implemented by the Financial Conduct Authority ("FCA") and the PRA. 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

25 Financial risk management (continued)

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

Capital Resources	2020 US$	2019 US$
Share capital	136,701,620	136,701,620
Reserves	4,231,821	740,531
Retained earnings	134,639,777	116,728,430
Total statutory capital	**275,573,218**	**254,170,581**
Regulatory adjustments		
IFRS 9 transition adjustment	7,436,419	9,185,606
Value adjustments due to the requirements for prudential valuation	(995,989)	(649,575)
Other intangible assets before deduction of deferred tax liabilities	(1,395,348)	(2,018,933)
Total regulatory capital (CET1)	**280,618,300**	**260,687,679**

'Value adjustments due to the requirements for prudential valuation' of US$ 649,575 for 2019 in the table above is unaudited.

CET1 represents Common Equity Tier 1 capital.

Included in Retained earnings is Profit for the year of US$ 17,911,347 (2019: US$ 27,930,688).

'IFRS 9 transition adjustment' reflects the Bank's election to take advantage of the transitional regulatory capital rules in respect of expected credit losses following the adoption of IFRS 9.

The Capital Regulations Requirement ("CRR") COVID-19 amendment now allows for the movement in Stage 1 and Stage 2 ECL to be added back to CET1, with effect from 1 January 2020 over the next two years. The IFRS 9 transitional arrangement impact on CET1 regulatory capital as at 31 December 2020 is US$ 7,436,419 (2019: US$ 9,185,606).

Capital planning is integrated into Zenith UK's annual budgeting process. Regular returns are submitted to the PRA which include a two-year rolling forecast view.

Going concern capital requirements are examined on a forward-looking basis. The capital adequacy ratio is assessed under some plausible future states. Capital requirements are assessed based on the following:

1. Forecast of future business performance, given the expectations of economic and market conditions over the period.

2. Forecast of future business performance under adverse economic and market conditions over the period.

Review of capital requirements under the above conditions enable Zenith UK to determine whether its capital will be sufficient to meet internal and regulatory requirements. Stress testing techniques are adopted to assess capital levels under adverse economic and market conditions.

Zenith UK allocates capital across its strategic business units, considering the applicable regulatory requirements, strategic and business objectives, risk appetite and the need to ensure optimal capital usage. The Bank's Assets and Liabilities Committee (ALCO) approves the capital allocation framework.

During the year, the Bank has fully complied with additional capital requirements as prescribed by the PRA.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

26 Share capital

	2020 US$	2019 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

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

As at 31 December 2020 and 2019, the issued share capital comprises 136,701,620 ordinary shares with a par value of $1 each.

27 Related party transactions

Transactions with Key Management Personnel:

Key Management Personnel ("KMP") are considered to be the Bank's Directors and individuals who hold Senior Management Functions ("SMF") within the Bank. Disclosures regarding Directors' emoluments and other transactions are given in note 7. The total transactions with KMP are US$ 3,788 (loans) and US$ 116,912 (deposits) as at 31 December 2020 (2019: US$ 34,094 (loans), US$ 111,269 (deposits)).

The KMPs' remuneration during the year is as follows:

	2020 GBP	2019 (unaudited) GBP
Short-term employee benefits	**1,790,813**	1,505,967
Post-employment benefits	**152,726**	146,104
Termination benefits	**220,181**	47,677
Total	**2,163,720**	1,699,748

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2020

27 Related party transactions (continued)

Transactions with Parent and fellow Group companies:

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. All related party transactions were made on terms equivalent to those that prevail in arm's length transactions only when such terms can be substantiated. Outstanding balances at the end of the year and related party income for the year are as follows:

	2020 US$	2019 US$
Assets (amounts included in Loans and advances to banks in Note 13)		
Amounts due from parent company	122,016,843	75,795,589
Amounts due from other members of the Group	–	20,359,773
Total	122,016,843	96,155,362
Liabilities (amounts included in Deposits from banks in Note 19)		
Amounts due to parent company	371,695,201	244,666,792
Amounts due to other members of the Group	26,984,658	18,668,788
Total	398,679,859	263,335,580
Fees and commissions		
Received from / (paid to) parent company	7,268,061	(2,553,415)
Received from other members of the Group	335,715	420,213
Total	7,603,776	(2,133,202)

The above table includes Trading and other income.

Interest income		
Received from parent company	6,386,753	3,771,037
Received from other members of the Group	255,234	1,142,410
Total	6,641,987	4,913,447
Interest expense		
Paid to parent company	326,475	1,483,080
Paid to other members of the Group	161,855	238,808
Total	488,330	1,721,888

28 Ultimate parent company and controlling party

The Bank's immediate and ultimate parent, and sole shareholder is Zenith Bank Plc, a Bank incorporated in Nigeria. Group financial statements 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 2020 that require disclosure or adjusting in the financial statements.

Zenith Bank (UK) Limited Executive Committee

Pamela Yough
Chief Executive Officer

Henry Onwuzurigbo
Executive Director

Udu Ovbiagele
Executive Director

Adeyemi Paul-Taiwo
Chief Financial Officer

John Driscoll
Chief Operating Officer

Joseph Crowley
General Counsel and Company Secretary

Mark Parlour
Head of Treasury and Markets

Oluwaniyi Eresanmi
Head of Internal Audit

Glenn Ashbrooke
Chief Risk Officer

John Miller
Head of Compliance

Chidi Ogbata
Head of Corporate Banking & Wealth Management

Henry Amadiegwu
Head of IT

Natalia Sokolova
Head of Institutional Banking & Multinationals

Stephen Powell
Head of Human Resources

Adeola Akintimehin
Senior Executive Officer, Head of Dubai Branch