

# ZENITH BANK (UK) LIMITED

Annual Report and Financial Statements

For the year ended 31 December 2021

Registered number 05713749



## **ZENITH BANK (UK) LIMITED**

### **Annual Report and Financial Statements for the year ended 31 December 2021**

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**ZENITH BANK (UK) LIMITED**  
*Annual Report and Financial Statements 2021*

**Officers and professional advisers**

**Directors**

Jim Ovia	Chairman
Ebenezer Onyeagwu	Non-Executive
Jeffrey Efeiyini	Non-Executive
David Somers	Non-Executive
Andrew Gamble	Non-Executive
Dokun Omidiora	Non-Executive (appointed to the Board on February 1, 2022)
Udu Ovbiagele	Chief Executive

**Company Secretary**

Joseph Crowley

**Chief Financial Officer**

Adeyemi Paul-Taiwo

**Registered office**

39 Cornhill  
London  
EC3V 3ND

**Main 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

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**Directors' Report**

The Directors are pleased to present their annual report and the audited statutory financial statements of Zenith Bank (UK) Limited ("Bank", "ZBUK", "Zenith UK") for the year ended 31 December 2021.

The Bank was incorporated, domiciled, and registered in the United Kingdom 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 has a branch in Dubai which is registered at Office 1301C, North Tower, Emirates Financial Towers, DIFC, PO Box 507015, Dubai, United Arab Emirates.

**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 \$11.4m (2020: \$17.9m). The Directors recommend the payment of a dividend of \$5.70m for the year ended 31 December 2021 (2020: \$8.96m).

**Political contributions and charitable donations**

During the year, the Bank made charitable donations of \$19,903 (2020: \$18,737). No political donations were made during the year (2020: 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
Andrew Gamble	Non-Executive
Dokun Omidiora*	Non-Executive
Udu Ovbiagele	Chief Executive
Pamela Yough**	Chief Executive
Henry Onwuzurigbo***	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 Zenith Group CEO & MD and a shareholder (0.207% ownership)
- Mr. Jeffrey Efeyini is a Non-Executive Director and a shareholder (0.002% ownership)
- Mr. Udu Ovbiagele is a shareholder (less than 0.001% ownership)
- Mr. Henry Onwuzurigbo is a shareholder (less than 0.001% ownership)

\*Appointed to the Board on February 1, 2022.

\*\*Appointment to the Board expired on September 30, 2021.

\*\*\*Resigned from the Board on September 30, 2021.

**Future prospects and going concern**

The Bank's business activities, together with the factors likely to affect its future development and position with disclosures regarding Financial Risk Management, are set out in the Strategic Report.

The Directors have also considered the impact of the COVID 19 pandemic and the Russia-Ukraine conflict on the Bank's future results and financial condition and 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 2021 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 doubt as to 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 decision 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.
- 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 Executive Management of the Bank.

#### **Employees**

The Bank remains committed to investing in the development of its employees. ZBUC 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*.

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 interact 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 interests 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 Bank's Board and decisions reached are approved for execution and implementation by Executive Management. The ultimate responsibility for decisions sits with the Bank's Board of Directors. Quarterly Board meetings are held to strengthen this oversight and governance responsibility.

**Third-party indemnities**

The Articles of the Bank provide, as far as permitted by relevant legislation, that the Bank may indemnify a director against any liability incurred by or attaching to them in connection with any negligence, default, breach of duty or breach of trust in relation to the Bank, other than any liability to the Bank or any liability referred to in Sections 243 (3) of the Companies Act 2006, any liability incurred by or attaching to them in connection with the Bank in its capacity as a trustee of an occupational pension scheme and any liability incurred by or attached to them in the actual or purported execution and/or discharge of their duties or the exercise or purported exercise of their powers. This third-party indemnity was in force during the financial year and up to the date of signing the financial statements.

**Independent auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the annual general meeting, 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 on 21 April 2022 and signed on its behalf by:



Udu Ovbiagele  
Chief Executive Officer  
21 April 2022  
Company Registration No. 05713749

**Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements**

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 UK-adopted international accounting standards.

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 UK-adopted international accounting standards 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 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 also 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 on 21 April 2022 and signed on its behalf by:



Udu Ovbiagele  
Chief Executive Officer  
21 April 2022  
Company Registration No. 05713749

### Strategic Report

Zenith Bank (UK) Limited ("Bank", "ZBUK", "Zenith UK") reported Profit After Tax ("PAT") for the full year of \$11.4m (2020: \$17.9m). This performance corresponds to a return on average equity of 4% compared to 7% in prior year. The reduction was mainly due to the impact of interest rate cuts, lower trading performance due to less client trade business and an increase in the expected credit loss (ECL) charge recognised during the year under review.

Net Interest Income, a major driver of the Bank's performance, totalled \$38.2m, up 6% year on year. The Bank's total assets grew to \$2.9Bn reflecting an increase of 25%, year-on-year (Y-o-Y). Correspondingly, Expected Credit Losses ("ECL") recognised during the year rose to \$3.7m (2020: \$1.4m). The Bank had no loans subject to a default as at year end and remains well capitalised with Shareholders' Funds of \$274.3m (2020: \$275.6m).

### 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 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 risk participation lending, infrastructure and project financing, and football receivables 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).

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

Target Markets	Service/ Business Lines
Zenith Group	Correspondent Banking and Trade Finance
Corporates	Trade, Working Capital, Project Financing and Receivables Financing
Sub Saharan Africa	Foreign Exchange (FX), Bond Trading and Money Markets (MM) activities
Banks, Financial Institutions, Governments and Government Agencies	Lending to Financial Institutions, Forfaiting services and Cash Management solutions
High Net Worth Individuals (HNIs)	Investment mortgages, Deposits and Eurobond trading

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**2021 Business Review**

The Bank's financial results and explanatory notes are set out on pages 28 to 79.

Highlights of these are presented below as follows:

- o Operating Income: \$43.9m (2020: \$49.4m), made up of:
  - Net interest income \$38.2m (2020: \$36.0m).
  - Non-interest income \$5.7m (2020: \$13.4m).
- o Impairment Charge: \$3.7m (2020: \$1.4m)
- o Profit Before Tax: \$13.6m (2020: \$21.9m)
- o Profit After Tax: \$11.4m (2020: \$17.9m)
- o Cost to Income Ratio (excluding credit losses): 60.6% (2020: 52.9%)
- o Return on Equity: 4% (2020: 7%)

The Bank's financial performance was mainly driven by Net interest income ("NII") which accounted for over 87% of Operating Income. Low interest rates and yields continued to put pressure on NII in 2021.

Income earned on cash placements improved by 5% in FY 2021 principally due to the increase in placements due to the significant growth recorded in deposits.

Income from loans and advances to Banks and customers reduced by \$3.5m on account of low interest yields, despite the 48% growth in assets created or originated in the current year. Interest income earned on assets held at amortised cost, FVOCI and FVTPL aggregated to \$23.3m, 3% higher than the comparative.

Net trading profits earned from sales and trading business during the year under review totalled \$0.5m (FY 20: \$7.0m). The year-on-year decline recorded is attributable to low revenue from client flows, which was further impacted by the late-year selloffs of Emerging Markets' (EM) Bonds (in response to expectations of an interest rate increase as announced by the US FED). These led to sharp drops in the market prices of EM Bonds resulting in unrealised losses being recognised.

Loss recognized on the revaluation of monetary items and derivatives totalled \$4.3m in FY 2021 (FY 2020: \$2.2m). This was mainly due to volatilities in exchange rates during the year.

The ECL charge recognised in the current year totalled \$3.7m as compared to \$1.39m recorded in FY 2021. This increase is attributable to growth in the Bank's assets. 48% growth was recorded in loans and advances in FY 2021.

Operating Expenses (OPEX) for the full year totalled \$26.6m and was comparable to that recognised in prior year. Staff costs increased from \$16.5m in 2020 to \$17.0m 2021, a variance accounted for by a change in average staff headcount and termination benefits paid in 2021. An increase in OPEX of \$0.4m was partly offset by a reduction in administrative, depreciation and amortisation expenses.

Total assets increased to \$2.9Bn primarily due to an increase in securities and loans originated or created. Deposit liabilities grew by 26%, driven by a \$260m increase in call deposits (most of which relate to the CBN TSA funds) and a \$332m increase in Group deposits.

Corporate lending business grew, by 103% year-on-year, to close at \$196m. Loans to Financial Institutions (FI) declined to \$155m at the end of the 2021 (FY-2020: \$185m). Mortgage lending business grew by 50% to close at \$8.3m while Football financing increased 183% to \$86m creating expectations of future stable, non-US Dollar denominated revenues.

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

As of 31 December 2021, the Bank had 149 deals whose prices were indexed to USD LIBOR. These comprise one floating rate security with \$10m notional value and 148 loan deals with notional values of \$195.5m. The Bank has discontinued the use of LIBOR as a pricing benchmark, and had no exposures linked to GBP LIBOR or EUR LIBOR as at reporting date.

During 2021, the Bank commenced the deployment of solutions to support the management of replacement price benchmark rates. i.e., Risk Free Rates ("RFR"). The adoption and implementation of RFR has progressed satisfactorily and the Bank is actively engaging with its clients in this regard.

### Operating Environment

The Bank has exposures in different countries, mostly concentrated in the United States of America, the United Kingdom and Nigeria. The exposure to the United States results from the Bank's significant holding in High Liquidity Liquid Assets ("HQLA") for regulatory compliance purposes. The Directors believe that the Bank's business, operations, and profitability are most likely to be impacted by changes in the political economy of these jurisdictions compared to others.

The Bank's reporting currency is US Dollars. The US Dollar is the currency of the primary economic environment in which the Bank operates and is regarded as the functional and presentational currency of the Bank.

Over 67% of ZBUK's balance sheet is denominated in US Dollars. Consequently, the Bank is subject to interest and exchange rate risks and volatility that are associated with US Dollars.

The Bank is domiciled in the United Kingdom and is regulated by the Prudential Regulatory Authority ("PRA"). Additionally, ZBUK is exposed to GBP Sterling exchange rate risks and volatilities because it incurs a significant portion of its operating costs in GBP Sterling.

The low interest rate regime persisted during the year. The financial impact of the operating environment on the Bank have been discussed under "2021 Business Review" section above.

Nigeria is strategically important to the Bank as a significant proportion of its trade finance business originates from the country, and the Bank's parent company is domiciled in Nigeria. Furthermore, ZBUK has significant investments in some of the instruments issued by the Nigerian Government and the Central Bank of Nigeria respectively. It is therefore subject to the exchange rate volatility of the Nigerian Naira to other currencies, particularly the US Dollars.

The Bank monitors the socio-political and economic changes in these countries and adopts the appropriate risk management responses to the operational, conduct, capital, liquidity, asset quality, and profitability implications respectively.

### Business Structure

Zenith Bank (UK) Limited conducts its business activities through its Corporate Banking, Wealth Management and Financial Institutions, and Multinationals Business Units. The Corporate Banking business is subdivided into the UK and Dubai Operations (managed through the Bank's registered branch that is regulated by the Dubai Financial Services Authority- DFSA).

The Bank's Treasury function ("Treasury") manages the organisation's liquidity, capital, and net open positions. ZBUK's securities and foreign currency trading activities are also handled by the Treasury unit .

Each Business Unit ("BU") has assigned revenue-generation and business development responsibilities. Collectively, the BUs are responsible for promoting cross-selling opportunities of the Bank's offerings and services. ZBUK seeks to understand its clients' changing needs and fulfil them with its expertise and operational capabilities.

The mix of operating income generated by BUs is presented below:

Treasury	64%	(2020: 61%)
Corporate Banking (including Dubai Operations)	18%	(2020: 18%)
Financial Institutions	16%	(2020: 19%)
Wealth Management	1%	(2020: 1%)
Multinationals	1%	

The Bank's Multinationals unit was created as a result of a restructuring exercise in late 2020. Hence, the unit has no comparative operating income to report.

## 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 Africa ("SSA") and other parts of the world to drive international business network expansion.
- Maintaining a robust risk management framework, regulatory compliance, and corporate governance structure to conduct its business responsibly within tolerable risk levels.
- 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 route their transactions through Zenith UK.
- 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 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 prevailing circumstances) 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.

## Principal 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 Principal Risks.

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 in response to current and emerging risks to the Bank.

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, managing and controlling risks. The Bank's risk appetite statement (RAS) defines the level of risk that ZBUK is prepared to accept across the risk spectrum. 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.

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

Principal Risk	Definition	How Risks are Mitigated
Credit Risk	<p>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.</p> <p>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.</p>	<p>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.</p> <p>The analysis and internal scorecards produced for the Credit committee give an indication of the risk rating of counterparties and expected credit losses in the event of any default.</p> <p>The Credit Risk team also monitors the quality and value of security / collateral provided against credit exposures.</p> <p>The Bank's Credit Risk assessment process complies with the credit policy as approved by the Board.</p> <p>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.</p>
Market Risk	<p>This is the risk that changes in financial market prices, interest rates and exchange rates will adversely impact the Bank's financial performance and position.</p>	<p>Risk Management monitors the Bank's overall positions against approved limits on a daily basis and reconciles the aggregate position separately to each dealer's positions.</p> <p>Daily market risk reports that detail the profile of risks are reported to the Market Risk Committee on a weekly basis.</p>
Regulatory and Conduct Risks	<p>These are risks that could arise from any or a combination of the following:</p> <ul style="list-style-type: none"> <li>• Inappropriate or non-application of anti-money laundering procedures.</li> <li>• Unsatisfactory response to regulatory/legal compliance directives.</li> <li>• Market malpractice.</li> <li>• Poor customer service.</li> <li>• Lack of effective Board engagement or oversight.</li> <li>• Staff non-adherence to the company's values.</li> <li>• Staff incompetence/inappropriate use of confidential information.</li> <li>• Lack of robust product development process.</li> <li>• Reputational issues resulting from action, inaction or transactions, events, decisions, or business relationships that reduce trust or confidence in the Bank.</li> </ul>	<p>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.</p> <p>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.</p> <p>Training covering a wide range of conduct and regulatory matters is organised for staff on a regular basis with online tests to check understanding.</p> <p>The Bank's Compliance Department</p>

		<p>monitors customer complaints and conflicts of interest.</p> <p>The Board and the Executive Management receive regular updates from the Compliance Department regarding regulatory changes that are relevant to the Bank.</p> <p>The Bank's Internal Audit function provides assurance to the Board and Executive Management regarding the effectiveness of governance, risk management and control over the Bank's business operations and regulatory compliance in response to current and emerging risks.</p>
Liquidity Risk	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.	<p>A range of approaches are used to monitor, report on and conduct stress tests on the Bank's liquidity position.</p> <p>The Bank's Risk department and ALCO review daily reports on liquidity, and take appropriate actions where required, including escalating to the Board Risk Committee ("BRC") where necessary.</p>
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, human behaviour, and systems, or from external events.	<p>Operational Risk is managed by all employees and departments and is controlled through individual accountability.</p> <p>The Directors manage the Bank's Operational Risks by establishing operational procedures and internal controls that include mitigating activities designed to identify and control risk at each business or operational process level.</p> <p>The Operational Risk sub-function under Risk Management function regularly tests the environment and supports staff across the Bank to ensure the framework is operating effectively.</p> <p>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.</p> <p>The Bank maintains an operational risk policy and further mitigates risk by:</p> <ul style="list-style-type: none"> <li>• recruiting experienced professional and well qualified staff.</li> <li>• engaging in on-going consultation with risk management experts to ensure processes remain robust.</li> </ul>

<p>Cybercrime Risk</p>	<p>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.</p>	<p>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.</p> <p>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.</p> <p>Internal internet 'firewalls' are employed to protect the Bank's systems from rogue attacks.</p> <p>The Bank's external and internal electronic security and firewalls are tested by various periodic internal and external penetration tests.</p>
<p>Compliance Risk</p>	<p>This is the risk that the Bank or any its Directors or employees fail to comply with any regulatory obligation.</p> <p>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.</p>	<p>Annual Bank-wide assessment of compliance risk is undertaken, covering regulatory policy and documentary developments.</p> <p>The Bank's Compliance Department develops monitoring programmes and ensures that policies and procedures are being complied with.</p> <p>The Bank's Internal Audit function reviews the effectiveness of the Compliance Department and reports its findings to the Board and Executive Management.</p>

### **Environmental risk**

At Zenith Bank, we recognise that the long-term success of our Bank is inextricably linked with the impact and value we create in the society where we operate. We understand the impact of our operations on the environment and consider the potential environmental and social impacts when making business decisions and when managing our resources and infrastructure. Consequently, we have made efforts to track our carbon footprint while adopting measures to reduce our greenhouse gas emissions. We are confident in reporting a material reduction in GHG emission contributions on account of the material reduction of international travel as a consequence of pandemic-imposed restrictions to travel. Changes to the way we work have led to a major shift in operating practices and a more widely accepted use of technology and video conferencing to get the Banks business done without the need for unnecessary travel. As a result, we expect to see reduced travel related GHG emissions in future years.

The Zenith Bank Group has a degree of concentration of activity in the Oil & Gas, Power, Manufacturing & Processing, Transportation and Agricultural sectors.

The Banks loans and advances are concentrated also in short-dated commitments of less than 1yr and as a result, the immediate financial risk arising from climate and environmental impact is considered to be low. There are however medium to longer term considerations that management is mindful of and the Banks efforts to diversify the loan portfolio support continuing risk mitigation efforts in this regard.

In response to Supervisory Statement SS3/19 the Bank is evolving its approach and has met the PRA's requirements in relation 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 supports the objectives of regulation and the spirit of the Supervisory Statement.

### **Climate Change**

Zenith Bank (UK) Limited has made progress in the last year developing a greater understanding of the impact of climate change on both its customers and operations, including the underlying financial risks this entails through its assessment of Climate Related Financial Risks (CRFR).

The Bank's Climate-Related Financial Disclosures will continue to evolve over time as we broaden and deepen our analysis and technical capabilities in what will remain a proportionate approach.

### **Governance and Strategy**

Primary responsibility for the oversight of climate issues sits with the Board Risk Committee (BRC), reporting directly to the Board of Directors. The BRC oversees the Bank's efforts regarding climate risk and the adoption of regulations relating to CRFR. The BRC sits four times a year. All members received training on CRFR and its governance in 2021.

The Bank also undertook a range of training exercises with its client facing teams to ensure understanding of the CRFR embedded in lending relationships and the methods by which the Bank has determined to measure this using both qualitative and quantitative approaches.

Qualitative assessments examine a clients specific Physical and Transitional risks supported by further assessment against relative Industry Carbon Intensity Ratings and Geographic Climate Risk Ratings to form a score based, objective measuring and monitoring layer.

In combination, these approaches are proving to be administratively sound, repeatable, unsophisticated, and proportionate for the Bank's scale of operations.

Compositional change within the BRC in 2021 and developments in the Banks approach towards CRFR mean that training in this area is a continuing exercise as the Bank grows and develops its approach.

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.

### Sub-Saharan Africa and Environment

The Board recognises the Banks strong connections to Sub-Saharan Africa and Nigeria as a "Home" country and the dependence that many corporates and sovereigns in the region place upon economies driven largely by fossil fuel and other carbon intensive activities. Accordingly, there is not a small degree of inherent CRFR embedded in the cashflows and operating activities of many of the Banks borrowers. Consequently, the Board risk appetite is for a relatively high level of CRFR for the foreseeable future pursuant to the Banks mission to help businesses transact efficiently, quickly, and profitably throughout Africa, the UK, and the rest of the world.

Alongside this, the bank's plan is to grow by diversification of the customer base by investing in assets across a range of risk classes consistently holding a low-risk portfolio of diversified bond holdings. Where it is prudent to do so the Bank will consider CRFR in its decision making although the CRFR that the Board will continue to accept is likely to be relatively high by UK standards in any case and will be reviewed each year as a part of the annual planning exercise.

In Nigeria physical climate risks arise 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.

Transition risks across 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.

### Methodology

The Bank's approach includes an exercise in determining the degree to which all clients and counterparties transacting with the Bank have approaches in place to manage, and where appropriate, adapt to the impacts of climate change on their businesses and operations.

Assessments of this nature are required for each new credit proposal and for each (annual or semi-annual) review of any existing relationship. In 2021 no assets were segregated or treated differently; all lending was assessed on a like for like basis. In this way the Bank is continually refreshing its understanding of the CRFR inherent within the client loan portfolio. This process is now fully embedded and integrated into the Bank's day-to-day lending activities. Necessarily, given this process was launched in 2021, not all the loan portfolio has been assessed in this way. It will take a full 12mths for the bank to cycle through all its counterparty relationships.

### Streamlined Energy and Carbon Reporting

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

Where the Bank is responsible for utility costs, these emissions are included. For 2021, 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 from activities owned or controlled by the Bank that release emissions into the atmosphere. Examples include emissions from combustion in owned or controlled boilers, vehicles etc. The Bank has assessed its Scope 1 emissions during the year to be nil (2020: Nil).

Scope 2 covers GHG emissions from electricity, heat, cooling, and steam purchased for the Bank's use. The Bank assessed its Scope 2 emissions during the year to be 187,245 Kilo-watt Hour (KwH) (2020: 172,596). This is analysed as 177,460 KwH (2020: 164,081 KwH) for the premises and 9,785 KwH (2020: 8,515 KwH) for the outsourcing of servers.

Scope 3 covers indirect emissions from business travel. Business travel for these purposes comprises global flights and ground transport within the UK and Nigeria. The Bank has assessed its Scope 3 emissions during the year to be 52.95t CO<sub>2</sub> (2020: 4.7t).

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

### Key Performance Indicators

The Bank's Executive 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 plans are expressed in annual budgets with metrics to facilitate measurement of performance at different levels within the Bank. 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 internal targets set by the Bank's Executives as well as those advised by 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 2021 was 4% (2020: 7%). The Bank targets 7%.
- B. Operating Income: measures the Bank's ability to cover its direct expenses. Operating income earned in 2021 was \$43.9m (2020: \$49.4m). The target for FY 2021 was \$63.2m.
- C. Cost-to-Income (CIR): expresses 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.

CIR achieved in 2021 was 60.6% (2020: 52.9%). The Bank targets CIR of 40% or below.

During 2021, the Board approved a revised financial plan ("Plan") covering 2022 to 2025 in the light of prevailing economic realities. The Plan seeks to re-focus the Bank on its strategic priority of deepening its corporate business, while taking into consideration critical factors such as inflation, average asset yields, estimated credit default rates, exchange rates as well as future expectations of interest rate changes.

Accordingly, the Bank's financial KPIs have been revised and the applicable targets will take effect in 2022.

### **Significant Events in 2021**

2021 was characterised by global economic recovery that was largely influenced by the roll-out of vaccines and easing of travel restrictions that led to some restoration of market confidence. Financial markets regained some stability, particularly in Q2-2021. Despite the recovery, however, the pandemic continued to generate public concerns, due to the emergence of multiple COVID-19 variants. There is uncertainty as to whether the new strain of the coronavirus- the Deltacron that combines genes from the Delta and Omicron variants- presents greater health threat or would resuscitate the economic shocks from which global economies struggled to recover. There is currently no sufficient data to ascertain how well vaccines protect against this strain.

Supply chain issues continued for most of the year, a consequence of the pandemic and shortage of supply to match the surge in consumer demand as vaccines became available. The supply chain disruptions could linger for years, leading to high inflation, low or declining trade volumes, Letters of Credit (LC) business written, confirmed, or advised by the Bank and its resultant negative effect on ZBUK's fee revenues in the near to medium term.

Margins remained relatively compressed as the low interest yield regime prevailed in FY 2021, a year that also witnessed some market volatility in the securities and equities markets. The global economic recovery that occurred in the year under review led to significant market corrections, which reflected in reduced trading appetite of many of the Bank's clients. This market situation was exacerbated by selloffs of Emerging Markets' (EM) Bonds during the year in response to expectations of an interest rate increase as announced by the US FED late in 2021.

Consequently, interest income remained low, despite the significant growth recorded in the loan book in 2021. Net trading performance also came under pressure, with the combined effect of relatively lower revenue in FY 2021 due to a decline in client trades and unrealised losses recognised on the trading securities.

### **Expectations of the Future and Uncertainties**

#### **Inflation**

Global inflation is expected to remain high, fuelled by higher prices of commodities and energy. Rising energy prices account for a substantial proportion of the inflation recorded in Europe.

Central banks and monetary authorities are currently embarking on contractionary monetary policy actions to curtail inflation, but also must deal with the likely economic consequences of the Russia-Ukraine conflict on general price levels, although there are still uncertainties on how these outcomes will shape monetary policy decisions. It is therefore anticipated that inflation will remain high in 2022 with volatility in securities and equities markets mostly fuelled by investors' response to uncertain economic conditions. Credit spreads are likely to widen, creating incentives for higher returns but also increasing perception of heightened liquidity and credit risks. The Bank plans to maintain its risk tolerance and adopt a cautious approach towards fulfilling its asset growth strategy. For example, lending decisions will incorporate more rigorous analysis and evaluation of proposed deals and the counterparty or counterparties involved.

It is predicted that Russia and Ukraine will experience sharp economic recessions, with possible contagion impact on most of Europe through a worsening of the supply chain issues and spikes in food and energy prices. A plausible but unlikely scenario of a cut-off in Europe's gas supply could spark off a recession.

Emerging economies, including Nigeria and SSA are likely to experience further slow-down in their recovery from the impacts of the COVID-19. Higher inflation rates, weakening currencies and higher public debts are likely consequences.

It is anticipated that the Bank's Net interest income (NII) will improve nominally in 2022, in response to the interest rate increases recently announced by the US Federal Reserve and the Bank of England given the level of High Quality Liquid Assets (HQLA) inventory and mortgage facilities. Conversely, the Bank's operating costs will increase compared to prior years, principally due to inflation-induced impact of rising administrative expenses and staff costs.

### **COVID Pandemic**

Most analysts believe that the global economic recovery from the shocks of the pandemic will continue, albeit unevenly, with developed countries recovering faster than other economies. According to World Economic Outlook reports, the global economy is projected to grow by 4.9% in 2022.

Economic research suggests that global financial conditions are improving, leading to expectations that the world economy will approach a benign cycle faster than was initially predicted. Monetary authorities in the US, UK and other economies have hinted that interest rates will be hiked successively to curb inflation. However, rate increases are expected to be lower than originally advised due to uncertainties surrounding the Russia-Ukraine conflict and its associated economic impact on Europe and the rest of the world. It is therefore expected that proposed tightening policies by the US Fed, Bank of England, and European Central Bank (ECB) will be moderated.

The Bank's Directors and Executive Management have considered the possibilities of a prolonged pandemic leading to increased credit risk which may crystallise into actual or expected credit losses for the Bank. The Board is guided by the fact that published global corporate default rate data does not suggest that there will be any significant associated negative economic impact, in terms of elevated default rates or significantly higher credit losses. However, the Bank will continue to pursue its asset growth plans cautiously within Board-approved risk tolerance levels.

The easing of movement restrictions is anticipated to strengthen domestic and external demand. The Oil sector is likely to continue experiencing a boom as demand for the commodity continues its rally due to higher levels of fuel usage in transportation. Against these positive expectations weigh the rebalancing impact of supply chain issues, although there are strong indications that trade volumes will increase in 2022, especially from Africa and Asia, segments in which ZBUK plays an active role as part of the Zenith Group. However, downside risks and uncertainties still exist regarding the pandemic, especially with the emergence of mutations of the SARS COV-2, the virus that causes COVID-19.

### **Russia-Ukraine Conflict**

There have been several new developments following the incursion of Russia into Ukraine. Many countries have expressed their reservations about the invasion, but few have backed their tacit disapproval with tangible support. Accordingly, several sectors of western society, democracies worldwide and numerous individuals are reconsidering their connections to Russia in all their forms.

Sanctions are evolving rapidly; military support is taking various forms; major Russian banks have been suspended from accessing the SWIFT system. The US ban on Russia's oil import, could also reshape Europe's reliance on Russia for natural gas and oil. However, until an alternative supply source is identified, energy prices are likely to continue rising. Oil prices are currently at record-high levels of over US \$100 per barrel.

However, it is the exceedingly broad based and united extension of negative sentiment that has driven much of the international reaction to events. Large multinationals are suspending business in the area, expressing concern over forthcoming sanctions, or closing business operations altogether. These corporate actions are unlikely to be reversed in the short-to-medium term, given their far-reaching implications.

Initial market shocks were dominated by the rapid move of capital toward safe havens, leading to liquidity volatility across markets and falling bond prices in markets to which ZBUK is exposed.

More broadly, the invasion of Ukraine presents risks for the world economy that is yet to recover from the global pandemic. Russia's invasion of Ukraine is predicted to further slow economic activities globally. Fledgling emerging economies will also suffer the contagion effect. Already-high energy prices face further upward pressure. In the short term, households and firms will continue to grapple with the increased living and operating costs. Key vulnerabilities include high inflation manifesting as sharp price increases, and volatile financial markets. Growth is also constrained as disposable incomes are rapidly declining. It is unlikely that the current global supply chain problems will be eased with these developments, at least in the near term.

The Bank does not have any direct or indirect exposure to either Ukraine or Russia but is not isolated from the wider economic repercussions of this conflict. However, the Directors do not believe Bank's business or operations will be impacted significantly.

The Executive Management, under Board oversight, is constantly evaluating these events and guiding its business teams to ask pertinent real-world questions when considering new business opportunities and reviews of existing facilities.

**Outlook: 2022 and Beyond**

2022 is already showing strong signs of recovery, amidst the current market volatilities and record-high global inflation. Global economic recovery is anticipated to continue, albeit slower than expected, in response to the contractionary economic shocks anticipated by the evolving Russian-Ukraine conflict as well as the soaring commodity and energy prices. Supply chain issues are expected to continue to linger, if they do not worsen, thus weighing on trade volumes. Easing of travel restrictions and lockdowns suggest that normalcy is being restored although several businesses are now rethinking their operations and staff working conditions.

There are still uncertainties, though, regarding how public health is likely to be impacted by mutations of the COVID-19 strains. Furthermore, Supply chain disruptions still exist and are likely to continue until 2023.

For Zenith Bank UK, these unfolding events present opportunities to think about business differently. The Bank's core strengths in Trade finance and Corporate Banking are being adapted to realise new opportunities. The lingering uncertainties present opportunities for the Bank to evolve its strategies for driving business growth within acceptable risk levels. Through interactions with clients, primarily to offer support during this uncertain times, the Bank's Executive Management received useful insights what can and should be done differently. As in 2021, the Bank will continue to employ robust credit, operational and market risk management tools, and techniques to ensure that its operations are conducted within Board- approved acceptable risk thresholds.

The Bank will continue to prioritise its business expansion in 2022 and beyond. ZBUK will seek to further its assets growth mainly through geographical diversification. Our clients are at the heart of our business. Hence, the Bank plans to make significant investments in technology and strengthen its operations to meet its clients' changing needs more efficiently and effectively. Electronic Banking and digitisation are top priorities to enhance clients' Banking experience with ZBUK in 2022 and beyond.

Engagements with clients will take an important turn: flexible Banking services, powered by electronic Banking services and increased outreach through a combination of in-person, virtual and telephony formats. These initiatives are anticipated to improve the communications with clients, facilitate the Bank's appropriate and timely response to clients' changing needs. The plans are also intended to boost the Bank's customer services with a view to increasing business with existing and new clients.

The Bank's refreshed financial plan reflects renewed focus on corporate lending, advisory services, mortgage lending, and capturing of emerging opportunities to onboard clients from markets that are within the Bank's risk appetite. These aspirations will be fulfilled by nurturing the Wealth Management business, promotion of cross-selling across the Business Units and capitalising on the markets that the Bank has expertise in.

Deploying its capabilities, the Bank plans to expand its Sales and Trading business segment with a view to driving increased volumes. Experience gained from the prior years' dealings has provided useful insights for the continued identification of sustainable business relationships with viable, scalable opportunities.

The Bank's Mortgage business is anticipated to double in 2022, capitalising on the growth recorded in this segment of the Bank's business especially in recent years. The Bank is keen to employ this strategy to diversify its revenue by currency and supporting asset growth in diversified currencies.

Opportunities to finance assets in Africa and other markets of acceptable risk will be explored more closely with a view to achieving a growth of 10% in this business over the next three years. The Bank will also increase its focus on bilateral lending, in keeping with its strategic priority of staying closer to its customers.

In terms of its human resources, the Bank will continue to hire and retain the best-in-class individuals, thus keeping a motivated, competent, and skilled workforce. ZBUK's long term plan is to continue to invest in its people and support them through their professional aspirations.

**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 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 due to governance, operational, legal, or regulatory reasons.

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 HMRC.

Description of Relationship/ Interaction/ Obligation	Generic Name	Potential Benefits to parties	Potential Losses to parties
Providers of capital	Investors	<ul style="list-style-type: none"> <li>▪ Increased shareholders value</li> <li>▪ Brand recognition</li> <li>▪ Dividend payment</li> </ul>	<ul style="list-style-type: none"> <li>▪ Partial or total loss of capital investment</li> </ul>
Parties that purchase the created value in return for financial considerations	Clients	<ul style="list-style-type: none"> <li>▪ Strong business relationship</li> <li>▪ Convenience</li> <li>▪ Satisfaction with product or service</li> <li>▪ Continuous flow of client's business</li> <li>▪ Access to credit facilities for business continuity and expansion</li> </ul>	<ul style="list-style-type: none"> <li>▪ Client dissatisfaction with product or service</li> <li>▪ Disruptions to client's business</li> <li>▪ Violation of client's policies (e.g., Environmental, sustainability)</li> <li>▪ Liquidity challenges</li> </ul>
Providers of funding	Depositors	<ul style="list-style-type: none"> <li>▪ Interest on deposits</li> <li>▪ Repayment of deposits</li> </ul>	<ul style="list-style-type: none"> <li>▪ Partial or total loss of deposits</li> </ul>
Parties involved in the Bank's value creation chain	Employees	<ul style="list-style-type: none"> <li>▪ Financial security</li> <li>▪ Job security</li> <li>▪ Job enrichment and satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>▪ Unemployment</li> <li>▪ Loss of income due to job losses.</li> </ul>
Regulatory Authorities	Regulatory Authorities	<ul style="list-style-type: none"> <li>▪ Financial system stability</li> <li>▪ Healthy market competition</li> <li>▪ Fair market practices</li> <li>▪ Fair treatment of customers.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financial system instability (deteriorating asset quality, poor capitalisation, fragility of financial systems)</li> <li>▪ Monopoly and monopolistic competition</li> <li>▪ Market malpractices</li> <li>▪ Unfair treatment of customers.</li> </ul>
Tax Authority	HMRC	<ul style="list-style-type: none"> <li>▪ Tax revenues</li> <li>▪ Compliance with fiscal policies</li> <li>▪ Prevention and early detection of tax evasion</li> </ul>	<ul style="list-style-type: none"> <li>▪ Loss of Tax revenues</li> <li>▪ Non-compliance with fiscal policies</li> <li>▪ Failure to prevent or detect tax evasion</li> </ul>

**ZENITH BANK (UK) LIMITED**  
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The Bank's 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 or indirect. Indirect engagement principally involves the process of receiving regular communication from Executive Management on specific aspects of the Bank's business, strategy, or operations for further deliberations. Depending on the outcomes, decisions reached could require Executive Management to maintain status quo or make changes to existing policies or practices. Such feedback is communicated through the Bank's Chief Executive Officer, as deemed 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.

In keeping with its responsibility, the Board seeks to understand how the pandemic and other economic developments impact the Bank's multiple stakeholders. Executive Management is tasked with providing updates on the Bank's response to government guidance regarding the pandemic as well as its engagement with staff, clients, and regulatory authorities. Executive Management's actions and strategies are overseen by the Board through regular feedback through in-person meetings (where appropriate), telephone calls, teleconferences, and email communications. The Board is apprised of regulatory matters on a regular basis and when there are specific matters to be addressed.

#### **Investors**

The Directors ensure that Executive 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 based on predetermined 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.

The Group Chief Executive Officer (Group CEO) sits on the Board of the Bank and represents the interests 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 Executive Management. Quarterly Board meetings are held regularly to fulfil this oversight and governance responsibility.

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

#### **Clients and Depositors**

The Board also received updates from, and discussed the efforts made by, Executive Management to maintain regular communications with clients, including constant review of clients' financial performance and gaining an understanding of their business needs.

Especially during these uncertain times, the Board Audit & Compliance Committee (ACC) and the Board Risk Committee (BRC) received 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 committee meetings are held to review the Bank's response to market changes especially as it impacts clients and the strategies adopted to stay close to them and meet their changing needs. Clients' expectations - collected through different mechanisms - are analysed to draw useful insights on how to improve the Bank's service and enhance clients' Banking experience. The Board also receives feedback regarding client complaints, reviews the reasons and oversees timely resolution of the matters in question.

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. The Directors ensure that the Bank complies with the FCA's requirements regarding fair treatment of customers.

The Board and Executive 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. Question & Answers (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).

### Regulatory and Tax Authorities

At least on a quarterly basis, the Board receives updates regarding Executive 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 Executive Management to maintain regular contact with the representatives through the Compliance and Finance functions.

Approved by the Board of Directors on 21 April 2022 and signed on its behalf by:



Udu Ovbiagele  
Chief Executive Officer  
21 April 2022  
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 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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, which comprise: the Statement of Financial Position as at 31 December 2021; 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

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.

## 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

### Materiality

- Overall materiality: US\$2,743k based on 1% of Net assets.
- Performance materiality: US\$1,371k.

## 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.

The effect of COVID-19 on the audit of the financial statements, which was a key audit matter last year, is no longer included because our consideration of the impact in the current year is captured by our key audit matter on Expected Credit Losses - Loans and advances to customers and it no longer represents an area of increased audit attention in its own right. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><i>Expected Credit Losses - Loans and advances to customers</i></p> <p>Refer to Note 3: Critical accounting judgements and key sources of estimation uncertainty, and Note 25: Financial risk management.</p> <p>The company has a portfolio of internally rated loans and advances to customers amounting to \$292m at 31 December 2021, with an associated allowance for Expected Credit Losses ("ECL") of \$5.0m. Models are used to collectively assess and determine the allowance for expected credit losses. The Probabilities of Default (PDs) relating to these counterparties are derived using internal credit assessments that then correlate to S&amp;P credit ratings which requires expert management judgement.</p> <p>We focussed on this area because internal default experience is very limited and, as external ratings are not available for these counterparties, there is subjectivity in determining appropriate PDs.</p>	<p>Our audit procedures comprised the following:</p> <ul style="list-style-type: none"> <li>• We understood and evaluated the design and implementation of controls relating to the derivation of PDs for unrated customers;</li> <li>• 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;</li> <li>• We tested a sample of management's internal loan file reviews to determine whether the internal grading, and therefore the position on the default distribution curve, assigned to individual counterparties was reasonable;</li> </ul>

	<ul style="list-style-type: none"> <li>We evaluated management's default distribution curve used for internally rated exposures to critically assess whether it aligned to externally obtained default data; and</li> <li>We also assessed whether these PDs were reasonable given the nature of the portfolio and future expectations regarding the short-term economic outlook for the global economy and Africa.</li> </ul> <p>Based on the evidence obtained, we concluded that the PDs derived from internal ratings for unrated loans and advances to customers have been calculated in accordance with IFRS 9 and are reasonable.</p>
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### 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. As part of this risk assessment, we considered the inherent risks facing the company arising from its respective business operations and how the company manages these risks. 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.

### 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:

<i>Overall company materiality</i>	US\$2,743k
<i>How we determined it</i>	1% of Net assets
<i>Rationale for benchmark applied</i>	We determined materiality by applying 1% to the net assets. In the prior year we utilised profit before tax as our materiality benchmark, we no longer deem that a profit oriented benchmark is appropriate as we do not believe the sole, or primary concern of the users of the financial statements is profitability. We have utilised net assets as a benchmark as regulatory capital resources are considered to be a key driver of Zenith Bank (UK) Limited's decision making process and has been a primary focus for regulators. Net assets is considered to be an appropriate proxy for regulatory capital resources as it is the starting point for determining regulatory capital resources and Zenith Bank (UK) Limited has historically seen a low level of adjustments to arrive at regulatory capital resources from net assets.

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 50% of overall materiality, amounting to US\$1,371k 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 lower 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\$137k 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 the COVID-19 pandemic
- 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.

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 Director's 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 Director's report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Director's report for the year ended 31 December 2021 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 Director's 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 and the Financial Statements for the Year Ended 31 December 2021, 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 inquiring whether there were any known or suspected instances of non-compliance with laws and regulations or fraud;
- 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 and testing 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](http://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 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2020 to 31 December 2021.



Ian Godsmark (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
25 April 2022

ZENITH BANK (UK) LIMITED  
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Statement of Comprehensive Income

For the year ended 31 December

	Note	2021 US\$	2020 US\$
Interest income	4a	43,357,525	45,697,001
Interest expense	4b	(5,116,838)	(9,687,863)
<b>Net interest income</b>		<b>38,240,687</b>	<b>36,009,138</b>
Fee and commission income	5	8,876,199	7,537,541
Trading and other income	6.1	1,121,346	8,071,784
Revaluation loss	6.2	(4,304,574)	(2,178,091)
<b>Operating income</b>		<b>43,933,658</b>	<b>49,440,372</b>
Personnel expenses	7	(17,001,905)	(16,505,084)
Depreciation and amortisation	15 and 16	(1,777,063)	(2,131,922)
Other expenses	8	(7,826,210)	(7,524,345)
<b>Operating expenses</b>		<b>(26,605,178)</b>	<b>(26,161,351)</b>
<b>Operating profit before impairment provision and taxation</b>		<b>17,328,480</b>	<b>23,279,021</b>
Net impairment (charge)/credit on financial assets	14	(3,692,274)	(1,396,175)
<b>Profit before tax</b>		<b>13,636,206</b>	<b>21,882,846</b>
Income tax expense	9	(2,232,071)	(3,971,499)
<b>Profit for the year</b>		<b>11,404,135</b>	<b>17,911,347</b>
<b>Other comprehensive (expense)/income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of debt instruments at fair value through other comprehensive income		(3,808,346)	5,396,456
Net change in fair value of debt instruments reclassified to profit or loss		(598,380)	(1,063,043)
Income tax on items that are or may be reclassified subsequently to profit or loss		718,575	(842,123)
<b>Other comprehensive (expense)/income for the year (net of tax)</b>		<b>(3,688,151)</b>	<b>3,491,290</b>
<b>Total comprehensive income for the year attributable to equity holders of the Bank</b>		<b>7,715,984</b>	<b>21,402,637</b>

The 2021 and 2020 results are all from continuing operations.

The notes on the accompanying pages 32 to 79 form an integral part of these financial statements.

ZENITH BANK (UK) LIMITED  
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Zenith Bank (UK) Limited  
Statement of Financial Position

As at	Note	31 December 2021	31 December 2020
		US\$	US\$
<b>Assets</b>			
Cash and cash equivalents	10	882,609,330	787,588,384
Securities designated at fair value through profit or loss	11.1	10,529,212	11,054,949
Securities designated at fair value through other comprehensive income	11.2	1,280,759,668	971,378,629
Securities measured at amortised cost	12	186,251,678	175,451,938
Derivative financial assets	22.1	5,109,817	10,468,197
Loans and advances to banks	13	154,001,591	183,248,463
Loans and advances to customers	14	353,514,574	160,807,529
Property and equipment	15	3,690,371	4,512,682
Intangible assets	16	1,045,877	1,395,348
Deferred tax assets	17.1	1,135,311	202,142
Other assets	18	1,811,204	1,146,492
<b>Total assets</b>		<b>2,880,458,633</b>	<b>2,307,254,753</b>
<b>Liabilities</b>			
Deposits from banks	19	1,891,966,488	1,291,398,287
Deposits from customers	20	652,949,933	727,848,497
Repurchase agreements and other similar secured borrowing	21	45,573,102	-
Derivative financial liabilities	22.2	3,737,253	3,256,422
Current tax liabilities	17.2	1,038,468	363,468
Impairment allowance on off balance sheet assets		792,249	287,850
Lease obligation	23.1	2,957,523	4,252,988
Other liabilities	23.2	7,110,089	4,274,013
<b>Total liabilities</b>		<b>2,606,125,105</b>	<b>2,031,681,535</b>
<b>Equity</b>			
Share Capital	27	136,701,620	136,701,620
Reserves		543,670	4,231,821
Retained earnings		137,088,238	134,639,777
<b>Total equity</b>		<b>274,333,528</b>	<b>275,573,218</b>
<b>Total liabilities and equity</b>		<b>2,880,458,633</b>	<b>2,307,254,753</b>

The financial statements and accompanying notes on pages 32 to 79 were approved by the Board of Directors on 21 April 2022 and signed on its behalf by:

  
Jim Ovia  
Chairman

  
Udu Ovbiagele  
Chief Executive Officer

  
Adeyemi Paul-Taiwo  
Chief Financial Officer

ZENITH BANK (UK) LIMITED  
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Statement of Changes in Equity

For the year ended 31 December 2021	Share Capital	FVOCI Reserves	Retained Earnings	Total Equity
	US\$	US\$	US\$	US\$
<b>Balance as at 1 January 2021</b>	<b>136,701,620</b>	<b>4,231,821</b>	<b>134,639,777</b>	<b>275,573,218</b>
Profit for the year	-	-	11,404,135	11,404,135
Other comprehensive (expense)/income for the year (net of tax)	-	(3,688,151)	-	(3,688,151)
Dividends paid for prior year	-	-	(8,955,674)	(8,955,674)
<b>Balance as at 31 December 2021</b>	<b>136,701,620</b>	<b>543,670</b>	<b>137,088,238</b>	<b>274,333,528</b>
<b>Balance as at 1 January 2020</b>	<b>136,701,620</b>	<b>740,531</b>	<b>116,728,430</b>	<b>254,170,581</b>
Profit for the year	-	-	17,911,347	17,911,347
Other comprehensive (expense)/income for the year (net of tax)	-	3,491,290	-	3,491,290
<b>Balance as at 31 December 2020</b>	<b>136,701,620</b>	<b>4,231,821</b>	<b>134,639,777</b>	<b>275,573,218</b>

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

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Statement of Cash Flows

For the year ended 31 December	Note	2021 US\$	2020 US\$
<b>Cash flows from operating activities</b>			
Profit for the year		11,404,135	17,911,347
Adjustments for:			
Impairment provision charge	14	3,692,274	1,396,175
Depreciation of property and equipment	15	1,114,950	1,124,032
Amortisation of intangible assets	16	662,113	1,007,890
Interest expense on Right-of-use lease obligations	23.1	49,200	39,715
Income tax expense	9	2,232,071	3,971,499
Foreign currency translation gain – Right-of-use assets	15	(211,646)	-
Foreign currency translation (gain)/loss - Lease obligation	23.1	(307,066)	100,768
Foreign currency translation (gain)/loss - Corporation tax liability	17.2	(2,756)	256,863
Impairment on equity investments	8	66,644	715,000
		<b>18,699,919</b>	<b>26,523,289</b>
Decrease in loans and advances to banks		29,588,441	84,541,499
Increase in loans and advances to customers		(196,507,247)	(96,046,865)
Decrease/(increase) in securities designated at fair value through profit or loss		525,737	(1,823,987)
Increase in securities designated at fair value through other comprehensive income		(313,837,082)	(330,316,519)
Increase in other assets		(577,710)	(201,692)
Increase in deposits from banks		600,568,191	270,296,075
(Decrease)/increase in deposits from customers		(74,898,564)	326,808,797
Increase in repurchase agreements and other similar secured borrowing		45,573,102	-
Decrease/(increase) in derivative financial instruments (net)		5,839,211	(4,827,602)
Increase/(decrease) in other liabilities		2,836,076	(831,334)
Income tax paid	17.2	(1,768,909)	(8,396,858)
<b>Net cash generated from / (used in) operating activities</b>		<b>116,041,165</b>	<b>265,724,803</b>
<b>Cash flows from investing activities</b>			
Acquisition of securities measured at amortised cost		(42,913,212)	(55,052,328)
Proceeds from redemption of securities measured at amortised cost		32,279,901	5,513,488
Acquisition of property and equipment	15	(34,354)	(285,977)
Additions to Right-of-use assets	15	(46,639)	(533,606)
Acquisition of intangible assets	16	(312,642)	(384,305)
<b>Net cash (used in) investing activities</b>		<b>(11,026,946)</b>	<b>(50,742,728)</b>
<b>Cash flows from financing activities</b>			
Repayment of lease obligation	23.1	(1,084,238)	(181,888)
Addition of new lease obligation	23.1	46,639	533,606
Dividends paid to shareholders		(8,955,674)	-
<b>Net cash (used in) / generated from financing activities</b>		<b>(9,993,273)</b>	<b>351,718</b>
<b>Net increase of cash and cash equivalents</b>		<b>95,020,946</b>	<b>215,333,793</b>
Cash and cash equivalents as at 01 January		787,588,384	572,254,591
<b>Cash and cash equivalents as at 31 December</b>	10	<b>882,609,330</b>	<b>787,588,384</b>

The notes on the accompanying pages 32 to 79 form an integral part of these financial statements.

## Notes to the Financial Statements

### 1 General information

Zenith Bank (UK) Limited ('the Bank') is a private company, limited by shares. The Bank was incorporated, domiciled, and registered in the United Kingdom 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 UK-adopted International Accounting Standards (IAS) which is applicable to companies reporting under International Financial Reporting Standards (IFRS) and the Companies Act 2006.

### 2 Basis of preparation and significant accounting policies

#### **Basis of preparation**

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards (IAS) which is applicable to companies reporting under International Financial Reporting Standards (IFRS) and the Companies Act 2006 as set out in the relevant notes, based on historical cost convention modified to include the fair valuation of financial instruments to the extent required or permitted.

The Bank has elected to present its Statement of Financial Position in order of liquidity.

The Bank's reporting currency is US Dollars. The US Dollar is the currency of the primary economic environment in which the Bank operates and is regarded as the functional and presentational currency of the Bank.

Income and expense in foreign currencies are recorded in US Dollars 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.

#### **Restatement of prior year disclosure**

The fair value levelling disclosure for prior year under Note 25 'Financial instruments' (Fair value hierarchy section) has been restated. This results in a decrease in the value of Level 1 Derivative financial assets by US\$ 9.6 million and a corresponding increase in the value of Level 2 Derivative financial assets. The restatement was required to disclose the correct fair value levelling of these financial instruments in line with the principles of IFRS 13.

#### **(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, the pandemic, emerging global inflationary pressures and the Russia-Ukraine conflict.

The Directors have also considered the residual impact of the COVID-19 pandemic and the current economic environment in Nigeria 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 or may cast doubts on the Bank's ability to continue as a going concern.

The Directors have reviewed the Bank's profitability, capital, and liquidity positions. Zenith UK's capital and liquidity ratios as at 31 December 2021 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 are satisfied that it is appropriate to continue to adopt the going concern basis in preparing the Bank's financial statements.

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**Significant accounting policies**

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

**(b) IFRS 9 Financial Instruments**

**i. Classification and Measurement of Financial Assets and Liabilities**

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

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

The sale and purchase of financial instruments are accounted for on settlement date basis.

**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 including debt instruments are subsequently 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 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.

**Fair value through other comprehensive income**

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

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

**Fair value through profit or loss**

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

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

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**Financial liabilities**

Financial liabilities are either classified by the Bank as:

- Financial liabilities at amortised cost, or
- Financial liabilities 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**

Certain estimates and 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

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

**Stage 1** – 12-month ECL is calculated for 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 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. Interest income is calculated on the carrying amount of the loan net of expected credit loss allowance.

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.

**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.

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The criteria for determining whether credit risk has increased significantly varies based on individual circumstances of each loan 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 in Note 25 (*Sensitivity and impact analysis of ECL assessment* section). In certain instances, using judgement, and where possible relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if 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 ECL are:

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

The Bank has its own internal rating based on internally available information which has been mapped to statistics obtained from a ratings agency. Each counterparty is assigned an internal rating which is matched to data from external credit rating agency to ascertain PDs. 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), which represents the outstanding exposure net of cash collateral.

Off-balance sheet items are a part of the EAD within the ECL computation. These items are primarily comprising committed exposures which have not yet been drawn. The Bank applies a weighting based on historic behavioural utilisation of the facility to ascertain future EAD which is then used to calculate ECL.

If, in a subsequent period, the amount of an impairment loss decreased and the decrease could be objectively related to an event occurring after the impairment was recognised (such as an improvement in a 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 three economic scenarios (2020: four economic scenarios). These comprise: a central case, downturn case, and optimistic case. (2020: central case, upside case, downside case, 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.

#### **(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 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. The Bank applies First In First Out (FIFO) method in calculating and recognising trading gains or losses.

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**(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 in fee and commission income over time as a performance obligation is satisfied (for example, loan origination fees) in line with principles of IFRS 15. In fulfilling this, the following steps are taken into consideration:
  - o Identification of the contract
  - o Identification of separate performance obligations
  - o Determination of the transaction price
  - o Allocation of transaction price to performance obligations
  - o Recognition of revenue when each performance obligation is satisfied;
- (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.

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.

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

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

**(m) Cash and cash equivalents**

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

**(n) Provisions**

Provisions are recognised when the Bank has a present legal or constructive obligation because of past events, it is probable 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.

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**(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**

Deposits are initially recorded at fair value and subsequently measured at amortised cost. 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 of interest and principal.

**(s) Leases**

IFRS 16 applies to all leases except for licences 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.

The right of use asset will depreciate 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 and equipment and the lease liabilities are included within other liabilities.

The depreciation on right-of-use assets is calculated over the lease period. All right-of-use assets held by the Bank can be characterised as building leases on the Bank's offices.

**(t) Repurchase agreements and other similar secured borrowing**

Securities sold under agreements to repurchase (repurchase agreements) involve the Bank selling securities to a counterparty with an agreement entered into simultaneously to purchase the securities back at a fixed price at a future date. Since the Bank is purchasing the securities back at a fixed price at a future date, the risks and rewards have not been transferred from the Bank. The counterparty has the right to use the collateral pledged by the Bank in the event of default.

These agreements are treated as collateralised financing arrangements and are initially recognised at fair value. The party disbursing the cash takes possession of the securities serving as collateral for the financing and having a market value equal to, or in excess of, the principal amount loaned.

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**(u) Changes in accounting policies**

Except as noted below, the Bank has consistently applied the accounting policies as set out above 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 the initial date of application of January 1, 2021.

**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. The Bank did not rely on 'Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'.

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.

**(v) Future accounting developments**

As at 31 December 2021, 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 2021.

**New standards and interpretations not yet adopted**

**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.

**Disclosure of Accounting Estimate – Amendments to IAS 8**

In February 2021, the IASB issued amendments to IAS 8 that replace the definition of a change in accounting estimate with a definition of accounting estimates. Under the new definition, accounting estimates are clarified as monetary amounts in financial statements that are subject to measurement and uncertainty. Where an entity's accounting policy requires an item to be measured at monetary amounts that cannot be observed directly, it should develop an accounting estimate to achieve this objective. The amendments are effective for annual periods beginning on or after 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 UK-adopted IAS, 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, and the probability that the debtor will enter bankruptcy or financial reorganisation. Significant delinquency in payments is 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.
- Making management adjustments for data limitations including non-availability of external credit ratings for some corporate customers.

#### 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.

During the year, the Bank refined the methodology used to measure expected credit losses, to better reflect current economic realities and uncertainties.

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. New possible loss scenarios were identified, and probability weightings were ascertained and assigned to each scenario. Judgement was also applied, based on our credit experience with the Bank's 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.

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4a Interest income	2021	2020
	US\$	US\$
Derived from:		
Cash and cash equivalents	10,429,344	9,869,180
Securities designated at fair value through profit or loss	672,948	1,183,175
Securities designated at fair value through other comprehensive income	9,844,157	11,798,860
Securities measured at amortised cost	12,799,167	9,760,558
Loans and advances to banks	1,929,028	5,768,554
Loans and advances to customers	7,682,881	7,316,674
<b>Total</b>	<b>43,357,525</b>	<b>45,697,001</b>

Interest income recognised during the year from financial assets measured at amortised cost totalled US\$ 32,840,420 (2020: US\$ 32,714,966).

4b Interest expense	2021	2020
	US\$	US\$
Incurred on:		
Deposits from banks	1,139,707	4,330,822
Deposits from customers	3,927,931	5,317,326
Interest expense on Right-of-use lease obligations	49,200	39,715
<b>Total</b>	<b>5,116,838</b>	<b>9,687,863</b>

5 Fee and commission income	2021	2020
	US\$	US\$
Derived from:		
Loans	1,760,091	2,162,924
Trade Finance	6,815,850	5,369,089
Other	300,258	5,528
<b>Total</b>	<b>8,876,199</b>	<b>7,537,541</b>

6.1 Trading and other income	2021	2020
	US\$	US\$
Derived from:		
Fixed income trading	(19,153)	6,317,056
Forex trading	542,119	691,685
Other	598,380	1,063,043
<b>Total</b>	<b>1,121,346</b>	<b>8,071,784</b>

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

6.2 Revaluation loss	2021	2020
	US\$	US\$
Fair value movement on financial derivatives (net)	(7,893,112)	7,306,155
Exchange difference	3,588,538	(9,484,246)
<b>Total</b>	<b>(4,304,574)</b>	<b>(2,178,091)</b>

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<b>7 Personnel expenses</b>	<b>2021</b>	<b>2020</b>
	<b>US\$</b>	<b>US\$</b>
<i>Employment costs are as follows:</i>		
Wages and salaries - staff	11,837,232	10,967,598
Wages, salaries and other - Directors	1,125,168	1,046,604
Non-executive Directors' fees and emoluments	336,134	459,140
Pension contributions under defined contribution scheme	1,337,309	1,211,932
Compulsory social security obligations	1,469,452	1,812,338
Other staff costs	896,610	1,007,472
<b>Total</b>	<b>17,001,905</b>	<b>16,505,084</b>
Number of employees at year end including Directors	122	133
Average number of employees during the year including Directors	127	129

At year end the Bank had 30 (2020: 34) employees involved in customer facing roles and 92 (2020: 99) in administration.

<i>Included within employment costs are:</i>		
	<b>2021</b>	<b>2020</b>
	<b>US\$</b>	<b>US\$</b>
<b>Directors' remuneration and fees</b>		
Directors' fees, emoluments, salaries and other	1,461,302	1,505,744
Pension contributions	83,740	80,267
<b>Total</b>	<b>1,545,042</b>	<b>1,586,011</b>

The highest paid Director who served during 2021 received total emoluments of US\$ 808,968 (2020: US\$ 628,734), and their pension contributions were US\$ 35,099 (2020: US\$ 49,527).

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<b>8 Other expenses</b>	<b>2021</b>	<b>2020</b>
	<b>US\$</b>	<b>US\$</b>
Premises cost	824,905	782,307
Impairment on equity investments	66,644	715,000
Other administration costs	5,721,641	5,305,656
Total fees paid to the auditors	1,213,020	721,382
<b>Total</b>	<b>7,826,210</b>	<b>7,524,345</b>
<i>Auditors' remuneration;</i>		
Audit of UK statutory financial statements	1,111,935	614,814
<i>Non-audit services:</i>		
Other assurance related services	101,085	106,568
<b>Total</b>	<b>1,213,020</b>	<b>721,382</b>

Fees payable to the Bank's auditors for current year includes US\$ 168,475 relating to previous year.

Impairment on equity investments of US\$ 66,644 (2020: US\$ 715,000) relates to impairment of an equity holding received as part of a debt-for-equity swap on a legacy credit exposure.

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9 Income tax expense

The tax charge in the Statement of comprehensive income for 2021 is US\$ 2.2m (2020: US\$ 4.0m). These can be reconciled to the profit/(loss) per the Statement of comprehensive income as follows:

	2021 US\$	2020 US\$
Profit (loss) on ordinary activities before taxation	<u>13,636,206</u>	<u>21,882,846</u>
Profit (loss) on ordinary activities multiplied by the UK corporation tax rate of 19%	2,590,879	4,157,741
<b>Effects of:</b>		
- Expenses not deductible for tax	10,787	4,444
- Effect of tax rate changes	(338,517)	(100,021)
- Adjustments to tax charge in respect of previous periods	(31,077)	(90,618)
<b>Actual total tax charge / (credit)</b>	<u><b>2,232,071</b></u>	<u><b>3,971,499</b></u>

Prior period disclosure has been aligned with the current year as per IAS 21.

	2021 US\$	2020 US\$
Current tax - current year	2,048,555	4,055,511
Current tax - prior year adjustment	(31,077)	(90,618)
<b>Current tax - total</b>	<u><b>2,017,477</b></u>	<u><b>3,964,893</b></u>
Deferred tax - current year	553,111	88,832
Deferred tax - prior year	-	35,788
Deferred tax - rate change	(338,517)	(117,966)
<b>Deferred tax - total</b>	<u><b>214,594</b></u>	<u><b>6,654</b></u>
<b>Total tax charge/(credit)</b>	<u><b>2,232,071</b></u>	<u><b>3,971,499</b></u>
Effective tax rate	16.37%	18.15%

There are no income tax implications for the dividend proposed of US\$ 5,702,068 but which has not yet been paid.

**Factors that may affect future tax charges:**

The Directors have reviewed the level of the deferred tax asset of US\$ 1,135,311 (2020: 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 as at 31 December 2021 has been recognised at the 19% rate (2020: 19%). The Government has confirmed that the corporation tax rate will increase from 19% to 25% with effect from 1 April 2023.

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10 Cash and Cash Equivalents	2021	2020
	US\$	US\$
Petty cash	28,611	38,397
Cash with other banks	162,881,030	198,037,503
Money market placements	719,699,689	589,512,484
<b>Total</b>	<b>882,609,330</b>	<b>787,588,384</b>

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	2021	2020
	US\$	US\$
Securities (Sovereigns, Multilateral Development Banks)	10,529,212	11,054,949
<b>Total</b>	<b>10,529,212</b>	<b>11,054,949</b>

11.2 Securities designated at fair value through other comprehensive income	2021	2020
	US\$	US\$
Commercial paper	-	10,946,935
HQLAs (US, UK, and France Government Treasury Bills)	749,114,233	361,284,870
Other HQLAs (Bonds issued by Multilateral Development Banks)	367,747,235	434,035,422
Other securities (Bonds issued by Banks, Corporates and Sovereigns)	163,898,200	165,111,402
<b>Total</b>	<b>1,280,759,668</b>	<b>971,378,629</b>

Included in 'Other HQLAs (Bonds issued by Multilateral Development Banks)' above are ten (2020: fifteen) Variable interest rate bonds with a nominal value of US\$ 140,690,000 in the current year (2020: US\$ 253,345,629).

12 Securities measured at amortised cost	2021	2020
	US\$	US\$
Fixed interest rate bonds	192,617,658	181,984,347
Less: IFRS 9 Impairment loss allowance	(6,365,980)	(6,532,409)
<b>Total</b>	<b>186,251,678</b>	<b>175,451,938</b>

13 Loans and advances to banks	2021	2020
	US\$	US\$
Loans and advances to banks	46,237,394	40,947,560
Trade bills discounted and refinanced	109,093,444	143,971,719
Less: IFRS 9 Impairment loss allowance	(1,329,247)	(1,670,816)
<b>Total</b>	<b>154,001,591</b>	<b>183,248,463</b>

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14 Loans and advances to customers	2021	2020
	US\$	US\$
Loans and advances to individuals	5,827,286	4,309,152
Loans and advances to corporates	353,613,777	158,691,308
Less: IFRS 9 Impairment loss allowance	(5,926,489)	(2,192,931)
<b>Total</b>	<b>353,514,574</b>	<b>160,807,529</b>

*Movements in Impairment:*

Opening balance	(12,641,306)	(11,245,131)
<i>(Charge)/reversal for the year – IFRS 9 Expected Credit Loss (P&amp;L impact)</i>	<i>(3,642,957)</i>	<i>(389,584)</i>
<i>Charge for the year – IFRS 9 Expected Credit Loss (OCI impact)</i>	<i>(49,317)</i>	<i>(1,006,591)</i>
Total (charge)/reversal for the year – IFRS 9 Expected Credit Loss	(3,692,274)	(1,396,175)
<b>Closing balance</b>	<b>(16,333,580)</b>	<b>(12,641,306)</b>

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

	2021	2020
	US\$	US\$
Securities designated at fair value through other comprehensive income	(1,919,615)	(1,870,298)
Securities measured at amortised cost (Note 12)	(6,365,980)	(6,532,409)
Loans and advances to banks (Note 13)	(1,329,247)	(1,670,816)
Loans and advances to customers (Note 14)	(5,926,489)	(2,192,931)
Impairment on off- balance sheet assets - Undrawn commitments	(792,249)	(287,850)
Other assets	-	(87,002)
<b>Closing balance</b>	<b>(16,333,580)</b>	<b>(12,641,306)</b>

The impairment charge on 'Securities designated at fair value through other comprehensive income' is recognised in the FVOCI Reserve.

'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.

There are no 'Other assets' in the current year which are subject to impairment and therefore the ECL allowance for Other assets is nil (2020: US\$ 87,002).

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15 Property and equipment

	Right-of-use assets	Leasehold improvements	Computer equipment	Furniture, fixtures and fittings	Total
	US\$	US\$	US\$	US\$	US\$
<b>Cost</b>					
Balance as at 1 January 2021	4,866,219	1,820,507	1,123,933	674,657	8,485,316
Additions to right-of-use assets	46,639	-	-	-	46,639
Additions	-	-	34,354	-	34,354
Disposals	-	-	-	-	-
Translation difference	211,646	-	-	-	211,646
<b>Balance as at 31 December 2021</b>	<b>5,124,504</b>	<b>1,820,507</b>	<b>1,158,287</b>	<b>674,657</b>	<b>8,777,955</b>
<b>Accumulated depreciation</b>					
Balance as at 1 January 2021	1,407,518	891,535	1,038,059	635,522	3,972,634
Charge on right-of-use assets	839,535	-	-	-	839,535
Charge for the year	-	209,540	54,364	11,511	275,415
Disposals	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	<b>2,247,053</b>	<b>1,101,075</b>	<b>1,092,423</b>	<b>647,033</b>	<b>5,087,584</b>
<b>Net book value</b>					
<b>Balance as at 31 December 2021</b>	<b>2,877,451</b>	<b>719,432</b>	<b>65,864</b>	<b>27,624</b>	<b>3,690,371</b>
	Right-of-use assets	Leasehold improvements	Computer equipment	Furniture, fixtures and fittings	Total
	US\$	US\$	US\$	US\$	US\$
<b>Cost</b>					
Balance as 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	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	<b>4,866,219</b>	<b>1,820,507</b>	<b>1,123,933</b>	<b>674,657</b>	<b>8,485,316</b>
<b>Accumulated depreciation</b>					
Balance as at 1 January 2020	663,137	640,692	963,392	581,381	2,848,602
Charge on right-of-use assets	744,381	-	-	-	744,381
Charge for the year	-	250,843	74,667	54,141	379,651
Disposals	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	<b>1,407,518</b>	<b>891,535</b>	<b>1,038,059</b>	<b>635,522</b>	<b>3,972,634</b>
<b>Net book value</b>					
<b>Balance as at 31 December 2020</b>	<b>3,458,701</b>	<b>928,972</b>	<b>85,874</b>	<b>39,135</b>	<b>4,512,682</b>

Property and equipment have economic useful lives of over one year from the reporting date.

All right-of-use assets held by the Bank can be characterised as building leases on the Bank's offices.

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**16 Intangible assets**

	<b>2021</b>	<b>2020</b>
	<b>US\$</b>	<b>US\$</b>
<b>Cost</b>		
Balance at beginning of the year	9,467,219	9,082,914
Additions	312,642	384,305
<b>Balance at end of the year</b>	<b>9,779,861</b>	<b>9,467,219</b>
<b>Accumulated amortisation</b>		
Balance at beginning of the year	8,071,871	7,063,981
Charge for the year	662,113	1,007,890
<b>Balance at end of the year</b>	<b>8,733,984</b>	<b>8,071,871</b>
<b>Net book value</b>		
<b>Balance at end of the year</b>	<b>1,045,877</b>	<b>1,395,348</b>
Balance at beginning of the year	1,395,348	2,018,933

Intangible assets represent software licences purchased and internally developed software, and have economic useful lives of over one year from the reporting date.

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17.1 Deferred tax assets

2021	Brought forward	Credit for the year - P&L	Credit for the year - OCI	Carried forward
Assets	US\$	US\$	US\$	US\$
Accelerated capital allowances	(208,191)	20,977	-	(187,214)
Provisions	22,611	5,732	-	28,343
IFRS 9 transitional adjustments	1,391,497	177,861	-	1,569,358
FVOCI reserve	(993,798)	-	718,575	(275,223)
FRS 26 adjustments	(9,977)	10,024	-	47
<b>Total</b>	<b>202,142</b>	<b>214,594</b>	<b>718,575</b>	<b>1,135,311</b>

  

2020	Brought forward	Credit/(charge) for the year - P&L	Charge for the year - OCI	Carried forward
Assets	US\$	US\$	US\$	US\$
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)
<b>Total</b>	<b>1,050,871</b>	<b>(6,606)</b>	<b>(842,123)</b>	<b>202,142</b>

Deferred tax assets are recognised for accelerated depreciation and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets relate to temporary differences which are expected to reverse after one year from the reporting date.

17.2 Corporation tax liability

	2021	2020
	US\$	US\$
Opening balance	363,468	4,538,570
Current year tax	2,446,665	3,964,893
Tax payments	(1,768,909)	(8,396,858)
Translation difference	(2,756)	256,863
<b>Closing balance</b>	<b>1,038,468</b>	<b>363,468</b>

18 Other assets	2021	2020
	US\$	US\$
Prepayments	1,132,125	887,641
Other receivables	679,079	345,853
Less: Impairment allowance (see Note 14)	-	(87,002)
<b>Total</b>	<b>1,811,204</b>	<b>1,146,492</b>

Under 'Prepayments', other than prepaid expenses amounting to US\$ 26,775 (2020: US\$ 83,136), all other items expire within one year from the reporting date.

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

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19 Deposits from banks	2021	2020
	US\$	US\$
Term deposits	293,742,323	237,082,123
Demand deposits	1,598,224,165	1,054,316,174
<b>Total</b>	<b>1,891,966,488</b>	<b>1,291,398,297</b>

Term deposits include available-on-call cash collateral placed with the Bank by the Parent company of US\$ 106,271,371 (2020: US\$ 81,360,890) against which Trade Finance business is written. Demand deposits include interest-free funds from the Central Bank of Nigeria.

20 Deposits from customers	2021	2020
	US\$	US\$
Term deposits	461,947,590	540,219,765
Demand deposits	174,406,305	169,987,121
Saving deposits	16,596,038	17,641,611
<b>Total</b>	<b>652,949,933</b>	<b>727,848,497</b>

21 Repurchase agreements and other similar secured borrowing

Transfer of financial assets

The Bank enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties. Such financial assets are debt securities held by counterparties under repurchase agreements and do not qualify for derecognition. The following table analyses the carrying amount of such financial assets as at 31 December that did not qualify for derecognition and their associated financial liabilities:

	2021	2020
	US\$	US\$
Repayable in not more than three months	12,950,860	-
Repayable in more than one year but less than five years	32,622,242	-
<b>Total</b>	<b>45,573,102</b>	<b>-</b>

Nature of transaction	2021	2021	2020	2020
	Carrying amount of transferred assets US\$	Carrying amount of associated liabilities US\$	Carrying amount of transferred assets US\$	Carrying amount of associated liabilities US\$
Repurchase agreements	56,735,021	45,573,102	-	-
<b>Total</b>	<b>56,735,021</b>	<b>45,573,102</b>	<b>-</b>	<b>-</b>

The financial assets pledged as collateral for repurchase agreements are subject to standard terms and conditions such as the ability of the counterparty to take ownership of the collateral if the bank defaults on its payment under the repurchase agreement.

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22 Derivative financial instruments	2021	2020
	US\$	US\$
<i>Forward foreign exchange contracts:</i>		
22.1 Receivable	5,109,817	10,468,197
22.2 (Payable)	(3,737,253)	(3,256,422)

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

**23.1 Lease obligations**

*Movements in Lease obligations:*

	2021	2020
	US\$	US\$
Opening balance	4,252,988	3,760,787
Additions during the year	46,639	533,606
Payments made during the year	(1,084,238)	(181,888)
Interest expense on Right-of-use lease obligations	49,200	39,715
FX Translation difference	(307,066)	100,768
Closing balance	<u>2,957,523</u>	<u>4,252,988</u>

**23.2 Other Liabilities**

	2021	2020
	US\$	US\$
Accruals	2,770,670	3,163,010
Other payables	4,339,419	1,111,003
<b>Total</b>	<u>7,110,089</u>	<u>4,274,013</u>

'Accruals' relate to bonuses US\$ 664,917 (2020: US\$ 1,444,500), legal fees US\$ 20,474 (2020: US\$ 532,949), audit fees US\$ 1,253,454 (2020: US\$ 439,933), bank charges US\$ 190,406 (2020: US\$ 132,672), professional fees US\$ 153,649 (2020: US\$ 113,631), personnel costs related deductions of US\$ 432,215 (2020: US\$ 483,095) and others of US\$ 55,555 (2020: US\$ 16,230). These are current items which will be paid during the next financial year.

'Other payables' reflects current items and mainly comprises payments received from ordering banks in favour of third-party beneficiaries, unearned income, current obligations regarding pension and tax deducted from personnel salaries. Excluding unearned income which relates to fees subject to Effective Interest Rate (EIR), all other items under 'Other payables' are current items which will be paid during the next financial year.

During the year, pension costs of US\$ 1,337,309 were charged to the income statement (2020: US\$ 1,211,932). Pension obligations outstanding on 31 December 2021 were US\$ 113,374 (2020: US\$ 119,006).

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24 Commitments and contingencies

Trade finance contingencies	2021	2020
	US\$	US\$
Letters of credit and acceptances (including cash-backed)	237,872,987	126,450,789
Guarantees	27,607,443	43,279,808
Undrawn committed facilities	272,503,993	115,492,351
<b>Total</b>	<b>537,984,423</b>	<b>285,222,948</b>
Cash collateral and other high-quality mitigations	402,893,852	303,922,232

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 above in Note 14.

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25 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:

2021	Designated as at FVTPL US\$	FVOCI - debt instruments US\$	Amortised cost US\$	Total carrying amount US\$	Total fair value US\$
Cash and cash equivalents	-	-	882,609,330	882,609,330	882,609,330
Securities designated at fair value through profit or loss	10,529,212	-	-	10,529,212	10,529,212
Securities designated at fair value through other comprehensive income	-	1,280,759,668	-	1,280,759,668	1,280,759,668
Securities measured at amortised cost	-	-	186,251,678	186,251,678	190,381,581
Loans and advances to banks	-	-	154,001,591	154,001,591	152,958,690
Loans and advances to customers	-	-	353,514,574	353,514,574	349,066,453
Derivative financial assets	5,109,817	-	-	5,109,817	5,109,817
<b>Total financial assets</b>	<b>15,639,029</b>	<b>1,280,759,668</b>	<b>1,576,377,173</b>	<b>2,872,775,870</b>	<b>2,871,414,751</b>
Deposits from banks	-	-	1,891,966,488	1,891,966,488	1,891,475,038
Deposits from customers	-	-	652,949,933	652,949,933	646,104,931
Repurchase agreements and other similar secured borrowing	-	-	45,573,102	45,573,102	45,192,238
Derivative financial liabilities	3,737,253	-	-	3,737,253	3,737,253
<b>Total financial liabilities</b>	<b>3,737,253</b>	<b>-</b>	<b>2,590,489,523</b>	<b>2,594,226,776</b>	<b>2,586,509,460</b>

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2020	Designated as at FVTPL	FVOCI - debt instruments	Amortised cost	Total carrying amount	Total fair value
	US\$	US\$	US\$	US\$	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	166,768,390
Derivative financial assets	10,468,197	-	-	10,468,197	10,468,197
<b>Total financial assets</b>	<b>21,523,146</b>	<b>971,378,629</b>	<b>1,307,096,314</b>	<b>2,299,998,089</b>	<b>2,316,232,411</b>
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
<b>Total financial liabilities</b>	<b>3,256,422</b>	<b>-</b>	<b>2,019,246,794</b>	<b>2,022,503,216</b>	<b>2,017,057,124</b>

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**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:

2021	Level 1	Level 2	Level 3	Total
Assets	US\$	US\$	US\$	US\$
Cash and cash equivalents	882,609,330	-	-	882,609,330
Securities designated at fair value through profit or loss	10,529,212	-	-	10,529,212
Securities designated at fair value through other comprehensive income	1,280,759,668	-	-	1,280,759,668
Securities measured at amortised cost	186,251,678	-	-	186,251,678
Derivative financial assets	-	5,109,817	-	5,109,817
Loans and advances to banks	-	-	154,001,591	154,001,591
Loans and advances to customers	-	-	353,514,574	353,514,574
	<b>2,360,149,888</b>	<b>5,109,817</b>	<b>507,516,165</b>	<b>2,872,775,870</b>

2020	Level 1	Level 2	Level 3	Total
Assets	US\$	US\$	US\$	US\$
Cash and cash equivalents	787,588,384	-	-	787,588,384
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 (restated)	-	10,468,197	-	10,468,197
Loans and advances to banks	-	-	183,248,463	183,248,463
Loans and advances to customers	-	-	160,807,529	160,807,529
	<b>1,945,473,900</b>	<b>10,468,197</b>	<b>344,055,992</b>	<b>2,299,998,089</b>

The fair value levelling disclosure for prior year above has been restated. This results in a decrease in the value of Level 1 Derivative financial assets by US\$ 9.6 million and a corresponding increase in the value of Level 2 Derivative financial assets. The restatement was required to disclose the correct fair value levelling of these financial instruments in line with the principles of IFRS 13.

26 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 subjected.

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

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

**Credit Risk Management**

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

The Bank mainly lends and takes risk on 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 looks 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 balanced judgement is therefore necessary in such areas.

Since the start 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 2021 was Nil (2020: Nil).

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**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.

**Credit Loss Modelling Scenarios**

The probability of distribution is assigned to the portfolio based on the geography of the counterparty. In certain instances, the geography of the parent company or the borrowing client is adopted based on significant dependency of a subsidiary operation.

The portfolio is split into three geographical regions namely Nigeria, Rest of Africa and Rest of World with the following probabilities assigned to each:

Probability of Distribution by geographical region	Scenario A (Business-As-Usual)	Scenario B (Downturn)	Scenario C (Optimistic)
Nigeria	55%	20%	25%
Rest of Africa	45%	35%	20%
Rest of World	70%	20%	10%

**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 an Internal Credit Risk ("ICR") grade.

ICR grades are assigned to each counterparty. These ratings are compared to the rating for the same counterparty at inception to determine the extent of migration (i.e., increase or decrease in rating). For the purpose of determining whether there has been a significant increase in credit risk ("SICR"), the credit ratings must have dropped within one 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.

**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 an indication of a significant increase in credit risk since inception.
- Stage 3- assets that are deemed to be in default or credit-impaired.

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**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 CQS since its classification to Stage 2 (or 2 successive CQS notch downgrades since its inception). In this case, it is classified as 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 a significant increase in credit risk:	As a default assumption any asset whose credit ratings (internal and external) drops corresponds to a drop in a 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 will be 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 Council of the European Union.	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.
Stage 2 to Stage 3 reclassification, which are in default, or which have become credit impaired.	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) since its classification to Stage 2 (or 2 successive CQS notch downgrades since its inception or 1 CQS drop since last assessment and staging) is deemed to be in default.	The Bank considers several factors in assessing whether there is an indication credit impairment. 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) General 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 counterparty 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 the basis of ECL calculation due to classifications from one stage to another due to 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.
- Effects of foreign currency translations at different review periods, for assets denominated in foreign currencies.
- Changes to the 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 corporate default rates).

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.

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 at the 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 references publicly available PD data, which are adjusted as necessary to reflect the current economic cycle. 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 all exposures, excluding Corporate loans to which LGD of 40% is assigned, in line with the Basel II requirements.

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 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 prorated. 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").

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IFRS 9 ECL Staging Analysis:

2021 US\$	ECL Stage 1	ECL Stage 2	ECL Stage 3	Total ECL
Securities designated at fair value through other comprehensive income	1,848,811	70,804	-	1,919,615
Securities measured at amortised cost	3,858,840	2,507,140	-	6,365,980
Loans and advances to banks	1,329,247	-	-	1,329,247
Loans and advances to customers	5,236,789	689,700	-	5,926,489
Impairment on off balance sheet assets	792,249	-	-	792,249
Other assets	-	-	-	-
<b>Total</b>	<b>13,065,936</b>	<b>3,267,644</b>	<b>-</b>	<b>16,333,580</b>

  

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
<b>Total</b>	<b>10,235,734</b>	<b>2,318,570</b>	<b>87,002</b>	<b>12,641,306</b>

Sectoral breakdown of ECL on Loans and advances:

Loans and advances to customers	2021			2020		
	Gross exposure	Impairment allowance	Impairment as % of Gross exposures	Gross exposure	Impairment allowance	Impairment as % of Gross exposures
	US\$	US\$	US\$	US\$	US\$	US\$
<i>Industry:</i>						
Agriculture	27,343,569	64,139	0.2%	-	-	-
Communication	1,501,114	42,110	2.8%	-	-	-
Consumer Credit	4,326,172	119,276	2.8%	4,309,152	188,889	4.4%
General Commerce	43,767,742	264,168	0.6%	64,281,152	429,092	0.7%
Government	86,561,307	1,600,097	1.8%	38,741,536	635,775	1.6%
Manufacturing	31,883,974	1,132,490	3.6%	-	-	-
Oil and Gas	42,880,267	1,048,599	2.4%	24,178,608	789,654	3.3%
Power	1,139,343	11,569	1.0%	-	-	-
Real Estate and Construction	4,432,437	76,946	1.7%	1,368,628	57,129	4.2%
Transportation	30,240,213	102,428	0.3%	-	-	-
Others	85,364,925	1,464,667	1.7%	30,121,384	92,392	0.3%
	<b>359,441,083</b>	<b>5,926,489</b>	<b>1.6%</b>	<b>163,000,460</b>	<b>2,192,931</b>	<b>1.3%</b>

'Others' represents gross exposure of football receivables financing transactions of US\$ 85,364,925 outstanding as at year end (2020: US\$ 30,121,384).

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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 changes in the weightings (sensitive to a change in the weighting of each scenario). A 10% increase in the weighting of the 'Downturn' scenario (with a corresponding 10% decrease in the weighting of the 'Base Case' scenario) across the portfolio would result in an increase of US\$ 744,284 in the expected credit loss allowance.

Sensitivity Analysis: Change in scenario weightings assigned

The Bank's ECL methodology comprised four scenarios in prior year. In the current year, the model has been revised to consider only three scenarios. However, the methodology as far as it relates to the scenarios adopted is comparable year on year.

The scenarios adopted in the new methodology take into consideration geographies in which the Bank has risk exposures as these are more representative of the performance of the Bank's portfolio. These scenarios seek to reflect the probability weightings that correlate to the likelihood that changes in the economies of those jurisdictions could result in better or worse conditions as compared to base case scenario.

Given the changes in the methodology, the analysis presented has been modelled to reflect sensitivity around Scenario A in relation to which other scenarios are determined. Thus, this approach is deemed to be most representative of the possible changes to the expected credit loss estimate presented in the financial statements.

The case below considers alternative scenario weightings to reflect an increase in credit risk compared to Scenario A.

Case: Scenario weightings increase by 10% for Scenario B and decrease by 10% for Scenario A respectively. Scenario C remains unchanged.

2021	Base Case	Case ( 'Downturn' increases by 10%; 'Base Case decreases by 10%)	Change in ECL Allowance Incr/(Decr)	
	US\$	US\$	US\$	%
Stage 1	13,065,936	13,659,498	593,562	5%
Stage 2	3,267,644	3,418,366	150,722	5%
Stage 3	-	-	-	0%
<b>Total ECL Allowance</b>	<b>16,333,580</b>	<b>17,077,864</b>	<b>744,284</b>	<b>5%</b>

Scenario weightings changes to 65% (down from 75%), 10% (remains unchanged), 25% (up from 10%) and 5% (remains unchanged) respectively for Scenario A (Base Case: ratings stay the same), Scenario B (1-notch CQS improvement), Scenario C (1-notch CQS deterioration) and Scenario D (2-notch CQS deterioration) respectively across the portfolio.

2020	Base Case (Weightings 75% : 10% : 10% : 5%)	Case (Weightings change to 65% : 10% : 20% : 5%)	Change in ECL Allowance Incr/(Decr)	
	US\$	US\$	US\$	%
Stage 1	10,235,734	10,826,787	591,053	6%
Stage 2	2,318,570	2,426,946	108,376	5%
Stage 3	87,002	87,002	-	0%
<b>Total ECL Allowance</b>	<b>12,641,306</b>	<b>13,340,735</b>	<b>699,429</b>	<b>6%</b>

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**Probability of Default (PD)**

The credit allowance estimate is also sensitive to changes in PD. Worsening PDs by 10bps results in an increase of US\$ 1,165,454 (2020: US\$ 1,139,127).

**Sensitivity Analysis: Change in PDs assigned**

The case below considers alternative PDs to reflect an increase in credit risk compared to Scenario A.

Case: PDs deteriorate by 10% for each credit rating incrementally for scenarios A, B and C respectively.

2021	Base Case	Case (PDs worsen by 10%)	Change in ECL Allowance Incr/(Decr)	
	US\$	US\$	US\$	%
Stage 1	13,065,936	14,159,240	1,093,304	8%
Stage 2	3,267,644	3,339,794	72,150	2%
Stage 3	-	-	-	0%
<b>Total ECL Allowance</b>	<b>16,333,580</b>	<b>17,499,034</b>	<b>1,165,454</b>	<b>7%</b>

PDs deteriorate by 10% for each CQS incrementally for Scenario A (Base Case: ratings stay the same), Scenario B (1-notch CQS improvement), Scenario C (1-notch CQS deterioration) and Scenario D (2-notch CQS deterioration) respectively across the portfolio.

2020	Base Case	Case (PDs worsen by 10%)	Change in ECL Allowance Incr/(Decr)	
	US\$	US\$	US\$	%
Stage 1	10,235,734	11,259,300	1,023,566	10%
Stage 2	2,318,570	2,412,754	94,184	4%
Stage 3	87,002	87,002	-	0%
<b>Total ECL Allowance</b>	<b>12,641,306</b>	<b>13,759,056</b>	<b>1,137,750</b>	<b>9%</b>

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 2021.

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.

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**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\$ 3.5bn (2020: US\$ 2.7bn).

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:

<b>Collateral analysis</b>	<b>2021</b>	<b>2020</b>
	<b>US\$</b>	<b>US\$</b>
Cash	63,067,477	93,290,488
Property and equipment	14,397,409	9,439,728
<b>Total</b>	<b>77,464,886</b>	<b>102,730,216</b>

'Cash' in the above table includes pledges over account balances of US\$ 57,402,954 (2020: US\$ 87,625,965) 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\$ 33,821,582 (2020: US\$ 61,564,233), 'Structured Trade Finance transactions' of Nil (2020: Nil) 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\$ 291,607,384 (2020: US\$ 139,627,783).

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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. 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:

2021	Europe	United Kingdom	Nigeria	Rest of Africa	United States of America	Rest Of World	Total
Assets	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Cash and cash equivalents	120,080,575	684,019,136	504,794	95,532	77,427,279	482,014	882,609,330
Securities designated at fair value through profit or loss	-	-	4,088,286	6,440,926	-	-	10,529,212
Securities designated at fair value through other comprehensive income	27,979,973	94,680,648	52,201,638	45,951,603	696,773,041	363,172,765	1,280,759,668
Securities measured at amortised cost	-	9,344,211	60,049,525	87,678,116	-	29,179,826	186,251,678
Loans and advances to banks	-	3,533,959	133,337,306	4,955,018	-	12,175,308	154,001,591
Loans and advances to customers	32,399,950	65,875,450	35,394,303	84,961,210	-	134,883,661	353,514,574
Derivative financial assets	-	4,194,983	914,834	-	-	-	5,109,817
<b>Total assets</b>	<b>180,460,498</b>	<b>861,648,387</b>	<b>286,490,886</b>	<b>230,082,405</b>	<b>774,200,320</b>	<b>539,893,574</b>	<b>2,872,775,870</b>

2020	Europe	United Kingdom	Nigeria	Rest of Africa	United States of America	Rest Of World	Total
Assets	US\$	US\$	US\$	US\$	US\$	US\$	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	398,228,400	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
<b>Total assets</b>	<b>146,928,438</b>	<b>681,801,938</b>	<b>301,958,553</b>	<b>192,975,473</b>	<b>519,650,546</b>	<b>456,683,141</b>	<b>2,299,998,089</b>

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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.

Securities designated at fair value through profit or loss	2021	2020
	US\$	US\$
Rated AAA to AA-	-	990,000
Rated A+ to A-	-	15,053
Rated BBB+ to BBB-	-	72,584
Rated BB+ to BB-	-	1,133,555
Rated B+ to B-	9,979,203	8,034,950
Rated CCC+ and below	550,009	808,807
<b>Total</b>	<b>10,529,212</b>	<b>11,054,949</b>

  

Securities designated at fair value through other comprehensive income	2021	2020
	US\$	US\$
Rated AAA to AA-	1,070,469,816	793,968,673
Rated A+ to A-	35,771,427	40,817,839
Rated BBB+ to BBB-	52,247,371	53,534,343
Rated BB+ to BB-	35,409,602	24,054,549
Rated B+ to B-	86,861,452	59,003,225
<b>Total</b>	<b>1,280,759,668</b>	<b>971,378,629</b>

  

Securities measured at amortised cost	2021	2020
	US\$	US\$
Rated BBB+ to BBB-	9,939,525	27,165,590
Rated BB+ to BB-	48,517,767	33,551,157
Rated B+ to B-	121,702,857	109,673,022
Rated CCC+ and below	6,091,529	5,062,169
<b>Total</b>	<b>186,251,678</b>	<b>175,451,938</b>

  

Loans and advances to banks	2021	2020
	US\$	US\$
Rated A+ to A-	3,533,959	-
Rated BBB+ to BBB-	17,027,916	-
Rated B+ to B-	133,439,716	183,248,463
<b>Total</b>	<b>154,001,591</b>	<b>183,248,463</b>

Included in Loans and advances to banks is the amount of US\$ 3,534,621 which represents placements with banks whose maturity is greater than 90 days (2020: nil).

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

Loans and advances to customers	2021	2020
	US\$	US\$
<i>Industry:</i>		
Agriculture	27,279,430	-
Communication	1,459,004	-
Consumer Credit	4,206,896	4,120,263
General Commerce	43,503,574	63,852,060
Government	84,961,210	38,105,761
Manufacturing	30,751,484	-
Oil and Gas	41,831,668	23,388,954
Power	1,127,774	-
Real Estate and Construction	4,355,491	1,311,499
Transportation	30,137,785	-
Others	83,900,258	30,028,992
	<b>353,514,574</b>	<b>160,807,529</b>

'Others' represents football receivables financing transactions (net of ECL impairment allowance) of US\$ 83,900,258 outstanding as at year end (2020: US\$ 30,028,992).

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Loan loss allowance

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

	2021	2021	2020	2020
	12-month ECL	Lifetime ECL not credit-impaired	12-month ECL	Lifetime ECL not credit-impaired
	US\$	US\$	US\$	US\$
<b>Loans and advances to banks</b>				
Balance as at 1 January	1,670,816	-	3,768,115	-
Net measurement of loss allowance	-	-	-	-
New financial assets originated or purchased	1,577,763	-	2,969,689	-
Financial assets that have been derecognised	(1,670,816)	-	(3,768,115)	-
Due to changes in methodology and risk parameters	(248,516)	-	(1,298,873)	-
<b>Balance as at 31 December</b>	<b>1,329,247</b>	<b>-</b>	<b>1,670,816</b>	<b>-</b>
	2021	2021	2020	2020
	12-month ECL	Lifetime ECL not credit-impaired	12-month ECL	Lifetime ECL not credit-impaired
	US\$	US\$	US\$	US\$
<b>Loans and advances to customers</b>				
Balance as at 1 January	2,157,893	35,038	1,146,567	1,235,436
Net measurement of loss allowance	1,473,920	-	33,750	-
New financial assets originated or purchased	3,065,340	13,183	2,553,143	-
Financial assets that have been derecognised	(369,118)	(35,038)	(1,285,641)	(980,703)
Due to changes in methodology and risk parameters	(1,091,246)	676,517	(289,926)	(219,695)
<b>Balance as at 31 December</b>	<b>5,236,789</b>	<b>689,700</b>	<b>2,157,893</b>	<b>35,038</b>

The above table includes movements on Other assets.

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	2021	2021	2020	2020
Securities designated at fair value through other comprehensive income	12-month ECL	Lifetime ECL not credit-impaired	12-month ECL	Lifetime ECL not credit-impaired
	US\$	US\$	US\$	US\$
Balance as at 1 January	1,782,264	88,034	824,768	38,939
Net measurement of loss allowance	23,253	(28,856)	30,116	4,151
New financial assets originated or purchased	1,771,925	18,194	1,669,809	73,938
Financial assets that have been derecognised	(1,698,738)	(4,236)	(742,429)	(9,131)
Due to changes in methodology and risk parameters	(29,893)	(2,332)	-	(19,863)
<b>Balance as at 31 December</b>	<b>1,848,811</b>	<b>70,804</b>	<b>1,782,264</b>	<b>88,034</b>

	2021	2021	2020	2020
Securities measured at amortised cost	12-month ECL	Lifetime ECL not credit-impaired	12-month ECL	Lifetime ECL not credit-impaired
	US\$	US\$	US\$	US\$
Balance as at 1 January	4,336,911	2,195,498	1,634,332	1,156,257
Net measurement of loss allowance	101,935	(346,518)	1,586,136	206,707
New financial assets originated or purchased	1,748,496	869,088	1,505,361	1,025,714
Financial assets that have been derecognised	(1,713,162)	(97,089)	(388,918)	(11,781)
Due to changes in methodology and risk parameters	(615,340)	(113,839)	-	(181,399)
<b>Balance as at 31 December</b>	<b>3,858,840</b>	<b>2,507,140</b>	<b>4,336,911</b>	<b>2,195,498</b>

	2021	2021	2020	2020
Impairment on off- balance sheet assets	12-month ECL	Lifetime ECL not credit-impaired	12-month ECL	Lifetime ECL not credit-impaired
	US\$	US\$	US\$	US\$
Balance as at 1 January	287,850	-	1,440,717	-
Net measurement of loss allowance	68,728	-	(1,171,116)	-
New financial commitments	139,774	-	-	-
Financial assets that have been derecognised	-	-	-	-
Due to changes in methodology and risk parameters	295,897	-	18,249	-
<b>Balance as at 31 December</b>	<b>792,249</b>	<b>-</b>	<b>287,850</b>	<b>-</b>

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The table below represents year-on-year movements in Gross exposures and changes to Impairment:

31 December 2021	Gross exposures				Impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance as at beginning of the year	1,469,645,184	31,550,529	87,002	1,501,282,715	10,235,734	2,318,570	87,002	12,641,306
Reassessment of ECL allowance on exposures brought forward from prior year	15,394,795	1,704,712	-	17,099,507	1,667,836	(375,374)	-	1,292,462
Assets originated or purchased during the year	1,514,276,271	9,106,171	-	1,523,382,442	8,303,298	900,465	-	9,203,763
Assets de-recognised during the year (including assets that matured)	(1,047,198,505)	(6,330,592)	-	(1,053,529,097)	(5,451,834)	(136,363)	-	(5,588,197)
Write-offs	-	-	(87,002)	(87,002)	-	-	(87,002)	(87,002)
Attributable to changes in risk parameters	-	-	-	-	(1,689,098)	560,346	-	(1,128,752)
Transfer to (from):								
Stage 1	(17,934,764)	17,934,764	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-
Off-balance sheet items (Undrawn committed facilities)	32,124,769	-	-	32,124,769	-	-	-	-
<b>Balance as at end of year, including off-balance sheet exposures</b>	<b>1,966,307,750</b>	<b>53,965,584</b>	<b>-</b>	<b>2,020,273,334</b>	<b>13,065,936</b>	<b>3,267,644</b>	<b>-</b>	<b>16,333,580</b>
Less: Allowance for credit losses on off-balance sheet exposures	-	-	-	-	(792,249)	-	-	(792,249)
<b>Balance as at end of the year</b>	<b>1,966,307,750</b>	<b>53,965,584</b>	<b>-</b>	<b>2,020,273,334</b>	<b>12,273,687</b>	<b>3,267,644</b>	<b>-</b>	<b>15,541,331</b>

Write-offs relate to Other assets which are included under Loans and advances to customers in 'Loan loss allowance' section above.

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31 December 2020	Gross exposures				Impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance as 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	-	-	-	-	-	-	-	-
Off-balance sheet items (Undrawn committed facilities)	5,555,556	-	-	5,555,556	-	-	-	-
<b>Balance as at end of year, including off-balance sheet exposures</b>	<b>1,475,200,740</b>	<b>31,550,529</b>	<b>87,002</b>	<b>1,506,838,271</b>	<b>10,235,734</b>	<b>2,318,570</b>	<b>87,002</b>	<b>12,641,306</b>
Less: Allowance for credit losses on off-balance sheet exposures	-	-	-	-	(287,850)	-	-	(287,850)
<b>Balance as at end of the year</b>	<b>1,475,200,740</b>	<b>31,550,529</b>	<b>87,002</b>	<b>1,506,838,271</b>	<b>9,947,884</b>	<b>2,318,570</b>	<b>87,002</b>	<b>12,353,456</b>

## 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 guidance issued by the Prudential Regulation Authority ("PRA"), primarily the Liquidity Coverage Ratio ("LCR"). Although the Net Stable Funding ratio ("NSFR") was not a regulatory requirement as at reporting date, the Bank monitors it internally. New NSFR regulation came into effect from January 2022.

The on-going management of liquidity is aimed at balancing cash flows within forward rolling time bands so that, under normal conditions, the Bank can meet all its payment obligations as and when they fall due. The Bank has developed an Internal Liquidity Adequacy Assessment Process ("ILAAP"), as required by the PRA, to support its liquidity management process as well as to consider the liquidity positions under plausible stress scenarios. The results of which are reviewed by Executive Management and the Board on a regular basis.

Executive Management are responsible for ensuring that the Bank can meet its obligations when they fall due. 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.

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

2021	On demand	Less than 3 months	Between 3 & 12 months	1 to 5 Years	Greater than 5 years	Carrying amount
	US\$	US\$	US\$	US\$	US\$	US\$
<b>Assets</b>						
Cash and cash equivalents	162,909,642	719,741,271	-	-	-	882,650,913
Securities designated at fair value through profit or loss	-	-	6,336	1,811,693	8,935,090	10,753,119
Securities designated at fair value through other comprehensive income	212,864	315,292,373	441,530,571	521,237,956	27,253,091	1,305,526,855
Securities measured at amortised cost	-	11,608,014	17,656,190	163,918,093	45,320,687	238,504,984
Loans and advances to banks	5,256,258	93,586,254	14,473,601	48,671,719	-	161,987,832
Loans and advances to customers	24,748,225	75,449,835	73,698,336	200,840,311	26,124,504	400,861,211
Derivative financial assets	-	8,221	5,493,508	-	-	5,501,729
<b>Total assets</b>	<b>193,126,989</b>	<b>1,215,685,968</b>	<b>552,860,542</b>	<b>936,479,772</b>	<b>107,633,372</b>	<b>3,005,786,643</b>
<b>Liabilities</b>						
Deposits from banks	1,732,839,791	88,720,499	70,508,773	-	-	1,892,069,063
Deposits from customers	191,923,903	235,549,494	145,158,954	83,759,813	-	656,392,164
Repurchase agreements and other similar secured borrowing	-	12,950,860	-	32,854,515	-	45,805,375
Derivative financial liabilities	-	10,668	4,034,956	-	-	4,045,624
<b>Total Liabilities</b>	<b>1,924,763,694</b>	<b>337,231,521</b>	<b>219,702,683</b>	<b>116,614,328</b>	<b>-</b>	<b>2,598,312,226</b>
<b>2020</b>						
	On demand	Less than 3 months	Between 3 & 12 months	1 to 5 Years	Greater than 5 years	Carrying amount
	US\$	US\$	US\$	US\$	US\$	US\$
<b>Assets</b>						
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
<b>Total assets</b>	<b>236,541,929</b>	<b>939,502,712</b>	<b>654,844,819</b>	<b>449,801,261</b>	<b>120,686,473</b>	<b>2,401,177,194</b>
<b>Liabilities</b>						
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
<b>Total Liabilities</b>	<b>1,352,366,018</b>	<b>345,023,377</b>	<b>186,563,168</b>	<b>145,280,806</b>	<b>-</b>	<b>2,029,233,369</b>

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.

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

<b>31 December</b>	<b>2021</b>	<b>2020</b>
	<b>US\$</b>	<b>US\$</b>
Less than 3 months	226,412	759,271
Between 3 & 12 months	681,592	608,917
1-5 years	2,049,519	2,884,800
<b>Lease obligation</b>	<b>2,957,523</b>	<b>4,252,988</b>

The current lease arrangement expires in 2025.

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**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 contracts. 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.

**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 arises from normal banking activities, particularly from the receipt of deposits and the placement of funds denominated in foreign currencies. It is the policy of the Bank to match 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 as at 31 December 2021 as a basis of disclosing the Bank's.

2021	US Dollars	Sterling Pounds	Euro	Other	Total
	US\$	US\$	US\$	US\$	US\$
Assets	2,299,980,328	255,663,549	214,319,722	102,812,271	2,872,775,870
Liabilities	(2,111,316,368)	(345,196,228)	(111,630,293)	(26,083,887)	(2,594,226,776)
<b>Net open position</b>	<b>188,663,960</b>	<b>(89,532,679)</b>	<b>102,689,429</b>	<b>76,728,384</b>	<b>278,549,094</b>

  

2020	US Dollars	Sterling Pounds	Euro	Other	Total
	US\$	US\$	US\$	US\$	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)
<b>Net open position</b>	<b>372,393,112</b>	<b>(217,359,131)</b>	<b>48,177,517</b>	<b>74,283,375</b>	<b>277,494,873</b>

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**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 present a 5% appreciation / depreciation against the Bank's functional currency to demonstrate the exchange risk the bank is exposed to. If all other variables are held constant the tables below presents the impact on the Bank's profit or loss if these currency movements had occurred.

2021	Sterling Pounds	Euro	Other
	US\$	US\$	US\$
Net foreign Currency Exposure	(89,532,679)	102,689,429	76,728,384
Impact of 5% appreciation against US\$	(4,476,634)	5,134,471	3,836,419
Impact of 5% depreciation against US\$	4,476,634	(5,134,471)	(3,836,419)

  

2020	Sterling Pounds	Euro	Other
	US\$	US\$	US\$
Net foreign Currency Exposure	(217,359,131)	48,177,517	74,283,375
Impact of 5% appreciation against US\$	(10,867,957)	2,408,876	3,714,169
Impact of 5% depreciation against US\$	10,867,957	(2,408,876)	(3,714,169)

**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 2% increase/(decrease) 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.

2021	Less than 3 months	Between 3 & 12 months	1 to 5 Years	Greater than 5 years	Total
	US\$	US\$	US\$	US\$	US\$
<b>Gap sensitivity</b>					
Net gap	293,295,562	362,966,897	439,724,828	(1,095,987,287)	-
Profit or Loss Impact (Increase)	(724,702)	(3,543,276)	(22,740,657)	(6,314,426)	(33,323,061)
Profit or Loss Impact (Decrease)	741,186	3,655,279	24,729,792	7,433,422	36,559,679

  

2020	Less than 3 months	Between 3 & 12 months	1 to 5 Years	Greater than 5 years	Total
	US\$	US\$	US\$	US\$	US\$
<b>Gap sensitivity</b>					
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

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.

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**Capital management**

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total statutory capital as at 31 December 2021 is US\$ 274.3 million (2020: \$ 275.6 million).

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

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.

<b>Capital Resources</b>	<b>2021</b>	<b>2020</b>
	<b>US\$</b>	<b>US\$</b>
Share capital	136,701,620	136,701,620
Reserves	543,670	4,231,821
Retained earnings	137,088,238	134,639,777
<b>Total statutory capital</b>	<b>274,333,528</b>	<b>275,573,218</b>
<b>Regulatory adjustments (unaudited)</b>		
IFRS 9 transition adjustment	9,100,000	7,436,419
Value adjustments due to the requirements for prudential valuation	(1,300,136)	(995,989)
Other intangible assets before deduction of deferred tax liabilities	(1,045,877)	(1,395,348)
<b>Total regulatory capital (CET1) (unaudited)</b>	<b>281,087,515</b>	<b>280,618,300</b>

CET1 represents Common Equity Tier 1 capital.

Included in Retained earnings is Profit for the year of US\$ 11,404,135 (2020: US\$ 17,911,347).

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 and capital requirements are assessed under plausible future scenarios 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 complied with all capital requirements prescribed by the PRA.

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27 Share Capital	2021	2020
	US\$	US\$
<i>Issued:</i>		
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
	<b>136,701,620</b>	<b>136,701,620</b>

**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 2021 and 2020, the issued share capital comprises 136,701,620 ordinary shares with a par value of \$1 each.

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28 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\$ 7,863 (loans) and US\$ 301,747 (deposits) as at 31 December 2021 (2020: US\$ 3,788 (loans), US\$ 116,912 (deposits)).

The KMPs' remuneration during the year is as follows:

	2021	2020*
	US\$	US\$
Short-term employee benefits	2,285,120	2,300,483
Post-employment benefits	208,466	196,192
Termination benefits	412,829	282,846
<b>Total</b>	<b>2,906,415</b>	<b>2,779,522</b>

Post-employment benefits represent the Bank's contribution to the defined pension contribution plan for KMP.

\*Prior year disclosure was expressed in GBP, and the same has been stated in USD equivalent in line with current year reporting to facilitate comparability.

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*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:

	2021	2020
	US\$	US\$
<b>Assets (amounts included in Loans and advances to banks in Note 13)</b>		
Amounts due from parent company	63,917,772	122,016,843
<b>Total</b>	<b>63,917,772</b>	<b>122,016,843</b>
<b>Liabilities (amounts included in Deposits from banks in Note 19)</b>		
Amounts due to parent company	697,127,994	371,695,201
Amounts due to other members of the Group	33,706,125	26,984,658
<b>Total</b>	<b>730,834,119</b>	<b>398,679,859</b>
<b>Fees and commissions</b>		
Received from parent company	4,779,705	7,268,061
Received from other members of the Group	329,427	335,715
<b>Total</b>	<b>5,109,132</b>	<b>7,603,776</b>
The above table includes Trading and other income.		
<b>Interest income</b>		
Received from parent company	3,376,039	6,386,753
Received from other members of the Group	25,215	255,234
<b>Total</b>	<b>3,401,254</b>	<b>6,641,987</b>
<b>Interest expense</b>		
Paid to parent company	171,416	326,475
Paid to other members of the Group	-	161,855
<b>Total</b>	<b>171,416</b>	<b>488,330</b>

**29 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.

**30 Significant events after the reporting period**

The Directors confirm that there are no significant events since 31 December 2021 that require disclosure or adjusting in the financial statements.