“Our desire to surpass superior performance is a major source of our strength as it generates passion and energy which fuels growth and helps us sustain our brand equity over the short and long term”

ZENITH

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

BOARD OF DIRECTORS

Macaulay Pepple	Chairman
Jim Ovia	Group Managing Director/Chief Executive
Godwin Emefiele	Deputy Managing Director
Peter Amangbo	Executive Director
Elias Igbinakenzua	Executive Director
Apollos Ikpobe	Executive Director
Udom Emmanuel	Executive Director
Andy Ojei	Executive Director
Chief E. M. Egwuenu	Director
Sir S. P. O. Fortune Ebie	Director
Prof. Prince L.F.O. Obika	Director
Sir Steven Omojafor	Director
Babatunde Adejuwon	Director
Alhaji Baba Tella	Director
Alhaji Lawal Sani	Director

COMPANY SECRETARY
Michael O. Otu

AUDITORS
PriceWaterHouse Coopers
(Chartered Accountants)

CORRESPONDENT BANKS

Australia and New Zealand Bank
40, Bank Street, Canary Wharf
London E14 5EJ

HSBC Bank Plc South Africa
Corporate, Investments
Banking & Markets
2, Exchange Square
85, Maude Street Sandown,
Sandton 2196 P.M.B X785434
Sandton 2146, South Africa

Commerzbank Ag
Financial Institutions (ZFI)
Commerzebank AG
60261 Frankfurt am Main

Citibank
Citibank London
Canary Square
Canary Wharf
London E14 5LB
England

Citibank N.Y.
111 Wall Street
N.Y. 10043
New York

Deutsche Bank
1, Appold Street, Broad Gate
London EC2A 2HE

Fortis Bank
Camomile Court
23 Camomile Street, London
EC3A 7PP

BNP Paribas
BFI Energy & Commodities
Export Project,
21, Place du Marche St.
Honore
75031 Paris Cedex 01

JP Morgan Chase Bank London
9, Thomas More Street
Trinity Tower
London E1W 1YT, UK

JP Morgan Chase Bank New York
1111, Polaris Parkway,
Columbus
Ohio 43240 USA

ZENITH

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enquiry@zenithbank.com www.zenithbank.com

Zenith Bank Plc is one of the biggest and most profitable banks in Nigeria with total assets of N1.66 trillion as at the end of December 2009.

The bank was established in May 1990 and started operations in July same year as a commercial bank. It became a public limited company on June 17, 2004 and was listed on the Nigerian Stock Exchange on October 21, 2004. The bank presently has a shareholder base of about one million, an indication of the strength of the Zenith brand.

The operating results of the bank since it went public in 2004 indicate an impressive performance on all parameters. Total assets grew by 759 per cent from N193.3 billion as at the end of June 2004 to N1.66 trillion in December 2009. Within the same period, shareholders funds rose from N15.6 billion to N337.8 billion, indicating an increase of 2065 per cent while total deposit jumped by 830 per cent from N131 billion to N1.2 trillion.

Recent financial performance has been equally impressive with results for the fifteen months ending December 2009 showing gross earnings of N277 billion and profit before tax of N35 billion. Profit after tax for the period was N20.6 billion.

> *"At Zenith Bank, speed, efficiency and flexibility are abiding watchwords. The bank's customer-focused approach to service delivery consistently reinforces its value creation processes towards assisting customers in achieving their goals and aspiration."*

Operating from its head office located at 87, Ajose Adeogun Street, Victoria Island, Lagos, Nigeria, with over three hundred and fifty (350) branches and business offices nationwide, Zenith Bank has presence in all the state capitals, the Federal Capital Territory (FCT) as well as major cities and towns in Nigeria. The bank also maintains a strong presence along the West Africa coast with subsidiaries in Accra, Ghana (Zenith Bank, Ghana), The Gambia and Freetown, Sierra Leone (Zenith Bank, Sierra Leone) as well as in Europe through Zenith Bank UK Limited. This is in addition to a representative office in Johannesburg, South Africa.

At Zenith Bank, speed, efficiency and flexibility are abiding watchwords. The bank's customer-focused approach to service delivery consistently reinforces its value creation processes towards assisting customers in achieving their goals and aspiration. The bank has over the years strategically invested in and deployed cutting edge technology and infrastructure to improve service delivery. At Zenith Bank, products and services are designed to suit the demands of corporate and individual customers. The expertise developed over the years enables Zenith Bank to provide efficient financial services including, but not limited to, Corporate and Commercial Banking Services, E-business Solutions including local and international cards, Treasury and Cash Management Services, Foreign Exchange and Trade Finance Services, Funds/Assets Management, Private Banking, Investment Banking and Financial Advisory Services.

The bank's array of specialised financial services is delivered through its subsidiaries, including Zenith Capital (the investment banking arm); Zenith Securities Limited (a securities trading and asset management company); Zenith Registrars Limited (share registration services); Zenith General Insurance Company Limited (an

> *"In January 2009, Zenith Bank was named 'Best Bank in Private Banking in Nigeria' (2009) by Euromoney. The bank was also named 'Best Bank in Nigeria' for 2008 by the same publication. It also emerged the 'Best Global Banking Champion' at the 2009 ThisDay Award for Excellence. Also in January 2009, the bank was adjudged the 'Most Customer-focused Bank in Nigeria (Corporate) from a survey conducted by foremost consulting firm, KPMG."*

insurance and risk underwriting company) and Zenith Pensions Limited (a pensions custodian management company).

Zenith Bank has pioneered several e-products and services to satisfy the yearnings of its teeming customers. Such products include Zmobile, a service which allows customers transact their banking businesses using their mobile phones. Alertz, a message alert system which enables customers monitor all transactions on their accounts via short text messages delivered to their mobile phones. For Zenith Bank excellent service delivery and development of superior asset quality, strong capital base, professionalism and corporate governance have provided the grounds for consistently high returns to stakeholders. The bank maintains sound corporate governance culture in line with global best practices.

The impressive growth pattern and performance over the years have earned Zenith Bank excellent ratings from local and international agencies. Standard and Poor's currently rates the bank ngA/-/ngA1 on Nigeria National Scale and B+/Negative/B on counterparty Credit Ratio. Fitch Ratings currently rates Zenith Bank AA- (nga) on National Scale and B+/ Long-Term IDR.

In January 2009, Zenith Bank was named 'Best Bank in Private Banking in Nigeria' (2009) by Euromoney. The bank was also named 'Best Bank in Nigeria' for 2008 by the same publication. It also emerged the 'Best Global Banking Champion' at the 2009 ThisDay Award for Excellence. Also in January 2009, the bank was adjudged the 'Most Customer-focused Bank in Nigeria (Corporate) from a survey conducted by foremost consulting firm, KPMG. The survey, which focused on corporate customers of banks, including companies in a variety of sectors, found that they were most satisfied with the services rendered by Zenith Bank. In June 2009 Zenith Bank was recognized as the bank with the 'Best Asset Quality in Nigeria' by Financial Standard newspaper. Earlier in October 2008, Zenith Bank was named Africa's Best Global Bank by the African Banker at an impressive ceremony held at the IMF/World Bank meeting in Washington DC. In 2007, Zenith was recognized by the Council of the Nigerian Stock Exchange (NSE), as the 'Quoted Company of the Year.'

Over the years the Zenith brand has become synonymous with the use of Information and Communication Technology (ICT) in banking and generally increasing the performance standards in the Nigerian banking industry. The bank's main service delivery channels remain its business offices (branches and cash offices), which currently stand at over 300 while also offering electronic banking services and channels, such as Internet banking, bills payment platforms, and telephone banking services amongst others. These business offices are located in prime business and commercial cities in each state of the federation and they are easily accessible to the 22 Central Bank of Nigeria's clearing zones all over Nigeria.

Within the first decade of commencing operations, the bank made its mark in profitability and all other performance indices in Nigeria and has maintained this position to date, just behind other banks that commenced businesses several decades ago.

Vision and Mission

From inception Zenith Bank clearly set out to distinguish itself in the banking industry through its service quality, drive for a unique customer experience and the calibre of its customer base. Today, it is easily associated with the following attributes in the Nigerian banking industry:

- Innovation
- Good financial performance
- Stable and Dedicated Management Team
- Highly skilled personnel
- Leadership in the use of Information and Communication Technology
- Strategic Distribution Channels
- Good Asset Quality

The Vision;

".....to build the Zenith brand into a reputable international financial institution recognised for innovation, superior customer service and performance while creating premium value for all stakeholders".

The Mission;

"....establish a presence in all major economic and financial centres in Nigeria, Africa and indeed all over the world; creating premium value for all stakeholders"

The key strategies used to drive the vision above are as follows:

Delivering superior service experience to all our customers at all times.

Develop deeper and broader relationship with all clients and strive to understand their individual and industry peculiarities with a view to developing specific solutions for each segment of our customer base.

Optimally expand our operations by adding new distribution channels and entering into new markets where opportunities exist.

Maintain our position as a leading service provider in Nigeria, while expanding our operations internationally in West Africa and the financial capitals of the world.

Strive to be a leading service provider in Nigeria by continuing to build on longstanding relationships, capabilities and the strength of our brand and reputation.

Expand our business through the establishment of key subsidiaries for the provision of non-bank financial services to accentuate the service offerings and experience of our customers.

Continually enhance our processing and systems platforms to deliver new capabilities and improve operational efficiencies and achieve economies of scale.

Zenith Bank, from inception, places a high premium on the pivotal role of exceptional service delivery in its drive to consistently exceed customer expectations. Thus, the bank has not only put in place, appropriate strategy to meet and surpass customer expectations, but also ensures that such a strategy is being constantly honed and fine-tuned in tune with the changing taste and sophistication of the customer. The underlying philosophy is for the bank to remain at all times, a customer-focused or customer-centric organization, with a clear understanding of its market and environment.

This vision had at various times in the life of the bank, led to assigning critical and pervasive roles to Total Quality Management (TQM), Customer Service Ambassadors, Operation Service Excellence Teams, among others. Thus, at all times, all structures and processes are fashioned to drive consistent improvement in the quality of service delivery. Any lapse at any stage of the service delivery chain is viewed seriously as 'service obstruction', and attracts appropriate sanction.

Zenith Bank, as a child of the 'Information Age', laid the foundation of its structures and processes on cutting-edge Information and Communications Technology (ICT) infrastructure. This ensures that every operation/transaction is carried out via a medium that makes for speed, utmost flexibility, accuracy and convenience for the customer. Thus, in Zenith Bank, all activities are anchored on the E-platform, ensuring service delivery through the electronic media to all customers irrespective of place, time and distance. This has aided the achievement and sustenance of deeper and broader relationship with all clients, the peculiarities of their individual or industry needs not-withstanding.

Today, Zenith Bank has taken customer satisfaction to a height where encomiums, accolades and laurels come in droves as testimony to exceptional quality of the bank's services. Thus, a recent industry-wide survey conducted by KPMG Professional Services on customer service quality among Nigeria banks, showed Zenith Bank as the "Most Customer-focused Bank" in the country. This goes to affirm a tradition of superior service quality that has become a heritage of Zenith Bank.

As a pathfinder in ICT-enabled banking in Nigeria, Zenith Bank has leveraged its in-depth understanding of the local business environment and global financial markets to develop unique e-solutions to meet specific customer needs. The unique deployment of ICT to customer service delivery has made the Zenith franchise synonymous with e-banking. The bank's e-products range covers virtually all services and fall into three broad categories:

· Payment / Collection Solutions;
· Card Solutions, and
· Reporting Tools.

Some of these products are explained below:

PAYMENT/COLLECTION SOLUTIONS

Electronic Point of Sale an alternative electronic funds collection channel for customer - merchants who currently collect cash for goods and services.
Sal-Pay Solutions for our corporate customers who do not require multiple levels of authorizers to effect their employee salary payments.

Zenith ATM is an electronic payment platform for basic banking transactions.

Zenith Flowline Application is an automated cheque writing solution that eliminates physical cheque writing thus enhancing corporate payment system.

Zenith Automated Direct Payment System (ADPS) is an electronic payment solution for corporate customers that eliminate manual writing of many cheques and the associated delays.

Zenith Corporate Pay is a product for corporate customers to handle all classes of payments including salary, multiple utilities payments and payments to third parties generally.

Zenith Mobile Commerce: with the use of the mobile phone, customers can perform various financial transactions on-line such as:

- Airtime purchase
- Banking
- Bill Payment
- GSM Postpaid
- Pay DSTV etc.

This service is made available to customers currently on the ETRANZACT platform.

CARD SOLUTIONS

Etranzact Card is an online card for use not only on Point of Sale (POS) and internet but also mobile phones.

Zenith Swiftpay is a payment solution on which the key distributor schemes are anchored. The product is targeted at manufacturers and their key distributors.

Zenith Automated School Solutions is an electronic solution through which students' administration and registration procedures are captured seamlessly and efficiently. The product is deployed in partnership with our technical partners, Socketworks Limited.

Z-SAVE CARD is an online debit/Photo ID card for Zenith savings account holders. It is an electronic means of withdrawing money, making purchases and checking balances in an account. It can be used to make payments or withdrawals from any of the channels on the Interswitch network - ATM, POS and Web channels.

Zenith Credit Card is a member of the MasterCard brand for Zenith account holders, offering an approved line of credit with up to 45 days, interest free. There are three main categories: CLASSIC RED, GOLD and PLATINUM.

Zenith Charge Card, another member of the Zenith MasterCard family created for non-Zenith account holders and having the same benefits of a credit card except that it requires collateral.

Web Surfer Card is a MasterCard brand exclusively for internet payments. It is a prepaid reloadable card for use only on the internet, providing extra security for Zenith card holders.

Zenith Travelex Cash Passport is an electronic replacement of the traveler's cheque the way you know it!
Zenith Easy Card is an online debit card for Zenith bank current account holders, providing an electronic platform for all types of payment and ATM withdrawals on the Interswitch network.

VpayCard is a local VISA debit card with the same characteristics and features as our EazyCard.
EasyPay/Easy Trade is a special merchant service for customers (merchants) who want to collect electronic funds for their goods and services via the web.

REPORTING TOOLS

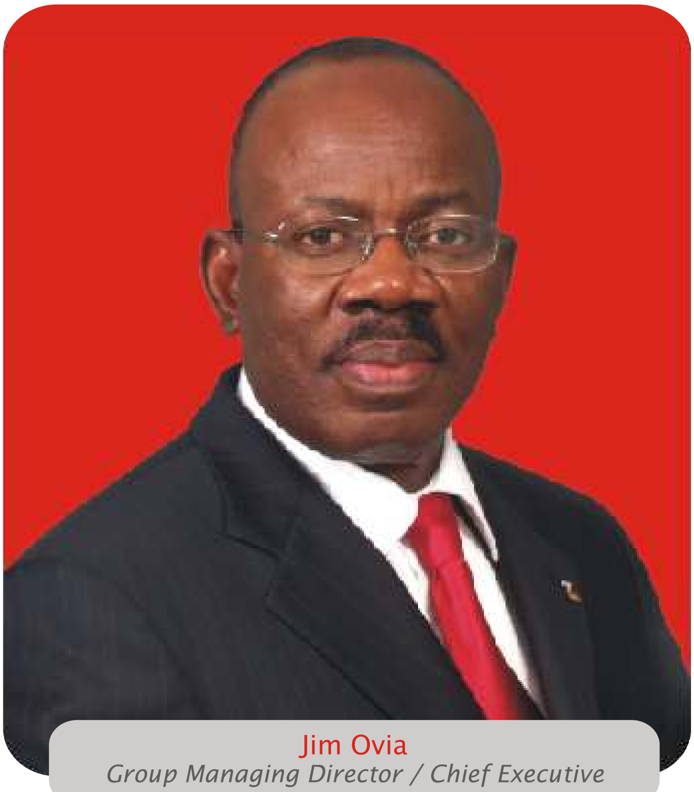
Zenith Notification Suite is a wide range of electronic notification solutions which include the following:
(i) Notification of withdrawals and deposit transactions.
(ii) Notification of deposits only
(iii) Other transaction notifications:-

- Shipping Documents
- BC Notification Bills for Collection
- LC Notification Letter of Credit
- Form M Notification (Approval & Scanning Stage)
- RAR Notification (Risk Assessment Report)
- Monthly statements notifications

The notifications are delivered via email or mobile SMS technologies.

Zenith Internet Banking affords customers a wide range of transaction activities which include the following:
- Check account balances & access transaction history
- Cheque book & Draft request
- View & download account statements.
- Cheque Confirmation
- View real time transactions activity especially for corporate customers
- Bulk Payment (One to Many)
- Download monthly statements
- Self to Self transactions
- Inter (You to anybody in Zenith); Intra (You to You)
- Bill Payment
- View Master Card transactions

Zenith Telelink and Mobile banking products anchor our range of mobile banking transactions and enquiries using both land and mobile phones.



Jim Ovia
Group Managing Director / Chief Executive

This report will be my last Annual CEO Letter as Managing Director/Chief Executive of Zenith Bank as I will be retiring after twenty years of service. Our Board of Directors has formally announced my successor, Godwin Emefiele who is a pioneer staff of the Bank. He has been the Deputy Managing Director of the Bank for the past nine years. Godwin is a seasoned banker of high integrity with a clear strategic focus and enduring commitment to Zenith Bank. I am confident he will offer excellent leadership and guide the Group successfully to greater heights.

During my twenty years of service as CEO, the Bank witnessed exponential growth in Shareholders' Funds from the N20 million minimum paid-up capital in 1990 to N335 billion as at December 31, 2009. The past two decades has witnessed a wide variety of economic peaks and troughs; from heady growth to global financial crises. The Zenith Bank Group has demonstrated its resilience irrespective of business cycle, given our strategic focus and conservative business model.

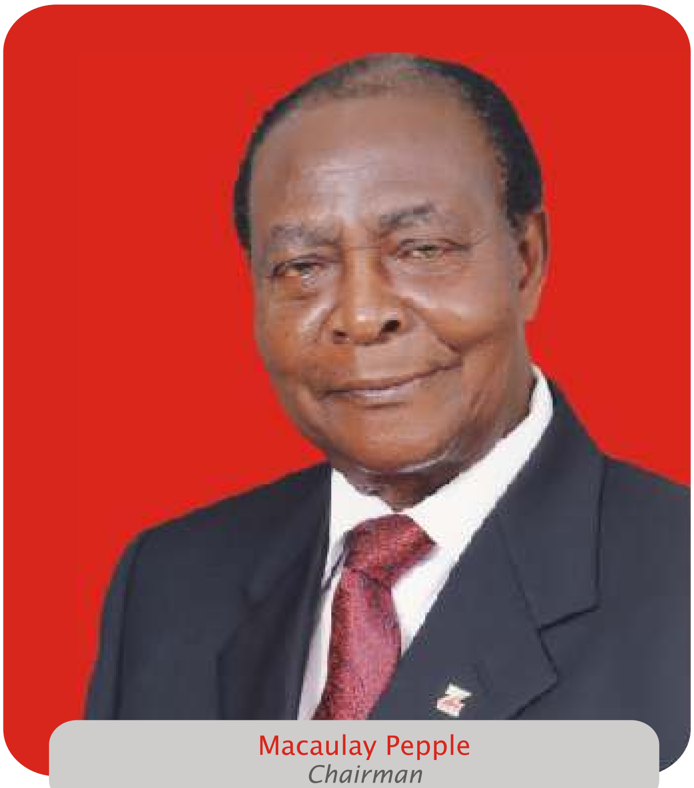
Together with other forward thinking financial institutions, Zenith Bank contributed to the reshaping of Nigeria's banking landscape, redefining customer service and branding whilst playing a role in contributing towards the improvement of the environment through strategic corporate social responsibility.

"Together with other forward thinking financial institutions, Zenith Bank contributed to the reshaping of Nigeria's banking landscape, redefining customer service and branding whilst playing a role in contributing towards the improvement of the environment through strategic corporate social responsibility."

As an early adopter of technology, Zenith Bank has leveraged its ICT capabilities to create an enduring competitive advantage. We believe that our focus on innovation is a key enabler in the success of our organization. Structures are already in place to ensure the sustainability of this critical component of our business model going forward.

I would like to recognize the tremendous support of all stakeholders and, in particular, the outstanding contributions of the Board of Directors, management and staff during my tenure. The combined intellectual capital and dedication of all employees have helped shape Zenith into the world-class institution it is today.

I am confident that under the leadership of Godwin Emefiele, the Bank will continue to draw upon its superior people, excellent service culture and continuous deployment of state of the art technology to elevate the Group to greater heights.



Macaulay Pepple
Chairman

Fellow Shareholders, Invited Guests, Gentlemen of the Press, Distinguished Ladies and Gentlemen;

I am very pleased to welcome you all to the 19th Annual General Meeting (AGM) of Zenith Bank Plc. It is also my privilege to present to you the Annual Report and Financial Statements for the fifteen-month period ended December 31, 2009. The span of this accounting year was dictated by the adjustment to conform to the new policy of uniform year-end for all deposit money banks put in place by the monetary authorities. This also means that, going forward, our financial year will now run as twelve calendar months ending December 31, every year.

At this outset, I deem it appropriate to do some review of the socio-economic environment in which our bank carried out its business during the fifteen-month period. This is not only pertinent but also imperative, given the fact that the period under review was entirely overcast by the global financial crisis and its ripples in the domestic economy. It was indeed a period hallmarked by a variety of challenges; but it is gratifying to note that our dynamic bank characteristically weathered all storms; and in fact, we have cause to remain proud of our pedigree.

THE GLOBAL ECONOMY

The uncertainty unleashed on the global economy by the financial and economic crisis that set in late 2007 sequel to the collapse of the sub-prime lending market in the United States continued into the period under review. Most national economies faced sharp downward spiral while some went into economic recession. Economies worldwide slowed for most part of this period as credit tightened, unemployment soared and international trade declined. Banks' solvency came under question as credit crunch prevailed, with weak investor confidence all impacting on global stock markets, which suffered huge losses during late 2008 and better part of 2009. However, national governments, global financial institutions and central banks have been responding with unprecedented stimulus packages, expansionary monetary and fiscal policies, and institutional bailouts; thus, reducing uncertainty and systemic risk in the financial system.

By the second half of 2009, the recession in the United States and some other major economies in Europe and Asia had begun to recedeleading to considerable optimism by the end of the year. In its World Economic

Outlook (WEO), October 2009 edition, the International Monetary Fund (IMF) asserted that the global economy appeared to be expanding, pulled up by the strong performance of Asian economies and modest recovery in other parts of the world. It added that growth in most advanced economies was dependent on government stimulus packages. Also, an IMF research note released on December 30, 2009, attributed the recovery of some economies to commodity price increases, noting that those prices would rise further in 2010 as world economic activities expand after the unprecedented global crisis.

SUB-SAHARAN AFRICA

As noted by the International Monetary Fund in its October 2009 Regional Economic Outlook (REO) on the region, the global economic crisis had hit Sub-Saharan Africa hard, reducing the economic growth of the region to just one per cent in 2009 after a period of sustained growth. The recession has also slashed the exports of many Sub-Saharan African countries and disrupted capital flows. However, in many of these countries, prudent macroeconomic policies pursued in recent times have provided some counterpoise to the negative effects of the slowdown. Accordingly, most of the countries have been able to use a mix of fiscal (raising public spending) and monetary policies (stimulus packages) to stem the recessionary pull, and put their economies on the path of recovery. Furthermore, the IMF notes that the budding recovery in the global economy is expected to sustain the revival in Sub-Saharan Africa's growth. We share in this optimism.

"In the face of the very challenging environment during the period under review, Zenith Bank continued to post very impressive performance. Although there was a decline in a few performance parameters, the financial results of the Group for the fifteen months ended December 31, 2009, are yet a proof of the durability and resilience of the Zenith Brand."

THE NIGERIAN ECONOMY

In the fifteen months under review, the Nigerian economy operated under the direct and indirect effects of the global financial crisis and efforts to curtail and contend with them. The reduction in the country's foreign currency earnings, occasioned by a falling oil price, led to a weakening exchange rate. Also, owing to the crash of share prices the market capitalization of the Nigerian Stock Exchange dropped by over 50 per cent. Government on its part came up with a number of stimulus packages, along with fresh initiatives on banking sector reform. In all this, sustaining macro-economic stability with some modicum of growth was at the core of economic policies.

This translated to fiscal and monetary polices of government focusing on reducing the rate of inflation, ensuring exchange rate stability and reducing interest rates. However, mixed results were achieved in these regards. While the exchange rate deteriorated markedly, the inflation targets were almost met. Thus, the average exchange rate of the Naira against the US dollar, in the face of the foreign exchange challenges of the period, depreciated from N116.02/US$1 as at end-September 2008 to N130.75/US$1 at end-December 2008 and further to N147.60/US$1 as at end-December 2009. On the other hand, inflation rate (year-on-year) which stood at 13.0 per cent as at end-September 2008, closed the year at 15.10 but decelerated to 12.0 per cent at end-December 2009.

In Gross Domestic Product (GDP) terms, the economy which grew at a rate of 5.98 per cent in 2008 (as against 9.8 % target), achieved a projected figure of 6.90 per cent in 2009 (a rise of almost one per cent), according to preliminary estimates of the National Bureau of Statistics. This is slightly below the 7.50 per cent target for 2009. This growth trend was driven by a number of factors, including favourable revenue inflow during the second half of 2009 arising in part from high crude oil prices in the international market. From a level of US$41.12 per barrel in January 2009, the average crude price rose to about US$70.00 per barrel at end-June 2009; hitting US$80.00 at the close of the year. There was also improved oil production during the second half of the year due in part to the relative peace in the Niger Delta region sequel to the success of the government amnesty programme. Other sectors that contributed to the growth during the period include agriculture, wholesale and retail trade as well as telecommunications.

During the period under review, Fitch Ratings maintained the BB- Sovereign Rating it assigned the country in May 2008. The new rating released in July 2009 stated that Nigeria obtained a sovereign rating of BB- as in the previous assessment. The local currency rating was also maintained at BB-, reflecting the impressive development of the domestic debt market in recent years. The report noted that debt market accounts for about 90 per cent of public debt and since late 2008, has extended maturities up to 20 years. On its part, Standard and Poor's (S & P) lowered Nigeria's rating outlook from stable to negative.

In the banking sector, the Central Bank of Nigeria embarked on a number of reform initiatives to improve corporate governance, reporting, transparency and risk management in the deposit money banks. The apex bank also intended to influence the cost and availability of credit and asset prices as well as encourage the flow of credit to productive investments. In influencing interest rates, money supply and inflation, the apex bank severally adjusted the Monetary Policy Rate (MPR) and other variables during the period under review. It reduced the MPR from 9.75 per cent at end-September 2008 to 8.00 per cent in March 2009; and further to 6.00 per cent in June 2009 at which it closed the year. It similarly altered the cash reserve ratio (CRR) and the liquidity ratio, among others"to lubricate the system".

> *"As a bank, we are monitoring developments both in the local and global economy, and applying pragmatism and dynamism. Obviously, we are not unmindful of the demands and obligations inherent in our environment; but this is why we have entrenched global best practices in every facet of our operations. We also ensure that all these are anchored on good corporate governance."*

In the capital market, the impact of the global economic meltdown and developments in the local environment foisted a downward movement on all indicators of the market. The Nigerian Stock Exchange (NSE) All-share Index (ASI) dropped by 33.8 per cent to close at 20, 827.17 points in 2009. The Index had in 2008 dropped by 45.8 per cent to close at 31, 450.78 points. This performance reflects a significant reduction in the prices of equities during the period under review. In the same vein, the market capitalization of the Exchange dropped by 26.50 per cent, from N9.56 trillion to stand at N7.03 trillion at end-December 2009. It had in 2008 declined by 28.1 per cent. Also, the decline in market capitalization resulted mainly from equity price losses, and the delisting of 64 securities during 2009.

It is worthy of mention that even with the bearish trend in the market, Zenith Bank Plc still ranked among the top performers in the market by all indices. Its streak of excellent performances, as in the previous years, earned it a number of accolades and prestigious awards, locally and internationally during the period under review. Some of these awards include: 'Best Bank in Private Banking in Nigeria 2009' by The Euromoney Magazine; 'Best Global Banking Champion' Thisday Award of Excellence (2009), 'Most Customer-Focused Bank 2008' by KPMG; 'Bank of the Year 2008' by ThisDay Newspaper; 'Best Global Bank in Africa 2008' by African Banker Awards, among others.

FINANCIAL RESULTS

In the face of the very challenging environment during the period under review, Zenith Bank continued to post very impressive performance. Although there was a decline in a few performance parameters, the financial results of the Group for the fifteen months ended December 31, 2009, are yet a proof of the durability and resilience of the Zenith Brand. These results are also an eloquent testimony to the continued sound financial health of the Group. For the bank, gross earning was N254.20 billion, representing a 34 per cent increase over last year's figure of N190.12 billion. Profit after tax stood at N18.37 billion as at end-December 2009. Total assets declined slightly to N1.57 trillion, from N1.68 trillion of the previous year. Also, total deposits dropped marginally to N1.11 trillion in the period under review, from N1.16 trillion in 2008; while shareholders' fund stood at N328.38 billion in 2009, from N338.48 billion in 2008.

As a Group, the performance indices were no less cheering. Thus, the Group gross earnings rose 31 per cent, from N211.64 billion in 2008 to N277.30 billion in 2009. Profit after tax for the Group stood at N20.60 billion during the period under review. Group total deposit dropped by one per cent, from N1.188 trillion in 2008 to N1.173 trillion in 2009; while the Shareholders' fund slipped marginally from N346.62 billion in 2008 to N337.79 billion in 2009. Group total assets stood at N 1.659 trillion in 2009, a slight drop from its N1.787 trillion in 2008.

DIVIDEND AND BONUS

We remain committed to delivering superior returns to our shareholders; and this, we once again demonstrate by ensuring that a major part of our profit is set aside for our valued investors. The Board is therefore pleased to recommend a dividend pay out of N11.30 billion; that is, 45kobo per 50 kobo share. The Board is also proposing a bonus of one for every four shares.

GROWTH AND EXPANSION

In spite of the very challenging environment that prevailed during the period under review, the Bank also made modest effort in driving both its onshore and offshore expansion; thus, further spreading our branches and franchise across the country and beyond. In this regard, in addition to the already existing Zenith Bank (UK) Limited in London, Zenith Bank (Ghana) Limited and Zenith Bank (Sierra Leone) Limited, we opened another subsidiary in The Gambia during the period under review. Our representative office in Johannesburg, South Africa remains fully functional.

CUSTOMERS

May I, at this juncture, express our inestimable gratitude and indebtedness to our teeming valued customers for their unalloyed support, continued patronage and unwavering loyalty to the Zenith brand. Really, your unparalleled contribution and consistent support remains the major contributor to the sterling results that we have continued to turn in as a bank. We will continue to invest in our people and upgrade our ICT infrastructure in order to continue to deliver financial solutions that elicit your enthusiasm and surpass your expectation.

BOARD OF DIRECTORS

My dear colleagues on the Board, I feel honoured to use this opportunity to express my gratitude to you for your support and wonderful ideas and contributions. You are in deed colleagues of inestimable value.

In line with the Bank's Article of Association, at this meeting, the following directors will retire by rotation and being eligible for re-election, they have offered themselves for re-election. They are Mr. Macaulay Pepple, Chief E.M. Egwuenu, Mr. Babatunde Adejuwon and Sir. S.P.O. Fortune Ebie.

Also, in the course of the year, Alhaji Lawal Sani joined the Board in a non executive capacity and as an Independent Director. Please join me in welcoming him to the Board. The Central Bank of Nigeria (CBN) also approved Alhaji Baba Tela as an Independent Director, bringing the number to two (2), as required by the code of Corporate Governance.

STAFF

Distinguished shareholders, permit me to re-state the obvious that our staff remain the most cherished valuable resource for our successful operation as a bank. This is why we will continue to place a very high regard on staff quality, welfare and training. It goes without saying therefore, that we have continued to attract and retain some of the best and brightest hands in the financial services sector in Nigeria and beyond. Also, we have created and sustained a highly motivating work environment and reward system that has ensured one of the lowest staff turnover rates in the industry.

Even in the face of emerging challenges, I can assure you that we will continue to sustain this enabling environment. This is because it does not only make for the development of management and staff talents and skills but also ensures self actualization and the accomplishment of corporate goals. On behalf of the Board of Directors and Shareholders, I therefore express our gratitude to the management and staff of the bank for their commitment and excellent performances. Please, keep it up.

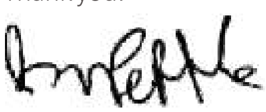
FUTURE OUTLOOK

Distinguished shareholders, without sounding immodest, I can say that even in the face of a very challenging operating environment, Zenith Bank has maintained its culture of outstanding performance. As a bank, we are monitoring developments both in the local and global economy, and applying pragmatism and dynamism.

Obviously, we are not unmindful of the demands and obligations inherent in our environment; but this is why we have entrenched global best practices in every facet of our operations. We also ensure that all these are anchored on good corporate governance.

Ladies and Gentlemen, on behalf of the Board, I would like to thank you very sincerely for your immeasurable support. The future though challenging, remains bright for all of us. May God bless you all.

Thank you.



Macaulay Pepple
Chairman

From inception, as a bank, Corporate Social Responsibility (CSR) has remained a key plank of our strategic drive for the overall well-being of the society in which we operate. In fact, next to our corporate citizenship obligations is our commitment and efforts in CSR, a dedication that has won for us numerous awards, accolades and commendations from within and outside Nigeria.

In keeping with this track record, our CSR efforts during the period under review covered a broad spectrum of human needs and positively impacted on the quality of life of a large number of individuals, interest groups and communities. Through sponsorships, donations in cash and kind and sundry other ways, we covered such diverse and critical areas as health, education, welfare, sports, youth and women empowerment; arts and culture, community development, disaster relief, security, government agencies and non-government organisations' activities, etc.

"As a responsible and responsive corporate citizen, Zenith Bank will continue to accord very high priority to our CSR engagement. This commitment accounts for why we are one of the few banks in Nigeria that maintains a full fledged department Zenith Philanthropy that serves as the vehicle for all our CSR endeavours."

Education

In line with our belief in the effectiveness of education in the transformation of the life of the individual and society at large, we have devoted the lion's share of our CSR budget to activities and issues appertaining to the sector. We were further guided by abiding faith in the use of education and Information and Communication Technology (ICT) as the most powerful tools for youth empowerment, nation building and wealth creation. Thus, during the period under review, we identified with/assisted numerous educational endeavours. Through donations, in cash and kind, sponsorships and sundry supports, we were able to sustain our prime focus on education and allied issues.

Some of the beneficiaries of these efforts include: Federal University of Technology (Yola); University of Ilorin, Kwara State; Tai Solarin University of Education, Ijebu Ode, Ogun State; University of Jos; Redeemer's University, Mowe, Ogun State; Federal University of Technology, Minna; Professorial Chair at University of Nigeria Nsukka (in support of Chief Ojo Maduekwe); Federal College of Education (Technical), Akoka, Lagos. Other beneficiaries include Grange School, Ikeja, Lagos; Day Waterman College; Seat of Wisdom School; Vivian Fowler Memorial College; Whitesands School; Holy Child College, Ikoyi, Lagos; Topgrade Secondary School, Surulere, Lagos; Straitgate Nursery & Primary School, Surulere, Lagos.

Others are: Lagoon Secondary School, Victoria Island, Lagos; Saint Saviour's School, Ikoyi, Lagos; Lagos State Junior Model College, Badore; Sherwood Private School, Lagos; Nigerian Law School, Bwari-Abuja; Methodist Boys High School, Lagos; Greenwwod House School; Buba Yero Primary School, Gombe; Saint Louis College, Jos; Nigerian Defence Academy, Kaduna, among many others.

ICT/Youth Empowerment

In line with our high accent on Information and Communications Technology (ICT) and belief in Nigeria's future, we continued to place high premium on empowering the youth, especially through ICT. Thus, during the period under review, a number of youth-related associations, organisations and agencies received our support and assistance. During the CTO 2009 (Trade Fair), Zenith Bank held a well-attended interactive session with selected Nigerian youths under our "Youth Empowerment for Digital Revolution". ICT-empowerment items including laptops were given out to the youths. Zenith Bank was adjudged the 'Best Participating Bank' at that outing. We also had our annual youth carnival which, again, attracted massive attendance by youths from various tiers of education.

Health and Welfare

In the tripod "People, Technology and Service", Zenith Bank expresses its deep interest and concern for the quality of life, whether for those of its employees or other stakeholders. This, the Bank further demonstrates by identifying with efforts aimed at improving health care delivery in the country as well as by assisting groups and individuals with special health problems. In this regard, Zenith Bank made significant contribution to various health institutions across the country. Several individuals with very serious health conditions were also sponsored for treatment, either locally or abroad.

Security

The place of security in any business environment cannot be overemphasised. This is even more so for banking in the Nigerian milieu. We have therefore through the purchasing and donation of vehicles, communication equipment and other gadgets endeavoured to assist the law enforcement and security agencies in doing their job. Apart from the Nigeria Police, we identified with the various formations of the Nigerian Army, the Navy, the Nigerian Customs Service, the Economic and Financial Crimes Commission (EFCC), among others, during the review period.

Disaster Relief

Zenith Bank has, as a key plank of its CSR engagements, remained in the forefront in identifying with persons, groups, communities and nationalities facing all kinds of natural or man-made disasters. We have therefore not only served as the hub of fund raising efforts during some of such disasters, but have also made handsome donations in cash and kind to the victims. Zenith staff have also (as individuals) responded positively to disaster relief calls by the Bank.

Others

In addition to these areas highlighted above, Zenith Bank plays a major role in the promotion and development of sports, professional associations, entrepreneurial skills of business promoters and NGO activities. We also identify with communal development efforts, the Press, the diplomatic corps, among others. In these regards, we made significant contributions to seminars/workshops and other programmes organised by the Growing Businesses Foundation, Chartered Institute of Bankers of Nigeria, the Institute of Chartered Accountants of Nigeria, Lagos State Environmental Protection Agency, Musical Society of Nigeria, among others.

Zenith Bank's role in the pursuit of the ideals of the New Partnership for Africa's Development (NEPAD) remains outstanding. During the year under review, the NEPAD Business Group Nigeria received our assistance/support. In a similar vein, Zenith Bank served on a number of very important committees of the Federal Government, and in not a few cases, as the secretariat, with our Managing Director/CEO as Chairman.

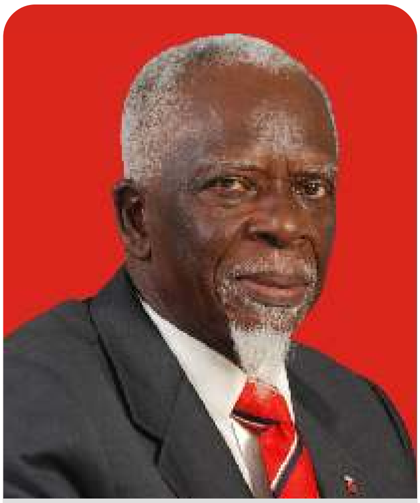
Conclusion

As a responsible and responsive corporate citizen, Zenith Bank will continue to accord very high priority to our CSR engagement. This commitment accounts for why we are one of the few banks in Nigeria that maintains a full fledged department Zenith Philanthropy that serves as the vehicle for all our CSR endeavours. As we continue to expand and grow, we will also continue to expand and deepen the scope of our commitment to giving back to society a reasonable chunk of the fruit of our labour as a corporate citizen. In doing this, we will ensure that we do not just spread our assistance thinly across all manner of needs, but endeavour to make contributions that make meaningful impact on the well-being of the beneficiaries and the society at large.


Macaulay Pepple
Chairman


Jim Ovia
Group Managing Director/CEO


Godwin Emefiele
Deputy Managing Director


Sir S.P.O. Fortune Ebie
Director


Chief E. M. Egwuenu
Director


Prof. L.F.O. Obika
Director


Sir Steven Omojafor
Director


Alhaji Baba Tela
Director

Babatunde Adejuwon
Director

Peter Amangbo
Executive Director

Apollos Ikpobe
Executive Director

Elias Igbinakenzua
Executive Director

Udom Emmanuel
Executive Director

Andy Ojei
Executive Director

Alhaji Lawal Sani
Director

Introduction

Corporate governance relates to the system of operating and controlling a company with a view to achieving the long term goals of the organization for the benefit of all stakeholders.

Increasing shareholder activism has led to more demand for accountability on the part of organizations.

At Zenith Bank, conscious of our enviable place in the industry and judging from the global interest in the banking industry at large and our bank in particular, we have put in place a robust system of corporate governance, bearing in mind the key elements of honesty, trust, integrity, openness and accountability as well as commitment to the organization goals.

Most of our processes have mechanisms that help in continually reappraising our operations to ensure that our business is conducted in line with good corporate governance and global best practices. For us at Zenith, corporate governance is a sacred trust.

Shareholding

The Bank has a diversified shareholder base, one of the largest in the country.

Board of Directors

The Board of Directors is made up of a Non-Executive Chairman, seven (7) Non-Executive Directors and seven (7) Executive Directors. Two (2) of the Non-Executive Directors are Independent Directors, appointed in compliance with the Central Bank of Nigeria (CBN) circular on appointment of Independent Directors by Banks.

The Board comprises of persons of mixed skills with experience in different fields of human endeavour. Directors are conscious of their statutory responsibilities as well as their obligations to shareholders and other stakeholders.

Adequate training programmes have also been developed to ensure that Directors are constantly and continuously trained to keep them well informed of developments in the industry and the economy.

The business of the Bank is driven primarily by the Board of Directors, which exercises its oversight over the Bank's operations. Board members are well knowledgeable in the business of the Bank.

The Managing Director/Chief Executive is responsible for the day to day running of the Bank, assisted by the Executive Committee.

Responsibilities of the Board

The Board is responsible for:

- Reviewing and providing guidance for the Bank's corporate strategy, major plans of action and risk policy.
- Review and approval of annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance.
- Overseeing major capital expenditures, acquisitions and divestitures.
- Monitoring the effectiveness of the corporate governance practices under which the Bank operates and making appropriate changes as necessary.
- Ensuring the integrity of the Bank's accounting and financial reporting systems, including the independent audit and that appropriate systems of control and risk monitoring are in place.
- Establishment of the various Committees of the Bank including the Terms of Reference, review of reports of such Committees to address key areas of the Bank's business.

The Board meets at least every quarter but may hold extra-ordinary meetings to address urgent issues that may arise.

Committees

The Board discharges its oversight functions through various Board Committees. The Committees are set up in line with statutory and regulatory requirements and are consistent with global best practices.
Membership of the Committees of the Board is intended to make the best use of the skills and experience of Non-Executive Directors in particular.

The Committees have well defined terms of reference and consider matters that fall within their purview to avoid overlap of functions and to ensure that decisions reached are as objective as possible.

The Committees of the Board meet quarterly but may hold extraordinary sessions as business of the Bank demands.

The following are the current standing Committees of the Board:

Board Credit Committee

The Committee is made up of seven (7) members comprising four (4) Non-Executive Directors and three (3) Executive Directors of the Bank. The Board Credit Committee is chaired by a Non-Executive Director who is well versed in credit matters, having retired as Managing Director/Chief Executive of a commercial bank. The Committee considers loan applications above the level of Management Credit Committee. It also determines the credit policy of the Bank or changes therein. Members of the Board Credit Committee are as follows:

1.	Chief Eddy Egwuenu	Chairman
2.	Sir. S.P.O. Fortune Ebie	Member
3.	Sir. Steve Omojafor	Member
4.	Alhaji Baba Tela	Member
5.	Mr. Jim Ovia	Member
6.	Mr. Godwin I. Emefiele	Member
7.	Mr. Elias Igbinakenzua	Member

Staff Matters, Finance And General Purpose Committee

This Committee is made up of seven (7) members: four (4) Non-Executive Directors and three (3) Executive Directors. It is chaired by a Non-Executive Director. The Committee considers large scale procurement by the Bank, as well as matters relating to staff welfare, discipline, staff remuneration and promotion. Members of the Committee are as follows:

1.	Prof. (Prince) L.F.O. Obika	Chairman
2.	Mr. Babatunde Adejuwon	Member
3.	Sir. S.P.O. Fortune-Ebie	Member
4.	Sir. Steve Omojafor	Member
5.	Mr. Jim Ovia	Member
6.	Mr. Godwin I. Emefiele	Member
7.	Mr. Apollos Ikpobe	Member

Board Risk Management Committee:

The Board Risk Management Committee has oversight responsibility for the overall risk assessment of various areas of the Bank's operations and compliance.

The Chief Risk Officer has access to this Committee and makes quarterly presentations for the consideration of the Committee.

Chaired by Chief Eddy Egwuenu (a Non-Executive Director), the Committee's membership comprises the following:

1.	Chief Eddy Egwuenu	Chairman
2.	Sir. S.P.O. Fortune-Ebie	Member
3.	Sir. Steve Omojafor	Member
4.	Prof. (Prince) L.F.O. Obika	Member
5.	Mr. Babatunde Adejuwon	Member
6.	Mr. Jim Ovia	Member
7.	Mr. Godwin Emefiele	Member
8.	Mr. Peter Amangbo	Member
9.	Mr. Udom Emmanuel	Member

Audit Committee

The Committee is established in line with Section 359(6) of the Companies and Allied Matters Act. We recognize the Committee as the "guardian of public interest", and reflect this both in the composition and caliber of its membership. The Committee's membership consists of three (3) representatives of the shareholders elected at the last Annual General Meeting (AGM) and three (3) Non-Executive Directors. The Committee meets every quarter, but could also meet at any other time, should the need arise. Members of the Audit Committee are as follows:

1.	Alhaji Hamis B. Musa	Chairman
2.	Mr. Alade Akesode	Member
2.	Chief Eddy Egwuenu	Member
3.	Sir. S.P.O. Fortune Ebie	Member
4.	Prof. (Prince) L.F.O. Obika	Member
6.	Ms. Angela Agidi	Member

Executive Committee (EXCO)

The EXCO comprises of the Managing Director, who chairs it and all Executive Directors. The Committee meets twice weekly (or such other times as business exigency may require) to deliberate and take policy decisions on the effective and efficient management of the Bank. It also serves as a processing unit for issues to be discussed at the Board level. EXCO's primary responsibility is to ensure the implementation of strategies approved by the Board, provide leadership to the Management Team and ensure efficient deployment and management of the Bank's resources. Its Chairman is responsible for the day-to-day running and performance of the Bank.

Other Committees

In addition to the afore-mentioned Committees, the Bank has in place, other standing management committees. They include:

(a) Management Committee (MANCO)
(b) Management Global Credit Committee (MGCC)
(c) Risk Management Committee (RMC)
(d) Information Technology (IT) Steering Committee

Below is a schedule of attendance at Board and Audit Committee meetings for the period.

Board meetings

Directors	Board	Credit Committee	Finance & General Purpose Committee	Risk Management Committee
Number of Meetings Held	12	6	4	3
Attendance:				
Macaulay Pepple	12	N/A	N/A	N/A
Mr. Jim Ovia	12	6	4	3
Mr. Godwin Emefiele	11	5	4	3
Mr. Elias Igbinakenzua	11	6	N/A	N/A
Mr. Peter Amangbo	12	2**	N/A	3
Mr. Apollos Ikpobe	11	2**	4	N/A
Mr. Udom Emmanuel	10	5	N/A	3
Mr. Andy Ojei	3	N/A	N/A	N/A (*)
Chief E.M. Egwuenu	12	6	N/A	3
Sir S.P.O. Fortune Ebie	11	6	4	3
Prof (Prince) L.F.O. Obika	11	N/A	4	3
Mr. Babatunde Adejuwon	12	N/A	4	3
Sir Steve Omojafor	9	4	3	3
Alhaji Baba Tela	8	4	N/A	N/A
Mr. Lawal Sani (Appointed 19/10/2009)	1	N/A	N/A	N/A

* Mr. Andy Ojei was the MD/CEO of Zenith Bank (Ghana) Limited until December 2009 when he returned to the Head Office.

** The Credit Committee of the Board was reconstituted during the year in line with the Code of Corporate Governance for banks and some previous executive members of the Committee ceased to be members.

Audit Committee meetings

Number of Meetings Held	5
Attendance:	
Alhaji Hamis B. Musa	4
Alade A. Akesode Esq	5
Chief E.M. Egwuenu	5
Sir S.P.O. Fortune Ebie	4
Prof.(Prince) L.F.O. Obika	5
Ms. Angela Agidi	3

Relationship with Shareholders

As a deliberate policy, Zenith Bank maintains an effective and candid communication with its shareholders, which enables them to understand our business, financial condition and operating performance and trends. Apart from our annual report and accounts, proxy statements and formal shareholders' meetings, we maintain a rich website (with suggestion boxes) that provides information on a wide range of issues for all stakeholders.

The Bank also, from time to time, holds briefing sessions with market operators (stockbrokers, dealers, institutional investors, issuing houses, stock analysts, etc) to update them with the state of our business. These professionals, as advisers and surveyors of information, relate with and relay to the shareholders useful information about us. We also

PRICEWATERHOUSECOOPERS

252E Muri Okunola Street,
Victoria Island, P. O. Box 2419
Lagos, Nigeria.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ZENITH BANK PLC.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Zenith Bank Plc and its subsidiaries ("the group") which comprise the consolidated balance sheet as of 31 December 2009 and theconsolidated income statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining intrnal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financialstatements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying consolidated financial statements give a true and fair view of the financial position of the group as of 31 December 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Stardards..

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that the accompanying financial statements are prepared in addition to the group's statutory financial statements as described in Note 2 to the consolidated financial statements.

PricewaterhouseCoopers

Chartered Accountants
Lagos, Nigeria

30 August, 2010

	Note	31 December 2009 N'millions	30 September 2008 N'millions
		15 Months Ended	
Interest and similar income	6	206,343	152,059
Interest and similar expense	7	(83,957)	(53,294)
Net interest income		122,386	98,765
Impairment charge for credit losses	8	(34,802)	(9,728)
Net interest income after impairment charge for credit losses		87,584	89,037
Fee and commission income	9	51,446	45,777
Net gains on financial instruments measured at fair value	10	11,713	5,626
Underwriting profit	11	2,345	2,472
Other income	12	2,355	1,020
Operating expenses	13	(113,217)	(87,501)
Operating profit		42,226	56,431
Share of profit/(loss) of associates		78	(111)
Profit before tax		42,304	56,320
Income tax expense	14	(16,255)	(4,223)
Profit for the period		26,049	52,097
Other comprehensive income			
Foreign currency translation differences		461	(1,188)
Fair value movements on equity instruments		1,365	219
Tax effect of equity instruments at fair value		(530)	(64)
Other comprehensive income for the period, net of tax		1,296	(1,033)
Total comprehensive income for the period		27,345	51,064
Profit attributable to:			
Equity holders of the parent		25,943	51,712
Non-controlling interests		106	385
Total comprehensive income attributable to:			
Equity holders of the parent		27,322	50,634
Non-controlling interests		22	430
Earnings per share for profit attributable to equity holders of parent			
Basic and diluted	15	103 k	383 k

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	Note	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Assets				
Cash and balances with central banks	16	126,779	240,848	111,055
Treasury bills	17	231,530	391,940	247,196
Due from other banks	18	341,830	536,846	214,087
Loans and advances to customers	19	707,602	460,647	296,626
Reinsurance assets and insurances receivables	20	1,594	1,953	1,109
Investment securities	21	158,922	60,184	39,282
Investments in associates	22	2,443	2,573	2,797
Deferred tax	23	966	160	120
Other assets	24	22,353	37,511	26,318
Property and equipment	25	71,988	46,006	32,285
Intangible assets	26	712	238	219
Total assets		1,666,719	1,778,906	971,094
Liabilities				
Deposits from customers	27	1,178,188	1,192,737	636,054
Claims payable	28	198	234	274
Current income tax	14	7,407	5,690	6,427
Deferred tax	23	5,900	2,439	1,680
Other liabilities	29	90,572	187,084	181,870
Liabilities on insurance contracts	30	2,161	2,214	596
Borrowings	31	36,402	40,868	26,697
Total liabilities		1,320,828	1,431,266	853,598
Capital and reserves				
Share capital	32	12,559	8,372	4,632
Share premium	33	255,047	255,047	69,237
Retained earnings		51,170	61,392	26,020
Other reserves		24,800	20,497	15,651
Attributable to equity holders of the parent		343,576	345,308	115,540
Non-controlling interests		2,315	2,332	1,956
Total shareholder's equity		345,891	347,640	117,496
Total liabilities equity		1,666,719	1,778,906	971,094

The accompanying notes are an integral part of these consolidated financial statements.

The financial statements and the accompanying notes were approved by the Board of Directors on 29 July 2010 and signed on its behalf by:

Jim Ovia (Group Managing Director / Chief Executive) ______________________

Udom Emmanuel (Director) ______________________

	Attributable to equity holders of the parent											
	Share capital	Share premium	Retained earnings	Statutory reserve	SMIEIS reserve	Contingency reserve	Revaluation reserve	Bonus reserve	FCTR*	Total	Non-controlling interests	Total equity
Balance at 1 July 2007	4,632	69,237	26,020	9,899	3,729	160	305	1,158	400	115,540	1,956	117,496
Profit	-	-	51,712	-	-	-	-	-	-	51,712	385	52,097
Foreign currency translation differences	-	-	-	-	-	-	-	-	(1,196)	(1,196)	8	(1,188)
Fair value movements on equity instruments, net of tax	-	-	-	-	-	-	118	-	-	118	37	155
Total comprehensive income	-	-	51,712	-	-	-	118	-	(1,196)	50,634	430	51,064
Issue of new shares	2,582	194,593	-	-	-	-	-	-	-	197,175	-	197,175
Issue of bonus shares	1,158	-	-	-	-	-	-	(1,158)	-	-	-	-
Share issue expenses	-	(8,783)	-	-	-	-	-	-	-	(8,783)	-	(8,783)
Dividends	-	-	(9,265)	-	-	-	-	-	-	(9,265)	-	(9,265)
Transfer from retained earnings		-	(7,083)	6,980	-	103	-	-	-	-	-	-
Changes in ownership interests in subsidiaries without loss of control and other changes	-	-	8	-	-	(1)	-	-	-	7	(53)	(46)
At 30 September 2008	8,372	255,047	61,392	16,879	3,729	262	423	-	796	345,308	2,333	347,640
Profit	-	-	25,943	-	-	-	-	-	-	25,943	106	26,049
Foreign currency translation differences	-	-	-	-	-	-	-	-	493	493	(32)	461
Fair value movements on equity instruments, net of tax	-	-	-	-	-	-	886	-	-	886	(52)	834
Total comprehensive income	-	-	25,943	-	-	-	886	-	493	27,322	22	27,344
Issue of bonus shares	4,187	-	-	-	-	-	-	(4,187)	-	-	-	-
Dividends	-	-	(28,466)							(28,466)	-	(28,466)
Transfer from retained earnings			(2,924)	2,755	-	169	-	-	-	-		-
Transfer between reserves	-	-	(4,187)	-	-	-	-	4,187	-	-	-	-
Changes in ownership interests in subsidiaries without loss of control and other changes	-	-	(587)	-	-	-	-	-	-	(587)	(40)	(627)
At 31 December 2009	12,559	255,047	51,170	19,634	3,729	431	1,310	-	(303)	343,576	2,315	345,891

* Foreign currency translation reserve

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

		15 Months Ended	
		31 December 2009	30 September 2008
	Note	N'millions	N'millions
Operating activities			
Cash flows (used in)/generated from operations	38	(497,329)	225,282
Interest received		197,272	149,275
Interest paid		(83,577)	(50,546)
Tax paid	14	(12,082)	(4,159)
Net cash flows (used in)/generated from operations		(395,716)	319,852
Investing activities			
Purchase of property and equipment	25	(40,038)	(22,592)
Purchase of intangible assets	26	(660)	(107)
Proceeds from sale of property and equipment	12, 13, 25	298	118
Purchase of equity securities	21	(782)	(14,463)
Proceeds from sale of equity securities		6,095	5,486
Disposal of associates		174	113
Dividends received		1,543	232
Disposal of investments in subsidiaries		2,185	1,770
Net cash used in investing activities		(31,185)	(29,443)
Financing activities			
Dividend paid to shareholders		(28,466)	(9,266)
Proceeds from issue of shares (net of share issue costs)		-	188,392
Borrowed funds			
- inflow from long term borrowing		6,140	16,434
- repayment of long term borrowing		(10,587)	(2,702)
Net cash (used in)/generated from financing activities		(32,913)	192,858
(Decrease)/ increase in cash and cash equivalents		(459,814)	483,267
Analysis of changes in cash and cash equivalents:			
Cash and cash equivalents at start of period	40	1,024,202	540,039
(Decrease)/ increase in cash and cash equivalents		(459,814)	483,267
Exchange rate movements on cash and cash equivalents		(3,805)	896
Cash and cash equivalents at end of period	40	560,583	1,024,202

Significant non-cash investing activities include the issue of bonus shares (refer Note 32).

The accompanying notes are an integral part of these consolidated financial statements.

1 General information

Zenith Bank Plc (the "Company" or the "Bank") was incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability company on May 30, 1990. It was granted a banking licence in June 1990, to carry on the business of commercial banking and commenced business on 16 June 1990. The Bank was converted into a Public Limited Liability Company on May 20, 2004. The Bank's shares were listed on October 21, 2004 on the Nigerian Stock Exchange.

The principal activity of the Bank is the provision of banking and other financial services to corporate and individual customers. Such services include granting of loans and advances, corporate finance and money market activities.

The Bank has twelve subsidiary companies namely, Zenith Securities Limited, Zenith General Insurance Company Limited, Zenith Bank (Ghana) Limited, Zenith Pension Custodian Limited, Zenith Bank (UK) Limited, Zenith Capital Limited, Zenith Registrars Limited, Zenith Medicare Limited, Zenith Trustees Limited, Zenith Life Assurance Company Limited, and Zenith Bank (Sierra Leone) Limited.

In 2008, the Bank changed its accounting year end from 30 June to 30 September and as a result, prepared financial statements for fifteen months. In 2009, the Bank also changed its accounting year end from 30 September to 31 December in compliance with CBN directive of uniform accounting year end of 31 December for all Nigerian banks and therefore prepared financial statements for fifteen months.

The consolidated financial statements for the year ended 31 December 2009 were approved for issue by the Board of Directors on 29 July 2010.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). These are the first financial statements of Zenith Bank Plc and its subsidiaries (the “Group”) prepared in accordance with IFRS and IFRS 1, First-time Adoption of IFRS (IFRS 1) has been applied. The financial statements have been prepared in accordance with the going concern principle under the historical cost convention as modified by the measurement of certain financial assets and financial liabilities held at fair value. They have been prepared in addition to the Group's statutory financial statements (not included herein), which were prepared in accordance with Statements of Accounting Standards applicable in Nigeria (Nigerian GAAP).

The IFRS accounting policies have been consistently applied to all periods presented. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.2 New standards, interpretations and amendments to existing standards that are not yet effective

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010.

(a) New standards early adopted by the Group:

IFRS 1 (revised), 'First-time adoption of IFRS' (effective for periods beginning on or after 1 July 2009)

Amendments to IFRS 1 'First-time adoption of IFRS' for additional exemptions (effective on or after 1 January 2010)

Amendments to IFRS 1 'First-time adoption of IFRS' on 'Limited exemption from comparative IFRS 7 disclosures for first-time adopters' (effective on or after 1 July 2010)

Refer to Note 43 for a detailed explanation of the impact on the Group of applying IFRS 1.

IFRS 3 (revised), 'Business combinations' (effective for periods beginning on or after 1 July 2009)
IAS 27 (revised), 'Consolidated and separate financial statements' (effective for periods beginning on or after 1 July 2009)
IFRS 3 (revised) has made significant changes to the acquisition method of accounting for business combinations. For example, all acquisition-related costs should be expensed.
IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. When control is lost, any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss.
Amendment to IFRS 7 'Financial instruments: Disclosures' (effective for periods beginning on or after 1 January 2009)
The amendment requires enhanced disclosures about fair value measurement and liquidity risk.
Amendment to IFRS 7 'Financial instruments: Disclosures' (effective for periods beginning on or after 1 January 2011)
This amendment forms part of the 2010 Annual Improvements and amends the disclosure in respect of collateral as well as renegotiated financial assets.

IFRS 8, 'Operating Segments' (effective for periods beginning on or after 1 January 2009)
IFRS 8 requires an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments. The Standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The disclosure should enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

IFRS 9, 'Financial Instruments' (effective for periods beginning on or after 1 January 2013)
IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The classification and measurement of financial liabilities, as well as all other aspects of accounting for financial instruments have been performed in accordance with IAS 39.

IAS 1 (revised), 'Presentation of financial statements' (effective for periods beginning on or after 1 January 2009)
The revised standard requires all owner changes in equity to be presented in the statement of changes in equity, whereas all nonowner changes in equity are presented in the statement of comprehensive income.

(b) New standards, interpretations and amendments to existing standards which have not been early adopted by the Group:

The Group plans to apply the guidance below on their respective effective dates. Management is in the process of assessing the impact of the guidance on the Group.

- *IAS 24 (revised), 'Related party disclosures' (effective on or after 1 January 2011)*
- *Amendment to IAS 32 'Financial instruments: Presentation' on 'Classification of rights issues' (effective on or after 1 February*
- *Annual improvements to IFRSs (2008) (most amendments effective on or after 1 January 2009)*
- *Annual improvements to IFRSs (2009) (effective on or after 1 January 2010)*
- *Annual improvements to IFRSs (2010) (effective on or after 1 January 2011) (with the exception of the amendment to IFRS 7, which has been early-adopted as noted above)*

The following guidance is not expected to have a material impact on the Group's financial statements:

- *IAS 23 (revised), 'Borrowing costs' (effective for periods beginning on or after 1 January 2009)*
- *Amendment to IFRIC 9 and IAS 39 regarding embedded derivatives (effective on or after 30 June 2009)*
- *Amendment to IAS 32 'Financial instruments: Presentation', and IAS 1 'Presentation of financial*

statements' on 'Puttable financial instruments and obligations arising on liquidation' (effective on or after 1 January 2009)

- *Amendment to IFRS 2 'Share based payments' on 'Vesting conditions and cancellations' (effective on or after 1 January 2009)*
- *Amendment to IAS 39 'Financial Instruments: Recognition and measurement' on 'Eligible hedged items' (effective on or after 1 July 2009)*
- *Amendment to IFRS 2 'Share based payments' on 'Group cash-settled share-based payment transactions' (effective on or after 1 January 2010)*
- *Amendment to IFRIC 14 'Pre-payments of a Minimum Funding Requirement' (effective on or after 1 January 2011)*
- *IFRIC 15 'Agreements for the Construction of Real Estate' (effective on or after 1 January 2009)*
- *IFRIC 17 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009)*
- *IFRIC 18 'Transfers of assets from customers' (effective on or after 1 July 2009)*
- *IFRIC 19 'Extinguishing financial liabilities with equity instruments' (effective on or after 1 July 2010)*

2.3 Basis of consolidation

(a) Subsidiaries

The financial statements of subsidiaries are consolidated from the date the Group acquires control, up to the date that such effective control ceases. For the purpose of these financial statements, subsidiaries are entities over which the Group, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners). Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Group.

Inter-company transactions, balances and unrealised gains on transactions between companies within the Group are eliminated on consolidation. Unrealised losses are also eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in profit or loss.

2.4 Foreign currency translations

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The parent entity's functional currency (Nigerian Naira) is adopted for the consolidated financial statements.

(b) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On the disposal of a foreign operation, the Group recognises in profit or loss the cumulative amount of exchange differences relating to that foreign operation. When a subsidiary that includes a foreign operation is partially disposed of or sold, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In the case of any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of exchange differences recognised in other

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the balance sheet date.

(c) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to the functional currency using the exchange rate at the transaction date, and those measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Exchange differences on non-monetary assets are accounted for based on the classification of the underlying items.

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on equities measured at fair value through other comprehensive income are included in the revaluation reserve in other comprehensive income.

Foreign currency gains and losses on intragroup loans are recognised in profit or loss unless settlement of the loan is neither planned nor likely to occur in the foreseeable future, in which case the foreign currency gains and losses are initially recognised in the foreign currency translation reserve in the consolidated financial statements. Those gains and losses are recognised in profit or loss at the earlier of settling the loan or at the time at which the foreign operation is disposed.

2.5 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

2.6 Financial instruments

(a) Initial recognition and measurement

Financial instruments at fair value through profit or loss are recognised at fair value with transaction costs, which are directly attributable to the acquisition or issue of the financial instruments, being recognised immediately through profit or loss. Financial instruments that are not carried at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instruments.

Financial instruments are recognised or derecognised on the date the Group commits to purchase or sell the instruments (trade day accounting).

The Group does not apply hedge accounting.

(b) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost depending on their classification.

(c) Classification and measurement

(i) Financial assets

The Group classifies its financial assets as subsequently measured at amortised cost or fair value.

A financial asset is subsequently measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest in this context is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. Interest income is recognised in Interest and similar income.

All other financial assets are subsequently measured at fair value. Financial assets which meet the requirement for measurement at amortised cost may also be designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch). Gains and losses arising from changes in the fair value of financial assets subsequently measured at fair value are recognised in profit or loss ("FVTPL"), except where the Group elects to present in other comprehensive income fair value gains and losses arising on investments in equity instruments which are not held for trading but for strategic purposes ("Fair value through OCI"). Gains and losses recognised directly in other comprehensive income are not subsequently transferred to profit or loss on disposal of the equity instrument.

(ii) Financial liabilities

Financial liabilities consist of financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

Financial liabilities that are not classified as at fair value through profit or loss are measured at amortised cost. Interest expenditure is recognised in Interest and similar expense.

No financial liabilities have been classified as at fair value through profit or loss at any of the reporting dates covered by this set of financial statements.

(d) Determination of fair value

At initial recognition, the best evidence of the fair value of a financial instrument is the transaction price (i.e. the fair value of the consideration paid or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models and option pricing models whose variables include only data from observable markets.

Subsequent to initial recognition, the fair value of a financial instrument is based on quoted market prices or dealer price quotation for financial instruments traded in an active market. If the market for a financial instrument is not active or the instrument is not listed, the fair value is determined using valuation techniques. Refer to note 3.3.6(c) for a description of the valuation techniques used by the Group.

(e) Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

2.7 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets are reflected and directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the

probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.
When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income in Impairment charge for credit losses.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

2.9 Property and equipment

Property and equipment comprised mainly of building, motor vehicles, computer and office equipment, and furniture and fittings and are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Where significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. Depreciation, impairment losses and gains or losses on disposal of assets are included in statements of comprehensive income.

Owner-occupied properties are held for use in the supply of services or for administrative purposes.

Property, and equipment are depreciated on the straight line basis over the estimated useful lives of the assets to the current values of their expected residual values. Land is not depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each balance sheet date and the depreciation method is reviewed at each financial year end. Leasehold buildings are depreciated over the period of the lease or over such lesser period as is considered appropriate.

Depreciation is calculated on a straight line basis to write down the cost of property and equipment to their residual values over their estimated useful lives as follows:

Motor vehicles	-4 years
Office equipment	-5 years
Furniture and fittings	-5 years
Computer hardware and equipment	-3 years
Buildings	-50 years

Work in progress consists of properties that are not yet available to earn investment returns or are held for own use. Work in progress is carried at cost less any required impairment. An impairment loss is recognised if the asset's recoverable amount is less than cost. The asset is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Once development is complete, the properties are transferred to investment property or owner-occupied property as appropriate.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in statements of comprehensive income.

2.10 Intangible assets

(a) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group, are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis over 5 years and are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when the carrying amount exceeds its recoverable amount.

(b) Other intangible assets

The Group expenses the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in statements of comprehensive income in the period in which the costs are incurred. Prepayment assets are recognised for advertising or promotional expenditure up to the point at which the Group has the right to access the goods purchased or up to the point of receipt of services.

2.11 Leases

(a) A Group company is the lessee

Leases, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(B) A Group company is the lessor

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

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

Leases of assets under which the Group effectively retains all the risks and rewards of ownership are classified as operating leases. Receipts of operating leases from properties held as investment properties in investment management and life insurance activities, net of any incentives given to lessees, are accounted for as income on the straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of penalty is recognised as income in the period in which termination takes place.

2.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pretax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Contingent liabilities, which include certain guarantees other than financial guarantees, and letters of credit, pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or nonoccurrence, of one or more uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements unless they are remote.

Provisions are recognised when the separate entities in the Group have a present or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount of the obligation can be made.

2.13 Employee benefits

(a) Post-employment benefits

The Group operates defined contributions plan based on percentage contribution pension fund by both employer companies and employees, the assets of which are generally held in separate trustee administered funds. Contributions to these plans are charged to profit or loss in the period to which they relate.

(b) Short-term benefits

Short-term benefits consist of salaries, accumulated leave allowances, profit share, bonuses and any non-monetary benefits.

Short-term employees' benefits are measured on an undiscounted basis and are expensed as the related services are provided.

A liability is recognised for the amount expected to be paid under short-term cash benefits such as accumulated leave and leave allowances if the

Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

2.14 Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

(c) Treasury shares

Where the Company or other members of the Group purchase the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

2.15 Recognition of interest income and expense

Interest income and expense for all financial assets and financial liabilities carried at amortised cost are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities on balance sheet, are capitalised to the carrying amount of financial instruments, excluding financial instruments at fair value through profit or loss, and amortised as interest income or expense over the life of the asset as part of the effective interest rate.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Where the estimated cash flows on financial assets are subsequently revised, other than impairment losses, the carrying amount of the financial assets is adjusted to reflect actual and revised estimated cash flows.

Where a financial asset or a Group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment.

2.16 Recognition of fees, commissions and other income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, are recognised on completion of the underlying transaction.

Dividend income is recognised in profit or loss in the period in which the right of receipt is established.

2.17 Insurance and investment contracts

The Group issues contracts that transfer insurance risk, financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. The Group defines as significant insurance risk the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk without significant insurance risk. Financial risk refers to the risk of a possible future change in the value of an asset or financial instrument due to a change in interest rate, commodity price, index of prices, foreign exchange rate or other measurable variable.

(a) Insurance contracts

In terms of IFRS 4, insurance liabilities are measured under existing local practice at the date of adoption of IFRS 4.

The Group had, prior to the adoption of IFRS 4, valued insurance liabilities using certain actuarial techniques as described below. The Group has continued to value insurance liabilities in accordance with these.

Insurance contracts are classified into three broad categories, depending on the duration of the risk and the type of risk insured, namely Individual Life, Group Life and General insurance.

(i) Individual life

These contracts insure mainly against death. For the published accounts, the contracts are valued based on a gross premium valuation taking into account the present value of expected future premium, claim and associated expense cash flows.

Any resultant negative policyholder liabilities, measured on an individual policy level, are set to zero (“zeroised”) so as not to recognise profits prematurely.

Where the same policy includes both insurance and investment components and where the policy is classified as insurance, the insurance and investment benefits are valued separately.

(ii) Group Life

These contracts insure against death on a group basis. These contracts are short term in nature and are typically renewed annually. For these contracts, gross premiums are recognised as revenue when due.

(iii) General Insurance

These contracts provide Fire, Accident, Motor, Marine, Bond, Engineering and Aviation insurance. For these contracts, gross premiums are recognised as revenue when due.

(iv) Outstanding claims provision

A full provision is made for the estimated cost of all claims notified but not settled at the date of the balance sheet, using the best information available at that time. Provision is also made for the cost of claims incurred but not reported ("IBNR") until after the balance date.

Similarly, provisions are made for “unallocated claims expenses” being the estimated administrative expenses that will be incurred after the balance sheet date in settling all claims outstanding as at the date, including IBNR. Differences between the provision for outstanding claims at a balance sheet date and the subsequent settlement are included in the Revenue Account of the following.

(b) Insurance contracts with Discretionary Participation Features

Zenith issues single premium contracts that provide primarily savings benefits to policyholders but also transfer insurance risk. The investment return credited to the policyholders is at Zenith's discretion, subject to fair oversight and a minimum guaranteed. These contracts are valued on a retrospective basis.

(i) Embedded Investment Derivatives

Embedded derivatives are analysed and valued separately where significant to the total liability, taking into account variation in investment performance and interest rates.

(ii) Guaranteed Annuity Options

Guaranteed Annuity Options, where a guaranteed rate of conversion to a life annuity is provided, is offered on some products. This feature provides an option to the policyholder as is analysed and valued separately where significant to the total liability, taking into account expected take-up rates, mortality variation and investment variation.

2.18 Current and deferred income tax

(a) Current tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity and subsequently recognised in profit or loss when the related deferred gain or loss is recognised.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and
- investments in subsidiaries and joint ventures (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax related to the fair value re-measurement of equity instruments which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is not subsequently transferred from equity to profit or loss.

2.19 Off -balance sheet transactions

Contingent liabilities arising from performance bonds, guarantees issued on behalf of customers in the ordinary course of business, and on-lending facilities are reported off-balance sheet in recognition of the risk inherent in those transactions. Commissions and charges on these transactions are recognised as earned on issuance of the bond or guarantee.

2.20 Segment reporting

An operating segment is a component of the Group engaged in business activities from which it can earn revenues, whose operating results are regularly reviewed by the Group's Executive [Management/Board] in order to make decisions about resources to be allocated to segments and assessing segment performance. The Group's identification of segments and the measurement of segment results is based on the Group's internal reporting to management.

2.21 Fiduciary activities

The Group acts as trustees and in other fiduciary capacities through Zenith Trustees Limited and Zenith Pension Custodians that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

3. Risk management

3.1 Enterprise risk review

The main thrust of the Group's risk management process is to enhance its capacity to create value by providing a means of effectively dealing with uncertainty and associated risks and opportunities involved in its business. The nature and complexity of risks in our business requires that we continuously review and improve our risk management culture and practices across all levels of the organization. Our sound risk management policies and procedures enhance our competitive advantage and complement other efforts aimed at continually increasing shareholders value.

Risks associated with the business of the Group include financial risks, namely credit risk, liquidity risk and market risk (which includes currency risk, interest rate risk and other pricing risks) as well as other risks such as operational risk, strategic risk, legal risk, reputational risk, taxation risk, regulatory risk and insurance risk.

Zenith Bank is a risk conscious institution taking on risk moderately with emphasis on protecting the Group while increasing the market share. The Group employs a range of quantitative indicators to monitor the risk profile. Specific limits have been set for monitoring in line with the Group's risk appetite.

The Group's risk management policy is designed to identify and analyze these risks, to set appropriate risk limits, and to monitor the risks and limits continually by means of reliable and up-to-date administrative and information systems. Zenith Bank continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and international best practices. Training, individual responsibility and accountability, together with a disciplined and cautious culture of control, lie at the heart of the Group's management of risk.

The risk management structure of the Group operates based on the business strategies and risks inherent in the pursuit of the Group's strategies. This structure provides the framework for effectively managing the Group's risks on a daily basis. The Board of Directors drives the entire corporate governance and risk management process by setting the tone at the top of the organization and the basis for how risks should be viewed by management and staff. Through its various committees, the Board monitors the adequacy of internal control systems established by Executive Management to manage risks. The risk management process has been designed in a manner that is sufficiently rigorous and comprehensive to give management greater insight into competing strategic alternatives and the degree of uncertainties and risks associated with the alternatives. Risk management processes at all levels of the organization comprises: Identification; Assessment; Response and control measures; and Reporting. These processes are driven by appropriate management structure in individual units in the Bank and its subsidiaries.

The Internal Control and Audit group reviews the internal control systems and processes and provides an independent assurance on the entire risk management system of the Group. The Head of Internal Control and Audit reports to the Audit Committee and has unfettered access to the Managing Director/Chief executive Officer.

3.1.1 Methodology for risk rating

The Risk management strategy is to develop an integrated approach to risk assessments, measurement, monitoring and control that captures all risks in all aspects of the Group's activities.

All activities in the Group have been profiled and the key risk drivers and threats in them identified. Mitigation and control techniques are then determined in addressing identified threats. These techniques are implemented as risk policies and procedures that drive the strategic direction and risk appetite as specified by the board. Techniques employed in meeting these objectives culminate in the following roles for the risk control functions of the Group.

- Develop and implement procedures and practices that translate the board's goals, objectives, and risk tolerances into operating standards that are well understood by bank personnel.
- Risk identification, measurement, monitoring and control procedures.

- Establish effective internal controls that cover each risk management process.
- Ensure that the Group's risk management processes are properly documented.
- Create adequate awareness to make risk management a part of the corporate culture of the Group.
- Ensure that risk remains within the boundaries established by the Board.
- Ensure that business lines comply with risk parameters and prudent limits established by the Board.

The CBN Risk Management Guidelines prescribes quantitative and qualitative criteria for the identification of significant activities and sets a threshold of contributions for determining significant activities in Bank and its subsidiaries. This practice is essentially to drive the risk control focus of financial institutions.

The Group currently applies a mix of qualitative and quantitative techniques in the determination of its significant activities under the prescribed broad headings. The criteria used in estimating the materiality of each activity is essentially based on the following:

- The strategic importance of the activity and sector.
- The contribution of the activity/sector to the total assets of the Group.
- The net income of the sector.
- The risk inherent in the activity and sector.

Risk management structures and processes are continually reviewed to ensure their adequacy and appropriateness for the Group's risk and opportunities profile as well as bringing them up to date with changes in strategy, business environment, evolving thoughts and trends in risk management.

3.2 Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a financial contract. It arises principally from lending, trade finance, treasury and leasing activities. Credit risk can also arise as a result of crystallization in any of our off-balance sheet transactions. Zenith Bank has dedicated standards, policies and procedures to control and monitor all such risks.

The Credit Risk Management Group (CRMG) is mandated to provide high level centralized management of credit risk for the Group. Its responsibilities include the following:

- Monitoring to ensure compliance with the Group's credit policies.
- Establishing and maintaining the Group's credit exposure policy. This policy sets controls over the maximum level of the Group's exposure to customers and customer groups and other credit risk concentrations in line with internationally accepted regulatory standards.
- Performing an independent review and objective assessment of credit risk (CRMG assesses all credit facilities being offered to customers).
- Reviewing the efficiency and effectiveness of credit approval processes.
- Reporting to executive management on specific and general aspects of the Bank's loan portfolio. The Board Credit committee and the Board receive regular update covering:
  - Risk concentrations and exposure to industry sectors;
  - Large customer group exposures;
  - Large non-performing accounts and provisions;
- Acting as the primary interface for credit-related issues on behalf of the Group with external parties including regulatory authorities, external auditors, corporate analysts and counterparts in the world's major banks and non-bank financial institutions.

3.2.1 Principal credit policies

The principal credit policies guiding Zenith Bank and indeed the whole Group remains as stringent as ever, shielding the Group against intrinsic and concentration risks through all credit levels of selection, underwriting, administration and control. Some of the policies are:

- Credit will only be extended to suitable and well identified customers and never where there is any doubt as to the ethical standards and record of the intending borrower.
- Exposures to any industry or customer will be determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines.

- Credit will not be extended to customers where the source of repayment is unknown or speculative, and also where the destination of funds is unknown. There must be clear and verifiable purpose for the use of the funds.
- Credit will not be given to a customer where the ability of the customer to meet obligations is based on the most optimistic forecast of events. Risk considerations will always have priority over business and profit considerations.
- The primary source of repayment for all credits must be from an identifiable cash flow from the counterparty's normal business operations or other financial arrangements. The realization of security remains a fall back option.
- A pricing model that reflects variations in the risk profile of various credits to ensure that higher risks are compensated by higher returns will be adopted.
- All conflict of interest situations must be avoided.
- All insiders' related credits are limited to regulatory and strict internal limits and are reported to appropriate regulatory authorities.
- The consequences for non-compliance with the credit policy and credit indiscipline are communicated to all staff and implemented.

3.2.2 Credit risk measurement

(a) Loans and advances and amounts due from banks

Over the years, Zenith Bank and its subsidiaries have been able to devote resources and harness its credit data into developing models to improve the determination of economic and financial threats due to credit risk. As a result some key factors are considered in credit risk measurement.

1. Adherence to the strict credit selection criteria which includes defined a target market, credit history, the capacity and character of customers.
2. The possibility of failure to pay over the period stipulated in the contract.
3. The size of the facility in case default occurs.
4. Estimated Rate of Recovery which is a measure of the portion of the debt that can be regained through freezing of assets and collateral should default transpire.

All loans and indirect credits such as guarantees and bonds as well as treasury investments undergo a formal credit analysis process that would ensure the proper appraisal of the facility. Key factors in this consideration includes:

- A measure of the financial and non-financial risks of the borrower. In order to properly evaluate the non-financial risks of the borrower, a thorough industry analysis is carried out by a dedicated team in the Risk Management and Research and Intelligence groups.
- Obligors' rating that considers the financial condition, management and ownership structure, industry and other qualitative factors of the customer.
- Facility rating that recognizes the risk mitigation and facility structuring as features of the credit facility. Considerations here include the nature and quality of collateral, the structure of the loan, the nature and purpose of the loan among others.

All borrowers and facilities have their ratings reviewed on a regular basis. An exception is the ratings to higher risk borrowers which are subjected to more frequent reviews.

Track records of changes/migrations in all risk ratings are kept and used for the continuous development of our objective and effective credit risk management system.

In order to allow for a meaningful distribution of exposures across grades with no excessive concentrations on the Group's borrower-rating and its facility-rating scale, Zenith Group maintains the under listed rating grade which is applicable to both new and existing customers.

Zenith Group's internal rating:

Zenith Group Rating	Description of the grade	Mapping to Standard & Poor's Rating
A	Investment Risk (Minimal Risk)	AAA to AA-
B	Acceptable Risk (Modest Risk)	A+ to A-
C	Reasonable Risk (Average Risk)	BBB+ to BB-
D	Substandard Risk Unrated	Below BB- Unrated

Traditional assessment templates are currently in use and the processes are continually being fine tuned and aided by technology to ensure a seamless process.

The credit rating system will seek to achieve foundation internal ratings based compliance under Pillar 1 in Basle II, through continuous validation exercises over the next few years.

(b) Other debt instruments

With respect to other debt instruments, the Group takes the following into consideration in the management of the associated credit risk:

- External ratings of such instruments /institutions by rating agencies like Fitch; Standard & Poor's; Agusto & Co. etc.
- Internal and external research and market intelligence reports
- Regulatory agencies reports

In addition to the above, we have put in place a conservative limits structure which is monitored from time to time in order to limit our risk exposures on these securities.

3.2.3 Risk limit control and mitigation policies

In managing credit risk, the Group uses the application of credit risk limits. This is the practice of stipulating a maximum amount that the individual or counterparty can obtain as loan. Through this, the Group not only protects itself, but also in a sense, protects the loaning party from borrowing more than they are capable of paying.

The Board recognizes this concept and accordingly approves a portfolio-based diversification /concentration limit monitoring to a borrower, or groups of borrowers, geographic location, size, industry, collateral, type of instrument, maturity and indeed off-balance sheet exposures and items.

The Group continues to focus on its concentration and intrinsic risks and further manage them to a more comfortable level. This is very important due to the serious risk implications that intrinsic and concentration risk pose to the Group. A thorough analysis of economic factors, market forecasting and prediction based on historical evidence will be used to mitigate the crystallization of these risks.

Portfolio risk measurement has been elevated significantly. Portfolio concentration limits have been set and measured under the following parameters: Concentration limits per Obligor; per industry; per geographical area; per maturity band.

A separate and different limit is also applied to foreign exchange and interest rate risk exposures and is covered in our market liquidity risk management policies.

The Group's internal credit approval limits for the various authorities are as indicated below.

Approval Authority Level	Approval limit (% of Shareholders' Fund)
Board Credit Committee	N10 billion and above (Not exceeding 20% of Total Shareholders' funds)
Global Credit Committee	Below N10 billion

These internal approval limits are set and approved by the Group Board and are reviewed frequently as the state of affairs of the Group and the wider financial environment demands.

(a) Collateral Security

A key mitigation step employed by the Group in its credit risk management process includes the employment of collateral securities to secure its loans and advances as alternative sources of repayment during adverse conditions. All major credit facilities to our customers must be secured and the security instruments and documentations as well as conditions precedent must be submitted to the Bank for perfection before drawdown or disbursement is allowed. Collateral analysis includes a good description of the collateral, its value, how the value was arrived at, and when the valuation was made. It is usually necessary to review the potential adverse changes in the value of collateral security for the foreseeable future.

Collateral securities which are pledged to the Bank must be in negotiable form and its types include the following:

- Real estate, plant and equipment collateral (usually all asset or mortgage debenture or charge) which have to be registered and enforceable under Nigerian law;
- Collateral consisting of inventory, accounts receivable, machinery equipment, patents, trademarks, farm products, general intangibles, etc. These require a security agreement (usually a floating debenture) which has to be registered and, must be enforceable under Nigerian law;
- Stocks and shares of publicly quoted companies;
- Domiciliation of payment on contracts;
- Documents of title to goods e.g. shipping documents consigned to the order of Zenith Bank; and
- Letter of lien.

Collateral securities are usually valued and inspected prior to disbursement and on a regular basis thereafter until full repayment of the exposure. We regularly conduct a review of all collateral documentation in respect of all credits in the Bank and specific gaps in the collateral documentation are advised to the Lending Group/Zones/Branch for appropriate action and follow-up.

The type and size of collateral held as security for financial assets other than loans and advances is usually a function of the nature of the instrument. Our debt securities, treasury and other eligible bills are normally unsecured but our comfort is on the issuer's credit rating. However, open buy back (OBB) placements are either secured by Government Bonds or Treasury Bills, which are easily realizable.

(b) Master Netting Arrangements

Netting arrangements are still being developed and are being considered for debt trading activities in line with the developments in the market. The lien arrangement for loans and advances is another means of mitigating credit risk exposure by the Bank. This arrangement is capable of reducing total loss suffered by the Bank in case of default by customers.

(c) Guarantees and Standby Letters of Credit

Guarantees and Standby Letters of Credit are considered to carry the same level of credit risk as Loans and advances. Similar controls to our normal credit risk management are therefore applied.

A significant portion of our documentary and commercial letters of credit are either cash collateralized or collateralized by the underlying shipments of goods to which they relate. This makes them to be less risky than normal loans and advances.

3.2.4 Maximum exposure to credit risk before collateral held or credit enhancements

The Group's maximum exposure to credit risk at 31 December 2009 and 30 September 2008 respectively, is represented by the net carrying amounts of the financial assets, with the exception of financial and other guarantees issued by the Group for which the maximum exposure to credit risk is represented by the maximum amount the Group would have to pay if the guarantees are called on (refer note 37 Contingent liabilities and commitments).

3.2.5 Concentration of risks of financial assets with credit risk exposure

The Group monitors concentrations of credit risk by geographical location and by industry sector. An analysis of concentrations of credit risk at 31 December 2009 and 30 September 2008 respectively for loans and advances to customers and amounts due from banks, is set out below:

(a) Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by geographical region at 31 December 2009, 30 September 2008 and 30 June 2007 respectively. For this table, the Group has allocated exposures to regions based on the region of domicile of our counterparties.

At 31 December 2009 (N'millions)	Due from banks	Loans and advances to customers	Total
Nigeria	174,093	721,092	895,185
Rest of Africa	17,028	22,275	39,303
Outside Africa	150,709	7,425	158,134
	341,830	750,792	1,092,622

At 30 September 2008 (N'millions)	Due from banks	Loans and advances to customers	Total
Nigeria	303,097	449,846	752,943
Rest of Africa	19,420	20,074	39,494
Outside Africa	214,329	1,396	215,725
	536,846	471,316	1,008,162

At 30 June 2007 (N'millions)	Due from banks	Loans and advances to customers	Total
Nigeria	90,602	236,944	327,546
Rest of Africa	358	5,227	5,585
Outside Africa	123,127	59,651	182,778
	214,087	301,822	515,909

(b) Industry sectors

	2009 Loans and advances to customers N'millions	2008 Loans and advances to customers N'millions	2007 Loans and advances to customers N'millions
Agriculture	11,082	5,642	6,338
Oil and gas	141,377	92,700	47,084
Consumer Credit	28,481	19,040	3,924
Capital Market	43,128	48,277	52,819
Manufacturing	175,546	136,548	63,986
Mortgage	14,036	9,103	4,829
Real estate and construction	26,208	9,185	15,695
Finance and Insurance	7,190	41,770	4,829
Government	21,979	14,419	12,073
Power	6,765	3,509	4,829
Other public utilities	23,509	606	6,036
Transportation	73,930	29,381	22,033
Communication	68,194	38,660	27,768
Education	1,443	549	3,622
General Commerce	65,945	–	9,055
Others	41,979	21,927	16,902
	750,792	471,316	301,822

3.2.6 Credit quality

At 31 December 2009 (N'millions)	Due from banks	Loans and advances to customers
Neither past due nor impaired	341,830	659,542
Past due but not impaired	-	7,538
Impaired		
Individually impaired	-	39,720
Collectively impaired	-	43,992
Gross	341,830	750,792
Impairment allowance		
Specific impairment	-	(23,951)
Collective impairment	-	(19,239)
	341,830	707,602

At 30 September 2008 (N'millions)	Due from banks	Loans and advances to customers
Neither past due nor impaired	536,846	439,671
Past due but not impaired	-	5,896
Impaired		
Individually impaired	-	3,582
Collectively impaired	-	22,167
Gross	536,846	471,316
Impairment allowance		
Specific impairment	-	(3,429)
Collective impairment	-	(7,240)
	536,846	460,647

At 30 June 2007 (N'millions)	Due from banks	Loans and advances to customers
Neither past due nor impaired	214,087	285,253
Past due but not impaired	-	3,776
Impaired		
Individually impaired	-	2,313
Collectively impaired	-	10,480
Gross	214,087	301,822
Impairment allowance		
Specific impairment	-	(1,301)
Collective impairment	-	(3,895)
	214,087	296,626

All other financial assets are neither past due nor impaired, with the exception of other assets (N5,121 million) which have been impaired. No financial assets which are neither past due nor impaired have been renegotiated (2008: Nil; 2007: Nil).

(a) Credit portfolio neither past due nor impaired

The credit quality of the portfolio of loans and advances and amounts due from banks that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

At 31 December 2009 (N'millions)	Due from banks	Loans and advances to customers
AAA to AA-	341,830	492,360
A+ to A-	-	56,036
BBB+ to BB-	-	33,743
Below BB-	-	39,795
Unrated	-	37,608
	341,830	659,542

At 30 September 2008 (N'millions)	Due from banks	Loans and advances to customers
AAA to AA-	536,846	328,222
A+ to A-	-	42,061
BBB+ to BB-	-	22,494
Below BB-	-	21,823
Unrated	-	25,071
	536,846	439,671

At 30 June 2007 (N'millions)	Due from banks	Loans and advances to customers
AAA to AA-	214,087	269,595
A+ to A-	-	3,568
BBB+ to BB-	-	-
Below BB-	-	2,186
Unrated	-	9,905
	214,087	285,254

The credit quality of cash and balances with central banks, treasury bills, investments in investment securities and other financial assets that were neither past due nor impaired can also be assessed by reference to the internal rating system adopted by the Group.

At 31 December 2009 (N'millions)	Cash and balances with central banks	Treasury bills	Investment securities	Reinsurance and insurance receivables
AAA to AA-	126,779	231,530	6,436	-
A+ to A-	-	-	152,556	480
BBB+ to BB-	-	-	-	-
Below BB-				
Unrated	-	-	-	240
	-	-	-	874
	126,779	231,530	158,992	1,594

At 30 September 2008 (N'millions)	Cash and balances with central banks	Treasury bills	Investment securities	Reinsurance and insurance receivables
AAA to AA-	240,848	391,940	6,436	-
A+ to A-	–	–	53,706	625
BBB+ to BB-	–	–	–	–
Below BB-	–	–	–	341
Unrated	–	–	–	987
	240,848	391,940	60,142	1,953

At 30 September 2007 (N'millions)	Cash and balances with central banks	Treasury bills	Investment securities	Reinsurance and insurance receivables
AAA to AA-	111,055	247,196	–	–
A+ to A-	–	–	39,282	334
BBB+ to BB-	–	–	–	–
Below BB-	–	–	–	167
Unrated	–	–	–	608
	111,055	247,196	39,282	1,109

The credit risk associated with other financial assets that were neither past due nor impaired are considered to be low at 31 December 2009, 30 September 2008 and 30 June 2007.

(b) Credit portfolio past due but not impaired

	2009 Loans and advances to customers N'millions	2008 Loans and advances to customers N'millions	2007 Loans and advances to customers N'millions
Past due up to 30 days	7,204	5,093	3,262
Past due 30 -60 days	153	666	426
Past due 60 -90 days	181	137	88
	7,538	5,896	3,776

(c) Credit portfolio individually impaired

	2009 Loans and advances to customers N'millions	2008 Loans and advances to customers N'millions	2007 Loans and advances to customers N'millions
Gross amount			
Grade: Below BB-	39,720	3,582	2,313
Specific impairment	(24,019)	(3,482)	(1,326)
	15,701	100	987

3.2.7 Reinsurance and insurance receivable credit risk

The credit quality of reinsurance assets by reference to the Group's internal ratings are as follows:

	2009 N'millions	2008 N'millions	2007 N'millions
AAA to AA-	480	625	334
BBB+ to BB-	240	341	167
Unrated	2,446	1,548	726
	3,166	2,514	1,227

3.3 Market risk

The Group takes exposure to market risks, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spread, foreign exchange rates and equity prices. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return on risk.

3.3.1 Management of market risk

The Market Risk Management unit is mandated to assess, monitor and manage market risk for the Group. The primary objective of the Market Risk Management unit is to establish a comprehensive and independent market risk control framework.

The Group's market risk objectives, policies and processes are aimed at instituting a model that objectively identifies, measures and manages market risks in the Group and ensure that:

1. The individuals who take or manage risk clearly understand it.
2. The Group's risk exposure is within established limits.
3. Risk taking decisions are in line with business strategy and objectives set by the Board of Directors.
4. The expected payoffs compensate for the risks taken.
5. Sufficient capital, as a buffer, is available to take risk.

3.3.2 Measurement of market risk

The Group's major measurement techniques used to measure and control market risk are outlined below.

The Group currently applies Non-Value at Risk (VAR) measures in the measurement and management of market risks. Plans are however underway to introduce VAR measures. The following are some of the measures currently in use:

i) NOP (NET OPEN POSITION): Intraday and Overnight Position Limits are set with reference to the Central Bank advised Open Position Limit. Internally we take a cautious/conservative approach in setting our overall limit in order to avoid any breaches as well as limit our risks. Our lead currency is USD, therefore the USD/NGN limit is set to the maximum. Other currency limits are set as well. These positions are revalued on a daily basis. Monitoring of limits is done on a daily basis.

ii) AGGREGATE CONTROL LIMITS: For example, Holding of Government Securities (treasury bills and bonds). Similar to the NOP for foreign currency, Total Holding Limits are set for the holding of government securities (treasury bills and bonds), especially those in the trading book, in order to manage our risk (possibility of losses that may arise due to price or rate fluctuations). These positions are also revalued on a daily basis.

iii) MANAGEMENT ACTION TRIGGERS (MAT): This establishes the level at which management will be alerted if we continue to make losses on our trading positions.

iv) FACTOR SENSITIVITIES (Pv01): This is a measure of the present value impact of one basis point move (up or down) in interest rates. It is often used as a price alternative to duration (a time measure). We also carry out sensitivity analyses on our entire book from time to time.

v) PERMITTED CURRENCIES: This specifies those currencies that we can trade in and those we can hold overnight positions in. These are subject to review from time to time. Our activities are currently limited to seven major currencies.

vi) PERMITTED INSTRUMENTS: This specifies those instruments (nature of transactions) that could be carried on under this category.

vii) OFF MARKET RATE TOLERANCE/RATE REASONABILITY: This limit highlights all transactions that are done at unusually high/ low rates in comparison to the going market rate (mark to market rate).

3.3.3 Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency overnight and intra-day position limits are set with reference to the Central Bank of Nigeria advised open position limit. Internally a conservative approach is adopted in setting our overall limit in order to avoid the risk of losses or breaches of the regulatory limits. Individual currency limits are set and monitored as well. There are other limits that are employed in managing foreign exchange risks. These limits are set with the aim of minimizing our risk exposures to exchange rates volatilities to an acceptable level. Limits are monitored on a daily basis.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at 31 December 2009, 30 September 2008 and 30 June 2007. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

At 31 December 2009 (N'millions)	Naira	Dollar	GBP	Euro	Others	Total
Assets	118,428	6,667	554	–	1,130	126,779
Cash and balances with central banks	222,858	–	–	–	8,672	231,530
Treasury bills	128,346	149,025	5,489	–	58,970	341,830
Due from other banks	662,076	74,416	75	–	14,225	750,792
Loans and advances to customers (gross)	1,594	–	–	–	–	1,594
Reinsurance assets and insurance receivables	146,081	7,438	5,403	–	–	158,922
Investment securities Other assets (gross)	24,150	1,276	854	–	1,265	27,545
	1,303,533	238,822	12,375	–	84,262	1,638,992
Liabilities						
Deposits from customers	958,813	174,723	3,611	–	41,041	1,178,188
Claims payable	198	–	–	–	–	198
Other liabilities	39,100	44,796	114	-	6,562	90,572
Liabilities on insurance contracts	2,161	–	–	–	–	2,161
Borrowings	–	36,402	–	–	–	36,402
	1,000,272	255,921	3,725	–	47,603	1,307,521
Net on-balance sheet position	303,261	(17,099)	8,650	–	36,659	331,471

At 30 September 2008 (N'millions)	Naira	Dollar	GBP	Euro	Others	Total
Assets						
Cash and balances with central banks	225,080	12,586	1,047	–	2,135	240,848
Treasury bills	377,070	–	–	–	14,870	391,940
Due from other banks	272,959	193,053	8,221	–	62,613	536,846
Loans and advances to customers (gross)	413,247	48,521	55	–	9,493	471,316
Reinsurance assets and insurance receivables	1,953	–	–	–	–	1,953
Investment securities	54,269	3,721	2,194	–	–	60,184
Other assets (gross)	33,519	3,048	2,003	–	3,022	41,592
	1,378,097	260,929	13,520	–	92,133	1,744,679
Liabilities						
Deposits from customers	1,006,330	203,095	3,821	-	35,676	1,248,922
Claims payable	234	-	-	-	-	234
Other liabilities	137,807	33,042	218	-	16,017	187,084
Liabilities on insurance contracts	2,214	-	-	-	-	2,214
Borrowings	-	40,868	-	-	-	40,868
	1,146,585	277,005	4,039	-	51,693	1,479,322
Net on-balance sheet position	231,512	(16,076)	9,481	-	40,440	265,357

At 30 June 2007 (N'millions)	Naira	Dollar	GBP	Euro	Others	Total
Assets						
Cash and balances with central banks	105,502	2,051	1,025	-	2,477	111,055
Treasury bills	247,196	-	-	-	-	247,196
Due from other banks	90,602	115,739	7,388	-	358	214,087
Loans and advances to customers (gross)	233,250	45,450	17,895	-	5,227	301,822
Reinsurance assets and						-
insurance receivables	1,109	-	-	-	-	1,109
Investment securities	33,126	-	-	-	6,156	39,282
Other assets (gross)	26,045	-	118	-	437	26,600
	736,830	163,240	26,426	-	14,655	941,151
Liabilities						
Deposits from customers	528,435	75,131	15,585	-	16,902	636,053
Claims payable	274	-	-	-	-	274
Other liabilities	132,593	33,042	218	-	16,017	181,870
Liabilities on insurance contracts	596	-	-	-	-	596
Borrowings	-	26,697	-	-	-	26,697
	661,898	134,870	15,803	-	32,919	845,490
Net on-balance sheet position	74,932	28,370	10,623	-	(18,264)	95,661

The Group's exposure to foreign currency risk is largely concentrated in the US Dollar. Movement in exchange rate between the US Dollar and the Nigerian Naira affects reported earnings through revaluation gain or loss and balance sheet size through increase or decrease in the revalued amounts of assets and liabilities denominated in US Dollars.

The table below shows the impact on the Group's profit and balance sheet size if the exchange rate between the US Dollars and Nigerian Naira had increased or decreased by 10%, with all other variables held constant.

	2009	2008	2007
Effect of 10% movement on profit before tax and balance sheet size (N'millions)	1,668	(1,608)	2,837

3.3.4 Interest rate risk

The Group is exposed to cash flow interest rate risk, which is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rate risk. The Group takes on exposure to the effect of fluctuations in the prevailing levels of market interest on both its fair value and cash flows risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movement arise.

The table below summarizes the Group's interest rate gap position:

31 December 2009 (N'millions)	Carrying amount	Rate sensitive	Non rate sensitive
Assets			
Cash and Balance with Central Banks	126,779	126,779	–
Treasury and other eligible bills (FVTPL)	6,381	6,381	–
Treasury and other eligible bills (Amortized cost)	225,149	225,149	–
Due From Other Banks	341,830	341,830	–
Loans and Advances to Customers	707,602	707,602	–
Insurance receivables	1,594	–	1,594
Investment Securities (FVTPL)	2,405	2,405	–
Investment Securities (Amortized cost and Fair value through OCI)	156,517	147,437	9,080
Investments in associates	2,443	–	2,443
Deferred Tax Assets	966	–	966
Other Assets	22,353	–	22,353
Property and Equipment	71,988	–	71,988
Intangible Assets	712	–	712
Total assets	1,666,719	1,557,583	109,136

Liabilities			
Customer Deposits	1,178,188	1,175,052	3,136
Claims Payable	198	–	198
Liability on Insurance Contract	2,161	–	2,161
Other Borrowings	36,402	36,402	–
Current Income Tax	7,407	–	7,407
Other Liabilities	90,572	–	90,572
Deferred Income Tax Liabilities	5,924	–	5,924
Total liabilities	1,320,852	1,211,454	109,398
Total interest repricing gap	345,867	346,129	(262)

30 September 2008 (N'millions)	Less than 3 months	3 -6 months	6 -12 months	1 -5 years	More than 5 years	Total rate sensitive
Financial assets						
Cash and Balance with Central Banks	126,779	–	–	–	–	126,779
Treasury and other eligible bills (FVTPL)	748	4,624	1,009	–	–	6,381
Treasury and other eligible bills (Amortized cost)	93,782	97,782	33,555	–	–	225,149
Due From Other Banks	341,830	–	–	–	–	341,830
Loans and Advances to Customers	225,681	8,551	20,608	423,911	28,851	707,602
Insurance receivables	–	–	–	–	–	–
Investment Securities (FVTPL)	2,405	–	–	–	–	2,405
Investment Securities (Amortized cost and Fair value through OCI)	12,576	13,509	49,164	65,921	6,267	147,437
Deferred Tax Assets	–	–	–	–	–	–
Other Assets	–	–	–	–	–	–
Investment Property	–	–	–	–	–	–
Property and Equipment	–	–	–	–	–	–
Intangible Assets	–	–	–	–	–	–
Total assets	803,831	124,466	104,336	489,832	35,118	1,557,583
Financial liabilities						
Customer Deposits	1,155,414	12,752	2,987	3,899	–	1,175,052
Claims Payable	–	–	–	–	–	–
Liability on Insurance Contract	–	–	–	–	–	–
Other Borrowings	8,879	–	2,241	25,282	–	36,402
Current Income Tax	–	–	–	–	–	–
Other Liabilities	–	–	–	–	–	–
Deferred Income Tax Liabilities	–	–	–	–	–	–
Total liabilities	1,164,293	12,752	5,228	29,181	–	1,211,454
Total interest repricing gap	(360,462)	111,714	99,108	460,651	35,118	

30 September 2008 (N'millions)	Carrying amount	Rate sensitive	Non rate sensitive
Total assets	1,778,906	1,695,078	83,828
Total liabilities	1,431,266	1,221,501	209,765
Total interest repricing gap	347,640	473,577	(125,937)

30 September 2008 (N'millions)	Less than 3 months	3 -6 months	6 -12 months	1 -5 years	More than 5 years	Total rate sensitive
Total financial assets	1,313,544	115,974	96,489	137,390	31,681	1,695,078
Total financial liabilities	1,179,194	8,923	2,041	31,343	–	1,221,501
Total interest repricing gap	134,350	107,051	94,448	106,047	31,681	473,577

30 June 2007 (N'millions)	Carrying amount	Rate sensitive	Non rate sensitive
Total assets	971,094	904,243	66,851
Total liabilities	853,598	660,041	193,557
Total interest repricing gap	117,496	244,202	(126,706)

30 June 2007 (N'millions)	Less than 3 months	3 -6 months	6 -12 months	1 -5 years	More than 5 years	Total rate sensitive
Total financial assets	533,728	242,526	73,447	54,542	-	904,243
Total financial liabilities	490,211	67,255	1,861	100,714	-	660,041
Total interest repricing gap	43,517	175,271	71,586	(46,172)	-	244,202

The table below shows the impact on the Group's profit before tax if interest rates on financial instruments held at amortized cost or at fair value had increased or decreased by 100 basis points, with all other variables held constant.

	2009	2008
Effect of 100 basis points movement on profit before tax (N'millions)	4,480	3,873

The effect of 100 basis points movement on profit is considered moderate and we do not expect all the rates to move at the same time and in the same direction. This risk can largely be handled by the flexibility in the changing/adjustment rates on loans and deposits.

3.3.5 Equity and commodity price risk

The Group is exposed to equity price risk by holding investments quoted on the Nigerian Stock Exchange (NSE) and other non-quoted investments. Equity securities quoted on the NSE is exposed to movement based on the general movement of the all share index and movement in prices of specific securities held by the Group.

As at December 2009, the market value of quoted securities held by the Group is N606 million (2008: N6,739 million). If the all share index of the NSE moves by 100 basis points from the N 20,827.17 position at 31 December 2009, the effect on the fair value of these quoted securities and other comprehensive income would have been N 6.06 million.

Unquoted equity security held by the Group is a 5% equity holding in African Finance Corporation (AFC) valued at N 8.5 billion (cost 6.4 billion) as at 31 December 2009. The AFC is a private sector-led investment bank and development finance institution which has the Central Bank of Nigeria (CBN) as the single major shareholder (42.5%) with other African financial institutions and investors holding the remaining shares. The AFC operates a US Dollar denominated balance sheet and provides financing in this currency. As at December 2009, the corporation had a balance sheet size of $1.1 billion.

The Group does not deal in commodities and is therefore not exposed to any commodity price risk.

3.3.6 Fair value of financial assets and liabilities

(a) Financial instruments measured at amortised cost

	At 31 December 2009		At 30 September 2008	
	Carrying value N'millions	Fair value N'millions	Carrying value N'millions	Fair value N'millions
Financial assets				
Cash and balances with central banks	126,779	126,779	240,848	240,848
Due from other banks	341,830	341,830	536,846	536,846
Treasury bills (Amortized cost)	225,149	215,856	384,326	376,348
Debt securities (Amortized cost)	147,437	152,394	46,077	46,078
Loans and advances to customers	707,602	593,021	460,647	371,182
Reinsurance assets and insurance receivables	1,594	1,594	1,953	1,953
Other assets	22,353	22,353	37,511	37,511

Financial liabilities				
Deposits from customers	1,178,188	1,031,162	1,192,737	1,152,499
Claims payable	198	198	234	234
Other liabilities	90,572	90,572	187,084	187,084
Liabilities on insurance contracts	2,161	2,161	2,214	2,214
Borrowings	36,402	34,249	40,868	37,675

(b) Financial instruments measured at fair value

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

At 31 December 2009 (N'millions)	Level 1	Level 2	Level 3
Financial assets			
Treasury bills (FVTPL)	6,381	–	–
Bonds (FVTPL)	2,405	–	–
-Investment securities (quoted)	606	–	–
Investment securities (unquoted)	–	–	8,474
	9,392	–	8,474

Reconciliation of Level 3 items

At 1 October 2008 (N'millions)	6,462
Gains/(losses) recognised through profit or loss	–
Gains/(losses) recognised through other comprehensive income	2,012
Purchases	–
Sales	–
Issues	–
Settlements	–
At 31 December 2009 (N'millions)	8,474

There were no gains or losses for the period included in profit or loss arising from Level 3 items.

Sensitivity analysis of Level 3 items	At 31 December 2009		At 30 September 2008	
	Favourable changes N'millions	Unfavourable changes N'millions	Favourable changes N'millions	Unfavourable changes N'millions
Financial assets				
Unqouted investment securities	84	(101)	65	(78)

The sensitivity analysis was determined based on 5% increase or decrease in profit of the investee company under normal operating conditions with all other variables held constant.

(c) Fair valuation methods and assumptions

(i) Cash and balances with central banks

Cash and balances with Central banks represent cash held (including mandatory cash reserve requirements of 2009: N10.4 billion, 2008: N18.2 billion) with Central banks of the various jurisdictions in which the Group operates. The fair value of these balances is their carrying amounts.

(ii) Due from other banks

Due from other banks represents balances with local and correspondence banks, inter-bank placements and items in the course of collection. The fair value of the current account balances, floating placements and overnight deposits are their carrying amounts.

(iii) Treasury bills and investment securities

Treasury bills represent short term instruments issued by the Central banks of the jurisdiction where the Group has operations. The fair value of treasury bills and bonds at fair value through profit or loss are determined with reference to quoted prices (unadjusted) in active markets for identical assets. The estimated fair value of treasury bills and bonds at amortized cost represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The fair values of quoted equity securities are determined by reference to quoted prices (unadjusted) in active markets for identical instruments. The fair value of the unquoted equity holding in AFC is determined on the basis of the fair value of the entity's net assets.

(iv) Loans and advances to customers

Loans and advances are carried at amortized cost net of provision for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(v) Other assets

Other assets represent monetary assets which usually has a short recycle period and as such the fair values of these balances approximate their carrying amount.

(vi) Customer deposits and borrowings

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 values of fixed interest-bearing deposits and borrowings are determined using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

3.4 Liquidity risk

Liquidity risk is the potential loss arising from the Group's inability to meet its obligations as they fall due or to fund increases in assets without incurring unacceptable cost or losses. Liquidity risk is not viewed in isolation, because financial risks are not mutually exclusive and liquidity risk is often triggered by consequences of other bank risks such as credit, market and operational risks.

3.4.1 Liquidity risk management process

The Group has a sound and robust liquidity risk management framework that ensures that we maintain sufficient liquidity, including a cushion of unencumbered, high quality liquid assets at all times, to withstand a range of stress events, including those that might involve loss or impairment of our funding sources.

The Group's liquidity risk exposure is monitored and managed by the Asset and Liability Management Committee (ALCO) on a regular basis. This process includes:

a. Projecting cash flows and considering the level of liquid assets necessary in relation thereto;
b. Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
c. Maintaining a diverse range of funding sources with adequate back-up facilities;
d. Managing the concentration and profile of debt maturities;
e. Monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
f. Maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimizing any adverse long-term implications for the business.

The Maximum Cumulative Outflow has remained positive all through the various maturity buckets.

3.4.2 Funding approach

Our sources of liquidity are regularly reviewed by both the ALCO and the Treasury Group in order to avoid undue reliance on large individual depositors and ensure that a satisfactory overall funding mix is maintained at all times. The funding strategy is geared toward ensuring effective diversification in the sources and tenor of funding. The bank however places greater emphasis on demand deposits as against purchased funds in order to minimize the cost of funding.

3.4.3 Liquidity gap analysis

The table below presents the cash flows payable by the Group under financial liabilities, insurance liabilities and other liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

31 December 2009 (N'millions)	Up to 1 month	1 -3 months	3 -6 months	6 -12 months	Less than 1 year
Deposits from customers	967,777	116,873	12,752	10,517	1,107,919
Claims payable	198	–	–	–	198
Current income tax	–	1,852	1,852	3,703	7,407
Deferred tax	–	–	–	–	–
Other liabilities	36,911	–	–	38,065	74,976
Liabilities on insurance contracts	–	–	–	2,161	2,161
Borrowings	6,218	2,243	–	3,523	11,984
Total liabilities (contractual maturity)	1,011,104	120,968	14,604	57,969	1,204,645
Total assets (expected maturity)	662,118	135,175	133,961	141,636	1,072,890

31 December 2009 (N'millions)	Less than 1 year	1 -5 years	Over 5 years	Total
Deposits from customers	1,107,919	73,746	–	1,181,665
Claims payable	198	–	–	198
Current income tax	7,407	–	–	7,407
Deferred tax	–	5,924	–	5,924
Other liabilities	74,976	15,596	–	90,572
Liabilities on insurance contracts	2,161	–	–	2,161
Borrowings	11,984	26,578	–	38,562
Total liabilities (contractual maturity)	1,204,645	121,844	–	1,326,489
Total assets (expected maturity)	1,072,890	522,121	71,709	1,666,720

September 2008 (N'millions)	Up to 1 month	1 -3 months	3 -6 months	6 -12 months	Less than 1 year
Deposits from customers	1,064,844	53,989	8,535	10,921	1,138,289
Claims payable	234	–	–	–	234
Current income tax	–	1,423	1,423	2,844	5,690
Deferred tax	–	–	–	–	–
Other liabilities	–	–	187,084	–	187,084
Liabilities on insurance contracts	–	–	–	1,311	1,311
Borrowings	–	–	–	2,485	2,485
Total liabilities (contractual maturity)	1,065,078	55,412	197,042	17,561	1,335,093
Total assets (expected maturity)	957,740	127,175	122,452	129,364	1,336,731

30 September 2008 (N'millions)	Less than 1 year	1 -5 years	Over 5 years	Total
Deposits from customers	1,138,289	61,613	-	1,199,902
Claims payable	234	-	-	234
Current income tax	5,690	-	-	5,690
Deferred tax	-	2,439	-	2,439
Other liabilities	187,084	-	-	187,084
Liabilities on insurance contracts	1,311	903	-	2,214
Borrowings	2,485	43,504	-	45,989
Total liabilities (contractual maturity)	1,335,093	108,459	-	1,443,552
Total assets (expected maturity)	1,336,731	371,836	70,339	1,778,906

30 June 2007 (N'millions)	Up to 1 month	1 -3 months	3 -6 months	6 -12 months	Less than 1 year
Deposits from customers	421,101	69,110	67,255	1,861	559,327
Claims payable	274	-	-	-	274
Current income tax	-	1,607	1,607	3,213	6,427
Deferred tax	-	-	-	-	-
Other liabilities	-	-	181,870	-	181,870
Liabilities on insurance contracts	-	-	-	596	596
Borrowings	-	-	-	-	-
Total liabilities (contractual maturity)	421,375	70,717	250,732	5,670	748,494
Total assets (expected maturity)	585,248	158,078	59,584	10,886	813,796

30 June 2007 (N'millions)	Less than 1 year	1 -5 years	Over 5 years	Total
Deposits from customers	559,327	76,726	-	636,053
Claims payable	274	-	-	274
Current income tax	6,427	-	-	6,427
Deferred tax	-	1,681	-	1,681
Other liabilities	181,870	-	-	181,870
Liabilities on insurance contracts	596	-	-	596
Borrowings	-	26,697	-	26,697
Total liabilities (contractual maturity)	748,494	105,104	-	853,598
Total assets (expected maturity)	813,796	124,794	32,504	971,094

3.5 Capital management

The strategy for assessing and managing the impact of our business plans on present and future regulatory capital forms an integral part of the Bank's strategic plan and that of the Group as a whole. Specifically, the Group considers how the present and future capital requirements will be managed and met against projected capital requirements based on our own assessment and against the supervisory/regulatory capital requirements taking account of the Group business strategy and value creation to all its stakeholders.

The capital adequacy of the Group is reviewed regularly to meet regulatory requirements in order to adopt and implement the decisions necessary to maintain the capital at a level that ensures the realisation of the business plan with a certain safety margin.

The Group undertakes a daily monitoring of capital adequacy and the application of regulatory capital by deploying internal systems based on the guidelines provided by the Central Bank of Nigeria (CBN) for supervisory purposes.

The CBN requires each bank to hold the minimum level of the regulatory capital of N25 billion and maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum of 10%. The Bank has consistently met and surpassed this requirement.

Most of the Bank's capital is Tier 1 (Core Capital) which consists of essentially share capital, retained earnings and reserves created by appropriations of retained earnings.

Banking subsidiaries in the Group, not incorporated in Nigeria, are directly regulated and supervised by their local banking supervisor and are required to meet the capital requirement directive of the local regulatory jurisdiction.

Parental support and guidance are given at the Group level where the risk level in the Group in relation to capital level and adequacy is closely monitored. This activity is managed by the Financial Control and Strategic planning group and is divided into two tiers.

The Group's capital plan is linked to its business expansion strategy which anticipates the need for growth and expansion in its branch network and IT infrastructure. Arrangement is made for capital issue as the need for it arises. The capital plan sufficiently meets regulatory requirements as well as providing adequate cover for the Group's risk profile. The Group's capital adequacy remains strong and the capacity to generate and retain reserves continues to grow.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December and 30 September. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	Group 2009 N'millions	Group 2008 N'millions
Tier 1 capital Share capital	12,559	8,372
Share premium	255,047	255,047
Statutory reserves	19,634	16,879
Contingency reserve	431	262
SMEIES reserve	3,729	3,729
Retained earnings	51,170	61,392
Total qualifying Tier 1 capital	342,570	345,681
Tier 2 capital		
Minority interests	2,315	2,332
Revaluation reserve -investment securities	1,310	423
Translation reserve	(303)	(796)
Total qualifying Tier 2 capital	3,322	1,959
Total regulatory capital	345,892	347,640
Risk-weighted assets		
On-balance sheet	829,487	588,481
Off-balance sheet	324,251	362,149
Total risk-weighted assets	1,153,738	950,630
Risk-weighted Capital Adequacy Ratio (CAR)	30%	37%

The decrease in the regulatory capital in 2009 is mainly due to the contribution of the current-year loss arising from significant loan loss provisions for loans securities traders and oil marketers. The increase of the risk-weighted assets reflects the expansion of the business into retail outlets and consumer loans in 2008.

3.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including legal and regulatory risks. Operational risk exists in all products and business activities.

The Group traditionally manages this risk through a control-based environment in which processes are documented, authorization is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews, undertaken by internal control and audit, and by monitoring external operational risk events, which ensure that the Group stays in line with best practice and takes account of lessons learnt from publicized operational failures within the financial services industry.

- Operational risk management responsibility is assigned at a senior management level within the organization.
- Operational risks are identified by risk assessments covering operational risks facing each business unit and risks inherent in processes, activities and products.
- Risk assessment incorporates a regular review of risks identified to monitor significant changes.
- Risk mitigation, including insurance, is considered where this is cost-effective.

User specific risk profiles, Risk Control Self Assessment Questionnaires (RCSA) and Key Risk Indicators (KRI) for activities / departments in the Bank have been deployed to selected departments and activities in a pilot run. Lessons learnt will be used to fine-tune operational risk measurements across the Bank and its subsidiaries.

3.7 Strategic risk

Strategic risk examines the impact of design and implementation of business models and decisions, on earnings and capital as well as the responsiveness to industry changes. This responsibility is taken quite seriously by the Board and Executive management of the Group and deliberate steps are taken to ensure that the right models are employed and appropriately communicated to all decision makers in the Group. The execution, processes and constant reviews ensures that strategic objectives are achieved. This has essentially driven the Group's sound banking culture and performance to date.

3.8 Legal risk

Legal risk is defined as the risk of loss due to defective contractual arrangements, legal liability (both criminal and civil) incurred during operations by the inability of the organisation to enforce its rights, or by failure to address identified concerns to the appropriate authorities where changes in the law are proposed.

The Group manages this risk by monitoring new legislation, creation of awareness of legislation amongst employees, identification of significant legal risks as well as assessing the potential impact of these.

3.9 Reputational risk

There is a risk that Group's reputation may suffer adversely due to bad publicity, non-compliance with regulatory rules and legislation, which may lead to a significant drop in new business and/or a significant increase in the number of lapses and/or withdrawals.

The Group strives to maintain quality customer services and procedures and business operations that enable compliance with regulatory rules and legislation in order to minimise the risk of a fall in the reputation of the Group.

3.10 Taxation risk

Taxation risk refers to the risk that new taxation laws will adversely affect the Group and/or the loss of non-compliance with tax laws.

The taxation risk is managed by monitoring applicable tax laws, maintaining operational policies that enable the Group to comply with taxation laws and, where required, seeking the advice of tax specialists.

3.11 Regulatory risk

Regulatory risk is defined as the risk of legal or regulatory sanctions, financial loss, or loss to reputation that the Group may suffer as a result of the failure to comply with applicable laws, regulations, codes of conduct and standards of good practice.

The Group manages the regulatory risk it is potentially exposed to by monitoring new regulatory rules and applicable laws, and the identification of significant regulatory risks. The Group strives to maintain appropriate procedures, processes and policies that enable it to comply with applicable regulation.

3.12 Insurance risk

Insurance risk is the risk that future risk claims and expenses will exceed the value placed on insurance liabilities. It occurs due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, persistency and expenses about which assumptions are made in order to place a value on the liabilities. Deviations from assumptions will result in actual cash flows differing from those projected in the policyholder liability calculations. As such, each assumption represents a source of uncertainty.

3.12.1 Mortality and morbidity risks

The risk that actual experience in respect of the rates of mortality and morbidity may vary from what is assumed in pricing and valuation, depending on the terms of different products. The material classes of business most affected by these risks are discussed below.

(a) Individual life products Term assurance, Mortgage protection, Savings Plan

Products are sold directly to individuals providing a benefit on death. The main insurance risk relates to the possibility that rates of death may be higher than expected. This may be due to:

- Normal statistical variation due to the random nature if the insured events;
- Natural catastrophes such as floods, and unnatural catastrophes such as acts of terrorism;
- The impact of HIV/AIDS or other health epidemics;
- Anti-selection such as where a policyholder with a pre-existing condition or disease purchases a product where a benefit will be paid on death;
- The effect of selective withdrawal; and
- Concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area.

For contracts with fixed and guaranteed benefits (such as the minimum death benefits available on savings plan policies) and fixed future premiums, there are no mitigating terms that reduce the risk accepted by Group. The Group therefore employs some underwriting controls to ensure that only acceptable risks are accepted.

The following additional controls and measures are in place in order to ensure that the Group manages its exposure to mortality risk:

- Claims assessment processes to ensure only valid claims are paid;
- Reinsurance to limit liability on particularly large claims or substandard risks; and
- Concentration risk is reduced by diversification of business over a large number of independent lives, as well as by taking out catastrophe reinsurance.

(b) Group life products

Employee benefit products provide life cover to members of a group, such as employees of companies or members of trade unions.

An aggregate stop-loss reinsurance agreement is in place to ensure that the Group's exposure to the aggregate mortality risk in its group life business is managed and limited to a specified limit.

In addition, there is a catastrophe reinsurance treaty in place for both group business and individual business. Such a treaty is particularly important for the group life business as there are considerably more concentrations of risks compared to individual business.

(c) Deposit administration

Deposit administration contracts provide a guaranteed life annuity conversion at the maturity of the contract. The mortality risk in this case is that the policyholders may live longer than assumed in the pricing of the contract. This is known as the risk of longevity.

The Group manages this risk by allowing for improvements in mortality when pricing and valuing the contracts. The Group also performs more detailed actuarial experience investigations and adjust assumptions in pricing for new contracts and valuation of existing contracts when necessary.

3.12.2 Claims experience risk

In terms of the short-term insurance contracts held by the Group, the claims experience risk for these policies is that the number of claims and/or the monetary claim amounts are worse than that assumed in the pricing basis.

The Group manages this risk by charging premiums which are appropriate to the risks under the insurance contracts.

Under the short-term insurance products, the Group also holds a concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area. This risk is reduced by diversification over a large number of uncorrelated risks, as well as taking out catastrophe reinsurance.

3.12.3 Persistency risk

Persistency risk relates to the risk that policyholders may withdraw their benefits and terminate their contracts prior to the contractual maturity date of the contract. Expenses such a commission and acquisition expenses are largely incurred at the outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges from the contract. Therefore, if the contract is terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred.

Where a surrender benefit is payable, the benefit amount on withdrawal normally makes provision for recouping any outstanding expenses. However, losses may still occur if the expenses incurred in respect of the policy exceed the value of the policy, or where the withdrawal benefit does not fully allow for the recovery of all unrecouped expenses. This may either be due to a regulatory minimum surrender benefit applying, or because of product design.

3.12.4 Expense risk

There is a risk that the Group may experience a loss due to actual expenses being higher than those assumed when pricing and valuing policies. This may be due to inefficiencies, higher than expected inflation, lower than expected volumes of new business or higher than expected terminations resulting in smaller in-force policies.

To manage this risk, the Group performs expense investigations annually and sets pricing and valuation assumptions to be in-line with the actual expenses experience, with allowance for inflation.

The Group's exposure to unexpected increases in the inflation rate is expected to be minimal due to the short-term nature of their business and their ability to review premium rates at renewals (typically on an annual basis).

3.12.5 Business volume risk

There is a risk the Group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs are variable and relate directly to sales volumes.

3.12.6 Capital adequacy risk

There is a risk that the capital held by the Group to back to its insurance liabilities may prove to be inadequate on a regulatory solvency basis. This may then lead to intervention by the Regulator and may further lead to a fall in the reputation of the group (see Reputational risk below for further details). At an extreme, the Regulator may require the Group to close to new business. This will have a further negative impact on the Group.

This risk is monitored and assessed by performing annual valuations on the life insurance liabilities performed by an independent valuation actuary, calculating the outstanding claims reported (OCR) and Incurred But Not Reported (IBNR) contingency reserves, monitoring any regulatory rules applying to the assets and the adequacy of the assets to back the liabilities and adopting an investment strategy which is aimed at investing in admissible assets and maintaining adequate capital.

In addition, sensitivity and scenario analysis are performed to assess the Group capital adequacy under various scenarios and to ensure that the Group will remain financially sound under some stress economic conditions.

3.12.7 Asset liability matching risk

Due to the short-term nature of the Group's insurance business, most of the liability cash flows will be of short-term nature. The asset liability matching risk lies in the risk that the cash inflows from the assets held will not match liability cash outflows in terms of timing and/or amounts. Therefore, the risk arises that Group will be unable to meet policyholder obligations. In this case, the asset liability mismatch risk is similar to liquidity risk described in liquidity risk.

3.12.8 Assumption risk

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality, morbidity, termination rates, expenses and investment performance. The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected, and, in the extreme, that the actual claims and benefits exceed the liabilities. The risk is mitigated to an extent through:

- The addition of margins, specifically where there is evidence of moderate or extreme variation in experience;
- The use of appropriate sources of data; and
- Regular actual versus expected investigations.

Due to the short-term nature of the Group's business, exposure to unexpected changes in trends in experience is minimal since premium rates are reviewable at renewal.

3.12.9 Data risk

Data risk is the risk that data used in the policyholders' liabilities valuation calculations are inaccurate or incomplete and, therefore, are not a true and accurate view of the insurance contracts held by the Group. The data could be inaccurate or incomplete due to incorrect data or valuation extracts between the policy administration system and the actuarial valuation model and/or incorrect capturing of data on the policy administration system.

This risk is managed by the Group through regular data integrity testing in order to assess the appropriateness, accuracy and credibility of the various data sets as well as investigations into data exceptions reported.

Where insufficient internal data is available, the Group makes use of external sources to derive its pricing and valuation assumptions. Frequent monitoring of these external sources is performed, including actual versus expected investigations.

3.12.10 Model risk

There is a risk that the Group may suffer a loss if the model used to calculate the insurance liabilities does not project expected cash flows under the insurance contracts accurately. The expected cash flow projections may be inaccurate either due to the model itself being incorrect, inappropriate to the policies being valued or inaccurate and/or the underlying assumptions used in the model being inappropriate.

The Group makes use of an independent valuation actuary to value its liabilities. The models being used to value the liabilities are, therefore, not internal to but belong to an external third party. The model risk underlying the use of third party models are addressed by:

- Regular actual versus expected cash flow investigations to assess the appropriateness of the external models; and
- Detailed investigations are performed annually to ensure the integrity of the data used in the valuation process.

3.12.11 Insurance risk monitoring

Annual valuations of the liabilities under the existing life insurance contracts which are held by the Group are performed by an independent valuation actuary.

The Group assesses and monitors the unexpired risks it holds, by calculating the Outstanding Claims Reserve (OCR) and Incurred but not Reported Reserve (IBNR) on an annual basis. Reconciliations of the various insurance reserves are provided below: Reconciliation of the OCR to the balance at the start of the financial year:

	Group 2009 N'millions	Group 2008 N'millions
Balance at the start of the financial year	171	104
Claims paid	(1,514)	(904)
Changes in estimates		
Claims reported	1,000	850
-Incurred prior to the start of the financial year	247	30
-Incurred during the current financial year	753	820
Experience variances	381	121
Balance at the end of the financial year	38	171

Reconciliation of the IBNR claims to the balance at the start of the financial year:

	Group 2009 N'millions	Group 2008 N'millions
Balance at the start of the financial year	22	10
Claims reported that was incurred prior to the start of the financial year	(247)	(30)
Changes in estimates to profit or loss	–	–
New claims incurred but not reported during current financial year	151	90
Experience variances	83	(49)
Balance at the end of the financial year	9	21

3.12.12 Insurance premium rating

(a) Individual life products Term-assurance, Mortgage protection and Savings Plan

The price for an individual life product is adjusted for the following risk factors:

- Age;
- Gender;
- Smoker status;
- Medical conditions;
- Financial condition; and
- Hazardous pursuits.

The Group employs the following additional controls and measures to ensure that only acceptable risks are accepted and risks are appropriately priced:

- Underwriting controls, with risk classification based on the above risk factors;
- Regular review of premium rates; and
- Appropriate policy conditions, including any exclusion on the cover on the individual's life.

Premium rates are guaranteed for the period up to the renewal of a policy, typically, after 1 year.

(b) Deposit administration

Premium rating on deposit administration policies distinguishes between the ages and gender of prospective policyholders. Annual premiums, payable up front, are repriced at renewal of the deposit administration policies.

(c) Group life products

Underwriting on group business is much less stringent than for individual business, as there is typically less scope for anti-selection. The main reason for this is that participation in the group schemes is normally compulsory, and members have limited choice in the level of the benefits.

Group policies are priced using standard mortality tables. The price for an individual scheme is adjusted for the following risk factors:

- Region;
- Salary structure;
- Gender structure; and
- Industry.

For large schemes, a scheme's past experience is a crucial input in setting rates for the scheme. The larger the scheme the more weight is given to the scheme's past experience. Rates are guaranteed for one year and reviewable at the renewal of the policy.

(d) Short-term insurance products

Underwriting on short-term insurance products takes the form of the insurance applicant completing a proposal form. The following risk factors are used in the risk classification:

- Age and gender of the insured driver or operator;
- Value of the item(s) to be covered;
- Use of the item(s) to be insured, for example, premium rates distinguish business and personal use for vehicle cover;

- Physical condition of the item(s) to be insured;
- Safety and security features installed; and
- Past claims experience, for example, the premium rate payable on vehicle cover reflects the past claims experience on the vehicle and driver to be insured.

Where the value of the item(s) to be insured exceeds a pre-specified limit, the underwriting becomes more stringent. This is particularly the case for marine and aviation cover. In this case the Group makes use of specialist underwriting agents to assess the risks and set an appropriate premium for cover.

Premium rates are guaranteed for the period up to the renewal of a policy, typically, after 1 year.

4. Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the other comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The specific component of total allowance for impairment applies to credits evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgment about a customer's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimates of cash flows considered recoverable are independently reviewed and approved.

Collectively assessed impairment allowances cover credit losses inherent in portfolios with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot be identified. In assessing the need for collective loan assessment, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In estimating the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameter, based on historical experience and current economic conditions. The accuracy of allowance depends on how well future cash flows and the model assumptions and parameters are estimated.

4.2 Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market prices requires the use valuation techniques as described in note 3.3.6 (c). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

4.3 Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4.4 Determining the value of liabilities under insurance contracts

4.4.1 Mortality

The Group's life assurance business is very small and therefore the Group does not have sufficient credible data to set its own mortality assumptions based on the mortality experience of its policyholders. Zenith relies on an independent actuary to set the mortality assumptions based on standard mortality tables, with appropriate adjustments.

4.4.2 Expenses

(a) Group life, term-assurance and mortgage protection products
The Group makes an explicit allowance for expenses of 40% of the gross premiums received, consistent with past experience.

(b) Deposit administration, Savings plan
No explicit assumption has been set to the level of the expenses. It has been assumed that the interest margin will be sufficient to cover future expenses that will be incurred.

(c) Non-life insurance
Annual expense investigations are carried out on non-life insurance policies. Further expense analyses are performed to split expenses between different lines of business, e.g. motor vehicle, aviation and marine insurance, as well as different functions, e.g. initial, renewal and management, termination as well as investment expenses. The expense assumptions for non-life insurance products are then set in-line with this expense investigation, with an additional allowance for inflation.

4.4.3 Discount rate

The discount rate has been set to be 7% in-line with the yields on appropriate duration, traded and listed Government bonds.

5. Segment analysis

The Group has early adopted the provisions of IFRS 8, and the segment analysis below has therefore been prepared and presented based on management's reporting format. Management prepares its financial records in accordance with Statements of Accounting Standards issued by the Nigerian Accounting Standards Board ("Nigerian GAAP"), and Nigerian GAAP information is what the Group's Executive Board (the chief operating decision maker) reviews in assessing performance, allocating resources and making investment decisions.

The Group's operations are primarily organised on the basis of its products and service offerings in Nigeria, while the banking operations outside Nigeria are reported seperately for Africa and Europe. The following summary describes each of the Group's reportable segments:

(i) Corporate and Retail Banking -Nigeria
This segment provides a broad range of banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals.

(ii) Treasury and Investment Management -Nigeria
Provision of investment advisory, financial planning services and investment product offerings (primarily through separately managed accounts such as mutual funds and private investment funds) to a diverse group of institutions and individuals. It also includes brokerage services, financing services and securities lending services to institutional clients, including mutual funds, pension funds and to high-net-worth individuals.

(iii) Insurance -Nigeria
The Group's insurance operations in Nigeria write substantially all lines of insurance other than title insurance while its life and health insurance operations offer a broad line of individual and group life, annuity and accident and health policies.

(v) Outside Nigeria Banking -Africa and Europe
These segments provide a broad range of banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals outside Nigeria. The reportable segments covers banking operations in other parts of Africa (primarily Ghana and Sierra Leone) and Europe (primarily the United Kingdom).

(iv) All other segments
These segments provide share registration, pension custodial and funds trusteeship services in Nigeria. None of these individual activities or services constitutes a separate reportable segment.

Transactions between the business segments are on normal commercial terms and conditions.

	Nigeria		Outside Nigeria Banking				Nigeria		
31 December 2009	Corporate and Retail Banking N'million	Treasury and Investment Management N'million	Insurance N'million	Africa N'million	Europe N'million	Total reportable segments N'million	all other segments N'million	Eliminations N'million	Consolidated Nigerian GAAP N'million
Revenue:									
Derived from external customers	247,236	5,269	7,487	12,893	2,948	275,833	1,467	–	277,300
Derived from other business segments	6,840	371	1,238	–	761	9,210	4,406	(13,616)	–
Total revenue *	254,076	5,640	8,725	12,893	3,709	285,043	5,873	(13,616)	277,300
Interest expense	(82,837)	(6,679)	–	(5,652)	(1,259)	(96,426)	–	12,469	(83,957)
Impairment charge for credit losses	(36,148)	(965)	(1,501)	(1,148)	–	(39,762)	(103)	–	(39,865)
Operating expenses	(103,442)	(2,393)	(6,619)	(4,175)	(1,372)	(118,002)	(1,538)	1,147	(118,393)
Profit/ (loss) before tax	31,649	(4,397)	605	1,918	1,078	30,853	4,232	–	35,085
Tax	(13,388)	1,034	(409)	(380)	(248)	(13,391)	(1,091)	–	(14,482)
Profit/ (loss) after tax	18,261	(3,363)	196	1,538	830	17,462	3,141	–	20,603
Capital expenditure	39,732	8	208	1,761	265	41,974	88	–	42,062
Identifiable assets	1,573,194	16,877	12,818	59,724	104,782	1,767,395	17,157	(124,849)	1,659,703
Identifiable liabilities	1,244,813	12,973	2,710	50,680	95,722	1,406,898	9,747	(94,735)	1,321,910

** Revenues are allocated based on the location of the operations.*

	Nigeria		Outside Nigeria Banking				Nigeria		
30 September 2008	Corporate and Retail Banking N'million	Treasury and Investment Management N'million	Insurance N'million	Africa N'million	Europe N'million	Total reportable segments N'million	all other segments N'million	Eliminations N'million	Consolidated Nigerian GAAP N'million
Revenue:									
Derived from external customers	183,692	8,558	6,853	6,194	3,237	208,534	3,105	–	211,639
Derived from other business segments	6,436	529	365	–	761	8,091	407	(8,498)	–
Total revenue *	190,128	9,087	7,218	6,194	3,998	216,625	3,512	(8,498)	211,639
Interest expense	(49,963)	(6,372)	(3,654)	(2,116)	(2,827)	(64,932)	–	11,638	(53,294)
Impairment charge for credit losses	(9,877)	–	(443)	(223)	(26)	(10,568)	–		(10,568)
Operating expenses	(81,338)	(1,150)	(1,390)	(2,358)	(1,146)	(87,382)	(1,135)	(3,140)	(91,657)
Profit/ (loss) before tax	48,950	1,565	1,731	1,498	(0)	53,743	2,377	–	56,120
Tax	(2,415)	(393)	(390)	(78)	(74)	(3,350)	(777)	–	(4,127)
Profit/ (loss) after tax	46,535	1,172	1,341	1,420	(74)	50,393	1,600	–	51,993
Capital expenditure	21,563	417	163	412	144	22,699	79	–	22,778
Identifiable assets	1,680,038	65,329	13,152	36,144	96,916	1,891,579	12,628	(117,207)	1,787,000
Identifiable liabilities	1,341,556	62,063	2,836	33,887	89,617	1,529,959	8,358	(97,934)	1,440,383

** Revenues are allocated based on the location of the operations.*

Reconciliation of reportable segment revenues, profit and loss, assets and liabilities

Revenues

Segment revenue includes interest income, fee and commission income, gross premium income, commission earned, claims recovered, income from investments, and other income as determined under Nigerian GAAP. It is also referred to as 'gross earnings' under Nigerian GAAP. The measurement of these items differ from IFRS, and some of these items are presented differently under IFRS. For an understanding of these differences, refer to note 43.

Segment profit/(loss)

Segment performance is based on segment profit/(loss) after tax, as included in the internal management reports under Nigerian GAAP. These differ from IFRS in certain respects, as explained more fully in note 43. Some of the key differences include:

- Credit-related fees are recognised in profit or loss at the time of occurrence under Nigerian GAAP, while under IFRS, credit related fees are recognised as part of the effective interest rate over the period of the contract;
- Allowances for loan loss under Nigerian GAAP is determined based on Central Bank of Nigeria's Prudential Guidelines, while an incurred loss model is used to determine impairment loss under IFRS;
- Interest income on impaired assets is not recognised under Nigerian GAAP. Under IFRS, interest income on impaired loans is recognised at the rate used to discount cash flows for impairment purposes; and
- Investments in treasury bills and bonds held for trading purposes are not measured at fair value under Nigerian GAAP. IFRS requires financial assets held for trading purposes to be measured at fair value through profit or loss.

	31 December 2009	30 September 2008
	N'millions	N'millions
Total profit/(loss) after tax from reportable segments	20,603	51,993
Adjustments to reconcile profit/(loss) after tax to amounts reported under IFRS	5,446	104
Consolidated profit/(loss) after tax under IFRS	26,049	52,097

Segment assets

Segment assets include specifically identifiable assets as included in the internal management reports under Nigerian GAAP, but exclude certain shared assets. Consolidated assets reported under Nigerian GAAP differ from IFRS in certain respects, as explained more fully in note 43. Some of the key differences include:

- Allowances for loan loss under Nigerian GAAP is determined based on Central Bank of Nigeria's Prudential Guidelines, while an incurred loss model is used to determine impairment loss under IFRS;
- Under Nigerian GAAP, unearned interest received in advance is recognised as a separate liability, resulting in the gross disclosure of the underlying asset. The effect of applying the effective interest method under IFRS results in a reclassification of other liabilities to treasury bills and loans and advances to customers; and
- Investments in treasury bills, bonds and equity securities held for trading purposes are not measured at fair value under Nigerian GAAP. IFRS requires financial assets held for trading purposes, and financial assets at fair value through other comprehensive income, to be measured at fair value in the consolidated balance sheets.

	31 December 2009	30 September 2008
	N'millions	N'millions
Total consolidated assets from reportable segments	1,659,703	1,787,000
Adjustments to reconcile consolidated assets to amounts reported under IFRS	7,016	(8,094)
Consolidated assets under IFRS	1,666,719	1,778,906

Segment liabilities

Segment liabilities include specifically identifiable liabilities as included in the internal management reports under Nigerian GAAP, but exclude certain shared liabilities. Consolidated liabilities reported under Nigerian GAAP differ from IFRS in certain respects, as explained more fully in note 43. Some of the key differences include:

- Under Nigerian GAAP, unearned interest received in advance is recognised as a separate liability, resulting in the gross disclosure of the underlying asset. The effect of applying the effective interest method under IFRS results in a reclassification of other liabilities to treasury bills and loans and advances to customers; and
- Deferred income taxes is provided using the liability method under Nigerian GAAP by referring to the Nigerian GAAP carrying amount of assets and liabilities. Under IFRS, deferred income taxes are provided by referring to the carrying amount under IFRS. The tax base of assets and liabilities remain the same under Nigerian GAAP and IFRS.

	31 December 2009	30 September 2008
	N'millions	N'millions
Total consolidated liabilities from reportable segments	1,321,910	1,440,383
Adjustments to reconcile consolidated liabilities to amounts reported under IFRS	(1,082)	(9,117)
Consolidated liabilities under IFRS	1,320,828	1,431,266

Geographical information

The Group operates in three geographical regions, being:

. Nigeria;
. Africa (comprising Ghana and Sierra Leone); and
. Europe (United Kingdom).

Refer the segment information above for the revenue and asset information in respect of the geographic information.

Major customers

The Group does not have a single external customer that accounts for more than 10% of the Group's revenues.

6 Interest and similar income

	31 December 2009 N'millions	30 September 2008 N'millions
Placements	13,233	2,540
Treasury bills	28,530	39,491
Government and other bonds	13,782	5,842
Loans and advances to customers	148,239	102,070
Advances under finance lease	2,039	876
Investment deposits	520	1,240
	206,343	152,059

Interest income on loans and advances to customers include interest income of N 838 million (2008: N1,374 million) on impaired financial assets, recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

7 Interest and similar expense

	31 December 2009 N'millions	30 September 2008 N'millions
Current deposits	10,491	4,451
Savings deposits	1,773	688
Term deposits	68,058	45,121
Inter-bank takings	1,861	313
Borrowed funds	1,774	2,721
	83,957	53,294

8 Impairment charge for credit losses

The net impairment charge for credit losses comprises:

	31 December 2009 N'millions	30 September 2008 N'millions
Loans and advances to customers		
Overdrafts	18,316	3,786
Term loans	14,347	1,672
Advances under finance lease	16	28
Insurance receivables	1,012	443
Other assets	1,111	3,799
	34,802	9,728

The increase in impairment charges for credit losses for the period ended 31 December 2009 as compared to the previous period can mainly be ascribed to an increase in loans and advances granted to customers as well as the global credit crisis which impacted the Nigerian economy during 2009.

9 Fee and commission income

	31 December 2009 N'millions	30 September 2008 N'millions
Credit related fees and commissions	32,743	31,243
AGM administration and advisory fees	174	920
Bond trading income		
Fees on electronic products	2,373	1,437
Foreign currency transaction fees and commissions	10,622	2,102
Other fees and commissions	5,534	10,075
	51,446	45,777

10 Net gains on financial instruments measured at fair value through profit and loss

	31 December 2009 N'millions	30 September 2008 N'millions
Foreign exchange trading income	10,256	5,091
Treasury bill trading income	509	410
Bond trading income	948	125
	11,713	5,626

Foreign exchange trading income principally includes trading income on foreign denominated balances, as well as gains and losses from translated foreign currency assets and liabilities.

11 Underwriting profit	31 December 2009 N'millions	30 September 2008 N'millions
Gross premium income	5,845	5,778
Reinsurances / coinsurances	(2,566)	(1,773)
Return premiums	–	(5)
Net premiums written	3,279	4,000
Commission earned	547	345
Claims recovered	1,058	452
	4,884	4,797
Claim expenses	(1,859)	(1,835)
Acquisition costs	(718)	(661)
Transfer from insurance reserve to profit and loss	38	171
	2,345	2,472

12 Other income

Dividend income from equity investments	1,509	232
Gain on disposal of property and equipment	–	45
Rental income	188	–
Other	658	743
	2,355	1,020

Dividend income from equity investments represents dividends received on equity instruments held for strategic purposes and for which the Group has elected to present fair value gains and losses in other comprehensive income.

13 Operating expenses

Staff costs (note 35)	49,403	39,244
Training and development	1,100	931
Depreciation and amortisation	13,512	8,902
Deposit insurance premium	7,233	4,857
Auditors' remuneration	204	151
Directors' emoluments (note 35)	860	493
Professional fees	2,713	5,606
Information technology	2,676	1,800
Loss on disposal of property and equipment	27	–
Operating leases	2,676	1,722
Other expenses	32,817	23,795
	113,217	87,501

Operating lease rentals

Zenith has entered into 99-year lease agreements with the Nigerian government. In terms of these lease agreements leasehold land will revert back to the government after the expiry of 99 years. The lease payments in terms of the leasehold land was paid at the inception of the agreement and will be amortised over the period of the lease (99 years).

The Bank has leased a number of branches and office premises under operating leases. These leases typically run for a period up to 20 years, with an option to renew the lease after the period. The lease payments may be increased every three to five years to reflect market rentals.

Prepayment relating to leasehold land		
At start of period	8,035	4,854
Prepayments during the year	3,940	4,903
Amount expensed	(2,672)	(1,722)
At end of period	9,303	8,035

14 Income tax expense

	31 December 2009 N'millions	30 September 2008 N'millions
Corporate tax	5,192	4,146
Information technology tax	248	547
Education tax	594	614
Current income tax -current period	6,034	5,307
Current income taxes referring to previous periods	8,090	(1,850)
	14,124	3,457
Origination and reversal of temporary deferred tax differences	2,131	766
Income tax expense	16,255	4,223

Reconciliation of effective tax rate

	31 December 2009 N'millions	30 September 2008 N'millions
Profit before income tax	42,304	56,320
Tax calculated at the weighted average Group rate of 30% (2008: 30%)	12,691	16,896
Effect of tax rates in foreign jurisdictions	(15)	(4)
Non-deductible expenses	10,213	33,302
Tax exempt income	(14,727)	(45,219)
Information technology tax levy	248	547
Education tax levy	594	614
Prior period under / (over) provision	8,090	(1,850)
Tax loss effect	(814)	(63)
Income tax expense	16,280	4,223

Non-deductible expenses include expenses such as legal fees, donations, public relations expenses and certain provisions which are not allowed as a deduction by the tax authorities. Tax exempt income include income such as dividend income, income from government bonds and income from manufacturing loans which are not taxable.

The movement in the current income tax liability is as follows:

	31 December 2009 N'millions	30 September 2008 N'millions
At start of the period	5,690	6,427
Tax paid	(12,082)	(4,159)
Tax effect of translation	(325)	(35)
Prior period under/(over) provision	8,090	(1,850)
Income tax charge	6,034	5,307
At end of the period	7,407	5,690

Current income tax referring to prior periods represents an additional tax liability that arose in respect of income from certain treasury bills. The additional tax liability arose due to changes in the interpretation and application of the related tax legislation, which was not anticipated in the prior period, but arose upon assessment by the tax authorities during the fifteen months ended 31 December 2009.

15 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. Where a stock split or bonus share issue has occurred, the number of shares in issue in the prior year is adjusted to achieve comparability.

	31 December 2009	30 September 2008
Profit attributable to shareholders of the Bank (N'million)	25,943	51,712
Number of shares in issue at end of the period (millions)	25,117	16,745
Weighted average number of ordinary shares in issue (millions)	25,117	13,487
Basic and diluted earnings per share	103 k	383 k

16 Cash and balances with central banks

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Cash	29,864	28,542	26,669
Operating accounts with Central Banks	86,500	194,034	35,683
Mandatory reserve deposits with central bank	10,415	18,272	48,703
Cash reserves	9,915	17,772	48,203
Statutory deposits	500	500	500
	126,779	240,848	111,055

Mandatory reserve deposits are not available for daily use.

Statutory deposits represent the mandatory deposits required by the National Insurance Commission ("NAICOM") to be made by the insurance subsidiaries (Zenith General Insurance Company Limited and Zenith Life Assurance Company Limited).

17 Treasury bills

	31 December 2009	30 September 2008	30 June 2007
Treasury bills (FVTPL)	6,381	7,614	445
Treasury bills (Amortized cost)	225,149	384,326	246,751
	231,530	391,940	247,196

No treasury bills are held by third parties as collateral.

Classified as:			
Current	231,530	391,940	247,196
Non-current	–	–	–
	231,530	391,940	247,196

The following treasury bills have maturities less than three months and are classified as cash and cash equivalents for purposes of the consolidated cash flow statements (note 40).	91,974	246,508	214,897

18 Due from other banks

	31 December 2009	30 September 2008	30 June 2007
Current balances with banks within Nigeria	2,880	422	3,920
Current balances with banks outside Nigeria	82,167	147,590	123,485
Placements with banks and discount houses	256,783	388,834	86,682
	341,830	536,846	214,087

Included in balances with banks outside Nigeria is the amount of N 51.68 billion for the Group (2008: N 65.89 billion, 2007: N 120.1 billion) which represents the Naira value of foreign currency balances held on behalf of customers in respect of letters of credit. The corresponding liabilities are included in other liabilities (see note 29). These balances are not available for the day to day operations of the Group.

Classified as:			
Current	341,830	536,846	214,087
Non-current	–	–	–
	341,830	536,846	214,087

19 Loans and advances to customers

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Overdrafts	364,543	201,307	170,810
Term loans	380,741	265,307	128,538
Advances under finance lease	5,508	4,702	2,474
Gross loans and advances to customers	750,792	471,316	301,822
Less: Allowances for impairment	(43,190)	(10,669)	(5,196)
Specific allowances for impairment	(23,951)	(3,429)	(1,301)
Collective allowance for impairment	(19,239)	(7,240)	(3,895)
Net loans and advances to customers	707,602	460,647	296,626
Overdrafts			
Gross overdrafts	364,543	201,307	170,810
Less: Allowances for impairment	(24,913)	(6,698)	(2,925)
Specific allowances for impairment	(10,613)	(572)	(254)
Collective allowance for impairment	(14,300)	(6,126)	(2,671)
Net overdrafts	339,630	194,609	167,885
Term loans			
Gross term loans	380,741	265,307	128,538
Less: Allowances for impairment	(18,209)	(3,918)	(2,246)
Specific allowances for impairment	(13,338)	(2,857)	(1,047)
Collective allowance for impairment	(4,871)	(1,061)	(1,199)
Net term loans	362,532	261,389	126,292
Advances under finance lease			
Carrying amount	5,508	4,702	2,474
Less: Collective allowance for impairment	(68)	(53)	(25)
	5,440	4,649	2,449
Current	246,504	146,279	252,970
Non-current	461,098	314,368	43,656
	707,602	460,647	296,626

Reconciliation of impairment allowance on loans and advances to customers:

	Overdrafts N'million	Term loans N'million	Advances under finance lease N'million	Total N'million
Balance at 1 October 2008	6,698	3,918	53	10,669
Specific impairment	572	2,857	–	3,429
Collective impairment	6,126	1,061	53	7,240
Additional provision for the period	20,232	14,726	16	34,974
Specific impairment	10,041	10,481	–	20,522
Collective impairment	10,191	4,245	16	14,452
Amounts recovered during the year	(1,916)	(379)	–	(2,295)
Foreign currency translation and other adjustments	(101)	(56)	(1)	(158)
Balance at 31 December 2009	**24,913**	**18,209**	**68**	**43,190**
Specific impairment	10,613	13,338	–	23,951
Collective impairment	14,300	4,871	68	19,239
Balance at 1 July 2007	2,925	2,246	25	5,196
Specific impairment	254	1,047	–	1,301
Collective impairment	2,671	1,199	25	3,895
Additional provision for the period	318	1,810	–	5,760
Specific impairment	318	1,810	–	2,128
Collective impairment	3,624	(20)	28	3,632
Amounts recovered during the year	(159)	(114)	–	(273)
Foreign currency translation and other adjustments	(10)	(4)	–	(14)
Balance at 30 September 2008	6,698	3,918	53	10,669
Specific impairment	572	2,857	–	3,429
Collective impairment	6,126	1,061	53	7,240

Advances under finance lease	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Gross investment			
No later than 1 year	540	1,860	462
Later than 1 year and no later than 5 years	6,419	9,563	2,375
	6,959	11,423	2,837
Less : Unearned income	(1,451)	(6,721)	(363)
Net Investment	5,508	4,702	2,474
The net investment may be analysed as follows:			
No later than 1 year	428	765	403
Later than 1 year and no later than 5 years	5,080	3,937	2,071
	5,508	4,702	2,474

Nature of security held in respect of loans and advances:	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Secured against real estate	344,861	231,087	63,644
Secured by shares of listed companies	41,950	13,632	8,748
Otherwise secured	218,840	141,709	108,988
Unsecured	145,141	84,888	117,572
Gross loans and advances to customers	750,792	471,316	298,952

20 Reinsurance assets and insurance receivables

	31 December 2009 N'millions	30 September 2008 N'millions
Life insurance	23	32
Reinsurers share of group life	21	32
Reinsurers share of individual life	2	–
Non-life insurance	936	1,105
Reinsurers share of outstanding reported claims	93	225
Reinsurers share of incurred but not reported claims	9	23
Reinsurers share of uneraned premium reserve	834	857
Reinsurers' share of insurance liabilities (life and non-life insurance)	959	1,137
Other insurance receivables	635	816
Due from agents and brokers	2,085	1,377
Due from reinsurers	122	–
Less : Specific impairment (see below)	(1,572)	(561)
	1,594	1,953

The movement in specific impairment for insurance receivables may be analysed as follows:

	31 December 2009 N'millions	30 September 2008 N'millions
At start of the period	561	118
Provision during the period	1,011	443
At end of the period	1,572	561

21 Investment securities

(a) Analysis of investments

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Debt securities	149,842	46,983	35,279
Equity securities	9,080	13,201	4,003
	158,922	60,184	39,282
Current	77,654	18,703	12,177
Non-current	81,268	41,481	27,105
	158,922	60,184	39,282

(b) Debt securities

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Measured at fair value through profit or loss			
Federal Government of Nigeria (note (i))	2,405	906	–
Measured at amortised cost			
Federal Government of Nigeria (note (ii))	128,795	45,347	28,996
Ghana Government Bond (note (iii))	1,495	605	6,156
Gabon Government Bond (note (iv))	449	–	–
Lagos State Government Bond (note (v))	3,600	125	125
GT Bank PLC Bond (note (vi))	3,248	–	–
Irish National Bond (note (vii))	3,274	–	–
Merill Lynch Bond (note (viii))	2,129	–	–
Nationwide Building Society Bond (note (ix))	133	–	–
African Development Bank (AfDB) Bond (note (x))	598	–	–
First Bank of Nigeria PLC Bond (note (xi))	2,221	–	–
African Export Import Bank (Afrexim) Bond (note (xii))	1,495	–	–
Edo State Revenue Bond	–	–	2
Total debt securities carried at amortised cost	147,437	46,077	35,279
Total debt securities	149,842	46,983	35,279

(c) **Equity securities measured at fair value through other comprehensive income**

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Quoted securities	606	6,739	4,003
Unquoted securities	8,474	6,462	–
	9,080	13,201	4,003

The Group has elected to present the fair value gains and losses on the above equity instruments in other comprehensive income as these investments are not held for trading purposes but rather for strategic purposes.

During the period, the Group disposed of certain of its equity securities for strategic reasons. At the date of derecognition, the fair value of these equity securities was N6,095 million, (2008: N5,486 million) with the cumulative loss amounting to N737 million (2008: N1,972 million gain).

(i) Federal Government of Nigeria Bonds (FVTPL) comprise:

	31 December 2009	30 September 2008	30 June 2007
2nd FGN Bond Series 7 (17%)	–	40	–
3rd FGN Bond Series 12 (12 %)	–	103	–
3rd FGN Bond Series 15 (10.98 %)	–	500	–
4th FGN Bond Series 9 (9.35%)	–	167	–
4th FGN Bond Series 10 (9.50%)	–	96	–
4th FGN Bond Series 5 (9.23%)	521	–	–
4th FGN Bond Series 9 (9.35%)	103	–	–
5th FGN Bond Series 1 (9.45%)	208	–	–
5th FGN Bond Series 5 (15.00%)	650	–	–
6th FGN Bond Series 3 (12.49%)	773	–	–
6th FGN Bond Series 5 (8.50%)	150	–	–
	2,405	906	–

(ii) The outstanding balance represents eighty three tranches of Federal Government Bonds which the bank intends to hold to maturity. The portfolio's pricing ranges between 7.95% and 16% per annum. Its average tenor is 2 years and 4 months with the earliest bond maturing in January 2010 while the bond with the longest tenor will mature in September 2014.

(iii) The balance of N 1.50 billion represents Zenith Bank (UK) Limited's outstanding investment of $ 10,000,000 (£ 6,164,088) in 4 different tranches of Eurobond issued by the government of Ghana. The bond portfolio is priced at 8.5% per annum on the principal original currency of denomination. This portfolio will mature in October 2017.

(iv) The outstanding balance represents the Naira equivalent of Zenith Bank (UK) Limited's investment of $ 3,000,000 (£ 1,849,226.41) in two tranches of Bonds issued by the government of Gabon. The Bond portfolio is priced at 8.2 % per annum and will mature in December 2017.

(v) This represents the aggregate sum of the Bank's outstanding investment in Lagos State floating rate redeemable bond (2005/2009) of N 100 million and an additional investment in the sum of N 3.5 billion in fixed rate redeemable Series 1 (2008/2013). The former is priced at the higher of 4% above Central Bank of Nigeria's (CBN) treasury bills' rate and CBN Certificate rate plus 1% per annum, while the latter is priced at 13% per annum.

(vi) The outstanding balance of investment in Bonds issued by GT Bank PLC represents two tranches of investments made by Zenith Bank PLC and one of its subsidiaries, Zenith Bank (UK) Limited:

Zenith Bank PLC's portion of N 1 billion represents an investment in a Fixed rate Senior Unsecured Non-convertible Bond issued by the investee . The five-year bond which is priced at 13.5% per annum will mature in December 2014. Interest is payable semi-annually.

The balance of N 2.24 billion represents Zenith Bank (UK) Limited's investment of $ 15,000,000 (£ 9,246,132) in four different tranches of Eurobond issued by GT Bank PLC. The bond portfolio is priced at 8.5% per annum on the principal's original currency of denomination. This portfolio will mature in January 2012.

(vii) This represents Zenith Bank (UK) Limited's investments in fixed-rate bonds issued by the investee that are originally denominated in the British Pounds currency. The investment was undertaken in three tranches of and £ 2,000,000, £ 5,000,000 and £ 6,500,000 respectively. The first tranch has a coupon rate of 0.8056% per annum while the others are priced at the same rate of 3.625% per annum. The first tranch will mature in June 2010 while the other tranches will mature in September 2010.

(viii) The amount of N 2.13 billion (£ 8,778,000) represents Zenith Bank (UK) Limited's outstanding investment in five tranches of Bonds issued by Merill Lynch. The fixed-rate bond portfolio comprises five instalments. Four tranches of the bonds making up a total of £ 5,778,000 attract interest at the rate of 5.125% and will mature in September 2010. The last tranch is priced at 6.6440% per annum and will mature in February 2011.

(ix) The amount of N 134.55 million represents Zenith Bank (UK) Limited's outstanding investment in a fixed rate bond issued by Nationwide Building Society. The bond attracts interest at the rate of 4.25% on the principal outstanding balance of $ 900,000 (£ 554,768). This bond will mature in February 2010.

(x) During the year, Zenith Bank (UK) Limited invested an amount of $ 4,000,000 (£ 2,465,635) in bonds issued by the African Development Bank (AfDB). This balance represents the Naira equivalent of N 598 million outstanding as at 31 December 2009. The bond is priced at 0.3953% per annum and will mature in July 2012.

(xi) The outstanding balance of investment in Bonds issued by First Bank PLC in Nigeria represents six tranches of bonds acquired by Zenith Bank (UK) Limited. All tranches are priced at 9.75% per annum and will mature in March 2017.

(xii) The amount of N 12.09 billion represents Zenith Bank (UK) Limited's outstanding investment in a fixed rate bond issued by the investee company. The bond attracts interest at the rate of 4.25% on the principal outstanding balance of $ 10,000,000 (£ 6,164,088). This bond will mature in November 2014.

The movement in investment securities may be summarised as follows:

	Debt securities at fair value through profit and loss N'millions	Debt securities at amortised cost N'millions	Equity securities at fair value through other comprehensive income N'millions	Total N'millions
At 1 October 2008	906	46,077	13,201	60,184
Exchange differences on monetary assets	–	–	(173)	(173)
Additions	1,075	123,658	782	125,515
Disposals (sale and redemption)	(524)	(23,000)	(6,095)	(29,619)
Gains from changes in fair value recognised in profit and loss (note 10)	948	–	–	948
Gains from changes in fair value recognised in other comprehensive income	–	–	1,365	1,365
Interest accrued	–	13,782	–	13,782
Coupon received	–	(13,080)	–	(13,080)
Impairment losses	–	–	–	–
At 31 December 2009	**2,405**	**147,437**	**9,080**	**158,922**
At 1 July 2007	–	35,279	4,003	39,282
Exchange differences on monetary assets	–	–	2	2
Additions	781	10,449	14,463	25,693
Disposals (sale and redemption)	–	–	(5,486)	(5,486)
Gains from changes in fair value recognised in profit and loss (note 10)	125	–	–	125
Gains from changes in fair value recognised in other comprehensive income	–	–	219	219
Interest accrued	–	5,842	–	5,842
Coupon received	–	(5,493)	–	(5,493)
Impairment losses				
At 30 September 2008	906	46,077	13,201	60,184

22 Investments in associates

The Group's investments under the Small and Medium Enterprises Equity Investment Scheme ("SMEEIS") is in compliance with the Policy Guidelines for 2001 Fiscal Year (Monetary Policy Circular No. 35). The Group generally holds 20 percent or more of the voting power of the investee and is therefore presumed to have significant influence over the investee. In instances where the Group holds less than 20 percent of the voting power of the investee, the Group concluded that it has significant influence due to the Group's representation on the board of the relevant investee, with such board generally limited to a small number of board members.

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Balance at beginning of the period	2,573	2,797	2,618
Additions	–	–	179
Share of profit/(loss)	78	(111)	–
Disposals	(174)	(113)	–
Dividends paid	(34)	–	–
Balance at end of the period	2,443	2,573	2,797

The financial statements used in applying the equity method may be as of a date or for a period that is different from the Group due to practical difficulties preventing the associate from producing coterminous figures in time for the Group's year end.

There were no published price quotations for any associates of the Group. Furthermore, there are no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends or repayment of loans and advances.

23 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2008: 30%, 2007: 30%).

Deferred income tax assets and liabilities are attributable to the following items:

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Deferred tax assets			
Tax loss carried forward	966	160	120
Deferred tax liabilities			
Property and equipment	3,117	1,961	1,234
Other assets	60	39	20
Allowances for loan losses	2,348	956	292
Treasury bills and bonds (FVTPL)	145	5	–
Equity securities at fair value	230	(522)	134
	5,900	2,439	1,680
Net deferred tax liabilities	4,934	2,279	1,560
Deferred tax assets			
Deferred tax asset to be recovered within 12 months	–	–	–
Deferred tax asset to be recovered within more than 12 months	966	160	120
	966	160	120
Deferred tax liabilities			
Deferred tax liability to be recovered within 12 months	–	–	–
Deferred tax liability to be recovered within more than 12 months	5,900	2,439	1,680
	5,900	2,439	1,680

	1 Oct 2008 N'million	Recognised in P&L N'million	Recognised in OCI N'million	31 Dec 2009 N'million
Movements in temporary differences during the year:				
Property and equipment	1,961	1,156	-	3,117
Other assets	39	21	-	60
Allowances for loan losses	956	1,392	-	2,348
Treasury bills and bonds (FVTPL)	5	140	-	145
Equity securities at fair value	(522)	222	530	230
Tax loss carried forward	(160)	(806)	-	(966)
	2,274	2,125	530	4,934
Foreign exchange differences		6		
		2,131		

	1 Jul 2007 N'million	Recognised in P&L N'million	Recognised in OCI N'million	30 Sept 2008 N'million
Movements in temporary differences during the year:				
Property and equipment	1,234	727	-	1,961
Other assets	20	19	-	39
Allowances for loan losses	292	664	-	956
Treasury bills and bonds (FVTPL)		5	-	5
Equity securities at fair value	134	(592)	(64)	(522)
Tax loss carried forward	(120)	(40)	-	(160)
	1,560	783	(64)	2,279
Foreign exchange differences		(17)		
		766		

Deferred income tax assets are recognised for tax loss carry-forwards only to the extent that the realisation of the related tax benefit is probable.

24 Other assets

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Prepayments	21,147	28,369	17,274
Due from clients	–	4,471	2,866
Other receivables	6,398	8,752	6,460
Gross other assets	27,545	41,592	26,600
Less: Specific impairment	(5,192)	(4,081)	(282)
Net other assets	22,353	37,511	26,318

Due from clients represent amounts receivable from clients of the Asset management unit of the Group.

Current	22,353	37,511	26,318
Non-current	–	–	–
	22,353	37,511	26,318

Movement in specific impairment:		
At start of period	4,081	282
Specific impairment	1,111	4,049
Prior year provisions written off against other assets	–	(250)
At end of period	5,192	4,081

25 Property and equipment

	Leasehold building N'million	Leasehold improvement N'million	Furniture, fittings & equipment N'million	Computer equipment N'million	Motor vehicles N'million	Work in progress N'million	Total N'million
For the fifteen months ended 31 December 2009							
Cost							
At 1 October 2008	10,738	8,366	15,833	8,845	9,473	15,358	68,613
Exchange difference	(28)	(209)	(162)	(95)	(104)	42	(556)
Additions	4,854	2,803	6,710	8,204	2,571	14,896	40,038
Reclassifications	369	76	(55)	9	10	(409)	-
Disposals	-	(2)	(20)	(291)	(517)	-	(830)
At 31 December 2009	15,933	11,034	22,306	16,672	11,433	29,887	107,265
Accumulated depreciation							
At 1 October 2008	538	4,918	6,965	5,453	4,732	-	22,606
Exchange difference	(2)	(44)	(46)	(27)	(32)	-	(151)
Charge for the period	311	2,103	4,178	4,080	2,655	-	13,327
Reclassifications	(9)	19	(13)	(1)	4	-	-
Disposals	-	(1)	(14)	(31)	(459)	-	(505)
At 31 December 2009	838	6,995	11,070	9,474	6,900	-	35,277
Net book amount							
At 31 December 2009	15,095	4,039	11,236	7,198	4,533	29,887	71,988
For the fifteen months ended 30 September 2008							
Cost							
At 1 July 2007	7,639	6,295	10,614	5,473	6,392	10,329	46,742
Exchange difference	-	-	-	-	-	-	-
Additions	3,008	2,152	5,442	3,410	3,551	5,029	22,592
Reclassifications	97	(68)	(26)	(3)	-	-	-
Disposals	(6)	(13)	(197)	(35)	(470)	-	(721)
At 30 September 2008	10,738	8,366	15,833	8,845	9,473	15,358	68,613
Accumulated depreciation							
At 1 July 2007	274	3,312	4,310	3,312	3,249	-	14,458
Exchange difference	29	(39)	(3)	3	(7)	-	(17)
Charge for the period	208	1,687	2,850	2,167	1,902	-	8,814
Reclassifications	29	(29)	-	-	-	-	-
Disposals	(2)	(13)	(192)	(29)	(412)	-	(648)
At 30 September 2008	538	4,918	6,965	5,453	4,732	-	22,607
Net book amount							
At 30 September 2008	**10,199**	**3,448**	**8,868**	**3,392**	**4,741**	**15,358**	46,006

26 Intangible assets

	Computer software N'million	Total N'million
For the fifteen months ended 31 December 2009		
Cost		
At 1 October 2008	593	593
Additions	660	660
Disposals	-	-
At 31 December 2009	1,253	1,253
Accumulated amortisation		
At 1 October 2008	355	355
Charge for the period	186	186
Impairment	-	-
Disposals	-	-
At 31 December 2009	541	541
Net book amount		
At 31 December 2009	712	712
For the fifteen months ended 30 September 2008		
Cost		
At 1 July 2007	486	486
Additions	107	107
Disposals	-	-
At 30 September 2008	593	593
Accumulated amortisation		
At 1 July 2007	267	267
Charge for the period	88	88
Impairment	-	-
Disposals	-	-
At 30 September 2008	355	355
Net book amount		
At 30 September 2008	238	238

27 Deposits from customers

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Demand	674,286	632,471	396,615
Savings	65,790	48,875	30,548
Term	300,074	375,183	190,127
Domiciliary	138,038	136,208	18,764
	1,178,188	1,192,737	636,054
Current	655,746	1,137,672	559,328
Non-current	522,442	55,065	76,726
	1,178,188	1,192,737	636,054

28 Claims payable

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Claims on non-life policies	198	234	274

29 Other liabilities

	31 December 2009	30 September 2008	30 June 2007
Customer deposits for letters of credit (note 18)	**51,683**	65,893	120,097
Managers' cheques	**17,785**	38,310	16,391
Cheques in the course of collection	**-**	-	-
Bank Overdrafts	**-**	-	-
Due to clients	**3,482**	59,601	7,563
Unclaimed dividend	**3,925**	4,756	1,969
Other payables	**13,697**	18,524	35,850
	90,572	187,084	181,870
Current	**90,572**	187,084	181,870
Non-current	**-**	-	-
	90,572	187,084	181,870

30 Liabilities on insurance contracts

	31 December 2009	30 September 2008
Life contracts	198	242
Group life	132	200
Individual life	13	2
Insurance with DPF	53	40
Non-life insurance contracts	1,963	1,972
Outstanding reported claims	185	449
Incurred but not reported claims	18	45
Unearned premium provision	1,760	1,478
	2,161	2,214

31 Borrowings

Long term borrowing comprise:

	31 December 2009	30 September 2008	30 June 2007
Due to FMO (note (i))	4,630	2,125	3,606
Due to ADB (note (ii))	12,939	14,312	12,996
Due to ChinaExim (note (iii))	1,286	1,687	2,908
Due to EIB (note (iv))	1,250	1,337	634
Due to ICICI	-	3,530	634
Due to HSBC (note (v))	2,067	2,603	1,170
Due to PROPARCO (note (vi))	2,492	2,942	-
Due to Standard Chartered Bank	-	2,942	-
Due to Commerz Bank (note (vii))	2,243	3,530	-
Due to Sovereign Bank (note (viii))	3,277	-	-
Due to African Export Import Bank (note (ix))	6,218	5,860	4,749
	36,402	40,868	26,697
Current	11,120	437	-
Non-current	25,282	40,431	26,697
	36,402	40,868	26,697

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2008: nil).

(I) The amount due to Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) of N 4.63 billion ($28,410,611) comprises the outstanding balance of three facilities in the sums of $5,000,000, $25,000,000 and $ 15,000,000 granted by FMO. The first two tranches of facility were availed to Zenith Bank PLC in December 2005 while the last was disbursed in March 2009. The respective facilities are priced at LIBOR +2.65%, LIBOR + 2.65% and LIBOR + 3.5% per annum. The respective maturity periods of the facilities are 2 years and 11 months; 11 months; 4 years and 2 months respectively.

(Ii) The amount due to African Development Bank (ADB) of N 12.5 billion ($ 83,750,001.01) represents the outstanding balance of two tranches of dollar facilities in the sums of $ 70,000,000 and $ 100,000,000 granted by ADB in May 2005 and May 2007 respectively. The tranches of the facility are repayable over 5 years and 7 years respectively. Interest is payable halfyearly at the rate of LIBOR + 2.3 % per annum and LIBOR + 2.2% per annum respectively. The outstanding balance of the first tranch of $ 61.25 million (N 9.16 billion) will mature in 6 months while the second tranch $ 22.5 million (N 3.36 billion) will mature in 4 years and 4 months.

(Iii) The amount of N 1.29 billion ($ 8,600,844.24) represents the outstanding balance of a five year dollar facility granted by China Exim Bank in August 2006. Interest is payable at 5.29% per annum. The facility will mature in 1 year and 7 months.

(Iv) The amount of N 1.25 billion ($ 8,362,672) represents the outstanding balance of three tranches of dollar facilities disbursed by European Investment Bank (EIB) in the sums of $ 5,000,000 (granted in March 2007); $ 4,000,000 (granted in November 2007) and $ 2,983,562 (granted in December 2007). The first two tranches are repayable over 5 years while the last tranch is payable over 4 years. All facilities are priced at 2.9% per annum.

(v) The amount of N 2.07 billion ($ 13,824,834) represents the outstanding balance of the dollar facility granted by The Hongkong and Shanghai Banking Corporation in June 2007 for a period of five years. Interest is payable at the rate of LIBOR plus 0.6 % per annum.

(vi) The amount of N 2.49 billion ($ 16,666,667) represents the dollar facility granted by Promotion et Participation pour la Coopération économique (PROPARCO) in August 2007 for a period of five years. Interest is payable at LIBOR plus 2.50%.

(vii) The amount of N 2.24 billion ($ 15,000,000) represents the outstanding balance of the dollar facility granted by Commerz Bank in March 2009 for 1 year. The facility is priced at a fixed rate of 6.90 % per annum.

Viii) The amount of N 3.28 billion ($ 21,920,396.25) represents the outstanding balance of the dollar facility granted by Sovereign Bank in November 2008 for five years. Interest is payable at the rate of LIBOR plus 0.60 % per annum.

(Ix) The outstanding balance due to African Export Import Bank (Afrexim) of N 6.22 billion ($ 41,588,736.70), represents Zenith Bank PLC's contingent liability to AFREXIM under its (Zenith's) arrangement with the lender of funds as an intermediary and guarantor to customers. The corresponding assets are included in Note 24.

32 Share capital

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Authorised			
40,000,000,000 ordinary shares of 50k each (2008: 20,000,000,000 ordinary shares of 50k each)	20,000	10,000	5,000
Issued and fully paid			
25,117,195,029 ordinary shares of 50k each (2008: 16,744,796,686 ordinary shares of 50k each)	12,559	8,372	4,633
Movements during the period:			
At start of the period	8,372	4,632	4,586
Issue of bonus shares	4,187	1,158	-
Issue of new shares	-	2,582	46
At end of the period	12,559	8,372	4,632

33 Share premium and reserves

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
The movement on the share premium account during the period was as follows:			
At start of the period	255,047	69,237	67,760
Proceeds from issue of shares	-	194,593	1,509
Share issue expenses	-	(8,783)	(32)
At end of the period	255,047	255,047	69,237

The nature and purpose of the reserves in equity are as follows:
Share premium: Premiums from the issue of shares are reported in share premium.

Retained earnings: Retained earnings comprise the undistributed profits from previous years which have not been reclassified to the other reserves noted below.

Statutory reserve: Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by section 16(1) of the Bank and Other Financial Institutions Act of 1991 (amended), an appropriation of 30% of profit after tax is made if the statutory reserve is less than the paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid-up share capital.

SMIEIS reserve: The SMIEIS reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investments in qualifying small and medium scale enterprises. Under the terms of the guideline (amended by CBN letter dated 11 July 2006), the contributions will be 10% of profit after tax and shall continue after the first 5 years but banks' contributions shall thereafter reduce to 5% of profit after tax. The small and medium scale industries equity investment scheme reserves are nondistributable.

Contingency reserve: As required by insurance regulations, a contingency reserve is maintained for both the non-life insurance and life assurance contracts underwritten by the Group. The appropriation to contingency reserve for non-life underwriting contracts is calculated in accordance with section 21(2) and 22(1)(b) of the Insurance Act 2003. The reserve is calculated at the higher of 3% of gross premiums and 20% of net profits of the business for the year. The appropriation to contingency reserve for life underwriting contracts is calculated at the higher of 1% of the gross premium and 10% of net profits of the business for the year. The appropriations are charged to the Life Fund.

Revaluation reserve: Comprises fair value movements on equity instruments. Bonus reserve: The bonus reserve represents retained earnings capitalised and used for bonus share issues.

Foreign Currency Translation Reserve: Comprises exchange differences resulting from the translation to Naira of the results and financial position of Group companies that have a functional currency other than Naira.

34 Pension contribution

In accordance with the provisions of the Pensions Act 2004, the Group commenced a contributory pension scheme in January 2005. The contribution by employees and the bank are 2.5% and 12.5% respectively of the employees' basic salary, housing and transport allowances. The contribution by the Group during the period was N 2.39 billion (2008: N 2.03 billion).

35 Employees

	31 December 2009 N'millions	30 September 2008 N'millions
(a) The average number of persons employed during the period by category:		
Executive directors	19	19
Management	465	484
Non-management	7,317	7,125
	7,801	7,628

Compensation for the above staff (excluding executive directors):

	31 December 2009 N'millions	30 September 2008 N'millions
Salaries and wages	47,017	37,214
Pension contribution (note 34)	2,386	2,030
	49,403	39,244

The number of employees of the bank, other than directors, who earned salaries and emoluments (excluding pension and reimbursable expenses) are in the following ranges:

	Number	Number
N300,001 - N2,000,000	1,761	1,901
N2,000,001 - N2,800,000	80	77
N2,800,001 - N3,500,000	1,642	1,625
N3,500,001 - N4,000,000	1,448	1,312
N4,000,001 - N5,500,000	856	851
N5,500,001 - N6,500,000	-	-
N6,500,001 - N7,800,000	921	913
N7,800,001 - N9,000,000	-	-
N9,000,001 - and above	1,074	930
	7,782	7,609

(b) Directors' emoluments

The remuneration paid to directors are as follows:

	N'millions	N'millions
Fees and sitting allowances	246	202
Executive compensation	597	271
Retirement Benefit costs	17	20
	860	493

Fees and other emoluments disclosed above include amounts paid to:

The chairman	13	19
The highest paid director	65	53

The number of directors who received fees and other emoluments (excluding pension contributions and reimbursable expenses) in the following ranges was:

	Number	Number
Below N1,000,000	-	-
N1,000,001 - N1,500,000	-	-
N2,000,001 - N3,000,000	-	-
N5,500,001 and above	19	13

36 Related parties

Parent:
Zenith Bank Plc (incorporated in Nigeria) is the ultimate parent company of the Group.

Subsidiaries:
Transactions between Zenith Bank Plc and its subsidiaries which are eliminated on consolidation are not separately disclosed in the consolidated financial statements. The Group's effective interests and investments in subsidiaries as at 31 December 2009 are shown below.

Entity	Effective holding	Nominal share capital held
	%	N' million
Foreign / banking subsidiaries:		
Zenith Bank (Ghana) Limited	96.90	6,444
Zenith Bank (UK) Limited	100.00	8,527
Zenith Bank (Sierra Leone) Limited	100.00	1,117
Domestic / non-banking subsidiaries:		
Zenith General Insurance Limited	80.12	4,574
Zenith Life Assurance Limited	81.60	1,632
Zenith Securities Limited	99.99	3,000
Zenith Capital Limited	99.99	2,000
Zenith Registrars Limited	99.98	700
Zenith Pension Custodians Limited	99.00	1,980
Zenith Trustees Limited	100.00	60
Zenith Medicare Limited	100.00	80

Key management personnel
Key management personnel is defined as the Group's executive and non-executive directors, including their close members of familyand any entity over which they exercise control. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with the Group.

Key management compensation

	2009	2008
	N' million	N' million
Salaries and other short-term benefits	482	271
Retirement benefit cost	17	20

Loans and advances

	2009	2008
At start of the period	1,270	425
Granted during the period	82	931
Repayment during the period	(138)	(86)
At end of of the period	1,713	1,270
Interest earned	68	61

Loans to key management personnel include mortgage loans and other personal loans which are given under terms that are no more favourable than those given to other staff. No impairment has been recognised in respect of loans granted to key management (2008: Nil). The mortgage loans are secured by the undelying assets. All other loans are unsecured.

The aggregate value of transactions and balances with other related parties are as follows:

		2009			
		Loans	Deposits	Interest received	Interest paid
Name of company / Individual	Relationship	N' million	N' million	N' million	N' million
Carpri Martins	Common Directorship	3,356	-	478	-
Multibank savings and Loans	Common Directorship	4,200	-	620	-
Visafone Communications Ltd	Relationship with Director	11,944	6,736	1,605	406
Tadop Properties Limited	Common Directorship	9,606	348	1,293	23
Goodworks Properties Ltd	Common Directorship	5,892	-	697	-
Cyberspace Limited	Associate	-	38	-	3
Cyberspace Networks Limited	Associate	-	12	-	1
Accion Microfinance	Associate	-	107	-	7
At end of of the period		34,998	7,241	4,693	440

		2008			
		Loans	Deposits	Interest received	Interest paid
Name of company / Individual	Relationship	N' million	N' million	N' million	N' million
Visafone Communications Ltd	Relationship with Director	9,397	7,163	741	615
Tadop Properties Limited	Common Directorship	-	313	-	18
Cyberspace Limited	Associate	240	121	2	8
Cyberspace Networks Limited	Associate	-	141	-	11
Accion Microfinance	Associate	43	88	6	7
At end of of the period		9,680	7,826	749	659

Interest charged on loans to related parties and interest and other fees paid to related parties are similar to what would be charged in an arms' length transaction. Loans granted to related parties are secured over real estate and other assets of the respective borrowers. No impairment has been recognised in respect of loans granted to related parties (2008: Nil).

37 Contingent liabilities and commitments

(a) Legal proceedings

The Bank is presently involved in 52 litigation suits in the ordinary course of business. The total amount claimed in the cases against the Bank is estimated at N2.99 billion. The actions are being contested and the Directors are of the opinion that none of the aforementioned cases is likely to have a material adverse effect on the Group and are not aware of any other pending or threatened claims and litigations.

(b) Capital commitments

At the balance sheet date, the Group had capital commitments amounting to N1.70 billion (2008: N7.71 billion) in respect of authorized and contracted capital projects

(c) Confirmed credits and other obligations on behalf of customers

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk. These instruments are issued to meet the credit and other financial requirements of customers. The contractual amounts of the off-balance sheet financial instruments are:

	31 December 2009 N'millions	30 September 2008 N'millions
Performance bonds and guarantees	99,989	303,590
Letters of credit	70,835	142,194
Pension funds	467,884	278,514
	638,708	724,298

The transaction related performance bonds and gaurantees are, generally, short-term commitments to third parties which are not directly dependent on the customer's creditworthiness.

Letters of credit are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity dates, but are cancellable by the Group (as lender) subject to notice requirements. These letters of credit are provided at market-related interest rates and cannot be settled net in cash.

The amount of N 467.88billion (2008: N 278.51 billion) represents the full amount of the Bank's guarantee for the assets held by its subsidiary, Zenith Pensions Custodian Limited, under the latter's custodial business as required by the National Pensions Commission.

38 Cash (used in)/generated from operations

	31 December 2009 N'millions	30 September 2008 N'millions
Reconciliation of profit before tax to cash generated from operations:		
Profit before tax	42,304	56,320
Impairment		
- on loans and advances	32,663	5,458
- on leases	16	28
- on insurance receivables	1,012	443
- other assets	1,111	3,799
Depreciation and amortisation	13,512	8,902
Foreign exchange losses/(gains) on operating activities	(589)	(2,924)
Dividend income	(1,509)	(232)
Net interest income	(122,386)	(98,765)
Share of (profit)/loss of associates	(78)	111
Loss / (profit) on sale of property and equipment	27	(45)
	(33,917)	(26,905)
(Increase)/decrease in operating assets:	(351,882)	(308,539)
Loans and advances to customers	(269,943)	(167,898)
Other assets	14,047	(14,991)
Treasury bills with maturities greater than three months	5,876	(113,133)
Reinsurance assets and insurance receivables	(652)	(1,287)
Debt securities	(101,209)	(11,230)
Increase/(decrease) in operating liabilities:	(111,530)	560,726
Claims payable	(36)	(40)
Liabilities on insurance contracts	(53)	1,618
Deposits from customers	(14,930)	553,935
Other liabilities	(96,512)	5,214
Cash flows (used in)/generated from operations	(497,329)	225,282

39 Dividend per share

Dividend paid / proposed	11,303	28,466
Number of shares in issue and ranking for dividend	25,117	16,745
Dividend paid per share	45 k	170 k

On 18 February 2010, the Board of Directors, pursuant to the power vested in it by the provisions of section 379 of the Companies and Allied Matters Act (CAMA) of Nigeria, proposed a final dividend of 45 kobo per share (30 September 2008: 170 kobo per share) from the Retained earnings account as at 31 December 2009. This is subject to declaration by shareholders at the next annual general meeting.

The number of shares in issue and ranking for dividend represents the outstanding number of shares as at 31 December 2009 and 30 September 2008 respectively.

Payment of dividends is subject to withholding tax at a rate of 10%.

40 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash balances with central banks, treasury bills and other eligible bills, operating account balances with other banks, amounts due from other banks and short-term government securities.

	31 December 2009 N'millions	30 September 2008 N'millions	30 June 2007 N'millions
Cash and balances with central banks	126,779	240,848	111,055
Treasury bills with maturities less than three months (note 17)	91,974	246,508	214,897
Due from other banks	341,830	536,846	214,087
Total cash and cash equivalents	560,583	1,024,202	540,039

41 Compliance with banking regulations

The bank did not contravene any regulation of the Banks and Other Financial Institutions Act, 1991 or any relevant circulars issued by the Central Bank of Nigeria.

42 Events after balance sheet

Subsequent to the balance sheet date, the shareholders approved a total dividend of N11.3 billion (0.45 Naira per share) and bonus issue of N3.1 billion (1 for 4) at the AGM held on 20 April 2010.

43 Transition to IFRS

Explanation of transition to IFRS

As stated in note 2.1, these are the Group's first financial statements prepared in accordance with IFRS. The Group has applied IFRS 1 in preparing these consolidated financial statements and the accounting policies set out in note 2 have been applied in preparing the financial statements for the period ended 31 December 2009, the comparative information presented in these financial statements for the period ended 30 September 2008, and in the preparation of an opening IFRS balance sheet at 1 July 2007 (the date of the Group's transition to IFRS).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with Statements of Accounting Standards issued by the Nigerian Accounting Standards Board ("Nigerian GAAP"). An explanation of how the transition from Nigerian GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The most significant IFRS impact for the Group resulted from the implementation of IFRS 9 *Financial Instruments – Classification and Measurement,* which requires financial assets to be measured at fair value or at amortised cost (using the effective interest method) if certain criteria are met, and IAS 39 *Financial Instruments: Recognition and Measurement* which requires the impairment of financial assets only in cases where there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset (referred to as an "incurred loss" model).

In preparing these consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions from full retrospective application of IFRS. The Group has not applied any optional exemptions from full retrospective application.

Exceptions from full retrospective application - followed by the Group

The Group applied the following mandatory exceptions from retrospective application:

Estimates exception

Estimates under IFRS at 1 July 2007 should be consistent with estimates made for the same date under Nigerian GAAP, unless there is evidence that those estimates were in error.

Derecognition of financial assets and liabilities exception

Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS.

Hedge accounting exception

This exception requires the Group to claim hedge accounting only if the hedge relationship meets all the hedge accounting criteria under IAS 39. The Group has not claimed hedge accounting under IFRS.

Non-controlling interests exception

From 1 July 2007 total comprehensive income is attributed to the owners of the parent and to the non controlling interests even if it results in the non-controlling interests having a deficit balance.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners) from 1 July 2007.

The guidance contained in IFRS on accounting for the loss of control of a subsidiary is applied prospectively from 1 July 2007.

Classification and measurement of financial assets exception

The assessment of whether the Group's financial assets meet the requirements to be measured at amortised cost, as set out in IFRS 9, was performed at 1 July 2007.

43 Explanation of transition to IFRS
Reconciliation of profit for the period

	Note	Fifteen months ended 31 December 2009 Nigerian GAAP N'million	Fifteen months ended 31 December 2009 Adjustments N'million	Fifteen months ended 31 December 2009 IFRS N'million	Fifteen months ended 31 December 2009 Nigerian GAAP N'million	Fifteen months ended 31 December 2009 Adjustments N'million	Fifteen months ended 31 December 2009 IFRS N'million
Interest and similar income	a,p	193,545	12,798	206,343	138,737	13,322	152,059
Interest and similar expense		(83,957)	–	(83,957)	(53,294)	–	(53,294)
Net interest income		109,588	12,798	122,386	85,443	13,322	98,765
Impairment charge for credit losses	c,f,h	(39,865)	5,063	(34,802)	(10,568)	840	(9,728)
Net interest income after impairment charge for credit losses		69,723	17,861	87,584	74,875	14,162	89,037
Fee and commission income	a,n,o	50,045	1,401	51,446	49,511	(3,734)	45,777
Net gains/losses on financial instruments							
Measured at fair value through profit or loss	b,p	–	11,712	11,712	–	5,626	5,626
Foreign exchange trading income	o,p	19,687	(19,687)	–	6,174	(6,174)	–
Underwriting profit		2,345	–	2,345	2,472	–	2,472
Trusteeship income	n	42	(42)	–	51	(51)	–
Income from investments	a,f,g,n	1,326	(1,326)	–	3,444	(3,444)	–
Other income	a,n	5,205	(2,850)	2,355	7,147	(6,127)	1,020
Operating expenses	i	(113,288)	71	(113,217)	(87,562)	61	(87,501)
Operating profit		35,085	7,141	42,225	56,112	319	56,431
Share of profit/loss of associates	g	–	78	78	–	(111)	(111)
Extra-ordinary item	q	–	–	–	8	(8)	–
Profit before tax		35,085	7,219	42,304	56,120	200	56,320
Income tax expense		(14,482)	(1,773)	(16,255)	(4,127)	(96)	(4,223)
Profit for the period		20,603	5,446	26,049	51,993	104	52,097
Profit attributable to:							
Equity holders of the parent		20,497	5,446	25,943	51,609	103	51,712
Non controlling interests	f	106	–	106	385	–	385

Reconciliation of equity

	Note	31 December 2009 Nigerian GAAP N'million	31 December 2009 Adjustments N'million	31 December 2009 IFRS N'million	30 September 2008 Nigerian GAAP N'million	30 September 2008 Adjustments N'million	30 September 2008 IFRS N'million	1 July 2007 Nigerian GAAP N'million	1 July 2007 Adjustments N'million	1 July 2007 IFRS N'million
Assets										
Cash and balances with central banks		126,779	-	126,779	239,562	1,286	240,848	111,055	-	111,055
Treasury bills	a,b	234,115	(2,585)	231,530	401,445	(9,505)	391,940	249,815	(2,619)	247,196
Due from other banks		341,830	-	341,830	536,846	-	536,846	214,087	-	214,087
Loans and advances to customers	a,c,d	698,326	9,276	707,602	455,324	5,323	460,647	293,805	2,821	296,626
Advances under finance lease	d	5,506	(5,506)	-	4,615	(4,615)	-	2,445	(2,445)	-
Reinsurance assets and insurance receivables	e	635	959	1,594	816	1,137	1,953	1,109	-	1,109
Investment securities	b,f,g	158,977	(55)	158,922	64,564	(4,380)	60,184	41,631	(2,349)	39,282
Investments in associates	g	-	2,443	2,443	-	2,573	2,573	-	2,797	2,797
Deferred tax		966	-	966	160	-	160	120	-	120
Other assets	b,h,i	13,517	8,836	22,353	32,293	5,218	37,511	21,561	4,757	26,318
Investment property	i	433	(433)	-	433	(433)	-	394	(394)	-
Property and equipment	l,j	78,619	(6,631)	71,988	50,942	(4,936)	46,006	36,800	(4,515)	32,285
Intangible assets	j	-	712	712	-	238	238	-	219	219
Total assets		1,659,703	7,016	1,666,719	1,787,000	(8,094)	1,778,906	972,822	(1,728)	971,094
Liabilities										
Deposits from customers	k	1,173,917	4,271	1,178,188	1,188,876	3,861	1,192,737	634,493	1,561	636,054
Claims payable		198	-	198	234	-	234	274	-	274
Current income tax		7,407	-	7,407	5,690	-	5,690	6,427	-	6,427
Deferred tax	l	3,117	2,783	5,900	1,961	478	2,439	1,234	446	1,680
Other liabilities	a,k	100,085	(9,513)	90,572	202,114	(15,030)	187,084	186,646	(4,776)	181,870
Liabilities on insurance contracts	e	1,202	959	2,161	1,077	1,137	2,214	596	-	596
Borrowings	k	35,984	418	36,402	40,431	437	40,868	26,697	-	26,697
Total liabilities		1,321,910	(1,082)	1,320,828	1,440,383	(9,117)	1,431,266	856,367	(2,769)	853,598
Capital and reserves										
Share capital		12,559	-	12,559	8,372	-	8,372	4,632	-	4,632
Share premium		255,047	-	255,047	255,047	-	255,047	69,237	-	69,237
Retained earnings	m	44,884	6,287	51,170	60,551	842	61,392	25,292	728	26,020
Other reserves	c,f	23,081	1,719	24,800	20,377	120	20,497	15,425	226	15,651
Attributable to equity holders of the parent		335,571	8,006	343,576	344,347	962	345,308	114,586	954	115,540
Non-controlling interests		2,223	92	2,315	2,270	61	2,332	1,869	87	1,956
Total shareholders' equity		337,794	8,098	345,891	346,617	1,023	347,640	116,455	1,041	117,496
Total Liabilities and equity		1,659,704	7,016	1,666,719	1,787,000	(8,094)	1,778,906	972,822	(1,728)	971,094

Notes to the reconciliation of equity and profit

(a) IFRS requires financial assets carried at amortised cost to be measured using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Under Nigerian GAAP unearned interest received in advance was recognised as a separate liability, resulting in the gross disclosure of the underlying asset.

The effect of applying the effective interest method resulted in a reclassification at 31 December 2009 of N2,643 million from Other liabilities to Treasury bills (2008: N8,235 million; 2007: N2,619 million) and N2,181 million from Other liabilities to Loans and advances to customers (2008: N2,497 million; 2007: N597 million). Furthermore, the effective interest rate calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate. Under Nigerian GAAP interest income and expense are recognised in accordance with terms of the related instrument on an accrual basis. The effect of applying the effective interest method resulted in a reclassification of N11,238 million for the period ended 31 December 2009 from Fee and commission income (2008: N8,578 million) and N669 million (2008: N2,524 million) from Other income to Interest and similar income . Similarly, interest earned on investment deposits of N520 million for the period ended 31 December 2009 (2008: N1,240 million) was reclassified from Income from investments to Interest and similar income .

For the period ended 31 December 2009 Interest and similar income on impaired loans and advances of N838 million (2008: N1,374million) suspended under Nigerian GAAP was recognised under IFRS, resulting in an increase in Loans and advances to customers of N2,368 million (2008: N1,530 million; 2007:156 N million).

(b) Investments in treasury bills and bonds held for trading purposes were not all measured at fair value under Nigerian GAAP. IFRS requires financial assets held for trading purposes to be measured at fair value through profit or loss. The effect of accounting for the fair value movements of these investments at 31 December 2009 increased Treasury bills by N59 million (2008: N17 million; 2007N0) and Investment securities by N424 million (2008: N0; 2007: N0). Net gains/losses on financial instruments measured at fair value through profit or loss increased by N466 million (2008: N17 million) for the period ended 31 December 2009. For the period ended 30 September 2008 fair value adjustments of N43 million included in Other assets was reclassified to bonds (FVTPL) included in Investment securities .

The Group incorrectly included amounts relating to balances with the Central Bank of Nigeria for the period ended 30 September 2008 in Treasury bills in its Nigerian GAAP financial statements. In adjusting for the above Cash and balances with central banks increased and Treasury bills decreased by N1,286 million at 30 September 2008.

(c) Under Nigerian GAAP loans and advances are measured at cost net of impairment losses. A specific provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for each account that is not performing in accordance with the terms of the related facility. A general reserve of at least 1% is made for all performing accounts to recognise losses in respect of risks inherent in any credit portfolio. Under IFRS an impairment loss can only be recognised if there is objective evidence that a loss has occurred after the initial recognition but before the balance sheet date.

The difference in the measurement basis of impairment loss assessment between IFRS and Nigerian GAAP increased the balance of Loans and advances to customers by N819 million as at 1 July 2007. In addition, for the period ended 31 December 2009, the adoption of the IFRS impairment model for incurred losses on loans and advances resulted in a decrease in Impairment charges for credit losses of N2,725 million (2008:840 million) and an increase in Loans and advances to customers of N4,793 million

(2008:N1,676 million). Foreign currency translation differences on the above adjustments increased the Foreign currency translation reserve (included in Other reserves) by N407 million (2008: N18 million; 2007: N0).

(d) Advances under finance lease are reported separately in the balance sheet under Nigerian GAAP. Given the size of this portfolio, management has reclassified the total balance of N5,506 million at 31 December (2008: N4,615 million; 2007: N2,445 million) from Advances under finance lease to Loans and advances to customers .

(e) Under Nigerian GAAP, Liabilities on insurance contracts are disclosed net of any reinsurance assets. IFRS however requires the separate disclosure of reinsurance assets. The effect of applying this requirement to the Group's financial statements was to increase Reinsurance assets and insurance receivables and increase Liabilities on insurance contracts by N959 million at 31 December 2009 (2008: N1,137 million; 2007 N0).

(f) Under Nigerian GAAP, investment securities are either classified as short-term or long-term investments. Short-term investments are investments that management intends to hold for less than one year. These investments are measured at the lower of cost and net realisable value subsequent to initial recognition. Long-term investments are investments other than short-term investments and are carried at revalued amounts. Gains and losses on long-term investments are recognised in the revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are recognised in profit or loss.

IFRS requires financial assets to either be measured at fair value or at amortised cost. For financial assets measured at fair value,gains and losses are recognised in profit or loss except for investments in equity instruments for which the Group has elected to present gains and losses in other comprehensive income. In applying the IFRS conversion requirements, *Investment securities* at 31December 2009 increased by N2,030 million (2008: N1,739 million decrease; 2007: N448 million increase) and *Other reserves* at this date increased by N1,310 million (2008: N102 million; 2007: N227 million). At 31 December 2009 a loss of N737 million recognised under Nigerian GAAP and reflected in *Income from investments* (2008: N1,972 million profit) was written back. Impairments of investment securities of N1,264 for the period ended 31 December 2009 recognised in *Impairment charge for credit losses* was written back.

Profit attributable to non-controlling interests decreased by N24 million for the period ended 31 December 2009 as a result of the above adjustments and *Non-controlling interests* as at 31 December 2009 increased by N92 million (2008: N62 million; 2007: N87.

(g) Investments in associate companies of N2,509 million at 31 December 2009 (2008: N2,683 million; 2007: N2,796 million) included in *Investment securities* under Nigerian GAAP have been reclassified and are disclosed separately as *Investments in associates* under IFRS.

For the period ended 31 December 2009 an amount of N78 million was recognised as the Group's share of the profit of its associates (2008: N111 million loss) as reflected in the *Share of profit/loss of associates* line in the statement of comprehensive income. In addition and included in the above amount, income from investments in associates of N34 million for the period ended 31 December 2009 has been reclassified from *Income from investments* to *Share of profit/loss of associates.*

The effect of the above transactions was to increase *Investments in associates* by N2,442 million at 31 December 2009 (2008: N2,572 million; 2007: N2,796 million).

(h) Under Nigerian GAAP, a general reserve of at least 1% is made for all performing accounts to recognise losses in respect of risks inherent in any credit portfolio. Under IFRS an impairment loss can only be recognised if there is objective evidence that a loss has occurred after the initial recognition but before the balance sheet date. For the period ended 31 December 2009, a portion of the impairments recognised under Nigerian GAAP for *Other assets* were written back due to the absence of the IFRS requirement of objective evidence indicating that a loss has occurred. The effect of the above was to reduce *Impairment charges for credit losses* and increase *Other assets* by N2,284 million.

(i) Under Nigerian GAAP land acquired under a 99 year lease agreement is capitalised as land and buildings and depreciated over a period of 50 years. IFRS requires that the land and building components be evaluated separately for the purposes of lease classification. Generally leasehold land is classified an operating lease unless title is expected to pass to the lessee at the end of the lease term.
The effect of the classification of land acquired under a 99 year lease agreement as operating leases at 31 December 2009 decreased *Property and equipment* by N6,352 million (2008: N5,131 million; 2007: N4,691 million). Prepayments on leased land increased *Other assets* at 31 December 2009 by N6,551 million (2008: N5,259 million; 2007: N4,759 million). The depreciation charge (included in *Operating expenses*) for the period ended 31 December 2009 was reduced by N143 million (2008: N124 million) and a lease expense of N71 million (2008: N60 million) was recognised in *Operating expenses* .
Property of N433 million at 31 December 2009 (2008: N433 million; 2007: N394 million) disclosed as *Investment property* under Nigerian GAAP was reclassified to *Property and equipment* .

(j) The Group classifies computer software as part of property and equipment under Nigerian GAAP. Under IFRS, computer software would generally be recognised as an intangible asset unless it can be considered to be an integral part of property and equipment. As a result, the Group reclassified its Computer software as a separate intangible asset under IFRS. The effect of this adjustment was to decrease *Property and equipment* and increase *Intangible assets* by N712 million at 31 December 2009 (2008: N238 million; 2007: N219 million).

(k) The Group accounted for interest payable on its financial liabilities as a separate component of *Other liabilities* . In applying the effective interest method, IFRS requires a financial instrument carried at amortised cost to be measured at its net carrying amount.

The application of the effective interest method resulted in a reclassification of interest payable at 31 December 2009 of N4,271 million (2008:3,861 N million; 2007: N1,560 million) from *Other liabilities* to *Deposits from customers* . Interest payable of N418 million at 31December 2009 (2008: N437 million; 2007: N0) was transferred from *Other liabilities* to *Borrowings* .

	Note	2009 N' million	2008 N' million	2007 N'million
Impairment of loans and advances and other assets	c, h	2,348	956	292
Land under operating lease	i	60	39	20
Fair value adjustments on equity securities	f	230	(522)	134
Fair value adjustments on treasury bills and bonds (FVTPL)	b	145	5	–
At end of of the period		2,783	478	446

(m) The adjustments to effect the transition to IFRS increased/(decreased) retained earnings as follows (net of deferred tax):

	Note	2009 N'million	2008 N'million	2007 N'million
Impairment of loans and advances and other assets	c,h	5,479	2,232	681
Land under operating lease	i	139	90	48
Fair value adjustments on equity securities	f	400	(1,380)	-
Investments in associates	g	(67)	(111)	-
Fair value adjustments on treasury bills and trading bonds (FVTPL)	b	338	12	-
At end of of the period		6,289	843	729

(n) An amount of N3,733 million for the period ended 31 December 2009 (2008: N3,886) included in *Other income* was reclassified to *Fee and commission income*.

Trusteeship income for the period ended 31 December 2009 of N42 million (2008: N51 million) disclosed separately under Nigerian GAAP was reclassified to *Other income* . Dividends received on equity instruments of N1,509 million for the period ended 31 December 2009 (2008: N232 million) and included in *Income from investments* was reclassified to *Other income* .

(o) An amount of N9,431 million (2008: N1,083 million) included in *Foreign exchange trading income* for the period ended 31 December 2009 relating to the use of usance lines was reclassified to *Fee and commission income* .

(p) Trading income on treasury bills of N467 million for the period ended 31 December 2009 (2008: N393 million) was reclassified from *Interest and similar income* to *Net gains/losses on financial instruments measured at fair value through profit or loss* . Income on bonds (FVTPL) of N524 million for the period ended 31 December 2009 (2008: N125 million) was reclassified from *Fee and commission income* to *Net gains/losses on financial instruments measured at fair value through profit or loss* .

Foreign exchange trading income of N10,256 million (2008: N5,091 million) was reclassified from *Foreign exchange trading income* to *Net gains/losses on financial instruments measured at fair value through profit or loss* .

(q) The Group disclosed as an extraordinary item for the period ended 30 September 2008 a gain on the disposal of 10% of the Group's equity ownership in Zenith Bank (Ghana) Limited. IFRS does not allow the classification of items as extraordinary and requires gains and losses from changes in the ownership interest of subsidiaries not resulting in a loss of control to be accounted for directly within Equity

Explanation of material adjustments to the consolidated cash flow statements

Under IFRS, only call deposits and other short-term investments that are readily convertible to a known amount of cash and subject to insignificant risks of changes in value due to the short maturities thereof (three months or less from the date of acquisition) are classified as cash and cash equivalents. Under Nigerian GAAP, all treasury bills are classified as cash and cash equivalents. Under IFRS, only treasury bills with a maturity of three months or less are classified as cash and cash equivalents in the consolidated cash flow statements under IFRS.

Under Nigerian GAAP, the Group classifies cash flows relating from the acquisition or sale (and redemption) of treasury bills and investment securities as investing cash flows. Under IFRS, most of these cash flows are considered part of the principal revenue producing activities of the Group, and are therefore classified as operating cash flows. Cash flows associated with equity securities at fair value through other comprehensive income continue to be classified as investing.

NOTES