Diamond Bank (UK) Plc

Annual Financial Statements
Year Ended 31 December 2016

Company Registered Number: 06278016

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Chairman's Statement

Year ended 31 December 2016

I am delighted to report that the Bank achieved pre-tax earnings of £2.04m in 2016, which remain extremely strong when considering our core market of Nigeria has experienced extremely difficult macro-economic conditions during 2016 and this makes the Banks's performance all the more satisfying. With no impairment charges, these results are testament to the success of DBUK's conservative business model, which is discussed in more detail within the Strategic Report.

During the year, the Board has spent considerable time reviewing the business and setting a clear strategic direction within our three-year strategic plan. Whilst Trade Finance will remain our core activity, the refocus is predominantly around diversification of the customer base and drive towards greater business volumes. Once again, further details of this revised strategy are set out in the Strategic Report.

The regulatory agenda continued to be a key area of attention and will always be an area that I and the Board are totally committed to. A significant amount of Board and management time was devoted to regulatory matters in 2016, most notably:

- Our defences against money-laundering and terrorism financing remain a priority and is a key Board Agenda item. During 2016, we have taken steps to strengthen the Compliance Function and have invested significantly to ensure that the business is not only meeting current requirements, but is taking the steps necessary to support future growth from a Compliance perspective.
- During the year we saw the implementation of the Senior Managers & Certification Regime (SMCR) and I am pleased to report that DBUK was fully compliant when the first phase of SMCR came into force in early March 2016 and by March 2017 we fulfilled all requirements of the certification regime. Our Board welcomes these moves to further strengthen governance and accountability in UK banking.

The business agenda for 2017 and beyond will, no doubt, be a challenging one, however, we believe that our new strategic direction is correct and that with the combination of strong Board commitment and the recruitment of key personnel to support the business during the journey of strategic transformation we will be successful.

Finally, I would like to take this opportunity to thank my fellow Directors for their ongoing support and constructive challenge and the management and staff of the Bank for the teamwork and dedication that they have shown in what has been a challenging operating environment.

Uzoma Dozie

Chairman

Strategic Report

Year ended 31 December 2016

GOVERNANCE STATEMENT

Sound corporate governance lies at the heart of the Bank's corporate mission to ensure delivery of value to all of its stakeholders. The Board is acutely aware that along with capital and liquidity, good governance is central to the UK prudential agenda and the Board undertakes regular training with a view to ensuring via self-assessment that it will comply with the provisions of the UK Corporate Governance Code.

Monitoring Risk
The Bank undertakes at least annual assessments of its liquidity and capital position using the regulatory Individual Liquidity Adequacy Assessment Process (ILAAP) and Individual Capital Adequacy Assessment Process (ICAAP) frameworks respectively. These assessments, which include a variety of prescribed and Bank generated stress tests, provide confidence, including via Board challenge, that it possesses adequate financial resources to continue its mission. The Bank has also prepared a Recovery and Resolution Plan (RRP) with a series of trigger events to indicate the possible need for recovery of the business and in extremis the options for recovery on ultimate failure. The trigger events include an index of Key Risk Indicators that are monitored at both Management and Board level.

Leadership
The Group recognises the need to ensure that the UK subsidiary acts as a stand-alone Bank and upholds the principle of 'mind and matter' residing in London. Alongside representation from the parent bank, the inclusion of three Non-Executive Directors (NED's) of which two are Independent Non-Executive Directors (INEDs) with appropriate banking, risk and controls, and relevant market experience ensures both actions that are in the best interests of the Bank but also effective challenge to the Executive.

The Board comprises the following members:-

Mr Uzoma Dozie (Chairman and Non-Executive Director)
Uzoma Dozie graduated in 1991 with a Bachelor of Science degree in Chemistry from the University of Reading, Berkshire England. He obtained a Master of Science degree in Chemical Research from University College, London in 1992 and an MBA from Imperial College Management School, London in 1998.

Uzoma started his banking career in the Commercial Banking Unit at Guaranty Trust Bank Plc where he worked for some years and later moved to Citizens International Bank Limited where he worked in the Oil and Gas Division. In 1998, he joined Diamond Bank Limited as an Assistant Manager and Head of the Bank's Oil and Gas Unit.

He was also the Head, Financial Control and Head Retail Banking (where he spear-headed the introduction of lifestyle-changing retail products in the Bank). Mr Dozie was also the Head of two distinctive strategic business units in the Bank before his appointment as Executive Director in 2005 and Group Managing Director in late 2014 and Chairman designate of the Bank and the Group's other banking subsidiary - Diamond Bank Bénin S.A.

Uzoma has attended various specialist and executive development courses in Nigeria and overseas.

Mr Christopher Duncan (Independent Non-Executive Director)
(Chairman Board Audit & Risk Committee and member of Board Remuneration, General Purposes Committee & Strategy Committee)

Christopher Duncan was an employee of the Barclays Group for over 36 years and retired on the 31 December 2002. He was appointed to Group Senior Executive status in 1987 and successfully carried out a wide range of International Retail, Corporate and Private Banking Management roles in the United Kingdom, Africa, the Far East and continental Europe. During the last years of his career he established and ran the central Risk Management function for the Barclays Group Affluent, High Net Worth and International businesses. He is a highly experienced and successful Retail and Commercial Banking General Manager.

In retirement he has undertaken consulting and training assignments in retail and commercial banking risk and governance for clients in UK and West Africa. In addition to his role at the Bank, Chris also serves as the Financial Services Supervisor, appointed by the British Government, for the South Atlantic territories of St Helena, Ascension and Tristan da Cunha Islands.

Mr Carey Leonard (Independent Non-Executive Director)
(Chairman Board Credit Committee & Board Strategy Committee and member of Board Audit & Risk Committee)

Carey Leonard is an international banker with over 40 years' experience, 33 years at Standard Chartered Bank, for whom he worked in Hong Kong, Sri Lanka, Nigeria, South Africa, Botswana, Swaziland, Bahrain, Abu Dhabi and the UK. In senior leadership roles, he acquired strong commercial banking disciplines in the areas of governance, strategy, business development and wholesale banking, as well as risk and problem loan management. He was a member of the bank's Business Leadership Team from 2002 to 2006.

Key appointments include the establishment in 1992 of the Bank's first specialised Textile and Garment Industry unit in its Corporate Banking Division in Hong Kong, where he oversaw the creation of a business with assets in excess of USD1.5 billion and profits of USD20 million in 1994. He was then appointed Country CEO, Sri Lanka in 1995 where he successfully turned around an underperforming business. Following this, in 1999 he became CEO and Managing Director of Standard Chartered Bank Nigeria Limited, leading the return of the Bank to Nigeria and establishing what is now the Bank's largest business in Africa. Appointed CEO in South Africa in 2002 he successfully managed the transition of the Bank's Representative Office there to a fully licensed Wholesale Bank operation.
Retiring from Standard Chartered in 2006, he has continued to utilise his deep banking and emerging markets experience, undertaking various consultancies and expert witness work.

Mr Garry Marsh (Non-Executive Director)
(Chairman Board Remuneration and General Purposes Committee and member of Board Credit Committee & Board Strategy Committee)

Garry Marsh has over 40 years of full time work experience in banking in the UK, Gulf and Africa. He has been a Retail Banking specialist since the mid 1980's and Retail Banking, incorporating consumer and micro, small and medium enterprises (MSME), is his passion. He spent 35 years with Barclays before resigning and joining Ahli Bank Qatar as Deputy CEO, responsible for Retail and Private Banking which included an Islamic as well as conventional bank. His last 4 years of full time work was with the parent bank, where he was Senior Advisor to the CEO but also responsible for the Retail Bank.

As Retail Banking Director in various countries Garry had full responsibility for all customer segments within consumer and MSME. In addition, for over 2 years he was the Africa Regional Director for Barclaycard International, responsible for credit card issuing and card acquiring. During his time with Barclays he was a Board member in Zambia, Kenya and Egypt and in his Pan-African role also attended Board meetings in Zimbabwe and Ghana.

Mrs Chizoma Okoli (Non-Executive Director)
(Member Board Remuneration and General Purposes Committee and Member of Board Credit Committee)

Chizoma Okoli graduated from the University of Benin with an L.L.B., attended the Nigerian Law School and holds an MBA from Warwick Business School in the U.K.

Chizoma began her banking career in Diamond Bank in April 1992, starting as an executive trainee and in a career spanning over 20 years has risen to become Head of the Corporate Banking Directorate, one of the most senior executive positions at the Bank. She has oversight of a balance sheet in excess of NGN 375bn (£1.2bn).

Mr Peter Horton (Managing Director and Chief Executive Officer)
(Member of Board Credit Committee & Board Strategy Committee and attends all other Board Committees)

Peter Horton brings a wealth of international banking experience to DBUK with a proven track record of generating positive results across the globe. Prior to joining the Bank in March 2016, Peter was the CEO at Bermuda Commercial Bank (BCB) where he was responsible for managing the businesses of the Bank, setting the strategic plans, ensuring the Group companies met BSB statutory obligations and maintaining its vision and values and the Bank's relationships with its external stakeholders, including BCB's clients and the Bermuda Monetary Authority. Peter previously served as CEO/MD of the Bank of Maldives where he was responsible for developing and implementing Bank of Maldives strategy, leading operations and was instrumental in turning around the fortunes of the Bank.

Peter started his career with the Barclays Banking Group holding senior posts at Barclays Bank Kenya and elsewhere in Africa and subsequently at First Caribbean International Bank in the Bahamas and Turks and Caicos.

Mrs Fiona Christiansen (Executive Director and Chief Financial Officer)
(Attends all Board Committees)

Fiona Christiansen is an Associate member of the Chartered Institute of Management Accountants (CIMA) and has extensive experience of financial accounting, tax compliance and statutory and regulatory reporting gained from working in international banking environments. A graduate of Oxford Brooks University, her career spans over 25 years with banking and consultancy organisations where Fiona established a track record of success whilst managing change and performing a wide variety of duties. Before the appointment as Director and Chief Financial Officer at Diamond Bank (UK) Plc, Fiona had worked for 6 years as the Financial Controller of the Bank. Prior to this Fiona had held senior roles in a variety of financial institutions including Crown Agents Bank, Banamex Investment Bank, Danske Bank and Dai-Ichi Kangyo Bank.

All Directors' job descriptions and contracts are under review as part of the Bank's implementation of the Senior Managers & Certification Regime.

Meetings
The Board meets quarterly with ad hoc meetings called as required. The work of the Board Committees is timed such that their reserved matters have been dealt with in good time for formal noting, ratification or approval as appropriate at the subsequent Board meeting. A Board Committees day is scheduled approximately two weeks before each quarterly Board meeting to achieve this end.

Work for Board meetings begins well in advance with circulation and agreement of an agenda and then preparation of papers that are circulated with sufficient time to enable members to duly consider the issues. Access by Non-Executive Directors to the Bank's Executive is encouraged at all times so that additional information can be provided and assumptions tested and challenged. Members of Senior Management either attend or may be called to present at individual meetings.

During the second half of 2016 a Board Strategy Committee was created to allow specific time and focus to be devoted to implementation and direction of the Bank's strategy.

As business accelerated further in 2016 the Board remained clearly focussed on risk issues including obtaining assurance that operational controls remained effective and that very close attention was paid to the prevention of money-laundering and counter-terrorism financing given the Bank's focus on markets that are classified internally as being high-risk from an Anti-Money Laundering / Counter Terrorism Financing perspective.

Board Responsibilities
The Board determines DBUK's strategy and its risk appetite. It sets the company's values and standards and ensures that its fiduciary duties to shareholders and other stakeholders are appropriately discharged. The Board of DBUK is the highest authority in the management structure and is ultimately and collectively responsible for the management of the Bank including the meeting of all applicable legal and regulatory requirements. The Board understands and engages actively in discussing and challenging key regulatory documents produced by the Executive which it ultimately approves including, but not limited to the Individual Liquidity Adequacy Assessment Process (ILAAP), the Internal Capital Adequacy Assessment Process (ICAAP) and Recovery and Resolution Plans (RRP).

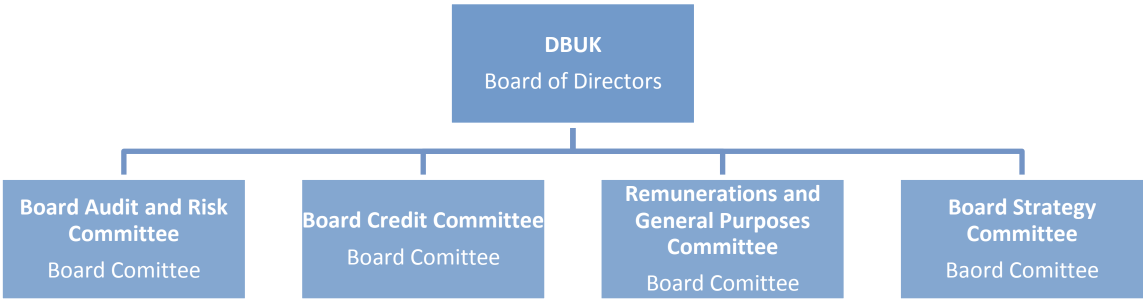
The Board's terms of reference clearly define those matters which are reserved for it as opposed to the various committees which it has established that are more fully described in the next section of this report. These documents were reviewed as part of the preparation for the Senior Managers & Certification Regime.

The Board continued its training programme in 2016 to cement its commitment to comply with industry best practice in relation to corporate governance rules. Board evaluation was also conducted by an external party providing additional assurance.

Management and Board succession plans are in place. The Board is mindful of the constraints of tenure of Directors and notes that the UK regulatory authorities expect the Bank to have at least two INEDs serving on the Board on a continuous basis. It is never the Bank's intention that two INEDs should leave at the same time requiring prior planning to ensure continuity. In view of the modest size of the organisation it is recognised that recourse to external candidates will be likely to fill INED and Executive Director positions.

Governance Framework
To support the Board in considering and challenging specific subject matters four board sub-committees and an Executive Management Committee have been established.

The Board Committees' structure is illustrated below:



Board Audit & Risk Committee (BARC)
BARC supports the Board with technical expertise in respect to audit related matters and to oversee and challenge the services provided by the outsourced internal audit services provider. The Committee also oversees and challenges the adequacy of systems and controls in place making recommendations to the Board for decision.

BARC reviews and approves the internal audit plan. It reviews all internal audit reports and monitors implementation of recommendations and agreed corrective actions. As a matter, of course, the Committee reviews the approach towards the use of outsourced service providers with a view to ensuring that they remain fit for purpose.

The Committee reviews the robustness of the Bank's internal financial controls and control and risk management systems and monitors the effectiveness of the Bank's internal audit, compliance, anti-money laundering and financial crime functions. It also reviews the performance of the external auditors and makes recommendations to the Board on their appointment and terms of engagement.

BARC reviews and approves the internal audit plan and amendments to the Bank's policy on the use of the external auditor for non-audit services and makes recommendations to the Board as appropriate. It reviews all internal audit reports and monitors implementation of recommendations and agreed corrective actions. As a matter, of course, the Committee reviews the approach towards the use of outsourced service providers with a view to ensuring that they remain fit for purpose.

BARC oversees the management of all risks except credit risk in the Bank. It reviews and recommends to the Board the ICAAP, the RRP (including the Liquidity Contingency Funding Plan), the ILAAP and the stress test assumptions based on recommendations from the Executive Management Committee. The Committee brings to the attention of the Board any matters in respect of which it considers that action or improvement is needed, including ethical standards and guidelines for business behaviour. It also covers regulatory and compliance risk together with all risks relating to financial crime and ensures that internal controls and operational risk management systems are effective and properly maintained.

The Committee meets formally four times per annum, on an ad hoc basis as required, and reports formally to each meeting of the Board. The Board Audit & Risk Committee comprises three members, with an INED serving as Chairman. In addition, the attendance on a non-voting basis is required of the CEO, failing whom the Chief Risk Officer and the internal auditor. Other individuals whether Board members or not may attend by invitation, also on a non-voting basis.

During 2016 BARC focussed on ensuring operational risk was effectively managed as the Bank entered a growth phase, whilst continuing to place great emphasis on robust defences against the unintended use of the firm to launder the proceeds of financial crime or to support terrorist activities.

The Directors consider that all key operational and reputational risk issues are understood and managed effectively. A Risk Management Framework is in place including a Risk Register that identifies and ranks risks facing the Bank and those that are emerging, and a Key Risk Indicator tool that uses both lead and lag indicators highlights the emergence of possible future threats. Further assurance is gained via the internal audit process which continues to indicate that control risk in the Bank is well controlled.

Ensuring effective governance, keeping abreast and ensuring compliance with a fast-moving regulatory agenda and the outcome of thematic reviews were constant themes. Cybersecurity continues to be an area of focus with the Bank's defences and contingency planning being further upgraded during the year.

Board Credit Committee (BCC)
BCC is a sub-committee of the Board and is responsible for overseeing all aspects of the Bank's credit risk management framework.

The Committee makes recommendations on risk appetite with respect to client, product, geographic, sector and maturity risk and approves credit risk management policies, underwriting guidelines and relevant credit proposals on the recommendation of the EXCO. It also considers and recommends to the Board authorities for credit approval including approval and renewal authorities delegated to the CEO and Executive Credit Committee.

BCC approves the Bank's credit rating methodology and reviews its implementation. It also approves and reviews credit facilities that are within limits defined by the Bank's credit policy and recommends all credit facility requests above its stipulated limit to the Board.

The Committee meets four times a year or on an ad hoc basis as required and reports formally to each meeting of the Board. Membership comprises a minimum of three Directors, one of whom, an INED, acts as chairman and includes the CEO or in his absence the other Executive Director. The CRO attends as a non-voting member and other individuals may be asked to attend as required.

During 2016 in addition to its regular credit work, BCC monitored trends in emerging markets as commodity prices fell and adjusted risk appetite accordingly.

Board Remuneration and General Purposes Committee (RGPC)
RGPC supports the Board with technical expertise in respect of Remuneration, Human Capital Management, Capital Expenditure and Business Planning.

The Committee approves the remuneration of the Bank's staff, receiving proposals from the Executive for annual increments and variable remuneration where applicable and making recommendations to the Board in respect of all aspects of the remuneration of Executive Directors and secondees.

RGPC monitors the terms under which the Bank employs its staff, the governing legislation and employment and remuneration practice in the UK market and reviews the employee handbook. RGPC also nominates for Board approval individuals whom are being proposed to hold UK regulator- approved Controlled Functions, with the input from BARC as appropriate.

RGPC review capital projects, systems requirements and other resource issues as required or requested by the Board. It also reviews the Bank's annual budget and business plan and executive expenditure authorities for recommendation to the Board.

The Committee meets four times a year or on an ad hoc basis as required and reports formally to each meeting of the Board. Membership comprises three Directors, one of whom is an INED and one of whom, a NED acts as Chair. Other individuals, whether board members or not, may attend by invitation on a non-voting basis.

During 2016 in addition to its regular agenda work, RGPC was closely involved in overseeing the Bank's preparation for the Senior Managers & Certification Regime.

Board Strategy Committee (BSC)
The BSC meets quarterly (or more often as required) and has been established to support the Executive Management team closely during the period of strategic transformation.

The Strategy Committee reviews progress to plan, but more importantly provides a strong sounding board and debating forum in which strategic initiatives are formally reviewed and discussed. The Board will delegate activity to this committee to allow greater time and resource to be focused on strategic issues than would otherwise be the case in the previous Board structure.

Executive Management Committee (EXCO)
EXCO has been given delegated authority by the Board to make decisions and recommendations which comply with Board Policy in relation to the overall day to day management and business of the Bank. It is chaired by the CEO. The following Executive Management Committees report to EXCO:

<u>Asset and Liability Committee (ALCO)</u>
ALCO undertakes a formal monthly review of the Bank's balance sheet, capital, liquidity, financial and operational trends, business development, financial market developments and prospects and KRIs.

<u>Executive Credit Committee</u>
Credit Committee handles the day to day credit process acting within delegated authorities.

<u>Executive Audit and Risk Committee</u>
Audit & Risk Committee focuses on policies and procedures.

<u>Business Objectives</u>

The Bank's core activity is International Trade Finance and its principle objective is to build a successful business around this core offering, delivering sustainable value to the shareholders through a combination of a strong customer proposition, a value focus combining optional financial performance with development of franchise value and the application of the highest standards of risk and compliance.

The Bank's original purpose and principal business activity was to support the international business activities of the wider Diamond Bank Group ('Group') and its internationally active clients. The Group is headquartered in Lagos, Nigeria and maintains operations in Bénin, Sénégal, Côte d'Ivoire and Togo. A presence in London provides international synergies for the wider Group and supports its corporate banking business growth ambitions whilst ensuring that revenues are maximised by capturing business flows and revenues that would otherwise be handled by non-Group companies. This group activity remains the largest area of operations however, the desire to broaden the client base is a now a key strategic driver.

Strategy
During 2016 the Board reviewed and revised the Bank's Strategy, setting out an agenda through to 2020. The Board has re-affirmed the Banks core activity as being trade finance, driven by a need to deliver strong sustainable returns to the parent.

The focus is to develop the business as follows:

- To expand the customer base in sub-Saharan Africa and the UK
- To develop the business infrastructure with significant investment in technology
- To diversify the Banks funding strategy away from current Group reliance
- To develop our culture and optimisation of human resources
- To maintain a strong risk and compliance culture

Accordingly, the Strategic Priorities are:

- To relentlessly seek to create value
- Ensuring customers are the key to our success
- Embed excellence as the norm
- To have the best people doing the best job

To deliver this strategy the Bank will:

- Realign the business model
  - Grow and diversify revenue streams
  - Expand funding sources
  - Create a superior Client Experience
  - Implement a Target Operating Model
- Develop a clear IT roadmap
  - Build a business that leverages technology to the maximum
- Develop and roll out a people strategy
  - Embed a DBUK culture aligned to the new strategy
  - Realign the HR approach to support the culture and optimise the performance of our people
- Maintain a strong and dynamic risk and compliance culture
  - Invest in risk and compliance infrastructure to ensure Strategic Plan can be supported
  - Develop inclusive risk and compliance culture across entire business
  - Embed new Organisational design
  - Invest in people through a combination of recruitment and lending and development

Business model

The Bank's activities are regulated in the UK jointly by The Prudential Regulation Authority (PRA) and The Financial Conduct Authority (FCA). The Bank's permissions for deposit taking are covered by a 'wholesale only' exclusion which means that no individual or small company accounts[1] may be held.

Prudential rules governing connected counterparty exposures require that unsecured exposures to Diamond Bank Group may not exceed 25% of the Bank's regulatory capital. In order to support the current and planned level of Group business being handled by the Bank, cash collateral is provided by the Parent in support of exposures that exceed this threshold. Cash collateral is also provided for corporate transactions referred by the Parent that would, on an unsecured basis, exceed the Bank's single obligor and sectorial lending limits.

All functional areas share the same focus on in-depth product knowledge and expertise. Service delivery is monitored to ensure standards are maintained and to build lasting, trust-based client relationships.

Under the current business model the focus is very much on a Bank to Bank relationship rather than direct corporate relationships. The entire team including Relationship staff, Treasury, Trade Finance and Operations are aligned to ensure that the nature and level of service required is focussed on this relationship approach.

Products and Services

<u>Trade Operations</u>

Trade finance provides the mainstay of activity and earnings via the issuance and confirmation of documentary letters of credit and associated discounting / receivables financing.

The Bank is also a participant in the secondary market for trade finance transactions subject to counterparty credit appetite and available liquidity.

<u>Lending and Fixed Income</u>

A portfolio of fixed income bonds is held to support regulatory buffer requirements and enhance returns on capital funds that are not otherwise being used to fund long-term loans and discounts. All such instruments are held on an available-for-sale basis. A portfolio of floating rate syndicated loans is used as a means of boosting financial returns but also hedging interest rate risk as USD interest rates have moved up.

<u>Foreign Exchange</u>

The Bank is an active participant in the foreign exchange market quoting prices to West African banks and hedging the risk with a growing number of UK professional market counterparties. The Bank is not authorised to undertake proprietary trading and all customer orders are processed on a strictly matched basis.

[1] As defined in the Companies Act (2006)

Resources

Capital
The Bank was recapitalised in 2013 on change of control. Whilst balance sheet footings have grown rapidly, much of the business undertaken is supported by eligible cash security such that risk weighted assets remain relatively modest and the Bank continues to be in compliance with, and comfortably meet, the regulatory capital requirements. The board has decided that the Bank should not pay dividends until a longer track-record of stable earnings has been established. The profit earned in 2016 will therefore be reinvested in the business.

Other Resources
To support its business, model the Bank has an appropriate management information system and an effective budget and business planning process subject to challenge at Board Committee level and ultimately Board approval.

The core banking system remains suitable for the existing business model and the network and peripheral infrastructures are upgraded as required to meet business needs and ensure maintenance of a robust data security environment. That said, in anticipation of the growth strategy the IT infrastructure will be upgraded during the next 12-18 months

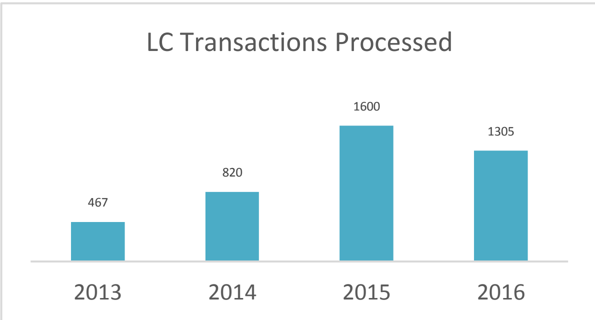
Staff resources are reviewed at each meeting of the Remuneration and General Purpose Committee to ensure that they remain aligned with the Bank's existing and likely future needs. Further Management Development training and staff Town Hall meetings were held in 2016. Core standards of behaviour are in place and linked to variable remuneration as a means of monitoring and reinforcing standards of fitness and propriety at all staff levels. The standards further the Bank's social agenda and are aimed at creating better skilled, more engaged, productive and socially responsible employees who are well equipped to handle the challenges of rapid business growth. The Bank supports charitable giving and is committed to remaining an equal opportunities employer.

BUSINESS ENVIRONMENT

Business Trends
The Bank's business volumes saw a level of reduction in the second half of 2016 as the macro-economic challenges in Nigeria took their toll and trade activity reduced significantly. The 2016 final year performance remains above the 2014 levels; however, it serves to underline the need for diversification of the business.

L/C transaction volumes doubled in 2015 and the growth trend continued in to the first half of 2016. However, as economic conditions began to bite, volumes fell back resulting in an overall performance slightly down on 2015.

The growth was highest in the early part of the year with a fall-off in quarter 4. This trend has been partly reversed in the early part of 2017.



During 2016 oil prices fell further leading to Government action aimed at conserving FX reserves and forcing importers of non-essential goods to fund their transactions from commercial sources. Despite a fall in overall imports to Nigeria in 2016, DBUK's share increased as it fulfilled its strategic ambition to secure a higher share of the wider Group's business.

Nigerian funds transfer activity was lower as FX became scarcer in 2016. However, payment on behalf of the Group member banks in Francophone West Africa grew strongly, again in line with strategy to retain available earnings from international business within the Group wherever possible. Stringent controls including sanctions monitoring and risk-based assessment protocols continue to be enforced and regularly audited to ensure compliance with all relevant regulations.

Business Factors

Nigerian Macro-Risk

As the business stands, it currently remains heavily focussed on the Nigerian economy.

Nigeria is the largest economy in Africa. With a population of approximately 180 million, hitherto modest external debt, abundant natural resources and relative political stability, the country has significant need to import goods that cannot yet be produced domestically. In late 2013 the Bank's parent was designated by the Central Bank of Nigeria (CBN) as one of 8 so-called 'systemically important' Nigerian banks and is a fast growing and dynamic institution whose shares are publicly listed. The UK economy meanwhile is seen as increasingly competitive with high value added export businesses of the type that can fulfil part of Nigeria's import requirements.

The reduction in oil prices and subsequent active management of FX reserves by the Nigerian Government and its desire to prioritise import substitution will inevitably lead to changing patterns of international trade over time.

The Naira closed the year trading at circa N304 to the US$, against a previous rate in January 2016 of N200.

Macro-economic conditions are difficult although there are positive signs:

- Oil is making small gains
- Oil production has recovered
- Government reserves are increasing
- CBN are making positive steps towards currency liberalisation

Interest Rates

Prevailing low interest rates in major international currencies have severely impacted the margin that can be earned on deposit liabilities for many years and remain at record lows. Given sustained growth in the US economy one modest rise in rates occurred in late 2016. Further, more material rate rises would be income positive for the bank. Rising rates will also increase basis risk for banks and close monitoring and hedging of these exposures will be required.

Regulatory Issues

The financial crisis has added further weight to the regulatory agenda and EU legislation has caught up with the responses taken by the UK authorities in the immediate aftermath of the bank collapses and bail-outs required in 2008. The degree and pace of change is significant in all key policy areas with changes to liquidity, depositor protection, recovery and resolution planning processes. During 2016 significant focus and resource allocation was placed on the Senior Managers regime and 2017 will see this further embedded within the business.

Changes to Depositor Protection rules mean that wholesale depositors are now covered by the UK Financial Services Compensation Scheme. As the Bank is a wholesale only deposit taker, all of its non-professional clients are covered up to a maximum of £75,000 (£85,000 from 30 January 2017).

The Board and Executive will continue to devote considerable effort to ensuring that the Bank remains compliant in all respects

Ratings

Diamond Bank Plc is listed on the Nigerian Stock Exchange and the LSE – Professional Securities Market. It has strong liquidity and capital with a capital ratio at 30th September 2016 of 15.6% against a 15% statutory limit and a liquidity ratio of 39.4% against a regulatory limit of 30%. The global credit rating agency Fitch Ratings has affirmed Diamond Bank Plc with a Long-term Issuer Default Ratings (IDR) of 'B-' and the National Long-term Rating was affirmed at BB+ (nga).

The rating of the Parent is in part determined by the sovereign rating of Nigeria. The Bank's standing in the eyes of market analysts may be impacted by either of these ratings. It follows that any downgrade of either the Parent or Nigeria could have an impact on the Bank's ability to extend its franchise by leveraging access to professional markets, notwithstanding its separate capitalisation and UK incorporation and regulatory status.

Performance and Position

The Bank operates in an increasingly competitive market with the number of Nigerian owned licenced banks growing in recent years. The Bank's strategic realignment is an extremely important factor for future success and will focus clearly on customer experience in order to increase its market share and the bank will work closely with its Group to capture higher volumes of business. Given its close shareholder and other links to this market, the Bank is well-placed to anticipate and respond to market changes and opportunities.

Ongoing Performance Monitoring

The Bank's performance and strategy is reviewed monthly by ALCO and at EXCO meetings and quarterly by the Board.

The Bank uses the balanced scorecard process to ensure that financial objectives are supported by adequate resources, a focus on serving clients and training and development for future growth.

In order to assess the Bank's relative position in the UK market, peer analyses are undertaken with a view to identifying profitable growth strategies, subject to risk appetite. Regular networking at conferences and industry association events is also a key facet of keeping abreast of all relevant developments both from a business and regulatory compliance perspective.

Key policies are updated annually or more frequently as required by changes in business circumstances. This work is designed to ensure the Bank has sufficient liquidity and capital to support all requirements under the regulatory ICAAP and ILAAP processes respectively. Business resilience is tested regularly including an annual Emergency Response Team disaster recovery invocation. A successful test at an offsite location was undertaken in 2016.

Forward Guidance

Having been re-launched as Diamond Bank (UK) Plc in early 2013, the Bank has a limited track record and is in the early stages of implementing a new strategy which, amongst other things will see the Banks risk profile diversify. In the meantime, conditions in Nigeria remain difficult and Management and Board are monitoring the situation carefully.

During the early part of the year, the divergence of strategic direction between the Bank and the Parent Bank became apparent and accordingly the parent bank has indicated its support to explore options for a new strategic investor for the Bank. The parent remains supportive of the Bank and both ICAAP and ILAAP provide the Management and Board with significant comfort during this period of strategic transformation, despite the Nigerian macroeconomic conditions. A separate Going Concern Assessment is made elsewhere in this report. As a private limited company, the Bank does not publish official forward guidance.

Directors' Report

Year ended 31 December 2016

The Directors present their annual report and the audited financial statements for the year for Diamond Bank (UK) Plc ("DBUK" or "the Bank"). These financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards.

Legal Form and Change of Ownership
Established as a non-listed UK public limited company in 2007, the Bank formerly known as Intercontinental Bank (UK) plc was purchased by Diamond Bank Plc, Lagos Nigeria ("DBPLC") on 25th March 2013 and the Change in Control became effective on 2nd April 2013. The Bank was recapitalized on 3rd April 2013 through the issue of 17 million fully paid shares of £1 each and is a wholly-owned subsidiary of DBPLC.

Principal Activity and Business Review
The Bank's principal activities are the provision of international trade finance and associated payment and FX execution services on behalf of wholesale clients and eligible professional counterparties. Activity is centred on West Africa and the clients and business of the wider Diamond Bank Group which has presences in Nigeria, Bénin, Sénégal, Côte d'Ivoire and Togo. Further information is provided in the Strategic Report.

Results
The profit after taxation for the year amounted to £1,752,964 (2015: Profit £2,232,135). The Directors do not recommend a dividend (2015: No dividend was paid).

Key Performance Indicators (KPIs)
In reviewing its performance the Bank takes account of its Return on Equity (ROE) and Cost to Income Ratio (CIR) as the principal KPIs. For the year ended 31 December 2016 the ROE (pre-tax) was 6.1% (31 December 2015: 7.6%). The CIR for the same periods were 0.79:1 and 0.72:1 respectively. The decline in each case resulted from reduced business activity and increased costs.

Going Concern Basis of Preparation

These Financial Statements have been prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future.

In making this assessment, the Directors have taken into account that the Bank is part of the Diamond Bank Plc Group and has reported a profit for the year ended 31 December 2016. In arriving at their conclusion, the Directors have taken due account of the impact of lower oil prices and foreign currency availability on the Nigerian economy and the potential impact of these factors on the Bank's capital and liquidity position. The Directors have concluded that no unsecured exposures are subject to impairment or represent a material uncertainty for the purpose of arriving at a Going Concern assessment.

DBUK receives a significant portion of its funding for its loan book from the parent through robust cash collateral agreements, whereby the parent cannot be repaid until the asset underlying the collateral agreement has matured. In addition, the Bank had regulatory capital (Common Equity Tier 1) of £32,449,328 as at 31 December 2016 which is comfortably in excess of the regulatory capital requirement.

The Bank is having continuing success in on-boarding non-group counterparties and has access to sources of wholesale money market funding. The Directors have reviewed the Bank's business plan, business model and regulatory compliance measures, including liquidity levels, capital adequacy, governance arrangements and data security together with factors likely to affect the future strategy, including a potential new strategic investor, and is confident that the Going Concern basis is appropriate.

Directors and their interests

The Directors, all of whom served for the year unless indicated, are set out on page 15. No Directors have any beneficial interest in the shares of the Bank. Mr Uzoma Dozie holds 1 share on behalf of the parent bank. Details of Directors' interests in the shares of the parent bank are disclosed in the financial statements of the parent which are available at www.diamondbank.com.

Auditors

KPMG LLP have indicated their willingness to continue to act as the Bank's auditors and in accordance with the Companies Act 2006, a resolution for their reappointment is to be proposed at the forthcoming Annual General Meeting.

Approval

By order of the Board

Richard Foulds
Company Secretary

36-38 Leadenhall Street
London
EC3A 1AT
12 April 2017

Directors and Senior Management

Directors

Mr. Uzoma Chuckwumaeze Dozie	Chairman
Mr. Garry Marsh	Non-Executive Director and Chairman of Remuneration and General Purposes Committee
Mr. Christopher Duncan	Independent Non-Executive Director and Chairman of Board Audit and Risk Committee
Mr. Carey Leonard	Independent Non-Executive Director and Chairman of Board Credit Committee and Board Strategy Committee
Mrs Chizoma Okoli	Non-Executive Director
Mr. Peter Horton	Chief Executive Officer (Appointed 1st March 2016)
Mrs. Fiona Christiansen	Chief Financial Officer
Mr. Rollo Greenfield	Chief Executive Officer (Contract ended 31 March 2016)

Senior Management

Peter Horton	Chief Executive *
Fiona Christiansen	Chief Financial Officer *
Edward O'Hara	Chief Risk Officer (appointed 27th February 2017)*
Mark Ifashe	Head of Corporate and Institutional Business *
Steven O'Neill	Chief Operating Officer*
Rachel Curtis	Head of Compliance
Gillian Heggs	Head of HR
Craig MacBeth	Head of IT
Ayodele Okunola	Senior Relationship Manager
Paul Welham	Head of Treasury

* Denotes member of Executive Management Committee (EXCO)

Company Secretary
Richard Foulds

Registered Office
36-38 Leadenhall Street
London EC3A 1AT

Statement of Directors' Responsibilities in respect of the Strategic Report, The Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of Diamond Bank (UK) Plc

We have audited the financial statements of Diamond Bank (UK) Plc for the year ended 31 December 2016, set out on pages 18 to 46. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 15, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

The Directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

Suvro Dutta (Senior Statutory Auditor)
for and on behalf of
KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 5GL

Statement of Financial Position

	Note	2016	2015
		£	£
Assets			
Cash and cash equivalents	**15**	**67,538,355**	84,748,921
Loans and advances to banks	**16**	**82,098,744**	184,014,811
Loans and advances to customers	**17**	**60,321,894**	51,581,809
Available-for-sale financial assets	**18**	**36,939,735**	25,786,285
Derivative financial instruments	**19**	**431,000**	14,273
Property, plant and equipment	**20**	**349,019**	423,908
Intangible assets	**21**	**146,263**	32,471
Other assets	**22**	**3,264,873**	4,458,218
Total assets		**251,089,883**	351,060,696
Liabilities			
Deposits from banks	**23**	**215,159,949**	316,330,464
Deposits from customers	**24**	**513,517**	978,531
Derivative financial instruments	**19**	**162,902**	331,617
Other liabilities	**25**	**904,960**	1,147,327
Total liabilities		**216,741,328**	318,787,939
Equity			
Share capital	**26**	**48,000,000**	48,000,000
Retained losses	**27**	**(13,546,799)**	(15,299,763)
Other reserves	**28**	**(104,646)**	(427,480)
Total equity		**34,348,555**	32,272,757
Total equity and liabilities		**251,089,883**	351,060,696

The financial statements were approved by the Board of Directors on 12 April 2017 and authorised for issue on that date.

Signed on behalf of the Board by:

Uzoma Chuckwumaeze Dozie
Chairman
12 April 2017

Peter Horton
Director and Chief Executive Officer
12 April 2017

The accompanying Notes set out on pages 22 to 46 form an integral part of these Financial Statements.

Statement of Comprehensive Income

	Note	2016 £	2015 £
Interest income		**11,749,686**	10,428,622
Interest expense		**(5,309,287)**	(3,473,400)
Net interest income	**8**	**6,440,399**	6,955,222
Fee and commission income		**1,667,798**	1,932,103
Fee and commission expense		**(199,514)**	(435,148)
Net fee and commission income	**9**	**1,468,284**	1,496,955
Other income	**10**	**406,924**	89,711
Total revenue		**8,315,607**	8,541,888
Administrative expenses	**11**	**(6,274,958)**	(6,155,734)
Profit before income tax		**2,040,649**	2,386,154
Income tax expense	**13**	**(287,685)**	(154,019)
Profit for the year	**27**	**1,752,964**	2,232,135
Other comprehensive income:			
Gains recognised directly in equity			
Revaluation of available-for-sale financial assets	**28**	**145,127**	(29,179)
Other comprehensive income net of tax		**145,127**	(29,179)
Total comprehensive income for the year		**1,898,091**	2,202,956
Profit attributable to equity holders of the Bank		**1,752,964**	2,232,135
Total comprehensive income attributable to equity holders of the Bank		**1,898,091**	2,202,956

All income has been derived from continuing operations.

The accompanying Notes set out on pages 22 to 46 form an integral part of these Financial Statements

Statement of Changes in Equity

	Note	Share capital	Other reserves	Retained earnings	Total equity
		£	£	£	£
Balance at 1 January 2015		48,000,000	(398,301)	(17,531,898)	30,069,801
Profit for the year	27	-	-	2,232,135	2,232,135
Available-for-sale financial assets	18	-	(29,179)	-	(29,179)
Balance at 31 December 2015		48,000,000	(427,480)	(15,299,763)	32,272,757
Profit for the year	**27**	**-**	**-**	**1,752,964**	**1,752,964**
Available-for-sale financial assets	**18**	**-**	**322,834**	-	**322,834**
Total comprehensive income		**-**	**322,834**	**1,752,964**	**2,075,798**
Balance at 31 December 2016		**48,000,000**	**(104,646)**	**(13,546,799)**	**34,348,555**

The accompanying Notes set out on pages 22 to 46 form an integral part of these Financial Statements

Cash Flow Statement

Continuing Operations

	Note	2016	2015
Cash flows from operating activities		**£**	£
Net cash (used in) / generated from operations	**14**	**(11,331,775)**	(12,331,706)
Tax paid		**(301,134)**	-
Net cash generated (used in) / generated from operating activities		**(11,632,909)**	(12,331,706)
Cash flows from investing activities			
Proceeds from sale of available for sale financial assets	**18**	**80,722,860**	22,231,202
Acquisition of available for sale financial assets	**18**	**(86,063,423)**	(34,943,944)
Purchase of property, plant and equipment	**20**	**(70,587)**	(196,544)
Purchase of intangible assets	**21**	**(166,507)**	-
Net cash generated from/(used in) investing activities		**(5,577,657)**	(12,909,286)
Net increase / (decrease) in cash and cash equivalents		**(17,210,566)**	(25,240,992)
Cash and cash equivalents at beginning of year		**84,748,921**	109,989,913
Cash and cash equivalents at end of year	**15**	**67,538,355**	84,748,921

Cash and cash equivalents comprise:			
Cash in hand		**9,217,169**	13,570,710
Short term bank deposits		**58,321,186**	71,178,211
Cash and cash equivalents at end of year	**15**	**67,538,355**	84,748,921

The accompanying Notes set out on pages 22 to 46 form an integral part of these Financial Statements

Notes to the Financial Statements

1. Reporting entity

These financial statements are prepared for Diamond Bank (UK) Plc ("the Bank"), the principal activity of which is wholesale banking. The financial statements are prepared for the Bank only. The Bank is a wholly owned subsidiary of Diamond Bank PLC, incorporated in Nigeria.

The Bank is a public limited company, incorporated and domiciled in the UK. The address of the registered office of the Bank is 36-38 Leadenhall Street, London EC3A 1AT.

2. Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), adopted for use in the EU, interpretations of the International Financial Reporting Interpretations Committee ('IFRIC') and the Companies Act 2006 applicable to companies reporting under IFRS.

3. Accounting policies and basis of preparation

These financial statements are prepared in compliance with the principal accounting policies set out below, which have been consistently applied.

Basis of preparation

The financial statements have been prepared under the historical cost convention modified to include the fair valuation of certain financial instruments to the extent required or permitted under International Accounting Standard ("IAS") 39, 'Financial Instruments, recognition, and measurement', as set out in the relevant accounting policies. They are stated in pounds sterling, the currency of the country in which the Bank is incorporated.

Going concern

As noted in the Directors' Report on pages 13 - 14, these Financial Statements have been prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have taken into account the immediate business plan, availability of funding, concentration risk, liquidity and the commitment of support by DBPLC, together with the factors likely to affect the Bank's future strategy, including a potential new strategic investor. The Directors have also considered the Bank has received significant funding from DBPLC and is reliant upon the parent bank for significant input to the business model. The Bank has moved on from the loss making position of previous years and recorded its third full year profit in 2016. The Bank had regulatory capital (Common Equity Tier 1) of £32,449,328 as at 31 December 2016 which is in excess of the regulatory capital requirement by £19,677,600. The Bank's funding is mainly through capital, Group deposits (including those used as cash collateral for underlying exposures), wholesale money market deposits, and Central Bank placements. Having considered the current capital and funding position, the Directors have concluded that the Bank would be able to continue to operate as a going concern on a standalone basis for the foreseeable future.

Accounting judgements

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the accounting policies. The Notes to the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial statements.

New standards and interpretations not yet adopted

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The actual impact of adopting IFRS 9 on the Bank's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Bank holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Bank to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

Notes to the Financial Statements (continued)

The Bank has started the process of evaluating the impact of this new standard and will conclude well in advance of 1 January 2018.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Impairment – Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date.
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument. Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

Classification – Financial liabilities

- IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows: the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Bank has not designated any financial liabilities at FVTPL and the Bank has no current intention to do so. The Bank's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 December 2016.

(a) Foreign currency translation

The financial statements are presented in pounds sterling, which is the functional currency of the Bank.

Foreign currency transactions are translated into pounds sterling using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Monetary items denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement.

(b) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Notes to the Financial Statements (continued)

Depreciation is provided on the depreciable amount of items of property, plant and equipment on a straight-line basis over their estimated useful lives. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its economic life.

The Bank uses the following annual rates in calculating depreciation:

Leasehold improvements	10% - 20%
Other equipment	20%
Computer hardware	25 - 33.3%
Computer software	25%
Office furniture	33.3%

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances.
When deciding on depreciation rates and methods, the principal factors the Bank takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets.

(c) Intangible assets

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of 4 years and included in the income statement under administrative expenses.

(d) Available-for-sale financial assets

Available-for-sale financial assets (AFS) are debt securities that are not classified as trading securities at fair value through profit or loss or as loans and receivables.

Financial instruments classified as AFS are recognised or derecognised on trade date, which is the date on which the Bank commits to purchase or sell the asset or issue or repurchase the financial liability.

The gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised directly in other comprehensive income, until the financial asset is either sold, becomes impaired or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Interest calculated using the effective interest method and foreign exchange gains and losses on debt securities denominated in foreign currencies are recognised in the income statement.

- AFS assets impairment

Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit and loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit and loss. Changes in impairment provisions attributable to application of the effective interest rate method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit and loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

(e) Loans and receivables

Loans and receivables include loans and advances to banks and customers and are reported in the balance sheet under loans and advances. Loans and receivables are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs. Financial assets classified as loans and receivables are accounted for at amortised cost using the effective interest method less provision for impairment.

Notes to the Financial Statements (continued)

(f) Impairment

At each balance sheet date the Bank assesses whether, as a result of one or more events occurring after initial recognition and prior to the balance sheet date, there is objective evidence that an asset or group of financial assets has become impaired.

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

- Delinquency in contractual payments of principal and/or interest;
- Indications that the borrower or group of borrowers is experiencing significant financial difficulty;
- Restructuring of debt to reduce the burden on the borrower;
- Breach of loan covenants or conditions; and
- Initiation of bankruptcy or individual voluntary arrangement proceedings.

If necessary, a collective impairment provision is determined after taking into account historical loss experience of the portfolio and management's experienced judgments. Given a significant portion of the loan portfolio is fully cash collateralised and not subject to credit risk and the small loan portfolio is under constant management review, the risk of "incurred but not reported risk" is deemed to be very small and the Bank has not recognised a collective impairment provision.

- Loans and receivables impairment

If there is objective evidence that an impairment loss has been incurred, an allowance is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate.

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 borrower's credit rating, the allowance is adjusted and the amount of the reversal is recognised in the income statement.

- Non-financial assets impairment

Non-financial assets 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 purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(g) Derivative financial instruments

Derivative financial instruments are used to hedge foreign currency exposures related to non-trading book positions. These are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value which is derived from quoted market rates in active markets. Changes in the fair value of derivatives are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Certain foreign currency transactions entered into are hedged with forward foreign exchange contracts.

Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative (see Note 19).

(h) Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand, demand deposits, and cash equivalents. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value. Trading balances are not considered to be part of cash equivalents.

(i) Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefits will be necessary to settle the obligation, and these can be reliably estimated.

Notes to the Financial Statements (continued)

(j) Revenue recognition

- Interest receivable and payable

Interest receivable and payable, calculated using the effective interest rate, is recognised in the profit and loss account on an accruals basis.

- Fees and commissions

Fees and commissions are accounted for depending on the services to which the income relates. Fees earned in respect of services are recognised in fee income. Some fees earned on the execution of a significant act are recognised in fee income when the act is completed. Other fees which form an integral part of the effective interest rate of a financial instrument are recognised as an adjustment to the effective interest rate and recorded in interest income.

(k) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

(l) Income taxes, including deferred income taxes

Income tax payable on taxable profits ('current tax') is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses are recognised as an asset only to the extent that it is regarded as recoverable and can be offset against current or future taxable profits.

Deferred income tax is provided in full, using the liability method, on temporary timing differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and legislation enacted or substantially enacted by the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets are only recognised if, in the opinion of the Directors, there is reasonable certainty that there will be sufficient taxable profits in the future to recover these amounts.

4. Financial risk management

The Bank's activities expose it to a variety of financial risks. The Board of Directors monitors the Bank's financial risks and has responsibility for ensuring effective risk management and control. The Bank has a risk management framework to ensure the level of risk incurred is within the constraints of the Board's risk appetite. The framework embodies clear reporting lines, defined areas of responsibility and risk management procedures and includes formal risk management procedures and regular reporting as necessary.

(i) Financial risk factors

The main financial risks that the Bank is exposed to are highlighted as follows:

(a) Market risk

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, equity prices and foreign exchange rates. Assets are invested at market rates within the constraints of the Bank's risk appetite as approved by the Board.

- Interest rate risk

Interest rate risk is the risk that changes in interest rates will result in reduced income and / or higher financing costs from the Bank's interest bearing financial assets and liabilities.

Notes to the Financial Statements (continued)

During the year to 31 December 2016 the Bank held interest-bearing liabilities in the form of short term deposits from CBN, group entities and from wholesale bank counterparties. Interest rate risk arises at the Bank where the interest re-pricing date for assets is different to the re-pricing date for liabilities. The Bank aims to match the re-pricing characteristics of assets and liabilities where possible. ALCO is responsible for monitoring interest rate risk.

- Foreign exchange risk

Foreign currency risk arises due to the extent of the Bank's foreign currency assets not matched by foreign currency borrowings in the same currency. All material foreign exchange risks are hedged through forward foreign exchange transactions and monitored on a daily basis through the Bank's risk management reporting systems.

The table below shows the impact on the profit and loss account, pre-tax, at 31 December 2016 of foreign currency weakening/strengthening by 4% against the UK pound, with all other variables held constant.

31 December 2016	**EUR £ equiv.**	**USD £ equiv.**	**CAD £ equiv.**	**JPY £ equiv.**
Net foreign currency exposure	16,595	109,641	10,682	9,567
Impact of 4% increase in foreign currency	(638)	(4,217)	(411)	(368)
Impact of 4% decrease in foreign currency	638	4,217	411	368

31 December 2015	**EUR £ equiv.**	**USD £ equiv.**	**CAD £ equiv.**	**JPY £ equiv.**
Net foreign currency exposure	11,385	27,616	6,132	(7,709)
Impact of 4% increase in foreign currency	(455)	(1,105)	(245)	(308)
Impact of 4% decrease in foreign currency	455	1,105	245	308

(b) Liquidity risk

Liquidity risk is the risk that the Bank's cash and committed facilities may be insufficient to meet its payment obligations as they fall due. On a daily basis, liquidity mismatch reports are reviewed by senior management and undrawn lending commitments, overdrafts and contingent liabilities are considered. The Bank has produced an Individual Liquidity Adequacy Assessment ("ILAA") which has been reviewed and approved by ALCO, EXCO and the Board. The ILAA includes stress testing undertaken to assess and plan for the impact of a range of scenarios on the Bank's liquidity along with the planned management actions to be taken to mitigate the effects of the stress scenarios. Regular stress testing is undertaken by management during the year to assess the impact of the stresses on the Bank's liquidity and to plan management action.

The Bank maintains access to sufficient funds on a day-to-day basis to cover all contractual obligations, maturing liabilities and contingencies while raising funds at economical cost. The Bank is also required to maintain an adequate buffer of high quality liquid asset securities in line with the PRA liquidity requirements. It is the policy of the Bank that the internal Liquid Assets Buffer target should, at all times be greater than the regulatory buffer requirement for Standardised Banks.

Notes to the Financial Statements (continued)

The following table indicates the contractual maturity of financial assets and financial liabilities:

31 December 2016	Note	Demand	< 1 year	> 1year but < 5 years	> 5 years	Non-financial instruments	Total
		£	£	£	£	£	£
Assets							
Cash and cash equivalents	15	15,316,217	52,222,138	-	-	-	67,538,355
Loans and advances to banks	16	5,317,834	76,780,910	-	-	-	82,098,744
Loans and advances to customers	17	3,309	32,007,575	23,918,343	4,369,366	23,301	60,321,894
Available-for-sale financial assets	18	25,132,064	-	11,807,671	-	-	36,939,735
Derivative financial instruments	19	-	431,000	-	-	-	431,000
Other assets	22	3,684	2,193,170	554,714	14,543	498,762	3,264,873
Total		**45,773,108**	**163,634,793**	**36,280,728**	**4,383,909**	**522,063**	**250,594,601**
Liabilities							
Deposits from banks	23	18,277,119	172,964,487	23,918,343	-	-	215,159,949
Deposits from customers	24	513,517	-	-	-	-	513,517
Derivative financial instruments	19	-	162,902	-	-	-	162,902
Other liabilities	25	109,906	62,516	-	-	732,538	904,960
Total		**18,900,542**	**173,189,905**	**23,918,343**	**-**	**732,538**	**216,741,328**
Net		**26,872,566**	**(9,555,112)**	**12,362,385**	**4,383,909**	**(210,475)**	**33,853,273**

31 December 2015	Note	Demand	< 1 year	> 1 year but < 5 years	>5 years	Non-financial instruments	Total
		£	£	£	£	£	£
Assets							
Cash and cash equivalents	15	71,275,464	13,473,457	-	-	-	84,748,921
Loans and advances to banks	16	2,095,424	152,278,216	2,694,691	26,946,480	-	184,014,811
Loans and advances to customers	17	150,486	1,850,865	31,671,988	17,908,470	-	51,581,809
Available-for-sale financial assets	18	-	14,888,861	10,897,424	-	-	25,786,285
Derivative financial instruments	19	-	14,273	-	-	-	14,273
Other assets	22	61,793	3,360,658	192,087	-	843,680	4,458,218
Total		**73,583,167**	**185,866,330**	**45,456,190**	**44,854,950**	**843,680**	**350,604,317**
Liabilities							
Deposits from banks	23	23,693,413	219,808,343	31,662,625	41,166,083	-	316,330,464
Deposits from customers	24	978,531	-	-	-	-	978,531
Derivative financial instruments	19	-	331,617	-	-	-	331,617
Other liabilities	25	-	235,038	20,361	85,597	806,331	1,147,327
Total		**24,671,944**	**220,374,998**	**31,682,986**	**41,251,680**	**806,331**	**318,787,939**
Net		**48,911,223**	**(34,508,668)**	**13,773,204**	**3,603,270**	**37,349**	**31,816,378**

(c) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers or market counterparties fail to fulfil their contractual obligations to the Bank. As at 31 December 2016 the Bank's credit risks arose principally from trade finance related lending, loans to corporate customers and investment activities.

Notes to the Financial Statements (continued)

Credit risk exposures relating to on-balance sheet assets are as follows:

	2016	2015
	£	£
Cash and cash equivalents	67,538,355	84,748,921
Loans and advances to banks	82,098,744	184,014,811
Loans and advances to customers	60,321,894	51,581,809
Available-for-sale financial assets	36,939,735	25,786,285
Derivative financial instruments	431,000	14,273
Other assets[1]	2,476,936	3,614,539
Maximum exposure to credit risk	**249,806,664**	349,760,638

[1]Other assets include accrued fee and interest receivables.

Credit risk exposures relating to off-balance sheet assets are as follows:

	2016	2015
	£	£
Documentary credits and other short term trade related credits	23,619,792	22,311,047
Maximum exposure to credit risk	**23,619,792**	22,311,047

The above table represents a worst case scenario of credit risk exposure to the Bank without taking account of any collateral held on trade finance receivables (see Note 31(c)).

At 31 December 2016 none (2015: none) of the Bank's financial assets were impaired. The credit quality of all financial assets is considered by the Directors to be satisfactory and in line with the Board's credit policy (credit quality of assets is disclosed in Note 7). The Bank's credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale customers, including outstanding receivables and committed transactions. A significant portion of the credit exposures to wholesale customers is fully cash collateralised. The minimum credit rating and credit quality for all lending and financial assets are disclosed within the credit policy and risk appetite of the Bank (see Note 7).

Forbearance practices

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

Lending subject to forbearance as at the 31 December 2016 was £53,945,841 (2015: £nil). The value of these loans after credit mitigation, held in the form of cash collateral, totalled £nil as at 31 December 2016 (2015: £nil). The expected cash flows from the loans have been assessed and considered recoverable as they are performing to the rescheduled terms and therefore no impairment has been recorded against the loans.

(d) Capital risk

Capital risk is the risk that the Bank does not have sufficient capital resources to meet its regulatory capital requirements or to support its current business and strategy for future development.

The Bank is required by the PRA to retain financial resources (i.e. liquid financial assets and net capital) sufficient for the proper performance of its regulated activities. These requirements are monitored daily by risk and senior management and are subject to stress testing as part of the Internal Capital Adequacy Assessment Process ("ICAAP") which is reviewed annually by the Board of Directors.

Notes to the Financial Statements (continued)

The information below from (e) to (h) is unaudited

(e) Operational risk

The Bank's business is dependent on the ability to process a large number of transactions efficiently and accurately. To manage this risk, the Bank has implemented risk controls and loss mitigation actions, and appropriate resources are devoted to developing efficient procedures and to staff training.

(f) Regulatory risk

Regulatory risk is the risk of an adverse impact resulting from the failure to comply with laws, regulations, codes of conduct and standards of good practice governing a financial institution operating in the UK market. The Bank has a Compliance Department and devotes substantial resources towards managing this risk.

(g) Reputational risk

Reputational risk is the risk of a loss of reputation, both of the Bank and its parent or another Group entity, most likely to arise as a consequence of a failure to manage the other principal risks. The Bank has an experienced management team, follows all rules and regulations of the UK Regulatory bodies and adheres to a robust set of core values.

(h) Competition risk

The Bank operates in a highly competitive environment particularly around price and product availability and quality. During the year the Bank's operations mainly involved trade finance and investing capital and surplus funds in the UK money market.

(ii) Fair value of financial instruments

The fair value of a financial instrument is the amount for which the instrument could be exchanged or a liability settled, in an arm's length transaction between knowledgeable willing parties. The fair value of the Bank's financial instruments reflect the carrying value, as the valuations are observable either in an active market or derived from prices within an active market.

Accounting standards specify 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 Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring transactions on an arm's length basis.

- Level 2 – The fair value of financial instruments that are not traded in active markets (for example over the counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

- Level 3 – If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Notes to the Financial Statements (continued)

In 2016, the company transferred assets of £nil (2015: £9,178,978) from level 1 to level 2 in the available-for-sale portfolio.

The following table presents the Bank's assets and liabilities that are measured at fair value:

At 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets	**£**	**£**	**£**	**£**
Available-for-sale financial assets	25,132,065	11,807,670	-	36,939,735
Derivatives		431,000	-	431,000
Total assets	**25,132,065**	**12,238,670**	**-**	**37,370,735**
Liabilities				
Derivatives	-	162,902	-	162,902
Total liabilities	**-**	**162,902**	**-**	**162,902**

At 31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets	**£**	**£**	**£**	**£**
Available-for-sale financial assets	11,436,607	14,349,678	-	25,786,285
Derivatives	-	14,273	-	14,273
Total assets	**11,436,607**	**14,363,951**	**-**	**25,800,558**
Liabilities				
Derivatives	-	331,617	-	331,617
Total liabilities	**-**	**331,617**	**-**	**331,617**

All other financial assets and liabilities are held at amortised cost, and the fair valuation levelling of these instruments is level 2. The fair value of deposits from banks is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

The fair value of loans and advances to customers, which mostly have a residual maturity of less than one year, generally approximate to their carrying value. As at 31 December 2016 £53,945,841 of loans and advances to customers (2015: £47,842,669) were fully cash collateralised (see Note 17).

5. Segmental information

All the Bank's activities are derived from one main activity, the provision of banking services, and all arise in the United Kingdom.

Notes to the Financial Statements (continued)

6. Financial assets and liabilities by category

31 December 2016 Assets per balance sheet	Note	Loans and receivables £	Available for sale £	Derivatives £	Total £	Fair value £
Cash and cash equivalents	15	67,538,355	-	-	67,538,355	67,538,355
Loans to banks	16	82,098,744	-	-	82,098,744	82,098,744
Loans to customers	17	60,321,894	-	-	60,321,894	60,321,894
Available-for-sale financial assets	18	-	36,939,735	-	36,939,735	36,939,735
Derivative financial instruments	19	-	-	431,000	431,000	431,000
Other assets [1]	22	2,476,936	-	-	2,476,936	2,476,936
Total		**212,435,929**	**36,939,735**	**431,000**	**249,806,664**	**249,806,664**

Liabilities per balance sheet	Note	Other financial liabilities £	Derivatives £	Total £	Fair Value £
Deposits by banks	23	215,159,949	-	215,159,949	215,159,949
Deposits by customers	24	513,517	-	513,517	513,517
Derivative financial instruments	19	-	162,902	162,902	162,902
Other liabilities[1]	25	55,339	-	55,339	55,339
Total		**215,728,805**	**162,902**	**215,891,707**	**215,891,707**

31 December 2015 Assets per balance sheet	Note	Loans and receivables £	Available for sale £	Derivatives £	Total £	Fair value £
Cash and cash equivalents	15	84,748,921	-	-	84,748,921	84,748,921
Loans to banks	16	184,014,811	-	-	184,014,811	184,014,811
Loans to customers	17	51,581,809	-	-	51,581,809	51,581,809
Available-for-sale financial assets	18	-	25,786,285	-	25,786,285	25,786,285
Derivative financial instruments	19	-	-	14,273	14,273	14,273
Other assets [1]	22	3,614,539	-	-	3,614,539	3,614,539
Total		323,960,080	25,786,285	14,273	349,760,638	349,760,638

Liabilities per balance sheet	Note	Other financial liabilities £	Derivatives £	Total £	Fair Value £
Deposits by banks	23	316,330,464	-	316,330,464	316,330,464
Deposits by customers	24	978,531	-	978,531	978,531
Derivative financial instruments	19	-	331,617	331,617	331,617
Other liabilities[1]	25	101,377	-	101,377	101,377
Total		317,410,372	331,617	317,741,989	317,741,989

[1]This analysis is required for financial assets and liabilities, non-financial instruments are excluded.

Notes to the Financial Statements (continued)

7. Credit quality of financial assets

Cash at bank and short term bank deposits	2016 £	2015 £
AA-	6,396,025	1,203,119
A+	1,706,069	714,125
A-	1,019,317	3,920,937
BBB[3]	-	7,730,573
BBB+3	14,093,944	10,000,000
BBB-[3]	26,429,210	16,841,822
BB+	16,264,129	-
B	-	29,587,932
Counterparties without external credit rating[3]:		
Group 2 [1]	1,629,661	14,750,413
Total cash at bank and short term bank deposits	**67,538,355**	84,748,921

Loans and advances to banks	2016 £	2015 £
B+[3]	-	7,071,673
B	813,206	168,231,204
B-	75,667,573	4,420,412
Counterparties without external credit rating[3]:		
Group 1	-	3,901
Group 2 [2]	5,617,965	4,287,621
Total loans and advances to banks	**82,098,744**	184,014,811

Loans and advances to customers	2016 £	2015 £
B	-	1,986,202
B-	1,980,075	-
Counterparties without external credit rating[3]:		
Group 2 [2]	58,341,819	49,595,607
Total loans and advances to customers	**60,321,894**	51,581,809

Available-for-sale debt securities	2016 £	2015 £
AAA	25,132,065	11,436,607
BBB-	-	4,891,754
B+	4,765,503	3,897,909
B	4,622,878	5,560,015
B-	2,419,289	-
Total available-for-sale debt securities	**36,939,735**	25,786,285

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

Notes to the Financial Statements (continued)

Counterparties with external credit rating (Fitch):

Derivative financial instruments	2016 £	2015 £
A	4,036	100
AA-	29,002	-
BBB	-	1,353
BBB+	-	12,820
Counterparties without external credit rating[3]:		
Group 2 [2]	397,962	-
Total derivative financial instruments	**431,000**	14,273

Other assets	2016 £	2015 £
AAA	3,684	-
BBB+	153	-
BBB-[3]	11,023	26,058
BB+	13,712	-
B[3]	97,324	1,430,699
B+	50,523	77,943
B-	551,504	38,899
Counterparties without external credit rating[3]:		
Group 2 [2]	2,536,950	2,884,619
Total other assets	**3,264,873**	4,458,218

[1] Group 1 – new customers/ related parties (less than 6 months).
[2] Group 2 – existing customers/ related parties (more than 6 months) with no defaults in the past.
[3] All exposures, rated BBB and below, that have fallen due subsequent to 31 December 2016, have been received in line with the agreed repayment schedule.

None of the loans are past due but not impaired as at 31 December 2016 (2015: £nil). At 31 December 2016 the Bank received £166,392,446 in collateral for credit risk mitigation for on balance sheet exposures (2015: £234,614,717).

Notes to the Financial Statements (continued)

8. Net interest income

	2016	2015
Interest income	**£**	£
Cash and cash equivalents	650,726	532,859
Loans and advances to banks	4,171,861	4,579,830
Loans and advances to customers	5,811,510	4,356,175
Available for sale financial assets	1,115,431	959,615
Other	158	143
Total interest income	**11,749,686**	**10,428,622**
Interest expense		
Deposits from banks	5,309,287	3,473,400
Total interest expense	**5,309,287**	**3,473,400**
Net interest income	**6,440,399**	**6,955,222**

9. Net fee and commission income

	2016	2015
Fee and commission income	**£**	£
Trade related transactions	1,547,405	1,838,714
Funds transfer	16,109	41,008
Other	104,284	52,381
Total fee and commission income	**1,667,798**	1,932,103
Fee and commission expense		
Loan management fees	153,439	402,837
Brokerage and account fees	46,075	32,311
Total fee and commission expense	**199,514**	435,148
Net Fee and commission income	**1,468,284**	1,496,955

10. Other income

	2016	2015
	£	£
Realised gains on available-for-sale assets	177,707	78
Dividend income from available-for-sale-assets	40,757	-
Net gain/(loss) on foreign exchange differences	2,058,654	(1,093,973)
Net loss/(gain) from derivatives measured at fair value through the profit and loss	(1,870,194)	1,183,606
Total other income	**406,924**	89,711

Notes to the Financial Statements (continued)

11. Administrative expenses

(a) Operating costs

The following items have been charged in arriving at operating profit:

	Note	2016 £	2015 £
Staff costs	12	3,799,551	3,860,830
Depreciation	20	145,476	109,218
Amortisation	21	52,715	24,382
Services provided by Bank's auditor and its associates	11	110,379	67,209
Operating lease payments		362,211	213,036
Other expenses		1,804,626	1,881,059
Total administrative expenses		**6,274,958**	6,155,734

(b) Auditor's remuneration

During the year the Bank obtained the following services from the Bank's auditor and its associates:

	2016 £	2015 £
Audit of the Bank's financial statements	58,500	57,500
Tax compliance services	10,760	9,709
Other services	41,119	-
Total auditor's remuneration	**110,379**	67,209

12. Employee information

(a) Staff costs

Staff costs comprise of the following:

	2016 £	2015 £
Wages and salaries	3,384,065	3,464,565
Social security costs	317,294	320,169
Other staff costs	98,192	76,096
Total staff costs	**3,799,551**	3,860,830

(b) Average number of people employed

The average number of persons employed during the year, excluding agency staff, was 38 (2015: 35).

13. Income tax expense

The analysis of the charge for the year is as follows:

	2016 £	2015 £
Current tax on profits for the year	282,493	154,019
Adjustments in respect of prior years	5,192	-
Total tax charge	**287,685**	154,019

Notes to the Financial Statements (continued)

A numerical reconciliation of the applicable tax rate and the effective tax rate is as follows:

	2016	2015
	£	£
Profit /Loss before tax	2,040,649	2,386,154
Tax charge at UK corporation tax rate	408,130	483,196
Expenses not deductible for tax purposes	5,282	5,522
Unrecognised deferred tax asset	(165,117)	(334,699)
AFS debt security transitional adjustment	34,198	-
Adjustment in respect of prior years	5,192	-
Total tax charge	**287,685**	154,019

The standard rate of corporation tax in the UK for 2016 was 20% (2015: hybrid rate 20.25%).

Legislation has been enacted that will reduce the UK corporation tax rate from 20% to 19% from 1 April 2017. It was also announced at the 2016 Budget on 16 March 2016 that the UK corporation tax rate will be further reduced to 17% from 1 April 2020.

Details of deferred taxation are reported under Note 29.

14. Cash generated from operations

		2016	2015
	Note	**£**	£
Profit /(loss) before taxation		2,040,649	2,386,154
Depreciation and amortisation	20,21	198,191	133,600
Net movement on derivative financial instruments	19	(585,442)	506,308
Net decrease / (increase) in loans to banks	16	101,916,067	(26,000,389)
Net (increase) in loans to customers	17	(8,740,085)	(15,966,078)
Net decrease /(increase)in other assets	22	1,193,345	(2,460,064)
Net (decrease)/increase in deposits from banks	23	(101,170,515)	29,205,339
Net (decrease)/increase in deposits from customers	24	(465,014)	820,762
Net (decrease) in other liabilities	25	(228,919)	(240,957)
Exchange rate differences on available-for-sale financial assets	18	(5,638,633)	(639,922)
Other non-cash movements *(*including premium/discount on available-for-sale securities)	18	148,581	(76,459)
Net cash generated from / (used in) operations		**(11,331,775)**	(12,331,706)

15. Cash and cash equivalents

An analysis of cash and cash equivalents, comprising balances with less than 3 months maturity from the date of acquisition, is as follows:

	2016	2015
	£	£
Short term deposits	58,321,186	71,178,211
Cash at bank and in hand	9,217,169	13,570,710
Total	**67,538,355**	84,748,921

The carrying value of cash and cash equivalents approximates to their fair value.

Notes to the Financial Statements (continued)

16. Loans and advances to banks

An analysis of loans and advances to banks is as follows:

	2016	2015
	£	£
Loans to banks	82,098,744	184,014,811
Total	**82,098,744**	184,014,811

The carrying amounts of loans and advances to banks are denominated in the following currencies:

	2016	2015
	£	£
UK pound	74,840	38,435
Euros	5,595,725	1,117,694
US dollar	76,428,179	182,830,591
Swiss francs	-	28,091
Total	**82,098,744**	184,014,811

As at 31 December 2016 loans and advances to banks of £82,098,744 (2015: £184,014,811) were fully performing. All loans and advances to banks are unsecured.

See Note 4(i)b for the maturity analysis of loans and advances to banks.

17. Loans and advances to customers

An analysis of loans and advances to customers is as follows:

	2016	2015
	£	£
Loans to customers	60,321,894	51,581,809
Total	**60,321,894**	51,581,809

The carrying amounts of loans and advances to customers are denominated in the following currencies:

	2016	2015
	£	£
UK pound	23,301	24,511
US dollar	60,298,593	51,557,298
Total	**60,321,894**	51,581,809

As at 31 December 2016 loans and advances to customers £60,321,894 (2015: £51,581,809) were fully performing and £53,945,841 (2015: £47,842,669) were fully cash collateralised against cash pledges received from the parent, which are available to be set off in the event of default by the counterparty.

As at 31 December 2016 loans and advances to customers of £nil (2015: £nil) were impaired and fully provided for.

See Note 4(i)b for the maturity analysis of loans and advances to customers.

Notes to the Financial Statements (continued)

18. Available-for-sale financial assets

	2016	2015
	£	£
At 1 January	25,786,286	12,386,341
Additions	86,063,423	34,943,944
Maturities and sales	(80,722,860)	(22,231,202)
Amortisation of discount and premium	(148,581)	76,459
Net realised gains transferred from equity to profit and loss	427,480	398,301
Net unrealised losses recognised in equity	(104,646)	(427,480)
Exchange difference	5,638,633	639,922
At 31 December	**36,939,735**	25,786,285

The carrying amounts of available-for-sale financial assets are denominated in the following currencies:

	2016	2015
	£	£
UK pound	17,000,000	-
US dollar	19,939,735	25,786,285
Total	**36,939,735**	25,786,285

Available-for-sale financial assets include listed debt securities and treasury bills. None of these financial assets are past due or impaired.

The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities classified as available for sale.

19. Derivative financial instruments

	2016		2015	
	£		£	
	Assets	**Liabilities**	Assets	Liabilities
Forward foreign exchange contracts hedges non trading book	431,000	162,902	14,273	331,617
Total	**431,000**	**162,902**	14,273	331,617

The notional principal amounts of forward foreign exchange contracts at 31 December 2016 were £23,164,277 (2015: £20,692,686). Gains and losses arising from the revaluation of foreign currency assets and liabilities into pounds sterling have been hedged with forward foreign exchange contracts and the net result is reported in the Statement of Comprehensive Income under “Other (losses)/gains - net”.

Notes to the Financial Statements (continued)

20. Property, plant & equipment

Movements in, and details of, the Bank's property, plant and equipment are as follows:

Year ended 31 December 2015	Leasehold improvement £	Computer hardware £	Computer software £	Other equipment £	Office furniture £	Total £
Opening net book amount	248,458	21,280	27,398	4,806	34,640	336,582
Additions	14,113	27,046	154,211	750	424	196,544
Reclassification	-	4,806	-	(4,806)	-	-
Depreciation charge	(61,256)	(11,652)	(23,300)	(125)	(12,885)	(109,218)
Closing net book amount	201,315	41,480	158,309	625	22,179	423,908
Cost	486,736	443,523	684,734	44,385	165,228	1,824,606
Accumulated depreciation	(285,421)	(402,043)	(526,425)	(43,760)	(143,049)	(1,400,698)
Net Book amount	201,315	41,480	158,309	625	22,179	423,908
Year ended 31 December 2016						
Opening net book amount	201,315	41,480	158,309	625	22,179	423,908
Additions	-	29,150	38,584	-	2,853	70,587
Depreciation charge	(58,506)	(20,638)	(52,380)	(150)	(13,802)	(145,476)
Closing net book amount	142,809	49,992	144,513	475	11,230	349,019
At 31 December 2015						
Cost	486,736	472,673	723,318	44,385	168,081	1,895,193
Accumulated depreciation	(343,927)	(422,681)	(578,805)	(43,910)	(156,851)	(1,546,174)
Net book amount	**142,809**	**49,992**	**144,513**	**475**	**11,230**	**349,019**

21. Intangible assets

Movements in, and details of, the Bank's intangible assets are as follows:

Year ended 31 December 2015	Software licences £	Total £
Opening net book amount	56,853	56,853
Amortisation for the year	(24,382)	(24,382)
Closing net book amount	32,471	32,471
Cost	498,027	498,027
Accumulated amortisation	(465,556)	(465,556)
Net book amount at 31 December 2015	32,471	32,471
Year ended 31 December 2016		
Opening net book amount	32,471	32,471
Additions	166,507	166,507
Amortisation for the year	(52,715)	(52,715)
Closing net book amount	146,263	146,263
Cost	664,534	664,534
Accumulated amortisation	(518,271)	(518,271)
Net book amount at 31 December 2016	**146,263**	146,263

Notes to the Financial Statements (continued)

22. Other assets

An analysis of other assets is as follows:

	2016	2015
	£	£
Prepaid expenses	372,597	415,319
Accrued interest	2,476,936	3,579,481
Accrued fee receivables	-	35,058
Other receivables	415,340	428,360
Total	**3,264,873**	4,458,218

The carrying amounts of other assets are denominated in the following currencies:

	2016	2015
	£	£
UK pound	788,751	845,449
Euros	-	2,592
US dollar	2,476,122	3,610,177
Total	**3,264,873**	4,458,218

23. Deposits from banks

	2016	2015
	£	£
Deposits from banks held as collateral	171,500,127	272,067,662
Bank borrowings	43,659,822	44,262,802
Total	**215,159,949**	316,330,464

	£	£
Repayable on demand	18,277,119	23,693,413
Maturity in less than 3 months	45,687,341	40,384,484
Maturity in more than 3 months and less than 1 year	127,277,146	252,252,567
Maturity more than 1 year	23,918,343	-
Total	**215,159,949**	316,330,464

All collateral is in the form of cash. This collateral is taken as security against the Bank's liability under confirmed letters of credit and loans and advances. Payment, withdrawal or transfer of any collateral is covered by formal collateral agreements (see Note 31(c)).

The carrying amounts of deposits by banks are denominated in the following currencies:

	2016	2015
	£	£
UK pound	684,102	3,342,657
Euros	3,911,835	3,554,055
USD dollar	210,535,707	309,363,365
Canadian dollar	28,305	70,387
Total	**215,159,949**	316,330,464

Notes to the Financial Statements (continued)

24. Deposits from customers

	2016	2015
	£	£
Deposits from customers	513,517	978,531
Total	**513,517**	978,531

	£	£
Repayable on demand	513,517	978,531
Total	**513,517**	978,531

The carrying amounts of deposits by banks are denominated in the following currencies:

	2016	2015
	£	£
USD dollar	513,517	978,531
Total	**513,517**	978,531

25. Other liabilities

An analysis of other liabilities is as follows:

	2016	2015
	£	£
Accrued expenses	591,709	806,331
Accrued interest	47,088	33,329
Amounts due to related parties	855	454
Other payables	117,287	85,600
Corporation tax liability	140,626	154,019
Deferred income	7,395	67,594
Total	**904,960**	1,147,327

The carrying amounts of other liabilities are denominated in the following currencies:

	2016	2015
	£	£
UK pound	737,243	960,350
Euros	20,306	-
US dollar	147,411	186,977
Total	**904,960**	1,147,327

Notes to the Financial Statements (continued)

26. Called up share capital

Particulars of the Bank's share capital were as follows:

	Number of shares	Ordinary shares	Total
		£	£
At 31 December 2015	48,000,000	48,000,000	48,000,000
At 31 December 2016	48,000,000	48,000,000	48,000,000

At 31 December 2016 the authorised share capital of the Bank was £100,000,000 (2015: £100,000,000) comprising 100,000,000 ordinary shares of £1 each. Issued shares of 48,000,000 at £1 each are all fully paid.

At 31 December 2016 Diamond Bank PLC owned 100% of the issued ordinary shares. All issued shares have the same voting rights.

27. Retained losses

Movements in the retained earnings are as follows:	**2016**	2015
	£	£
At 1 January	(15,299,763)	(17,531,898)
Net profit for the year	1,752,964	2,232,135
At 31 December	**(13,546,799)**	(15,299,763)

28. Other reserves

	Available-for-sale investments	Total
	£	£
At 1 January 2015	(398,301)	(398,301)
Revaluation – gross	(29,179)	(29,179)
At 31 December 2015	(427,480)	(427,480)
Revaluation - unrealised	145,127	145,127
Revaluation – gain on disposal	177,707	177,707
At 31 December 2016	**(104,646)**	**(104,646)**

See Note 18 for the net gains and losses transferred to and from reserves.

29. Deferred taxation

Potential deferred tax assets amounting to £2,617,517 (2015: £2,897,975), consisting of deferred taxation in respect of unused tax losses of £2,504,881 (2015: £2,818,833), deferred tax in respect of accelerated capital allowances of £132,518 (2015: £160,363) and other comprehensive income of £19,883 (2015: £81,221) have not been recognised in these financial statements due to uncertainty in relation to the timing of future profits.

The potential deferred taxation asset amounts given above have been calculated using assumed corporation tax rates of 19% and 17%, which are the rates expected to be applicable at the earliest date timing differences will reverse.

30. Pension

In accordance with statutory requirements and subject always to the rules of the relevant plan, the Bank operates a defined contribution (stakeholder) pension plan.

Notes to the Financial Statements (continued)

31. Contingencies and commitments

(a) Legal issues

As at 31 December 2016 there were no contingent liabilities in respect of legal claims arising in the ordinary course of business (2015: £nil).

(b) Operating lease commitments

The Bank leases office premises under non-cancellable operating lease agreements. The lease, renegotiated in 2016, expires in 2021. The future aggregate minimum lease payments are as follows:

	2016	2015
	£	£
No later than 1 year	347,020	347,020
Later than 1 year and no later than 5 years	1,192,572	1,470,820
Later than 5 years	-	68,772
Total operating lease commitments	**1,539,592**	1,886,612

(c) Off balance sheet commitments

Trade finance related transactions	**2016**	2015
	£	£
Documentary credits and other short term trade related transactions	**23,619,792**	22,311,047

Acceptances and letters of credit are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

Documentary credits commit the Bank to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers or in advance by cash collateral agreements. (see Notes 23 and 32(e)).

Undrawn commitments	**2016**	2015
	£	£
Other commitments	**-**	1,275,000

32. Related party transactions

At 31 December 2016 the Bank's parent was Diamond Bank PLC, Nigeria. Diamond Bank PLC acquired the Bank in April 2013 from Access Bank Plc, Nigeria. The following transactions were carried out in 2016 with parties related to the Diamond Bank Group.

(a) Key management compensation

The following information is presented only in respect of those employees of the Bank who would be considered as key management personnel, as defined under IAS 24 (related party disclosures). At 31 December 2016, the number of key management personnel was 9 (2015: 8).

Notes to the Financial Statements (continued)

The key management personnel of the Bank include executive and Non-Executive Directors and the Company Secretary. The compensation paid or payable to key management for employee services is shown below:

	2016	2015
	£	£
Salaries and other short term benefits	701,902	671,218
Long term benefits	44,217	51,934
Termination payment	107,000	-
Total remuneration and compensation	**853,119**	723,152

(b) Directors

The following information is presented only in respect of the Directors and Non-Executive Directors of the Bank. At 31 December 2016, the number of Directors and Non-Executive Directors was 7 (2015: 7). No Directors held shares or share options in the Bank during the year.

	2016	2015
	£	£
Salaries and other short term benefits	656,115	625,073
Long term benefits	43,768	51,635
Termination payment	107,000	-
Aggregate emoluments	**806,883**	676,708

The emoluments of the highest paid Director:

	2016	2015
	£	£
Salary and other short term benefits	215,125	287,964
Long term benefits	13,005	32,800
Aggregate emoluments	**228,130**	320,764

(c) Amounts due from related parties

	2016	2015
	£	£
Amounts due from parent	75,564,364	186,871,918
Amounts due from fellow subsidiaries	4,722,297	812,678
Total amounts due from related parties	**80,286,661**	187,684,596

Interest income earned during the year from the parent bank totalled £3,945,671 (2015: £975,639).
Fees received form the parent bank during the year totalled £949,516 (2015: £26,256).
Interest income earned during the year from fellow subsidiaries totalled 165,211 (2015: £33,140).

(d) Deposits from related parties

	2016	2015
	£	£
Amounts due to parent bank	166,404,984	274,880,042
Amounts due to fellow subsidiaries	865,402	973,357
Total deposits from related parties	**167,270,386**	275,853,399

Notes to the Financial Statements (continued)

Interest expense paid during the year to the parent bank on deposits totalled £5,035,586 (2015: £3,318,954).
Interest expense paid during the year to the fellow subsidiaries on deposits totalled £948 (2015: £713).
Fees paid during the year to parent bank totalled £153,439 (2015: £401,448).

(e) Other transactions with related parties

	2016	2015
	£	£
Documentary credits and other short term trade related transactions from parent bank	27,010,215	45,832,146
Documentary credits and other short term trade related transactions from fellow subsidiaries	1,589,971	1,755,734
Total other transactions with related parties	**28,600,186**	47,587,880

33. Country by country reporting

The Capital Requirements Directive 4 ("CRD IV") requirements stipulate reporting on a consolidated basis, by country where the reporting institution has an establishment, the name, nature of activities, geographical location, number of employees, turnover, pre-tax profit/loss, corporation taxes paid and any public subsidies received.

The information below presents the Bank's turnover, profit or loss before tax, corporation tax paid, public subsidies received and average number of employees and secondees based on the geographic locations the Bank operates in.

Geographical location	UK
Number of employees and secondees	38
Turnover	£8,315,607
Pre-tax profit	£2,040,649
Corporation tax paid during the year	£301,134

Country by country reporting basis of preparation

- Employees and Secondees represents the average number of full time equivalent employees and secondees during the year.
- The total turnover is represented by the balances of net interest income, net fee and commission income, realized gains on available for sale assets, and net foreign exchange gains.
- Corporation Tax Paid for the year ending 31 December 2016 totalled £301,134 (2015: £nil).
- The Bank received no public subsidies during 2016.

34. Events after the balance sheet date

The Diamond Bank Group has indicated its support to explore options for a new strategic investor for the Bank as discussed in more detail in the strategic report. There were no other significant events after the balance sheet date.

35. Ultimate Parent

At 31 December 2016 Diamond Bank PLC was the ultimate parent bank and the results of the Bank are to be consolidated into the group accounts of Diamond Bank PLC. Diamond Bank PLC is a Bank incorporated in Nigeria and copies of its accounts may be obtained from the Company Secretary, Diamond Bank PLC, Head Office, PGD's Place, Plot 4, Block 5, Bis Way Off Lekki Expressway, Lekki, Lagos, Nigeria or via that Bank's website at www.diamondbank.com .

The registered address of Diamond Bank PLC is PGD's Place, Plot 4, Block 5, Bis Way Off Lekki Expressway, Lekki, Lagos, Nigeria.