2019 ANNUAL REPORT

NEW THINKING.
NEW OPPORTUNITIES.

CONTENTS

OVERVIEW

Directors

This is the list of Directors that served in the entity during the year under consideration and up to the date of this report.

Name	Position
Mr. Phillips Oduoza	*Chairman*
Mr. Anya Duroha	*Managing Director/CEO*
Chief Malachy Nwaiwu	*Non-Executive Director*
Mr. Emmanuel Ijewere	*Non-Executive Director*
Mrs. Habiba Wakil	*Non-Executive Director*
Mr. Shams Butt	*Non-Executive Director*
Ms. Bolanle Onagoruwa	*Non-Executive Director*
Mr. Ayodeji Adigun	*Executive Director*

Registered Office

23 Kofo Abayomi Street,
Victoria Island, Lagos,
Nigeria

info@novambl.com

+234 1 280 400

www.novambl.com

Auditors

PriceWaterhouseCoopers
(Chartered Accountants)
Landmark Towers
5B Water Corporation Road
Victoria Island
Lagos

NOTICE OF THE 3RD ANNUAL GENERAL MEETING (AGM) OF NOVA MERCHANT BANK LIMITED

NOTICE IS HEREBY GIVEN that the 3rd Annual General Meeting of NOVA Merchant Bank Limited will hold at the Board Room, 23 Kofo Abayomi Street, Victoria Island, Lagos State on May 7, 2020 at 2:00PM to transact the following business:

ORDINARY BUSINESS

1. To receive the audited Accounts for the year ended December 31,2019 together with the reports of the Directors and Auditors thereon.
2. To re-elect the following Directors retiring by rotation:
   i. Mrs. Habiba Amah Wakil
   ii. Mr. Emmanuel Ijewere
3. To authorise the Directors to fix the remuneration of the Auditors.

SPECIAL BUSINESS

4. To consider and if thought fit, pass the following as ordinary resolutions:
   a. "To adopt the report of the Board Evaluation for the year ended December 31, 2019"

NOTES

1. PROXY

A member entitled to attend and vote at the General Meeting is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a member of the Company. To be valid, a proxy form must be duly stamped at the Stamp Duties office and returned to the Company Secretary, NOVA Merchant Bank Limited, 23 Kofo Abayomi Street, Victoria Island, Lagos, Nigeria, not less than 48 hours prior to the time of the meeting.

2. PROFILE OF DIRECTORS

The profile of Directors retiring by rotation are available for viewing on the Bank's website, www.novambl.com.

Dated this 16th day of April, 2020.

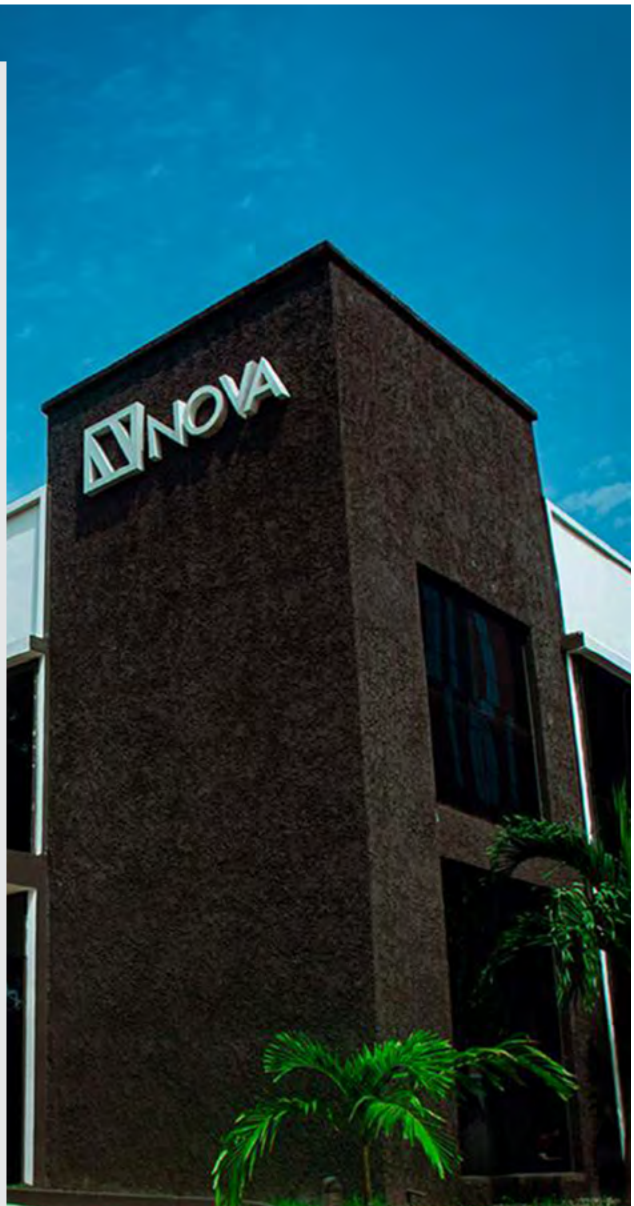
By Order of the Board.

Nnadozie Ohaji

Company Secretary

23 Kofo Abayomi Street Victoria Island
Lagos

WHO WE ARE



NOVA Merchant Bank Limited is a licensed merchant bank in Nigeria with a focus on wholesale and investment banking. It is privately owned by Nigerian and foreign institutional investors who have distinguished themselves in areas such as financial services and the real sector over several decades.

Our products and services cover Corporate Banking, Investment Banking, Advisory Services, Securities, Wealth & Asset Management. We target private and public sector clients in addition to private individuals. Specifically, we focus on the Oil & Gas sector, Commodity & Agricultural business, Utility & Infrastructure, Fast Moving Consumer Goods, Trade & Services and Financial Institutions.

We have a team of talented professionals who actively drive the next wave of banking revolution in financial services. We wish to re-establish merchant banking as a key economic driver by providing long-term funds and advisory services.

Our customers are at the heart of everything we do and our insight-data driven approach offers new perspectives to enable them win in the marketplace. We continuously create sustainable value for all our stakeholders and are focused on building a lasting legacy for future generations.

RATING

Agusto&Co.
Research, Credit Ratings, Credit Risk Management

Rating Assigned: **Bbb**

GCR | GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

Rating Assigned: **BBB-**

CORPORATE INFORMATION

At NOVA Merchant Bank, we are driven by our aspiration to transform the African financial services landscape with fresh thinking and inNOVAtive solutions.

We believe in Africa's promise and possess a deep conviction this will only be achieved with an appropriate blend of international best practices and a deep knowledge of the peculiarities of the African operating environment.

VISION

Our Vision "To be Africa's preferred financial solutions provider" is the culmination of this belief. We pride ourselves in our ability to work with our customers to co-create products and offer tailored solutions modelled on their needs

MISSION

"Creating superior value in the markets we serve" is our mission at NOVA. We are an Impact-driven organisation committed to delivering tangible results to all stakeholders. We are guided in the execution of our mission by our overarching philosophy of "New Thinking. New Opportunities".

CORE VALUES

Our core values represented by the acronym "UPLIFT" i.e.

U **Uniqueness:** Discerning, Insightful, Distinctive

P **Passion:** Drive, Enthusiastic, Customer Focused

L **Leadership:** Innovative, Connected, Result-Oriented

I **Integrity:** Ethical, Reliable and Trust-Worthy

F **Fairness:** Objective, Humble, Transparent

T **Teamwork:** Collaborative, Supportive, Empathetic

Phillips Oduoza

Chairman

CHAIRMAN'S STATEMENT

Distinguished Shareholders and Board Directors, I am pleased to welcome you to the 3rd Annual General Meeting (AGM) of NOVA Merchant Bank Limited and present details of our operating environment in addition to our financial performance for the year ended 31st of December 2019. While this AGM is taking place amidst the backdrop of the global coronavirus (COVID-19) pandemic which portends significant risks for the global economy, be rest assured appropriate measures have been adopted to safeguard the Bank's employees, operations and business during this turbulent time.

2019 MACRO-ECONOMIC DEVELOPMENTS

Growth in the global economy slowed over 2019, following the impact of trade protectionism and weakened transmission of 2018 stimulus and monetary easing. While the two major contenders were the US and China, the impact of the series of tariffs on both countries' industrial activities resulted in a reverberating effect across other trade partners. Moreover, Brexit related uncertainty clouded activities in the UK and the Eurozone as a whole, resulting in growth deceleration in the Euro Area.

The Nigerian economy witnessed an improvement in 2019 with GDP expanding 0.33% (33bps) to 2.26% Year on Year (YOY) from 1.93% in 2018. While the rate of growth remains shy of our potential and below the nation's population growth rate, it shows a steady improvement in the economy when compared to previous years.

> NOVA Bank's strategy comprises three phases namely "Generate Momentum", "Scale the Business" and "Push for Merchant Banking Clear Leader".

The Federal Government also initially proposed a budget for 2020 with a total expenditure of N9.714 trillion (rose to N10.59trillion when approved) with an oil price benchmark at $57 per barrel, which was 9% higher than the 2019 Budget of N8.917 trillion. The government also intended to focus on investment in critical infrastructure, human capital development, enabling institutions, and incentivizing private sector investments essential to complement the Federal Government of Nigeria's development plans. These plans have subsequently been affected by the COVID-19 pandemic as the government has cut its budget for the year to N10.3trillion with an oil bench mark of $30 per barrel and began engagement with multi-lateral agencies for loans to plug fiscal gaps.

Inflation also continued a downward trajectory averaging 11.39% compared to an average of 12.15% in 2018 though we are witnessing a reversal of this trend which currently stands at 12.26%. The Naira remained stable at both the I&E window and the parallel market at N362/$1 and N360/$1 respectively, due to seamless intervention by the Apex bank and support from the high global crude oil prices at that time. While oil prices remained below the level over 2018 to average $66.52pb ($72.01pb in 2018) for the most part of the year, it rebounded at the tail end of the year following expectation of output cut by OPEC and its allies. Foreign exchange reserves also depleted by $5.1 billion over 2019 compared to an accretion of $3.1 billion in 2018 to close the year at $38.7bn ($43.2 for 2018).

PERFORMANCE OVERVIEW

The implementation of the Bank's strategy comprises three phases namely "Generate Momentum", "Scale the Business" and "Push for Merchant Banking Clear Leader". Across these phases, the Bank plans to set up its various capital market subsidiaries. Following the successful generation of momentum in our business in 2018, the focus for 2019 was to grow in scale.

The Bank was able to achieve this as it delivered major growth across all parameters though below the budgeted figures. Profit After Tax grew by 44% to N1.65bn from N1.15bn in 2018. The Bank also grew its Gross Earnings by 113% to N5.87bn in 2019 from N2.76bn. This was driven by an increase in customer deposits to N40.5bn in 2019 compared to N6.4bn in 2018 (533% growth) and customer loans at N29.3bn in 2019 compared to N2.4bn in 2018 (1121% growth).

While the growth in business activity resulted in an increase of our operating expenses by 37% to N1.95bn from N1.42bn, the Bank was able to improve its operational efficiency with the Cost to Income Ratio falling by 8% to 55% for the year (63% for 2018).

RATINGS

During the year, the Bank conducted its maiden risk rating exercise and received an investment-grade rating from both Agusto & Co (Bbb) and Global Credit Ratings (BBB-). The reasons given for the Bank's rating include the strength of the Board and management team, robust capitalization, prudent risk profile, good asset quality and strong liquidity.

The award of an investment-grade rating further validates the strength of the foundation which has been laid for the Bank's future success and represents a significant milestone in its history. It also further engenders confidence in the Bank's business across all stakeholders.

NOVA Bank was the first merchant bank to onboard clients on NIBBS e-BillsPay. It also successfully integrated Central Mandate Management System (CMMS) and Automated Payment Systems (NAPS) for bulk payments.

CAPITAL MARKET BUSINESS

A key part of the Bank's strategy is to maximize the opportunities given by our license to provide a unique value proposition to our customers by offering a wide range of innovative solutions. This is also in keeping with the Bank's overarching philosophy of "New Thinking, New Opportunities" to sustainably grow its business.

The Bank achieved significant progress in this area in 2019. It obtained the license for its Asset Management business which has since commenced operations. Furthermore, it acquired and recapitalized a stock brokerage business which allows the Bank to offer equity trading services to our clients. The Bank also obtained its issuing house license in preparation for the launch of its investment banking business.

STRENGTHENING THE SENIOR MANAGEMENT TEAM

As part of the Bank's plan to scale its business during the year, it made several strategic hires to bolster its senior management ranks and foster the achievement of its corporate goals. These recruitments cut across all areas of the Bank including business development, treasury, operations, information technology and internal audit. This will ensure the Bank has adequate capacity to handle the increase in volumes witnessed without impacting the customer experience whilst meeting the expectation of all stakeholders.

DIGITAL BANKING

Digital Banking remains the key focus of our service delivery model. The deployment of critical modules of Intellect, our Core Banking Application in 2019 strengthened the Bank's IT foundations and creates a stronger platform to deliver an improved customer experience to our clients. The Bank was the first merchant bank to onboard clients on NIBBS e-BillsPay. It also successfully integrated Central Mandate Management System (CMMS) and Automated Payment Systems (NAPS) for bulk payments.

Going forward, the Bank will continue to widen the scope of its partners in the technology ecosystem to provide a wide variety of options and innovative solutions to all our customers.

BRAND EQUITY

As part of its effort to build its brand equity during the year, the Bank partnered with Ikoyi Club 1938 in hosting the 2019 edition of the Nigeria Cup golf tournament which is an annual event to commemorate the anniversary of Nigeria's independence. This sponsorship showcased the Bank's brand to our target market of C-Suite executives and High Net-worth Individuals.

During the year, the Bank also launched its newly redesigned website which contains enhanced features to improve accessibility, simplify navigation and foster better customer engagement.

CORPORATE SOCIAL RESPONSIBILITY

The Bank participated in the CBN Bankers Committee's Financial Literacy Day initiative at Government Girls Secondary School, Abaji. The event was attended by 150 students and teachers who were taught the importance of saving. The Bank plans to expand the number of Corporate Social Responsibility initiatives it undertakes as it continues to grow.

OUTLOOK FOR 2020

The economic impact of the COVID-19 global pandemic is going to be the major determinant for how the global and Nigerian economy will fare this year. The International Monetary Fund (IMF) has forecasted global GDP to contract by 3% in 2020 with the US to contract by 5.9%, the Eurozone by 7% and the UK by 6.5%. For Sub-Saharan Africa, the IMF forecasts contraction across oil-exporting countries by 2.9% for 2020 with Nigeria's GDP expected to fall by 3.4%.

While the situation remains very fluid, I believe the COVID-19 crisis will also result in several opportunities for the Bank, as industry dynamics evolve. It revalidates the Bank's business model with a focus on digital banking channels in addition to its lean operating philosophy which has reduced the risk of the Bank carrying unnecessary overheads which could constrain profitability at this time.

The oil market is expected to remain volatile for the best part of this year as the lockdown measures adopted globally in response to the COVID-19 crisis puts downward pressure on demand. Given the current glut in supply, oil prices are still

expected to stay low once these restrictions are lifted and economic activity begins in earnest. This has implications on Nigeria both on the fiscal side and the foreign exchange market as oil is a major source of funding in both these areas. The government's ability to raise funding from multi-lateral organisations to plug these gaps will be critical in mitigating the impact of persistent low prices on the economy during the year.

In conclusion, the Bank's focus on low-risk corporate customers ensures its clients have sufficient financial strength, resilience and experience in weathering macroeconomic storms thereby minimizing the onset of non-performing loans. Its short turnaround time for transactions can enable the Bank to meet customer requirements quickly and use this situation to build market share with existing clients and, combined with our low-cost base, offer competitive rates for customer acquisition and retention.

Phillips Oduoza

Chairman

MD/CEO'S STATEMENT

"At NOVA Bank, we identified straight through processing of transactions as the critical driver for improved customer experience and have made significant progress on this especially in the area of trade."

Distinguished Shareholders, it gives me great pleasure to welcome you to the 3rd Annual General Meeting of NOVA Merchant Bank Limited and present our financial performance for the year ended 31st of December 2019.

2019 marked our second year of full operations and my first full year as the substantive Chief Executive Officer of the Bank. It was also a year of many significant firsts for the Bank. We concluded our first independent rating exercise and received an investment grade rating from both Agusto & Co (Bbb) and Global Credit Ratings (BBB-). Our first capital market subsidiary, NOVAMBL Asset Management, obtained its license from the Securities and Exchange Commission and commenced operations. We also became the first merchant bank to onboard a client on NIBBS e-BillsPay.

2019 was also a very eventful year for the global economy due to the impact of the US-China trade war in addition to the uncertainties caused by Brexit. On the domestic side, we witnessed the enactment of the minimum loan to deposit ratio policy by the Central Bank of Nigeria, increasing foreign exchange pressures as the external reserves continued to decline and modest economic growth of 2.26% during the year.

However, amidst these challenges, it was the year in which the Bank's business made major leaps forward due to the resilience and commitment to excel embodied by our employees. I am pleased to inform you that your investments in the Bank have continued to bear fruit as we achieved substantial growth in our business during the year.

Our customer deposits rose to N40.5bn in 2019 from N6.4bn in 2018 while customer loans increased to N29.3bn compared to N2.4bn in 2018. This clearly shows the level of faith our customers have in the Bank and our offerings especially given the competitive nature of the banking industry and our relative newness in the market.

We successfully channeled this expansion into profitable growth. We achieved a rise in Profit After Tax to N1.65bn from N1.15bn in 2018 while our Gross Earnings increased to N5.87bn in 2019 from N2.76bn. This is also due to our commitment to running lean and efficient operations as we were able to reduce our Cost to Income Ratio by 8% to 55% for the year. This improved profitability resulted in the increase in our shareholders funds to N19.5bn in 2019 compared to N17.6bn in 2018. We were able to deliver these impressive results as we remained focused on our mission of "creating superior value in the markets we serve" and keeping our customers at the heart of our business. I believe this performance can be sustained by maintaining our relentless focus on providing a superior customer experience for our clients to differentiate the Bank and enable us gain market share.

In the course of the year, we further streamlined our market facing units along industry sectors to improve market coverage and the depth of our solutions. This will enable us strengthen our market focus and offer more industry specific solutions to clients. It also enables us better mine their ecosystem of distributors, suppliers and stakeholders to generate business opportunities for the Bank and a stronger value proposition for our clients.

We also improved the level of collaboration between our wholesale banking business and our capital market subsidiaries as the offerings of each unit offers clear synergy to the other. The creation of a virtuous circle between both businesses as well as our newly licensed Securities and Issuing house subsidiaries will go a long way in ensuring we provide a more differentiated offering to clients.

The backbone of our quest to deliver exceptional service to our customers is our information technology infrastructure which supports the provision of our services via digital channels. At the Bank, we identified straight through processing of transactions as the critical driver for improved customer experience and have made significant progress on this especially in the area of trade. During the year, we also made significant enhancements to our core banking solution to give us a stronger digital platform for our products. We have partnered effectively with several fintechs to offer a strong value proposition in the area of payments and will continue to expand on this in the coming year.

Risk management is another critical area where the Bank excelled during the last year. Despite the significant macro-economic headwinds faced, we were able to achieve considerable growth in our business without encountering any significant losses despite the market volatility. This is further proof of the robustness and effectiveness of our Risk Management policies and corporate governance structures.

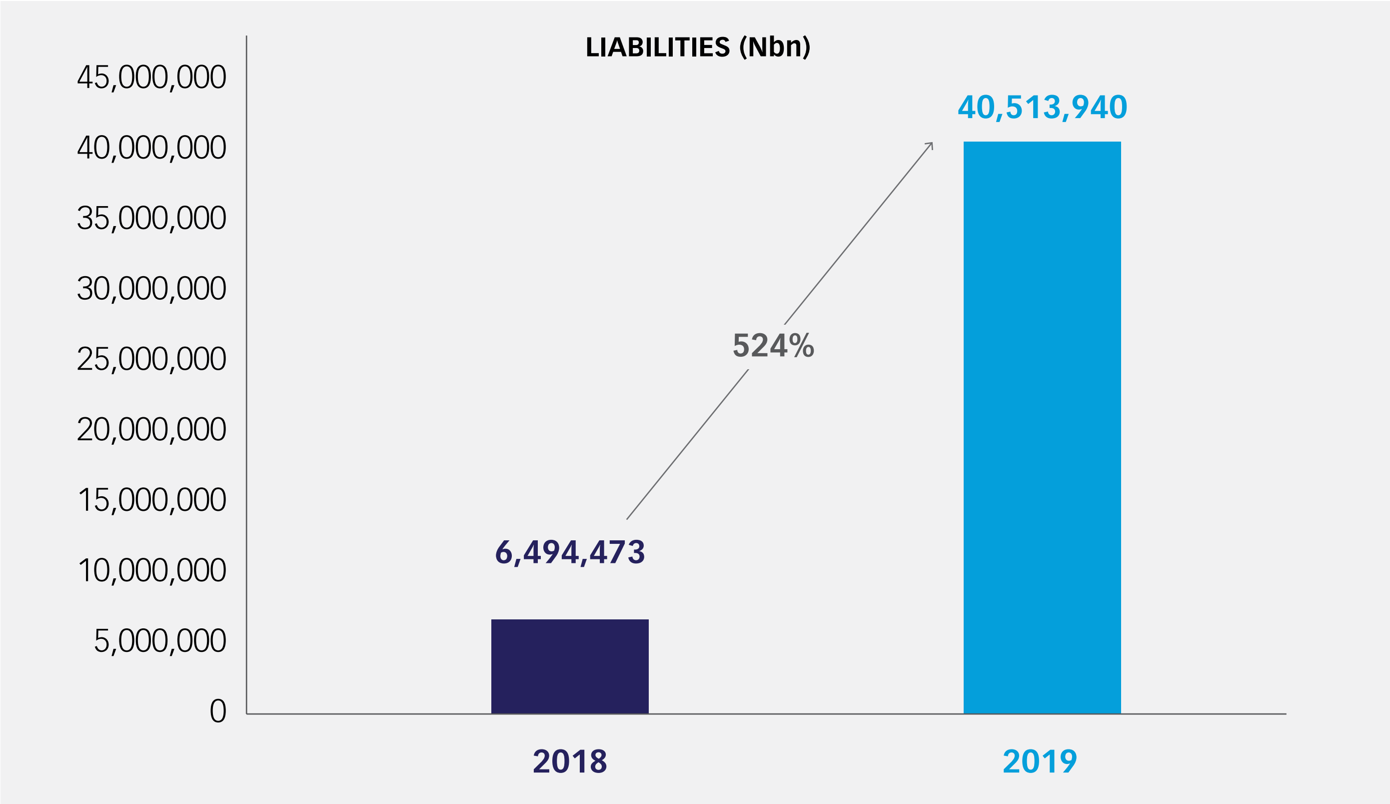
I firmly believe the investments made to build a strong foundation for the Bank puts us in good stead to weather the challenges ahead. As the economic impact of the COVID-19 global pandemic begins to unravel before us, I believe the Bank will successfully steer through the crisis and thrive despite the attendant market volatility expected. Our strong governance practices, policies and structures will minimise the impact of this pandemic on the financial performance of the Bank.

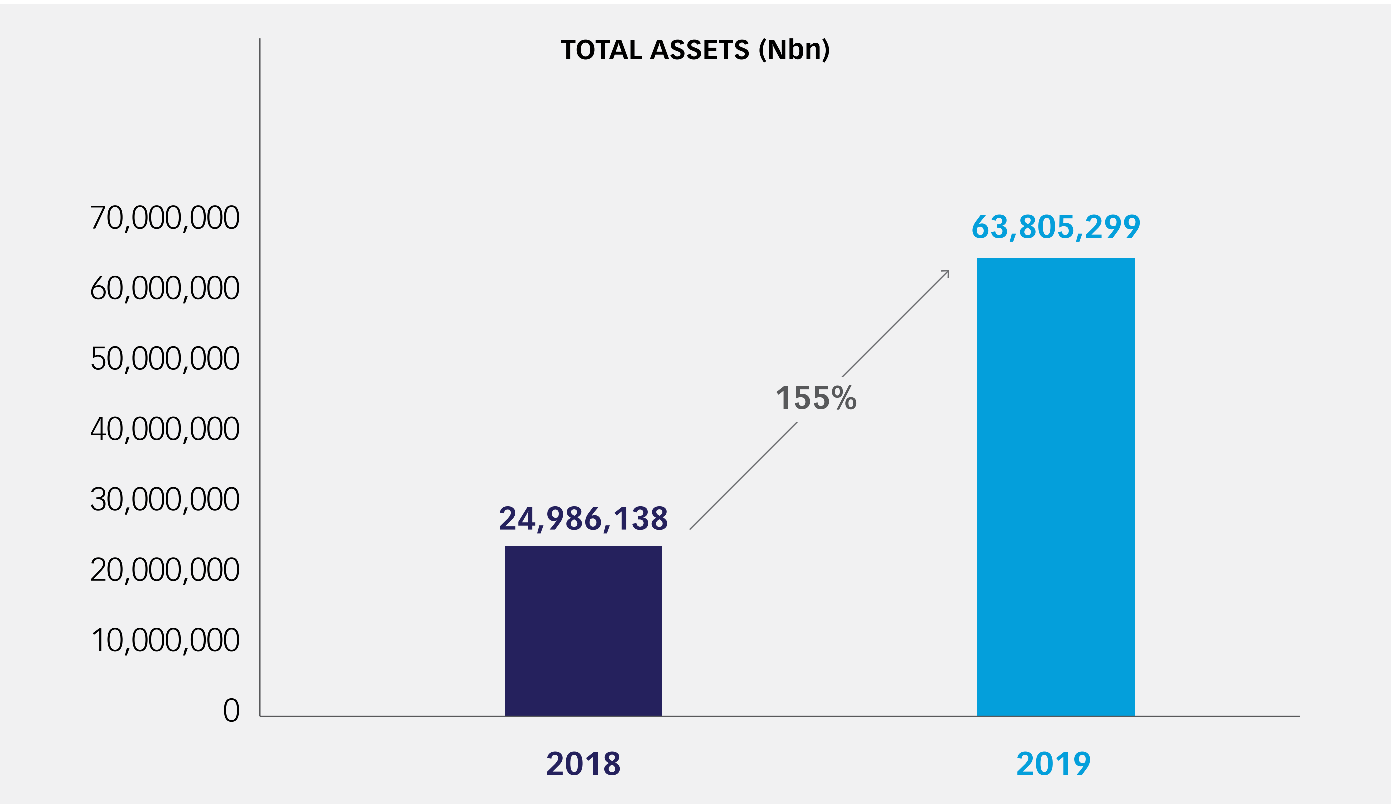
I also believe our philosophy of putting the customer at the heart of our business will enable us better detect the changing shifts in their needs and behaviour arising from the impact of this crisis. Our resourceful and excellent array of talent in the Bank will also be a source of innovations targeted to assist them overcome whatever challenges and opportunities this crisis brings to their businesses. The Bank is well positioned to make significant progress during this year in the achievement of its strategic goals and deliver improved returns to our shareholders.

Anya Duroha

MD/CEO

RESULTS AT A GLANCE





PROFIT AFTER TAX (Nbn)

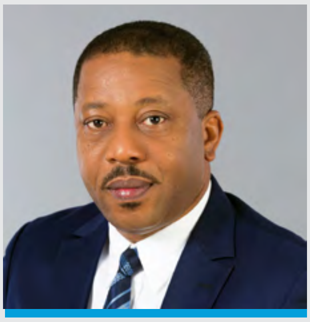
NET INTEREST INCOME (Nbn)

BOARD OF DIRECTORS

At NOVA Merchant Bank, we believe adherence to the highest levels of Corporate Governance is critical to building long-term shareholder value. We have adopted best practice Corporate Governance principles which enables the Board to provide effective oversight within a framework of prudent and effective controls.

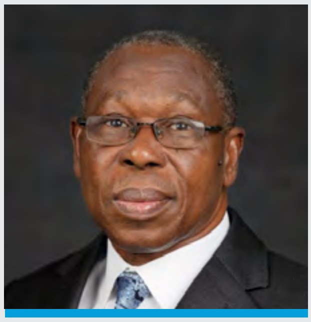
In commitment to these principles, 4 of our 8 board directors are independent directors with only 2 executive directors and 2 directors representing shareholders. Our board comprises of the following highly distinguished individuals:

Phillips Oduoza
Chairman



Anya Duroha
MD/CEO

Shams Butt
Non- Executive Director



Chief Malachy Nwaiwu
Independent Director

Emmanuel Ijewere
Independent Director

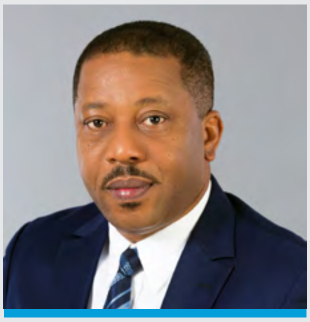
Bolanle Onagoruwa
Independent Director

Habiba Ammah Wakil
Independent Director

Ayodeji Adigun
Executive Director/COO

EXECUTIVE MANAGEMENT TEAM

Our management team is composed of highly accomplished and experienced professionals with a strong track record of delivery and the capacity to execute.



Anya Duroha
MD/CEO

Ayodeji Adigun,
Executive Director/COO

Funke Okoya
Head Corporate Bank Group

Chinedu Ekeocha
Deputy Chief Operating Officer

Emeka Okoh
Head Oil & Gas, Power and Telecoms

Eberechukwu Agbogun,
Head Capital Markets

Anwuli Femi – Pearse
Group Treasurer

Ifeatu Onwuasoanya
Chief Audit Executive

CASE STUDY: ETERNA PLC

Eterna Plc is the only company licensed to blend and distribute Castrol products in Nigeria.

OVERVIEW

Eterna was incorporated on the 13th of January 1989 as Eterna Oil & Gas Limited. The Company commenced business in 1991 and its shares were listed on the floor of the Nigerian Stock Exchange in 1998. In the bid to carve a niche as a manufacturer and marketer of reliable, efficient and high-quality lubricants and oil products, Eterna Plc established a technical partnership with Castrol BP in 1991 – the pioneers in global lubricant technology and specialty chemicals.

This relationship gave rise to a distributorship agreement and an exclusive right to import and market Castrol products in Nigeria. Today, their Sagamu plant is one of three accredited Castrol blending plants available in Africa and the only one in West Africa. They have also upgraded the laboratory by providing state-of-the-art equipment to provide world class quality control and after sales support. They have also significantly, expanded their operations with the aim of enhancing cashflow and profitability with the following acquisitions:

- A Coastal Tank Farm in Lagos with a capacity of 34 million litres;
- An Aviation Fuel Depot at the Bill Clinton Drive, at the Nnamdi Azikwe International Airport, Abuja with a capacity of 2.8 million litres.
- Petrol filling stations in Lagos, Ibadan, Port Harcourt, Abuja and Yola.

BUSINESS LINES

Eterna engages in the manufacturing and sale of lubricating oils and petrochemicals; importation and bulk/retail sale of petroleum products including PMS, AGO, LPFO, Base Oils, bitumen and export of lubricants/fuels; bunkering, Gas Distribution and Marketing LPG and NG; Offshore and Onshore Oil Services; Gas Processing; equipment supply services and other engineering & technical services for the energy sector.

BUSINESSES INCLUDE:

Fuel Stations

Their retail presence expansion drive has commenced. They have secured strategic sites and are developing a network of modern fuel stations. Have bounced back from a zero level, to ownership of aver 40 retail sites across Nigeria.

Petroleum Storage Terminals

They own and operate a 30 million litre facility for storing petroleum products at the Ibru Jetty, Ibafon, Apapa, Lagos. Have also acquired an Aviation Tank farm along Bill Clinton Drive at the Nnamdi Azikwe International Airport, Abuja to meet the demands of the Aviation Industry.

- Upstream Products
- Transaqua HT
- Brayco Micronic SV
- Turbo-k Turbine Detergents

- SPD-Surface, Production & Drilling Specialty Lubricants
- Marine, Automotive & Industrial Lubricants
- Castrol Marine Lubricants (engine oils, hydraulics, cylinder oils, compressor oils, turbine oils, refrigerating oils & greases
- Automotive & Industrial Lubricants (engine oils, gear oils, circulatory oils, hydraulics & greases).
- Power Generation & Offshore
- Transformer Oils
- Aviation Lubricants
- Castrol Aviation Lubricants
- Toll Blending Arrangements

They offer Toll Blending services for a select range of lubricants, hydraulics and greases.

LPG, Natural Gas and Associated Products

Have commenced strategic investments in the distribution of natural gas.

Strategic alliances

They are developing strategic alliances for various franchising opportunities that cover building of trailer parks, convenience stores, etc.

Lubricants Manufacturing

Their Lubes Blending Plant is located in Sagamu, Ogun State. The Plant occupies a sprawling land mass of almost five hectares along the Lagos/Ibadan Expressway. It is the third plant in Africa to exclusively manufacture Castrol products and will be the only one to cater for the West African markets. The Plant houses a state-of the-art laboratory with hi-tech equipments which has ensured that the usual Castrol international quality standard is maintained. Our Sagamu Plant has an annual capacity of 45,000MT on three shifts.

Nova Merchant Bank Limited identified Eterna Plc as a strategic partner in the Nigeria oil & gas business. We align with their long term strategic plans and support their operations with working capital financing for their daily operations and a structured loan for retail outlets expansion. This is also in line with their retail fuel stations expansion aspiration. The benefits are mutual, and they have continued to meet their customers needs in all the sectors they serve. Today Eterna PLC is a leader to watch, the organization has positioned its business to adapt and take advantage opportunities in the market place..

CASE STUDY: AFRICAN INDUSTRIES GROUP

african industries
Serving Nigeria since 1971

OVERVIEW

African Industries Group ("AIG") is one of Nigeria's major Steel producer in Nigeria with significant presence in other industrial sectors such as Power, Chemicals, Lead, Glass and Plywood. AIG has been operating in Nigeria from the year 1971 and is also involved in trading of various products ranging from steel and industrial chemicals to other basic commodities.

The Group manufactures Steel, Sodium Silicate, Sulphuric Acid, Aluminium Sulphate, Pure Lead, Figured Glass, Paving Stone, Plywood, Ramming mass, Tundish board and also Generate power in Nigeria. The Group has also entered into agricultural sector and started export of Cashew and Sesame before 5 years and now setting up a sesame processing plant and fish farm.

The Group focus is on development of steel industry in Nigeria using international technology and quality comparable to international standards. The Group manufactures various steel products like Iron rods, Equal Angles, U-Channels, I-Beams, Wire Rods, Binding Wire, Nails, Weld mesh and other steel profiles and is giving employment to more than 8,000 local workforce directly and indirectly. The work force is being guided by the trained managers, who have decades of experience with reputed steel manufacturers abroad. The Group currently operates in eight different locations within Nigeria and also exports its products neighboring ECOWAS countries.

The Group is also generating power to ensure 24/7 power supply to its plants.

GROUP HAS RECENTLY EXECUTED FEW PROJECTS. THE DETAILS ARE AS BELOW:

Capital Cold Rolling Mills Nigeria Limited

The Group has set up a Cold rolling mill to produce steel products such as Cold rolled Black coils, cold rolled bright coils & Galvanized coils of various size & thickness. The project is expected to be in operations in Q2-2020.

Orbit Steel Profiles Limited

The Group has set up steel manufacturing unit to manufacture steel products like Angles, Channels and IPE. The project is expected to be in operations in Q2-2020.

African Float Glass Limited

The Group has set up glass manufacturing plant to manufacture clear sheet and figured glass. The project started production in Q1-2020.

African Refractory & Allied Products Limited

The Group has set up Ramming mass & Tundish Board Project to produce Ramming mass, Ball Mill Fines and Tundish Boards. The plant has already started trial runs & is expected to be fully operational in Q2-2020.

African Wire & Allied Industries Ltd

Expansion of African Wire & Allied Products Limited

The Group is biggest manufacturer of steel pipes in Nigeria and has expanded its capacity by installing three more Tube Mill with a capacity of 30,000 metric tons per annum. The expansion was completed in Q4-2019.

Expansion of African Nonferrous Industries Limited: The Group has expanded the installed capacity of lead processing plant from 10,000 MT metric tones to 20,000 MT. per annum The expansion was being completed in Q4,-2019 .

Solar Power Project

Abuja Steel Mills Limited (ABSM) is an integrated steel manufacturing plants in Central / Northern Nigeria. It is setting up a Solar PV power plant with installed capacity of 11 MW for captive consumption.

Orbit Wood & Allied Industries Limited (OWAIL)

The Company is producing Plywood and now setting up a Resin forming and paper impregnation plant to produce Resin and Impregnation paper (Melamine and Phenolic papers) in-house. Currently both the products are being and having in-house production will not only save on cost but will also reduce the dependence on importation.

African Steel Mills Limited (ASM)

ASM is the first integrated steel plant of the Group, which convert steel scrap into Billets (through induction furnace route) and then roll Billets in to various products like Iron Rods, Equal Angles and U- Channels. ASM is now upgrading and modernizing its rolling mill, which will help in reducing cost and increasing efficiency. After upgradation and modernisation the rolling mill capacity will increase from 200,000 metric tones per annum to 225,000 metric tones per annum.

Iron Ore Mining and DRI Plant

The Group is Group biggest producer of steel in Nigeria and now going for backward integration to have better control on supply chain. The backward integration encompasses, development of Iron ore mines and setting up an integrated beneficiation, Palletisation and Direct Reduced Iron (DRI) manufacturing Project under the name African Natural Resources & Mines Limited. The project capacity is 500,000 metric tons per annum of DRI. This project also include a 17.675 MW captive Power project, based on waste heat recovered from the DRI processes. The DRI is substitute for steel scrap and the impurities in DRI are much lower than impurities in steel scrap so the steel produced from DRI is of much better quality,

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

NOVA Merchant Bank Limited (NOVA) holds good corporate governance as one of its core values and confirms its commitment to the implementation of effective governance principles in its business operations. The Directors endorse the principles of best practice Corporate Governance as stated in the "Code of Corporate Governance for Banks in Nigeria Post Consolidation" issued by the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission's (SEC) "Code of Corporate Governance".

The Board is of the opinion that NOVA has in all material respects, complied with the requirements of the CBN code, and its own governance charters, during the 2019 financial year.

The Board of Directors of NOVA has the overall responsibility for ensuring that the highest standards of corporate governance are maintained and adhered to by the Bank. In order to promote effective governance of NOVA, the following structures have been put in place for the execution of NOVA's

Corporate Governance strategy:

1. Board of Directors
2. Board Committees
3. Executive Management Committees

As at December 31, 2019, the Board comprised a Non-Executive Chairman, five (5) Non-Executive Directors and two (2) Executive Directors, all of whom bring a wide range of skills and experience to the Board.

The Board of Directors carries out its responsibility through its standing Committees. These are the Board Audit Committee, the Board Finance and General Purpose Committee, the Board Nomination and Governance Committee and the Board Credit and Risk Committee. Through the workings of these committees, the Board sets broad policy guidelines and ensures the proper management and direction of the Bank.

In addition to the Board Committees, there are a number of Management Committees which ensure effective and good corporate governance at the managerial level.

A. THE BOARD

The Board presently consists of 8 members, 2 of whom, inclusive of the MD/CEO are Executive Directors and 6 Non-Executive Directors. All the Directors have the requisite integrity, skills and experience to bring to bear on Board deliberations and discussions.

Responsibility

The roles of Chairman and Chief Executive Officer are separated and clearly defined. The Chairman is primarily responsible for the working of the Board whilst the Chief Executive Officer is responsible for the running of the business and implementation of Board strategy and policy. The Chief Executive Officer is assisted in managing the business of the Bank on a day-to-day basis by the Executive Management Committee, which he chairs and which comprises all Executive Directors. The Board's primary responsibility is to increase shareholder's wealth. The Board is accountable to shareholders and is responsible for the management of the relationships with its various stakeholders.

Executive Management is accountable to the Board for the development and implementation of strategy and policies. The Board regularly reviews the Bank's performance, matters of strategic concern and any other matters it regards as material.

The Board meets quarterly and additional meetings are convened as the need arises. In 2019, the Board met 5 times.

The Board is responsible for the Bank's structure, areas of operation, financial reporting, ensuring there is an effective system of internal control and risk management and appointments to the Board. The Board has the authority to delegate matters to Directors, Board Committees and the Executive Management Committee.

Appointments & Retirements

During the course of the year, Mr. Kelechi Uba-Osigwe resigned from the Bank as the Company Secretary. Thereafter, Mr. Nnadozie Ohaji was appointed as Company Secretary/General Counsel.

Professional Independent Advice

All Directors are aware that they may take independent professional advice at the expense of the Company, in the furtherance of their duties. They all have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that all governance matters are dealt with in accordance with policy and assists with professional development as required.

B. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board has presented a balanced assessment of the Company's position and prospects. The Board is mindful of its responsibilities and is satisfied that in the preparation of its Financial Report it has met its obligation under the Code of Corporate Governance.

The Directors make themselves accountable to the shareholders through regular publication of the Bank's financial performance and Annual Reports. The Board has ensured that the Bank's reporting procedure is conveyed on the most recent infrastructure to ensure accuracy. This procedure involves the monitoring of performance through out the financial year in addition to monthly reporting of key performance indicators.

PricewaterhouseCoopers acted as external auditors to the Bank during the 2019 financial year. Their report is contained on page 15 of this Annual Report.

Internal Controls

The Bank has consistently improved its internal control system to ensure effective management of risks. The Directors review the effectiveness of the system of internal control through regular reports and reviews at Board, Audit Committee and Credit & Risk Committee meetings.

C. CONTROL ENVIRONMENT

The Board has continued to place emphasis on risk management as an essential tool for achieving the Bank's objectives. Towards this end, it has ensured that the Bank has in place robust risk management policies and mechanisms to ensure identification of risk and effective control.

The Board approves the annual budget for the Bank and ensures that a robust budgetary process is operated with adequate authorization levels put in place to regulate capital expenditure.

D. SHAREHOLDER RIGHTS

The Board of NOVA has always placed considerable importance on effective communication with its shareholders. It ensures that the rights of shareholders are protected at all times. Notice of meetings and all other statutory notices and information are communicated to the shareholders regularly.

Shareholders are encouraged to communicate their opinions and recommendations whenever they see the need to communicate their opinions and recommendation to the Company Secretary, whenever the need arises

E. BOARD COMMITTEES

The Board of NOVA has the following committees, namely, the Board Audit Committee, the Board Finance and General Purpose Committee, the Board Nomination and Governance Committee, and the Board Credit & Risk Committee.

Board Audit Committee

The Board Audit Committee is comprised as follows:

1. Mr. Emmanuel Ijewere - Chairman
2. Ms. Bolanle Onagoruwa - Member
3. Mrs. Habiba Ammah Wakil - Member
4. Mr. Shams Butt - Member

The Board Audit Committee was set up to further strengthen internal controls in the Bank. It assists the Board of Directors in fulfilling its audit responsibilities by ensuring that effective systems of financial and internal controls are in place within the Bank.

Meetings are held at least once a quarter, with the Chief Audit Executive of the Bank in attendance.

S/N	MEMBERS	NUMBER OF MEETINGS HELD	NUMBER OF MEETINGS ATTENDED BY MEMBERS
1	**Mr. Emmanuel Ijewere**	4	4
2	**Ms. Bolanle Onagoruwa**	4	3
3	**Mrs. Habiba Ammah Wakil**	4	4
4	**Mr. Shams Butt**	4	4

Board Credit and Risk Committee

The Board Credit and Risk Committee is made up of 3 Non-Executive Directors and is responsible for approval of credit facilities in the Bank. It reviews all credits granted by the Bank and meetings are held at least once a quarter. Members of the Board Credit and Risk Committee are:

1. Mr. Shams Butt - Chairman
2. Mr. Emmanuel Ijewere - Member
3. Chief Malachy Nwaiwu - Member

S/N	MEMBERS	NUMBER OF MEETINGS HELD	NUMBER OF MEETINGS ATTENDED
1	**Mr. Shams Butt**	4	4
2	**Mr. Emmanuel Ijewere**	4	3
3	**Chief Malachy Nwaiwu**	4	4

The Board Credit and Risk Committee was set up to assist the Board of Directors discharge its responsibility to exercise due care, diligence and skill to oversee, direct and review the management of the credit portfolio of the Bank. Its terms of reference include determining and setting the parameters for credit risk and asset concentration and reviewing compliance within such limits; determining and setting the lending limits, reviewing and approving the Bank's credit strategy and the credit risk tolerance. The Committee reviews the loan portfolio of the Bank.

Nomination and Governance Committee

The Nomination and Governance Committee is comprised of 3 Non-Executive Directors namely:

1. Mrs. Habiba Ammah Wakil - Chairperson
2. Mr. Shams Butt - Member
3. Chief Malachy Nwaiwu - Member

Meetings are held at least once a quarter and the responsibilities of the Committee include reviewing, considering and determining the appropriate remuneration payable to the Bank's Executive Directors.

S/N	MEMBERS	NUMBER OF MEETINGS HELD	NUMBER OF MEETINGS ATTENDED
1	**Mrs. Habiba Ammah Wakil**	4	4
2	**Mr. Shams Butt**	4	4
3	**Chief Malachy Nwaiwu**	4	4

Finance and General Purpose Committee

The purpose of the Finance and General Purpose Committee is to, amongst other things; discharge the Board's responsibilities with regard to strategic direction and budgeting and to provide oversight on financial matters and the performance of the Bank.

The Members of the Finance & General Committee are as follows:

1. Chief Malachy Nwaiwu - Chairman
2. Mr. Emmanuel Ijewere - Member
3. Ms. Bolanle Onagoruwa - Member

S/N	MEMBERS	NUMBER OF MEETINGS HELD	NUMBER OF MEETINGS ATTENDED
1	**Chief Malachy Nwaiwu**	4	4
2	**Mr. Emmanuel Ijewere**	4	4
3	**Ms. Bolanle Onagoruwa**	4	4

Attendance at Board Meetings

Membership and attendance at Board Meetings are set out below:

S/N	MEMBERS	NUMBER OF MEETINGS HELD	NUMBER OF MEETINGS ATTENDED BY MEMBERS
1	Mr. Phillips Oduoza	5	5
2	Mr. Anya Duroha	5	5
3	Mr. Shams Butt	5	5
4	Mr. Emmanuel Ijewere	5	5
5	Chief Malachy Nwaiwu	5	5
6	Mrs. Habiba Wakil	5	5
7	Ms. Bolanle Onagoruwa	5	4
8	Mr. Ayodeji Adigun	5	5

Executive Management Committees

These are Committees comprising senior management of the Bank. The committees are risk-driven as they are basically set up to identify, analyse, synthesize and make recommendations on risks arising from day to day activities of the Bank. They also ensure that risk limits as contained in the Board and Regulatory policies are complied with at all times. They provide inputs for the respective Board Committees and also ensure that recommendations of the Board Committees are effectively and efficiently implemented. They meet as frequently as risk issues occur to immediately take actions and decisions within the confines of their powers. Some of these Executive Management Committees include the Bank's Assets and Liabilities Committee (ALCO), the Executive Credit & Investment Committee (ECIC), the IT Steering Committee (ITSC), the Executive Risk Management Committee (ERMC) and the Executive Management Committee (EMC).

The Directors present their report on the affairs of NOVA Merchant Bank Limited (''the Bank'') together with its subsidiary (''the Group''), the Group and the Bank Audited Financial Statements with Auditor's Report for the year ended 31 December 2019.

Its subsidiary is NOVAMBL Asset Management Limited. The subsidiary is wholly owned by the Bank.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

Legal form

NOVA Merchant Bank Limited (''the Bank'') was incorporated on May 17 2017 in Nigeria and carries on, in Nigeria, the business of Merchant Banking as may be prescribed by the CBN.

The bank and its subsidiary are situated at no. 23 Kofo Abayomi Street, Victoria Island, Lagos. The operations of the group are domiciled in Nigeria.

Major activities and business review

The principal activities of the Bank during the year was the provision of Merchant Banking services to its customers. The services principally involve corporate banking, money market activities including trading and holding of marketable securities such as treasury bills and government bonds.

Results at a glance

	Group Year ended 31 December 2019 N'000	Bank Year ended 31 December 2019 N'000	Bank Year ended 31 December 2018 N'000
Profit before tax	1,511,877	1,516,886	960,591
Taxation	133,831	133,831	190,394
Profit after tax	1,645,708	1,650,717	1,150,985
Other Comprehensive income/(loss) for the year net of tax	297,664	297,664	(50,131)
Total Comprehensive income for the year	1,943,372	1,948,381	1,100,854

Dividends

The directors did not propose any dividend payment in respect of the year ended 31 December 2019 (2018:Nil).

Post balance sheet events

There are no significant post balance sheet events with material effect on the financial affairs of the company and the financial performance for the year ended 31 December 2019.

Directors' interest in shares

The interest of Directors in the issued share capital of the Bank as recorded in the register of Directors' shareholding and/or as notified by the Directors for the purpose of sections

275 and 276 of the Companies and Allied Matters Act.

Name	Direct holding ('000)	Indirect holding ('000)
Phillips Oduoza	6,962,160	1,116,840

The details of indirect holding of Directors in the issued share capital of the Bank is as below:

Name	Company	Indirect holding ('000)
Phillips Oduoza	BOP Integrated Investments Limited	158,420
	Benix Nigeria Limited	158,420
	PUE Financial Services Limited	800,000

Analysis of shareholdings

The details of the shareholding of the Bank as at 31 December 2019 is as detailed below:

Range ('000)	Holdings	Holders %	Cumm	Unit ('000)	Units %	Units ('000)
1 - 1,000,000	3	43%	3	1,116,840	7%	1,116,840
1,000,001 - 3,000,000	2	29%	5	3,960,500	25%	5,077,340
3,000,001 - 5,000,000	1	14%	6	3,960,500	25%	9,037,840
5,000,001 - 7,000,000	1	14%	7	6,962,160	44%	16,000,000
	7	100%		16,000,000	100%	

Substantial interest in shares: shareholding of 5% and above

According to the register of shareholders as at 31 December 2019, the following shareholders held more than 5% of the issued share capital of the Bank.

	December 2019		December 2018	
Shareholders	Shareholding ('000)	% Holding	Shareholding	% Holding
Afriglobal Investment Holding	1,980,250	12.377%	1,980,250	12.377%
Five Star Associate Limited	1,980,250	12.377%	1,980,250	12.377%
Carbon Commodities DMCC	3,960,500	24.753%	3,960,500	24.753%
Phillips Oduoza (Direct and Indirect Holding)	8,079,000	50.494%	8,079,000	50.494%

Directors' interest in contracts

None of the directors has declared any direct or indirect interest in contracts or proposed contracts with the company during the year ended 31 December 2019.

Human resources

The Bank is dedicated to providing equal opportunities to all employees. Our employment standard is such that there shall not be discrimination on the basis of race, colour, gender, nationality, age, social class, religion, smoking habits, politics, tribe or disability during hiring, promotion and retirement. We strive to diversify the mix of our workforce and ensure that the make-up of our employees represent various population groups and geographical regions within the country.

Composition of employees by gender

Male

Group 35 **Bank 33**

Female

Group 20 **Bank 17**

Total

Group 55

Bank 50

Senior Management's composition by gender

Male

Group 11 **Bank 11**

Female

Group 3 **Bank 2**

Total

Group 14

Bank 13

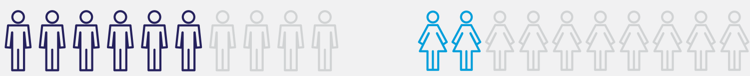
Board Member's composition by gender

Male

Group 6 **Bank 6**

Female

Group 2 **Bank 2**



Total

Group 8

Bank 8

Health and safety

The Bank accords the highest priority to health and safety in all its operations, the aim being to make the company a safe and totally accident-free place to work. The Bank has a comprehensive health insurance scheme for staff, through which medical needs of staff and their immediate family members are met. In addition, the Bank provides first aid in the business office.

Employee involvement

The Bank encourages participation of its employees in arriving at decisions in respect of matters affecting their well-being. To this end, the Bank provides formal and informal opportunities where employees deliberate on issues affecting the Bank and employees' interest, with a view to making inputs to decisions thereon.

Training and Development

The Bank attaches great importance to training and development and believes that only by having staff whose skills are up-to-date can it face the challenges of the future. The main principle behind our training and development is that all our programmes must meet the specific needs of the individual and the present and future requirements of the company.

Donations

The Bank made no donations to charitable organisations during the year (2018: Nil).

Auditor

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors of the Bank and have been appointed in accordance with Section 357(2) of the Companies and Allied Matters Act.

By order of the Board

Nnadozie Ohaji

Company Secretary/General Counsel

FRC/2020/004/00000020376

18 February 2020

REPORT OF THE AUDIT COMMITTEE

FOR THE YEAR ENDED 31 DECEMBER 2019

In accordance with the provision of Section 359[6] of the Companies and Allied Matters Act CAP 20 Laws of the Federation of Nigeria 2004, we the members of the Audit Committee hereby report as follows:

We confirm that we have seen the audit plan and scope, and the Management Letter on the audit of the accounts of the Bank and the responses to the said letter.

In our opinion, the plan and scope of the audit for the year ended December 31, 2019 were adequate. We have reviewed the Auditors' findings and we are satisfied with the Management responses thereon.

We also confirm that the accounting and reporting policies of the Bank are in accordance with legal requirements and ethical practices.

As required by the provisions of the Central Bank of Nigeria circular 85D/1//2004 dated February 18, 2004 on "Disclosure of Insider-Related Credits in Financial Statements" we reviewed the insider-related credits of the Bank and found them to be as analysed in the financial statements as at December 31, 2019.

Mr. Emmanuel Ijewere

FRC/2015/ICAN/00000011383

MEMBERS OF THE AUDIT COMMITTEE ARE:

1 **Mr. Emmanuel Ijewere -** *Chairman*

2 **Ms. Bolanle Onagoruwa -** *Member*

3 **Mrs. Habiba Ammah Wakil -** *Member*

4 **Mr. Shams Butt -** *Member*

RISK MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

RISK MANAGEMENT

Introduction

Risk management can be described as a musing of opportunities within an intricate web of uncertainties. The macroeconomic headwinds continued to create multiplicity of known and unknown risks, forcing risk managers to delicately navigate the risk minefields.

It is important to acknowledge at the outset of this section that Risk management is constantly evolving. Regulations are changing, technology continues to advance, trading volume continues to increase, and new exotic structures will continually be introduced into the Nigerian financial market. Some of the major trends that will continue to affect risk management are:

Regulatory and financial reform will continue to impact operational processing and is expected to play a key role in future trends for providing transparency and mitigating risk.

Technology continues to advance rapidly, enabling traders to execute more transactions during periods of market volatility.

Businesses will continue to develop new and more exotic types of transactions especially in foreign currency derivatives and oil hedging products.

New and more diverse types of clients continue to enter the market, which require development of new operational procedures and products.

All of these trends and many others will continue to change the industry, eliminating some risks and introducing new ones. It is imperative that the we understand the operational cycle and best practices surrounding managing risks properly as the financial market continues to evolve.

2019 was an election year and a year that witnesed increased regulatory reforms towards encouraging a boost in the the Gross Domestic Product (GDP) growth rate.

What did all of these mean for banking and risk management during 2019? It has been a year in which the cost of borrowings reduced, a minimum limit was prescribed for Loan to deposit ratio ; 60% in September 2019 and 65% by December 2019. Banks were also encouraged to lend to the real sector and was compounded by heightened market risks, currency risk and liquidity risk.

A period in which compliance risk took the front seat as regulators stepped up enforcement actions and political exposure received closer attention.

For NOVA Merchant Bank, the outlook was viewed as an opportunity to optimize our risk and governance processes and position the Bank to benefit from market and regulatory developments. In summary, it has been a very engaging year of risk management. Various risk management initiatives came to fruition during the period which deepened the range of risk management tools/processes that assisted the Bank in managing risk over the period.

Bespoke Enterprise Risk Management

Helping our stakeholders achieve their goals lies at the heart of our processes as we apply bespoke risk management framework in identifying, assessing, monitoring, controlling and reporting the inherent and residual risks associated with the pursuit of these ambitions and ensuring they are achieved the right way.

As we deepen our presence in the market, proactive Enterprise Risk Management Framework becomes even more critical.

NOVA Merchant Bank views and treats risks as an intrinsic part of business and maintains a disciplined approach to its management of risk. The risk functions remain dynamic and responsive to the needs of stakeholders as it improves its focus on the inter-relationships between risk types. It uses periodic reviews of risk exposure limits and risk control to position itself against adverse scenarios.

The Bank's risk management architecture, as designed, continued to balance corporate oversight with well-defined risk management functions which fall into one of three categories where risk must be managed: lines of business, governance & control, and audit. The Board of Directors and Management of the Bank are committed to constantly establishing, implementing and sustaining tested practices in risk management to match those of leading international banks.

We are convinced that the long-term sustainability of our Bank depends critically on the proper governance and effective management of our business. As such, risk management occupies a significant position of relevance and importance in the Bank.

Risk strategies and policies are set by the Board of Directors of NOVA Merchant Bank. These policies, which define acceptable levels of risk for day-to-day operations as well as the willingness of NOVA Merchant Bank to assume risk, weighed against the expected rewards are detailed in the Enterprise Risk Management (ERM) Framework, which is a structured approach to identifying opportunities, assessing the risk inherent in these opportunities and actively managing these risks in a cost-effective manner.

Specific policies are also in place for managing risks in the different core risk areas of credit, market and operational risks as well as for other key risks such as liquidity, strategic and reputational risks.

To some institutions, risk is viewed as a threat or uncertainty, but to us, it goes beyond that. Risk to us, presents potential opportunities to grow and develop our business within the context of our clearly articulated and Board-driven risk appetite.

Risk Management Framework

All activities and processes of NOVA Merchant Bank involve the identification, measurement, evaluation, acceptance and management of risk or combinations of risk. The Board, advised by the various Board and Management Risk Committees, requires and encourages a strong risk governance culture which shapes the Bank's attitude to risk. We believe that risk management encompasses the insights delivered by information which facilitate appropriate actions.

NOVA Merchant Bank benefits from having enhanced its Bank risk management framework, which gives full Bank-wide coverage of a variety of risks. Our annual risk cycle is designed to give management relevant, up-to-date information from which trends can be observed and assessed. The governance structure supporting our risk cycle is designed to deliver the right information, at the right time, to the right people.

Here in NOVA Merchant Bank, we have a holistic view of all major risks facing the Bank. We remain vigilant with regard to both known and emerging risks and ensure that we are strong enough to withstand any exogenous shock. Our Board-level risk committees play a critical role in providing oversight of risk management and ensuring that our risk

appetite, risk culture and risk profile are consistent with and support our strategy to deliver long-term, sustainable success in achieving our strategic vision of being Africa's preferred financial solution provider.

Risk, by definition, is dynamic in nature. The management of risk, consequently, must be evolving, necessitating regular review of the effectiveness of each enterprise risk management component.

We believe that understanding and managing our risks and continuously improving our controls are central to the delivery of our strategic objectives. The Board's risk committees play an active role in ensuring that we undertake well-measured, profitable risk-taking activities that support long-term sustainable growth.

Balancing Risk and Return

Balancing risk and return and taking cognizance of the capital required demands rigorous analysis. The ultimate aim is to optimize the upside and minimize the downside with a view to adding value to our shareholders and providing security to capital providers and clients, as well as ensuring overall sustainability in our business activities.

Every business activity in our Bank requires us to put capital at risk in exchange for the prospect of earning a return. In some activities, the level of return is quite predictable, whereas in other activities the level of return can vary over a very wide spectrum, ranging from a loss to a profit. Accordingly, over the past year we have expended substantial energy in improving our risk and capital management framework, to focus on taking risks where we:

- Understand the nature of the risks we are taking, and what the range of outcomes could be under various scenarios, for taking these risks;
- Understand the capital required in order to assume these risks;
- Understand the range of returns that we can earn on the capital required to back these risks.

Our objective of balancing risk, return, and capital has led us to enhance substantially our risk management methodologies, in order to be able to identify threats, uncertainties and opportunities and in turn develop mitigation and management strategies to achieve an optimal outcome.

Value is added for shareholders if our process allows us to demonstrate sustainable risk-adjusted returns in excess of our cost of capital. The process provides security to our capital providers and clients by assuring them that we are not taking on incremental risks which adversely affect the outcomes we have contracted to deliver to them.

NOVA Merchant Bank's Risk management philosophy and culture remain fundamental to the delivery of our strategic objectives. Risk management is at the core of the operating structure of the Bank. We seek to limit adverse variations in earnings and capital by managing risk exposures within our moderate risk appetite. Our risk management approach includes minimizing undue concentrations of exposure, limiting potential losses from stress events and the prudent management of liquidity.

Risk management is fundamental to the Bank's decision-making and management process. It is embedded in the role of all employees via the organizational culture, thus enhancing the quality of strategic, capital allocation and day-to-day business decisions. The Bank believes that enterprise risk management provides the superior capabilities to identify and assess the full spectrum of risks and to enable staff at all levels to better understand and manage risks. This will ensure that:

- Risk acceptance is done in a responsible manner;
- The Executive Committee and the Board of Directors have adequate risk management support;
- Uncertain outcomes are better anticipated;
- Accountability is strengthened; and
- Stewardship is enhanced.

Risk Appetite

Risk appetite is an articulation and allocation of the risk capacity or quantum of risk NOVA Merchant Bank is willing to accept in pursuit of its strategy, duly set and approved by the executive committee and the Board, and integrated into our strategy, business, risk and capital plans.

The risk appetite metrics were tracked against approved triggers and exceptions were reported to Management for prompt corrective actions. Key issues were also escalated to the Risk Management committee and the Board Risk Management Committee.

Risk management objectives

The broad risk management objectives of the Bank are:

- To identify and manage existing and new risks in a planned and coordinated manner with minimum disruption and cost;
- To protect against unforeseen losses and ensure stability of earnings;
- To maximize earnings potential and opportunities;
- To maximize share price and stakeholder protection;
- To enhance credit ratings, depositors, analyst, investor and regulator perception; and
- To develop a risk culture that encourages all staff to identify risks and associated opportunities and to respond to them with cost effective actions.

Scope of risks

The scope of risks that are directly managed by the Bank is as follows:

- Credit risk
- Operational risk
- Market and liquidity risk
- Legal and compliance risk
- Strategic risk
- Reputational risk
- Capital risk

These risks and the framework for their management are detailed in the enterprise risk management framework.

Responsibilities

The responsibilities of the Risk Management Division are highlighted below:

Risk Management Governance Framework

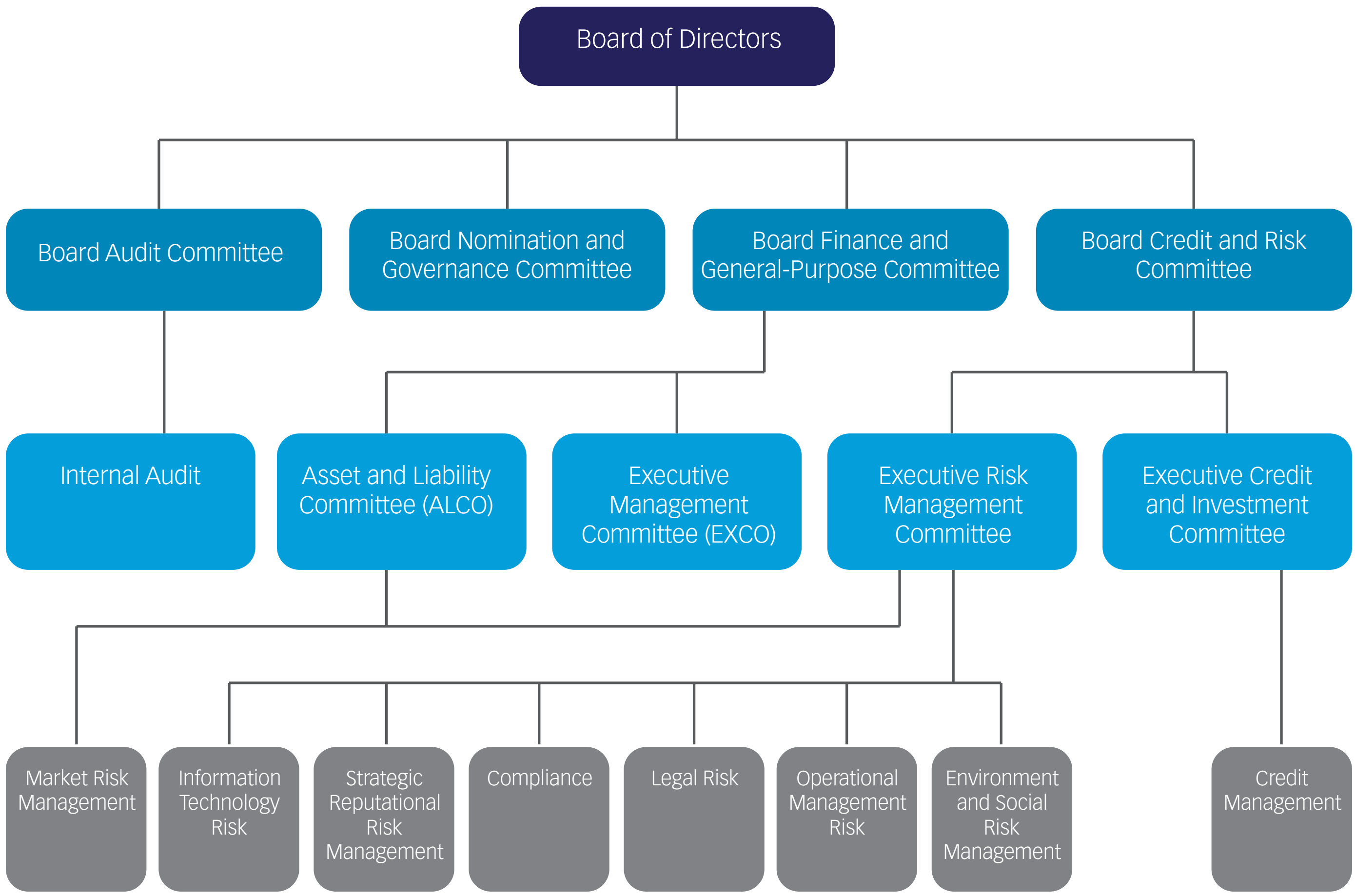
The framework details NOVA Merchant Bank's risk universe and governance structure comprising three distinct layers:

1. The enterprise-wide risk management and corporate governance committee forums;
2. The executive management committees; and
3. Risk management responsibilities per risk area.

Risk Management Governance Structure

Risk Management Organisational Framework

- NOVA Merchant Bank's Risk Management Governance Structure is depicted in the diagram below



The Board and management committees

The Board of Directors is the highest approval authority for credit risk policies and credit facilities in NOVA Merchant Bank. It carries out its oversight function through its standing committees each of which has a charter that clearly defines its purpose, composition, structure, frequency of meetings, duties, tenure, and reporting lines to the Board.

In line with best practice, the Chairman of the Board does not sit on any of the Committees. The Board has four standing committees namely: the Board Risk Management and Audit Committee, the Board Credit and Investment Committee, the Board Nomination and Governance Committee and the Board Finance & General Purpose Committee.

The management committees which exists in the Bank includes: The Executive Committee (EXCO), Risk Management Committee (RMC), Executive Credit and Investment Credit Committee (ECIC) and Asset & Liability Committee (Bank ALCO) . Without prejudice to the roles of these committees, the full Board retains ultimate responsibility for risk management.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events. Our definition of operational risk excludes regulatory risks, strategic risks and potential losses related solely to judgments with regard to taking credit, market, interest rate, liquidity, or insurance risks.

It also includes the reputation and franchise risk associated with business practices or market conduct in which the Bank is involved. Operational risk is inherent in NOVA Merchant Bank's global business activities and, as with other risk types, is managed through an overall framework designed to balance strong corporate oversight with well- defined independent risk management.

This framework includes:

- recognized ownership of the risk by the businesses
- oversight by independent risk management
- independent review by Corporate Audit

We seek to minimise exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The goal is to keep operational risk at appropriate levels relative to the characteristics of our businesses and the markets in which we operate, our capital and liquidity, and the competitive, economic and regulatory environment. Notwithstanding these controls, NOVA Merchant Bank incurs operational losses.

Our operational risk strategy seeks to minimise the impact that operational risk can have on shareholders' value. The Bank's strategy is to:

- Reduce the likelihood of occurrence of expected events and related cost by managing the risk factors and implementing loss prevention or reduction techniques to reduce variation to earnings;
- Minimise the impact of unexpected and catastrophic events and related costs through risk financing strategies that will support the Bank's long term growth, cash flow management and balance sheet protection;
- Eliminate bureaucracy, improve productivity, reduce capital requirements and improve overall performance through the institution of well designed and implemented internal controls

In order to create and promote a culture that emphasizes effective operational management and adherence to operating controls, there are three distinct levels of operational risk governance structure in NOVA Merchant Bank.

Level 1 refers to the oversight function carried out by the Board of Directors, Board risk committee and the executive management. Responsibilities at this level include ensuring effective management of operational risk and adherence to the approved operational risk policies.

Level 2 refers to the management function carried out by operational risk management. It has direct responsibility for formulating and implementing the Bank's operational risk management framework including methodologies, policies and procedures approved by the Board.

Level 3 refers to the operational function carried out by all business units and support functions in the Bank. These units/functions are fully responsible and accountable for the management of operational risk in their units. They work in liaison with operational risk management to define and review controls to mitigate identified risks. Internal audit provides independent assessment and evaluation of the Bank's operational risk management framework.

This periodic confirmation of the existence and utilization of controls in compliance with approved policies and procedures, provide assurance as to the effectiveness of the Bank's operational risk management framework. Some of the tools being used to assess, measure and monitor operational risks in the Bank include;

A loss database of operational risk events; an effective risk and control self-assessment process that helps to analyse business activities and identify operational risks that could affect the achievement of business objectives; and key risk indicators which are used to monitor operational risks on an ongoing basis.

The Bank's operational risk framework

The Bank's current operational risk framework was implemented in 2018 to meet internal and regulatory requirements. There has been significant investment in the implementation of improved measurement and management approaches for operational risk to strengthen control, improve customer service, improve process efficiencies and minimize operating losses.

The Bank recognizes the fact that It is neither cost-effective nor possible to attempt to eliminate all operational risks. Events of small significance are thus expected to occur and are accepted as inevitable with relevant budgeting for these losses where appropriate. Events of material significance are limited, and the Bank seeks to reduce the risk from these extreme events in a framework consistent with its agreed risk appetite. Processes are in place to monitor the management and future mitigation of such events.

Management and control responsibilities

The first line of governance for managing operational risk rests with business and operational risk management forms part of the day-to-day responsibilities of all business unit management. Business unit staff report any identified breakdowns in control and any risk events that may result in financial loss and/or reputation damage. Amongst others, business management are responsible to ensure that processes for identifying and addressing ineffective controls and the mitigating of risk events are implemented and executed.

Operational Risk teams form the secondary line of governance by ensuring that processes to identify weaknesses are effective and identified weaknesses are acted upon. The Bank's operational risk profile is presented to the Board quarterly. Control effectiveness is monitored at the Risk Management Committee (RMC) and at the Board; and the multi-layered system of defenses ensures pro-active operational risk management.

Measuring and managing operational risk

The Bank recognizes the significance of operational risk and is committed to enhancing the measurement and management thereof. Within the Bank's operational risk framework, qualitative and quantitative methodologies and tools are applied (Bank-wide) to identify and assess operational risks and to provide management information for determining appropriate mitigating measures.

Risk event data collection and reporting

A standard process is used for the recognition, capture, assessment, analysis and reporting of risk events. This process is used to help identify where process and control requirements are needed to reduce the recurrence of risk events. Risk events are loaded onto a central database and reported monthly to the RMC.

Risk and Control Self-Assessments (RCSA)

In order to pro-actively identify and actively mitigate risks, the operational risk framework utilises RCSAs. RCSA is used at a granular level to identify relevant material risks and key controls mitigating these risks. The risks and controls are assessed on a quarterly basis and relevant action plans are put in place to treat, tolerate, terminate or transfer the risks, taking into account the relevant business risk appetites.

The RCSA programme is extensive and covers the entire Bank. The Internal Audit further tests the effectiveness of the RCSAs within the normal course of auditing and relevant metrics are monitored and actioned where relevant.

Key Risk Indicators (KRIs)

A comprehensive set of KRIs are in place across the Bank, with relevant and agreed thresholds set by the business. KRIs are monitored on a Bank as well as business unit level, based on significance. Threshold breaches are managed in accordance with an agreed process across the Bank.

Reporting

Business units are required to report on both a regular and an event-driven basis. The reports include a profile of the key risks to their business objectives, RCSA and KRI results, and operational risk events. Risk reports are presented to executive management and risk committees.

Information Security and Continuity of Business

Information security and the protection of confidential and sensitive customer data are a priority of NOVA Merchant Bank. The Bank has developed and implemented an Information Security Risk Management framework that is in line with best practice. The framework is reviewed and enhanced regularly to address emerging threats to customers' information.

The Bank mitigates business continuity risks by reviewing and testing recovery procedures. Regular awareness campaigns are also used to drive information security and business continuity culture in the Bank.

Strategic Risk Management

In NOVA Merchant Bank, we define Strategic Risk as the process for identifying, assessing and managing risks and uncertainties, affected by internal and external events or scenarios that could inhibit the Bank's ability to achieve its strategy and strategic objectives with the ultimate goal of creating and protecting shareholder and stakeholder value. It is a primary component and necessary foundation of our Enterprise Risk Management.

Strategic risk management, therefore, is defined as current or prospective risk to earnings and capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. It can also be defined as the risk associated with future business plans and strategies, including plans for entering new business lines, expanding existing services through mergers and acquisitions, and enhancing infrastructure.

A well-defined structure for managing strategic risk exists in NOVA Merchant Bank. It provides a process for the Bank to identify and assess potential risks posed by its strategic plan and consider whether they have adequate capacity to withstand the risks. Strategic risk management involves various organizational functions within the Bank. The following principles govern the Bank's strategic risk management:

The Board and Senior management are responsible for strategic risk management and oversee the effective functioning of the strategic risk management framework; The functional units (i.e. the units which carry out business or operational functions) assists the Board and senior management in formulating and implementing strategies, and in providing input to the strategic planning and management processes; and as well as implementing the strategic risk management framework.

The strategic risk management functions support the Board and senior management in managing strategic risk and other related processes in the Bank.

Strategic plans are approved and monitored by the Board. Regular environmental scan, business strategy sessions and workshops are set up to discuss business decisions, close monitoring to ensure that strategic plans are properly aligned with the business model, regular performance review by EXCO and business plans are approved by the Board.

The Bank also maintains a well-defined succession plan, proper monitoring and well-defined structures to align its activities to international best practices.

Reputational Risk Management

Reputational risk arises when the Bank's reputation is damaged by one or more reputational events from negative publicity about the organization's business practices, conduct or financial condition. The Bank's Strategic and Reputational Risk Management is mandated to protect the Bank from potential threats to its reputation.

NOVA Merchant Bank takes the management of reputational risks seriously because of their far-reaching implications which are buttressed by the fact that the Bank operates under:

- A highly regulated financial services industry with high visibility and vulnerability to regulatory actions that may adversely impact its reputation. (e.g. corporate governance crises);
- Keen competition and largely homogeneous products and services have led customers not to perceive significant differences between financial service providers; and
- Given the financing nature of products and services they provide, Banks are not only exposed to their own reputation, but also to the reputation of their clients.

With banks operating and competing in a global environment, risks emerging from a host of different sources and locations is difficult to keep up with and to know how best to respond if they occur. The effects of the occurrence of a reputational risk event include but are not limited to the following:

- Loss of current or future customers;
- Loss of public confidence;
- Loss of employees leading to an increase in hiring costs, or staff downtime;
- Reduction in current or future business partners;
- Regulatory sanctions;
- Increased costs due to government regulations, fines, or other penalties; and
- Loss of banking license.

It is the Bank's policy that, at all times, the protection of the Bank's reputation should take priority over all other activities, including revenue generation. Reputational risk will arise from the failure to effectively mitigate one or more of country, credit, liquidity, market, regulatory and operational risk.

It may also arise from the failure to comply with social, environmental and ethical standards. All employees are responsible for day-to-day identification and management of reputational risk.

The desired risk appetite for reputation is low risk. The Bank will ensure that highest ethical standards are followed at all times and the code of conduct policy will be strictly implemented.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2019

The Companies and Allied Matters Act and the Banks and Other Financial Institutions Act, require the directors to prepare financial statements for each financial year that gives a true and fair view of the state of financial affairs of the Bank at the end of the year and of its profit or loss. The responsibilities include ensuring that the Bank:

i. Keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank and comply with the requirements of the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act;

ii. Establishes adequate internal controls to safeguard its assets and to detect and prevent fraud and other irregularities; and

iii. Prepares financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates that are consistently applied.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported byreasonable and prudent judgements and estimates, in conformity with,

- International Financial Reporting Standards;
- Prudential Guidelines for Licensed Banks in Nigeria;
- Relevant circulars issued by the Central Bank of Nigeria;
- The requirements of the Banks and Other Financial Institutions Act and
- The requirements of the Companies and Allied Matters Act.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of the financial performance and cash-flows for the period. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least twelve months from the date of this statement.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Mr. Anya Duroha
Managing Director/CEO
FRC/2018/CIBN/00000018990

Mr. Phillips Oduoza
Chairman
FRC/2013/CIBN/00000001955

18 February, 2020

Independent auditor's report

To the Members of Nova Merchant Bank Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Nova Merchant Bank Limited ("the bank") and its subsidiary (together "the group") as at 31 December 2019, and of their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act, the Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria Act.

What we have audited

Nova Merchant Bank Limited's consolidated and separate financial statements comprise:

- the consolidated and separate statements of comprehensive income for the year ended 31 December 2019;
- the consolidated and separate statements of financial position as at 31 December 2019;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), i.e. the IESBA Code issued by the International Ethics Standards Board for Accountants. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances – N31 million (refer to notes 2.5, 4.1, 8 and 20) We focused on this area because management exercises significant judgement, using subjective assumptions when determining both the timing and the amounts to recognise as impairment on loans and advances to customers. The key areas of judgment are as follows: • the definition of credit impaired financial assets focusing on both the qualitative and quantitative criteria used by the Bank; • the identification of exposures with a significant increase in credit risk (SICR) focusing on both the qualitative and quantitative criteria used by the Bank; • the determination of the 12-month probability of default (PD) for stage 1 loans using obligor risk ratings and external agency PD as well as extrapolation of lifetime PD; • determining the appropriateness of the Loss Given Default (LGD) used in expected credit losses and assumptions on haircuts and recovery rates; • estimating the credit equivalent factor of Off-balance sheet exposures used in determining the lifetime exposure at default (EAD); and • determining the economic scenarios used in the ECL model and making judgment on the probability weights for the scenarios. This is considered a key audit matter in the consolidated and separate financial statements.	Our procedures included: • reviewing the bank's definition of default, criteria applied by management for determining SICR and checking its alignment with the requirements of the standard; • performing detailed reviews of related customer files and account statements to determine whether they were in default per management's definition; • checking that staging rules are properly applied in line with the requirements of IFRS 9 by establishing that quantitative, qualitative and backstop indicators are considered in classifying financial assets into different stages; • examining the appropriateness of the probability of default (PD) by checking assigned PDs for each rating scale to external source data and checking that Lifetime PDs were correctly computed considering each customer individual maturities; • evaluating the reasonableness of the Loss Given Default (LGD) by reviewing collateral values along with assumptions on haircut and recovery rates. We also reviewed the LGD calculations to test for accuracy; • reviewing the appropriateness of the credit equivalent factor used in determining the exposure at default for off-balance sheet loan commitments and financial guarantees; • establishing the sensitivity of the risk drivers to macro-economic factors (forward-looking assumptions) by checking the p-values for appropriateness. We also reviewed the validity of the multiple economic scenarios chosen as well as their probability weights by evaluating the soundness and robustness of the methodology; • Checking the adequacy of disclosures in the financial statements.

Other information

The directors are responsible for the other information. The other information comprises Corporate Information, Corporate Governance Report, Directors Report, Report of the Audit Committee, Risk Management Report, Statement of Directors' Responsibilities, Value Added Statement and Three-year financial summary but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the consolidated and separate financial statements

The directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act, the Financial Reporting Council of Nigeria Act, the Banks and Other Financial Institutions Act, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our

auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Companies and Allied Matters Act and the Banks and Other Financial Institutions Act require that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) the bank has kept proper books of account, so far as appears from our examination of those books;

iii) the bank's statement of financial position and statement of comprehensive income are in agreement with the books of account;

iv) the information required by Central Bank of Nigeria Circular BSD/1/2004 on insider related credits is disclosed in Note 37 to the consolidated and separate financial statements; and

v) as disclosed in Note 36 to the consolidated and separate financial statements, the bank paid a penalty in respect of contravention of a certain section of the Banks and Other Financial Institutions Act and relevant circulars issued by the Central Bank of Nigeria during the year ended 31 December 2019.

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
36/ICAN
0727951

For: **PricewaterhouseCoopers**
Chartered Accountants
Lagos, Nigeria

24 February 2020

Engagement Partner: Patrick Obianwa
FRC/2013/ICAN/00000000880

Audited Reports for the Period Ended December 31, 2019

The Board of Directors of Nova Merchant Bank is pleased to announce the Bank's audited results for the period ended December 31, 2019.

The statement of financial position, statement of comprehensive income, report of the independent auditor and specific disclosures are published in compliance with the requirements of S.27 of the Banks and Other Financial Institutions Act. The information disclosed have been extracted from the full financial statements of the bank and cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the bank as the full financial statements. Copies of the full financial statements can be obtained from the bank's secretariat. In line with Central Bank of Nigeria (CBN) circular referenced FPR/DIR/CIR/GEN/01/020, the bank received, processed and resolved nil customer complaints during the period.

The Bank paid two million naira to the CBN which was a penalty for not having deal slips in the trade and invisible files of some customers in line with memorandum 5(b)(ii)(d) of the foreign exchange manual.

NOVA MERCHANT BANK LIMITED
STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	GROUP 31 Dec 2019 N000	BANK 31 Dec 2019 N000	BANK 31 Dec 2018 N000
ASSETS			
Balances with banks	4,861,169	4,861,169	1,195,794
Financial assets held for trading	722,877	722,877	3,828,375
Loans to banks and other financial institutions	7,035,382	7,035,382	3,883,786
Loans and advances to customers	29,285,504	29,285,504	2,427,818
Investment securities	12,827,857	12,826,295	9,222,403
Investment in subsidiaries	-	150,000	-
Derivative financial assets	1,460,523	1,460,523	20,753
Pledged assets	2,497,380	2,497,380	1,192,312
Property and equipment	1,093,921	1,092,576	1,213,250
Right-of-use asset	280,871	280,871	-
Intangible assets	805,796	777,071	727,568
Other assets	2,491,126	2,372,154	979,583
Deferred tax assets	443,497	443,497	294,497
Total assets	**63,805,903**	**63,805,299**	**24,986,139**
LIABILITIES			
Due to customers	40,512,882	40,512,940	6,494,473
Derivative financial liabilities	1,446,598	1,446,598	87,319
Lease liability	82,825	82,825	-
Current tax liabilities	15,264	15,264	9,606
Other liabilities	2,193,532	2,187,861	783,310
Total liabilities	**44,251,101**	**44,245,488**	**7,374,708**
EQUITY			
Share capital	16,000,000	16,000,000	16,000,000
Statutory reserve	993,683	993,683	498,468
Retained earnings	1,807,169	1,812,178	1,115,666
Fair value reserve	247,533	247,533	(50,131)
Regulatory risk reserve	506,417	506,417	47,428
Total equity attributable to owners of the Bank	**19,554,802**	**19,559,811**	**17,611,431**
Total liabilities and equity	**63,805,903**	**63,805,299**	**24,986,139**

NOVA MERCHANT BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
for the Year Ended 31 December 2019

	GROUP Year ended 31 Dec 2019 N'000	BANK Year ended 31 Dec 2019 N'000	BANK Year ended 31 Dec 2018 N'000
Interest income	4,536,246	4,529,392	1,876,519
Interest expense	(2,329,665)	(2,343,268)	(373,347)
Net interest income	**2,206,581**	**2,186,124**	**1,503,172**
Impairment charge for credit losses	(78,766)	(78,766)	(1,148)
Fee and commission income	309,611	267,072	29,068
Net gains on financial instruments held for trading	765,117	765,117	545,475
Net foreign exchange gain	246,116	246,116	302,419
Other income	11,281	11,281	1,987
Operating expenses	(1,948,063)	(1,880,058)	(1,420,382)
Profit before tax	**1,511,877**	**1,516,885**	**960,591**
Income tax	133,831	133,831	190,394
Profit after tax	**1,645,708**	**1,650,717**	**1,150,985**
Items that may be subsequently reclassified to the income statement:			
Net changes in fair value of financial instruments FVOCI	297,664	297,664	(50,131)
Other comprehensive loss, net of related tax effects:	**297,664**	**297,664**	**(50,131)**
Total comprehensive income for the period	**1,943,372**	**1,948,381**	**1,100,854**

The financial statements were approved by the board of directors on 18 February 2020 and signed on their behalf by:

PHILLIPS ODUOZA	ANYA DUROHA	IFEANYI CHUKWUONYE
CHAIRMAN	MANAGING DIRECTOR	CHIEF FINANCIAL OFFICER
FRC/2013/CIBN/00000001955	FRC/2018/CIBN/00000018990	FRC/2013/ICAN/00000000790

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
TO THE MEMBERS OF NOVA MERCHANT BANK LIMITED

REPORT ON THE SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion
The summary consolidated and separate financial statements (the "summary financial statements"), which comprise the summary consolidated and separate statements of financial position as at 31 December 2019 and the summary consolidated and separate statements of comprehensive income for the year then ended are derived from the audited consolidated and separate financial statements (the "audited financial statements") of Nova Merchant Bank Limited ("the Bank") and its subsidiary company (together the "Group") for the year ended 31 December 2019.

In our opinion, the accompanying summary financial statements are consistent in all material respects, with the audited financial statements, in accordance with the requirements of the Companies and Allied Matters Act, the Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria Act.

Summary financial statements
The summary financial statements do not contain all the disclosures required by the International Financial Reporting Standards, the Companies and Allied Matters Act, the Financial Reporting Council of Nigeria Act, the Banks and Other Financial Institution Act and other relevant Central Bank of Nigeria circulars applied in the preparation of the audited financial statements of the Group and Bank. Therefore, reading the summary financial statements and the auditor's report thereon, is not a substitute for reading the audited financial statements and the auditor's report thereon.

The audited financial statements and our report thereon
We expressed an unmodified audit opinion on the audited financial statements in our report dated 24 February 2020. That report also includes the communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period.

Directors' responsibility for the summary financial statements
The directors are responsible for the preparation of the summary financial statements in accordance with the requirements of the Companies and Allied Matters Act, the Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria Act.

Auditor's responsibility
Our responsibility is to express an opinion on whether the summary financial statements are consistent , in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), 'Engagements to Report on Summary Financial Statements'.

Report on other legal and regulatory requirements
In accordance with our full audit report, we confirm that:

i) we did not report any exceptions under the sixth schedule of the Companies and Allied Matters Act;
ii) the Bank has disclosed the information required by the Central Bank of Nigeria circular on insider related credits;
iii) the Bank paid penalties in respect of contraventions of relevant circulars issued by the Central Bank of Nigeria during the year ended 31 December 2019.

For: PricewaterhouseCoopers
Chartered Accountants
Engagement partner: Patrick Obianwa
FRC/2013/ICAN/00000000880
Lagos, Nigeria

24 February 2020

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

In thousands of Naira	Note	Group December 2019	Bank December 2019	Bank December 2018
Interest income	6	4,536,246	4,529,392	1,876,519
Interest expense	7	(2,329,665)	(2,343,268)	(373,347)
Net interest income		2,206,581	2,186,124	1,503,172
Impairment charge for credit losses	8	(78,766)	(78,766)	(1,148)
Fee and commission income	9	309,611	267,072	29,068
Net gains on financial instruments held for trading	10	765,117	765,117	545,475
Net foreign exchange gain	11	246,116	246,116	302,419
Other income	12	11,281	11,281	1,987
Operating expenses	13	(1,948,063)	(1,880,058)	(1,420,382)
Profit before tax		1,511,877	1,516,886	960,591
Income tax	14	133,831	133,831	190,394
Profit for the year		1,645,708	1,650,717	1,150,985
Items that may be subsequently reclassified to the income statement:				
Net changes in fair value of financial assets FVOCI	31	297,664	297,664	(50,131)
Other comprehensive loss/(income), net of related tax effects:		297,664	297,664	(50,131)
Total comprehensive income for the period		1,943,372	1,948,381	1,100,854

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2019

In thousands of Naira	*Note*	Group December 2019	Bank December 2019	Bank December 2018
Assets				
Balances with banks	16	4,861,169	4,861,169	1,195,794
Financial assets held for trading	17	722,877	722,877	3,828,375
Loans to banks and other financial institutions	19	7,035,382	7,035,382	3,883,786
Loans and advances to customers	20	29,285,504	29,285,504	2,427,818
Investment securities	21b	12,827,857	12,826,295	9,222,403
Investment in subsidiaries	22	-	150,000	-
Derivative financial assets	18	1,460,523	1,460,523	20,753
Pledged assets	21a	2,497,380	2,497,380	1,192,312
Property and equipment	25	1,093,921	1,092,576	1,213,250
Right-of-use asset	26	280,871	280,871	-
Intangible assets	24	805,796	777,071	727,568
Other assets	23	2,491,126	2,372,154	979,583
Deferred tax assets	14	443,497	443,497	294,497
Total assets		63,805,903	63,805,299	24,986,139
Liabilities				
Due to customers	27	40,512,882	40,512,940	6,494,473
Derivative financial liabilities	18	1,446,598	1,446,598	87,319
Lease liability	26	82,825	82,825	-
Current tax liabilities	14	15,264	15,264	9,606
Other liabilities	28	2,193,532	2,187,861	783,310
Total liabilities		44,251,101	44,245,488	7,374,708
Equity				
Share capital	29	16,000,000	16,000,000	16,000,000
Statutory reserve	31	993,683	993,683	498,468
Retained earnings	31	1,807,169	1,812,178	1,115,666
Fair value reserve	31	247,533	247,533	(50,131)
Regulatory risk reserve	31	506,417	506,417	47,428
Total equity attributable to owners of the Bank		**19,554,802**	**19,559,811**	**17,611,431**
Total liabilities and equity		**63,805,903**	**63,805,299**	**24,986,139**

The accompanying notes form an integral part of the financial statements. The financial statements were approved by the Board of Directors on 18 February 2020 and signed on its behalf by:

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

.... Phillips Oduoza - Chairman
FRC/2013/CIBN/00000001955

.... Anya Duroha - Managing Director
FRC/2018/CIBN/00000018990

Additional certification by:

.... Ifeanyi Chukwuonye - Chief Financial Officer
FRC/2013/ICAN/00000000790

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

GROUP	Share capital	Retained earnings	Statutory reserves	Fair value reserve	Regulatory risk reserve	Total
	N'000	N'000	N'000	N'000	N'000	N'000
Balance at 1 January 2019	16,000,000	1,115,666	498,468	(50,131)	47,428	17,611,431
						-
Total comprehensive income:						
Profit for the year	-	1,645,708	-	-	-	1,645,708
Other comprehensive income	-	-	-	297,664	-	297,664
Transfer to statutory reserves	-	(495,215)	495,215	-	-	-
Transfer to regulatory risk reserve	-	(458,989)	-	-	458,989	-
	-	(954,204)	495,215	297,664	458,989	1,943,372
At 31 December 2019	16,000,000	1,807,169	993,683	247,533	506,417	19,554,803

BANK	Share capital	Retained earnings	Statutory reserves	Fair value reserve	Regulatory risk reserve	Total
	N'000	N'000	N'000	N'000	N'000	N'000
Balance at 01 January 2019	16,000,000	1,115,666	498,468	(50,131)	47,428	17,611,430
						-
Total comprehensive income:						
Profit for the year	-	1,650,717	-	-	-	1,650,717
Other comprehensive income	-	-	-	297,664	-	297,664
Transfer to statutory reserves	-	(495,215)	495,215	-	-	-
Transfer to regulatory risk reserve	-	(458,989)	-	-	458,989	-
	-	(954,204)	495,215	297,664	458,989	1,948,381
At 31 December 2019	16,000,000	1,812,178	993,683	247,533	506,417	19,559,811

BANK	Share capital	Retained earnings	Statutory reserves	Fair value reserve	Regulatory risk reserve	Total
	N'000	N'000	N'000	N'000	N'000	N'000
Balance at 1 January 2018	16,000,000	357,403	153,173	-	-	16,510,576
Total comprehensive income:						
Profit for the year	-	1,150,985	-	-	-	1,150,985
Other comprehensive income	-	-	-	(50,131)	-	(50,131)
Transfer to statutory reserves	-	(345,295)	345,295	-	-	-
Transfer to regulatory risk reserve	-	(47,428)	-	-	47,428	-
	-	(392,722)	345,295	(50,131)	47,428	1,100,855
At 31 December 2018	16,000,000	1,115,666	498,468	(50,131)	47,428	17,611,431

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

In thousands of Naira	Note	Group December 2019	Bank December 2019	Bank December 2018
Cash flows from operating activities				
Profit before income tax		1,511,877	1,516,886	960,591
Adjustments for non-cash items:				
Depreciation charge on property and equipment	25	258,066	257,795	136,979
Depreciation charge on right of use asset	13	15,843	15,843	-
Amortisation of intangible assets	24	20,884	20,884	8,314
Gain on disposal of Property plant and equipment		(69)	(69)	-
Net interest income		(2,206,581)	(2,186,124)	(1,503,173)
Impairment charge on loans and advances	8	30,050	30,050	980
Impairment charge on loans to banks	8	78	78	2
		(369,852)	(344,657)	(396,307)
Changes in working capital				
Mandatory reserve deposits with the Central Bank of Nigeria	16	(1,286,185)	(1,286,185)	-
Loans and advances to customers		(26,887,737)	(26,887,737)	(2,405,635)
Financial instruments - FVPL		3,105,497	3,105,497	(3,828,375)
Derivative financial instruments		(80,491)	(80,491)	66,566
Other assets		(1,736,874)	(1,617,903)	16,577,754
Due to customers		33,533,440	33,533,499	6,480,177
Other liabilities		1,421,669	1,415,999	712,911
Cash from operations		**8,069,319**	**8,182,679**	**17,603,398**
Interest received		4,536,246	4,529,392	1,876,519
Interest paid		(1,844,696)	(1,858,300)	(359,051)
Income tax paid	14	(9,511)	(9,511)	(4,161)
Net cash from operating activities		**10,751,358**	**10,844,261**	**19,116,705**
Cash flows from investing activities				
Pledged assets		(1,305,067)	(1,305,067)	(1,192,312)
Investment securities - FVOCI		(3,307,789)	(3,306,227)	(9,272,534)
Investment in subsidiary		-	(150,000)	-
Purchase of property, plant and equipment	25	(155,962)	(154,346)	(1,036,545)
Proceeds from sale of property and equipment		17,293	17,293	-
Purchase of intangible assets	24	(99,110)	(70,385)	(732,817)
Net cash used in investing activities		**(4,850,635)**	**(4,968,732)**	**(12,234,208)**
Cash flows from financing activities				
Repayment of borrowings		-	-	(1,406,614)
Net cash generated from/(used in) financing activities		**-**	**-**	**(1,406,614)**
Net increase in cash and cash equivalents		5,530,870	5,530,870	5,079,580
Cash and cash equivalents at beginning of year		5,079,576	5,079,576	-
Cash and cash equivalents at end of year		**10,610,446**	**10,610,446**	**5,079,580**
Cash and cash equivalents comprise:				
Balances with banks (see note 16)		3,574,984	3,574,984	1,195,794
Placement with banks (see note 19)		7,035,462	7,035,462	3,883,786
		10,610,446	10,610,446	5,079,580

The accompanying notes form an integral part of the financial statements.

1.0 General Information

NOVA Merchant Bank Limited (''the Bank'') was incorporated on 17 May 2017 in Nigeria and is intended to carry on in Nigeria the business of Merchant Banking as may be prescribed by the Central Bank of Nigeria (CBN). The address of the registered office is 23 Kofo-Abayomi Street, Victoria Island, Lagos.

The Bank obtained its merchant banking licence on 13 December 2017 with a focus on wholesale and investment banking.

These separate and consolidated financial statements, for the year ended 31 December 2019, are prepared for the Parent and the Group (Bank and its subsidiary, separately referred to as "Group entity") respectively. The Parent and the Group are primarily involved in wholesale and investment banking.

2.0 Summary of significant accounting policy

The accounting policies adopted in the preparation of the financial statement of NOVA Merchant Bank Limited and its subsidiary ("the Group"), are set out below:

2.1 Basis of preparation

Statement of compliance with International Financial Reporting Standards

The Consolidated and separate financial statements of the parent and the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the provisions of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004 and the Financial Reporting Council Act No 6, 2011.

The financial statements are presented in naira and all values are rounded to the nearest thousand (N'000), except when otherwise indicated. The financial statements have been prepared on a historical cost basis except for the following:

- Derivative financial instruments are measured at fair value.
- Non-derivative financial instruments at fair value through profit or loss are measured at fair value.
- Hold to collect and sell financial assets are measured at fair value.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates and judgements. It also requires management to exercise its judgement in the process of applying IFRS accounting policies.

Changes in accounting policy and disclosures

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

IFRS 16 Leases

The Bank has applied IFRS 16 Leases with a date of initial application of 1 January 2019 and has changed its accounting policies for lease contracts. The Bank has applied IFRS 16 using the modified retrospective approach.

IFRIC 23 – Uncertainty over Income Tax Treatments

This standard which became effective 1 January 2019, clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over tax treatments under IAS 12. The Group has considered the guidance included within the interpretation and concluded that the prescribed approach does not have a material impact on the Group" (Last sentence may need to be modified).

Leases - Accounting policy before 1 January 2019:

As explained in above, the bank has changed its accounting policy for leases where the bank is the lessee. The new policy is described below and the impact of the change in note 26.

Until 31 December 2018. Leases in which a significant portion of the risks and rewards of ownership were not transferred to the group as lessee were classified as operating leases (note 23). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Leases - Accounting policy from 1 January 2019:

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

– the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If thesupplier has a substantive substitution right, then the asset is not identified;

– the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

– the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:

-the Bank has the right to operate the asset; or

-the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

The Bank has only one lease asset which is the building in which its operations are carried out. The contractual lease term is 10 years. However, it is reasonably certain that the Bank will extend its lease. The contract contains both lease and non-lease components. The Bank has elected to separate lease and non-lease components and treat them accordingly.

Until the 2018 financial year, lease of the property (building) was classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liabilities

At commencement date of a lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. Lease liabilities include the net present value of the following lease payments:

-fixed payments (including in-substance fixed payments), less any lease incentives receivable

-variable lease payment that are based on an index or a rate

-amounts expected to be payable by the Bank under residual value guarantees

-the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

The lease payments are discounted using the Bank's incremental borrowing rate, being the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

Right of use assets

Right-of-use assets are measured at cost, comprising the following:

-the amount of the initial measurement of lease liability
-any lease payments made at or before the commencement date less any lease incentives received
-any initial direct costs, and- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of- use asset is depreciated over the underlying asset's useful life.

Short-term leases and leases of low value

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. low value assets). Low-value assets are assets with lease amount of less than N1 million when new. Lease payments on short-term leases and leases of low-value assets are recognised as expense in profit or loss on a straight-line basis over the lease term. The bank has no leases of low value as at 2019 (2018: Nil).

Extension and termination options

Extension and termination options are included in all of the Bank's lease arrangements. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. Most of the extension options are subject to mutual agreement by the Bank and the lessors and some of the termination options held are exercisable only by the Bank.

Critical judgements

Extension and termination options - Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of properties, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the control of the Bank.

Impact of adoption of IFRS 16

This note explains the impact of the adoption of IFRS 16: Leases on the Bank's financial statements.

The Bank has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance of equity on 1 January 2019.

Practical expedients applied

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- electing not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Bank relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an arrangement contains a lease.

Impact on the financial statements

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 16.09%.

	As at 31 December 2018	Impact of IFRS 16 Reclassification	Remeasurement	As at 1 Jan 2019
	N'000	N'000	N'000	N'000
Assets				
Right-of-use assets	-	-	296,714	296,714
Prepayment	260,000	(225,333)	-	34,667
	260,000	**(225,333)**	**296,714**	**331,381**
Liabilities				
Non-current				
Lease liabilities	-	-	11,445	11,445
Current				
Lease liabilities	-	-	59,935	59,935
	-	-	**71,380**	**71,380**

	N'000
i) Reconciliation of lease liabilities as at 1 January 2019	
Operating lease commitments disclosed as at 31 December 2018	-
(Less): low-value leases recognised on a straight-line basis as expense	-
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	71,380
Lease liabilities recognised as at 1 January 2019	71,380

Current lease liabilities	11,445
Non-current lease liabilities	59,935
	71,380

ii) Right of use assets as at 1 January 2019

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31-Dec-19 N'000	1 Jan 2019 N'000
Building - Office	280,871	296,714
Total Right-of-use assets	280,871	296,714

		Amount under IAS 17	Impact of IFRS 16	Amount under IFRS 16
		N'000	N'000	N'000
Segment assets		26,000	254,871	280,871
Segment liabilities		-	82,826	82,826

Leases

This note provides information for leases where the Bank is a lessee.

Right-of-use assets

	N'000
Opening balance as at 1 January 2019	
Additions during the period	296,714
Closing balance as at 31 December 2019	-
	296,714
Depreciation	
Opening balance as at 1 January 2019	-
Additions during the period	15,843
Closing balance as at 31 December 2019	15,843
Net book value as at 31 December 2019	280,871

Lease liabilities

	N'000
Opening balance as at 1 January 2019	71,380
Additions during the period	-
Interest expense	11,445
Closing balance as at 31 December 2019	82,825
Current lease liabilities	11,445
Non-current lease liabilities	71,380
	82,825

Amounts recognised in the statement of profit or loss

	N'000
Depreciation charge of right-of-use assets	15,843
Interest expense	11,445
Expense relating to low value leases (included in administrative expenses)	-
	27,288

Amounts recognised in the statement of cash flows

	N'000
Total cash outflow for leases	-

New standards and interpretations not yet adopted.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current reporting period.

Amendments to IFRS 3 (Business Combination)

IFRS 3 (Business Combinations) outlines the accounting when an acquirer obtains control of a business (e.g. An acquisition or merger). In October 2018, after the post implementation review of IFRS 3, the IASB issued an amendment to IFRS 3 which centers majorly on the definition of a Business. They include:
• That to be considered a business, an acquired set of activities and assets must include, at minimum, an input and a substantive process that together significantly contribute to the ability to create outputs:
• Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.
• Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired.
• Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs: and
• Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The effective date is on or after 1st January 2020.

Amendment to IAS 1 and IAS 8

In October 2018, the IASB issued the definition of 'material'. The amendments are intended to clarify, modify and ensure that the definition of 'material' is consistent across all IFRS. in IAS 1 (Presentation of Financial Statements) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the revised definition of 'material' is quoted below:
"An information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity"

The amendments laid emphasis on five (5) ways material information can be obscured. These include:
• If the language regarding a material item, transaction or other event is vague or unclear;
• If information regarding a material item, transaction or other event is scattered in different places in the financial statements;
• If dissimilar items, transactions or other events are inappropriately aggregated;
• If similar items, transactions or other events are inappropriately disaggregated; and
• If material information is hidden by immaterial information to the extent that it becomes unclear what information is material.

The amendments are effective for annual reporting periods beginning on or after 1st January 2020.

Other new amendments not being deemed as being applicable to the group.

Amendments to IFRS 2 - Share Based Payment - Classification and measurment of share based

This standard clarifies classification and measurement of share based payment transactions with net settlement features for withholding tax obligations (i.e. equity settled share based payment for employees and cash settled share based payment for withholding taxes). It grants an exemption to alleviate operational issues encountered in dividing the share based payment into cash-settled and equity-settled component. The amendments also clarify modifications to terms and conditions that change classifications from cash-settled to equity-settled as well as application of non-market vesting conditions and market non-vesting conditions. These amendments do not have any material impact on the Group.

Amendments to IAS 19

This amendment was issued 7 February 2018 and became effective 1 January 2019. It prescribes the accounting for all types of employee benefits except share-based payment, to which IFRS 2 applies. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 requires an entity to recognise:
• a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
• an expense when the entity consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits.

The amendments clarify that:
• on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

2.2 Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group exercise control.

Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Control exists when the Parent has:
[i] power over the investee;
[ii] exposure, or rights, to variable returns from its involvement with the investee; and
[iii] the ability to use its power over the investee to affect the amount of the investor's returns

The Group reassess periodically whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed. The existence and effect of potential voting rights are considered when assessing whether the group controls another entity.

The Group assesses existence of control where it does not have more than 50% of the voting power i.e. when it holds less than a majority of the voting rights of an investee. A group considers all relevant facts and circumstances in assessing whether or not it's voting rights are sufficient to give it power, including:
'[i]a contractual arrangement between the group and other vote holders
[ii] rights arising from other contractual arrangements
'[iii] the group's voting rights (including voting patterns at previous shareholders' meetings)
[iv] potential voting rights

The subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Subsidiaries are measured at cost less impairment in the separate financial statement

(b) Business combinations

The Group applies IFRS 3 Business Combinations (revised) in accounting for business combinations.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights.

The Group measures goodwill at the acquisition date as the total of:
• the fair value of the consideration transferred; plus
• the recognized amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
• the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When this total is negative, a gain from a bargain purchase is recognised immediately in statement of comprehensive income.
The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement.

Transactions costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in the income statement.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

(c) Loss of control

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments.

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

The gain/loss arising from disposal of subsidiaries is included in the profit/loss of discontinued operations in the statement of comprehensive income, if the disposal subsidiary meets the criteria specified in IFRS 5. Foreign currency translation differences become realised when the related subsidiary is disposed.

(e) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(f) Transactions eliminated on consolidation

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

2.3 Foreign currency translation

2.3.1 Functional and presentational currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements of the Bank are presented in Nigerian naira, which is the functional currency of the Bank.

2.3.2 Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the year end translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments or qualifying net investment hedging instruments.

All foreign exchange gains and losses recognised in the Income statement are presented net in the Income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

2.4 Interest income and expense

Interest income and expense for all interest-earning and interest-bearing financial instruments are recognised in the income statement within "interest income" and "interest expense" using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, the next re-pricing date) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses.

The calculation of the effective interest rate includes contractual fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the Income statement include:
- Interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate basis.
- Interest on financial assets measured at fair value through profit or loss calculated on an effective interest rate basis.
- Interest on financial assets measured at fair value through OCI calculated on an effective interest rate basis.

Fair value gains and losses together with interest coupons are recognised in the income statement within net trading income.

2.5. Financial assets and liabilities

2.5.1 Recognition

Financial assets and liabilities are initially recognised on the settlement date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. All other financial assets and liabilities, including derivatives, are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instruments.

2.5.2 Classification and Measurement

Initial measurement of a financial asset or liability is at fair value plus transaction costs that are directly attributable to its purchase or issuance. For instruments measured at fair value through profit or loss, transaction costs are recognized immediately in profit or loss. Financial assets include both debt and equity instruments.

Financial assets are classified into one of the following measurement categories:
• Amortised cost
• Fair Value through Other Comprehensive Income (FVOCI)
• Fair Value through Profit or Loss (FVTPL) for trading related assets

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:
• How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
• The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
• How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
• The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments. Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:
• contingent events that would change the amount and timing of cash flows;
• leverage features;
• prepayment and extension terms;
• terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
• Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

a) Financial assets measured at amortised cost

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate method. Amortized cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization is included in Interest income in the Consolidated Statement of Income. Impairment on financial assets measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

b) Financial assets measured at FVOCI

Financial assets are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive Income (OCI), unless the instrument is designated in a fair value hedge relationship. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in Other Income in the Consolidated Statement of Income. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the Consolidated Statement of Income.
Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the Consolidated Statement of Income using the effective interest rate method. Impairment on financial assets measured at FVOCI is calculated using the expected credit loss approach.

c) Financial assets measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest. Financial assets may also be designated at FVTPL if by so doing eliminates or significantly reduces an accounting mismatch which would otherwise arise. These instruments are measured at fair value in the Consolidated Statement of Financial Position, with transaction costs recognized immediately in the Consolidated Statement of Income as part of Other Income. Realized and unrealized gains and losses are recognized as part of Other Income in the Consolidated Statement of Income.

d) Equity Instruments

The group initially measured all equity investments at fair value through profit or loss. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in net gains/(loss) on investment securities in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Financial liabilities are classified into one of the following measurement categories:
• Amortised cost
• Fair Value through Profit or Loss (FVTPL)

e) Financial Liabilities at fair value through profit or loss

Financial liabilities accounted for at fair value through profit or loss fall into two categories: financial liabilities held for trading and financial liabilities designated at fair value through profit or loss on inception.

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of shortterm profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the income statement and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'.

Financial Liabilities are designated at FVTPL when either the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or the financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required. For liabilities designated at fair value through profit or loss, all changes in fair value are recognized in Other Income in the Consolidated Statement of Income, except for changes in fair value arising from changes in the Bank's own credit risk which are recognized in OCI. Changes in fair value of liabilities due to changes in the Bank's own credit risk, which are recognized in OCI, are not subsequently reclassified to the Consolidated Statement of Income upon erecognition/extinguishment of the liabilities.

f) Financial Liabilities at amortised cost

Financial liabilities that are not classified at fair value through profit or loss fall into this category and are measured at amortised cost using the effective interest rate method. Financial liabilities measured at amortised cost are deposits from banks or customers, other borrowed funds, debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks, balances held with other banks , Money market placements and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the Statements of financial position.

2.5.3. Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. A change in the Group's business model will occurs only when the Group either begins or ceases to perform an activity that is significant to its operations such as:

• Significant internal restructuring or business combinations; for example an acquisition of a private asset management company that might necessitate transfer and sale of loans to willing buyers, this action will constitute changes in business model and subsequent reclassification of loans.
• Disposal of a business line i.e. disposal of a business segment.
• Any other reason that might warrant a change in the Group's business model asdetermined by management based on facts and circumstances.

The following are not considered to be changes in the business model:
• A change in intention related to particular financial assets (even in circumstances of significant changes in market conditions)
• A temporary disappearance of a particular market for financial assets.
• A transfer of financial assets between parts of the Group with different business models.

When reclassification occurs, the Group reclassifies all affected financial assets in accordance with the new business model. Reclassification is applied prospectively from the 'reclassification date'. Reclassification date is 'the first day of the first reporting period following the change in business model.

2.5.4. Modification of financial assets and liabilities
a. Financial assets

When the contractual terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognised at fair value. Any difference between the amortized cost and the present value of the estimated future cash flows of the modified asset or consideration received on derecognition is recorded as a separate line item in profit or loss as 'gains and losses arising from the derecognition of financial assets measured at amortized cost'.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, the Group shall assess whether there has been a significant ncrease in the credit risk of the financial instrument by comparing:

- the risk of a default occurring at the reporting date (based on the modified contractual terms); and
- the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms)

In determining when a modification to terms of a financial asset is substantial or not to the existing terms, the Bank will consider the following non-exhaustive criteria:

Quantitative criteria
A modification would lead to derecognition of existing financial asset and recognition of a new financial asset, i.e. substantial modification, if the discounted present value of the cash flows under the new terms, including any fees received net of any fees paid and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

In addition to the above, the bank shall also consider qualitative factors as detailed below.

Qualitative criteria
Scenarios where modifications will lead to derecognition of existing loan and recognition of a new loan, i.e. substantial modification, are:

• The exchange of a loan for another financial asset with substantially different contractual terms and conditions such as the restructuring of a loan to a bond; conversion of a loan to an equity instrument of the borrower
• Roll up of interest into a single bullet payment of interest and principal at the end of the loan term
• Conversion of a loan from one currency to another currency

Other factor to be considered:
• Extension of maturity dates: If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized (see above) and ECL are measured as follows:
• If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
• If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

b. Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

De-recognition of financial instruments

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2.5.5. Impairment of Financial Assets

In line with IFRS 9, the Group assesses the under listed financial instruments for impairment using Expected Credit Loss (ECL) approach:
• Amortized cost financial assets;
• Debt securities classified as at FVOCI;
• Off-balance sheet loan commitments; and
• Financial guarantee contracts.

Equity instruments and financial assets measured at FVTL are not subjected to impairment under the standard.

Expected Credit Loss Impairment Model

The Group's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either over the following twelve months or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The Group adopts a three-stage approach for impairment assesment based on changes in credit quality since initial recognition.

• Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
• Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
• Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The guiding principle for ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments since initial recognition. The ECL allowance is based on credit losses expected to arise over the life of the asset (life time expected credit loss), unless there has been no significant increase in credit risk since origination.

Measuring the Expected Credit Loss

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per Definition of default and credit-impaired above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

When estimating the ECLs, the Group considers three scenarios (optimistic, best-estimate and downturn) and each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limitation in recoveries achieved across different borrower. These LGDs are influenced by collection strategies, including contracted debt sales and price.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires that:

• The Group uses internal subject matter experts from Risk, Treasury and Business Divisions to consider a range of relevant forward looking data, including macro-economic forecasts and assumptions, for the determination of unbiased general economic adjustments in order to support the calculation of ECLs.

• Macro-economic variables taken into consideration include, but are not limited to, unemployment, interest rates, gross domestic product, inflation, crude-oil prices and exchange rate, and requires an evaluation of both the current and forecast direction of the macro-economic cycle.

• Macro-economic variables considered have strong statistical relationships with the risk parameters (LGD, EAD, CCF and PD) used in the estimation of the ECLs, and are capable of predicting future conditions that are not captured within the base ECL calculations.

• Forward looking adjustments for both general macro-economic adjustments and more targeted at portfolio / industry levels. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

Macroeconomic factors

The Group relies on a broad range of forward looking information as economic inputs, such as: GDP growth, unemployment rates, central bank base rates, crude oil prices, inflation rates and foreign exchange rates. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement.

The macroeconomic variables and economic forecasts as well as other key inputs are reviewed and approved by management before incorporated in the ECL model. Any subsequent changes to the forward looking information are also approved before such are inputted in the ECL model.

The macro economic variables are obtained for 3 years in the future and are reassessed regularly to ensure that they reflect prevalent circumstances and are up to date.

Where there is a non-linear relationships, one forward-looking scenario is never sufficient as it may result in the estimation of a worst-case scenario or a best-case scenario. The Bank's ECL methodology considers weighted average of multiple economic scenarios for the risk parameters (basically the forecast macroeconomic variables) in arriving at impairment figure for a particular reporting period. The model is structured in a manner that the final outcome, which is a probability cannot be negative.

SICR is assessed once there is an objective indicator of a deterioration in credit risk of customer. In addition, the Bank as part of its routine credit processes perform an assessment on a quarterly basis to identify instances of SICR.

Multiple forward-looking scenarios

The Group determines allowance for credit losses using three probability-weighted forwardlooking scenarios. The Group considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Group prepares the scenarios using forecasts generated by credible sources such as Business Monitor International (BMI), International Monetary Fund (IMF), Nigeria Bureau of Statistics (NBS), World Bank, Central Bank of Nigeria (CBN), Financial Markets Dealers Quotation (FMDQ), and Trading Economics.

The Group estimates three scenarios for each risk parameter (LGD, EAD, CCF and PD) – Normal, Upturn and Downturn, which in turn is used in the estimation of the multiple scenario ECLs. The 'normal case' represents the most likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

Assessment of significant increase in credit risk (SICR)

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors. The common assessments for SICR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region.

The Group adopts a multi factor approach in assessing changes in credit risk. This approach considers: Quantitative (primary), Qualitative (secondary) and Back stop indicators which are critical in allocating financial assets into stages.

The quantitative models considers deterioration in the credit rating of obligor/counterparty based on the Bank's internal rating system or External Credit Assessment Institutions (ECAI) while qualitative factors considers information such as expected forbearance, restructuring, exposure classification by licensed credit bureau, etc.

A backstop is typically used to ensure that in the (unlikely) event that the primary (quantitative) indicators do not change and there is no trigger from the secondary (qualitative) indicators, an account that has breached the 30 days past due criteria for SICR and 90 days past due criteria for default is transferred to stage 2 or stage 3 as the case may be except there is a reasonable and supportable evidence available without undue cost to rebut the presumption.

Definition of Default and Credit Impaired Financial Assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.
- Others include death, insolvency, breach of covenants, etc.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, loans that are more than 90 days past due are considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loan allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value.However, the loss allowance is disclosed and is recognised in the fair value reserve.

2.5.6. Write-off

The Group writes off an impaired financial asset (and the related impairment allowance), either partially or in full, where there is no reasonable expectation of recovery as set out in IFRS 9, paragraph 5.4.4. After a full evaluation of a non-performing exposure, in the event that either one or all of the following conditions apply, such exposure shall be recommended for write-off (either partially or in full):

- continued contact with the customer is impossible;
- recovery cost is expected to be higher than the outstanding debt;
- The bank's recovery method is foreclosing collateral and the value of the collateral is such that there is reasonable expectation of recovering the balance in full.

All credit facility write-offs shall require endorsement at the appropriate level, as defined by the Bank. Credit write-off approval shall be documented in writing and properly initialed by the approving authority.

A write-off constitute a derecognition event. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amount due. Whenever amounts are recovered on previously written-off credit exposures, such amount recovered is recognised as income on a cash basis only.

2.5.7. Offsetting financial instruments

Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the company or the counterparty.

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

2.5.8 Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs and subsequently accounted for depending on their classification as amortised cost, fair value through profit or loss or fair value through other comprehensive income.

2.5.9. Pledged assets

Financial assets transferred to external parties that do not qualify for de-recognition are reclassified in the statement of financial position from financial assets held for trading or investment securities to assets pledged as collateral, if the transferee has received the right to sell or re-pledge them in the event of default from agreed terms.

Initial recognition of assets pledged as collateral is at fair value, whilst subsequent measurement is based on the classification of the financial asset. Assets pledged as collateral are either designated as held for trading, Fair value through other comprehensive income or Amortized cost. Where the assets pledged as collateral are designated as held for trading, subsequent measurement is at fair value through profit and loss, whilst assets pledged as collateral designated as Fair value through other comprehensive income are measured at fair-value through equity. Assets pledged as collateral designated as Amortized cost are measured at amortized cost.

2.5.10. Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as external valuers.

The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group's policy.

2.5.11. Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, fnancial institutions and others onbehalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value ad subsequently measured at the higher of:
- The amount of the loss allowance
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15

Loan commitments provided by the Bank are measured as the amount of the loss allowance (calclulated as described in Note 4.1.3.3). The Bank has not provided any commitment to provide loans at a below- market interest rate or that can be settled net in cash or by delivering ot issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot seperately identify the expected credit losses on the undrawn commitment from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

2.6. Fees and Commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment year.

Fee and commission presented in the income statement includes:
- Credit related fees
- Account maintenance fees
- Management fee on loans
- Other fees and commission income, includes commission on letters of credit, account servicing fees, investment management and other fiduciary activity fees, sales commission, placement fees and syndication fees. These fees and commissions are recognised as the related services are performed

2.7. Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

All other repair and maintenance costs are recognised in income statement as incurred.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The Bank commences depreciation when the asset is available for use. Land is not depreciated.
The estimated useful lives are, as follows:

- Office equipment – 5 years
- IT equipment – 5 years
- Furniture and fittings – 5 years
- Motor vehicles – 5 years
- Leasehold improvement – 10 years

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Asset not available for use (including capital work in progress) are not depreciated. Upon completion capital work in progress assets are transferred to the relevant asset category. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

2.8. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in income statement in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortised on a straight-line basis over the expected useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in income statement in amortisation of intangible assets.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in income statement when the asset is derecognised.

2.9. Impairment of non–financial assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or band of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Bank bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

2.10. Taxes

2.10.1. Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Bank operates and generates taxable income.

The Bank has no uncertain taxes as at 31 December 2019.

Current income tax relating to items recognised directly is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. Detailed disclosures are provided in the notes.

2.10.2. Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

• Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

• In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of available-for-sale assets, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain. The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Bank's intention to settle on a net basis.

2.10.3. Employee benefits

Defined contribution plan

The Bank operates a defined contribution pension plan in accordance with the Pension Reform Act. Under the plan, the employee contributes 8% of basic salary, housing and transport allowances and the Bank contributes 10% on the same basis. Pension remittances are made to various PFAs on behalf of the Bank's staff on a monthly basis. The Bank has no further payment obligations once the contributions have been paid. Contribution payable is recorded as an expense under 'personnel expenses'. Unpaid contributions are recorded as a liability.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term employee benefits if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.0 Critical accounting estimates and judgments

These disclosures supplement the commentary on financial risk management (see note 4). Estimates where management has applied judgements are:
(i) Allowances for credit losses (ii)Valuation
of financial instruments
(iii) Assessment of recoverability of deferred tax assets

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.
This note provides and overview of the areas that involve a higher degree of judgement or complexitiy, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

(i) *Allowances for credit losses*

Loans and advances to banks and customers are accounted for at amortised cost and are evaluated for impairment on a basis described in accounting policy (see note 2.4)

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.
The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:
• The Bank's internal credit grading model, which assigns PDs to the individual grades
• The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
• The segmentation of financial assets when their ECL is assessed on a collective basis
• Development of ECL models, including the various formulas and the choice of inputs
• Determination of associations between macroeconomic scenarios and, economic inputs, such as exchange rates, crude oil prices, GDP and collateral values, and the effect on PDs, EADs and LGDs
• Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models. It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

(ii) *Valuation of financial instruments*

At 31 December 2019, the carrying value of the Group's financial instrument assets held at fair value was N46.9 billion (2018: N22.5 billion), and its financial instrument liabilities held at fair value was N42.7 billion (2018: N7.3 billion).

In accordance with IFRS 13 Fair Value Measurement, the Group categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models.

The valuation techniques for level 2 and, particularly, level 3 financial instruments involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information. Details about sensitivities to market risk arising from trading assets and other treasury positions can be found in Note 4.1.4.

(iii) *Recoverability of deferred tax assets*

The deferred tax assets include an amount of N443 million (2018: N294 million) which relates to mainly carried forward tax losses of the Bank. These losses arise due to tax-exempt nature of the Bank's income from government securities. The Bank has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the Bank. The Bank is expected to generate taxable income in the future. The losses can be carried forward indefinitely and have no expiry date.

3.1 Valuation of financial instruments

The table below analyses financial and non-financial instruments measured at fair value at the end of the financial year, by the level in the fair value hierarchy into which the fair value measurement is categorised:

3.1.1 Recurring fair value measurements

GROUP
In thousands of Naira

December 2019 Assets

	Level 1	Level 2	Total
Financial instrument held for trading			
- Treasury bills	722,877	-	722,877
Derivative financial assets	-	1,460,523	1,460,523
Pledged assets			
- Treasury bills/Bonds	2,497,380	-	2,497,380
Investment securities at FVOCI			
Treasury bills	12,827,857	-	12,827,857
	16,048,114	1,460,523	17,508,637
Liabilities			
Derivative financial liabilities	-	1,446,598	1,446,598
	-	1,446,598	1,446,598

BANK
December 2019

	Level 1	Level 2	Total
Assets			
Financial instrument held for trading			
- Treasury bills	722,877	-	722,877
Derivative financial assets	-	1,460,523	1,460,523
Pledged assets			
- Treasury bills/Bonds	2,497,380	-	2,497,380
Investment securities at FVOCI			
Treasury bills	12,826,295	-	12,826,295
	16,046,552	1,460,523	17,507,075
Liabilities			
Derivative financial liabilities	-	1,446,598	1,446,598
	-	1,446,598	1,446,598

There were no transfers between levels 1 and 2 during the year.

BANK
December 2018

	Level 1	Level 2	Total
Assets			
Financial instrument held for trading			
- Treasury bills	3,828,375	-	3,828,375
Derivative financial assets	-	20,753	20,753
Pledged assets			
- Treasury bills	1,192,312	-	1,192,312
Investment securities at FVOCI			
Treasury bills	9,222,403	-	9,222,403
	14,243,090	20,753	14,263,843
Liabilities			
Derivative financial liabilities	-	31,869	31,869
	-	31,869	31,869

3.1.2 The carrying value of financial assets and liabilities that are not measured at fair value approximate their fair values.

3.1.3 Recognised fair value measurements

(a) Financial instruments in 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 market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily classified as trading securities or available for sale investments.

(b) Financial instruments in level 2
The fair value of financial instruments that are not traded in an active market are determined by 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.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques used to value financial instruments include:
(i) Quoted market prices or dealer quotes for similar instruments;
(ii) The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
(iii) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(c) Financial instruments in level 3
There were no level 3 financial instruments with recurring fair value measurements as at year end.

(d) Valuation of financial instruments
Valuation techniques used to derive Level 2 fair values

Level 2 fair values of investments have been generally derived using the market approach. Below is a table showing an analysis of material items categorised as Level 2 fair values.

Description	Fair value as at 31 December 2019 (N'000)	Valuation technique	Observable Inputs
Derivative financial assets	1,460,523	Forward contracts: Fair value through market rate from a quoted market	Market rates from quoted market
Derivative financial liabilities	1,446,598		

3.2 Financial instruments

Financial instruments are categorised as stated below:

GROUP

December 2019 *In thousands of Naira*	Financial assets At fair value through profit or loss	Financial assets At fair value through other comprehensive income	Financial assets At amortised cost	Financial liabilty At fair value through profit or loss	Financial liabilty At amortised cost
Financial assets					
Balances with banks	-	-	4,861,169	-	-
Financial assets held for trading	722,877	-	-	-	-
Derivative financial assets	1,460,523	-	-	-	-
Loans to banks and other financial institutions	-	-	7,035,382	-	-
Loans and advances to customers	-	-	29,285,504	-	-
Investment securities at FVTOCI	-	12,827,857	-	-	-
Pledged assets	-	2,497,380	-	-	-
Other assets		-	2,446,237	-	-
Financial liabilities					
Derivative financial liabilities	-	-	-	1,446,598	-
Due to customers	-	-	-		40,512,882
Other liabilities	-	-	-	-	2,193,532
	2,183,400	**15,325,237**	**43,628,293**	**1,446,598**	**42,706,414**

BANK

December 2019 *In thousands of Naira*	Financial assets At fair value through profit or loss	Financial assets At fair value through other comprehensive income	Financial assets At amortised cost	Financial liability At fair value through profit or loss	Financial liability At amortised cost
Financial assets					
Balances with banks	-	-	4,861,169	-	-
Financial assets held for trading	722,877	-	-	-	-
Derivative financial assets	1,460,523	-	-	-	-
Loans to banks and other financial institutions	-	-	7,035,382	-	-
Loans and advances to customers	-	-	29,285,504	-	-
Investment securities at FVTOCI	-	12,826,295	-	-	-
Pledged assets	-	2,497,380	-	-	-
Other assets	-	-	2,327,265	-	-
Financial liabilities					
Derivative financial liabilities	-	-	-	1,446,598	-
Due to customers	-	-	-		40,512,940
Other liabilities	-	-	-	-	2,187,861
	2,183,400	**15,323,675**	**43,509,320**	**1,446,598**	**42,700,801**

December 2018 *In thousands of Naira*	Financial assets At fair value through profit or loss	Financial assets At fair value through other comprehensive income	Financial assets At amortised cost	Financial liabilty At fair value through profit or loss	Financial liabilty At amortised cost
Financial assets					
Balances with banks	-	-	1,195,794	-	-
Financial assets held for trading	3,828,375	-	-	-	-
Derivative financial assets	20,753	-	-	-	-
Loans to banks and other financial institutions	-	-	3,883,786	-	-
Loans and advances to customers	-	-	2,427,817	-	-
Investment securities at FVTOCI	-	9,222,403	-	-	-
Pledged assets	-	1,192,312	-	-	-
Other assets	-	-	1,169,804	-	-
Financial liabilities					
Derivative financial liabilities	-	-	-	31,869	-
Due to other financial institutions	-	-	-	-	427,787
Due to customers	-	-	-		6,066,686
Other liabilities	-	-	-	-	838,760
	3,849,128	**10,414,715**	**8,677,201**	**31,869**	**7,333,233**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

3.3 The table below sets out the classification of each class of financial assets and liabilities, and their fair values.

GROUP

In thousands of Naira	Fair value through profit or loss	Amortized cost	FVOCI	Financial Liabilities at fair value	Total carrying amount
31 December 2019					
Balances with banks	-	4,861,169	-	-	4,861,169
Financial instruments held for trading	722,877	-	-	-	722,877
Derivative financial assets	1,460,523	-	-	-	1,460,523
Loans to banks and other financial institutions	-	7,035,382	-	-	7,035,382
Loans and advances to customers	-	29,285,504	-	-	29,285,504
Pledged assets					
- Treasury bills	-	-	1,407,980	-	1,407,980
- Bonds	-	-	1,089,400	-	1,089,400
Investment securities at FVOCI	-	-	-	-	-
Other assets	-	2,446,237	-	-	2,446,237
	2,183,400	43,628,292	2,497,380	-	48,309,072
Derivative financial liabilities	-	-	-	1,446,598	1,446,598
Due to customers	-	40,512,882	-		40,512,882
Other liabilities	-	2,192,453	-		2,192,453
	-	**42,705,335**	**-**	**1,446,598**	**44,151,933**

BANK

In thousands of Naira	Fair value through profit or loss	Amortized cost	FVOCI	Financial Liabilities at fair value	Total carrying amount
31 December 2019					
Balances with banks	-	4,861,169	-	-	4,861,169
Financial instruments held for trading	722,877	-	-	-	722,877
Derivative financial assets	1,460,523	-	-	-	1,460,523
Loans to banks and other financial institutions	-	7,035,382	-	-	7,035,382
Loans and advances to customers	-	29,285,504	-	-	29,285,504
Pledged assets					
- Treasury bills	-	-	1,407,980	-	1,407,980
- Bonds	-	-	1,089,400	-	1,089,400
Investment securities at FVOCI	-	-	-	-	-
Other assets	-	2,327,265	-	-	2,327,265
	2,183,401	43,509,320	2,497,380	-	48,190,100
Derivative financial liabilities	-	-	-	1,446,598	1,446,598
Due to customers	-	40,512,940	-		40,512,940
Other liabilities	-	2,192,453	-		2,192,453
	-	**42,705,393**	**-**	**1,446,598**	**44,151,991**

In thousands of Naira	Fair value through profit or loss	Amortized cost	FVOCI	Financial Liabilities at fair value	Total carrying amount
31 December 2018					
Balances with banks	-	1,195,794	-	-	1,195,794
Financial instruments held for trading	3,828,375	-	-	-	3,828,375
Derivative financial assets	20,753	-	-	-	20,753
Loans to banks and other financial institutions	-	3,883,786	-	-	3,883,786
Loans and advances to customers	-	2,427,818	-	-	2,427,818
Pledged assets					
- Treasury bills	-	-	123,041	-	123,041
- Bonds	-	-	1,069,271	-	1,069,271
Investment securities at FVOCI	-	-	9,222,403	-	9,222,403
Other assets	-	707,473	-	-	707,473
	3,849,128	8,214,871	10,414,715	-	22,478,714
Derivative financial liabilities	-	-	-	87,319	87,319
Due to customers	-	6,494,473	-		6,494,473
Other liabilities	-	766,614	-		766,614
	-	**7,261,087**	**-**	**87,319**	**7,348,406**

4.0 Financial risk

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

i) Credit risk
ii) Liquidity risk
iii) Market risk

4.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from interbank, commercial and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letters of credit, endorsements and acceptances.

Nova Merchant Bank Limited is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties.

Credit risk is the single largest risk for the Bank's business; Management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in the risk management team which reports regularly to the Board of Directors.

4.1.1 Credit quality analysis

Nova Merchant Bank Limited uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as turnover and industry type) is fed into this rating model. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The following are additional considerations for each type of portfolio held by the Bank:

Corporate

For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating. This credit rating is then mapped to an external agency rating PDs. The external rating PD is leveraged at this time because the Bank does not have adequate default histories to develop an internal rating based PD.

Treasury

For debt securities in the Treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PD's associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

4.1.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 4.1.2.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 4.1.2.2 for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 4.1.2.2 includes an explanation of how the Bank has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following table summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition		
Stage 1	Stage 2	Stage 3
(initial recognition)	(Significant increase in credit risk since intial recognition)	(Credit-impaired assets)
12 month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

4.1.2.1 *Significant increase in credit risk*

The Bank considers a financial instrument to have experienced a significant increase in credit risk when the qualitative and backstop criteria detailed below have been met:

Quantitative criteria

The quantitative criteria is based on either absolute or relative changes in credit quality. In both cases, the Bank is expected to specify the percentage change, for either 12-month or lifetime PDs in comparison to the corresponding 12-month or lifetime PDs as calculated at origination, respectively, that would indicate a significant increase in credit risk since origination.

The Bank has not yet adopted the use of 12 month and lifetime PDs in the assessment of significant increase in credit risk.

Qualitative criteria:

Forward transitions: Credit Ratings

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.These factors vary depending on the nature of the exposure and the type of borrower. Notch differences between the current rating grade and inital ratings can be indicative of significant increase in credit risks.

The Bank specifies the number of notch increases that will be viewed as a significant increase in credit risk since origination. Assuming the account is currently classified as Stage 1, if the current credit rating increases by more notches than the specified number since origination, the account is classified as Stage 2.

In addition, if the accounts current credit rating is worse than the default credit rating indicator, also specified by the Bank, the account is classified as Stage 3.

These credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. For example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.The monitoring typically involves use of the following data.

Corporate exposure	All exposures
· Information obtained during periodic review of customer files — e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes.	· Payment record —this includes overdue status as well as a range of variables about payment ratios.
· Data from credit reference agencies, press articles, changes in external credit ratings	· Utilisation of the granted limit.
· Quoted bond prices for the borrower where available.	· Requests for and granting of forbearance.
· Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	· Existing and forecast changes in business, financial and economic conditions.

Qualitative criteria:

Forward transitions: Credit Ratings

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.These factors vary depending on the nature of the exposure and the type of borrower. Notch differences between the current rating grade and inital ratings can be indicative of significant increase in credit risks.

The Bank specifies the number of notch increases that will be viewed as a significant increase in credit risk since origination. Assuming the account is currently classified as Stage 1, if the current credit rating increases by more notches than the specified number since origination, the account is classified as Stage 2.

In addition, if the accounts current credit rating is worse than the default credit rating indicator, also specified by the Bank, the account is classified as Stage 3.

Using qualitative criteria, the Bank have defined significant increase in credit risk as a minimum rating downgrade of two notches.

Forward transitions: Backstop Criteria

Transition from Stage 1 to Stage 2 is based on the 30 days past due presumption. Transition from Stage 2 to Stage 3 is based on the 90 days past due presumption. The table below summarises the Stage classification based on the days past due.

1	0 to 29
2	30 to 89
3	90+

Forward transitions: Watchlist & Restructure

The Bank classifies accounts that are included on their Watchlist or have been restructured as Stage 2. For restructures, however, the Bank can specify if the restructure is due to a significant increase in credit risk.

4.1.2.2 *Definition of default*

Banks considers a financial asset to be in default which is fully aligned with the credit-impaired, when it meets one or more of the following criteria:

Quantitaive criteria

The borrower is more than 90 days past due on its contractual payments .

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance.
- The borrower is deceased.
- The borrower is insolvent.
- The borrower is in breach of financial covenant(s).
- An active market for that financial asset has disappeared because of financial difficulties.
- Concessions have been made by the lender relating to the borrower's financial difficulty.
- It is becoming probable that the borrower will enter bankruptcy.
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Bank's expected loss calculations. These terms have been defined in note 2.5.5.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

4.1.3 *Credit risk exposure*

4.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment

For ECL purposes, the Bank's financial asset is segmented into sub-portfolios as listed below
- Corporate loan portfolio
- Placement with other banks
- Off balance sheet exposures

All credit risk exposures on financial instruments for which ECL allowance is recognised have been classified as stage 1, investment grade.

The bank has not impaired balances with banks and other assets as it considers them to have low credit risk. This is because there has not been any increase in credit risk related to the balances in the year ended 31 December 2019.

	GROUP Loans to customers portfolio		BANK Loans to customers portfolio		BANK Loans to customers portfolio	
	2019		2019		2018	
ECL staging	Stage 1 12-month ECL	Total	Stage 1 12-month ECL	Total	Stage 1 12-month ECL	Total
	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade						
Investment grade	29,316,534	29,316,534	29,316,534	29,316,534	2,428,798	2,428,798
Gross carrying amount	29,316,534	29,316,534	29,316,534	29,316,534	2,428,798	2,428,798
Loss allowance	(31,030)	(31,030)	(31,030)	(31,030)	(980)	(980)
Carrying amount	29,285,504	29,285,504	29,285,504	29,285,504	2,427,818	2,427,818

	GROUP Placement with other Banks		BANK Placement with other Banks		BANK Placement with other Banks	
	2019		2019		2018	
ECL staging	Stage 1 12-month ECL	Total	Stage 1 12-month ECL	Total	Stage 1 12-month ECL	Total
	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade						
Investment grade	7,035,462	7,035,462	7,035,462	7,035,462	3,883,788	3,883,788
Gross carrying amount	7,035,462	7,035,462	7,035,462	7,035,462	3,883,788	3,883,788
Loss allowance	(80)	(80)	(80)	(80)	(2)	(2)
Carrying amount	7,035,382	7,035,382	7,035,382	7,035,382	3,883,786	3,883,786

	GROUP Off Balance Sheet Engagement		**BANK Off Balance Sheet Engagement**		**BANK Off Balance Sheet Engagement**	
	2019		**2019**		**2018**	
ECL staging	Stage 1 12-month ECL	Total	Stage 1 12-month ECL	Total	Stage 1 12-month ECL	Total
	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade						
Investment grade	33,117,124	33,117,124	33,117,124	33,117,124	3,281,426	3,281,426
Gross carrying amount	33,117,124	33,117,124	33,117,124	33,117,124	3,281,426	3,281,426
Loss allowance	(48,638)	(48,638)	(48,638)	(48,638)	(166)	(166)
Carrying amount	33,068,486	33,068,486	33,068,486	33,068,486	3,281,260	3,281,260

	GROUP Investment securities		BANK Investment securities		BANK Investment securities	
	2019		2019		2018	
ECL staging	Stage 1 12-month ECL	Total	Stage 1 12-month ECL	Total	Stage 1 12-month ECL	Total
	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade						
Investment grade	12,827,857	12,827,857	12,826,295	12,826,295	9,222,403	9,222,403
Gross carrying amount	12,827,857	12,827,857	12,826,295	12,826,295	9,222,403	9,222,403
Loss allowance	-	-	-	-	-	-
Carrying amount	12,827,857	12,827,857	12,826,295	12,826,295	9,222,403	9,222,403

	GROUP Pledged assets		BANK Pledged assets		BANK Pledged assets	
	2019		2019		2018	
ECL staging	Stage 1 12-month ECL	Total	Stage 1 12-month ECL	Total	Stage 1 12-month ECL	Total
	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade						
Investment grade	2,497,380	2,497,380	2,497,380	2,497,380	1,192,312	1,192,312
Gross carrying amount	2,497,380	2,497,380	2,497,380	2,497,380	1,192,312	1,192,312
Loss allowance	-	-	-	-	-	-
Carrying amount	2,497,380	2,497,380	2,497,380	2,497,380	1,192,312	1,192,312

Maximum exposure to credit risk – Financial instruments not subject to impairment
The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

	Maximum exposure to credit risk N'000
Financial assets held for trading	
• Debt Securities	722,877
• Derivatives	1,460,523

4.1.3.2 Collateral and other credit enhancements

Nova Merchant Bank Limited employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. Nova Merchant Bank Limited has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as external valuers.

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

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FOR THE YEAR ENDED 31 DECEMBER 2019

4.1.3.3 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

GROUP

Corporate loan portfolio

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
	N'000	N'000	N'000	N'000	N'000
Loss allowance as at 1 January 2019	980	-	-	-	980
New financial assets originated or purchased	30,050	-	-	-	30,050
Loss allowance as at 31 December 2019	31,030	-	-	-	31,030

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
	N'000	N'000	N'000	N'000	N'000
Gross carrying amount as at 1 January 2019	2,428,798	-	-	-	2,428,798
New financial assets originated or purchased	26,887,736	-	-	-	26,887,736
Gross carrying amount as at 31 December 2019	29,316,534	-	-	-	29,316,534

Placement with other Banks

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
	N'000	N'000	N'000	N'000	N'000
Loss allowance as at 1 January 2019	2	-	-	-	2
New financial assets originated or purchased	78	-	-	-	78
Loss allowance as at 31 December 2019	80	-	-	-	80

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
	N'000	N'000	N'000	N'000	N'000
Gross carrying amount as at 1 January 2019	3,883,788	-	-	-	3,883,788
New financial assets originated or purchased	3,151,674	-	-	-	3,151,674
Gross carrying amount as at 31 December 2019	7,035,462	-	-	-	7,035,462

Placements with Banks were secured 100% with FGN treasury bills.

Off balance sheet engagment

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased credit-impaired**	**Total**
	N'000	**N'000**	**N'000**	**N'000**	**N'000**
Loss allowance as at 1 January 2019	166	-	-	-	-
New financial assets originated or purchased	48,638	-	-	-	48,638
Loss allowance as at 31 December 2019	48,804				48,638

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
	N'000	N'000	N'000	N'000	N'000
Gross carrying amount as at 1 January 2019	3,281,426	-	-	-	3,281,426
New financial assets originated or purchased	29,835,698	-	-	-	29,835,698
Gross carrying amount as at 31 December 2019	33,117,124	-	-	-	33,117,124

BANK

Corporate loan portfolio

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
	N'000	N'000	N'000	N'000	N'000
Loss allowance as at 1 January 2019	980	-	-	-	980
New financial assets originated or purchased	30,050	-	-	-	30,050
Loss allowance as at 31 December 2019	31,030	-	-	-	31,030

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
	N'000	N'000	N'000	N'000	N'000
Gross carrying amount as at 1 January 2019	2,428,798	-	-	-	2,428,798
New financial assets originated or purchased	26,887,736	-	-	-	26,887,736
Gross carrying amount as at 31 December 2019	29,316,534	-	-	-	29,316,534

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FOR THE YEAR ENDED 31 DECEMBER 2019

Placement with other Banks

	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Loss allowance as at 1 January 2019	2	-	-	-	2
New financial assets originated or purchased	78	-	-	-	78
Loss allowance as at 31 December 2019	80	-	-	-	80

	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Gross carrying amount as at 1 January 2019	3,883,788	-	-	-	3,883,788
New financial assets originated or purchased	3,151,674	-	-	-	3,151,674
Gross carrying amount as at 31 December 2019	7,035,462	-	-	-	7,035,462

Placements with Banks were secured 100% with FGN treasury bills.

Off balance sheet engagment

	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Loss allowance as at 1 January 2019	166	-	-	-	166
New financial assets originated or purchased	48,472	-	-	-	48,472
Loss allowance as at 31 December 2019	48,638	-	-	-	48,638

	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Gross carrying amount as at 1 January 2019	3,281,426	-	-	-	3,281,426
New financial assets originated or purchased	29,835,698	-	-	-	29,835,698
Gross carrying amount as at 31 December 2019	33,117,124	-	-	-	33,117,124

BANK

Corporate loan portfolio

	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Loss allowance as at 1 January 2018					
New financial assets originated or purchased	980	-	-	-	980
Loss allowance as at 31 December 2018	980	-	-	-	980

	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Gross carrying amount as at 1 January 2018					
New financial assets originated or purchased	2,428,798	-	-	-	2,428,798
Gross carrying amount as at 31 December 2018	2,428,798	-	-	-	2,428,798

Placement with other Banks

	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Loss allowance as at 1 January 2018					
New financial assets originated or purchased	2				2
Loss allowance as at 31 December 2018	2				2

	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Gross carrying amount as at 1 January 2018					
New financial assets originated or purchased	3,883,788				3,883,788
Gross carrying amount as at 31 December 2018	3,883,788	-	-	-	3,883,788

Placements with Banks were secured 100% with FGN treasury bills.

Off balance sheet engagment

	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Loss allowance as at 1 January 2018					
New financial assets originated or purchased		166			166
Loss allowance as at 31 December 2018		166			166

	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Gross carrying amount as at 1 January 2018					
New financial assets originated or purchased	3,281,426				3,281,426

4.1.4 Sensitivity Analysis

Nova Merchant Bank has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change.

Corporate Portfolios

In establishing sensitivity to ECL estimates for Corporate portfolios, four variables (GDP growth rate, Oil Price, Inflation and US exchange rate were considered). Of this variables, the bank's wholesale portfolio reflects greater responsiveness to GDP growth rate and inflation

On balance sheet exposure

GDP growth rate : Given the signficant impact on companies performance and collateral valuations.
Inflation : Given it impacts on purchasing power, demand as well as overall health of the economy

The table below outlines the total ECL for wholesale portfolios as at 31 December 2019, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 10%. The responsiveness of the ECL estimates to variation in macroeconomic variables have been presented below while putting in perspective, interdependencies between the various economic inputs.

		GDP Growth rate		
		-10%	No change	+10%
Inflation	-10%	2,467	2,467	2,467
	No change	-	-	-
	+10%	(2,679)	(2,679)	(2,679)

Off balance Sheet Exposure

GDP growth rate : Given the signficant impact on companies performance and collateral valuations
Inflation : Given it impacts on purchasing power, demand as well as overall health of the economy

The table below outlines the total ECL for wholesale off balance sheet exposures as at 31 December 2018, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 10%. The responsiveness of the ECL estimates to variation in macroeconomic variables have been presented below while putting in perspective, interdependencies between the various economic inputs.

		Gross Domestic Product		
		-10%	No change	+10%
Oil Price	-10%	1,434	1,434	1,434
	No change	-		-
	+10%	(1,535)	(1,535)	(1,535)

4.1.5 Gross loans and advances to customers per sector is as analysed follows:

In thousands of Naira	Group December 2019	Bank December 2019	Bank December 2018
General	262,052	262,052	1,447,554
Building Materials	429	429	-
Human Health Activities	4,112	4,112	-
Oil and Gas Services	9,881,350	9,881,350	-
Oth Professional, Scientific and Tech Activities	1,137	1,137	-
Power Generation or Power Plants	112,107	112,107	-
Road Transport	4,808,245	4,808,245	-
Other Manufacturing (Industries)	14,247,102	14,247,102	981,242
	29,316,534	**29,316,534**	**2,428,796**

4.1.6 Credit quality by risk rating class

In thousands of Naira

Bank	Loans and advances to Corporates			Loans and advances to banks			Off balance sheet engagements		
Internal rating	Group December 2019	Bank December 2019	Bank December 2018	Group December 2019	Bank December 2019	Bank December 2018	Group December 2019	Bank December 2019	Bank December 2018
AAA	-	-	-	-	-	-	-	-	-
AA				2,000,000	2,000,000	1,583,788	-	-	-
A	10,264,354	10,264,354	1,447,554	5,035,382	5,035,382	-	14,049,304	14,049,304	-
BBB	1,749,471	1,749,471	981,242			2,300,000	9,095,734	9,095,734	3,281,426
BB+	31,809	31,809	-	-	-	-	388,481	388,481	-
BB	9,934,102	9,934,102	-	-	-	-	6,013,659	6,013,659	-
BB-	7,336,798	7,336,798	-	-	-	-	500,000	500,000	-
B	-	-	-	-	-	-	3,069,945	3,069,945	-
	29,316,534	29,316,534	2,428,796	7,035,382	7,035,382	3,883,788	33,117,124	33,117,124	3,281,426
Impairment	(31,030)	(31,030)	(980)	(80)	(80)	(2)	(48,804)	(48,804)	(166)
Carrying amount	**29,285,504**	**29,285,504**	**2,427,816**	**7,035,302**	**7,035,302**	**3,883,786**	33,068,320	33,068,320	3,281,260

All the loans and advances granted by the Bank were in Stage 1

4.1.7 Disclosure of fair value of collateral held against loans and advances to customers

(d)

GROUP

In thousands of Naira

	Level 1	Leve1 2	Level 3
		December 2019	
Against neither past due and not impaired			
Cash	14,816,435	-	-
Others	187,549,994	-	-
Total	**202,366,429**	**-**	**-**
	-	-	-
Total	**202,366,429**	**-**	**-**

Bank

In thousands of Naira

	Level 1	**Leve1 2**	**Level 3**
		December 2019	
Against neither past due and not impaired			
Cash	14,816,435	-	-
Others	187,549,994	-	-
Total	**202,366,429**	**-**	**-**
	-	-	-
Total	**202,366,429**	**-**	**-**

Bank

In thousands of Naira

	Level 1	**Leve1 2**	**Level 3**
		December 2018	
Against neither past due and not impaired			
Cash	1,315,548	-	-
Others	1,436,591	-	-
Total	**2,752,139**	**-**	**-**
	-	-	-
Total	**2,752,139**	**-**	**-**

Collateral held and other credit enhancements, and their financial effect

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees. The bank will not sell or repledge the collateral in the absence of default by the owner of the collateral. In addition to the Bank's focus on credit worthiness, the Bank aligns with its credit policy manual to yearically update the validation of collaterals held against all loans to customers. For impaired loans, the Bank obtains appraisals of collateral because the fair value of the collateral is an input to the impairment measurement.
The fair values of non-property collaterals (such as equities, bond, treasury bills, etc.) are determined with reference to market quoted prices or market values of similar instruments.

4.1.8 Credit concentration

The Bank's risk profile is assessed through a 'bottom-up' analytical approach covering all of the Bank's major businesses and products. The risk appetite is approved by the Board and forms the basis for establishing the risk parameters within which the businesses must operate, including policies, concentration limits and business mix.

The Bank monitors concentrations of credit risk by sector . An analysis of concentrations of net credit risk at the reporting date is shown below:

GROUP
December 2019

In thousands of Naira	Corporate	Financial institutions	Government	Others	Total
Balances with banks	-	4,861,169	-	-	4,861,169
Financial assets held for trading	-	-	722,877	-	722,877
Derivative financial assets	-	-	1,460,523	-	1,460,523
Loans and advances to banks and other financial institutions	-	7,035,382	-	-	7,035,382
Loans and advances to customers	29,054,482			262,052	29,316,534
Pledged assets	-	-	2,497,380	-	2,497,380
Investment securities at FVOCI	-	-	12,827,857	-	12,827,857
Other assets	-	-	-	2,446,237	2,446,237
Total	29,054,482	11,896,551	17,508,637	2,708,289	61,167,959
Credit risk exposures relating to other credit commitments at gross amount are as follows:					
Transaction related bonds and guarantees	2,123,301	-	-	-	2,123,301
Clean line facilities for letters of credit and loan commitments	30,993,823	-	-	-	30,993,823
Total	33,117,124	-	-	-	33,117,124

BANK
December 2019

In thousands of Naira	Corporate	Financial institutions	Government	Others	Total
Balances with banks	-	4,861,169	-	-	4,861,169
Financial assets held for trading	-	-	722,877	-	722,877
Derivative financial assets	-	-	1,460,523	-	1,460,523
Loans and advances to banks and other financial institutions	-	7,035,382	-	-	7,035,382
Loans and advances to customers	29,054,482	-	-	262,052	29,316,534
Pledged assets	-	-	2,497,380	-	2,497,380
Investment securities at FVOCI	-	-	12,826,295	-	12,826,295
Other assets	-	-	-	2,327,265	2,327,265
Total	29,054,482	11,896,551	17,507,075	2,589,317	61,047,424
Credit risk exposures relating to other credit commitments at gross amount are as follows:					
Transaction related bonds and guarantees	2,123,301	-	-	-	2,123,301
Clean line facilities for letters of credit and loan commitments	30,993,823	-	-	-	30,993,823
Total	33,117,124	-	-	-	33,117,124

BANK
December 2018

In thousands of Naira	Corporate	Financial institutions	Government	Others	Total
Balances with banks	-	1,195,794	-	-	1,195,794
Financial assets held for trading	-	-	3,828,375	-	3,828,375
Derivative financial assets	-	-	20,753	-	20,753
Loans and advances to banks and other financial institutions	-	3,883,786	-	-	3,883,786
Loans and advances to customers	2,238,574			190,222	2,428,796
Pledged assets	-	-	1,192,312	-	1,192,312
Investment securities at FVOCI	-	-	9,222,403	-	9,222,403
Other assets	-	-	-	707,473	707,473
Total	2,238,574	5,079,580	14,263,843	897,695	22,479,691
Credit risk exposures relating to other credit commitments at gross amount are as follows:					
Transaction related bonds and guarantees	116,210	-	-	-	116,210
Clean line facilities for letters of credit and loan commitments	3,165,216	-	-	-	3,165,216
Total	3,281,426	-	-	-	3,281,426

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4.2 Market risk management

The Bank trades on treasury bills and foreign currency. Market risk in trading portfolios is monitored and controlled using tools such as position limits and sensitivity limits coupled with concentration limits. The major measurement technique used to measure and control market risk is outlined below.

4.2.1 Sensitivity Analysis

The Bank applies a sensitivity analysis to its trading portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the trading book, which are monitored on a daily basis by Market Risk Unit. Interest rate risk in the non-trading book is measured through the use of interest rate repricing gap analysis.

Sensistivity analysis is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, The Bank applies these historical changes in rates, prices, etc. directly to its current positions . Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/ factors used in the calculation.
The Sensitivity method incorporates the factor sensitivities of the trading portfolio, the volatilities of the market risk factors. However, the Bank does not only base its risk estimates on Sensitivity Analysis, it uses Stress Tests to provide an indication of the potential size of losses that could arise in extreme conditions by applying a what-if analysis to further complement it. The results of the stress tests are reviewed by senior management and by the Board of Directors.

The trading book is made up of foreign currencies and treasury bills instruments. The table below illustrates the hypothetical sensitivity of the Bank's trading book to a rise in interest rate and foreign exchange rate by 1% :

GROUP

Bank Sensitivity by risk type	December 2019			
In thousands of Naira	Average	High	Low	Actual
Foreign exchange risk	(16,564)	(43,319)	(7,629)	(8,039)
Interest rate risk	(12,186)	(58,686)	(926)	(2,073)
Total	(28,750)	(102,005)	(8,555)	(10,112)

BANK

Bank Sensitivity by risk type	December 2019			
In thousands of Naira	Average	High	Low	Actual
Foreign exchange risk	(16,564)	(43,319)	(7,629)	(8,039)
Interest rate risk	(12,186)	(58,686)	(926)	(2,073)
Total	(28,750)	(102,005)	(8,555)	(10,112)

Bank Sensitivity by risk type	December 2018			
In thousands of Naira	Average	High	Low	Actual
Foreign exchange risk	(4.37)	(11)	(0.41)	(2.20)
Interest rate risk	(14,090)	(23,345)	(208)	(18,718)
Total	(14,094)	(23,356)	(208)	(18,720)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

4.2.2 A summary of the Bank's interest rate gap position on financial instruments is as follows:

GROUP

	Re-pricing year			
In thousands of Naira 31 December 2019	Less than 3 months	7 - 12 months	1 - 5 years	Total
Financial assets held for trading	722,877	-	-	722,877
Loans and advances to banks	7,035,382	-	-	7,035,382
Loans and advances to customers:	20,634,221	933,934	7,717,349	29,285,504
Pledged assets	1,082,115	325,865	1,089,400	2,497,380
Investment securities at FVOCI	5,430,960	6,031,941		11,462,901
Bonds	-	-	1,364,958	1,364,958
	34,905,555	7,291,740	10,171,708	52,369,002
Due to other financial institutions	2,202,599	219,086	-	2,421,685
Due to customers	30,761,023	643,304	-	31,404,327
	32,963,622	**862,390**	**-**	**33,826,012**
Total interest re-pricing gap	**1,941,933**	**6,429,350**	**10,171,708**	**18,542,990**

BANK

	Re-pricing year			
In thousands of Naira 31 December 2019	Less than 3 months	7 - 12 months	1 - 5 years	Total
Financial assets held for trading	722,877	-	-	722,877
Loans and advances to banks	7,035,382	-	-	7,035,382
Loans and advances to customers:	20,634,221	933,934	7,717,349	29,285,504
Pledged assets	1,082,115	325,865	1,089,400	2,497,380
Investment securities at FVOCI	5,429,399	6,031,941		11,461,339
Bonds	-	-	1,364,958	1,364,958
	34,903,994	7,291,740	10,171,708	52,367,440
Due to other financial institutions	2,202,599	219,086	-	2,421,685
Due to customers	30,761,023	643,304	-	31,404,327
	32,963,622	862,390	-	33,826,012
Total interest re-pricing gap	1,940,372	6,429,350	10,171,708	18,541,428

	Re-pricing year			
In thousands of Naira 31 December 2018	Less than 3 months	7 - 12 months	1 - 5 years	Total
Financial assets held for trading	3,828,375	-	-	3,828,375
Loans and advances to banks	3,883,786	-	-	3,883,786
Loans and advances to customers:	1,509,689	727,906	190,222	2,427,817
Pledged assets	-	-	1,192,312	1,192,312
Investment securities at FVOCI	4,154,540	5,067,863	-	9,222,403
	13,376,390	5,795,769	1,382,534	20,554,693
Due to other financial institutions	427,787	-	-	427,787
Due to customers	-	5,013,024	-	5,013,024
	427,787	5,013,024	-	5,440,810
Total interest re-pricing gap	12,948,603	782,745	1,382,534	15,113,882

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

The table below sets out information on the exposure to fixed and variable interest instruments.

GROUP

31 December 2019	Fixed	Non-interest bearing	Total
ASSETS	N'000	N'000	N'000
Balances with banks	-	4,861,169	4,861,169
Financial assets held for trading	722,877	-	722,877
Derivative financial financial assets	-	1,460,523	1,460,523
Loans to banks and other financial institutions	7,035,382	-	7,035,382
Loans and advances to customers	29,285,504	-	29,285,504
Pledged assets	2,497,380	-	2,497,380
Investment securities at FVOCI	12,827,857	-	12,827,857
Other assets	-	2,446,237	2,446,237
TOTAL	**52,369,000**	**8,767,929**	**61,136,929**
LIABILITIES			
Derivative financial liabilities	-	1,446,598	1,446,598
Due to customers	33,826,012	6,686,870	40,512,882
Other liabilities	-	2,192,453	2,192,453
TOTAL	33,826,012	10,325,921	44,151,933

BANK

In thousands of Naira

31 December 2019	Fixed	Non-interest bearing	Total
ASSETS	N'000	N'000	N'000
Balances with banks	-	4,861,169	4,861,169
Financial assets held for trading	722,877	-	722,877
Derivative financial financial assets	-	1,460,523	1,460,523
Loans to banks and other financial institutions	7,035,382	-	7,035,382
Loans and advances to customers	29,285,504	-	29,285,504
Pledged assets	2,497,380	-	2,497,380
Investment securities at FVOCI	12,826,295	-	12,826,295
Other assets	-	2,327,265	2,327,265
TOTAL	**52,367,438**	**8,648,957**	**61,016,395**
LIABILITIES			
Derivative financial liabilities	-	1,446,598	1,446,598
Due to customers	33,826,012	6,686,928	40,512,940
Other liabilities	-	2,186,783	2,186,783
TOTAL	33,826,012	10,320,308	44,146,320

31 December 2018	Fixed	Non-interest bearing	Total
ASSETS	N'000	N'000	N'000
Balances with banks	-	1,195,794	1,195,794
Financial assets held for trading	3,828,375	-	3,828,375
Derivative financial financial assets	-	20,753	20,753
Loans to banks and other financial institutions	3,883,786	-	3,883,786
Loans and advances to customers	2,427,818	-	2,427,818
Pledged assets	1,192,312	-	1,192,312
Investment securities at FVOCI	9,222,403	-	9,222,403
Other assets	-	707,473	707,473
TOTAL	**20,554,695**	**1,924,020**	**22,478,714**
LIABILITIES			
Derivative financial liabilities	-	87,319	87,319
Due to other financial institutions	427,787	-	427,787
Due to customers	4,585,237	1,481,449	6,066,686
Other liabilities	-	766,614	766,614
TOTAL	5,013,024	2,335,382	7,348,406

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Cash flow and fair value interest rate risk

The Bank's interest rate risk arises from risk assets, deposits from banks and customers. Other financial liabilities issued at fixed rates expose the group to fair value interest rate risk.

The management of interest rate risk against interest rate gap limits is supplemented with monitoring the sensitivity of the Bank's financial assets and liabilities to various scenarios.

Interest rate movement have both cash flow and fair value effect depending on whether interest rate is fixed or floating. The impact resulting from adverse or favourable movement flows from either retained earnings or OCI and ultimately ends in equity in the following manner:

(i) Retained earnings arising from increase or decrease in net interest income and the fair value changes reported in profit or loss.

(ii) Fair value reserves arising from increases or decreases in fair value through other comprehensive income financial instruments reported directly in other comprehensive income.

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FOR THE YEAR ENDED 31 DECEMBER 2019

4.2.3 The table below summaries the Bank's financial instruments at carrying amount, categorised by currency: Financial instruments by currency

GROUP

In thousands of Naira

31 December 2019	Total	Naira	US	Euro	GBP
Balances with banks	4,861,169	3,061,865	1,799,300	-	4
Financial assets held for trading	722,877	722,877	-	-	-
Derivative financial assets	1,460,523	-	1,460,523	-	-
Loans to banks and other financial institutions	7,035,382	7,035,382	-	-	-
Loans and advances to customers	29,285,504	29,285,504	-	-	-
Pledged assets					
- Treasury bills	1,407,980	1,407,980	-	-	-
- Bonds	1,089,400	1,089,400	-	-	-
Investment securities at FVOCI	12,827,857	12,827,857	-	-	-
Other assets	2,446,237	1,895,146	548,108	-	-
	61,136,929	**57,326,011**	**3,807,931**	**-**	**4**
Derivative financial liabilities	1,446,598	-	1,446,598	-	
Due to financial institutions	2,421,685	2,421,685	-	-	
Due to customers	38,091,197	37,763,612	327,585	-	
Other liabilities	2,192,453	243,180	1,948,438	835	
	44,151,933	40,428,477	3,722,621	835	
Off balance sheet exposures					
Transaction related bonds and guarantees	2,123,301	2,123,301	-	-	
Clean line facilities for letters of credit and loan commitments	30,993,823	-	30,993,823	-	
	33,117,124	2,123,301	30,993,823	-	

Bank

In thousands of Naira

31 December 2019	Total	Naira	US	Euro	GBP
Balances with banks	4,861,169	3,061,865	1,799,300	-	4
Financial assets held for trading	722,877	722,877	-	-	-
Derivative financial assets	1,460,523	-	1,460,523	-	-
Loans to banks and other financial institutions	7,035,382	7,035,382	-	-	-
Loans and advances to customers	29,285,504	29,285,504	-	-	-
Pledged assets					
- Treasury bills	1,407,980	1,407,980	-	-	-
- Bonds	1,089,400	1,089,400	-	-	-
Investment securities at FVOCI	12,826,295	12,826,295	-	-	-
Other assets	2,327,265	1,776,175	548,108	-	-
	61,016,395	**57,205,478**	**3,807,931**	**-**	**4**
Derivative financial liabilities	1,446,598	-	1,446,598	-	
Due to financial institutions	2,421,685	2,421,685	-	-	
Due to customers	38,091,255	37,763,670	327,585	-	
Other liabilities	2,186,783	237,509	1,948,438	835	
	44,146,321	40,422,864	3,722,621	835	
Off balance sheet exposures					
Transaction related bonds and guarantees	2,123,301	2,123,301	-	-	
Clean line facilities for letters of credit and loan commitments	30,993,823	-	30,993,823	-	
	33,117,124	2,123,301	30,993,823	-	

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Bank

In thousands of Naira

31 December 2018	Total	Naira	US	Euro	GBP
Balances with banks	1,195,794	173,147	975,407	47,241	
Financial assets held for trading	3,828,375	3,828,375	-	-	
Derivative financial assets	20,753	-	20,753	-	
Loans to banks and other financial institutions	3,883,786	2,300,000	1,583,787	-	
Loans and advances to customers	2,427,818	2,427,818	-	-	
Pledged assets					
- Treasury bills	123,041	123,041	-	-	
- Bonds	1,069,271	1,069,271	-	-	
Investment securities at FVOCI	9,222,403	9,222,403	-	-	
Other assets	707,473	707,473	-	-	
	22,478,714	**19,851,528**	**2,579,947**	**47,241**	
Derivative financial liabilities	87,319	-	87,319	-	
Due to financial institutions	427,787	427,787	-	-	
Due to customers	6,066,686	6,050,813	15,873	-	
Other liabilities	766,614	118,205	601,168	47,241	
	7,348,406	**6,596,805**	**704,360**	**47,241**	
Off balance sheet exposures					
Transaction related bonds and guarantees	116,210	116,210	-	-	
Clean line facilities for letters of credit and other commitments	3,165,216	-	3,165,216	-	
	3,281,426	116,210	3,165,216	-	

4.3 Liquidity risk management

The following table shows the undiscounted cash flows on the Bank's financial assets and liabilities and on the basis of their earliest possible contractual maturity. The Gross nominal inflow / (outflow) disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

The amounts in the table below have been compiled as follows:

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments.
Issued financial guarantee contracts, and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest year in which the guarantee could be called.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. For example, demand deposits from customers are expected to remain stable or increase and unrecognised loan commitments are not all expected to be drawn down immediately. As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising Cash and balances with banks and debt securities issued by federal government, which can be readily sold to meet liquidity requirements.
In addition, the Bank maintains agreed lines of credit with other banks and holds unencumbered assets eligible for use as collateral.

Residual contractual maturities of financial assets and liabilities

GROUP 31 December 2019 *In thousands of Naira*	Gross amount	Less than 3 months	12 months	5 years
Assets				
Balances with banks	4,861,169	4,861,169		
Financial assets held for trading	722,877	722,877	-	-
Loans and advances to banks and other financial institutions	7,035,382	7,035,382	-	-
Loans and advances to customers	29,285,504	20,634,221	933,934	7,717,349
Investment securities at FVOCI	12,827,857	5,430,960		
	54,732,789	38,684,609	6,965,875	9,082,308
Liabilities				
Due to financial institutions	2,421,685	2,202,599		
Due to customers	31,404,327	30,761,023	643,304	-
Other liabilities	2,192,453	2,192,453		
	36,018,465	35,156,075	862,390	-
Gap (asset - liabilities)	**18,714,324**	**3,528,534**	**6,103,485**	**9,082,308**
Off balance-sheet				
Transaction related bonds and guarantees	2,123,301	-	2,123,301	-
Clean line facilities for letters of credit and loan commitments	30,993,823	-	30,993,823	-
	33,117,124	**-**	**33,117,124**	**-**

BANK **31 December 2019** *In thousands of Naira*	Gross amount	Less than 3 months	12 months	5 years
Assets				
Balances with banks	4,861,169	4,861,169		
Financial assets held for trading	722,877	722,877	-	-
Loans and advances to banks and other financial institutions	7,035,382	7,035,382	-	-
Loans and advances to customers	29,285,504	20,634,221	933,934	7,717,349
Investment securities at FVOCI	12,826,295	5,429,399		
	54,731,227	38,683,048	6,965,875	9,082,308
Liabilities				
Due to financial institutions	2,421,685	2,421,685		
Due to customers	38,091,255	30,761,023	643,304	-
Other liabilities	2,186,783	2,186,783		
	42,699,722	35,369,491	643,304	-
Gap (asset - liabilities)	**12,031,505**	**3,313,558**	**6,322,571**	**9,082,308**
Off balance-sheet				
Transaction related bonds and guarantees	2,123,301	-	2,123,301	-
Clean line facilities for letters of credit and loan commitments	30,993,823	-	30,993,823	-
	33,117,124	-	33,117,124	-

Lease liability

Bank	260,000	-	-	260,000
Group	260,000	-	-	260,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

31 December 2018 *In thousands of Naira*	Gross amount	Less than 3 months	12 months	5 years
Assets				
Balances with banks	1,195,794	1,195,794	-	-
Financial assets held for trading	3,828,375	3,828,375	-	-
Loans and advances to banks and other financial institutions	3,883,786	3,883,786	-	-
Investment securities at FVOCI	9,222,403	4,154,540	5,067,863	-
	18,130,358	13,062,495	5,067,863	-
Liabilities				
Due to financial institutions	427,787	427,787	-	-
Due to customers	6,066,686	1,481,414	4,585,272	-
Other liabilities	766,614	708,565	113,499	-
	7,261,087	2,617,766	4,698,771	-
Gap (asset - liabilities)	10,869,271	10,444,729	369,092	-
Off balance-sheet				
Transaction related bonds and guarantees		-	116,210	-
Clean line facilities for letters of credit and other commitments		-	3,165,216	-
		-	3,281,426	-

Derivatives settled on a gross basis

The Bank's derivatives that will be settled on a gross basis are foreign exchange derivatives. The table below analyses the Bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cashflows on all derivatives including derivatives classified as "Liabilities held for trading". The amounts disclosed in the table are the contractual undiscounted cash flows.

GROUP 31 December 2019 *In thousands of Naira*	Up to 1 month	1- 3 months	Total
Liabilities held for trading			
Forward contracts - Payment	-	24,281,694	24,281,694
Forward contracts - Receipt	-	24,083,944	24,083,944
Swap contracts (inflow)	-	-	-
Swap contracts (outflow)	-	-	-
Total inflows		24,083,944	
Total outflows		24,281,694	

BANK 31 December 2019 *In thousands of Naira*	Up to 1 month	1- 3 months	Total
Liabilities held for trading			
Forward contracts - Payment	-	24,281,694	24,281,694
Forward contracts - Receipt	-	24,083,944	24,083,944
Swap contracts (inflow)	-	-	-
Swap contracts (outflow)	-	-	-
Total inflows		24,083,944	
Total outflows		24,281,694	

31 December 2018 *In thousands of Naira*	Up to 1 month	1- 3 months	Total
Liabilities held for trading			
Forward contracts - Payment	-	699,682	699,682
Forward contracts - Receipt	-	844,165	844,165
Swap contracts (inflow)	-	1,738,493	1,738,493
Swap contracts (outflow)	-	1,524,993	1,524,993
Total inflows		2,582,658	
Total outflows		2,224,675	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

4.4 ECL Coverage Ratio

	Gross Carrying Amount				ECL Provision				ECL Coverage Ratio	
Financial statements items	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	%	%
On-balance sheet items										
Cash and balances with central banks	4,861,169	-	-	4,861,169	-	-	-	-	-	-
Placements and other short term investments	7,035,543	-	-	7,035,543	80	-	-	80	0.001	-
Loans and advances to customers at amortisedcost	29,347,564	-	-	29,347,564	31,030	-	-	31,030	0.106	-
Debt investment securities at amortised cost	-	-	-	-	-	-	-	-	-	-
Debt investment securities at FVOCI	12,826,295	-	-	12,826,295	-	-	-	-	-	-
Other financial assets measured at amortised cost										
Debt securities at FVPL	722,877	-	-	722,877	-	-	-	-	-	-
Pledged securiites	2,497,380	-	-	2,497,380	-	-	-	-	-	-
Sub total	57,290,828	-	-	57,290,828						
Off-balance sheet items										
Loan and other credit related commitments										
- Letter of credits	27,760,378	-	-	27,760,378	48,804	-	-	48,804	0.176	-
Financial guarantee and similar contracts										
- financial guarantees	2,123,301	-		2,123,301	-	-	-	-	-	-
Loan commitments	3,233,445	-	-	3,233,445	-	-	-	-	-	-
Sub total	33,117,124			33,117,124	79,914	-	-	79,914	0.28	-
Total										

5.0 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:
i) To comply with the capital requirements set by the Central Bank of Nigeria;
ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
iii) To maintain a strong capital base to support the development of its business.

The capital adequacy ratio is the quotient of the capital base of the Bank and the Bank's risk weighted asset base. In accordance with Central Bank of Nigeria regulations, a minimum ratio of 10% is to be maintained for merchant banks . The Standardised approach has been adopted in computing the risk weighted assets for Credit, Operetional, and Market Risk. The following table provides an overview of the development of the capital ratios and risk-weighted assets (RWA):

The regulatory capital requirements are strictly observed when managing capital. The Bank's regulatory capital is managed by its Bank Treasury and comprises:
- Tier 1 capital: This includes ordinary share capital, share premium, retained earnings and other reserves excluding regulatory reserves. Intangible assets, deferred tax assets and investment in subsidiaries were also deducted from Tier I capital for capital adequacy purposes; and
- Tier 2 capital: This includes fair value reserves, foreign currency translation reserves with adjustments for investments in subsidiaries.

In thousands of Naira	Group December 2019	Bank December 2019	Bank December 2018
Tier 1 capital			
Ordinary share capital	16,000,000	16,000,000	16,000,000
Retained earnings	1,807,169	1,812,178	1,115,666
Other reserves	1,747,632	1,747,632	495,765
Non-controlling interests	-	-	-
	19,554,802	19,559,810	17,611,431
Add/(less):			
Fair value reserve	247,533	247,533	(50,131)
Total Tier 1	19,307,269	19,312,277	17,561,300
Less:			
Deferred tax assets	(443,497)	(443,497)	(294,497)
Regulatory risk reserve	(458,989)	(458,989)	(47,428)
Intangible assets	(805,796)	(777,071)	(727,569)
Adjusted Tier 1	17,598,987	17,632,720	16,491,806
		-	-
Total Tier 2	247,533	247,533	-
Adjusted Tier 2 capital (33% of Tier 1)	247,533	247,533	-
Total regulatory capital	17,846,520	17,880,253	16,491,806
Risk-weighted assets	32,923,061	32,913,371	7,210,842
Capital ratios			
Total regulatory capital expressed as a percentage of total risk-weighted assets	54.21%	54.33%	228.71%
Total tier 1 capital expressed as a percentage of risk-weighted assets	53.45%	53.57%	228.71%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
6	Interest income			
a.	Interest income at FVOCI			
	Bonds	272,387	272,387	78,684
	Treasury bills	1,675,576	1,675,576	1,536,020
		1,947,963	1,947,963	1,614,704
b.	Interest income at amortised cost			
	Placements	487,792	480,938	161,745
	Loans and advances to customers	2,100,491	2,100,491	100,070
	Total	2,588,283	2,581,429	261,815

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
7	Interest expense			
	Interest expense on deposits	2,318,220	2,331,823	365,924
	Interest expense on lease liability	11,445	11,445	-
	Interest on shareholder loan (see note (i) below)	-	-	7,423
	Total	2,329,665	2,343,268	373,347

(i)The amount represents the interest charged on the loan received from the shareholders in 2017. The loan was settled in May 2018.

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
8	Impairment charge for credit losses			
	Impairment (see note below)	78,766	78,766	1,148
		78,766	78,766	1,148
	ECL impairment charge on loans and advances to customers (note 20)	30,050	30,050	980
	ECL impairment charge on loans and advances to banks (note 19)	78	78	2
	ECL impairment charge on off balance sheet engagements (note 28)	48,638	48,638	166
		78,766	78,766	1,148

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
9	**Fee and commission income**			
	Credit related fees	54,054	54,054	4,312
	Fees, commissions and charges	255,557	213,018	24,756
		309,611	267,072	29,068

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
10	**Net gains on financial instruments held for trading**			
	Nigerian Treasury Bills/Bonds	740,077	740,077	612,040
	Derivatives	25,040	25,040	(66,565)
		765,117	765,117	545,475

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
11	**Net foreign exchange gain**			
	Foreign currency revaluation gain/loss	4,169	4,169	88,920
	Foreign currency income	241,947	241,947	213,499
		246,116	246,116	302,419

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
12	**Other income**			
	Other sundry income	11,213	11,213	1,987
	Gain on disposal of property and equipment	68	68	-
		11,281	11,281	1,987

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
13	**Operating expenses** in thousands of Naira			
	Staff cost (note (i))	631,057	591,602	453,315
	Depreciation	258,065	257,795	136,980
	Depreciation of right of use asset	15,843	15,843	-
	Amortisation	20,885	20,885	8,313
	Prepayment	4,000	4,000	30,000
	Professional fees and legal expense	28,967	27,928	11,756
	Business travel expenses	59,883	57,546	12,603
	Auditor's renumeration	10,000	10,000	5,000
	Administrative expense	167,711	166,795	64,884
	NDIC	25,011	25,011	-
	Board expenses	52,186	52,186	43,213
	Directors' emoluments (note (ii))	267,012	263,592	312,162
	Consultancy expenses	30,000	30,000	17,880
	Stationeries, postage, printing and consumables	1,351	1,036	1,052
	Penalty	2,000	2,000	-
	Repairs and maintenance	54,771	54,771	32,911
	Advertisement expense	36,007	35,974	38,809
	Subscription expense	97,599	97,599	101,151
	Other license fees	56,680	56,680	74,315
	Other expenses	129,036	108,815	76,038
		1,948,063	**1,880,058**	**1,420,382**

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
(i)	Staff related costs, excluding executive directors, during the year amounted to:			
	Wages, salaries, other benefits and staff costs	591,900	554,997	428,190
	Pension costs - Defined contribution plan	39,157	36,605	25,125
		631,057	591,602	453,315

Number of staff

The number of persons employed by the Bank during the year was as follows:	2019	2019	2018
Executive	2	2	3
Management	14	13	21
Non-management	39	35	18
	55	50	42

The number of employees of the Bank, other than Directors, who received emoluments in the following ranges (excluding pension contributions and certain benefits) were:			
N300,001 - N1,000,000	4	4	2
N1,000,001 - N3,000,000	7	6	5
N3,000,001 - N5,000,000	6	5	7
Above N5,000,000	36	33	25
	53	48	39

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
(ii)	Directors' emoluments and expenses Remuneration paid to the directors (excluding certain allowances) is shown below			
	Fees and sitting allowances	65,720	62,300	67,400
	Executive compensation	187,415	187,415	227,369
	Pension cost - defined contribution scheme	13,877	13,877	17,393
	Other directors expenses			
		267,012	263,592	312,162

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

	Number of Directors	Number of Directors	Number of Directors
N8,000,001 - N11,000,000	6	6	6
Above N15,000,0000	2	2	3
	8	8	9

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

14 Income tax expense	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
Tax charge for the year comprises:			
a) Income tax charge			
NITDA levy	15,169	15,169	9,606
Total current tax charge	15,169	15,169	9,606
b) Deferred tax			
Recognised in income statement:			
Deferred tax from origination of temporary difference	(149,000)	(149,000)	(200,000)
Total deferred tax credit	(149,000)	(149,000)	(200,000)
Income tax credit	(133,831)	(133,831)	(190,394)
(c) Reconciliation of effective tax rate			
Profit before income tax	1,511,877	1,516,886	960,591
Effective tax as per accounts:			
Income tax using the companies income tax rate at 30%	453,563	455,066	288,177
Non-deductible expenses	121,563	121,563	42,070
Tax exempt income	(810,757)	(812,261)	(697,552)
Tax incentives	235,632	235,632	367,305
Effect of NITDA levy	15,169	15,169	9,606
Tax loss unutilised	(149,000)	(149,000)	(200,000)
Total Income tax expense in income statement	(133,831)	(133,831)	(190,394)

Based on Nigerian tax law, Companies Income Tax Act provides that current tax is determined as the higher of amount computed based on 30% of taxable profit, minimum tax and 30% of dividend declared. There were no changes in corporate and education tax rates during the year. The corporate income tax charge for the year was based on minimum tax provisions, however the company is exempt from minimum tax as it is still within the first four years of its incorporation.

Tax exempt income include income such as income on Federal Government of Nigeria Bonds and Nigerian Treasury Bills which are exempt from income tax and other applicable taxes as gazetted by the Federal Government of Nigeria.

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

Current tax payable	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
At 1 January	9,606	9,606	4,161
Tax paid	(9,511)	(9,511)	(4,161)
Income tax charge	15,169	15,169	9,606
At 31 December	15,264	15,264	9,606

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

Deferred tax asset Current tax payable	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
At 1 January	294,497	294,497	
Deferred tax credit	149,000	149,000	200,000
At 31 December	443,497	443,497	294,497

Deferred income tax assets are attributable to the following items	**Group December 2019 N'000**	**Bank December 2019 N'000**	**Bank December 2018 N'000**
Tax losses carried forward	437,023	437,023	290,198
Capital allowances carried forward	6,474	6,474	4,299
	443,497	443,497	294,497

(d) Deferred tax asset not recognised
Deferred taxes are calculated on all temporary differences under the balance sheet liability method using an effective tax rate of 30% (2018: 30 %).

(e) Uncertain tax position

In evaluating income tax assets and liabilities, there may be some uncertainty relating to the interpretation of the tax regulations. It cannot be ruled out that the fiscal authority will take a completely different view on the correct interpretation of tax regulations. Uncertain tax assets and liabilities are recognised as soon as their probability of occurrence is more than 50 percent.

The bank prepares and files its tax returns based on an interpretation of tax laws and regulations, and records estimates based on these judgments and interpretations. Its tax returns are subject to examination by the competent taxing authorities, which may result in an assessment being made, requiring payments of additional tax, interest or penalties.

Nova Merchant Bank recognises that the newly enacted Finance Act could lead to uncertainties in interpretation and practices by the tax authorities. Therefore, inherent uncertainties exist in our estimates of our tax positions, but we believe that our estimated amounts for current and deferred tax assets, including any amounts related to any uncertain tax positions, are appropriate based on currently known facts, circumstances and practices.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
15 Earnings per share			
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average			
Profit for the period from continuing operations *(In thousands of Naira)*	1,943,372	1,948,381	1,100,854
Weighted average number of ordinary shares in issue *(In thousands of units)*	16,000,000	16,000,000	16,000,000
In kobo per share	12.15	12.18	6.88
Basic earnings per share from continuing operations (annualised)			

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
16 Balances with banks			
16a Balances held with Central bank of Nigeria and other banks			
-Balances with the Central Bank of Nigeria other than mandatory reserve deposits	1,584,070	1,584,070	124,506
-Balances with banks in Nigeria	191,610	191,610	7,435
-Balances with banks outside Nigeria	1,799,304	1,799,304	1,063,853
	3,574,984	3,574,984	1,195,794
Mandatory reserve deposits with the Central Bank of Nigeria	1,286,185	1,286,185	-
	4,861,169	4,861,169	1,195,794

Mandatory reserve deposits are not available for use in the Bank's day-to-day operations. The deposits bear no interest.

Included in balances with banks outside of Nigeria is an amount of N966.4m (31 Dec 2018: N648.4m) representing the naira value of foreign currency held on behalf of customers to cover letters of credit transactions. The corresponding liability is reported as customers' deposit for foreign trade under other liabilities (see note 24).

16b Cash and cash equivalent in statement of cashflow			
Balances held with Central bank of Nigeria and other banks	3,574,984	3,574,984	1,195,794
Placement with banks (Note 19)	7,035,462	7,035,462	3,883,788
	10,610,446	10,610,446	5,079,582

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
17 Financial assets held for trading			
Financial assets mandatorily measured at FVTPL			
Nigerian Treasury Bills	722,877	722,877	3,828,375
	722,877	722,877	3,828,375
Current	722,877	722,877	3,828,375
	722,877	722,877	3,828,375

18 Derivative financial instruments

GROUP 2019	Derivative financial assets		Derivative financial liabilities	
	Notional amount	Fair Value Assets / **(Liabilities)**	Notional amount	Fair Value Assets / **(Liabilities)**
	Dec-19 N'000	**Dec-19 N'000**	**Dec-19 N'000**	**Dec-19 N'000**
Foreign exchange forward contracts	24,232,633	1,460,523	24,133,024	(1,446,598)
	24,232,633	1,460,523	24,133,024	(1,446,598)

BANK 2019	Derivative financial assets		Derivative financial liabilities	
	Notional amount	Fair Value Assets / **(Liabilities)**	Notional amount	Fair Value Assets / **(Liabilities)**
	Dec-19 N'000	**Dec-19 N'000**	**Dec-19 N'000**	**Dec-19 N'000**
Foreign exchange forward contracts	24,232,633	1,460,523	24,133,024	(1,446,598)
	24,232,633	1,460,523	24,133,024	(1,446,598)

BANK 2018	Derivative financial assets		Derivative financial liabilities	
	Notional amount	Fair Value Assets / (Liabilities)	Notional amount	Fair Value Assets / (Liabilities)
	Dec-18 N'000	Dec-18 N'000	Dec-18 N'000	Dec-18 N'000
Foreign exchange forward contracts	699,682	20,753	844,165	(31,869)
Swap contract	1,524,993	-	1,738,493	(55,450)
	2,224,675	20,753	2,582,658	(87,319)

All derivative contracts are current in nature. Derivative financial instruments consist of forward contracts. These are held for day to day cash management rather than for trading purposes and are held at fair value. The contracts have intended settlement dates of between 30 days and a year. All derivative contracts are considered to be valued with reference to data obtained from the Financial Market Dealer Quotation (FMDQ).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
19 Loans to banks and other financial institutions			
Placements with banks	7,035,462	7,035,462	3,883,788
ECL impairment charge	(80)	(80)	(2)
	7,035,382	7,035,382	3,883,786
Current	7,035,382	7,035,382	3,883,786
	7,035,382	7,035,382	3,883,786

The reconciliation of ECL on placement with banks is stated below:

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
Balance at 1 January 2019	2	2	
Increase in ECL impairment (see note 8)	78	78	2
At 31 December 2019	80	80	2

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
20 Loans and advances to customers			
Loans and advances to customers	29,054,482	29,054,482	2,238,576
Loans to staff	262,052	262,052	190,222
Allowance for impairment	(31,030)	(31,030)	(980)
	29,285,504	29,285,504	2,427,818
Current	1,959,887	1,959,887	
Non-current	27,325,617	27,325,617	2,427,818
	29,285,504	**29,285,504**	**2,427,818**

The reconciliation of the ECL impairment charge on loans and advances to customers is stated below

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
Balance at 1 January 2019	980	980	-
Increase in ECL impairment	30,050	30,050	980
At 31 December 2019	31,030	31,030	980

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
21	Financial assets classified at FVOCI			
	Pledged assets	2,497,380	2,497,380	1,192,312
	Debt securities	12,827,857	12,826,295	9,222,403
		15,325,237	**15,323,675**	**10,414,715**
21a	**Pledged assets**			
	Nigerian Treasury Bills	1,407,980	1,407,980	123,041
	Federal Government of Nigeria (FGN) bonds	1,089,400	1,089,400	1,069,271
		2,497,380	**2,497,380**	**1,192,312**
	Current	1,407,980	1,407,980	123,041
	Non-current	1,089,400	1,089,400	1,069,271
		2,497,380	**2,497,380**	**1,192,312**

The Bank pledged the FGN Bonds to the Central Bank of Nigeria (CBN) as a requirement to enable the Bank use the FMDQ's Q-ex trading system. The treasury bills were pledged to Nigeria Interbank Settlement Scheme (NIBSS) as a requirement to enable the Bank use the NIBSS Instant Payment (NIP) gateway.

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
21b	Investment securities			
	Debt securities (see note (i))	12,827,857	12,826,295	9,222,403
		12,827,857	**12,826,295**	**9,222,403**
	Current	12,827,857	12,826,295	9,222,403
		12,827,857	**12,826,295**	**9,222,403**
(i)	Debt securities			
	Nigerian Treasury Bills	11,462,899	11,461,337	9,222,403
	Federal Government of Nigeria (FGN) bonds	1,364,958	1,364,958	-
		12,827,857	**12,826,295**	**9,222,403**
22	**Investment in Subsidiaries**			
	Investment in Novambl Asset Management Ltd	-	150,000	-
		-	**150,000**	**-**

(a) Set out below is the group's subsidiary as at 31 December 2019

Name of Subsidiary	Principal activity	Place of operation	Proportion of ownership interests
NovaMBL Asset Management Limited	Fund & Portfolio Management	Lagos	99%

(b) Condensed result of consolidated entity
The condensed financial data of the consolidated entity is as follows:

Condensed statement of comprehensive income

	December 2019 N'000
Operating income	64,197
Operating expenses	(69,208)
Profit before tax	(5,011)
Taxation	-
Profit/(loss) for the year	(5,011)
Other comprehensive income	-
Total comprehensive income	(5,011)

Condensed statement of financial position

	December 2019 N'000
Cash and balances with banks	58
Investments	193,329
Other assets	29,382
Intangible assets	28,725
Property and equipment	1,345
Total assets	252,839
Financed by:	
Other liabilities	107,849
Equity	144,989
Total liabilities and equity	252,838

Net cashflow from operating activities	69,802
Net cashflow from investing activities	(219,745)
Net cashflow from financing activities	150,000
Increase in cash and cash equivalent	57
Cash and cash equivalent, beginning of year	-
Cash and cash equivalent, end of year	57

Nova Asset Management Limited had assets under management of N6.09bn as at 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

		Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
23	Other assets			
	Financial assets			
	Contribution to AGSMEIS (note (i))	83,078	83,078	25,528
	Foreign exchange settlement (note (ii))	1,985,608	1,764,457	363,080
	Receivable from subsidiaries	-	102,179	
	Others (note (iii))	374,351	374,351	318,646
	Cash advance	3,200	3,200	219
		2,446,237	2,327,265	707,473
	Non-financial assets			
	Prepayments	44,889	44,889	272,110
		44,889	44,889	272,110
	Total other assets	2,491,126	2,372,154	979,583
	Current	2,446,237	2,327,265	707,473
	Non-current	44,889	44,889	272,110
		2,491,126	2,372,154	979,583

Analysis of opening balance of other assets for cashflow purpose	Group December N'000	Bank December N'000
Opening balance at 1 January 2019	979,583	979,583
Reclassification of right of use asset and lease liability due to IFRS 16 implementation	(225,333)	(225,333)
Adjusted opening balance at 1 January	754,250	754,250

(i) This represents contribution to Agri-Business/Small and Medium Investment Scheme aimed at supporting the Federal Government's effort at promoting agricultural businesses as well as Small and Medium Enterprises. It is an initiative of the Bankers' Committee in which banks are required to set aside 5% of their Profit After Tax for investment in qualified players. The fund is domiciled in the Central Bank of Nigeria.

(ii) These amounts are receivables from the Central Bank of Nigeria for the purchase of foreign currency from the Retail Special Secondary Market Intervention Sales (SMIS) window.
(iii) This relates to payment made by the Bank to a consultant for the process of setting up a subsidiary.

	Group December 2019 N'000	Group December 2019 N'000	Bank December 2019 N'000
24 Intangible assets			

The intangible assets are not internally generated. The amortization method used is straight line and the charge for the year is included within operating expenses. The work in progress relates to banking software that is currently being developed by a consultant.

Group 31 December 2019	Computer software	Work in progress	Total
Cost	N'000	N'000	N'000
Balance at 1 January	94,096	641,971	736,068
Additions	10,277	88,833	99,110
Balance at 31 December	104,373	730,804	835,178
Accumulated amortisation			
Balance at 1 January	8,499	-	8,498
Amortization	20,884	-	20,884
Balance at 31 December	29,383	-	29,382
Carrying amount			
Balance at 31 December 2019	**74,990**	**730,804**	**805,796**

Bank **31 December 2019**	**Computer software**	**Work in progress**	**Total**
Cost	**N'000**	**N'000**	**N'000**
Balance at 1 January	94,096	641,971	736,068
Additions	10,277	60,108	70,385
Balance at 31 December	104,373	702,079	806,453
Accumulated amortisation			
Balance at 1 January	8,499	-	8,498
Amortization	20,884	-	20,884
Balance at 31 December	29,383	-	29,382
Carrying amount			
Balance at 31 December 2019	**74,990**	**702,079**	**777,071**

31 December 2018	**Computer software**	**Work in progress**	**Total**
Cost	**N'000**	**N'000**	**N'000**
Balance at 1 January	3,251	-	3,251
Additions	90,845	641,971	732,816
Balance at 31 December	94,096	641,971	736,067
Accumulated amortisation			
Balance at 1 January	185	-	185
Amortization	8,314	-	8,314
Balance at 31 December	8,499	-	8,499
Carrying amount			
Balance at 31 December 2018	**85,597**	**641,971**	**727,568**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

25 Property and equipment

In thousands of Naira
Group
31 December 2019

	Office equipment	IT equipments	Furnitures & Fittings	Motor Vehicles	Leasehold Improvement	Total
Cost						
Balance as at 1 January 2019	52,608	382,203	49,716	598,503	278,132	1,361,162
Acquisitions	2,201	17,617	4,133	99,624	32,512	156,087
Disposal	-	-	-	(20,000)	-	(20,000)
Balance as at 31 December 2019	54,809	399,820	53,849	678,127	310,644	1,497,249
Depreciation						
Balance as at 1 January 2019	9,798	38,688	9,681	54,258	35,488	147,913
Charge for the period	10,859	78,903	10,465	128,488	29,350	258,065
Disposal	-	-	-	(2,650)	-	(2,650)
Balance as at 31 December 2019	20,657	117,591	20,146	180,096	64,838	403,328
Carrying amount						
Balance as at 31 December 2019	34,152	282,229	33,703	498,031	245,80	1,093,921

Bank
31 December 2019

	Office equipment	IT equipments	Furnitures & Fittings	Motor Vehicles	Leasehold Improvement	Total
Cost						
Balance as at 1 January 2019	52,609	382,203	49,716	598,503	278,132	1,361,161
Acquisitions	2,118	17,617	2,740	99,499	32,372	154,346
Disposal	-	-	-	(19,875)	-	(19,875)
Balance as at 31 December 2019	54,727	399,820	52,456	678,127	310,504	1,495,632
Depreciation						
Balance as at 1 January 2019	9,798	38,688	9,680	54,258	35,488	147,912
Charge for the period	10,848	78,903	10,217	128,489	29,339	257,795
Disposal				(2,651)		(2,651)
Balance as at 31 December 2019	20,646	117,591	19,897	180,096	64,827	403,056
Carrying amount						
Balance as at 31 December 2019	34,081	282,229	32,559	498,031	245,67	1,092,576

31 December 2018

Bank	Office equipment	IT equipments	Furnitures & Fittings	Motor Vehicles	Leasehold Improvement	Total
Cost						
Balance as at 1 January 2018	27,314	30,245	-	-	267,057	324,616
Acquisitions	25,295	351,957	49,716	598,503	11,074	1,036,545
Balance as at 31 December 2018	52,609	382,202	49,716	598,503	278,131	1,361,161
Depreciation						
Balance as at 1 January 2018	1,210	1,433			8,289	10,932
Charge for the period	8,588	37,255	9,680	54,257	27,199	136,979
Balance as at 31 December 2018	9,798	38,688	9,680	54,257	35,488	147,911
Carrying amount						
Balance at 31 December 2018	42,811	343,514	40,036	544,246	242,64	1,213,250

26 Leases

This note provides information for leases where the Bank is a lessee.

i **Right of use assets**

	Building	Total
	N'000	**N'000**
Opening balance at 1 January 2019	296,714	296,714
Additions in the year	-	-
Closing balance as at 31 December 2019	296,714	296,714

Depreciation

	N'000	**N'000**
Opening balance as at 1 January 2019	-	-
Charge for the year	15,843	15,843
Closing balance as at 31 December 2019	15,843	15,843
Net book value	280,871	280,871

ii **Amounts recognised in the statement of profit or loss**

	N'000	N'000
Depreciation charge of right-of-use assets	15,843	15,843
Interest expense (included in finance cost)	11,445	11,445
Total amount expensed	**27,288**	**27,288**

iii. Lease liability

Opening balance at 1 January 2019	71,380	71,380
Interest expense	11,445	11,445
Closing balance as at 31 December 2019	**82,825**	**82,825**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

	Group December 2019	Bank December 2019	Bank December 2018
27 Financial liabilities carried at amortised cost			
Demand deposits	6,686,870	6,686,928	31,449
Term deposits	33,826,012	33,826,012	5,013,024
	40,512,882	40,512,940	6,494,473
Non-current	-	-	-
Current	40,512,882	40,512,940	6,494,473
	40,512,882	40,512,940	6,494,473

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
28 Other liabilities			
Financial liabilities			
Customer's deposits for foreign trade - see note (i) below	966,446	966,446	648,409
Amount held for customer foreign exchange transactions - see note (ii) below	974,667	974,667	41,918
Sundry Creditors	101,712	98,323	69,821
Other payables			6,300
Deferred Income	100,824	98,543	
ECL impairment charge on off balance sheet engagements	48,804	48,804	166
	2,192,453	**2,186,783**	**766,614**
Non- Financial liabilties			
Statutory payables	1,078	1,078	16,696
Total other liabillities	2,193,532	2,187,861	783,310

Statutory payables related to value added tax and PAYE payables.

The reconciliation of ECL on off balance sheet engagement is stated below:

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
Balance at 1 January 2019	166	166	
Increase in ECL impairment (see note 8)	48,638	48,638	
At 31 December 2019	48,804	48,804	
Current	2,134,969	2,129,298	783,310
Non-current	58,563	58,563	-
	2,193,532	2,187,861	783,310

(i) This represents the Naira value of foreign currencies held on behalf of customers to cover letters of credit transactions.
(ii) This represents collections for the purchase of foreign currency from the Central Bank of Nigeria on behalf of customers.

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
29 Share capital			
Share capital In thousands of Naira			
i Authorised:			
20,000,000,000 ordinary shares of N1 each	20,000,000	20,000,000	20,000,000
Issued and fully paid-up :			
ii 16,000,000,000 ordinary shares of N1 each	16,000,000	16,000,000	16,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote at meetings of the Bank.

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
30 Prudential adjustments			
Prudential guidelines provision:			
- General provisions	586,331	586,331	48,576
	586,331	586,331	48,576
IFRS impairment provisions:			
- ECL provision on financial assets	79,914	79,914	1,148
	79,914	**79,914**	**1,148**
Difference in IFRS impairment over prudential guidelines accounted for in regulatory risk reserves	**506,417**	**506,417**	**47,428**

In line with the regulatory requirements of the Central Bank of Nigeria, provisions for loans recognised in the statement of comprehensive income determined based on the impairment provision requirement under IFRS should be compared with the provisions determined under prudential guidelines and the difference should be treated as follows:

i. If impairment under Prudential Guidelines exceed the IFRS provisions; the resulting excess provision should be transferred from the general reserve account to a non-distributable '' regulatory risk reserve''

ii. If the provisions under the Prudential Guidelines is less than the IFRS provisions; IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve account.

31 Retained earnings and other reserves

a Retained earnings

Retained earnings are the carried forward recognised income net of expenses plus current period profit attributable to shareholders. The movement in retained earnings has been disclosed in the statement of changes in equity.

b Other regulatory reserves

i Statutory reserves

Nigerian Banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by S.16(1) of the Banks and Other Financial Institution Act of Nigeria, an appropriation of 30% of profit after tax is made if the statutory reserve is less than paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid up share capital.

Movement in statutory reserves	**Group December 2019 N'000**	**Bank December 2019 N'000**	**Bank December 2018 N'000**
Balance as at 1 January	**498,468**	**498,468**	**153,173**
Transfer from retained earnings	495,215	495,215	345,295
Balance as at 31 December	**993,683**	**993,683**	**498,468**

ii Fair value reserves

The revaluation reserves show the effects from the fair value measurement of financial instruments of the fair value through other comprehensive income category. Any gains or losses on this class of financial instruments are not recognised in the income statement until the asset has been sold or impaired.

Movement in fair value reserves	**Group December 2019 N'000**	**Bank December 2019 N'000**	**Bank December 2018 N'000**
Balance as at 1 January	**(50,131)**	**(50,131)**	**-**
Net changes in fair value of financial assets FVOCI	297,664	297,664	(50,131)
Balance as at 31 December	**247,533**	**247,533**	**(50,131)**

iii Regulatory risk reserves

This represents a non-distributable reserves for the excess between the impairment reserves on loans and advances determined using Prudential Guidelines issued by the Central Bank of Nigeria over the impairment reserves calculated under IFRS.

Movement in regulatory risk reserves

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
Balance as at 1 January	47,428	47,428	-
Transfer from retained earnings	458,989	458,989	47,428
Balance as at 31 December	506,417	506,417	47,428

As at 31 December 2019, the CBN Prudential provision was higher than the IFRS impairment provision. The sum of N459 million (2018: N47.4million) was reclassified from retained earnings to the regulatory risk reverse.

32 Contingent liabilities and commitments

a Credit related commitments

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

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
Letters of credit	27,760,378	27,760,378	3,115,216
Bonds and Guarantees	2,123,301	2,123,301	116,210
Loan commitments	3,233,445	3,233,445	50,000
	33,117,124	33,117,124	3,281,426

33 Related party transactions

A number of transactions are entered into with related parties in the normal course of business. These include wages and salaries paid and payable to related parties, Employer Pension contribution and loans and advances to related parties. In line with IAS 24, the Bank categorised its shareholders, directors, members of its key management personnel and their related entities or persons of influence with which the Bank had transactions for disclosure purposes.

(i) Key management personnel

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
(a) Compensation to directors			
Fees and sitting allowances	65,720	62,300	67,400
Wages and salaries	187,415	187,415	227,369
Pension Contribution	13,877	13,877	17,393
	267,012	263,592	312,162
(b) Loans and advances to directors	124,945	124,945	139,559

Loans outstanding

Loans to directors as disclosed above represent personal staff loans which are payable within 4 - 10 years. The loan is given at below market rate of interest. There were no specific loan loss provision related to the amounts outstanding. No loan was granted to any key management staff or employee outside their employment scheme of service.

	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
(ii) Shareholders			
Borrowing from shareholders (Principal amount)	-	-	-
Interest on borrowing from shareholders	-	-	7,423
Total	-	-	7,423

Money was borrowed from the shareholders during the period to fund all the recurring and capital expenditures of the Bank. Interest rate on the borrowing was 18% per annum.

(iii) Subsidiaries	Group December 2019 N'000	Bank December 2019 N'000	Bank December 2018 N'000
Receivable from NovaMBL Asset Management Limited	-	102,179	-
	-	102,179	-

34 Interest in unconsolidated subsidiaries

As at 31 December 2019, Nova Merchant Bank Limited had interest in the companies shown in the table below:

Name of entity	Principal activity	Place of operation	Proportion of ownership interests
Yuderb Investments and Securities Limited	Trading in Financial Securities	Lagos	To be determined
Nova Investment SPV Limited	Bond issue to the public	Lagos	The chairman of the board of directors of the bank is also a shareholder of the entity.

Nova Merchant agreed to take over the majority shareholding of Yuderb Investments and Securities Limited in December 2019. The transfer of shares was approved by the Corporate Affairs Commission in January 2020.

Both entities were not controlled by Nova Merchant Bank Limited as at 31 December 2019.

35 Events after statement of financial position date

There were no events subsequent to the financial position date which require adjustments to, or disclosure in these financial statements.

The Finance Act which was enacted in January 2020 did not provide any clarity around how expenses relating to tax exempt income will be calculated. Management is of the view that there is no identifiable expense relating to its tax exempt income which are interest income from treasury bills and bonds.

36 Compliance wih banking regulation

During the year, the Bank paid N2,000,000 as penalty to the Central Bank of Nigeria for the contravention of memorandum 5(b)(ii)(d) of the foreign exchange manual. The section of the foreign exchange manual requires forward contracts to have deal slips evidencing deals raised. There was no deal slip in the trade and invisible files for which forward contracts were entered into.

37 Insider related credits

In compliance with Central Bank of Nigeria circular BSD/1/2004 on insider related credits, the Bank had no insider related credits during the year apart from loans to its executive directors. The Bank however follows a strict process before granting such credits.

The Bank's gross exposure to all its directors as at 31 December 2019 is disclosed in note 33.

Other National Disclosures:

One Year Financial Summary- Group

	Group 2019 N'000	%	Bank 2019 N'000	%	Bank 2018 N'000	%
Gross earnings	5,868,372		5,818,979		2,755,469	
Interest expense	(2,329,665)		(2,343,268)		(373,347)	
Administrative overheads- local	(532,304)		(507,443)		(530,892)	
Total value added	3,006,403		2,968,268		1,851,230	
Distribution of value added To						
employees and directors:						
Salaries and benefits	**898,068**	30%	**855,194**	29%	**765,477**	41%
To government:						
Tax	**(133,831)**	-4%	**(133,831)**	-5%	**(190,394)**	-10%
Provide for maintenance and expansion of the company						
For replacement of property, plant and equipment (depreciation)	258,065	9%	257,795	9%	136,980	7%
Depreciation of right of use asset	15,843	1%	15,843	1%		
For replacement of intangible assets (amortisation)	20,885	1%	20,885	1%	8,313	0%
Rent expense	4,000	0%	4,000	0%	30,000	2%
Retained earnings	1,943,372	65%	1,948,381	66%	1,100,854	59%
	3,006,403	100%	2,968,267	100%	1,851,230	100%

These statements show the distribution of the wealth created by the Bank during the period.

Other National Disclosures:

One Year Financial Summary- Group

In thousands of Naira	December 2019
Assets	
Balances with banks	4,861,169
Financial assets held for trading	722,877
Loans to banks and other financial institutions	7,035,382
Loans and advances to customers	29,285,504
Investment securities	12,827,857
Derivative financial assets	1,460,523
Pledged assets	2,497,380
Property and equipment	1,093,921
Right-of-use asset	280,871
Intangible assets	805,796
Other assets	2,491,126
Deferred tax assets	443,497
Total assets	63,805,903
Liabilities	
Due to customers	40,512,882
Derivative financial liabilities	1,446,598
Lease liability	82,825
Current tax liabilities	15,264
Other liabilities	2,193,532
Total liabilities	44,251,101
Equity	
Share capital	16,000,000
Statutory reserve	993,683
Retained earnings	1,807,169
Fair value reserve	247,533
Regulatory risk reserve	506,417
	-
Total equity attributable to owners of the Bank	19,554,802
	-
Total liabilities and equity	63,805,903

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Naira	December 2019
Interest income	4,536,246
Interest expense	(2,329,665)
	-
Net interest income	2,206,581
Impairment charge for credit losses	(78,766)
Fee and commission income	309,611
Net gains on financial instruments held for trading	765,117
Net foreign exchange gain	246,116
Other income	11,281
Operating expenses	(1,948,063)
Profit before tax	1,511,877
	-
Income tax	133,831
	-
Profit for the year	1,645,708
	-
Net changes in fair value of financial assets FVOCI	297,664
	-
Other comprehensive loss, net of related tax effects:	297,664
	-
Total comprehensive income for the period	1,943,372

Other National Disclosures:

Three Year Financial Summary- Bank

In thousands of Naira	December 2019	December 2018	December 2017
Assets			
Balances with banks	4,861,169	1,195,794	17,557,340
Financial assets held for trading	722,877	3,828,375	-
Loans to banks and other financial institutions	7,035,382	3,883,786	-
Loans and advances to customers	29,285,504	2,427,818	23,163
Investment securities	12,826,295	9,222,403	-
Investment in subsidiaries	150,000	-	-
Derivative financial assets	1,460,523	20,753	-
Pledged assets	2,497,380	1,192,312	-
Property and equipment	1,092,576	1,213,250	313,684
Right-of-use asset	280,871	-	-
Intangible assets	777,071	727,568	3,066
Other assets	2,372,154	979,583	-
Deferred tax assets	443,497	294,497	94,497
	-	-	-
Total assets	**63,805,299**	**24,986,139**	**17,991,750**
Liabilities			
Due to customers	40,512,940	6,494,473	-
Derivative financial liabilities	1,446,598	87,319	-
Lease liability	82,825	-	-
Current tax liabilities	15,264	9,606	4,161
Other liabilities	2,187,861	783,310	1,477,013
	-	-	-
Total liabilities	**44,245,488**	**7,374,708**	**1,481,174**
Equity			
Share capital	16,000,000	16,000,000	16,000,000
Statutory reserve	993,683	498,468	153,173
Retained earnings	1,812,178	1,115,666	357,403
Fair value reserve	247,533	(50,131)	-
Regulatory risk reserve	506,417	47,428	-
Total equity attributable to owners of the Bank	**19,559,811**	**17,611,431**	**16,510,576**
Total liabilities and equity	**63,805,299**	**24,986,139**	**17,991,750**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Naira	December 2019	December 2018	December 2017
Interest income	4,529,392	1,876,519	1,224,514
Interest expense	(2,343,268)	(373,347)	(60,878)
Net interest income	2,186,124	1,503,172	1,163,636
Impairment charge for credit losses	(78,766)	(1,148)	-
Fee and commission income	267,072	29,068	-
Net gains on financial instruments held for trading	765,117	545,475	-
Net foreign exchange gain	246,116	302,419	-
Other income	11,281	1,987	-
Operating expenses	(1,880,058)	(1,420,382)	(743,396)
Profit before tax	1,516,886	960,591	420,240
Income tax	133,831	190,394	90,336
	-	-	-
Profit for the year	1,650,717	1,150,985	510,576
	-	-	-
Net changes in fair value of financial assets FVOCI	297,664	(50,131)	-
	-	-	-
Other comprehensive loss, net of related tax effects:	297,664	(50,131)	-
	-	-	-
Total comprehensive income for the period	1,948,381	1,100,854	510,576

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