FBNQuest Merchant Bank

FORGING AHEAD

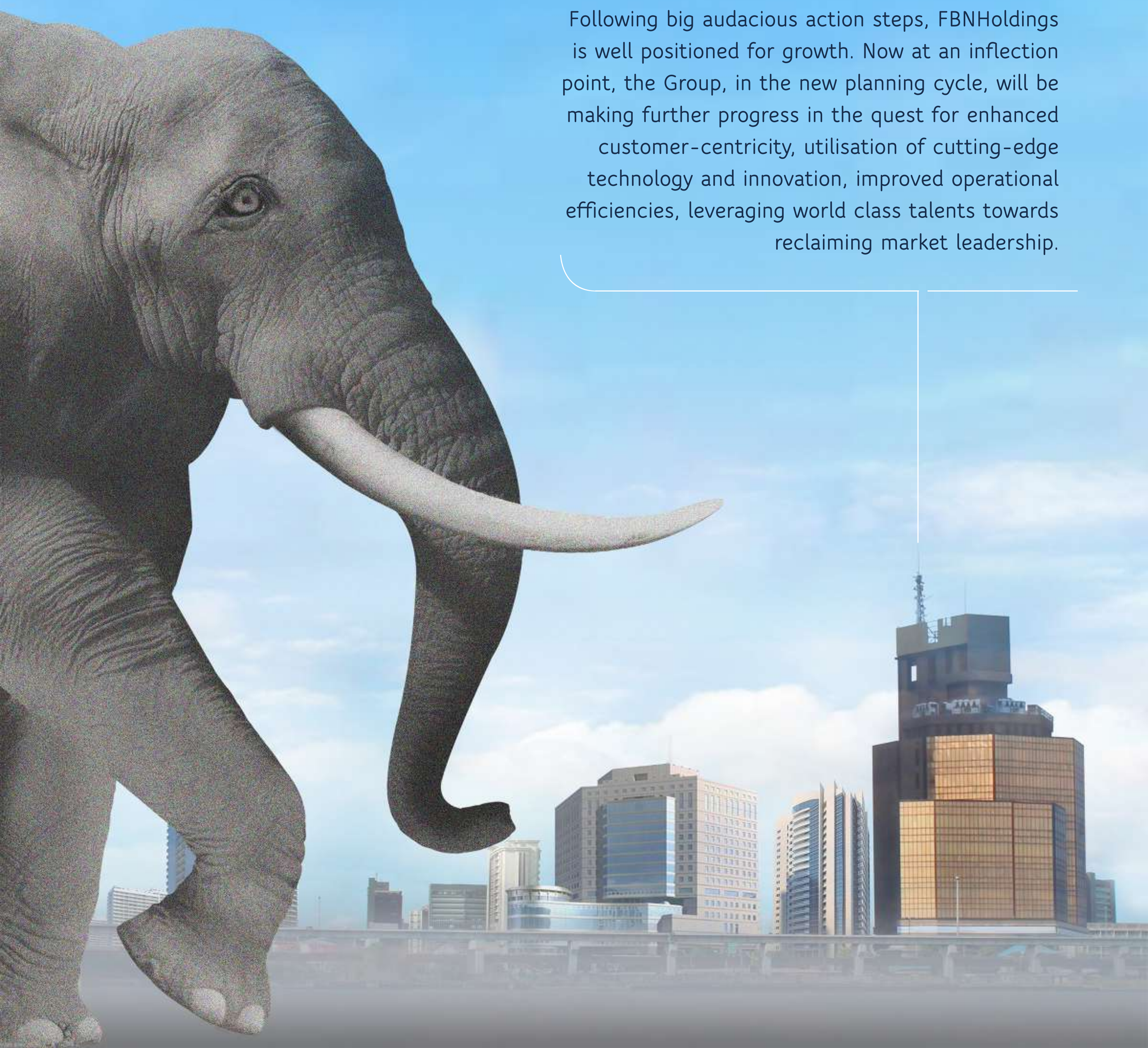
FBNQuest Merchant Bank Limited

Annual Report and Accounts 2019

FORGING AHEAD

In line with our unflinching resolve and commitment, one of the key accomplishments at the end of our last strategic planning cycle was the complete overhaul of our risk management architecture and strengthening of our business and processes for sustainable growth.

Following big audacious action steps, FBNHoldings is well positioned for growth. Now at an inflection point, the Group, in the new planning cycle, will be making further progress in the quest for enhanced customer-centricity, utilisation of cutting-edge technology and innovation, improved operational efficiencies, leveraging world class talents towards reclaiming market leadership.



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The term 'FBN Holdings Plc' or 'the Group' means FBNHoldings together with its subsidiaries. FBN Holdings Plc is a financial holding company incorporated in Nigeria on 14 October 2010. The Company was listed on the Nigerian Stock Exchange under the 'Other Financial Services' section on 26 November 2012 and has issued and fully paid-up share capital of 35,895,292,791 ordinary shares of 50 kobo each (₦17,947,646,396). In this Report, the abbreviations '₦mn', '₦bn' and '₦tn' represent millions, billions and trillions of naira respectively.

FBN Holdings Plc is structured along the following business groups: Commercial Banking, Merchant Banking and Asset Management, and Insurance.

- The Commercial Banking business comprises First Bank of Nigeria Limited, FBNBank (UK) Limited, FBNBank DRC Limited, FBNBank Ghana Limited, FBNBank The Gambia Limited, FBNBank Guinea Limited, FBNBank Sierra Leone Limited, FBNBank Senegal Limited and First Pension Custodian Nigeria Limited. FirstBank (Nigeria) is the lead entity of the Commercial Banking business.

- The Merchant Banking and Asset Management business consists of FBNQuest Merchant Bank, FBNQuest Capital Limited and FBNQuest Trustees Limited. The subsidiaries of FBNQuest Merchant Bank Limited are FBNQuest Asset Management Limited and FBNQuest Securities Limited, while the subsidiary of FBNQuest Capital Limited is FBNQuest Funds Limited.

- The Insurance business comprises FBN Insurance Limited, FBN General Insurance Limited and FBN Insurance Brokers Limited.

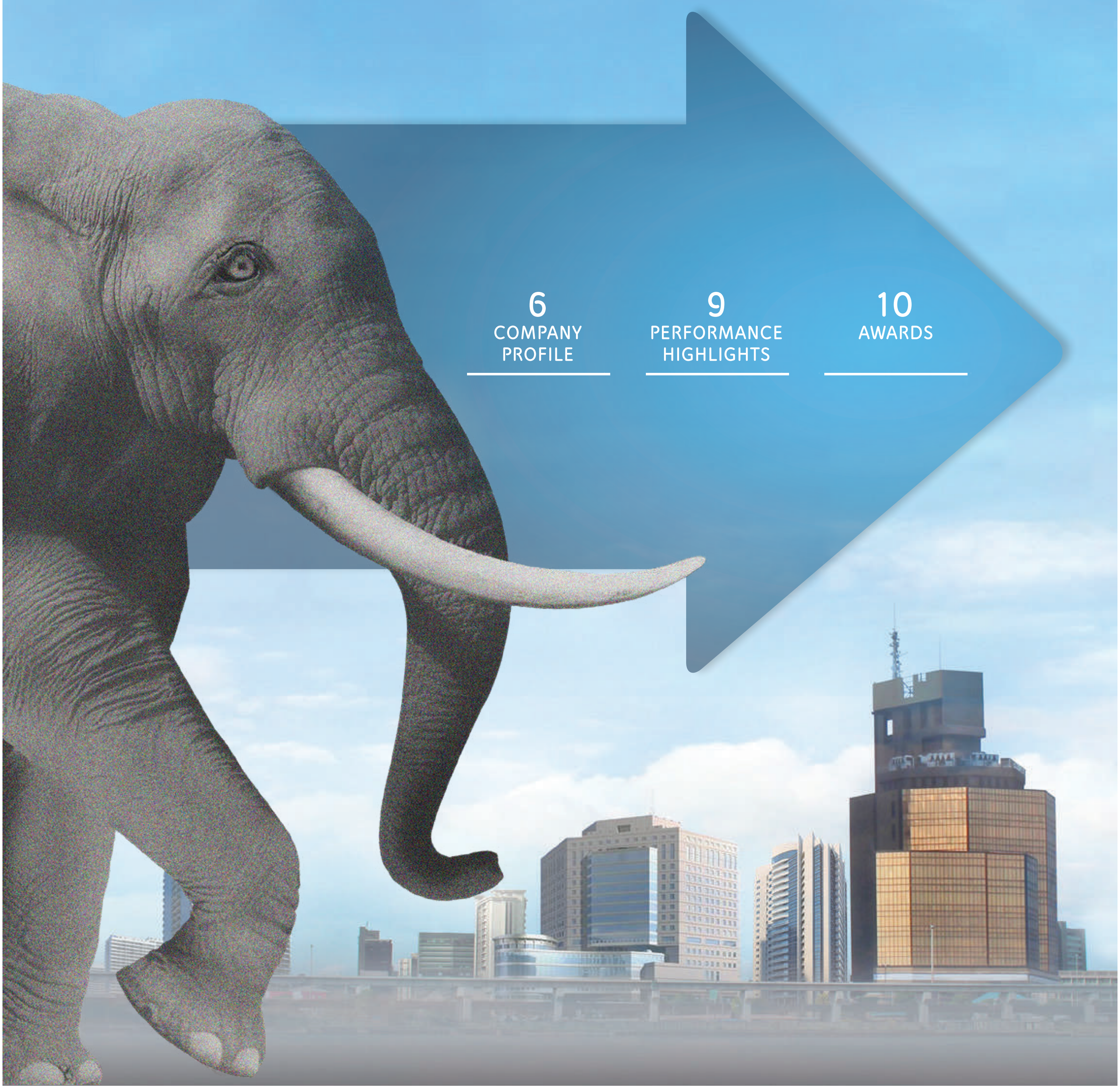
This Annual Report encompasses FBNQuest Merchant Bank Limited. Unless otherwise stated, the profit and loss statement analysis compares the 12 months to December 2019 to the corresponding 12 months of 2018, and the financial position comparison relates to the corresponding position as at 31 December 2018. Unless otherwise stated, all disclosed figures relate to continuing operations. Relevant terms that are used in this document but are not defined under applicable regulatory guidance or International Financial Reporting Standards (IFRS) are explained in the glossary or abbreviation section of this report. This report is also available online at www.fbnquest.com

There will be an option to view a PDF copy of the FBNHoldings Annual Report, list of unclaimed dividend, list of all business locations and PDFs of certain subsidiary reports on the Investor Relations section of the FBNHoldings website.

Due to rounding, numbers presented throughout the report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

OUR BUSINESS

At FBNQuest Merchant Bank, we are wealth managers with strong investment banking capabilities serving our wide customer base of corporates, banks, public institutions, institutional investors and high-net-worth individuals. We possess significant financial capacity with access to the formidable heritage of the FBNHoldings Group.



COMPANY PROFILE

The Merchant Banking and Asset Management group is a subsidiary of FBN Holdings Plc. Our businesses include coverage and corporate banking, financial advisory, debt capital markets, equity capital markets, debt solutions, fixed income, currencies and treasury and wealth management solutions.

We offer bespoke solutions to investors - including high networth individuals, institutions, corporations and governments - as well as a range of investment products and services across various asset classes and sectors. From mutual funds to liquidity management, we work with individual and institutional investors to provide a strategy best suited to the customer's investment goals and portfolios.

Customers are provided with customised products and sector expertise through our highly focused equities team.

Our rich culture, local insights and unrivalled network make us a trusted partner to our customers.

Our world-class team ensures that we empower and inspire good investment decisions by providing the best possible information, analyses and perspectives as we constantly seek opportunities to create value by applying the latest insights and technology.

The business operates from three locations in Nigeria: Lagos, Port Harcourt and Abuja.

Vision

We believe in setting our own standard, embracing a pioneering spirit that pushes boundaries and opens up bold new possibilities for all our stakeholders.

Mission

To be the leading merchant bank and asset manager in Africa, and a trusted and inspirational partner founded on innovation, deep local roots and insight.

Brand Values

- **Teamwork:** We work united as one firm and raise our collective game to become an inspiring and trusted partner to customers.
- **Empowered:** We are free to challenge convention, constantly raise the bar, and contribute towards intelligent and insightful solutions.
- **Impactful:** We do the right thing, even when nobody is looking, setting our own standard as guided by our moral compass and adding value to our colleagues, customers and society every day.

FBNHOLDINGS STRUCTURE

FBN HOLDINGS PLC

COMMERCIAL BANKING

First Bank of Nigeria Limited

- FBNBank (UK) Limited
- FBNBank DRC Limited
- FBNBank Ghana Limited
- FBNBank The Gambia Limited
- FBNBank Guinea Limited
- FBNBank Sierra Leone Limited
- FBNBank Senegal Limited
- First Pension Custodian Nigeria Limited

MERCHANT BANKING AND ASSET MANAGEMENT

FBNQuest Merchant Bank Limited

- FBNQuest Asset Management Limited
- FBNQuest Securities Limited

FBNQuest Capital Limited

- FBNQuest Funds Limited

FBNQuest Trustees Limited

INSURANCE

FBN Insurance Limited

- FBN General Insurance Limited

FBN Insurance Brokers Limited

At FBNHoldings Group, we offer innovative and competitive financial solutions to meet the needs of our customers.

COMMERCIAL BANKING

The Group's core business is providing financial services to individuals and corporate customers.

This business segment includes the Group's local, international and representative offices offering commercial banking services in 10 countries.

MERCHANT BANKING AND ASSET MANAGEMENT

The Group's key businesses comprise corporate banking, investment banking, wealth management and fixed income securities trading, serving a diverse customer base of corporates, banks, public institutions, institutional investors and high-net worth individuals.

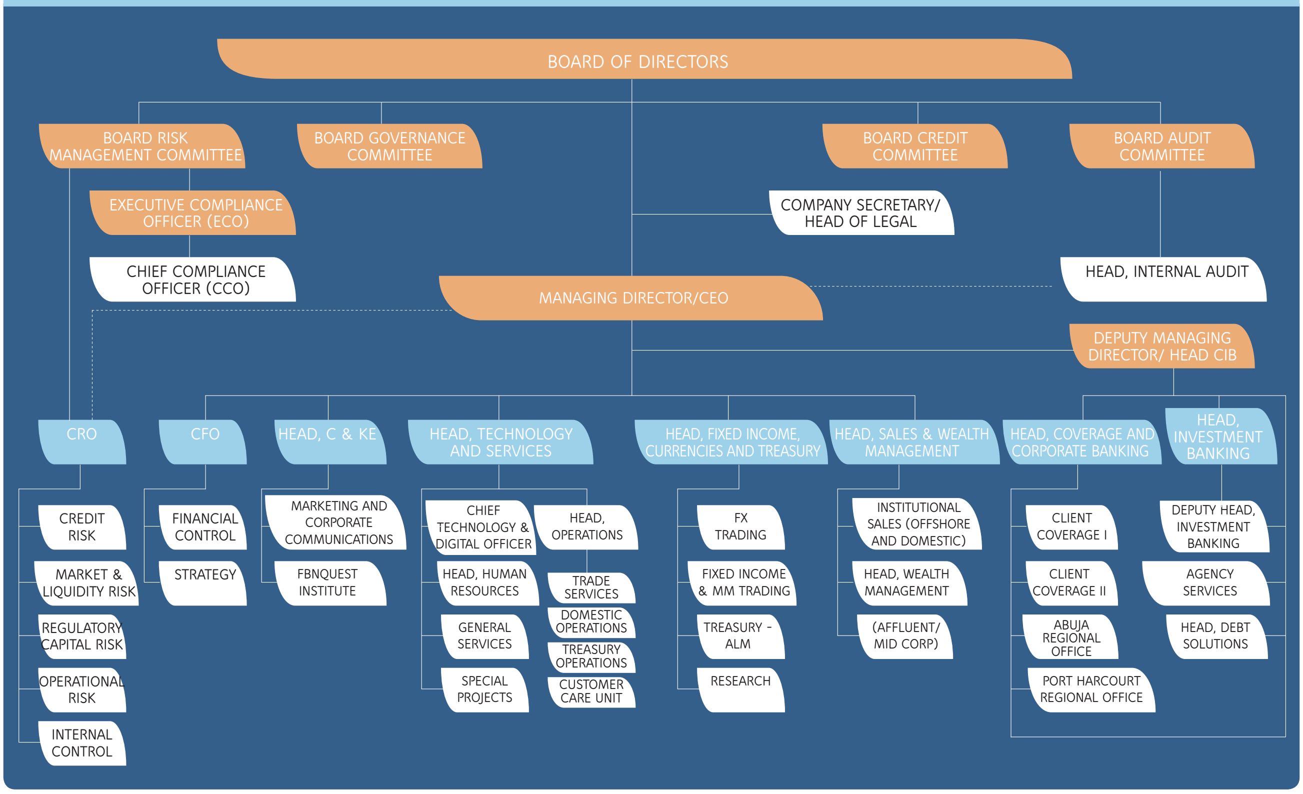
INSURANCE

The Group offers life insurance and general insurance services, as well as insurance brokerage services.

OUR STRUCTURE

FBNQuest Asset Management Limited and FBNQuest Securities are subsidiaries of FBNQuest Merchant Bank Limited. Our distinctive heritage as an organisation allows us to leverage the specialisation of our parent company's subsidiaries to enhance delivery and provide world-class customer solutions.

FBNQUEST MERCHANT BANK LIMITED - ORGANOGRAM



NOTABLE MILESTONES

- Completed three-year strategy cycle (2017-2019)
- Obtained CBN/NIBSS approval for direct settlement of the Bank's Electronic Fund Transfers (EFTs)
- Rolled out Direct Market Access (DMA) platform for FBNQuest Securities customers
- Launched FBNQuest Mentorship Programme
- Implemented initiatives aimed at improving workplace conditions and positively impacting our female workforce

PERFORMANCE HIGHLIGHTS

FINANCIAL HIGHLIGHTS

OPERATING INCOME
₦13.99bn
2018: ₦12.99bn
Up 8%

OPERATING EXPENSES
₦9.84bn
2018: ₦10.18bn
Down 3%

PROFIT BEFORE TAX
₦4.15bn
2018: ₦2.80bn
Up 48%

COST-TO-INCOME RATIO
70.3%
2018: 78.4%
Down 8%

NON-FINANCIAL HIGHLIGHTS

IT TRANSFORMATION AND DIGITAL STRATEGY

The business streamlined its technology infrastructure, delivering significant cost reductions, improved stability and an aggressive product release schedule. Data centre footprint and costs were reduced through agile cloud-based productivity solutions.

SERVICE EXCELLENCE

Key operational areas with high manual intensity were automated, processes enhanced to improve operational efficiency, and agility of response to customers improved, while ensuring adequacy of controls and regulatory compliance.

HUMAN CAPITAL MANAGEMENT

The FBNQuest Mentoring Programme was initiated to enhance middle-management leadership. We also focused on employee engagement and team health initiatives, such as championship games, a Wellness Day and other wellbeing activities.

AWARDS

FBNQuest Merchant Bank's capabilities, along with our unrelenting drive to deliver innovative solutions, continue to be recognised.

Best African Sukuk

EMEA FINANCE: ACHIEVEMENT AWARDS

FBNQuest Merchant Bank received the 'Best African Sukuk' Award for demonstrating exceptional capabilities in the debt capital market.

Most Innovative Registration Member

FMDQ GOLD AWARDS

This Award was in recognition of FBNQuest Merchant Bank's continuous delivery of increased value through the registration of bond-related transactions on the FMDQ Securities Exchange.

Best Local Investment Manager in Nigeria

EMEAFINANCE AFRICAN BANKING AWARDS: NIGERIA

FBNQuest Merchant Bank clinched the 'Best Local Investment Bank' Award in recognition of its leading role in key transactions across various sectors.

Deal of the Year - Africa - Islamic Finance

BANKER DEAL OF THE YEAR AWARDS

The Award was in recognition of FBNQuest Merchant Bank's exceptional capabilities in Islamic Finance.

Money Market Fund of the Year

BUSINESSDAY BANKING AND OTHER FINANCIAL INSTITUTIONS AWARDS

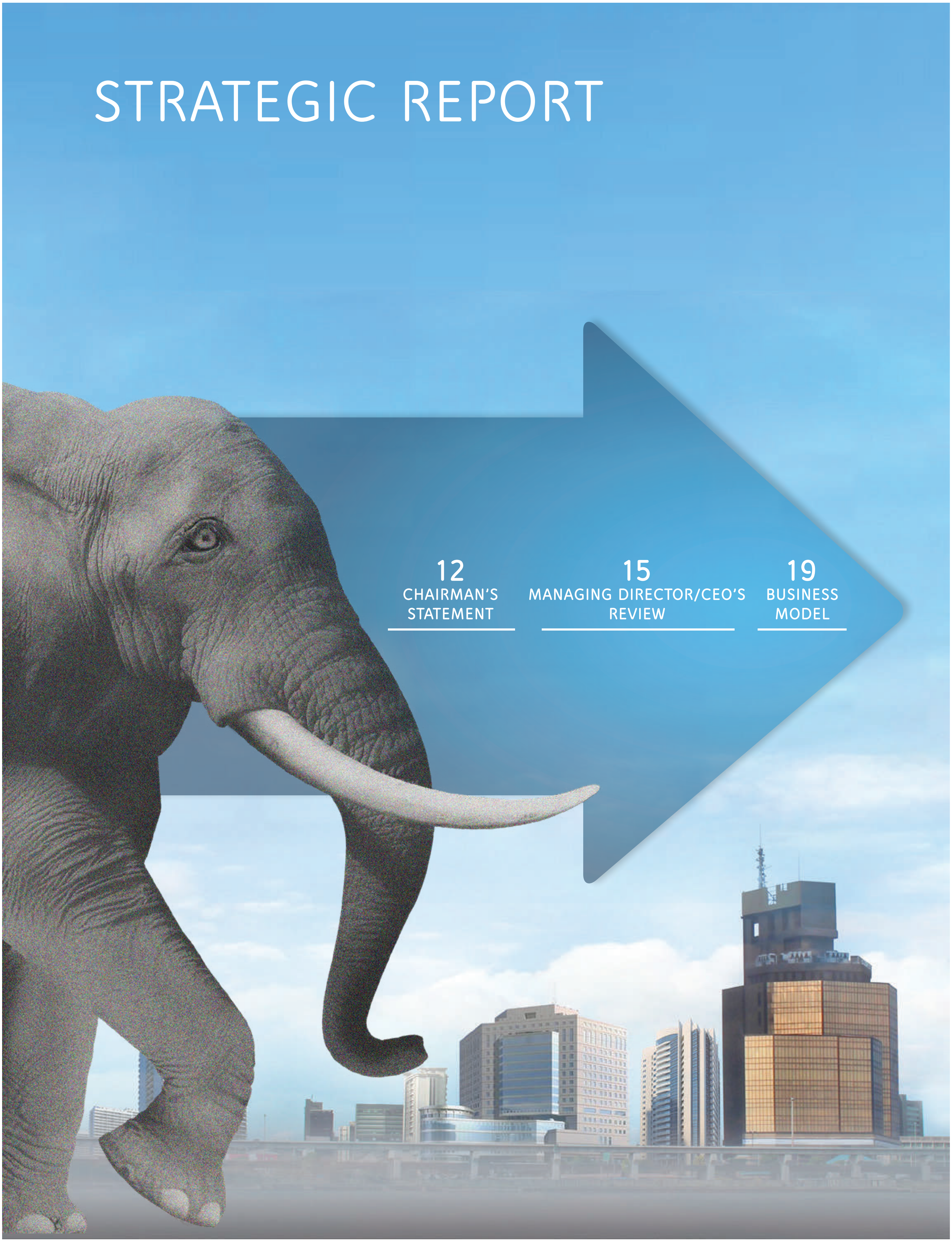
This Award was in recognition of FBNQuest Asset Management mutual fund's strong performance.

Best Asset Manager in Nigeria

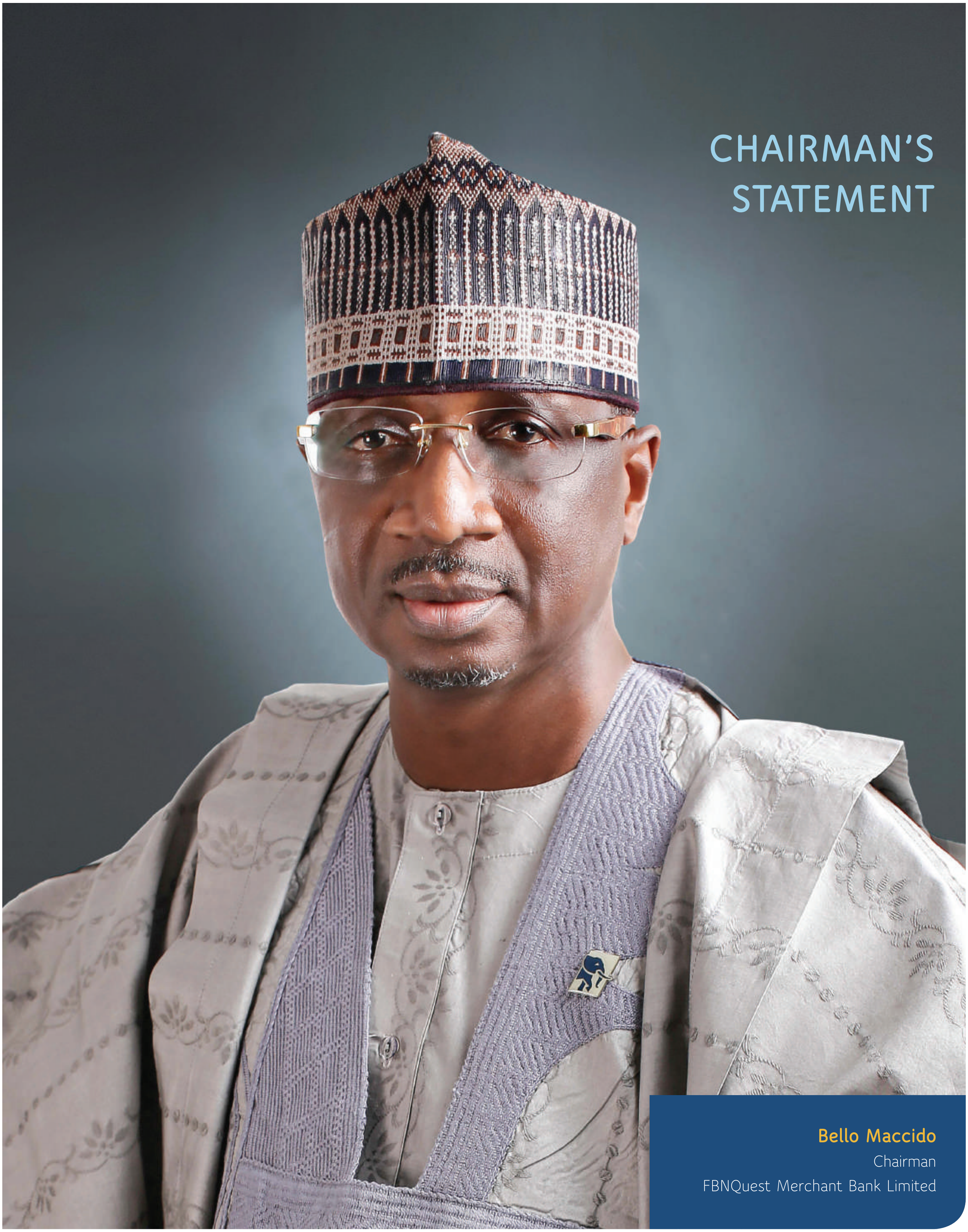
EMEA FINANCE AFRICAN BANKING AWARDS

This Award was in recognition of FBNQuest Asset Management mutual funds' strong performance across all public funds and bespoke portfolios.

STRATEGIC REPORT



CHAIRMAN'S STATEMENT



Bello Maccido
Chairman
FBNQuest Merchant Bank Limited

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am happy to welcome you to the 5th Annual General Meeting of FBNQuest Merchant Bank Ltd. We have set before you the Annual Report and Financial Statements for the year ended 31 December 2019 and our outlook for the 2020 financial year.

PERFORMANCE

The macroeconomic environment was unfavourable for the better part of the 2019 financial year.

Strong earners for the Bank were negatively impacted, and the stiff competition for quality assets in a bid to meet the CBN loan-to-deposit requirement impacted the net interest income for most banks. The CBN's tightening stance led to a reduction in yields and an erosion of traditional sources of banking income.

The change in the Federal Government's borrowing strategies, and a decision to fund projects that would have required market funding and, by extension, raising debt, led to reduced margins for the Bank. In 2019, the Bank embarked on inclusive cost-optimisation which led to considerable gains and savings. This cost-optimisation exercise will continue in 2020.

In spite of these multiple headwinds, your Bank achieved a profit before tax of ₦2.779bn. Total assets were ₦141.50bn, representing an increase from the previous year's position of ₦131.794bn. Similarly, shareholders' funds stood at a robust ₦27.95bn.

I am also happy to inform you that the Bank will commence the first year of its three-year strategic planning cycle in 2020. Considerable preparation, in collaboration with other subsidiaries of FBNHoldings, went into the crafting of the strategic planning process. I am of the firm view that despite the inclement economic environment, the Bank is poised for better performance in 2020.

INTERIM DIVIDEND

The Directors did not recommend payment of a dividend to shareholders for 2019, to allow the Bank to retain earnings to recapitalise and support business growth.

BOARD MATTERS AND RE-CONSTITUTION OF THE BOARD OF DIRECTORS

There were minimal changes in the constitution of the Board of Directors in 2019. The Central Bank of Nigeria approved the appointment of Oyinkansade Adewale as an Independent Non-Executive Director. She is a senior finance executive with over 37 years' experience in banking and the professional services sector in Africa, mainly in bank chief financial officer roles and complex bank turn-around engagements. She was appointed Chief Financial Officer of a large Nigerian bank by the CBN, and had the responsibility of withdrawing and re-stating the bank's previously published financials. She set up a world-class finance function from scratch at another large Nigerian bank. She worked as a financial adviser/due diligence consultant to 14 banks in the 2004-2006 CBN-led bank consolidation programme, which moved the minimum capital of Nigerian banks from ₦5bn to ₦25bn through mergers and acquisitions. She is a recipient of the CBN Governor's Commendation for meritorious services to the banking sector.

Oyinkansade Adewale also serves as the Chairperson of the Board Risk Management Committee and as a member of the Board Audit Committee.

As is customary, I am glad to state that the strengths of the Board remain the candour and experience of its members, their commitment to the Bank's growth and their passion.

> *In 2019, the Bank embarked on inclusive cost-optimisation which led to considerable gains and savings. This cost-optimisation exercise will continue in 2020.*

CHAIRMAN'S STATEMENT

I congratulate my colleagues on the Board for coming through a very difficult year. The task ahead demands total commitment, expert navigation and greater sacrifice, and I charge members of the Board to rise to the occasion as always. Together and in consonance with Management, we will achieve our goal of becoming Africa's leading investment bank and asset manager in the near term.

CORPORATE GOVERNANCE

In the course of the year, the Company received penalties for delays in the submission of some returns to the CBN. This was due to certain system challenges and customer-related transactions. The Bank was also penalised for lapses in its Know-Your-Customer documentation. Though a majority of banks were affected, since it was the first examination under the CBN's Administrative Sanctions regime, the Management has taken steps to address the CBN's observations.

Aside from these infractions, I am pleased to note that the Company did not record any corporate governance breaches in its operations during the 2019 financial year.

The size and constitution of the Board continue to satisfy best practice. From the inception of FBNQuest Merchant Bank, the Chairman, the Managing Director and indeed the entire Board have received commendable ratings in the Annual Performance Review and Appraisal of the Board of Directors conducted by KPMG Professional Services (a copy of the comprehensive report for the financial year under review will be presented to shareholders at the 2020 General Meeting). The 2019 Board Appraisal Report confirmed that the Board and Management of FBNQuest Merchant Bank Ltd continue to give preference to best corporate governance practices.

CONCLUSION

The forecast for 2020, though favourable at the commencement of the year, has been tempered by the COVID-19 pandemic. For the first time in recent years, and the first in this current administration, the National Assembly passed the budget before the end of the prior financial year. This is very encouraging, because the Federal Government can quickly focus on governance and, being the biggest spender, inflate economic activities.

However, these gains seem to have been dampened by the scourge of the COVID-19, which has compelled many institutions to resort to survival mode. This will seriously impact economic activities in the first and second quarter of the 2020 financial year, with recovery expected within the last quarter of the year. The recent fall in oil prices, the subtle devaluation of the naira and the current low interest rate regime are key points that may lead to higher non-performing loans and cash flow strains for many businesses and portend a torrid year for the financial services industry.

We expect the Bank's Asset Management subsidiary, FBNQuest Asset Management Limited, to be a beneficiary of the low interest rate regime. The company has consistently met its budget in the last two years. With the purchase of the Credence Ideal Wealth and Funds application, FBNQuest Asset Management Limited will be able to deepen its retail base. The expectation is that the company will outperform its budget and inch up in market share over the course of the year.

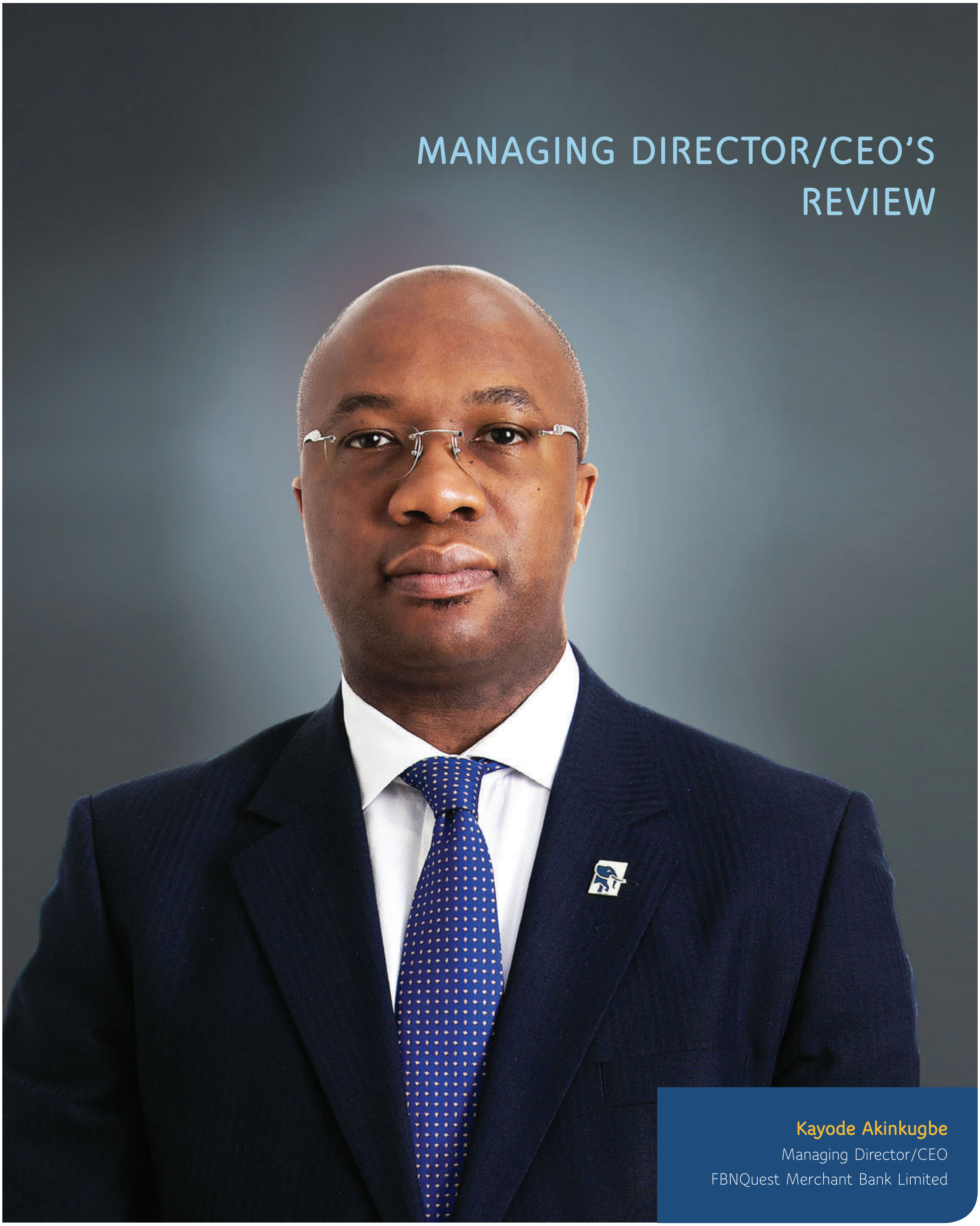
I thank our shareholders, whose tremendous support has helped the Bank to consistently deliver value and retain customers' confidence and loyalty. I also thank the members of the Board. I am pleased to be one of you, and acknowledge your commitment and dedication to the Bank. I look forward with excitement to your continued candour and vibrancy at our future deliberations.

I also extend my thanks to the Management and staff of our Bank for your tenacity and professionalism amid the ongoing changes. I look forward to a tremendous 2020 financial year.

Thank you.

Bello Maccido
Chairman
FBNQuest Merchant Bank Limited

MANAGING DIRECTOR/CEO'S REVIEW



Kayode Akinkugbe
Managing Director/CEO
FBNQuest Merchant Bank Limited

MANAGING DIRECTOR/CEO'S REVIEW

INTRODUCTION

FBNQuest Merchant Bank maintained a positive performance during the year amidst macroeconomic headwinds, achieving a 48% increase year-on-year in profit before tax. This achievement was driven by a strong performance across several businesses, especially the Fixed Income Trading, Corporate Banking, and Asset Management businesses.

"We continued to operate above the requisite regulatory ratios, reflecting the strength and stability of the balance sheet and of our business."

Key performance ratios have improved compared to 2018, with CIR declining by 8% to close at 70%, due to the combined effects of higher earnings and lower operating costs during the financial year. We also achieved a stronger capital adequacy ratio of 17.67%, well above the regulatory requirement of 10% (compared to a CAR of 12.10% in 2018), due to higher profitability and greater profit retention. While our liquidity ratio declined by 22% as more resources were committed to risk asset creation, at 38% it is significantly above regulatory requirements.

While gross revenue declined slightly by 2%, due to lower interest income in the period, operating income increased by 8% compared to the previous year as we ramped up earnings from non-interest sources. We continued to operate above the requisite regulatory ratios, reflecting the strength and stability of the balance sheet and of our business.

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

As we end the 2017-2019 strategy cycle, we have transformed the business in line with the constantly evolving operating environment in order to achieve our goal of being the dominant investment bank and asset management firm in Nigeria. Our diversified product platform remains our collective strength and has enabled us to remain competitive and mitigate downside risks to any one particular business line. We managed risk effectively, leading to a reduction in non-performing assets and a drop in the NPL ratio to 3%.

The difficult macroeconomic conditions and highly competitive landscape adversely impacted the Investment Banking business, while our Fixed Income, Currencies and Treasury (FICT) and Asset Management businesses remained resilient during the year.

We continue to focus on enhancing the quality of and diversifying our earnings by growing our annuity businesses. Our investment management businesses (assets under management) increased by 20% to close at ₦319bn, along with our FICT and Coverage and Corporate Banking (CCB) businesses.

We successfully repositioned our Corporate Banking business, and are beginning to reap the benefits. In addition, although the Investment Banking business witnessed limited growth due to slow macroeconomic conditions, FBNQuest participated in a number of landmark deals that received awards, including EMEA Finance's Achievement Awards 2018 (awarded in 2019) for the Best African Sukuk (Nigeria's ₦100bn Sukuk) and the FMDQ Gold Award for Most Innovative Registration Member.

We made progress on a number of key strategic initiatives that should lead to increased staff productivity and improved morale. These include the launch of the FBNQuest Mentorship Programme, flexi-work (work from home day) once a quarter, and an Employee Advocacy Group. In addition, we completed the articulation of our new three-year strategy cycle for 2020-2022 to position us as the leading investment bank and asset manager in Nigeria.

To continually improve the customer experience across all touch points, we obtained CBN/NIBSS approval for direct settlement of the Bank's Electronic Fund Transfers (EFTs), ensuring shorter turnaround time for processing and cost savings for the Bank.

MANAGING DIRECTOR/CEO'S REVIEW

Although interest income declined by 13% from ₦16.63bn in 2018 to ₦14.53bn in 2019, other income grew by 18% from ₦8.75bn in 2018 to ₦10.33bn in 2019. The improved performance was primarily driven by higher fees and commission income from investment banking activities and trade services, as well as income from trading activities.

Notwithstanding the inflationary pressures, operating costs during the period declined by over 3% due to the implementation of targeted cost-minimisation initiatives during the year. We ended the year relatively strong, with a profit before tax of ₦4.15bn, a 48% increase on prior year's profit before tax of ₦2.80bn.

STAKEHOLDERS

An important group of stakeholders in our business is our people. We take great pride in creating a conducive and safe work environment. Health and safety rules and practices are reviewed regularly and monitored closely to ensure strict adherence.

The Bank has taken out both Group Personal Accident and the Workmen's Compensation Insurance covers for the benefit of our employees, and also provides health insurance for our employees and their dependents.

In accordance with the Bank's policy of continuous growth and development, in-house and on-the-job learning interventions are deployed, in addition to the use of digital platforms.

The Bank encourages diversity and inclusion by consistently ensuring equal opportunity for employment.

In 2019, the FBNQuest Women Interactive Network (FBNQuest WIN) successfully implemented initiatives aimed at improving workplace conditions and positively impacting our female workforce. We have been able to achieve male-to-female gender diversity ratios of 61% to 39% among all employees, 44% to 56% among top executives, and 78% to 22% among Board members. In addition to our compensation and welfare benefits, we operate a contributory pension plan in line with the Pension Reform Act.

OUR STRATEGY

Our medium-term business and operational performance in 2019 was guided by our three-year strategy cycle, which focused on being the dominant player across all our businesses. This was supported by a strong focus on customer experience, a strong operating platform, a high-performance culture among our people, efficient processes and effectively leveraging technology.

We achieved some of the targets we set during the period and have now come to a new phase in our business cycle. We defined our new strategy cycle (2020-2022) to propel us into the future, ensuring that we remain focused and aligned in achieving our Group objectives and aspirations.

In 2020 and beyond, we are focused on accelerating growth through actively building business partnerships, maximising our potential, improving brand appeal and growing market share with a committed focus on nurturing our human capital and leveraging digital technology to better serve our customers.

OUTLOOK

We expect 2020 to be a challenging year, with the economy remaining fragile. In light of the current global headwinds triggered in part by the COVID-19 outbreak, global demand has weakened, and oil prices have tumbled. Oil prices are likely to swing between US$25 and US$35 per barrel, at least until a firm decision on oil production cuts is made by OPEC+. The Federal Government has reviewed its oil price benchmark in the 2020 national budget to US$30 per barrel.

The direct impact of COVID-19 will extend into the second quarter and beyond. Travel restrictions, lockdowns and social controls all point to recession in the worst-affected jurisdictions, given that private consumption dominates expenditure on GDP. Inflationary pressures are expected to trend upwards due to the continued border closure and the increase in VAT rate.

Nigerian banks will be faced with many challenges, risks and uncertainties in 2020.
Firstly, regulatory-induced pressures, such as the CBN's 65% minimum loan-to-deposit ratio (LDR) and restrictions on investment in government securities such as treasury bills, will exert pressure on interest spreads and net interest margins, particularly in view of the subdued interest rate environment relative to half-year 2019.

MANAGING DIRECTOR/CEO'S REVIEW

Second, weaker macroeconomic fundamentals arising from the COVID-19 pandemic and the sharp decline in crude oil prices will put additional pressure on banks' cost-of-risk and asset quality ratios.

Although we expect to see significant loan growth in 2020, a sizable proportion of these will be inorganic, from dollar-denominated loans, due to the CBN's adjustment of the exchange rate to ₦360 from ₦307.

Most banks have hedged their upstream oil and gas exposures at around US$40–US$50 per barrel. As such, we expect to see a restructuring of oil and gas exposures through tenor elongation and likely moratoriums.

On a positive note, banks that have net-long US dollar positions are expected to report significant revaluation and foreign exchange trading gains. Overall, we expect Nigerian banks to report a decline in ROAE in 2020 on the back of a weaker outlook for earnings growth.

Despite all of this, we believe that with the wealth of talent, skills and experience of our people, our rich heritage, strong brand and robust financial resources, we have what is required to achieve our goals and deliver sustained value to all our stakeholders. We remain focused on the customer and on you, our shareholders.

Thank you.

Kayode Akinkugbe
Managing Director/CEO
FBNQuest Merchant Bank Limited

OUR BUSINESS MODEL

We are the Merchant Banking and Asset Management group of FBNHoldings Group. Our businesses include Coverage and Corporate Banking, Investment Banking, Fixed Income, Currencies and Treasury, Wealth Management, Asset Management and Securities Trading.

We are committed to providing innovative solutions for our diverse customer base comprising corporates, financial institutions, government, institutional investors, affluent, emerging affluent and high net-worth individuals. We create value for our clients and shareholders by selling investment and risk management products, managing funds, administering assets and trading securities through:

OUR BUSINESS MODEL

STRATEGIC PRIORITIES AND KEY PERFORMANCE INDICATORS

Progress Update

In the 2017-2020 strategy cycle, we set targets to aggressively grow the business by increasing the scope and scale of our service offerings and employing four key growth levers:

We achieved some of the targets we set during the period and have now come to a new phase in our business cycle.

In 2020 and beyond, we are focused on accelerating growth through actively building business partnerships, maximising our potential, improving brand appeal and growing market share with a committed focus on nurturing our human capital and leveraging digital technology to better serve our customers.

We have identified what success will be for FBNQuest Merchant Bank, and have set financial and non-financial KPIs as below.

Financial KPIs

- Revenue
- Profit before tax
- Return on tangible equity
- Cost-to-income ratio

Non-Financial KPIs

- Increased adoption rate of all digital platforms
- Improved customer satisfaction score
- Number of new products and customers from partnerships
- Improved employee engagement

CUSTOMER EXPERIENCE

The strategic focus in 2019 was the enhancement of our customer support and experience. The customer support service was remodelled by partnering with stakeholders across all our engagement channels. We also collaborated with regulators and competition to drive advocacy on challenges affecting the business environment.

Key areas of operations with high manual intensity were automated, processes enhanced to improve operational efficiency, and agility of response to customers improved, while ensuring adequacy of controls and regulatory compliance.

A Trade Information System was deployed to provide an end-to-end online platform for executing trade finance transactions, and optimised our integration with NIBSS to provide instant payment to our customers via our propriety payment system (QIP). We obtained Nigerian Customs Service and CBN approvals, designating FBNQuest Merchant Bank as a collection Bank for custom duties, enabling timely processing of duty payments.

The business continues to refine our key performance indicators (KPIs) and service level agreements (SLAs) to drive performance measurement for both internal and external customers.

In 2020, the business will reset for resurgence by improving our customer engagement touch points with the objective of improving overall service fulfilment, driving continuous process improvement, implementing new initiatives and leveraging technology to drive engagements to create a seamless end-to-end customer experience.

INFORMATION TECHNOLOGY

Based on our 2019 strategic focus, and in collaboration with the FBNHoldings Group Shared Services Initiative, the Bank streamlined our technology infrastructure, delivering significant cost reductions, improving stability and progressing with an aggressive product release schedule. The Bank also reduced our data centre footprint and costs with more agile, cloud-based productivity solutions.

The Information Technology department maintained a focused product release cycle throughout the year, implementing:

- A secure direct market access Portal for equities trading;
- Automated form 'M' processing; and
- Multiple regulator-mandated solutions from the CBN, including a customer complaints management system(CCMS), Automated Information Sharing Service(CISS), and a live transaction monitoring system.

The Bank also delivered Phase 1 of its trade services information system. An enhanced FBNEdge mobile Application (version 1.5) was released along with a payments and collections platform in collaboration with InterSwitch.

The inaugural CBN review of industry-wide IT standards saw us in full compliance with recommended industry standards for IT management, while we continuously enhanced controls and obtained recertification for both ISO 22301: Business Continuity Management and ISO 22701: Information Security Management System.

As the IT department evolves into the hybrid, two-speed organisation required to deliver the benefits of digital products and services to new audiences at a lower cost base and with greater reach, our focus in 2020 is to build-out a customer-focused FBNQuest digital portfolio, in collaboration with Group Innovation Lab, fintechs and other potential partners.

With our commitment to innovation, as reaffirmed by the successful delivery of the first Group Innovation Week and roll-out of the Imagin8 ideation toolset, FBNQuest IT is optimistic about the digital future.

CUSTOMER EXPERIENCE

BUILDING SUPPLIER RELATIONSHIPS

The general services department maintained a firm but value-adding relationship with suppliers throughout the year. We adopted a more intensive due diligence on procurement of goods and services. Some cost-saving initiatives were adopted, including the adoption of Uber for Business as the mode of ground transportation in Lagos.

The result of these efforts was a significant reduction in administrative expenses.

In 2019, there were several engagements with government agencies both at the local and state levels. While time-consuming, this has broadened the knowledge of the team on the best approach to such engagements.

The general services department collaborated with a for-profit social enterprise to recycle wastes generated at our head office, which has enhanced the organisation's sustainability agenda as we provide periodic report of compliance in line with our regulator's directives. This collaboration was achieved at zero cost to FBNQuest Merchant Bank.

Outlook

Redefining the cost model for FBNQuest Merchant Bank's administrative expenses is a primary focus for the department in 2020. We intend to achieve this by continuing to leverage FBNHoldings Group Shared Service initiative (GSS) to obtain competitive prices from suppliers.

The department will continue to drive value maximization, cost savings as well as the automation of processes, to strategically enhance transparency of administrative expenses. This will continue to enhance ownership and accountability across the organisation.

The Bank also plans to conduct an engagement forum for its suppliers and vendors in 2020. This biennial event will be carried out in collaboration with key departments to create an opportunity for the vendors to have a better understanding of our expectations and also be introduced to the products and services offered by the Group.

DIVISIONAL OPERATING REVIEW

INVESTMENT BANKING

Patrick Mgbenwelu
Head, Investment Banking

INTRODUCTION

The Investment Banking (IB) division now comprises three main segments, each structured to address and execute IB activities within the Nigerian market.

The IB team provides debt (bank and capital market) and equity financial advice, arranges financing through the banking and capital markets, and provides strategic advice to clients across the public and private sectors.

FBNQuest Merchant Bank has built an unrivalled and strong track record in terms of transaction size, complexity of assignments and local distribution ability, as well as a healthy relationship with local and international banks, speed-to-market, and achievement of financial closure within the shortest possible time.

We have advised on key transactions in the telecommunications, financial services, power, infrastructure, oil and gas, and manufacturing sectors of the economy and remain an industry leader in deal origination, execution and distribution.

BUSINESS UNITS

- The Debt Solutions (DS) team is responsible for advising, structuring and raising debt products for clients across all the key sectors of the Nigerian economy. DS is increasingly involved in public-private partnerships, advising clients across railway, road, bridge and power projects.

- The Financial Advisory (FA) team provides mergers and acquisition advisory services, restructuring, and transaction advisory services to public and private sector clients across various sectors.

"FBNQuest Merchant Bank has built an unrivalled and strong track record in terms of transaction size, complexity of assignments and local distribution ability, as well as a healthy relationship with local and international banks, speed-to-market, and achievement of financial closure within the shortest possible time."

DIVISIONAL OPERATING REVIEW

The team leverages its deep industry knowledge and product expertise to assist clients in achieving their strategic objectives. The team has successfully advised on several landmark domestic and cross-border transactions, providing support over the end-to-end life cycle of transactions life cycle.

The FA team also assists incorporated companies to structure and raise capital by issuing equity or equity-linked products from private sources.

- The Capital Markets (CM) team structures and executes debt issuance to clients in the domestic and international capital markets. The team creates solutions to meet the financing needs of our public and private sector clients, including the Federal Government of Nigeria, state governments, government agencies and parastatals, public institutions, supranational institutions and private sector companies. The CM team also assists incorporated companies to structure and raise capital by issuing equity or equity-linked products from public sources.

PRODUCTS AND SERVICES

Our key products and services include but are not limited to:

INVESTMENT BANKING UNIT	PRODUCTS AND SERVICES
CAPITAL MARKETS	• Government and agency bonds • Corporate bonds • Asset-backed securities • Sukuk • High-yield bonds • Commercial papers • Privatisation advisory • Public equity sourcing (structuring, advising and arranging)
FINANCIAL ADVISORY	• Mergers and acquisition advisory (buy-side and sell-side) • Restructurings and recapitalisations • Carve-outs, spin-offs and split-offs • General corporate finance advisory • Private equity sourcing (structuring, advising and arranging)

DIVISIONAL OPERATING REVIEW

INVESTMENT BANKING UNIT	PRODUCTS AND SERVICES
DEBT SOLUTIONS	• Project financing (green and brownfield) • Debt structuring and arranging • Global facility coordination • Restructuring and refinancing • Technical bank and financial modelling services • Documentation bank services • Leverage and acquisition financing • Reserve-based lending (RBL) • PPP advisory and pre-bid debt advisory • Syndications • Project advisory/due diligence • Regional Development Bank, export credit agency and DFI debt-arranging services

DIVISIONAL OPERATING REVIEW

COVERAGE AND CORPORATE BANKING

Bimbola Wright
Head, Coverage and Corporate Banking

INTRODUCTION

Our Coverage and Corporate Banking (CCB) business focuses on six industry verticals: diversified industries; services; energy and natural resources; public sector; financial institutions, power, construction and real estate.

Relationship Managers, through their knowledge and understanding of customers' businesses, work with product specialists in the Bank to identify and anticipate clients' needs and proactively proffer solutions.

The group incorporates a holistic approach towards achieving set goals, improving customer experience, and providing best-in-class service delivery through a dedicated one-stop team.

KEY RISKS AND MITIGANTS

- Cost of funding: Although the cost of funding declined towards the end of 2019 as a result of, among other things, the reduction in yields from government securities, the group continued to replace the existing lower-yielding risk assets with high-yield, middle-tier transactions to maximise returns.
- Increased competition from commercial banks: The impact of the recently introduced 65% loan-to-deposit ratio (LDR) by the CBN resulted in aggressive competition from banks, coupled with general market conditions, which led to a reduction in interest rates being offered to existing clients. In mitigating this, the Group continues to expand product offerings by providing value-added services to retain and attract additional clients.
- Technology Risk: The group has successfully upgraded its corporate internet banking platform and launched a Trade Information System. This is expected to increase real-time transaction banking as well as impact the group's ability to grow transactional funds. The group will continue to follow up aggressively on the onboarding of additional clients to enhance service delivery.
- Anti-money-laundering and countering the financing of terrorism (AML/CFT) Risk: The traditional corporate banking business, which involves deposit-taking and lending activities, exposes the Bank to AML/CFT risk. We have a strong and resilient compliance framework that supports us in mitigating our exposure.

DIVISIONAL OPERATING REVIEW

KEY FINANCIAL PERFORMANCE

- The Group achieved significant growth in the number of mid-tiers onboarded with inherent higher margins, representing 45% of the total risk assets portfolio.
- The action plan to reduce business transactions with top tiers due to lower yields, and focus more on mid-tiers, resulted in a significant increase in fee income from new credits.

DIVISIONAL OPERATING REVIEW

FIXED INCOME, CURRENCIES AND TREASURY

Adetoun Dosunmu
Head, Fixed Income, Currencies and Treasury

INTRODUCTION

The Fixed Income, Currencies and Treasury (FICT) group is responsible for balancing and managing the Bank's daily cash flow and liquidity of funds while also mitigating risk effectively with our range of treasury products.

The group is also tasked with managing the Bank's investment in securities, foreign exchange and cash instruments. The main focus is managing the consolidated funds of the bank optimally and profitably within an acceptable level of risk.

FICT comprises five sub-units:

- Asset and Liability Management unit;
- Fixed Income FGN Bonds unit;
- Fixed Income Treasury Bills unit;
- Currencies Foreign Exchange unit; and
- Correspondent Banking.

1. THE ASSET AND LIABILITY MANAGEMENT UNIT

This unit is tasked with managing the Bank's balance sheet with respect to liquidity/funding and interest rate risk while ensuring the Bank is sufficiently funded for its obligations.

The unit is also responsible for managing the asset and liability profile of the Bank with a focus on reducing funding cost by capitalising on arbitrage opportunities.

2. THE FIXED INCOME FGN BONDS UNIT

As one of the authorized Primary Dealer and Market Marker (PDMM) in Federal Government of Nigerian Bonds, this unit is responsible for FGN bonds, and for ensuring the Bank meets its obligations as stipulated by the debt management office by providing liquidity to facilitate market efficiency and functioning.
The unit provides the platform for the Bank to contribute to the continual development of the Nigerian bond market through its participation in bond issuances on behalf of the Bank and interested investors.

> *"The group is also tasked with managing the Bank's investment in securities, foreign exchange and cash instruments"*

DIVISIONAL OPERATING REVIEW

The unit is also responsible for executing trades, corporate bonds and identifying trading strategies and investment opportunities in the various classes of local denominated bonds.

3. THE FIXED INCOME TREASURY BILLS UNIT

As one of the pioneer Market Dealer in FGN Treasury Bills appointed by the Central Bank of Nigeria, this unit is charged with ensuring the Bank meets its MMD obligation as stipulated by the CBN by actively participating in CBN auctions and serving as a first point of contact for primary treasury bill issues. The unit is also responsible for trading in the secondary market on behalf of the Bank and its customers and providing relevant information and advice to help the Bank and its customers effectively manage their treasury bill portfolio.

4. THE CURRENCIES FOREIGN EXCHANGE UNIT

This unit offers a broad range of foreign exchange products and services to the Bank's customers to help manage their foreign exchange needs, including international trade, cross-border payment and payments for invisibles.

The unit is also responsible for providing bespoke hedging solutions to help customers manage their foreign risks. In addition, the unit is tasked with the management of the Bank's foreign exchange liquidity position and foreign currency balance sheet, while also trading eurobond securities and offering them as an investment solution to our clients.

5. THE CORRESPONDENT BANKING UNIT

This unit renders specialised services in association with financial institutions worldwide and monitors the various exposures, besides offering the entire range of international trade finance solutions. The unit's functions include sourcing, structuring and managing trade finance transactions as well as other lines of credit from international financial institutions.

KEY RISKS AND MITIGANTS

The main risks experienced during the year and their mitigants are as follows:

Liquidity Risk	Mitigants
Funding liquidity risk: The risk of the Bank being unable to meet repayments, withdrawals and other commitments and when due. **Market liquidity risk:** The risk that the Bank is unable to realise specific assets without incurring significant losses as a result of market prices.	• Use of buffer or reserve cash • Diversification of sources of funding as well as instruments for accessing funds from these sources • Ensuring that assets held are sufficiently liquid to be converted to cash without significant losses. Percentage of liquid assets held are always above regulatory requirements • Gap limits • Setting portfolio limits • Monitoring obligations by estimating cash flows • Contingency funding plan.

DIVISIONAL OPERATING REVIEW

Compliance Risk

The risk that the Bank may incur significant financial loss or suffer a loss of reputation due to failure to comply with rules and regulations of regulatory authorities.

Mitigants

- The Compliance team keeps a record of all circulars, rules and regulations released by regulatory authorities, and puts in place a mechanism for daily monitoring to ensure compliance
- The FICT team is also kept updated with all rules and regulations and ensures the organisation complies.

Settlement Risk

This is a type of risk that results from a breach of an agreement where one party fails to deliver to the other party at the time of settlement according to the terms and conditions of a contract.

Mitigants

- Delivery Versus Payment (DVP) settlement process
- Straight Through Processing (STP).

Legal and Regulatory Risk

Risk that a change or unexpected application of a law or regulation will significantly impact our business.

Mitigants

- Written contract in the form of robust standard master agreements, addressing the various legal aspects of the transaction and clarifying the roles and responsibilities of the participants as well as the legal framework in a particular jurisdiction
- Stay close to regulators to anticipate changes in regulations and remain up to date with economic and market data.

DIVISIONAL OPERATING REVIEW

Credit and Counterparty Risk

The potential failure of a counterparty to meet its contractual obligations.

Mitigants

- Credit limits are established after a rigorous and careful credit appraisal process as well as Board approval
- Most interbank transactions are secured with government securities.

A haircut (the difference between the market value of an asset used as loan collateral and the amount of the loan) is also charged to protect against interest rate fluctuations

- Single obligor limits.

Operational Risk

This refers to the risk of direct or indirect loss resulting from inadequate or failed internal procedures, people, and systems, or from external events.

Mitigants

- Pre-trade preparation: detailed Know Your Customer (KYC)
- Proper documentation
- Timely trade capture
- Perform timely Nostro and Vostro account reconciliation
- Establish Exception Processing and Escalation Procedure.

DIVISIONAL OPERATING REVIEW

WEALTH MANAGEMENT

Debbie Irabor
Head, Wealth Management

INTRODUCTION

The Wealth Management business is primarily responsible for generating long-term and stable funds from ultra-high-net-worth and high-net-worth clients, identifying and converting new business opportunities, while managing existing relationships.

We understand the investment needs and lifetime financial goals of our clients. This enables us to provide appropriate financial services and solutions by:

- leveraging the combined strengths of our team of in-house experts to provide the holistic approach which ultra-high-net-worth (UHNW) and high-net-worth (HNW) clients and their families are increasingly looking for by helping them sustain, grow, manage, and transition their wealth across generations based on their investment objectives and risk profile;
- maintaining a strong and sincere relationship with clients over their lifetime, and extending this to the beneficiaries of their wealth.

KEY PRODUCTS AND SERVICES

Our wealth management services are anchored around financial planning delivered through the following products and services:

- Commercial papers
- Equities brokerage
- Extended services (e.g. financial planning sessions, pre-retirement workshops, etc)
- Fixed deposits
- Fixed income securities (treasury bills and bonds)
- Foreign currency investments
- Internet banking services
- Mutual funds
- Transactional banking

The Wealth Management business's core functions of sales, marketing and relationship management are segmented along geographical lines covering Lagos, Abuja, Port Harcourt and their environs.

DIVISIONAL OPERATING REVIEW

CHALLENGES AND KEY RISKS

The business experienced the following challenges and key risks during 2019:

- Declining fixed-deposit portfolio due to clients' requests for higher-yielding assets, and their consequent diversification of funds;
- Impact of the LDR initiative on the naira fixed-deposit portfolio;
- Higher-yielding investment instruments, such as treasury bills, alternative and substitute products;
- Increasing retiree population and their changing needs, resulting in a shift from income accumulation to income and standard of living preservation, as well as a new generation of investors; and
- Unavailability and inaccuracy of data on the different demographics and segments due to a fragmented wealth management market;

Mitigants

- A competitive and structured pricing mechanism for increased deposit mobilisation and fund and client retention
- Availability of risk assets to match liabilities
- Deployment of IT-related wealth-management initiatives and enhanced technology for reliable, robust, seamless experiences for clients, and enhanced relationship manager productivity

> *We understand the investment needs and lifetime financial goals of our clients. This enables us to provide appropriate financial services and solutions*

- Continue to maintain confidentiality and a trusted advisor status through continuous formal and informal training of relationship managers
- Automate key processes and services across the value chain and FBNQuest entities, for efficiency and accuracy
- Develop onboarding strategy for the new generation of UHNW and HNW investors
- Leverage all previous clients' experience and interactions to deliver tailored, proactive, and consistent financial advisory services and solutions.

FINANCIAL INSTITUTIONS SALES

The Financial Institutions Sales department was set up to service a broad segment of investors (including pension fund administrators, insurance companies, banks and financial institutions, local and offshore portfolio managers and co-operative societies) with the main aim of managing their investment portfolio while also identifying areas of opportunities and growth.

KEY RISKS AND MITIGANTS

Key Risks

- Customers' diversification of funds to FGN Securities
- Political instability and economic uncertainty
- Possibility of the devaluation of the naira, resulting in investors seeking alternative investment sources.

Mitigants

- Consistent update of our investment rates to stay competitive at all times
- Cross-selling of products and services
- Continuous creation of product awareness among our customers about the benefits associated with employing professional fund management, while reassuring them of the safety of their investments and better competitive pricing
- Aggressive marketing to identified unbanked customers and prospects.

SUBSIDIARY OPERATING REVIEW

FBNQUEST ASSET MANAGEMENT

Ike Onyia
MD/CEO, FBNQuest Asset Management

The FBNQuest Asset Management business has developed a track record of solid performance. It prides itself in its strong fundamental and quantitative research capabilities, out of which it derives insights and perspectives to craft successful investment strategies for clients.

The asset management industry serves as an efficient mechanism for the allocation of resources between investment capital and investment opportunities.

Our asset management subsidiary, FBNQuest Asset Management Ltd, is one of the leading asset and wealth management firms in Nigeria, with a proven track record of delivering value-adding advice to clients. It is a full-service investment management firm committed to providing a broad range of financial planning and investment management solutions that span various asset classes including fixed income, public equity markets, alternatives, and multi-asset class solutions.

Using pooled vehicles, independently managed portfolios and other structured solutions, this business serves the needs of various client segments, including the mass affluent, affluent, high-net-worth individuals, family offices, pension funds, sovereign wealth funds, endowments and foundations, among others.

KEY SOLUTIONS

- Mutual funds: The pooled fund offering, which comprises actively managed funds and smart beta funds, is focused on achieving a variety of objectives, including capital preservation, capital growth and hedging, through exposure to foreign-currency-denominated portfolios. These funds appeal to all investor segments and are regulated by the Securities and Exchange Commission of Nigeria. They include the FBN Money Market Fund, the FBN Nigeria Eurobond Fund and the FBN Nigeria Smart Beta Equity Fund, which is the first factor-based fund in Nigeria and uses simple, transparent, rules-based strategies as a basis for portfolio construction.

> *FBNQuest Asset Management Ltd is one of the leading asset and wealth management firms in Nigeria, with a proven track record of delivering value-adding advice to clients*

SUBSIDIARY OPERATING REVIEW

While these solutions are often accessed by individuals, institutional investors have also actively sought portfolio exposure to these tools and benefited from the power of the collective. This is reflected in the robust growth of the FBN Money Market Fund.

- Independently managed portfolios: Investors who have expressed a preference for segregated portfolios are served by the Investment Management and Research team, through tailored portfolios constructed to suit their unique investment objectives.

  The client book witnessed an increase in the number of individual and institutional clients, but more importantly, a broadening of the institutional client segment.

- Structured products: In collaboration with a variety of specialist teams within the merchant banking and asset management business vertical, as well as through global strategic partnerships, investors can access a variety of synthetic solutions and customisable product structures to achieve their financial objectives.

KEY OPPORTUNITIES

Over the last decade, financial markets in Nigeria have improved vastly in terms of sophistication as a result of various factors, including technology, regulation, a growing discerning investor base seeking different options, and through new and evolving investment products and solutions.

The asset management industry in Nigeria has continued its growth trajectory as measured by the growth in the size of assets under management of Securities and Exchange Commission (SEC)-regulated offerings, which have grown from ₦73.78bn as at 31 December 2011 to ₦1.02tn as at 31 December 2019.

A noticeable trend in the industry's growth pattern in the last five years has been the significant rise in fixed-income solutions, reflecting a preference by investors for capital preservation strategies. Relatively high yields in the fixed-income market amid a relatively soft equity market in the same period compelled asset management firms to proliferate in the money market fund space, which is not unusual in relatively less mature markets.

Our range of solutions has continued to assist several investor segments to navigate financial markets, which are typically impacted in different ways by macroeconomic conditions and policy changes. Our experience across different asset classes, including the money market, fixed-income market, equity market and alternatives, has enabled us to provide holistic investment options to our clients.

In this period, our portfolio management and research team has consistently achieved competitive returns across different portfolio types. This strong performance record compelled clients of FBNQuest Asset Management and other investors to demonstrate strong appetite for our solutions, particularly the FBN Money Market Fund, the FBN Nigeria Eurobond Fund and the FBN Fixed Income Fund, all in either pure or blended forms.

In 2019, the FBN Nigeria Eurobond Fund and the FBN Fixed Income Fund were the top performing funds in their peer groups, with total returns of 10.4% and 20.6% respectively.

Another key opportunity evolving in the financial services industry is advancements in technological innovation and the disruptive effect of digitalisation. While payments and lending have attracted the most attention from fintechs, asset management tech is rapidly catching up. Contemporary asset and wealth management businesses will have to redefine their operating model and value chains to be fit for purpose and serve their clients efficiently.

In 2019, FBNQuest Asset Management outlined its digital strategy road map and is en route to becoming future proof and well positioned to face new realities. We launched a mobile application, FBN Edge, which has significantly improved the convenience factor, enriched customer experience and enabled us to commence our plan to evolve into an omni-channel platform.

SUBSIDIARY OPERATING REVIEW

KEY RISKS AND MITIGANTS

FBNQuest Asset Management Ltd is registered with and regulated by the Securities and Exchange Commission, which has strict monitoring and oversight responsibilities over operators and the capital market. Recent and ongoing regulatory reforms are designed to minimise risk and enhance governance and best practice.

The fiduciary responsibility for managing third-party assets is governed by legally binding agreements or trust deeds, and assets under management are, as a matter of practice, held separately by independent custodians.

STRATEGIES AND OUTLOOK FOR 2020

The Nigerian asset management industry has significant upside potential and is set to deliver double-digit growth, in tandem with trends in other emerging and frontier economies. The demand for asset and wealth management services by investors will increase and grow more complex as financial markets deepen.

Globally, technology is disrupting this area of financial services, with fintechs focused on asset and wealth management services. Regulation will continue to influence the shape of the industry: institutional asset owners will drive corporate governance, and retail will be the new area of focus for service providers.

FBNQuest Asset Management is focused on building on its modest achievements thus far and establishing its status as a leading asset and wealth management firm. In 2019, we were the second-largest non-pension fund manager in Nigeria, based on the size of SEC-registered funds. Our strong performance record led to the Best Asset Manager in Nigeria award from EMEA Finance, and the Money Market Fund of the Year award from BusinessDay.

In 2019, and in line with global best practices, FBNQuest Asset Management became GIPS® compliant. Introduced in 1999, the GIPS standards are a rigorous set of investment performance measurement principles, which have been adopted in over 40 countries and are recognised around the world for imbuing performance reporting with trust, integrity and uniformity, and enabling comparability of a firm's track record.

Our firm's compliance with GIPS means that our performance-reporting framework is now comparable to best practice in mature markets. By voluntarily adopting compliance with GIPS, FBNQuest Asset Management joins a select global list of investment firms and asset owners, who uphold this set of standards.

In 2020, we will focus on our core offering, which is centred on partnering with our clients to provide value-adding investment solutions. The Portfolio Management and Research teams continue to apply their fundamental and quantitative research capabilities to the ultimate benefit of clients who seek investment advice. We will seek strategic partnerships that provide clients with seamless access to multi-asset class and multi-currency solutions to ensure that our clients are availed of a broad range of options. Finally, our digitalisation thrust will ensure that the client experience is positive and effective.

SUBSIDIARY OPERATING REVIEW

FBNQUEST SECURITIES

Fiona Ahimie
MD/CEO, FBNQuest Securities

INTRODUCTION

FBNQuest Securities Ltd is a wholly owned subsidiary of FBNQuest Merchant Bank and a member of the FBN Holdings Plc Group. It specialises in the provision of excellent equities brokerage services to a broad range of customers, including pension fund administrators, insurance companies, banks and financial institutions, local and offshore portfolio managers, large corporations, endowment funds, foundations and cooperative societies, high-net-worth individuals and retail clients.

FBNQuest Securities Ltd currently ranks as one of the top 10 dealing member firms on the Nigerian Stock Exchange value league table, and has consistently been a top 4 locally-owned broker for the last five years. We also provide a reliable online trading experience through our FBNQuest online trader, a platform that empowers clients to trade stocks directly in real time.

The Company offers corporate brokerage services to firms by acting as stockbrokers for primary market transactions in Nigeria, for both equities and debt. With a strong client base, FBNQuest Securities Ltd distributes public offerings on behalf of issuers both domestically and internationally.

The Securities unit generates revenue through:

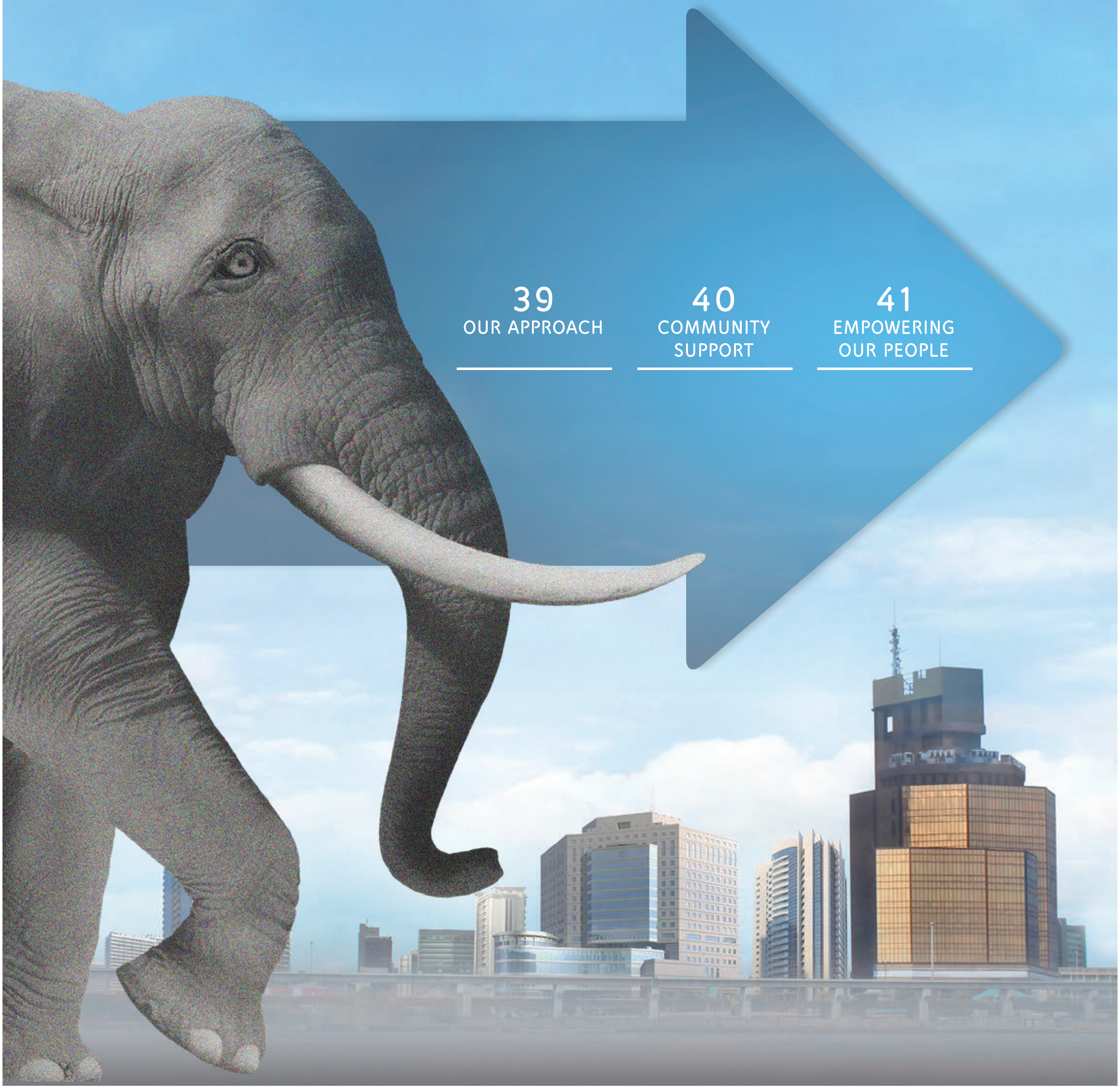
- Commissions from institutions, high-net-worth individuals and retail clients across primary and secondary markets, capital market products, typically exchange-traded;
- Buying and selling capital market products;
- Sale of research products; and
- Provision of regulatory advisory and liaison services.

KEY RISKS AND MITIGANTS

- Operational risks: these include issues such as account fraud and overtrading. To mitigate this risk, we have adopted a strong signature and account confirmation process. We have also adopted new IT applications to enhance controls and prevent fraud.
- Client confirmation (Know Your Customer): we have implemented global best compliance practices with respect to client confirmation, e.g. following anti-money-laundering guidelines.
- Regulatory infractions and suspension: we ensure appropriate filing and implementation of new guidelines. This process is overseen by the Internal Audit and Compliance departments.
- Business profitability and concentration: we continue to diversify our revenue stream.
- Market making and proprietary trading: we have put in place appropriate risk management limits.

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

We are an ethical organisation committed to conducting business in an innovative and sustainable manner, delivering value to all stakeholders.



OUR APPROACH

At FBNQuest Merchant Bank, sustainability means adhering to the values and business principles of the organisation, bringing sustainable solutions to humanity and our environment, all while securing the financial needs of our stakeholders and the organisation itself in alignment with our moderate risk profile.

The Board and Management have defined a vision to integrate sustainability into the Group's culture, and align the sustainability and business strategies. The business has also committed to demonstrating adequate support for a framework that aligns with relevant international standards, including:

- Nigerian Sustainable Banking Principles (NSBP);
- Applicable local laws and national legislation;
- ISO 26000 Guidance Standard on Social Responsibility; and
- IFC Performance and World Bank EHS Standards.

By managing Environmental, Social and Governance (ESG) risks, mitigating their impact and grasping the opportunities deriving from sustainable solutions, the Corporate Responsibility and Sustainability Policy has incorporated risk management into our business objectives.

The sustainability framework reflects our corporate values, and is implemented in the following core areas as well as in our products and investments:

Corporate Governance

We have established a set of rules, policies and processes, which are laid out for directing, administering and controlling the Group's governance structure at all levels of operations.

Workplace

We believe that the work environment must be equitable, efficient and healthy. In line with this, we have developed several initiatives and campaigns designed to meet the requirements of organisational governance, human rights, labour practices, environment, fair operating practices, consumer issues and community involvement and development.

Marketplace

This focuses on partners and customers, raising their awareness of CR&S and encouraging their involvement in key initiatives.

Environment

The protection of the environment is an essential concern for all stakeholders; therefore the focus is environmental sustainability.

Community

In this area, value is added and contribution made to the wellbeing of our immediate operating communities and the society at large.

Sustainability has been embedded into the organisation's daily business and operations with all its stakeholders – employees, customers, government bodies, partners, shareholders, society and competitors.

EMPOWERING OUR PEOPLE

Diversity in the Workplace

FBNQuest Merchant Bank believes that highly motivated employees are the key to success. To this end, several initiatives were deployed to engender the right culture and improve employee engagement levels.

In 2019, FBNQuest Merchant Bank's workforce remained fairly constant. This was primarily due to our approach of broadening and expanding employees' scope of responsibilities rather than increasing headcount.

We continue to maintain a policy of giving fair consideration to employment applications made by people with disabilities if they possess the requisite qualifications.

Health, Safety and Welfare at Work

FBNQuest Merchant Bank enforces strict health and safety rules and practices in the work environment, which are reviewed and tested regularly. Medical facilities from private hospitals are provided to staff and their immediate families at the Bank's expense.

An annual Wellness Day gives employees on-site access to doctors, dentists, optometrists and dieticians, as well as fitness and yoga instructors. In addition, employee education and counselling programmes are conducted periodically to sensitise employees on their health and wellbeing.

Fire prevention and fire fighting equipment are installed at strategic locations within the Bank's premises. The Bank has both Group Personal Accident and Workmen's Compensation Insurance cover for the benefit of its employees. It also operates a contributory pension plan in line with the Pension Reform Act.

Employee Involvement and Training

We conducted team-building sessions at every business location and in addition arranged town hall sessions, focus groups and roadshows aimed at ensuring robust employee engagement and communication channels.

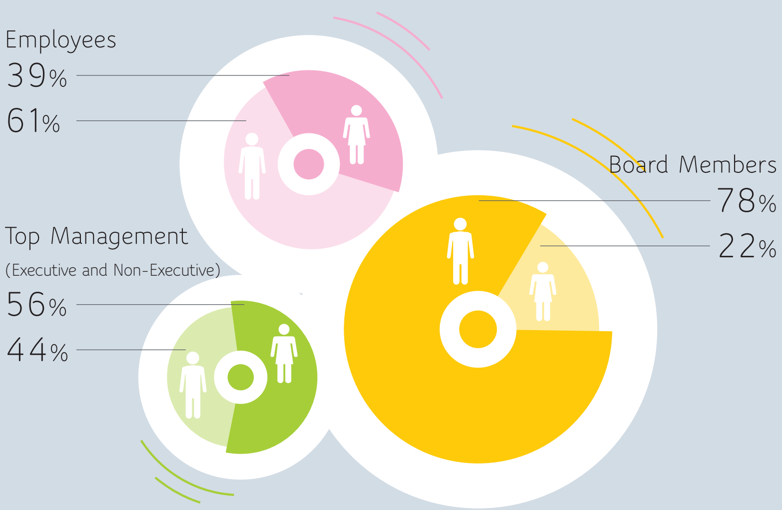
In line with the Bank's policy of continuous growth and development, specific in-house and on-the-job learning interventions are deployed to employees while leveraging opportunities from available digital (e-learning) platforms.

We have now commenced plans to implement diverse digital learning content relevant to the skills needed for the future of work, with particular reference to a new e-learning platform that will be launched in 2020.

FBNQuest Merchant Bank has also demonstrated its commitment to building a culture that embraces diversity and inclusion in the workplace.

In 2019, our FBNQuest Women's Interactive Network (FBNQuest WIN) was launched successfully. We also implemented initiatives to improve workplace conditions for our female workforce. In addition, we have maternity-friendly employee policies in place, as we continue to support our female colleagues to reach their full potential.

The Company remains an equal-opportunity employer



MANAGEMENT - 56%

COMMUNITY SUPPORT

Our 2019 activities focused on:

- Increasing active employee engagement and involvement in community support and environmental sustainability initiatives;
- Leveraging the Group's activities, ensuring synergy in implementation to deliver maximum value; and
- Strengthening existing partnerships while also establishing new ones to drive stakeholder engagement and social impact.

Some of the highlights include:

Financial Literacy

Over 1,800 students were engaged on the importance of saving and growing money. This was done in alignment with global and local drives for financial literacy regulated by the CBN under the Global Money Week and the World Savings Day initiatives.

Our impact spanned secondary school students in different geopolitical zones, including Abuja and Rivers State.

The 2019 CSR Week

As part of the Group's synergy activities, we participated in the Group CSR Week, which included initiatives across women's empowerment, engagement for school children and orphanage visits.

Partnership with Teach for Nigeria

Teach for Nigeria (TFN) is a non-profit organisation designed to address poor educational outcomes of Nigeria's most marginalised pupils by enlisting our nation's most promising future leaders in the effort to expand education and life opportunities for all children.

Through a two-year leadership development programme, TFN recruits outstanding university graduates and young professionals of all academic disciplines to teach as full-time teachers (known as Fellows) in underserved and low-income schools.

Select fellows were sponsored in 2019 and were also assigned mentors in the areas of personal and professional development. Employees were given the opportunity to volunteer as mentors.

Women's Economic Empowerment

As part of our Women's Economic Empowerment initiatives, we collaborated with the International Women's Society to train widows on financial literacy.

Female employees were sponsored to attend the 2019 Women in Management, Business and Public Service (WIMBIZ) annual lecture and annual conference, the Women in Successful Careers (WISCAR) annual conference, and the Association of Professional Women Bankers (APWB) Annual Dinner.

Two in-house sessions were also organised under the Bank's Women Interactive Network (FBNQuest WIN) initiative, providing female employees access to critical information for professional and personal growth.

ENVIRONMENTAL SUSTAINABILITY

We commenced the first phase of our in-house recycling programme at the Lagos office. This ensures that waste generated within the business is properly diverted. We also implemented initiatives to reduce our carbon footprints and emissions, such as our adoption of Uber for Business in the Lagos office.

EMPOWERING OUR PEOPLE

Employee volunteering at the Internal Blood Donation Drive organised by FBNQuest Merchant Bank in collaboration with LifeBank

Employee volunteering at the Internal Blood Donation Drive organised by FBNQuest Merchant Bank in collaboration with LifeBank

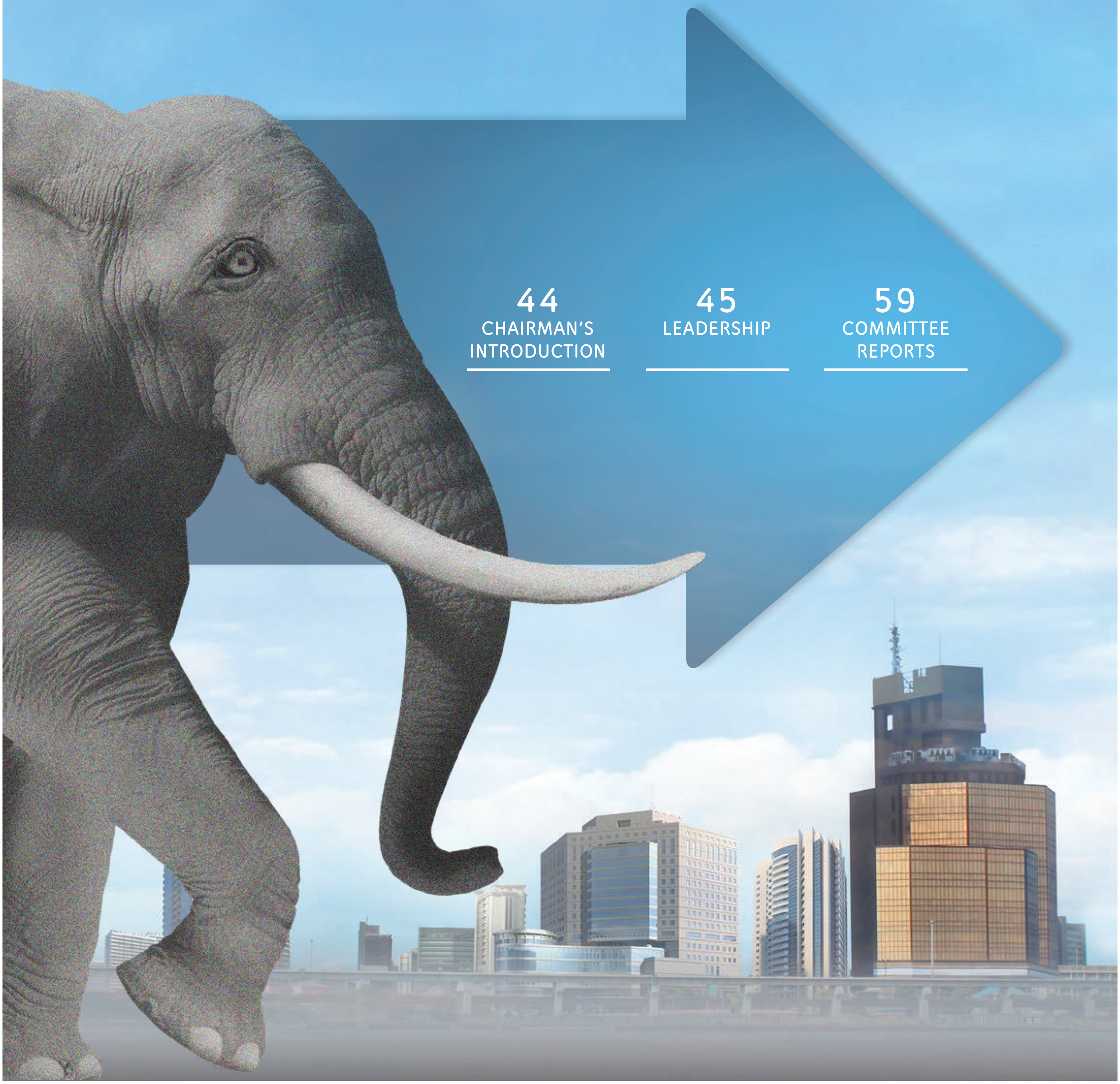
Kayode Akinkugbe, MD/CEO volunteering at the Lend A Helping Hand Initiative in collaboration with Bethesda Child Support Agency.

Patrick Mgbenwelu, Head Investment Banking, FBNQuest Merchant Bank volunteering at the Lend A Helping Hand Initiative in collaboration with Bethesda Child Support Agency.

Female employees at the FBNQuest Women Interactive Network End of Year Learning Session

GOVERNANCE

Best corporate governance practices remain a key focus and deliverable for the Board of Directors and Management of FBNQuest Merchant Bank Ltd.



CHAIRMAN'S INTRODUCTION

Bello Maccido
Chairman
FBNQuest Merchant Bank Limited

From the inception of the Merchant Bank, the Chairman, Managing Director and indeed the entire Board have received commendable ratings in the Annual Performance Review and Appraisal of the Board of Directors conducted by KPMG Professional Services. The Bank continues to invite independent appraisal of its corporate governance practices while complying with the Central Bank of Nigeria's Corporate Governance Code.

The Board Audits and Board Risk Management Committees are chaired by Independent Non-Executive Directors, while the Board Governance and Human Resources Committee members are solely Non-Executive Directors.

In line with extant corporate governance codes and industry best practice, the Executive Directors are not members of the Board Audit Committee. The Chairman of the Board of Directors is not a member of any of the Board Committees.

To further establish the objectivity of Board deliberation, Directors confirm that they are not conflicted in anyway with any of the matters on the agenda for each Board meeting.

Non-Executive Directors have letters of appointment that detail their tenure, remuneration, duties, obligations, guiding laws and Central Bank of Nigeria regulations in specific terms to guide them on the expectations of the Bank and the other stakeholders, especially the regulators of the Bank.

It is therefore no surprise that the Board continues to receive commendations annually for its governance practices. I assure all the stakeholders of the Bank that best corporate governance practices remain a key focus and deliverable for the Board of Directors and Management.

During the year, the Company received minor penalties from the Central Bank of Nigeria for delays in submitting some returns. This was due to system challenges and customer-related transactions. The customers have since refunded the penalties paid by the Bank.

The penalty for the system challenges has been paid, and Management has taken steps to ensure that the glitches that resulted in the returns submission delay do not reoccur.

Aside from these infractions, I am pleased to inform you that the Company did not record any corporate governance breach in its operations for the 2019 financial year. The size and constitution of the Board continue to satisfy best practice.

Every year, I emphasise that the strengths of the Board remain the candour and experience of the members, their commitment to the Bank's growth and their passion.

I congratulate my colleagues on the Board for coming through a very difficult year. The task ahead demands even greater commitment and sacrifice, and I charge members of the Board to rise to the occasion in their usual fashion. Together and in consonance with Management, we will achieve our goal of becoming the leading investment bank and asset manager in Africa in the near term.

> *"The task ahead demands even greater commitment and sacrifice, and I charge members of the Board to rise to the occasion in their usual fashion."*

LEADERSHIP

BOARD OF DIRECTORS

The Board of Directors elected to direct and manage the business of the Company are as follows:

Bello Maccido

Chairman

Appointed Chairman effective 1 January 2016
Joined the Board 30 September 2014

Knowledge and Skill:

Bello Maccido has over 34 years' business experience, 26 of which represent hands-on experience handling a wide spectrum of financial services. An accomplished corporate and investment banker, his experience covers pension fund management, commercial, retail, corporate and investment banking at various institutions, including Ecobank Nigeria Plc, New Africa Merchant Bank Limited and FSB International Bank Plc, where he rose to become Acting Managing Director/Chief Executive, Legacy Pensions as the founding Managing Director and Chief Executive Officer, First Bank of Nigeria Limited as Executive Director, Retail Banking, North Group from where he was appointed the Group Managing Director of FBN Holdings Plc. He retired from FBN Holdings Plc effective on 1 January 2016, when he became the Chairman of FBNQuest Merchant Bank Ltd. He was a National Council Member of the Nigerian Stock Exchange between 2009 and 2012 and a member of the Finance Committee, National Council on Privatisation, and sat on the Implementation Committee of Financial System Strategy (FSS) 2020 as well as the Presidential Monitoring Committee on Niger Delta Development Commission.

Bello has a degree in law from the Ahmadu Bello University, Zaria, and was called to the Nigerian Bar in 1985. He obtained a Master's degree in Business Administration, specialising in managerial finance, from Wayne State University, Detroit, USA. He is a chartered stockbroker, a Fellow of the Chartered Institute of Bankers, and has attended executive management programmes at Harvard Business School, the Wharton School IMD, Lausanne and INSEAD, Paris. He holds the traditional title 'Wakilin Sokoto'.

Experience:

- Director, Nigeria Sovereign Investment Authority
- Director, Development Bank of Nigeria Limited
- Group Managing Director/CEO, FBN Holdings Plc (retired effective 1 January 2016)
- Executive Director, Retail Banking North Group; First Bank of Nigeria Limited
- Managing Director/CEO, Legacy Pension Managers Limited
- Acting Managing Director/CEO, FSB International Bank Limited
- Manager and Head, Corporate Banking, New Africa Merchant Bank Limited
- Officer, Credit and Marketing, Ecobank Nigeria Plc
- Council Member, Nigerian Stock Exchange, March 2009-May 2012
- Member, Finance Committee, National Council on Privatisation (NCP)
- Member, Implementation Committee, Financial System Strategy 2020
- Member, Presidential Monitoring Committee on Niger Delta Development Commission
- Member, Ministerial Task Force on Refineries

LEADERSHIP

Kayode Akinkugbe

Managing Director/CEO

Joined the Board 30 September 2014

Appointed Managing Director 24 November 2015

Member, Board Credit Committee

Member, Board Risk Management Committee

Knowledge and Skill:

Kayode Akinkugbe is the Managing Director and Chief Executive Officer of FBNQuest Merchant Bank Limited. He has over 27 years' experience, working in top-tier global investment banks in the UK and Nigeria, where he focused on arranging finance and providing strategic advice to public- and private-sector organisations.

Kayode has a proven track record of meeting business and financial targets and has, over the course of his career, originated and executed over US$9bn of structured debt, project finance and equity financing across banks and capital markets, advised on over US$5bn of merger and acquisition transactions (privatisation, buy-side), and executed hedging solutions while generating significant revenue for stakeholders.

Kayode graduated from the University of Ibadan with a degree in economics. He subsequently attended the London School of Economics, where he obtained an MSc in International Accounting and Finance, he also holds an MBA from Cranfield School of Management, UK.

Experience:

- Managing Director, FBNQuest Merchant Bank Limited
- Chairman, FBNQuest Asset Management Limited
- Director, FMDQ Securities Exchange Plc
- Managing Director, FBNQuest Capital Limited
- Treasury/Money Market Unit, EcoSecurities Limited
- Treasury, Credit and Marketing, Ecobank Nigeria Plc
- Head, Sub-Saharan Africa Coverage (ex-South Africa), Deutsche Bank
- Director, Emerging Market Coverage, Credit Suisse
- Assistant Manager, Treasury and Capital Markets Group, HSBC Markets

LEADERSHIP

Taiwo Okeowo, *CFA*

Joined the Board as Deputy Managing Director, 24 November 2015

Member, Board Credit Committee

Knowledge and Skill:

Taiwo Okeowo, *CFA* is a seasoned professional with over 33 years' experience in investment banking. He has considerable experience in project finance, mergers, acquisitions, restructuring and securities underwriting. Under his stewardship, FBNQuest Capital's investment banking team achieved the number one position in the Nigerian transaction league tables in Equity Capital Market (2007 and 2008) and Debt Capital Market (2009-2011). He is a Director of MainOne Cable Company Ltd and former Chairman of the Fixed Income Subcommittee of the Capital Market Committee. Taiwo graduated with First Class Honours in Computer Science from the University of Ibadan. He holds an MSc in Management from London Business School (where he was a Sloan Fellow), is a Chartered Financial Analyst (CFA) Charterholder, and a Fellow of the Institute of Chartered Accountants of Nigeria.

Experience:

- Deputy Managing Director, FBNQuest Merchant Bank Limited
- Chairman, FBNQuest Securities Limited
- Director, MainOne Cable Nigeria
- Deputy Managing Director, FBNQuest Capital Limited
- Deputy General Manager and Group Head, Corporate Finance and Investment Banking, First Bank of Nigeria Limited
- International Consulting Engagement, MasterCard International LLC, Syracuse, New York
- Group Head, Institutional Banking, Corporate Finance and Institutional Sales and Coverage, Investment Banking & Trust Company Limited (now Stanbic IBTC Plc)
- System Analyst and Programmer, NAL Merchant Bank Limited

Oluyele Delano, SAN, MCI Arb

Independent Non-Executive Director

Joined the Board 9 February 2015

Chairman, Board Audit Committee

Member, Board Risk Management Committee

Member, Board Governance and Human Resources Committee

Knowledge and Skill:

Oluyele Delano, SAN, MCI Arb commenced his practice with Chief Rotimi Williams' Chambers in 1988, having been called to the Nigerian Bar in the same year. He subsequently rose to become one of the leading counsels in the Chambers, with a focus on litigation and arbitration.

In 1998, Oluyele assumed his current position in the Lagos office of Akindelano Legal Practitioners (ALP), and in 2006 was elevated to the Inner Bar, becoming one of the youngest senior advocates in Nigeria to receive the silk. He has been involved in notable multi-million dollar transactions, on which he has advised key government and private sector interests. Oluyele obtained a Bachelor's degree in law from the University of Southampton, UK. He is a Member of the Chartered Institute of Arbitrators, London and Lagos.

Experience:

- Partner, Akindelano Legal Practitioners
- Member, Body of Senior Advocates of Nigeria
- Chairman, Board of Trustees, Lazarus Trustee Foundation
- Member, Board of Directors of Crossworld Securities Limited

LEADERSHIP

U.K. Eke, *MFR*

Joined the Board effective 14 September 2016

Member, Board Audit Committee

Member, Board Governance/HR Committee

Knowledge and Skill:

U.K. Eke, *MFR* assumed office as Group Managing Director, FBN Holdings Plc on 1 January 2016. He joined the Board of FirstBank, an FBNHoldings Company, in 2011 as Executive Director, Public Sector South, and later became Executive Director, South, before his appointment as GMD of FBNHoldings. His sound managerial and motivational skills, coupled with his vast experience, helped develop FirstBank's businesses within the public sector, retail and private banking groups.

He currently sits on the Boards of First Bank of Nigeria Ltd and FBNQuest Merchant Bank Ltd as a Non-Executive Director.

In 2017, he was appointed to the Board of Nigeria Sovereign Investment Authority. He was Executive Director, Regional Business, Lagos and West, Diamond Bank Plc. His other work experience includes Deloitte Haskins and Sells International where he rose to the position of Audit Senior. He has over 30 years' experience in financial services, strategy, auditing, consulting, taxation, process re-engineering and capital market operations.

U.K is a Fellow of the Institute of Chartered Bankers, Institute of Management Consultants, the Institute of Directors and the Institute of Chartered Accountants of Nigeria. He holds a Bachelor's degree in Political Science from the University of Lagos and an MBA in Project Management Technology from the Federal University of Technology, Owerri.

He has attended several Executive Management and Board training programs at Harvard Business School, Stanford Business School, IESE Barcelona, the International Institute for Management and Development Lausanne, Switzerland, Wharton Business School, and Lagos Business School.

A philanthropist and mentor to many, he is the Founder and Chairman, Elder K.U. Eke Memorial Foundation. He is a Patron, Lagos State Council, Boys' Brigade Nigeria and a Paul Harris Fellow of The Rotary Club International. He is the Chairman of the Advisory Board, Lifeforte International High School, Ibadan.

U.K. is a recipient of Nigeria's National Honour of Member of the Order of the Federal Republic (MFR).

Experience:

- Group Managing Director, FBN Holdings Plc
- Director, First Bank of Nigeria Limited
- Director, Nigeria Sovereign Investment Authority
- Director, FBNBank UK Limited
- Director, Financial Institutions Training Centre
- Director, First Pension Custodian Limited
- Executive Director, First Bank of Nigeria Plc
- Executive Director, Diamond Bank Plc

LEADERSHIP

Dr Omobola Johnson

Non-Executive Director

Joined the Board 6 October 2015

Chairman, Board Governance and Human Resources Committee

Member, Board Audit Committee

Member, Board Credit Committee

Knowledge and Skill:

Dr Omobola Johnson is Nigeria's first and immediate past Minister of Communication Technology. She brings to the Board over 30 years' practical hands-on experience of consulting with a cross-section of companies in a variety of industries, successfully transforming them into more competitive and dynamic organisations. Dr Johnson served as the Country Managing Director of Accenture and is a founding Chairperson and Member of the Board of Trustees of Women in Management and Business, a non-governmental organisation that seeks to enable and encourage the success of female entrepreneurs, as well as grow the proportion of women in senior positions in corporate organisations. She is a member of the World Economic Forum's Global Agenda Council on Africa, and of the United Nations Development Programme's closed high-level Broadband Commission Working Group on Gender, which had the main objective of promoting the empowerment and digital inclusion of women.

She is also a member of the International Telecommunication Union's M-Powering Development Advisory Board, charged with extending the benefits of mobile technology to all strata of society in order to build a truly inclusive information society, with special focus on remote rural and underserved areas.

Dr Johnson obtained a BSc in Electrical and Electronic Engineering from the University of Manchester, UK and an MSc in Digital Electronics from Chelsea College (now known as King's College), University of London. She also obtained a Doctorate in Business Administration from Cranfield University in the UK.

Experience:

- Director, Mouka Foam Plc
- Chairman, Custodian and Allied Insurance Plc
- Director, Guinness Nigeria Plc
- Director, MTN Nigeria Plc
- Director, World Wide Web Foundation
- Chairperson, Global Alliance for Affordable Internet
- Senior Partner, TLcom Capital LLP
- Honourable Minister for Communication Technology, Federal Republic of Nigeria
- Member, Presidential Advisory Council under President Goodluck Jonathan
- Country Managing Director, Accenture
- Enterprise Transformation, Arthur Anderson & Co/Anderson Consulting

LEADERSHIP

Akin Osinbajo, *SAN*

Joined the Board effective 31 January 2017

Member, Board Risk Management Committee

Member, Board Credit Committee

Member, Board Governance/HR Committee

Knowledge and Skill:

Akin Osinbajo is a Senior Advocate of Nigeria, a highly experienced litigator and commercial law practitioner, Chartered Arbitrator and Notary Public of Nigeria, who has represented several multinational and local clients in contentious commercial litigations in various courts in Nigeria. He is Joint Managing Partner in Abdulai, Taiwo & Co Solicitors, a firm internationally acknowledged for its expertise on transactional matters relating to Nigeria.

He previously served as a member of the Nigerian Bar Association Special Task Force on Multidisciplinary Practices and Incursions into the Legal Profession. He was also a member of the Civil Service and Judicial Matters Work Group of the Transition Committee of the Governor-elect of Ogun State, 2003.

He was appointed Honourable Attorney-General and Commissioner for Justice Ogun State 2003-2011, making him the longest-serving Attorney General in Ogun state. During his eight years as the Chief Law Officer of Ogun state and Official Leader of the Bar, he positively impacted and extensively reformed the administration of justice.

Experience:

- Member, Body of Senior Advocates of Nigeria
- Joint Managing Partner, Abdulai Taiwo & Co
- Member Ogun State Government Transition Committee (2003)
- Honourable Attorney General and Commissioner for Justice 2003 to 2011
- Member Body of Benchers Nigeria 2003 to 2011
- Member, Chartered Institute of Arbitrators, UK

Babatunde Odunayo

Joined the Board of FBNQuest Merchant Bank 3 May 2018

Chairman, Board Credit Committee

Member, Board Audit Committee

Knowledge and Skill:

Babatunde Odunayo has over 40 years of experience in agriculture, accounting, consultancy and finance. He worked briefly with a State Ministry of Agriculture and later at the Federal Ministry of Agriculture. In 1977, he was articulated to the international accounting firm, Coopers & Lybrand where he was involved in the audit of accounts of client companies for 4 years. He was later appointed as consultant in the management consulting unit of the firm where he managed consulting assignments for another 4 years.

In 1986, he was appointed financial controller and later finance director at Hagemeyer Nigeria Plc where he led the company to the capital market to raise debenture stock and redeemable cumulative preference shared for its capital needs. In 1992, he was appointed Group Managing Director of the Honeywell Group. Following 17 years as pioneer CEO and 22 years in the service of the Honeywell Group, he retired from the position of Chief Executive Officer with effect from 1 April 2014.

LEADERSHIP

Babatunde Odunayo has a Bachelor of Arts degree in Agriculture from the University of Ife and he is a Fellow of the Institute of Chartered Accountants.

Experience:

- Executive Vice Chairman/CEO, Honeywell Flour Mills Plc
- Managing Director, Honeywell Group
- Finance Director, Hagemeyer Nigeria Plc
- Group Financial Executive, Mandilas Group
- Consultant, Coopers & Lybrand
- National Council Member, Manufacturers Association of Nigeria
- Chairman, Boulous Beverages Limited
- Chairman, FBN Mortgages Limited

Oyinkansade Adewale, *CFA*

Joined the Board effective 14 March 2019

Chairman, Board Risk Management Committee

Member, Board Audit Committee

Knowledge and Skill:

Oyinkansade Adewale is a senior finance executive with over 37 years' experience in the banking and professional services sector in Africa, mainly in bank Chief Financial Officer roles and complex bank turnaround engagements. She was appointed turnaround Chief Financial Officer of a large Nigerian bank by the CBN, where she had the responsibility of withdrawing and re-stating the bank's previously published financials. She set up a world-class finance function from scratch at another large turnaround Nigerian bank. She supported 14 banks as a financial adviser/due diligence consultant during the 2004-2006 CBN-led bank consolidation programme that moved the minimum capital of Nigerian banks from ₦5bn to ₦25bn through mergers and acquisitions. She is a recipient of the CBN Governor's commendation for meritorious services to the banking sector.

Experience:

- Independent Non-Executive Director, Baobab Microfinance Bank Limited
- Investment Committee member, Uhuru Investment Partners
- Executive Director/Chief Finance Director, Union Bank of Nigeria Plc
- Integration Manager, Ecobank Transnational Incorporated.
- Executive Director, Chief Financial Officer, Oceanic Bank International Ltd (appointed by the CBN)
- Managing Director/COO, Renaissance Group, Lagos
- Founding Partner, SIAO Chartered Accountants
- Chief Executive and Founder, OA Financial Accounting Group
- Executive Director/Chief Financial Officer for Nigeria and West Africa, Citibank Nigeria Manager, Coopers and Lybrand

LEADERSHIP

MANAGEMENT COMMITTEE

Kayode Akinkugbe
Managing Director/CEO

Taiwo Okeowo, *CFA*
Deputy Managing Director

Bimbola Wright
Head, Coverage and Corporate Banking

Patrick Mgbenwelu
Head, Investment Banking

Awele Ajibola
Chief Risk Officer

Funke Ladimeji
Head, Technology and Services

Adetoun Dosunmu
Head, Fixed Income, Currencies and Treasury

Afolabi Olorode
Deputy Head, Investment Banking

Emily Atebe
Chief Financial Officer

Ike Onyia
Managing Director,
FBNQuest Asset Management Limited

GOVERNANCE FRAMEWORK

At FBNQuest Merchant Bank Ltd, the Board believes that sound corporate governance is the bedrock of business sustainability. In that light, corporate governance is driven by the Board of Directors while effectively engaging stakeholders. Corporate governance drives the strategic thrust of the Bank and is entrenched in its business practices for transparency and inclusion of all stakeholders. The Board is resolute that being a member of the first financial institution in Nigeria, the DNA of sustainability is infused into the Bank, and it can only be sustained by transparent business practices and a culture of accountability.

BOARD OF DIRECTORS

- BOARD AUDIT COMMITTEE (BAC)
- BOARD CREDIT COMMITTEE (BCC)
- BOARD GOVERNANCE/ HR COMMITTEE (BGC)
- BOARD RISK MANAGEMENT COMMITTEE (BRMC)

BOARD ROLES AND RESPONSIBILITIES

Responsibilities

The Board of FBNQuest Merchant Bank Ltd is accountable and responsible for the performance of the Company. The Board discharges its oversight functions and provides FBNQuest Merchant Bank Ltd with strategic direction through reviews and approval of major strategic plans and initiatives.

The Board not only ensures that adequate audit and risk management and control systems are in place, and that financial reporting and compliance programmes exist, but also that the processes for the evaluation of these systems' and programmes' adequacy on an ongoing basis are not compromised. The Board also makes certain that the competence, independence and integrity of internal and external audit processes of the Bank are not compromised.

The Role of Directors

The roles of the Chairman and other Board members are set out below:

CHAIRMAN

- Ensure the Board carries out its governance role in the most effective manner possible.
- Set the agenda for Board meetings and ensure the Board remains focused on its governance roles.
- Ensure Board meetings are run in an efficient manner so that all points and opinions are heard.
- Ensure the various Board committees are set up and properly governed, and assist the Board in its oversight functions.
- Chair the Annual General Meeting.

MANAGING DIRECTOR/CEO

- Provide strategic direction and alliances in line with overall corporate strategy and ensure effective implementation.
- Develop credibility for the financials by providing timely and accurate analysis of budgets and financial reports to assist Board and senior executives in performing their responsibilities.
- Provide strategies to maintain and upgrade the Company's reputation, image, brand and external communication.
- Liaise with external consultants and regulatory bodies' representatives (CBN, tax authorities, external auditors, consultants, etc.) on behalf of the organisation, and ensure compliance with same.
- Provide necessary reports to the Board as may be required.

GOVERNANCE FRAMEWORK

NON-EXECUTIVE DIRECTOR

- Act honestly and in good faith in the best interest of the Company.
- Exercise due diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
- Assist the Company in the achievement of its strategic corporate objectives.
- Devote sufficient time to Board affairs.
- Ensure they and the Board as a whole act in the best interest of the Company rather than that of an individual Director or any other interests.

INDEPENDENT NON-EXECUTIVE DIRECTOR

- Employ neutral, specialised/ expert skills towards achieving a balance of knowledge, skills, judgement and other directional resources.
- Serve as check to the Management of the Bank by providing unbiased and independent views to the Board.
- Help the Board of the Bank to get the most out of its businesses by providing objective inputs to strategic thinking and decision making, while ensuring full compliance with statutory rules and regulations.

COMPANY SECRETARY

- Ensure the flow of information within the Board and its committees, between Senior Management and Non-Executive Directors, facilitating induction and assisting with professional development.
- Advise the Board, through the Chairman, on all governance matters and regulatory affairs.
- Advise all members of the Board as may be required to ensure compliance with Board procedures.
- Administer the Company Secretariat in such manner to ensure that information on the Bank is accessible to all qualified stakeholders.
- File all statutory returns as may be required under the laws governing the Bank.

Attendance at Board meetings in 2019 is shown below:

NAMES	MARCH 06	MARCH 27	APRIL 24	JULY 01	JULY 29	AUGUST 19	OCTOBER 21	DECEMBER 11
Bello Maccido	✓	✓	✓	✓	✓	✓	✓	✓
Kayode Akinkugbe	✓	✓	✓	✓	✓	✓	✓	✓
Taiwo Okeowo	✓	✓	✓	✓	✓	✓	✓	✓
Akin Osinbajo	✓	✓	✓	✓	✓	✓	✓	✓
Oluyele Delano, *SAN*	✓	✓	✓	✓	✓	✓	✓	✓
Dr Omobola Johnson	✓	✓	✓	✓	✓	✓	✓	✓
U.K. Eke, *MFR*	✓	✓	✓	✓	x	✓	✓	✓
Babatunde Odunayo	✓	✓	x	✓	✓	✓	✓	✓
Oyinkansade Adewale, *FCA**	N/A	✓	✓	✓	✓	✓	✓	✓

*N/A (Not Applicable)

GOVERNANCE FRAMEWORK

BOARD FOCUS AREAS FOR 2020

The Board will focus on profitability and reduction of operational expenses in 2020, in accordance with the recently initiated 2020-2022 strategic planning cycle, while sustaining strict compliance with corporate governance codes and banking regulations.

BOARD CHANGES DURING 2019

There were minimal changes on the Board of Directors during the year. The CBN approved the appointment of Oyinkansade Adewale in March. Oyinkansade is a Fellow of the Institute of Chartered Accountants of Nigeria and a company executive, and she brings over 37 years of finance, risk, strategy and administrative experience to the Board.

BOARD ACTIVITIES

The Board met eight times in the course of the year and complied with the quarterly statutory meetings in line with extant regulations. In addition, a Board and Management retreat was held in November to engender interaction between the Board and Senior Management, and to chart the input into the FBNHoldings Group strategic planning cycle for the years 2020-2022.

The Board appraisal assessment was very positive for the 2018 financial year and the two observations made by the Board Appraisal Consultants, KPMG Advisory Services, were monitored and resolved within 2019.
The Board spent considerable time deliberating on the strategy, performance and outlook for the Bank, reviewed reports from the strategic business units, and monitored risk reports and compliance with extant regulations. Attention was on operational expenses, which resulted in cost savings of over ₦1bn in the 2019 financial year.

The Committees of the Board met quarterly, in line with the CBN's Code of Corporate Governance. Each Committee reported its activity to the Board and resolutions were taken on the recommendations. The Board Committees effectively conducted their oversight duties on behalf of the Board of Directors, thereby assisting the Board in making informed decisions as required.

BOARD DISCUSSIONS

The Board critically reviewed the business of the Bank and its subsidiaries and in some instances delved into the justifications for the sustainability of the business case of some of the subsidiaries.

The Board focused primarily on the performance of the business and the requirements to enhance it, as well as the people aspect of the Bank. This involved a review of staff welfare and general wellbeing, resulting in a salary review.

The Board also led Management to cost-reduction initiatives, which saved considerable operational costs within the year. The Board's mandate to Management is to sustain the cost-control tempo.

Major discussions were around how operational efficiency would be achieved while enhancing profitability and cost reduction. Significant time was spent on reviewing the performance of the Bank and its subsidiaries, and far-reaching resolutions were made in respect of this.

EFFECTIVENESS AND EVALUATION

The Board is guided by the Central Bank of Nigeria Code of Corporate Governance (which is incorporated into the Charter of the Board of Directors) on the number of Directors on the Board. The Executive Directors have clear contracts that delineate their tenure, duties and remuneration. The Board has also approved succession planning policies for both the Board and Management of the Bank.

There is an approved induction process for new Directors, anchored by the Company Secretariat, and periodic training for Directors resulting from identified areas of growth and the peer review conducted by the Board appraisal consultants, KPMG Advisory Services. The Board further ensured that it is abreast of best practice by engaging KPMG Advisory Services for an independent assessment of the Board and its governance practices. This appraisal is conducted annually and includes a Director peer appraisal to assess the performance of each Director of the Bank.

The Board appraisal covers the duties of each Committee, its effectiveness, proceedings and general compliance with its terms of reference. The implementation of the recommendations of KPMG Advisory Services are tracked by the Board Governance and Human Resources Committee quarterly, and reports thereon are presented to the Board of Directors.

The members of the Board of Directors have unfettered access to the Company Secretary, an appointee of the Board who functionally reports to the Chairman of the Board of Directors. He ensures effective information flows within the Board and its Committees, and between the Executive Leadership and Non-Executive Directors. The Company Secretary facilitates Director induction and assists with professional development, and is also responsible for advising the Board, through the Chairman, on all governance matters and regulatory issues, as well as advising members of the Board as may be required to ensure that Board processes are complied with.

Composition, Appointment Philosophy and Induction Process

The Company had a nine-member Board as at 31 December 2019, composed of two women and seven men, slightly short of 30% representation for women. The Board is mindful of this and is poised to ensure more female representation. The Directors are representatives of FBN Holdings Plc. Two of the seven Non-Executive Directors are Independent Non-Executive Directors, in compliance with the Central Bank of Nigeria's Corporate Governance Code.

The Board has ensured that the Directors possess an appropriate balance of skill and knowledge, as the Directors are drawn from across the public and private sectors of the economy. The members of the Board of Directors have attended training locally and abroad. The appointment of new Directors to the Board is guided by the Board Charter, with clear guidelines on the procedure to adopt with due acknowledgement that the Bank is part of a Group. To strengthen the Board and infuse fresh perspectives, the Board appointed Oyinkansade Adewale, *FCA* to the Board in the 2019 financial year.

She brings to the Board over 37 years of core banking, finance, strategy and organisational re-orientation expertise to bear on Board deliberations.

The Directors are nominees of FBN Holdings Plc. Nominations are subjected to the approval of the Board of Directors and the requisite regulatory approval. The Board of Directors is also authorised to appoint a Director if the laws of the Federal Republic of Nigeria or any regulator of the Company demand such appointment be made.

Tenure of Directors

The Bank aligns its policy on tenure of Directors with that contained in the CBN's Code of Corporate Governance, stated as three terms of four years each for Non-Executive Directors and two terms of five years each for the Managing Director/CEO.

Appraisal

In line with extant regulations, the Board of Directors commissioned KPMG Advisory Services to conduct an appraisal of its activities and a Directors' peer appraisal review in the course of the year. The summary of KPMG's report is that the activities of the Board comply with good corporate governance practice as stipulated in the CBN's Corporate Governance Code. KPMG's report has been presented to the Board of Directors and at the Annual General Meeting.

EFFECTIVENESS AND EVALUATION

Performance Monitoring

The Board monitors Company performance and evaluates strategic results to ensure the Company has a secure long-term future by:

WHISTLEBLOWING POLICY AND PROCEDURE

Whistleblowing refers to the disclosure internally or externally by employees and other parties of malpractices, illegal acts or omissions at work. The whistleblower, therefore, is any person(s) including employees, Directors, customers, service providers, creditors and other stakeholder(s) of the Bank who reports any form of unethical behaviour or dishonesty to the appropriate authority.

FBNQuest Merchant Bank is committed to achieving the highest possible standards of service and the highest possible ethical standards in all of its practices. The internal control and operating procedures in the Bank are intended to detect and to prevent or deter improper activities.

However, even the best systems of controls cannot provide absolute safeguards against irregularities. The Bank has the responsibility to investigate, and report to appropriate parties, allegations of suspected improper activities and to take appropriate actions.

The Bank recognises that its employees will often be in the best position to know when the Company's interest is being put at risk, and can act as an early warning system on a variety of issues and help uncover unethical and inappropriate practices in the workplace. The Bank also acknowledges that employees wondering whether to raise concerns or 'blow the whistle' on wrongdoing will most likely fear either that they may not be listened to or that they will be putting their jobs at risk.

In Nigeria today, there is no legal protection for a whistleblower. The Bank's whistleblowing policy was therefore designed to encourage its employees to raise concerns about malpractice, danger and wrongdoing internally without fear of any negative repercussion. Any of the Bank's employees who blows the whistle will be protected by the Bank if:

- If the disclosure is made in good faith and is about issues within the scope;
- If the disclosure raises concerns internally; and
- If the whistleblower makes reasonable wider disclosures to the prescribed or other relevant government regulatory agency, for example, outside the line management structure or to the CBN or the Police.

In line with these commitments, the Bank put in place a whistleblowing policy with the aims of providing an avenue for stakeholders to raise concerns and receive assurance that they will be protected from reprisals or victimisation for whistleblowing on Bank activities and practices such as:

- Unlawful activities;
- Incorrect reporting;
- Unethical and inappropriate behaviour at all levels;
- Activities that contravene the Bank's internal policies; and
- Practices that amount to improper conduct as regards the Bank and its employees.

The Bank's whistleblowing policy seeks to:

- Ensure that relevant statutory and regulatory obligations are complied with;
- Encourage stakeholders to bring unethical conduct and illegal violations to the attention of an internal and/or external authority so that action can be taken to resolve the problem;
- Provide avenues for employees to raise concerns and define a way to handle these concerns;
- Enable Senior Management to be informed at an early stage about acts of misconduct;
- Reassure employees that they will be protected from punishment or unfair treatment for disclosing concerns in good faith in accordance with this procedure;
- Help develop a culture of openness, accountability and integrity; and
- Help foster good relations, avoid crises and minimise damaging incidents and unpleasant publicity.

WHISTLEBLOWING POLICY AND PROCEDURE

Roles

The actualisation of the Whistleblowing Policy in the Bank rests with the Board, Senior Management and specific officers of the Bank including the Chief Compliance Officer and the Chief Audit Executive.

To enable seamless reporting of issues, the Bank made available three channels to whistleblowers:

- Dedicated telephone lines.
- Dedicated email address.
- Whistleblowing portal on the Bank's website.

Responsibilities

FBNQuest Merchant Bank shall investigate all cases of whistleblowing and report them as appropriate to both the Board and the regulator. Each incident shall be well investigated and promptly dealt with and resolution duly actioned within the resolution timeline encapsulated in the policy.

There were no cases of whistleblowing in 2019.

A prospective whistleblower may employ one or a combination of the available channels.

How the Board Engages with Stakeholders

Board meetings focused on corporate governance practice, risk management, profitability, operational excellence, integrity of the banking systems, strategy, staff welfare, work environment and the sustainability of the Bank's business model.

The front-facing divisional heads were invited to the Board meetings to allow the Board to drill down to unearth issues limiting performance that require Board oversight, while the Heads of Operations were tasked with increased efficiency and cost reduction while maintaining operational excellence.

Considerable time was also spent on the approval of policies to ensure compliance with regulation. The 2020 financial year marks the first year that the Nigeria Governance Code takes effect. The Board will ensure observance as required.

In a bid to retain adequate capital for the business, the Directors did not recommend payment of interim and final dividend for the 2019 financial year. FBNHoldings Group is aware of the Bank's plan and is in full support.

COMMITTEE REPORTS

The effectiveness of FBNQuest Merchant Bank Limited's Board is fortified and strengthened by its four committees: The Board Credit Committee; the Board Audit Committee; the Board Risk Management Committee; and the Board Governance and Human Resources Committee. The Board Credit and Board Governance and Human Resources Committees are chaired by Non-Executive Directors, while the Board Risk Management and Board Audit Committees are chaired by Independent Non-Executive Directors. Each Committee is governed by a Board-approved charter.

BOARD AUDIT COMMITTEE (BAC)

The BAC was chaired by Oluyele Delano, *SAN*. The overall purpose of the Committee is to drive the Board's strategic and oversight functions in the areas of financial reporting, internal and external audits.

Financial Reporting

The Committee ensures that financial disclosures made by the Management reasonably portray the Company and its subsidiaries' financial conditions, results of operations and long-term commitments by:

- Considering the appropriateness of the accounting policies applied and whether they are prudent and consistent with prior practice and comply with regulations and legal requirements;
- Considering the validity of any changes in accounting treatment or disclosure by comparing with the previous year;
- Critically reviewing the draft financial and interim reports and other financial documents;
- Considering any difference of opinion between auditors and the Management on the level of provisions, on accounting treatment or disclosure;
- Considering the quality of financial information disclosed to the shareholders and other stakeholders, especially in the context of the Company's business ethics and standards;
- Reviewing the financial reporting process to ensure the Company's compliance with accounting standards, financial matters and the applicable laws; and
- Maintaining the integrity of the Company's financial reporting.

External Audit

- Makes recommendations for the appointment and retention of the external auditors
- Reviews and discusses the scope of the audit and audit plan, including those of the subsidiaries
- Considers differences of opinion between the Management and the external auditors
- Evaluates the performance, objectivity and independence of the external auditors
- Reviews the nature and extent of non-audit services provided by the external auditors
- Obtains assurance from the auditors that adequate accounting records are maintained and used in the preparation of financial statements
- Reviews internal and external auditors' reports (management letter), responds, and considers status of actions taken by the Management
- Makes recommendations to the Board on the approved annual audited reports and disclosure requirements in line with Basel II.

Internal Audit

- Reviews the objectives of the risk-based internal audit function and the annual plan of action
- Reviews and approves the scope of internal audit work, including annual risk-based audit and spot check, plans and reviews compliance therewith
- Assesses the adequacy and performance of the internal audit function and the adequacy of available resources including appraisal of the Chief Audit Executive

COMMITTEE REPORTS

- Reviews significant matters reported by the internal auditor
- Reviews and assesses the implementation of approved audit recommendations
- Reviews significant differences in opinion between the Management and the internal auditors
- Reviews the cooperation and coordination between the internal and external auditors
- Provides a structural reporting line for internal audit and facilitates the maintenance of the objectivity of the internal auditor
- Authorises or directs the internal auditor to carry out special assignments over and above the approved annual audit plan and report thereon.

Internal Control Systems

- Reviews the systems of internal control to ascertain their adequacy and effectiveness
- Reviews and discusses any previously identified material weaknesses in controls and deficiencies in system and, if considered necessary, recommends additional procedures to enhance the system
- Identifies any changes necessary to the agreed audit scope or other services as a result of any weaknesses or deficiencies revealed.

Attendance at BAC meetings in 2019

NAMES	FEBRUARY 27	APRIL 11	JULY 15	OCTOBER 14	OCTOBER 16	DECEMBER 04	DECEMBER 20
Oluyele Delano, *SAN*	✓	✓	✓	✓	✓	✓	✓
Dr Omobola Johnson	✓	✓	✓	✓	✓	x	✓
UK Eke, *MFR*	x	✓	x	✓	✓	✓	✓
Babatunde Odunayo, *FCA*	✓	x	✓	✓	✓	✓	✓
Oyinkansade Adewale, *FCA**	N/A	✓	✓	✓	✓	✓	✓

*Appointed during the year
N/A (Not Applicable)

COMMITTEE REPORTS

Board Credit Committee (BCC)

The BCC was chaired by Dr Omobola Johnson (in acting capacity) from 1 January until 1 July 2019, when Babatunde Odunayo, *FCA* was appointed Chairman of the Board Credit Committee. The terms of reference of this Committee include to:

- Review credit policies of the Bank and recommend the same to the Board;
- Review and approve all facilities exceeding the delegated authority of the Management Credit Forums as set out in the Credit Policy;
- Review reports and monitor trends in the Bank's risk assets profile;
- Review the methodologies for assessing risk assets and recommend appropriate exposure limits; and
- Review and approve the restructure of credit facilities as per the Credit Policy and ensure that concentration of risk assets is within the Company's defined risk tolerance.

Attendance at BCC meetings in 2019

NAMES	APRIL 12	JULY 16	OCTOBER 11	OCTOBER 15	DECEMBER 05	DECEMBER 12
Babatunde Odunayo, *CFA**	✓	✓	✓	✓	✓	✓
Dr Omobola Johnson**	✓	✓	x	✓	x	✓
Kayode Akinkugbe	✓	✓	✓	✓	✓	✓
Taiwo Okeowo, *CFA*	✓	✓	✓	✓	✓	✓
Akin Osinbajo, *SAN*	✓	✓	✓	✓	✓	✓

*Appointed Chairman during the year
**Stepped down as Chairman during the year

COMMITTEE REPORTS

Board Governance/HR Committee (BGC)

The Board Governance/HR Committee was chaired by Dr Omobola Johnson. The purpose of the Board Governance Committee is to assist the Board in formulating policies, making decisions and exercising its oversight functions in relation to:

- Identification, approval and recommendation of individuals qualified to become members of the Board to the Board of Directors;
- Considering and making recommendations on the appointment of top management staff of the Company to the Board of Directors;
- Developing, updating and making recommendations to the Board on corporate governance principles and policies as applicable to the Company;
- Monitoring compliance with such principles and policies; and
- Identifying and making recommendations to the Board for approval on staff welfare, conditions of service, administrative and/or ethical issues as may arise, and acting as a general-purpose Committee as may be required by the Board from time to time.

Matters shall be referred to the Committee from the resolutions of the Executive Leadership Committee or other matters as the Board shall refer to the Committee for consideration.

The Committee shall make recommendations to the Board for adoption and approval.

The membership, meetings, duties, responsibilities and operations of the Committee shall be subject to the provisions of the Board Governance Committee Charter as approved by the Board.

The BGC is composed of all the Non-Executive Directors of the Company, excluding the Chairman of the Board, who is not a member of any of the Committees.

Attendance at BGC meetings in 2019

NAMES	JANUARY 16	APRIL 11	JULY 15	SEPTEMBER 06	OCTOBER 14	DECEMBER 04	DECEMBER 20
Dr Omobola Johnson	✓	✓	✓	✓	✓	x	✓
Oluyele Delano, *SAN*	✓	x	✓	✓	✓	✓	✓
U.K. Eke, *MFR*	✓	✓	x	✓	✓	✓	✓
Akin Osinbajo, *SAN*	✓	✓	✓	✓	✓	✓	✓
Bello Maccido*	✓	N/A	N/A	N/A	N/A	N/A	N/A

*Bello Maccido, Chairman of the Board, was invited to the extraordinary meeting of the BGC to review the performance of the Executive Directors of the Bank. He is not a member of any Board Committee.

COMMITTEE REPORTS

Board Risk Management Committee (BRMC)

The BRMC was chaired by Oluyele Delano, *SAN* (in acting capacity) from 1 January to 1 July 2019, when Oyinkansade Adewale, *FCA* was appointed to chair the Board Risk Management Committee. The overall purpose of the Committee is to protect the interest of shareholders and other stakeholders by overseeing the following:

- The adequacy of the internal control environment;
- Management of the Enterprise Risk framework; and
- Entrenching of a culture of good enterprise risk management and risk awareness.

The objectives of the Committee include:

i. Assisting the Board to discharge its responsibilities to exercise due care, diligence and skill in relation to the Bank's:
   - internal control system;
   - monitoring of both business and control risks; and
   - establishment and management of compliance procedures over regulatory and legal requirements;

ii. Improving the efficiency of the Board by accepting delegated tasks for sufficient and in-depth discussions;

iii. Establishing a formal written policy on the overall risk management system of the Bank;

iv. Improving the effectiveness of the risk management function;

v. Ensuring that adequate policies are put in place to manage and mitigate adverse effects of both business and control risks;

vi. Re-evaluating the Company's risk management policy periodically to accommodate major changes in internal and external factors; and

vii. Establishing robust contingency planning and continuity of business imperatives with in-built capabilities for minimising disruption if mission-critical threats crystallise.

i. Enterprise Risk Management

The duties and responsibilities of the Committee include, but are not limited to, the following:

- reviewing and recommending to the Board for approval the enterprise-wide Risk Management (ERM) Policy;
- reviewing and recommending to the Board for approval the risk philosophy, risk appetite and tolerance levels;
- monitoring the organisation's plans and progress in meeting regulatory risk-based supervision requirements and migration to Basel II compliance;
- dealing with the organisation's risk-reward profiles (including the credit, market and operational risk-reward profiles) and, where necessary, recommending improvement strategies;
- reviewing and recommending improvements regarding outstanding actions on risk management plans at business unit/subsidiary level;
- evaluating the risks identified in those strategic plans that require Board approval to determine their impact on the risk-reward profile;
- evaluating the risk profile and risk management plans drafted for major projects, acquisitions, new ventures and new products or services to determine the impact on the risk-reward profile;
- collaborating with, and reviewing issues for consideration as identified by, the Board Audit Committee;
- monitoring the firm's capital adequacy levels and capital management process, ensuring compliance with global best practice standards such as the Central Bank and Basel II; and
- ensuring a robust contingency plan and continuity of business imperatives with in-built capabilities for minimising disruption in the event that mission-critical threats arise.

COMMITTEE REPORTS

ii. Internal Control Efficiency

This involves evaluating the:

- efficiency and effectiveness of FBNQuest Merchant Bank's operations;
- accuracy of transactions capture and storage;
- reliability of financial reporting;
- effectiveness of risk management systems;
- adequacy of internal controls; and
- assessment and supervision of the Chief Risk and Compliance Officers.

iii. Ensuring Compliance by:

- ensuring that the Company has a comprehensive compliance framework for regulations and guidelines of money laundering and financial crimes;
- reviewing the adequacy and effectiveness of the programme of compliance with money laundering and financial crimes regulations and guidelines established within FBNQuest Merchant Bank;
- reviewing the processes in place for ensuring that new and changed legal and regulatory requirements on money laundering and financial crimes are identified and reflected in FBNQuest Merchant Bank Ltd's processes;
- reviewing the scope and depth of compliance audit activities, and the resulting impact that audit findings have on the risk profile of FBNQuest Merchant Bank regarding money laundering and financial crimes;
- ensuring the effectiveness of the Company's system for monitoring compliance with relevant laws and regulations (including internal rules) and the measures taken by the Management as a result of its investigation of material incidents of non-compliance;
- evaluating the nature and effectiveness of action plans implemented to address identified compliance;
- ensuring compliance with the Nigerian Sustainability Banking principles; and
- ensuring compliance with the cyber security risk regime.

Attendance at BRMC meetings in 2019

NAMES	APRIL 12	JUNE* 07	JULY 16	OCTOBER 15	DECEMBER 05
Oyinkansade Adewale, *FCA***	N/A	N/A	✓	✓	✓
Oluyele Delano, *SAN*	✓	✓	✓	✓	✓
Kayode Akinkugbe	✓	✓	✓	✓	✓
Akin Osinbajo, *SAN*	✓	N/A	✓	✓	✓

*Extraordinary meeting to interview the Chief Risk Officer consisting of one Director each from BCC and BRMC.
**Appointed to chair the Committee during the course of the year
N/A (Not Applicable)

COMMITTEE REPORTS

MANAGEMENT COMMITTEES

The Executive Leadership Committee is the body delegated by the Board of Directors of the Company to manage the day-to-day business of the Bank. It is the Company's highest decision-making organ, subject only to the directives of, or parameters set by, the Board of Directors, which retains supervisory powers over the Executive Leadership Committee and is authorised to review or approve all decisions of the Executive Leadership Committee as it deems fit.

The Executive Leadership Committee is entrusted with the following powers:

- Business continuity management.
- Ensuring operations and information communication and telecommunication capability.
- Effective and efficient resource management, including purchase and disposal of company assets, with the guideline that all fixed asset(s) disposal must not be below book value of the asset at the material time.
- Protection and enhancement of brand reputation.

The Executive Leadership Committee carries out its mandate through the following committees:

ASSET AND LIABILITY COMMITTEE (ALCO)

ALCO is charged with the responsibility of setting the short-, medium- and long-term strategies for managing its financial assets and their funding. ALCO meets regularly to review the Bank's balance sheet, and to analyse and formulate strategies to manage inherent risks and meet relevant performance objectives.

ALCO focuses on a number of risks including, but not limited to:

- Interest rate risk: hedging against adverse interest rate swings that occur due to mismatch in liabilities and assets;
- Liquidity risk: ensuring that the Bank meets its maturing obligations as and when due, and is in the position to honour its commitments;
- Concentration risk: ensuring that the Bank is not vulnerable to any single client or groups of clients, in relation to its funding sources; and
- Price risk: ensuring that adverse movements in market prices do not have a negative impact on the Bank's trading positions.

The composition of the Asset and Liability Committee is as follows:

- Managing Director - Chairman
- Deputy Managing Director
- Chief Financial Officer
- Chief Risk Officer
- Chief Compliance Officer
- Head, Coverage and Corporate Banking Division
- Head, Corporate Banking
- Head, Credit Risk Management
- Head, Sales Division
- Head, Wealth Management
- Head, Channels
- Head, Fixed Income Currencies and Treasury
- Chief Dealer, Treasury
- Head, Debt Capital Markets
- Head, Market and Liquidity Risk Management (Secretary)

COMMITTEE REPORTS

INFORMATION TECHNOLOGY STEERING COMMITTEE (ITSC)

The primary function of the ITSC is to take responsibility for the feasibility, business case and the achievement of outcomes of information and communications technology (ICT) projects. The Committee will monitor and review the project status as well as providing oversight of the project deliverable roll-out.

The ITSC provides a stabilising influence so that organisational concepts and directions are established and maintained with a visionary view.

The Committee provides insight on long-term strategies in support of organisational objectives.

Members of the ITSC ensure business objectives are being adequately addressed and that the project remains under control.

These responsibilities are carried out through the following functions:

- Monitoring and review of the project at regular Steering Committee meetings.
- Providing assistance to the project when required.
- Controlling project scope as emergent issues force changes to be considered, ensuring that scope aligns with the agreed business requirements of project sponsors and key stakeholder groups.
- Resolving project conflicts and disputes, reconciling differences of opinion and approach.
- Formal acceptance of project deliverables.
- Ensuring that due diligence is followed in the selection and recommendation of service vendors for IT projects.

The composition of the ITSC Committee is as follows:

- Deputy Managing Director - Chairman
- Head, Technology and Services
- Chief Risk Officer
- Chief Compliance Officer
- Head, Internal Audit
- Head, IT Applications
- Head, Transaction Operations
- Head, IT Security and Infrastructure
- Head, Digital Transformation
- Head, Business Process Management
- Head, Organisational Transformation
- Head, Operational Risk Management
- Head, Channels
- Chief Information Security Officer
- Chief Information Officer (Secretary)

COMMITTEE REPORTS

MANAGEMENT CREDIT AND UNDERWRITING COMMITTEE (MCUC)

The objective of the Committee is to supervise and coordinate the credit management policies, objectives and activities of the institution at Management level. The MCUC also facilitates the identification, evaluation and management of all forms of credit exposure, limits and loss reserve positions.

The composition of the MCUC Committee is as follows:

- Managing Director - Chairman
- Deputy Managing Director
- Head, Investment Banking
- Chief Risk Officer
- Head, Coverage and Corporate Banking
- Head, Legal Department
- Head, Investment Banking
- Head, Fixed Income, Currencies and Treasury
- Head, Debt Solutions
- Head, Credit Risk Management (Secretary)

RISK MANAGEMENT COMMITTEE (RMC)

The RMC is responsible for identifying, assessing, monitoring, controlling and managing risks that are inherent in the Company's business.

The objectives of the Committee include:

- Providing a sound basis for enterprise-wide risk management and internal controls as a component of good corporate governance, global best practices, and in compliance with statutory and regulatory requirements;
- Effective management of assets, liabilities and the associated risks for both the customer and FBNQuest Merchant Bank Ltd, while balancing the cost of managing those risks and the anticipated benefits;
- Improving the financial performance of the institution by establishing a positive relationship between an effective risk management system and profitability;
- Protecting the Company from risks of significant likelihood and minimising the impact thereof in cases where they crystallise while in the course of business; and
- Achieving a robust business continuity management framework with in-built capabilities for minimal disruption should mission-critical threats arise, as well as evaluating its adequacy in relation to FBNQuest Merchant Bank's business and regulatory requirements.

COMMITTEE REPORTS

The composition of the RMC Committee is as follows:

- Deputy Managing Director - Chairman
- Head, Coverage and Corporate Banking
- Head, Investment Banking
- Head, Asset Management
- Head, Abuja Office
- Head, Port Harcourt Office
- Head, Technology & Services
- Chief Risk Officer
- Head, Fixed Income, Currencies and Treasury
- Chief Finance Officer
- Chief Compliance Officer
- Head, Legal Services
- Head, Sales
- Head, Debt Capital Market
- Head, Market and Liquidity Risk Management
- Head, Credit Risk Management
- Head, Operational Risk Management (Secretary)

REMUNERATION

The remuneration of members of the Board of Directors is limited to a sitting allowance, Director's fees and reimbursable(s). Total fees and/or reimbursables paid to the Directors in 2019 were ₦350,632,657.00, broken down as follows:

	AMOUNT (₦)
Fees and sitting allowances	130,856,657.00
Executive compensation	215,626,000.00
Other Director expenses	4,150,000.00
Total	**350,632,657.00**

The remuneration reflects FBNQuest Merchant Bank Limited's desire to sustain long-term value creation for shareholders and aims to:

- Promote excellence and balance between short term and long-term performance such that FBNQuest Merchant Bank Limited's financial goals and shareholders expected returns are met and sustained.
- Enable FBNQuest merchant Bank Limited attract and retain people of proven ability, experience and skills in the market in which it competes for talent.
- To promote attention to maximizing personal contribution, contribution to the business in which the individual works and contribution to FBNQuest Merchant Bank Limited as a whole; and
- To ensure that both internally and externally, remuneration policies and programs are transparent, well communicated, easily understood and aligned with the interest of shareholders.

REPORT OF THE INDEPENDENT CONSULTANT TO THE BOARD OF DIRECTORS OF FBNQUEST MERCHANT BANK LIMITED ON THEIR APPRAISAL FOR THE YEAR ENDED 31 DECEMBER 2019

In compliance with the guidelines of Section 2.8.3 of the Central Bank of Nigeria (CBN) Revised Code of Corporate Governance for Banks in Nigeria Post Consolidation ("the CBN Code"), FBNQuest Merchant Bank Limited ("FBNQuest Merchant Bank" or "the Bank") engaged KPMG Advisory Services to carry out an appraisal of the Board of Directors ("the Board") for the year ended 31 December 2019.

The CBN Code mandates an annual appraisal of the Board with specific focus on the Board's structure and composition, responsibilities, processes and relationships, individual Director competencies and respective roles in the performance of the Board.

We have performed the procedures agreed with FBNQuest Merchant Bank with respect to the appraisal of the Board in accordance with the provisions of the CBN Code. These procedures, which are limited in scope but sufficient for the Board's objectives, are different from an external audit. Consequently, no opinion is expressed by us on the activities reported upon.

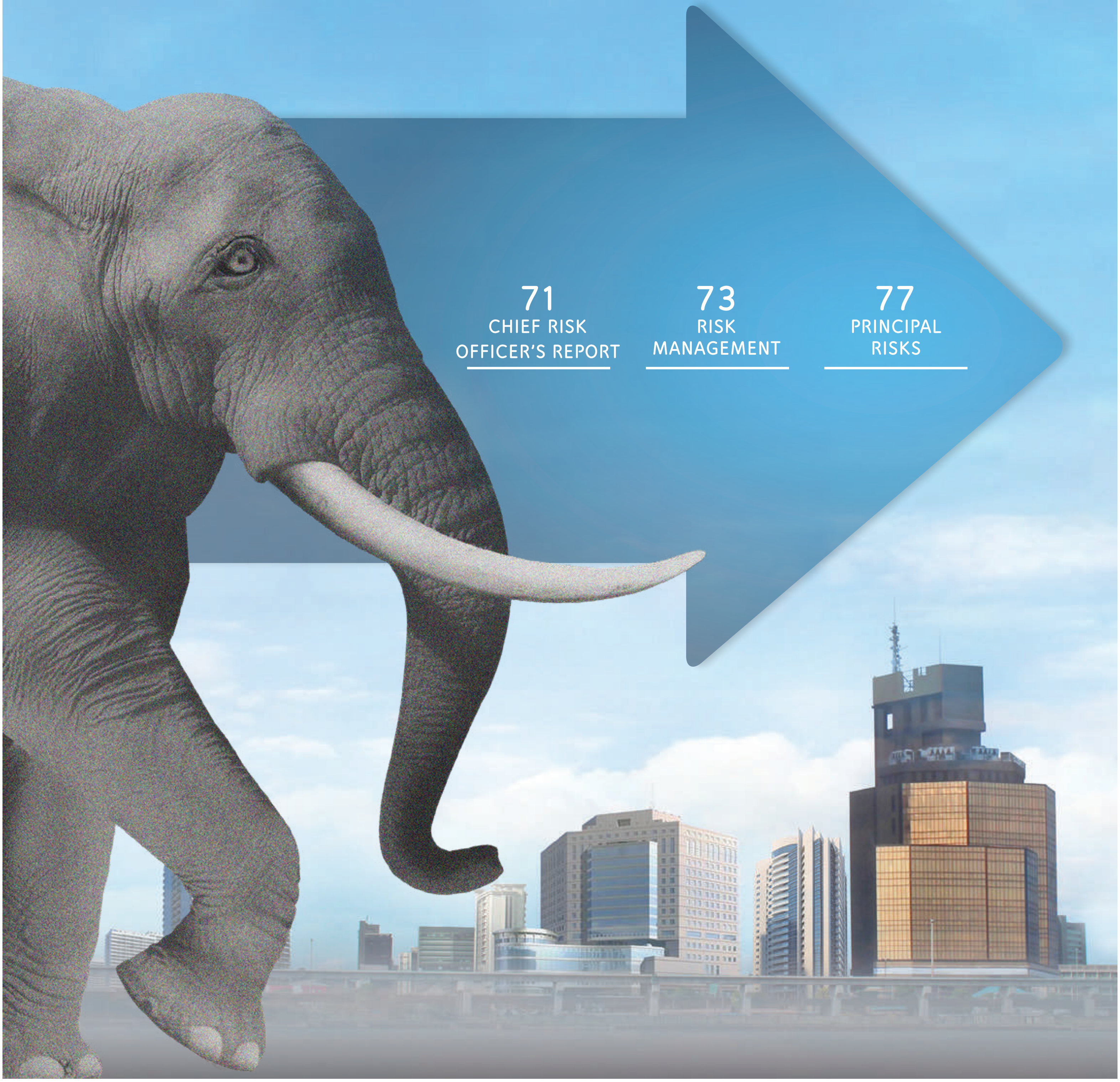
Our approach to the appraisal of the Board involved a review of the Bank's board papers and minutes, key corporate governance structures, policies and practices. This included the review of the corporate governance framework and representations obtained from questionnaires and one-on-one interviews with the members of the Board and Senior Management.

On the basis of our review, the Bank's corporate governance practices are largely in compliance with the key provisions of the CBN Code. Specific recommendations for further improving the Bank's governance practices have been articulated and included in our detailed report to the Board. These include recommendations on the composition of the Board.

Tolu Odukale
Partner, KPMG Advisory Services
FRC/2018/1CAN/00000018175
11 April 2020

RISK REVIEW

Our vision of becoming a leading Merchant Bank and Asset Manager means we are constantly aware of inherent risks and continually seek ways to mitigate them.



CHIEF RISK OFFICER'S REPORT

Awele Ajibola
Chief Risk Officer

The need to see both risks and opportunities requires that organisations develop the capacity to balance value protection and value creation concurrently. The primary objectives include the need to maximise returns from market opportunities by deploying superior risk management capabilities while applying global best practices and ensuring compliance with corporate governance standards.

The operating environment remains dynamic and susceptible to changes attributable to the macro- and microeconomic realities of Nigeria.

FBNQuest Merchant Bank has, in the course of 2019, enhanced its capacity to identify and mitigate inherent risks while remaining sensitive to the opportunities arising from properly managing those risks.

The focus of our risk management processes and efforts are aligned with our vision of becoming a world-class investment bank and creating value for all stakeholders in a sustainable form.

At FBNQuest Merchant Bank, we are exposed to a number of risks, with varying degrees of volatility. Key risks include credit, compliance, information security, and liquidity, market, operational, strategy and reputational risks. The importance of each risk has been determined by the respective impact on earnings, capital, liquidity and stakeholders' interests.

The increasingly uncertain macroeconomic environments, coupled with the recent changes in the regulatory space, have raised our risk profile while reducing the Bank's earnings potential.

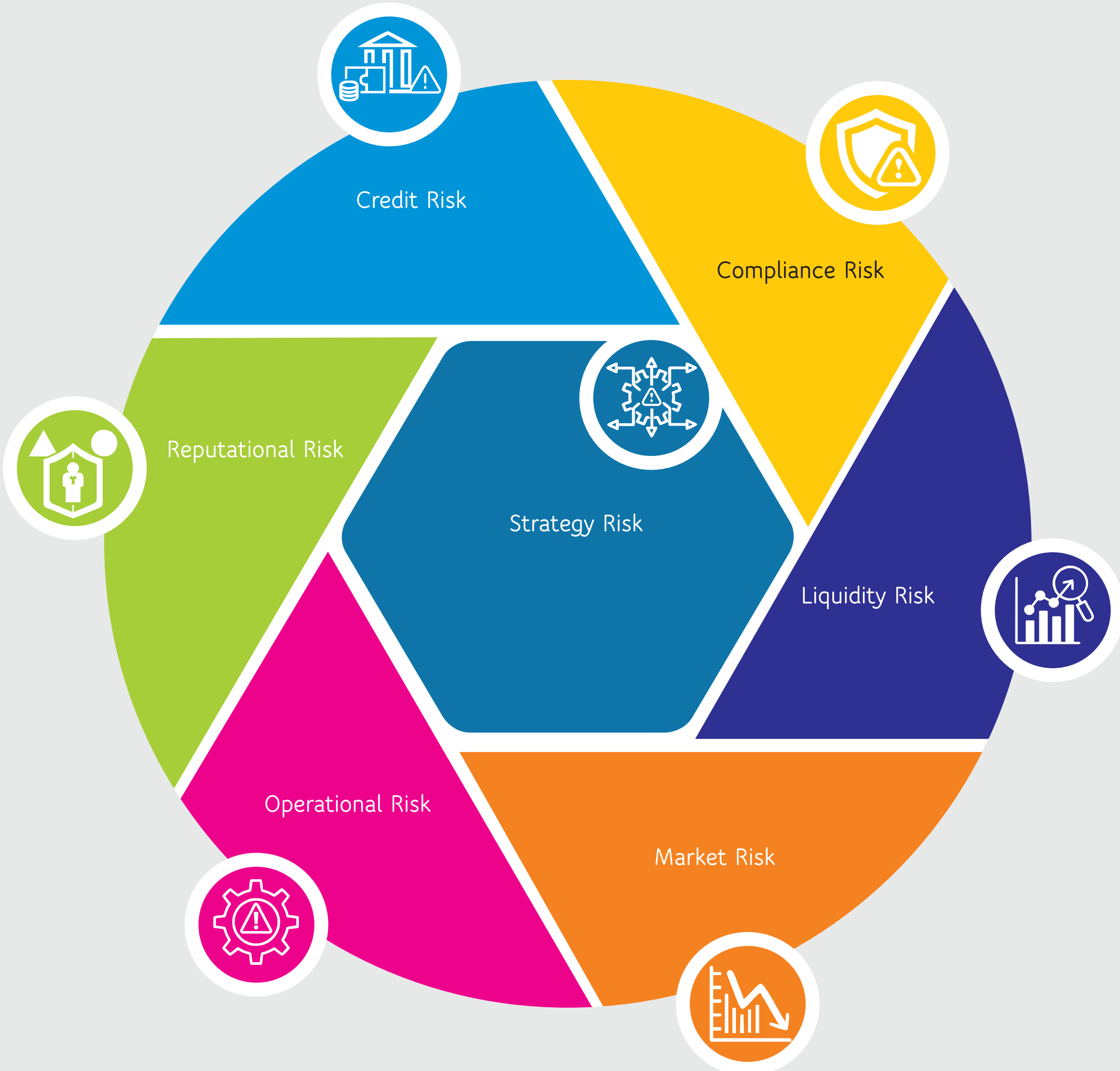
To this end, we continue to monitor the identified risks and strive to mitigate them to ensure we return consistent value to all our stakeholders.

The Board and Senior Management regularly assess the risks the Bank is exposed to and ensure there is adequate control in relation to the identified risks.

"The focus of our risk management processes and efforts are aligned with our vision of becoming a world-class investment bank and creating value for all stakeholders in a sustainable form."

CHIEF RISK OFFICER'S REPORT

Key risks faced by the Bank as a result of its operations



While the risks have been properly identified and closely measured and managed at Management level, there is also considerable Board oversight of the risks, as they are reported to the Board Risk Management Committee (BRMC) on a regular basis.

RISK MANAGEMENT

FBNQuest Merchant Bank's risk management policies are established to identify, analyse and measure the risks faced by the Bank, to set appropriate limits and controls, to monitor risks and adherence to limits. These policies are subject to review at least once a year, but more frequent reviews may be conducted at the direction of the Board, when changes in laws, regulations, market conditions or the Bank's activities are material enough to impact the continued adoption of existing policies. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework through its committees:

These committees are responsible for developing and monitoring risk policies in their specified areas, and report their activities regularly to the Board of Directors. All Board committees have both Executive and Non-Executive members.

The Board committees are assisted by the various Management committees in identifying, assessing and monitoring risks arising from the day-to-day activities of the Bank. These committees are the:

- Asset and Liability Committee (ALCO);
- IT Steering Committee (ITSC);
- Management Credit and Underwriting Committee (MCUC);
- Risk Management Committee (RMC); and
- Other ad hoc committees.

All established committees meet on a regular basis (monthly and/or quarterly), while other committees are constituted on an ad hoc basis, as dictated by the evolving realities of the operating environment and the new risks observed.

The Board and Management committees are responsible for reviewing and recommending risk management policies, procedures and profiles, including the risk philosophy, risk appetite and risk tolerances of the Bank. This oversight function cuts across all aspects of risk.

In addition, the committees monitor FBNQuest Merchant Bank's plans and progress towards meeting regulatory risk-based supervision requirements (including the migration to Basel II compliance), as well as the adequacy of its regulatory and economic capital.

The Bank recognises that it is in the business of managing risks, to derive optimal returns for the benefit of all of its stakeholders. It has, therefore, detailed its approach to risk through various policies and procedures, which include the following:

- Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) Policies
- Business Continuity Management (BCM) Policy
- Code of Conduct Policy
- Compliance Policy
- Concentration Limit Policy
- Credit Risk Policy
- Crisis Management
- Enterprise Risk Management (ERM) Framework
- Environmental and Social Risk Policy
- Information Security Policy
- Market and Liquidity Risk Policy
- Operational Risk Policy
- Performance Management Framework

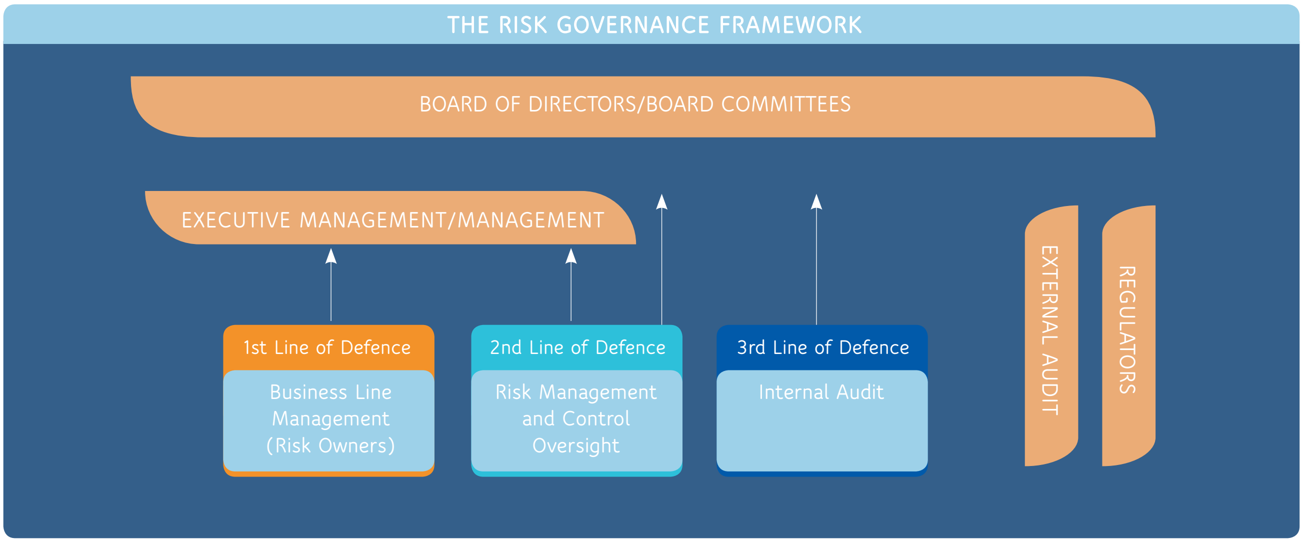
RISK MANAGEMENT

- Related Parties Policy
- Standard Manuals of Operations
- Whistleblowing Policy

The Risk Management and Control group is responsible for implementing approved risk policies and procedures.

FBNQuest Merchant Bank has a robust and functional ERM framework that is designed to govern, identify, measure, control, manage and report the inherent and residual risks the Bank is exposed to.

The Risk Governance Framework is tailored along the 'three lines of defence' model, as depicted below.



The Bank has exposure to the following key risks in carrying out its daily operations:

Credit risk: the current or potential risk to earnings and capital arising from the failure of an obligor of the Bank to repay principal or interest at the stipulated time, or failure otherwise to perform as agreed.

Compliance risk: the exposure to legal and regulatory penalties, financial forfeiture and material loss a Bank faces when it fails to act in accordance with industry laws and regulations, internal policies or prescribed best practices.

Information security risk: the impact on an organisation and its stakeholders that could occur due to the threats and vulnerabilities associated with the operation and use of information systems and the environments in which those systems operate.

Liquidity risk: risk that arises due to the inability of the Bank to meet its obligations and fund its asset growth without incurring unacceptable cost arising from borrowing above market cost and asset sale at off-market prices.

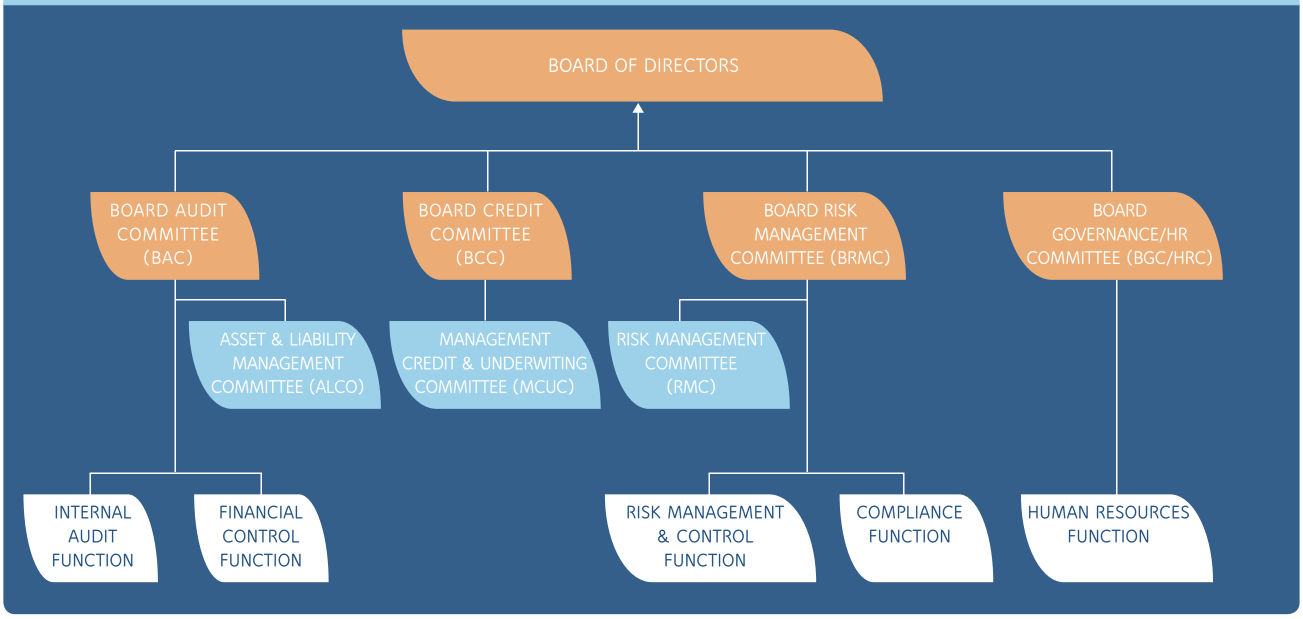
Market risk: losses in on- and off-balance sheet positions as a result of adverse changes in market prices.

Operational risk: the current and prospective risk to earnings and capital arising from inadequate or failed internal process, people, systems and external events.

Other key risks include legal, reputational and strategy risks. This section describes the Bank's exposure to these risks, and the policies and processes in place for the measurement of those exposures as well as for their management.

RISK MANAGEMENT

RISK GOVERNANCE ORGANOGRAM



PHILOSOPHY

FBNQuest Merchant Bank's risk management philosophy is drawn from its mission statement, and seeks to enhance the financial wellbeing of our stakeholders while ensuring strong commitment to the following key principles:

- Professionalism while delivering value to customers.
- Strong performance reporting (financial and non-financial).
- Good corporate governance.
- Consistent appreciation in shareholders' value.

The main guiding principles for establishing the risk policies of the Bank are the NDIC and CBN guidelines, concepts and practices defined by the Basel Committee, as applicable to the Nigerian financial market.

RISK APPETITE

At FBNQuest Merchant Bank, we acknowledge that there are inherent risks associated with the pursuit of opportunities in achieving our strategic objectives. The Board and Management of the Bank determine the risks that are acceptable based on the Bank's capabilities in terms of capital, people and technology, and these decisions are constantly communicated to all stakeholders.

The Bank's risk philosophy, which describes its attitude to risk-taking, also articulates how inherent risks are considered when making decisions. The Bank's risk appetite is further reinforced with the availability of up-to-date risk management policies covering key aspects of risks to which the Bank is exposed.

RISK CULTURE

The Bank has a strong risk culture and follows best practice Enterprise-wide Risk Management, which aligns people, strategy, policies, processes, technology and business intelligence to evaluate, manage and optimise the opportunities and threats it may face in its efforts to maximise sustainable stakeholder value within the defined risk appetite and philosophy.

EMERGING RISKS

Emerging risks are risks which may develop or which already exist that are difficult to quantify and may have a high loss potential.

Risk	Mitigating Actions
Cyber Risk	Availability of up-to-date information and cyber security strategies, frameworks, policies and other related controls commensurate to the risks associated with information assets. These are continuously reviewed, monitored and reported on.

INFORMATION AND CYBER RISK

Information security management entails managing and mitigating the various threats and vulnerabilities to assets, while at the same time balancing the management effort expended on potential threats and vulnerabilities by gauging the probability of them actually occurring.

To this extent, FBNQuest Merchant Bank has in place a set of policies and procedures for systematically managing the Group's sensitive data. The goal of our Information Security Management System (ISMS) is to minimise risk and ensure business continuity by proactively limiting the impact of a security breach.

Specifically, the following are steps taken by the Bank with regards to its ISMS.

Information and Cyber Security Management

To ensure cyber resilience and protection of our information assets (hardware, software, documents, backup media, etc.), the Bank has put in place information and cyber security strategies, frameworks, policies and other related controls commensurate to the risks associated with information assets. These are continuously reviewed, monitored and reported on.

External consultants and other experts are employed from time to time to review, assess and audit the Bank's IT infrastructure to ensure that the information assets are secured and protected.

Information and Cyber Risk Management Awareness and Monitoring

Strategies for ensuring the confidentiality, availability and integrity of all the Bank's information assets (hardware, software, documents, backup media, etc.) are continuously reviewed and monitored, and key risks identified reported to key stakeholders.

Where applicable, implementation of controls by relevant stakeholders is also tracked and reported on. External consultants and other experts are employed from time to time to review, assess and audit the Bank's IT infrastructure, to ensure that the information assets are secured and protected.

PRINCIPAL RISKS

FBNQuest Merchant Bank Limited is exposed to a number of risks with varying degrees of significance. Key risks faced by the Bank as a result of its operations include credit, compliance, liquidity, market, operational, reputational and strategy risks.

The importance of each risk faced by FBNQuest Merchant Bank has been determined by its effects on earnings, capital, liquidity and stakeholders' interests. While the risks have been properly identified and closely measured and managed at the management level, there is also considerable Board oversight of the risks, as they are reported to the Board Risk Management Committee on a regular basis.

The nature of our business and the products that we offer bring inherent risks in the areas of financial markets, credit, operations and information security. The nature and extent of our exposure to these risks drive our regulatory capital requirements. The business model we have adopted means that the risks enumerated are very important to us, and it is therefore critical that they are effectively and properly managed.

CREDIT RISK MANAGEMENT

FBNQuest Merchant Bank Limited defines credit risk as the risk of a counterparty's failure to meet the terms of any lending contracts with the Bank as agreed. Credit risk arises any time the Bank's funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements.

Thus, the Bank, on the back of its lending and other related activities, has placed commensurate emphasis on effective management of its exposure to credit risk.

The credit risk strategy defines the following elements at the minimum:

- Preferred customer profile in granting credit.
- Allocation of credit based on exposure type, industry or economic sector, geographical location, currency and maturity.
- Target markets.
- Risk rating level based on its risk-bearing capacity and principles for diversification of protection against risks.
- Quality, yield, and growth targets for the credit portfolio.

The credit risk strategy is central to the identification, measurement, monitoring and control of credit risk. It is, therefore, reviewed periodically (at least annually).

The risk-asset-creating units – Treasury and Corporate Bank – are required to implement all credit policies and procedures in line with the approval limits granted by the Board. The business units are responsible for the quality and performance of their risk asset portfolio and for monitoring and controlling all credit risks in their portfolio. Internal Audit undertakes regular audits of business units, while the Risk Management and Control group carries out regular credit quality reviews.

The Bank continues to focus attention on intrinsic and concentration risks inherent in its business to manage the Bank's portfolio risk. It sets portfolio concentration limits that are measured under the following parameters:

- Aggregate large exposure limit;
- Credit product limit;
- Currency limit;
- Loan performance;

PRINCIPAL RISKS

- Obligor risk rating;
- Sectorial limit; and
- Tenor limit.

Credit risk arising on trading securities is managed independently but reported as a component of market risk exposure.

The Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee (BCC). Executive Management, through the Management Credit and Underwriting Committee (MCUC), is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies for the Bank, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Executive Committee by the BCC/Board of Directors as appropriate;
- Reviewing and assessing credit risk in all credit exposures prior to making a commitment to customers. Renewals and reviews of facilities are subject to the same review process;
- Developing and maintaining the Bank's criteria for categorising exposures, and focusing Management on the attendant risks. The criteria as contained in the Risk Asset Acceptance Criteria (RAAC) and Credit Risk Policy take care of exposures to banks and related regulated institutions, and large quoted corporates, large conglomerates and multinationals. The responsibility for approving RAAC and Credit Policy lies with the Board Credit Committee (BCC); and
- Reviewing compliance with exposure and concentration limits and promotion of best practices throughout the Bank in the management of credit risk. The Bank's Credit Risk Principles and Policies were also revised in June 2019.

The Bank recognises the fact that loan assets constitute a significant portion of its assets. Thus, we proactively protect, and strive to continually improve the health of, our loan portfolio. We review all applications and weed out potential problem loans at the loan application and assessment stage as well as constantly monitoring the existing loan portfolio for early warning signs.

The credit rating of the counterparty is fundamental to final credit decisions. FBNQuest Merchant Bank Limited adopts a robust credit rating system based on global best practices in determining obligor and facility risks, thus enabling the Bank to maintain its risk asset quality at the desired level.

The Bank assigns credit ratings to all credit requests and the ratings are based on a two-tier approach of Obligor Risk Rating (ORR) and Facility Risk Rating (FRR). The ORR represents a grade which measures the probability of default (PD) on a credit obligation over a defined time horizon of 12 months.

The FRR represents a grade that denotes the loss given default (LGD) of a given credit facility. This takes into consideration specific factors (e.g. receivables) and collateral in place for the referenced facility.

The Bank's operational measurements for credit risk conform with the impairment allowances required under the International Financial Reporting Standards (IFRS). IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This requires considerable judgement about how changing economic factors affect ECLs, which will be determined on a probability-weighted basis.

The estimation of credit exposure is complex, and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of the credit risk in a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratio and default correlations between counterparties.

FBNQuest Merchant Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring the credit risk of loans and advances at a counterparty level, the Bank

PRINCIPAL RISKS

considers three components: (i) the PD by the client or counterparty on its contractual obligations, from which the Group derives the exposure at default (EAD); and (ii) the likely ratio on the defaulted obligations –LGD.

The models are reviewed regularly to monitor their robustness relative to actual performance, and amended as necessary to optimise their effectiveness.

For debt securities, the Bank's internal rating tools, supplemented by external rating such as Agusto & Co., Fitch, Standard & Poor's or their equivalents are used by the risk management department for managing the credit risk exposures.

The Bank is guided by the individual obligor limit as set by the regulators, which is currently at 50% of the Bank's shareholders' funds unimpaired by losses. Notwithstanding, the Bank applies additional parameters internally in determining the suitable limits that an individual borrower should have. These include obligor rating, relative position within its industry and perceived requirements of key players, financial analysis, etc.

The Bank, based on guidelines set by the regulators, imposes industry or economic sector limits to guard against concentration risk.

The industry or sector limits are derived from rigorous analysis of the risks inherent in the industry or economic sector, recommended by the MCUC and approved by the Board.

The Bank also limits the risk assets portfolio by the various maturity periods (maturity buckets).

The maturity limits are a reflection of the risk appetite and liquidity profile of the Bank. During the year, limits may be reviewed and realigned (outright removal, reduction or increase) to align with the Bank's prevailing macro- and microeconomic expectations.

FBNQuest Merchant Bank also sets internal credit approval limits in the credit process. Approval decisions are guided by the Bank's strategic focus as well as the stated risk appetite and other limits established by the Board or regulatory authorities.

The Bank ensures that each credit reviewed and granted is based on the strength of the borrower's repayment capacity, measured by its cash flow. It also ensures that its risk assets are well secured, to provide an alternative for exiting the exposure. The Bank also has in place clearly defined guidelines and processes for the acceptance, evaluation, inspection and management of collaterals pledged against credit facilities which are in line with the Credit Risk Policy.

FBNQuest Merchant Bank maintains placement lines for its bank counterparties and other financial institutions regulated by CBN. The lines cover the settlement risks inherent in trading with these counterparties. The limits are determined following fundamental analysis of the counterparties and presentation of findings to and approval by the Board. The lines are implemented by the Treasury Group and monitored by Market Risk. Interbank placement limits are also guided by the regulatory single obligor limit.

IMPAIRMENT AND PROVISIONING POLICIES

Impaired risk assets and securities are risk assets and securities for which the Bank has determined that it will not likely be able to collect all or part of the principal and interest that are contractually due. The Bank classifies its risk assets and securities portfolio as follows:

- Neither due nor impaired are risk assets and securities on which there is no outstanding or unpaid contractual interest and/or principal repayment, and the Bank cannot establish that there is any objective evidence of impairment at the reporting date. The Bank recognises an allowance based on the incurred loss model on all risk assets and securities that fall into this classification.

- Past-due but not impaired risk assets are risk assets and securities where contractual interest or principal payments are past due, but the Bank believes impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank. The Bank recognises an allowance based on the incurred loss model on all risk assets and securities that fall into this classification.

PRINCIPAL RISKS

ENVIRONMENTAL AND SOCIAL RISK

The Bank recognises that the context in which its business decisions are made is characterised by growing challenges related to population growth, urban migration, poverty, destruction of biodiversity and the ecosystem, pressure on food and other natural resources, security, climate change, lack of energy and poor infrastructure.

The business activities of the clients that the Bank funds can have potentially negative impacts on the environment or local communities where those clients operate. The Bank's E&S Policy seeks to ensure, through adherence to the guidelines in the policy that the Bank is not actively enabling entities, individuals or activities that negatively impact our local communities or the environment.

LIQUIDITY AND MARKET RISK

The nature of the Bank's activities exposes it to liquidity and market risks. The Bank has clearly defined policies, procedures and documented practices for the mitigation of these risk exposures.

The following is a brief overview of the Bank's management process for the trading and banking book elements.

The trading book consists of assets actively traded by the Bank. These assets are limited to fixed income securities. The processes adopted by the Bank for managing this class of risk include:

- Daily valuation of securities;
- Position limits;
- Factor-sensitive limits, including duration;
- Loss limits;
- Stress testing-sensitivity and scenario analysis;
- Value at risk (VaR); and
- Daily, weekly and monthly position evaluation.

The banking book highlights risks that are on the balance sheet. These risks are as a result of adverse movements in interest rates changing the underlying value of assets, liabilities and earnings. These risks are monitored and measured using;

- Maturity gap analysis;
- Duration gap analysis;
- Net income margin (NIM);
- Earnings at risk;
- Interest margin analysis; and
- Stress testing-sensitivity and scenario analysis.

LIQUIDITY RISK MANAGEMENT

Liquidity remains critical to the normal function of the Bank, necessitating the implementation of sound liquidity management practices. The Bank's Asset and Liability Committee (ALCO) is charged with the responsibility for effective management of the Bank's liquidity.

PRINCIPAL RISKS

Below are some of the practices and processes that the Bank employs in the management of liquidity risk:

- Cash flow projections.
- Contingency funding plans.
- Defined criteria for assets purchase.
- Diversification of funding sources (to mitigate against concentration risk).
- Maintenance of highly liquid securities.
- Maintenance of a liquidity ratio in excess of the 20% regulatory floor.
- Maturity and duration gap analysis.
- Modelled deposit behavioural analysis.
- Liquidity stress testing.
- Scenario analysis.

The Bank's liquidity position is monitored daily, while stress tests are updated and conducted monthly. The stress tests applied by the Bank model a variety of scenarios ranging from mild to severe market conditions.

SETTLEMENT RISK

The Bank's activities may give rise to risk at the time of settlement of transactions and trade. Settlement risk is the risk of loss due to failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

RISK MITIGATION AND MANAGEMENT ACTIONS

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement clearing house to ensure that a trade is settled only when both parties have fulfilled their contractual obligations.

OPERATIONAL RISK

HOW OPERATIONAL RISK IMPACTS FBNQUEST MERCHANT BANK

FBNQuest Merchant Bank defines operational risk as the risk of direct or indirect loss arising from inadequate and/or failed internal processes, people and systems or from external events. This definition requires the review and monitoring of all strategies and initiatives deployed in the Bank's people management, process improvements and engineering, technology investment and deployment, as well as the management of all regulatory responsibilities and response to external threats.

RISK MITIGATION AND MANAGEMENT ACTIONS

To ensure a holistic framework is implemented, Risk Management and Control takes an enterprise-wide view in its monitoring of strategic and reputational risk, by implementing the following tools, practices and methodologies:

Risk Incident Reporting

This is an internally developed, web-based risk incident reporting system, called the Risk Register. It is deployed through the Bank's intranet for logging of operational risk incidents

PRINCIPAL RISKS

bank-wide. All staff members are encouraged to report operational risk incidents that occurred within their workspaces whether or not they resulted in actual losses.

As a result, FBNQuest Merchant Bank has collated operational risk event data over the years. Information gathered is used to support identification of risk concentrations, process improvements and strengthening of controls.

Risk Mapping and Assessment

This is a quantitative and qualitative risk assessment process in FBNQuest Merchant Bank, which is carried out every two years and which enables risk profiling and risk mapping of prevalent operational risks. All auditable units and departments are covered in the exercise. Risk assessments are also carried out on new products, systems and processes, to ensure that appropriate controls are in place to mitigate identified risks.

An internally developed web-based system has also been put in place for conducting risk assessment on customers in line with extant Know Your Customer (KYC) and anti-money-laundering (AML) regulations. Customers can be rated high, medium and low.

The system is also used to keep a log of customers who fall into the category of politically exposed persons (PEP) based on CBN regulations. The risk rating of customers determines the internal processes and approaches to be adopted in managing those relationships.

Business Continuity Management

To ensure the resilience of FBNQuest Merchant Bank business to any disruptive eventuality, the Bank has in place a robust Business Continuity Management (BCM) Policy, which assures timely resumption of its business with minimal financial losses or reputational damage, and continuity of service to its customers, vendors and regulators.

The Bank has a warm contingency site outside its premises, and various degrees of tests are carried out monthly, quarterly and annually to ensure that recovery benchmarks and targets are achieved. The tests also ensure that various teams are aware of their roles and responsibilities. The BCM Policy is reviewed annually and when necessary in line with changes in business, operational and regulatory requirements.

Compliance Department

The Bank has a separate department charged with monitoring compliance, with relevant regulations, circulars, directives and approved policies. Compliance management involves close monitoring of KYC compliance by the Bank, escalation of audit non-conformances, complaints management and observance of the Bank's zero-tolerance culture for regulatory breaches. It also entails an oversight role for monitoring adherence to regulatory guidelines and global best practice on an ongoing basis.

Operational Risk Reporting

Weekly, monthly and quarterly reports highlighting key operational risks identified are circulated to relevant stakeholders for awareness and timely implementation of mitigation strategies.

Reports are also generated and circulated on a needs basis.

Operational Risk Management Governance Structure

The Board, through its Board Risk Management Committee (BRMC), oversees the Bank's operational risk function. It ensures that the Operational Risk Policy is robust and provides a framework for the Bank's operational risk profile and limits. It also determines the adequacy and completeness of the Bank's risk detection and measurement systems, assesses the adequacy of risk mitigants, reviews and approves contingency plans for specific risks, and lays down the principles on how operational risk incidents are to be identified, assessed, controlled, monitored and measured.

The BRMC reviews operational risk reports on a quarterly basis. The Risk Management Committee (RMC) monitors the activities of operational risk and approves key decisions made before presentation to the Board. It ensures the implementation of the guiding operational risk framework bank-wide and ensures that all departments in the Bank are fully aware of the risks embedded in respective process flows and business activities.

All process owners are responsible for the day-to-day management of operational risks prevalent in respective units, departments and groups of the Bank.

The internal audit function conducts independent reviews of the implementation of operational risk policies and procedures bank-wide.

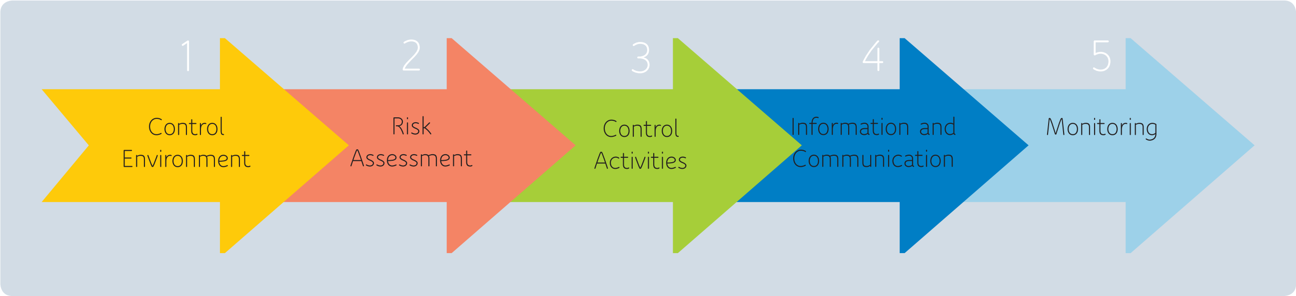
PRINCIPAL RISKS

INTERNAL CONTROL

FBNQuest Merchant Bank's Internal Control Framework is based on internal control guidelines as recommended by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO defines controls as 'a process effected by an entity's Board of Directors, Management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, financial reporting and compliance'.

These control guidelines were adopted to ensure the establishment of an internal control system that provides reasonable assurance that assets are safeguarded, financial information is reliable, errors and frauds are prevented, and the Bank is compliant with internal and external laws, directives and policies.

It is the most widely accepted international framework used to evaluate the existence and functionality of control principles covering five components:



Policies and Guidelines

The internal control framework is supported by the Bank's Enterprise Risk Management (ERM) policy, which outlines the roles and responsibilities of Directors, Management and staff of the Bank, as well as by risk and control self-assessments, which map specific risks to control mitigants and process manuals, which outline procedures for the identification, management and documentation of relevant processes and sub-processes.

FBNQuest Merchant Bank's control function focuses on the following strategic priorities for improving the efficiency of internal control:

- Control Awareness and Engagement: We continue to hold engagements with various business units, particularly the operations teams, during which control issues and adherence to policy and procedures are discussed exhaustively to successfully strengthen awareness of internal control and the responsibility of frontline staff in risk management.
- Process efficiencies and reduction of vulnerabilities in operational processes by engaging the business to reduce the number of processing touch-points and avenues for human intervention in our processes.
- Periodic reporting to the Risk Management Committee and Executive Leadership Committee on control failures and the actions taken to address such failures.

COMPLIANCE RISK

OVERVIEW

Compliance in the Bank shall be defined as the adherence to the requirements of laws, regulations, rules, related Self-Regulatory Organisations (SROs) and the Bank's standards and codes in matters concerning the observation of proper standards of market conduct, principles of good governance, managing conflicts of interest and specifically dealing with matters such as prevention of money laundering and terrorist financing, and investigations of alleged corrupt and fraudulent behaviours.

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or reputational damages the Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its financial activities.

Compliance risk can be simply referred to as the risk of impairment of the Bank's integrity.

Compliance Objectives

The objectives of the compliance function include the following:

a) To implement sound procedures of monitoring company-wide statutory returns through appropriate use of the institution's resources, while still being consistent with the institution's goals and objectives.

b) To ensure that new and changed regulatory requirements are identified and reflected in our processes where appropriate.

c) To ensure that the Bank and its employees are complying with regulatory requirements, internal and external policies and procedures and relevant international developments, practices and trends.

d) To establish standards and implement procedures to ensure that the compliance programmes throughout the Bank are effective and efficient in identifying, preventing, detecting and correcting non-compliance with applicable rules and regulations.

e) To facilitate the establishment and enhancement of a compliance culture in the Bank.

Compliance Risk Management Strategy

The following strategies shall guide the culture and conduct of compliance at all levels of the Bank:

a) Compliance starts at the top and shall be a component of the Bank's culture, with the Board of Directors and Executive Management leading by example. It concerns every employee of the Bank and shall be viewed as an integral part of the Bank's business activities.

b) The Bank shall hold itself up to high standards when carrying on business and always strive to observe the spirit as well as the letter of the law. The Bank's failure to consider the impact of its actions on its shareholders, clients, employees and the markets may result in significant adverse publicity and reputational damage, even if no law has been broken.

c) Good compliance risk management builds trust and protects the Bank's brand.

d) Compliance is an integral part of the Bank's business activities. The identification of compliance risk, its assessment and appropriate risk response shall be elements to consider in any due diligence process.

e) An appropriate compliance culture, including desired ethical behaviour, shall be promoted throughout the Bank. The compliance function shall assist with the fostering of a compliance culture in the Bank. This includes the promotion of a culture that engenders awareness and recognition of the value of compliance risk identification, assessment, management, monitoring and reporting as part of daily activities.

COMPLIANCE RISK

Scope of the Compliance Function

The scope of the activities of the compliance function, which it carries out in conjunction with Senior Management, the Risk Management group and all other divisions, departments and units of the Bank, covers:

a) Promotion of the culture of compliance across all levels of the Bank through empowerment programmes, education, training and development.

b) Reports to Senior Management and the Board: Reports on anti-money-laundering measures/combating the financing of terrorism (AML&CFT) and other compliance issues are submitted monthly and quarterly to Senior Management and the Board respectively. These reports provide the Board and Senior Management with information to enable them to assess the Bank's compliance with its regulatory obligations. The reports also ensure that Directors and Senior Management are kept abreast of current trends and developments in the financial industry, particularly in the area of compliance and AML&CFT risk management.

c) Know Your Customer (KYC) procedures: A duly completed account opening form and the collection of identification and other relevant information and documents are the foundation and bedrock for onboarding a customer in the Bank. Customer due diligence (CDD) is conducted prior to establishing any banking relationship with a customer. This includes, at a minimum, identity and address verification, as well as ascertaining the source of income and wealth of the customer. Enhanced due diligence (EDD) is conducted on high-risk customers, including politically exposed persons. The approval of Senior Management and Compliance is required prior to the commencement of banking relationships with such high-risk customers.

The Bank takes requisite and regulatory measures when embarking on relationships with designated non-financial businesses and professionals (DNFBPs), due to their perceived risk and in compliance with regulatory requirements.

As part of the Bank's KYC and CDD procedures, identification documents are requested and obtained to confirm the beneficial owners of a business and the organisation's control and structure.

The Bank, as part of its regulatory requirements from the CBN, made it mandatory for customers to acquire a Bank Verification Number (BVN) to make transactions on their accounts and have access to loans and purchase of foreign exchange.

d) Transaction Monitoring: Transaction monitoring occurs on a manual and automated basis. The former is performed by all members of staff, who are regularly armed with the knowledge of red flags to look out for in customers' transactions, and the latter resides within the Compliance unit.

All members of staff are aware of the fact that suspicious activities and transactions should immediately be referred to the Compliance unit.

To properly monitor transactions passing through the Bank's systems, the SWIFT transaction monitoring sanctions screening and tech solution has been adopted. Both AML tools have been fully deployed in the Bank, providing an advancement in the means by which transactions are monitored and investigated.

e) Transaction Reporting: Regulatory and statutory requirements provide that certain reports and returns are made to regulatory bodies. In Nigeria, the Nigerian Financial Intelligence Unit (NFIU) is the agency charged with the responsibility of receiving the following core transaction-based reports:

- Currency Transaction Report (CTR);
- Foreign Currency Transaction Report (FTR); and
- Suspicious Transaction Report (STR).

The Bank renders reports to the NFIU and the Central Bank of Nigeria in accordance with the provisions of Sections 2, 6 and 10 of the Money Laundering (Prohibition) Act of 2011 as amended ('the Act').

COMPLIANCE RISK

Section 2 of the Act provides that financial institutions must submit a report on all international transfers of funds and securities of a sum exceeding 10 thousand USD or its equivalent in other foreign currencies.

Section 6 of the Act provides that a financial institution must submit a report on all unusual and suspicious transactions.

Section 10 of the Act provides that any lodgement or transfer of funds in excess of ₦5mn and above for individuals and ₦10mn and above for corporate customers must be reported.

f) Relationship with Regulators and Law Enforcement Agencies: The Bank understands that part of its corporate and social role is to cooperate with law enforcement agencies in the fight against financial crime. To this end, the Bank maintains a cordial and supportive relationship with all regulatory and law enforcement agencies. The Bank promptly complies with all directives, pursuant to the law, and provides information to all regulators, including the NFIU, the CBN and other relevant agencies, when requested.

g) Sanctions Compliance Management: The Bank, as a policy point, does not enter any relationship with sanctioned individuals or entities. All employees, as applicable to their functions, are required to screen names of individuals and organisations who have or plan to enter a business relationship or carry out a transaction with or through the Bank against the Bank's internal watch list and Bank-deployed Thompson Reuters sanction screening application (World-Check One).

Both lists contain the names of individuals and entities who have been blacklisted by various sanctioning bodies. Employees are required, as part of the Bank's policy, to refrain from any relationship and/or transaction when their searches yield a true or positive match, and to follow the escalation procedure. Sanctions screening is done at account opening and on a real-time basis for all SWIFT transactions.

h) Politically Exposed Persons (PEPs): PEPs are individuals who have been entrusted with prominent public functions and people or entities associated with them. Enhanced due diligence measures are applied to PEPs, as with other high-risk customers, to mitigate the AML/CFT risk they pose. This is to ensure that the Bank is not unknowingly supporting fraudulent activities such as money laundering or the financing of terrorism.

The Bank has in place the domestic PEP database and World-Check One to identify the PEP status of customers at onboarding, and in line with FATF's recommendation, the Bank employs the use of an automated monitoring tool in identifying and monitoring PEP transactions. This is achieved through the thorough review of information provided by customers and their transaction trends.

Establishment of new accounts for PEPs as well as continuity of such accounts (for those already existing in the system) is subject to the approval of senior management of the Bank in line with the AML/CFT policy.

i) AML/CFT Principles for Correspondent Banking: The Bank only enters and maintains correspondent banking relationships with financial institutions that have implemented sufficient AML/CFT policies and procedures. To ease this process, FBNQuest Merchant Bank has subscribed to the Bankers Almanac, an international online portal for uploading and accessing the KYC information of over 95% of the world's 250 largest financial institutions, to carry out its own KYC process on most international counterparties it does business or intends to do business with.

The Bank does not deal with shell banks, nor does it maintain any payable-through accounts. The Bank ensures that due diligence is performed annually on our correspondent relationships to avoid AML/CFT risks.

j) AML/CFT Training: The Bank, as a policy, places a high value on the training of its employees. Training sessions are carried out to ensure employees are conversant with the AML/CFT laws, KYC principles and other

COMPLIANCE RISK

AML/CFT-related information. At a minimum, an annual compliance training session is mandatory for all members of staff, including Senior Management and Directors. Trainings are done through e-learning or face-to-face media. Ad hoc training also takes place by way of the dissemination of topical national and international issues to employees.

k) AML/CFT Audits: In order to adhere to regulations and to ensure an ever-evolving, fit-for-use compliance function, internal audit of the AML/CFT function is conducted on a bi-annual basis. The purpose of the audit is to test and ensure the effectiveness of the AML/CFT measures put in place by the Bank.

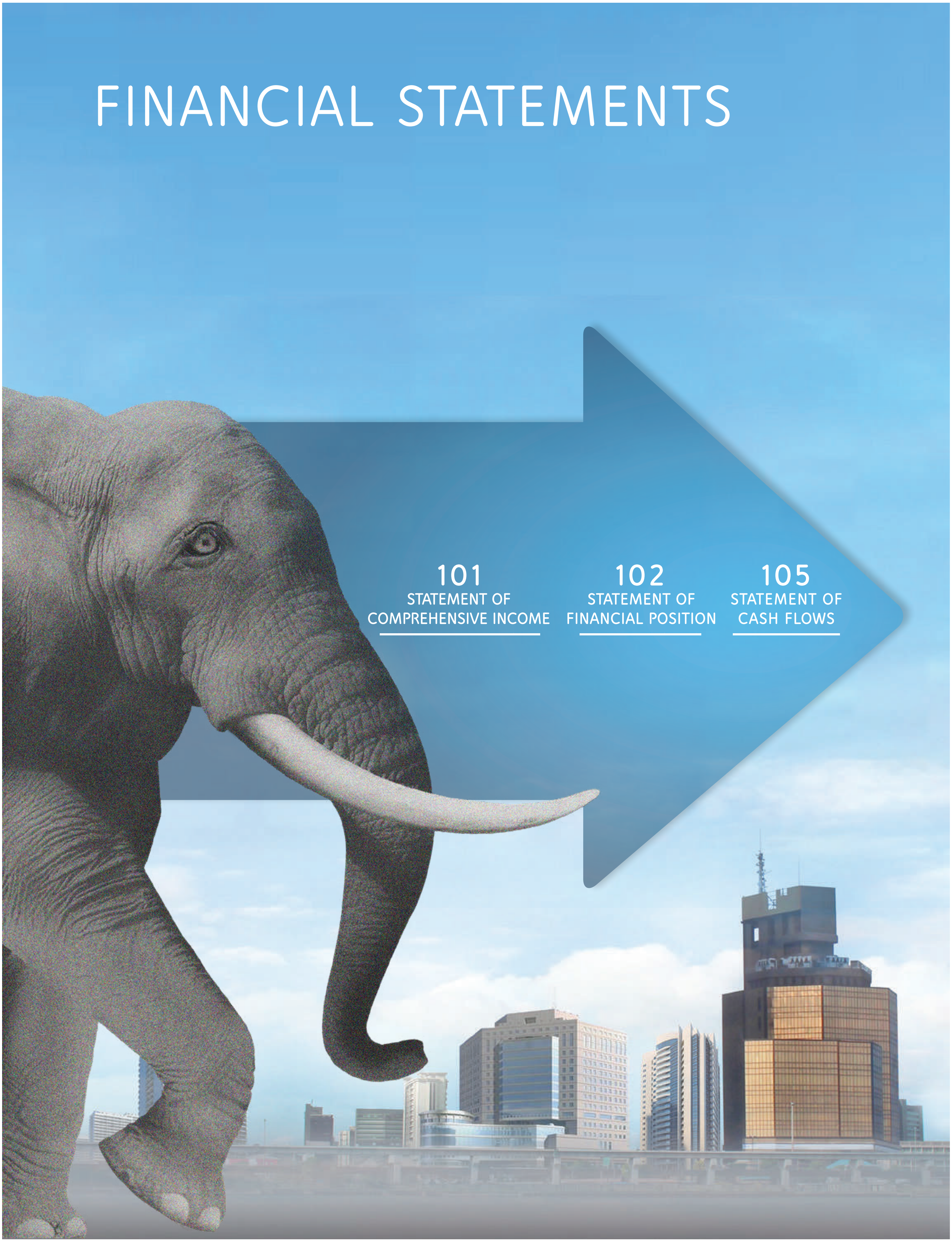
The report and findings of the audit are circulated to various levels of Senior Management. A follow-up to the audits takes place to ensure that the relevant issues are closed out and highlighted recommendations have been implemented.

l) Record Retention: As provided for within the Act, customer identification documents are retained throughout the life of the account and for a minimum of five years after the cessation of the banking relationship, except in cases of litigation or regulatory investigations. In the case of the latter, the records will be kept for as long as they are required. The Bank has opted to maintain customers' records as regulatorily required.

m) Subsidiaries: In compliance with regulatory and international best practice, the Bank ensures that its subsidiaries' AML/CFT provisions are consistent with the Bank's framework, which is based on global best practices. These measures are applied to the extent that the respective subsidiary's local laws and regulations are adhered to. However, where there are discrepancies the stricter will always apply.

Greater collaboration has been fostered, and control measures adopted, based on the current international best practices. This is to ensure that all our subsidiaries maintain the highest standards for AML/CFT controls.

FINANCIAL STATEMENTS



CORPORATE INFORMATION

Directors	
Bello Maccido	Chairman
Kayode Akinkugbe	Managing Director/CEO
Taiwo Okeowo	Deputy Managing Director
Dr. Omobola Johnson	Non-Executive Director
U.K. Eke, MFR	Non-Executive Director
Akin Osinbajo, SAN	Non-Executive Director
Babatunde Odunayo, FCA	Non-Executive Director
'Yele Delano, SAN	Independent Non-Executive Director
Oyinkansade Adewale, FCA	Independent Non-Executive Director - Appointed 14 March 2019
Company Secretary	Alawusa Adewuyi
Registered Office	10 Keffi Street Ikoyi Lagos
Bankers	Central Bank of Nigeria First Bank of Nigeria Plc Guaranty Trust Bank Plc Sterling Bank Plc FBN UK Limited Bank of Beirut (UK) Ltd FCMB UK Ltd
Solicitors	Adepetun Caxton Martins Agbor & Segun Rudy Ezeani & Co Bola Olotu & Co
Auditor	PricewaterhouseCoopers Landmark Towers 5b Water Corporation Road Victoria Island Lagos

DIRECTORS' REPORT

The Directors present their report on the affairs of FBNQuest Merchant Bank Limited ('the Bank') together with the audited consolidated financial statements and the auditor's report for the year ended 31 December 2019.

The Bank was initially incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability company on 14 February 1995. It was granted a license on 31 October 1995 to carry on the business of a discount house and commenced operations on 16 November 1995. The Central Bank of Nigeria (CBN) license for merchant banking was obtained in May 2015 while merchant banking operations commenced on 2 November 2015.

In August 2017, the Bank acquired 100% interest in two entities (FBNQuest Securities Limted and FBNQuest Asset Management Limited) to form the FBNQuest Merchant Bank Group.

(b) Principal activities

The principal activity of the Bank is provision of treasury management services, trading in and holding of Federal Government of Nigeria (FGN) bonds and other money market activities, dealing in and provision of foreign exchange services, financial consultancy and advisory services, act as issuing house or otherwise manage, arrange or coordinate the issuance of securities, porfolio management and provision of finance and credit facilities to non-retail customers.

(c) Operating results

Highlights of the Group's operating results for the year are as follows:

	Group		Bank	
	2019 ₦'000	2018 ₦'000	2019 ₦'000	2018 ₦'000
Gross earnings	**24,859,966**	25,378,566	**20,878,775**	22,402,779
Profit before tax	**4,149,945**	2,801,080	**2,779,875**	2,270,112
Tax expense	**(556,888)**	(483,400)	**(139,651)**	(212,100)
Profit after tax	**3,593,057**	2,317,681	**2,640,224**	2,058,012

(d) Directors shareholding

The Directors do not have any direct and indirect interests in the issued share capital of the Bank (2018: Nil) as recorded in the register of Directors' shareholding and/or as notified by the Directors for the purposes of Sections 275 and 276 of the Companies and Allied Matters Act.

(e) Directors' interests in contracts

For the purpose of Section 277 of the Companies and Allied Matters Act, none of the Directors had direct or indirect interests in contracts or proposed contracts with the Company during the year.

(f) Property and equipment and Intangible assets

Information relating to changes in property and equipment is given in Notes 28 and 29 to the financial statements. In the Directors' opinion, the realisable value of the Company's properties is not less than the value shown in the financial statements.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

(g) Shareholding analysis

The shareholding pattern of the Bank as at 31 December 2019 (based on the issued and fully paid shares) is as stated below:

Share range	Number of holdings	Percentage of holders %	Number of holdings	Percentage of holders %
0 - 100,000,000	1	-	1	-
101,000,000- 2,000,000,000	1	100	4,301,576,999	100
	2	100	4,301,577,000	100

(h) Substantial interest in shares

According to the register of members as at 31 December 2019, two shareholders hold the issued share capital of the Bank:

Shareholder	Number of shares held	Percentage of shareholding
Seye Kosoko	1	-
FBN Holdings Plc	4,301,576,999	100
	4,301,577,000	100

(i) Customer complaints

In compliance with the Central Bank of Nigeria (CBN) Circular referenced FPR/DIR/CIR/GEN/01/020, the Bank established a Customer Helpdesk to handle all customers' complaints. During the year, the Bank received 38 customer complaints. All complaints were resolved as at 31 December 2019.

(j) Donations and charitable gifts

The Group made contributions to charitable and non-political organisations amounting to ₦7.63million (2018: ₦10.30million) during the year.

Donations to charitable organisations:	Group		Bank	
	2019 ₦'000	2018 ₦'000	2019 ₦'000	2018 ₦'000
Widow Trust Fund	1,491	-	1,491	-
Bethesda Child Support Agency	500	-	500	-
Treasure Chidi Participation in Olympic	500	-	500	-
Teach For Nigeria Foundation	-	7500	-	7,500
Lulu Briggs Foundation	-	200	-	200
Small World Foundation	-	250	-	250
Literacy Week Sponsorship	133	350	133	350
	2,625	8,300	2,625	8,300

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

(j) Donations and charitable gifts continued

Donations to organisations and individuals:	Group		Bank	
	2019 ₦'000	2018 ₦'000	2019 ₦'000	2018 ₦'000
Nigeria Stock Exchange	1,600	-	1,600	-
Women in Business -WINBIZ	740	-	740	-
Sponsorship of Association of Issuing Houses of Nigeria (AIHN) First Quarter Lunch	500	-	500	-
Standard Bearers School (SBS) Technovation 2019 Support	300	-	300	-
Contribution to Economic Development Sustainability	3,056	-	3,056	-
Chartered Institute of Bankers of Nigeria (CIBN) Sponsorship 12TH Annual Banking	5,500	-	5,500	-
'God Calling' Movie Premiere	-	2,000	-	2,000
	11,696	2,000	11,696	2,000
Total	14,320	10,300	14,320	10,300

(k) Events after the reporting period

There were no post balance sheet events which had effect on the financial statements of the Group as at 31 December 2019 and on the profit for the year ended 31 December 2019.

(l) Human resources

Health, safety and welfare at work

The Group places a high premium on the health, safety and welfare of its employees in their place of work. Medical facilities are provided for employees and their immediate families at the Group's expense, up to stated limits.

Employment of disabled persons

The Group has no disabled persons in its employment. However, applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

(m) Employee consultation and training

The Group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on various factors affecting the performance of the Group. In line with this, formal and informal channels of communication are employed in keeping the staff abreast of various factors affecting the performance of the Group. The Group organises in-house and external training for its employees.

(n) Auditors

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

BY ORDER OF THE BOARD

Alawusa Adewuyi
FRC/2013/ICSAN/00000001663
Company Secretary
10 Keffi Street Ikoyi
Lagos.
10 March 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies and Allied Matters Act requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Group at the end of the year and of its profit or loss. The responsibilities include ensuring that the Group:

i. keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group and comply with the requirements of the Companies and Allied Matters Act;

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

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

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with:

- International Financial Reporting Standards;
- Prudential guidelines for Licenced Banks;
- Relevant circulars issued by Central Bank of Nigeria;
- The requirements of the Banks and Other Financial Institutions Act;
- The requirements of the Companies and Allied Matters Act; and
- The requirements of the Financial Reporting Council of Nigeria 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 Group and of its profit for the year. 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 Group will not remain a going concern for at least 12 months from the date of this statement.

Bello Maccido
Chairman
FRC/2013/CISN/00000002366
10 March 2020

Kayode Akinkugbe
Managing Director/CEO
FRC/2013/IODN/00000003063
10 March 2020

REPORT OF THE BOARD AUDIT COMMITTEE

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

In accordance with the provisions of Section 359(6) of the Companies and Allied Matters Act, the members of the Board Audit Committee of FBNQUEST Merchant Bank Limited hereby report on the condensed financial statements for the year ended 31 December 2019 as follows:

(a) We have exercised our statutory functions under Section 359(6) of the Companies and Allied Matters Act, and acknowledge the co-operation of the Management and staff in the conduct of these responsibilities.

(b) We are of the opinion that the accounting and reporting policies of the Bank are in accordance with legal requirements and agreed ethical practices and that the scope and planning of both the external and internal audits for the year ended 31 December 2019 were satisfactory and reinforce the Bank's internal control systems.

(c) We have deliberated the findings of the external auditors, who have confirmed that necessary cooperation was received from the Management in the course of the audit and are satisfied with the Management's responses thereon and with the effectiveness of the Group's system of accounting and internal control.

'Yele Delano, SAN
Chairman, Board Audit Committee
FRC/2015/NBA/00000013035
25 February 2020

Members of the Board Audit Committee are:

Dr. Omobola Johnson
U.K. Eke, MFR
Babatunde Odunayo, FCA
Oyinkansade Adewale, FCA

In attendance:

Alawusa Adewuyi – Secretary

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

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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 FBNQuest Merchant Bank Limited ("the Bank")and its subsidiaries (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

FBNQuest 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 Ethics Standards), i.e. the IESBA Code issued by the International Ethics Standards 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 judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key matter	How our audit addressed the key audit matter
Impairment allowance on loans and advances to customers (Group and Bank: ₦1.62billion) We focused on this area due to the size of loans and advances balance net of impairment ₦46.39billion and because it requires significant judgement both for timing of recognition of impairment and the estimation of size of any such impairment. Areas where significant judgement was exercised includes: • Defining credit impaired facilities in consideration of default (as presumed in IFRS 9 – Financial instruments) and other events that impact cash flows; • Determining the criteria for assessing significant increase in credit risk (SICR);	We adopted a substantive approach in assessing the allowance for impairment made by Management. We evaluated Management's definition of default and assessed the appropriateness of qualitative thresholds and criteria used by Management in determining significant increase in credit risk (SICR). We applied a target testing approach in selecting a sample of credit facilities for detailed reviews of related customer files and account statements. Our reviews included checking the details of the borrower's account history, the nature of the facility and other factors that could indicate deterioration in the financial

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

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Key matter	How our audit addressed the key audit matter
• The determination of credit conversion factor to be applied in calculating Exposure at Default for off balance sheet exposures; • The valuation of collaterals and applied haircut affecting future cash flows used in the impairment calculation because of their impact on determination of recoverable amount; • Techniques that were used to determine the probability of default (PD) and the loss given default (LGD); and • Incorporating forward looking information in building the economic scenarios used in the Expected Credit Loss (ECL) model. See Notes 3.27, 6 and 24 of the consolidated and separate financial statement This is considered a key audit matter in both the consolidated and separate financial statements.	condition of borrowers and their capacity to repay. This formed our basis of challenging Management's judgement made in the allocation of loans into the different stages that reflect the credit risk of the loan, the assessment for significant increase in credit risk and in the determination of defaults. We reviewed the basis for staging for reasonableness and checked that staging has been properly determined. We assessed the credit conversion factor for the off-balance sheet exposures. In reviewing the valuation of collaterals and other evidence of future cash flows, we obtained the valuation reports, and evaluated the competence and independence of the valuers. We assessed the term structure of the collateral and assumptions applied for haircut adjustments. Using our credit modelling experts, we reviewed the assumptions and methodology applied in the ECL model and also assessed for reasonableness and compliance with the requirements of IFRS 9. • We validated the risk rating input into the model for each of the loan customers. • We assessed whether the Probability of Default (PD) has been reasonably determined and checked that valid term structures have been used in determining the point in time PDs. • We evaluated the reasonableness of Loss Given Default (LGD) calculation by reviewing the computation of recovery amount. In determining the recoverable amount, we checked that LGD assumptions have been appropriately applied. • We checked the reasonableness of forward-looking information incorporated into the impairment calculations and challenged the multiple economic scenarios chosen as well as weightings applied in the estimation of ECL. We checked the adequacy of the presentation and disclosures in the consolidated and separate financial statements.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

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Key matter	How our audit addressed the key audit matter
Recoverability of deferred tax assets (Group: ₦9.43billion and Bank: ₦9.11billion)	
The analysis of the recoverability of the deferred tax assets was significant to the audit because the amounts are material and the assessment process is subjective and based on assumptions that are affected by expected future market or economic conditions. The deferred tax asset balance is mainly attributable to unutilised tax losses. The risk exists that future taxable profits will not be enough to fully cover the deferred tax asset. The recoverability of recognised deferred tax assets is mainly dependent on the Group's ability to generate future taxable profits enough to utilise the carried forward tax losses. Therefore, Management has made estimates based on assumptions of expected growth rates of revenue streams that would generate future taxable income for the Group. See Notes 3.10, 6 and 30 of the consolidated and separate financial statement. This is considered a key audit matter in both the consolidated and separate financial statements.	We adopted a substantive approach to the audit of this balance. We obtained the cash flow projection and forecast taxable profits used to support management's recognition of deferred tax assets. We challenged the cash flow projection and deferred tax utilisation computations. Specifically: • we compared the base numbers of the projections used in estimation of the recoverability of the deferred tax assets to the actual numbers and records of the base period. • we challenged Managements' assumptions on the projected future revenue growth rate vis-à-vis historical trend. • we tested the reasonableness of Management's estimates of future taxable profits based on the following: i. Expiration of the tax exemption on government securities in the near future. ii. Impact of disallowed costs of generating exempt income. We reviewed the disclosures for compliance with relevant standards

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

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Other information

The Directors are responsible for the other information. The other information obtained at the date of this auditor's report are the Corporate Information, Directors' Report, Statement of Directors' Responsibilities, Report of the Board Audit Committee, Statement of value added, Five-year Financial Summary, and Statement of Prudential Adjustments 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 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 on the other information that we obtained prior to the date of this auditor's report, 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 judgement 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

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- 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 :

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 and returns adequate for our audit have been received from branches not visited by us;

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 40 to the consolidated and separate financial statements; and

v) as disclosed in Note 43 to the consolidated and separate financial statements, the Bank paid penalties in respect of contraventions of the Banks and Other Financial Institutions Act (BOFIA) and relevant circulars issued by the Central Bank of Nigeria during the year ended 31 December 2019.

Obioma Ubah

For: PricewaterhouseCoopers
Chartered Accountants
Lagos, Nigeria

13 March 2020

Engagement Partner: Obioma Ubah
FRC/2013/ICAN/00000002002

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

		Group		Bank	
In thousands of Nigerian Naira	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Interest income on financial assets at amortised cost	7	**7,357,754**	8,095,563	**7,085,348**	7,886,510
Interest income on financial assets at FVOCI	7	**7,174,463**	8,534,594	**7,147,204**	8,502,877
Interest expense	8	**(10,815,384)**	(12,272,379)	**(10,859,589)**	(12,333,063)
Net interest income		**3,716,833**	4,357,778	**3,372,963**	4,056,324
Impairment charges	9	**(51,388)**	(116,198)	**(119,832)**	(471,531)
Net interest income after impairment charge for credit losses		**3,665,445**	4,241,580	**3,253,131**	3,584,793
Fee and commission income	10	**8,098,011**	6,720,490	**4,502,642**	3,470,902
Net gains on foreign exchange	11	**325,587**	766,813	**323,210**	668,077
Net gains on financial assets at FVTPL	11a	**1,758,290**	1,170,768	**1,784,603**	1,159,208
Other operating income	12	**145,861**	90,337	**35,767**	715,205
Operating income		**13,993,193**	12,989,988	**9,899,352**	9,598,185
Personnel expenses	14	**(2,787,175)**	(3,204,381)	**(2,462,181)**	(2,573,040)
Depreciation of property, plant and equipment	28	**(494,376)**	(559,734)	**(463,562)**	(522,791)
Depreciation of right of use assets	45	**(138,815)**	-	**(138,815)**	-
Amortisation of intangible assets	29	**(1,207,270)**	(1,179,999)	**(1,097,522)**	(985,176)
Other operating expenses	13	**(5,215,612)**	(5,244,794)	**(2,957,398)**	(3,247,066)
Operating expenses		**(9,843,248)**	(10,188,908)	**(7,119,477)**	(7,328,073)
Profit before tax		**4,149,945**	2,801,080	**2,779,875**	2,270,112
Income tax expense	15	**(556,888)**	(483,400)	**(139,651)**	(212,100)
Profit for the year		**3,593,057**	2,317,680	**2,640,224**	2,058,012
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss					
Net fair value losses on financial assets at FVOCI					
- Net gains on investments in debt instruments measured at FVOCI	37	**1,817,759**	(1,663,954)	**1,770,651**	(1,665,649)
Other comprehensive (loss)/income for the year		**1,817,759**	(1,663,954)	**1,770,651**	(1,665,649)
Total comprehensive income for the year		**5,410,816**	653,726	**4,410,875**	392,363
Basic/diluted earnings per share (kobo)	16	**84**	54	**61**	48

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

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

		Group		Bank	
In thousands of Nigerian Naira	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
ASSETS					
Cash and balances with Central Bank of Nigeria	17	8,302,033	4,653,015	8,302,033	4,653,015
Due from other banks	18	7,377,521	17,337,847	4,238,237	14,221,127
Financial assets at fair value through profit or loss	20	2,902,292	1,876,368	2,517,162	1,302,217
Investment securities:					
- Fair value through OCI	21	16,684,696	33,668,763	16,026,386	33,592,365
- Amortised cost	22	2,914,249	1,275,653	2,914,249	1,275,653
Pledged assets	23	39,382,677	21,099,602	39,382,677	21,099,602
Derivative financial assets	44	474,757	219,954	474,757	219,954
Loans and advances to customers	24	46,448,173	35,413,635	46,390,453	35,342,825
Other assets	25	8,469,157	5,977,171	8,517,527	6,151,414
Investment in subsidiaries	26	-	-	1,313,329	1,381,773
Deposit with Nigerian Stock Exchange	27	1,150	1,150	-	-
Property and equipment	28	1,388,451	1,759,451	1,325,752	1,683,237
Intangible assets	29	863,136	1,900,356	810,031	1,758,235
Right of use assets	45	175,208	-	175,208	-
Deferred tax asset	30	9,426,538	9,322,285	9,113,548	9,113,548
Total assets		144,810,037	134,505,250	141,501,349	131,794,965
LIABILITIES					
Due to banks	31	27,648,648	8,003,945	27,648,648	8,003,945
Due to customers	32	75,675,571	90,858,472	76,021,448	90,977,369
Current income tax liability	15b	766,671	716,309	183,602	212,353
Other liabilities	33	10,090,784	10,073,642	9,112,503	8,841,694
Lease liabilities	46	115,233	-	115,233	-
Derivative financial Liabilities	44	469,389	219,954	469,389	219,954
Total liabilities		114,766,296	109,872,322	113,550,823	108,255,315
EQUITY					
Share capital	34	4,301,577	4,301,577	4,301,577	4,301,577
Share premium	35	3,904,731	3,904,731	3,904,731	3,904,731
Retained earnings		13,293,791	10,596,377	11,261,008	9,516,426
Statutory reserve		7,878,899	7,482,866	7,878,899	7,482,866
Credit risk reserve		920,039	420,430	920,039	420,430
Fair value reserve	37	(281,893)	(2,099,651)	(315,728)	(2,086,380)
General reserve		26,598	26,598	-	-
Total equity		30,043,742	24,632,928	27,950,526	23,539,650
Total equity and liabilities		144,810,037	134,505,250	141,501,349	131,794,965

Signed on behalf of the Board of Directors on 10 March 2020 by:

Bello Maccido
Chairman
FRC/2013/CISN/00000002366

Kayode Akinkugbe
Managing Director/CEO
FRC/2013/IODN/00000003063

Emily Atebe
Chief Financial Officer
FRC/2013/ICAN/00000003197

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

Group								
In thousands of Nigerian Naira	Share capital	Share premium	Fair value reserve	Retained earnings	Statutory reserves	Credit risk reserve	General reserve	Total equity
Balance at 1 January 2019	**4,301,577**	**3,904,731**	**(2,099,651)**	**10,596,377**	**7,482,866**	**420,430**	**26,598**	**24,632,928**
Profit for the year	-	-	-	3,593,057	-	-	-	3,593,057
Other comprehensive income								
Fair value movement on financial asset at FVOCI	-	-	1,817,759	-	-	-	-	1,817,759
Total comprehensive income on financial assets	-	-	1,817,759	3,593,057	-	-	-	5,410,815
Transfers during the period	-	-	-	(895,643)	396,034	499,609	-	-
At 31 December 2019	**4,301,577**	**3,904,731**	**(281,893)**	**13,293,791**	**7,878,899**	**920,039**	**26,598**	**30,043,742**
As at 31 December 2017 (IAS 39)	4,301,577	3,904,731	(414,564)	10,369,345	7,174,165	1,809,688	26,598	27,171,540
Increase in impairment due to adoption of IFRS 9:								
- Other assets	-	-	-	(1,602,770)	-	-	-	(1,602,770)
- Loans and advances to customers	-	-	-	(882,567)	-	-	-	(882,567)
Transfer between reserves	-	-	-	1,809,688	-	(1,809,688)	-	-
Restated total equity as at 1 January 2018 (IFRS 9)	4,301,577	3,904,731	(414,564)	9,693,696	7,174,165	-	26,598	24,686,202
Profit for the year	-	-	-	2,317,680	-	-	-	2,317,680
Other comprehensive income			(1,663,954)					(1,663,954)
Total comprehensive income on financial assets	-	-	(1,663,954)	2,317,680	-	-	-	653,727
Dividend payable	-	-	-	(707,000)	-	-	-	(707,000)
Transfers during the period	-	-	(21,133)	(707,998)	308,701	420,430	-	-
At 31 December 2018	4,301,577	3,904,731	(2,099,651)	10,596,377	7,482,866	420,430	26,598	24,632,928

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

Bank							
In thousands of Nigerian Naira	Share capital	Share premium	Fair value reserve	Retained earnings	Statutory reserves	Credit risk reserve	Total equity
Balance at 1 January 2019	4,301,577	3,904,731	(2,086,380)	9,516,426	7,482,865	420,430	23,539,650
Profit for the year	-	-	-	2,640,224	-	-	2,640,224
Other comprehensive income							
Fair value movement or gain on FVOCI	-	-	1,770,651	-	-	-	1,770,651
Total comprehensive income on financial assets	-	-	1,770,651	2,640,224	-	-	4,410,876
Transfers during the period	-	-	-	(895,643)	396,034	499,609	-
At 31 December 2019	4,301,577	3,904,731	(315,728)	11,261,008	7,878,899	920,039	27,950,526
As at 31 December 2017 (IAS 39)	4,301,577	3,904,731	(420,731)	9,570,194	7,174,165	1,809,688	26,339,624
Increase in impairment due to adoption of IFRS 9:							
- Other assets	-	-	-	(1,602,770)	-	-	(1,602,770)
- Loans and advances to customers	-	-	-	(882,567)	-	-	(882,567)
Transfer between reserves	-	-	-	1,809,688	-	(1,809,688)	-
Restated total equity a at 1 January 2018 (IFRS 9)	4,301,577	3,904,731	(420,731)	8,894,545	7,174,165	-	23,854,287
Profit for the year	-	-	-	2,058,012	-	-	2,058,012
Other comprehensive income							-
Fair value movement on financial asset at FVOCI	-	-	(1,665,648)	-	-	-	(1,665,648)
Total comprehensive income on financial assets	-	-	(1,665,648)	2,058,012	-	-	392,364
Dividend Payable	-	-	-	(707,000)	-	-	(707,000)
Transfers during the period	-	-	-	(729,131)	308,701	420,430	-
At 31 December 2018	4,301,577	3,904,731	(2,086,380)	9,516,426	7,482,866	420,430	23,539,650

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

		Group		Bank	
In thousands of Nigerian Naira	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Operating activities					
Cash generated from operations	38	**(22,458,244)**	19,898,595	**(23,153,525)**	16,012,862
Interest received		**13,758,928**	16,630,156	**13,415,058**	17,178,231
Interest paid		**(10,842,547)**	(12,272,378)	**(10,842,547)**	(11,809,512)
Income tax paid	15b	**(610,078)**	(2,184,343)	**(168,402)**	(1,578,999)
Net cash generated from operating activities		**(20,151,941)**	22,072,032	**(20,749,416)**	19,802,582
Investing activities					
Proceeds from redemption of investment securities		**26,255,083**	25,742,497	**26,791,964**	25,742,497
Net purchase of investment securities		**(12,145,157)**	(25,605,537)	**(12,145,157)**	(25,605,537)
Purchase of property and equipment	28	**(174,408)**	(475,104)	**(131,231)**	(447,241)
Proceeds from sale of property and equipment		**51,031**	32,078	**25,152**	32,480
Purchase of intangible asset	29	**(170,051)**	(276,582)	**(149,319)**	(219,617)
Net cash generated from investing activities		**13,816,498**	(582,648)	**14,391,409**	(497,418)
Cash flow from financing activities					
Dividend paid		**-**	(9,407,000)	**-**	(9,407,000)
Net cash flow from financing activities		**-**	(9,407,000)	**-**	(9,407,000)
Increase/(decrease) in cash and cash equivalents		**(6,335,443)**	12,082,384	**(6,358,007)**	9,898,164
Cash and cash equivalents at beginning of year		**33,248,696**	20,498,235	**30,131,977**	19,565,736
Effect of exchange rate fluctuations on cash held		**323,210**	668,077	**323,210**	668,077
Cash and cash equivalents at 31 December	19	**27,236,463**	33,248,696	**24,097,180**	30,131,977

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 General information

Reporting entity

These financial statements are the consolidated financial statements of FBNQuest Merchant Bank Limited "the Bank", and its subsidiaries (hereafter referred to as "the Group"). FBNQuest Merchant Bank Limited (formerly called Kakawa Discount House Limited) was initially incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability company on 14 February 1995. It was granted a license on 31 October 1995 to carry on the business of a discount house and commenced operations on 16 November 1995. The Central Bank of Nigeria (CBN) license for merchant banking was obtained in May 2015 while merchant banking operations commenced on 2 November 2015.

The principal activity of the Group is provision of treasury management services, trading in and holding of Federal Government of Nigeria (FGN) bonds and other money market activities, dealing in and provision of foreign exchange services, financial consultancy and advisory services, act as issuing house or otherwise manage, arrange or coordinate the issuance of securities, porfolio management and provision of finance and credit facilities to non-retail customers.

FBNQuest Merchant Bank is a limited liability company incorporated and domiciled in Nigeria. It is a subsidiary of FBN Holdings Plc. The address of its registered office is as follows:

10 Keffi street
Ikoyi
Lagos

The financial statements for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 10 March 2020.

2 Basis of preparation

The consolidated and separate financial statements have been prepared in accordance with the going concern principle under the historical cost convention. The financial statements are presented in Nigerian currency (Naira) and rounded to the nearest thousand.

The financial statements comprise the consolidated statement of comprehensive income, consolidated statement of financial position, the consolidated statement of changes in equity, consolidated statement of cash flows and the related notes for the Bank and the Group.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Directors to exercise judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. The assumptions and accounting estimates used for the year ended 31 December 2019 are consistent with the assumptions and estimates in the financial statements of the prior year.

The Consolidated statement of financial position is arranged in order of liquidity .

The Directors believe that the underlying assumptions are appropriate and that the Group's consolidated financial statements therefore present the financial position and results fairly.

3 Significant accounting policies

3.1 Basis of measurement

These financial statements have been prepared on a historical cost basis, except for the following:

- Derivative financial instruments which are measured at fair value.
- Financial assets measured at fair value through profit or loss.
- Financial assets held to maturity which are measured at amortised cost.
- Loans and receivables which are measured at amortised cost.
- Financial liabilities which are measured at amortised cost.
- Financial instruments measured at fair value through other comprehensive income.

3.2 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Nigerian Naira (N) which is the Bank's functional currency and the Group's presentation currency.

3.3 Use of estimates and judgements

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, incomes and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements, about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. There were no material changes in Management's estimates during the period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3.4 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has rights to variable returns from its involvement in an entity and has the ability to affect those returns through its power over the entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. Subsidiaries are fully consolidated from the date in which control is transferred to the Group. They are deconsolidated from the date control ceases.

The accounting policies of subsidiaries have been changed, where necessary, to align with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests.

In the separate financial statements, investments in subsidiaries are carried at cost less impairment.

(b) Business combinations

Business combinations are accounted for using the acquisition method.

The Group measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the amount of any non-controlling interest in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree;
- less the net amount of the identifiable assets acquired and liabilities assumed (generally fair value).

When this total is negative, a bargain purchase gain is recognised in the income statement.

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity 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.

If the business combination is achieved in stages, the acquisition date carrying value of any previously held equity interest in the acquiree is re-measured to fair value at the acquisition date and any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(c) 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 profit or loss. 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 profit or loss.

(d) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains or losses or incomes and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.5 Foreign currency

Foreign currency transactions

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, as well as unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognised in the income statement.

Unrealised exchange differences on non-monetary financial assets are a component of the change in their entire fair value. For non-monetary financial assets measured at fair value through profit or loss, unrealised exchange differences are recognised in profit or loss. For non-monetary financial assets measured at fair value through other comprehensive income, unrealised exchange differences are recorded in other comprehensive income until the asset is sold or becomes impaired.

3.6 Interest income and interest expense

Interest income and expense for all interest bearing financial instruments, except for those classified at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the statement of comprehensive income 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, a shorter period) to the net carrying amount of the financial asset or liability.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

3.7 Fees and commissions income and expenses

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. Other fees and commission income, including account servicing fees, investment management and other fiduciary activity fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

3.8 Net trading and foreign exchange income

Net trading income and foreign exchange income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences. Net gains or losses on derivative financial instruments measured at fair value through profit or loss are also included in net trading income.

3.9 Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of other operating income and recognised gross of the associated withholding tax. The withholding tax expense is included as a component of taxation charge for the relevant period.

3.10 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax liability is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the forseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

3.11 Cash and bank balances

Cash and bank balances include notes and coins on hand, current balances with other banks, balances held with central banks and placements with banks which are used by the Group in the management of its short-term commitments.

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

Cash and bank balances are carried at amortised cost in the statement of financial position.

3.12 Trading assets

Trading assets are those assets that the Group acquires principally for the purpose of selling in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets are measured at fair value with changes in fair value recognised as part of net trading and foreign exchange income in profit or loss.

3.13 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

quoted market prices in active markets, including recent market transactions, and valuation techniques. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

3.14 Property and equipment

(a) Recognition and measurement

Items of property and equipment are carried at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(b) Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(c) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held-for-sale in accordance with IFRS 5 Non-current assets-held-for-sale and discontinued operations.

The estimated useful lives for the current and comparative period are as follows:

Land	Not depreciated
Freehold buildings	50 years
Leasehold improvements	Over the shorter of the useful life of item or the lease period
Motor vehicles	4 years
Furniture and fittings	5 years
Computer equipment	3 years
Office equipment	5 years
Work in progress	Not depreciated

Work in progress represents costs incurred on assets that are not available for use. On becoming available for use, the related amounts are transferred to the appropriate category of property and equipment.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates.

(d) De-recognition

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

3.15 Intangible assets

(a) Goodwill

Goodwill represents the excess of consideration over the Group's interest in net fair value of net identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries at the date of acquisition. When the excess is negative, it is recognised immediately in profit or loss. Goodwill is measured at cost less accumulated impairment losses.

Subsequent measurement

Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is tested annually as well as whenever a trigger event has been observed for impairment by comparing the present value of the expected future cashflows from a cash generating unit with the carrying value of its net assets, including attributable goodwill. Impairment losses on goodwill are not reversed.

(b) Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life not exceeding five years, from the date that it is available for use. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates.

3.16 Impairment of non-financial assets

The Group 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 Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where 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 to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group 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 exceeds 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. Impairment losses relating to goodwill are not reversed in future periods.

3.17 Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in the relevant assets depending on the nature and the Group's intention in respect of recovery of these assets; and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the acquisition method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

3.18 Deposits and debt securities issued

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Debt securities issued are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.

3.19 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3.20 Financial guarantee contracts

Financial guarantee contracts are contracts that require the Group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, which is the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the expected credit loss provision and the unamortised premium. Financial guarantees are included within other liabilities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

3.21 Employee benefits

Post-employment benefits

Defined contribution plans

The Group operates defined contribution pension scheme. A defined contribution plan is a pension plan under which the Group makes fixed contributions on contractual basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Obligations for contributions to defined contribution plans are recognised as an expense in profit or loss when they are due.

Termination benefits

The Group recognises termination benefits as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. The Group settles termination benefits within twelve months and are accounted for as short-term benefits.

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 Group 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.

3.22 Share capital and reserves

(a) Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(b) Dividend on ordinary shares

Dividends on the Group's ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the Group's shareholders.

(c) Treasury shares

Where the Group or any member of the Group purchases the Group's shares, the consideration paid is deducted from the shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

3.23 Earnings per share

The Group presents basic earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.24 Fiduciary activities

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

3.25 Stock of consumables

Stock of consumables comprise materials to be consumed in the process of rendering of services as well as banking accessories held for subsequent issuance to customers. They are measured at the lower of cost and net realisable value. Cost comprises costs of purchase and other costs incurred in bringing the items of stock to their present location and condition. Net realisable value is the estimated issuance price. When items of stock are issued to customers, their carrying amount is recognised as an expense in the period in which the related revenue is recognised.

3.26 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Chief Executive Officer of the Group, being the chief operating decision maker, to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. All costs that are directly traceable to the operating segments are allocated to the segment concerned, while indirect costs are allocated based on the benefits derived from such cost.

3.27 IFRS 9: Financial instruments

a. Classification and measurement of financial assets

Financial assets, which include both debt and equity securities are measured at initial recognition at fair value, and are classified and subsequently measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortised cost. Subsequent classification and measurement for debt securities is based on our business model for managing the financial instruments and the contractual cash flow characteristics of the instruments.

Debt instruments are measured at amortised cost if both of the following conditions are met and the asset is not designated as FVTPL: (a) the asset is held within a business model that is Held-to-Collect (HTC) as described below, and (b) the contractual terms of the instrument give rise to cash flows that are solely

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payments of principal and interest on the principal amount outstanding (SPPI).

Debt instruments are measured at FVOCI if both of the following conditions are met and the asset is not designated as FVTPL: (a) the asset is held within a business model that is Held-to-Collect-and-Sell (HTC&S) as described below, and (b) the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI.

All other debt instruments are measured at FVTPL.

The Group has irrevocably elected to measure equity instruments at FVOCI as no equity instrument is held-for-trading purposes.

b. Business model assessment

The Group determines the business models as the level that best reflects how portfolios of financial assets are managed to achieve the Group's business objectives. Judgement is used in determining the business models, which is supported by relevant, objective evidence including:

- How the economic activities of our businesses generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;

- The significant risks affecting the performance of our businesses, for example, market risk, credit risk, or other risks and the activities undertaken to manage those risks; and

- Historical and future expectations of sales of the loans or securities portfolios managed as part of a business model.

The Group's business models fall into three categories, which are indicative of the key strategies used to generate returns:

Hold-to-Collect (HTC): The objective of this business model is to hold loans and securities to collect contractual principal and interest cash flows. Sales are incidental to this objective and are expected to be insignificant or infrequent.

· Hold-to-Collect-and-Sell (HTC&S): Both collecting contractual cash flows and sales are integral to achieving the objective of the business model.

· Other fair value business models: These business models are neither HTC nor HTC&S, and primarily represent business models where assets are held-for-trading or managed on a fair value basis.

c. SPPI assessment

Instruments held within a HTC or HTC&S business model are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest. SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments from lending and financing arrangements, and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

d. Investment securities

Investment securities include all securities classified as FVOCI and amortised cost. All investment securities are initially recorded at fair value and subsequently measured according to the respective classification. Prior to our adoption of IFRS 9, Investment securities were comprised of available-for-sale securities and held-to-maturity securities.

Investment securities carried at amortised cost are measured using the effective interest method, and are presented net of any allowance for credit losses, calculated in accordance with our policy for allowance for credit losses, as described below. Interest income, including the amortisation of premiums and discounts on securities measured at amortised cost are recorded in interest income. Impairment gains or losses recognised on amortised cost securities are recorded in Allowance for credit losses. When a debt instrument measured at amortised cost is sold, the difference between the sale proceeds and the amortised cost of the security at the time of the sale is recorded as a net gain/(loss) on Investment securities in Net trading and foreign exchange income.

Debt securities carried at FVOCI are measured at fair value with unrealised gains and losses arising from changes in fair value included in fair value reserve. Impairment gains and losses are included in allowance for credit losses and correspondingly reduce the accumulated changes in fair value included in fair value reserve. When a debt instrument measured at FVOCI is sold, the cumulative gain or loss is reclassified from fair value reserve to net gain/(loss) on Investment securities in net trading and foreign exchange income.

Equity securities carried at FVOCI are measured at fair value. Unrealised gains and losses arising from changes in fair value are recorded in fair value reserve and not subsequently reclassified to profit or loss when realized. Dividends from FVOCI equity securities are recognised in other operating income

The Group accounts for all securities using settlement date accounting and changes in fair value between the trade date and settlement date are reflected in income for securities measured at FVTPL, and changes in the fair value of securities measured at FVOCI between the trade and settlement dates are recorded in OCI except for changes in foreign exchange rates on debt securities, which are recorded in net trading and foreign exchange income.

e. Fair value option

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred

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principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognising related gains and losses on a different basis (an "accounting mismatch"). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category while they are held or issued.

Financial assets designated as FVTPL are recorded at fair value and any unrealised gains or losses arising due to changes in fair value are included in net trading and foreign exchange income, depending on our business purpose for holding the financial asset.

Financial liabilities designated as FVTPL are recorded at fair value and fair value changes attributable to changes in our own credit risk are recorded in OCI. Own credit risk amounts recognised in OCI are not reclassified subsequently to net income. The remaining fair value changes not attributable to changes in our own credit risk are recorded in Other operating income, depending on our business purpose for holding the financial liability. Upon initial recognition, if we determine that presenting the effects of own credit risk changes in OCI would create or enlarge an accounting mismatch in net income, the full fair value change in our debt designated as at FVTPL is recognised in net income. To make that determination, we assess whether we expect that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. Such an expectation is based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument.

The determination is made at initial recognition and is not reassessed. To determine the fair value adjustments on our debt instruments designated as at FVTPL, we calculate the present value of the instruments based on the contractual cash flows over the term of the arrangement by using our effective funding rate at the beginning and end of the period.

Financial assets are reclassified when and only when the business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occured during the period.

f. Loans

Loans are debt instruments recognised initially at fair value and are subsequently measured in accordance with the classification of financial assets policy provided above. Loans are carried at amortised cost using the effective interest method, which represents the gross carrying amount less allowance for credit losses.

Interest on loans is recognised in interest income using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Also included in this amount are transaction costs and all other premiums or discounts. Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognised as Interest income over the expected term of such loans using the effective interest method. Where there is a reasonable expectation that a loan will be originated, commitment and standby fees are also recognised as interest income over the expected term of the resulting loans using the effective interest method. Otherwise, such fees are recorded as other liabilities and amortised into Other operating income over the commitment or standby period.

Impairment losses on loans are recognised at each balance sheet date in accordance with the three-stage impairment model outlined below:

g. Allowance for credit losses

An allowance for credit losses (ACL) is established for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI, which are not subject to impairment assessment. Assets subject to impairment assessment include loans, overdrafts, debt securities and accrued interest receivable. These are carried at amortised cost and presented net of ACL on the Consolidated Statement of Financial Position. ACL on loans is presented in Allowance for credit losses - loans and advances. ACL on debt securities measured at FVOCI is presented in Fair value reserve in equity.

Off-balance sheet items subject to impairment assessment include financial guarantees and undrawn loan commitments. For all other off-balance sheet products subject to impairment assessment, ACL is separately calculated and included in Other Liabilities – Provisions.

We measure the ACL at each reporting date according to a three-stage expected credit loss impairment model which is based on changes in credit risk of financial assets since initial recognition:
1) Performing financial assets:

- Stage 1 – From initial recognition of a financial asset to the reporting date, where the asset has not experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date. Interest income is calculated on the gross carrying amount of these financial assets.

- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset. Interest income is

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calculated on the gross carrying amount of these financial assets.

2) Impaired financial assets

- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance is recognised equal to credit losses expected over the remaining lifetime of the asset. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

The ACL is a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period. For financial guarantees, credit loss estimates are based on the expected payments required under the guarantee contract.

Increases or decreases in the required ACL attributable to purchases and new originations, derecognitions or maturities, and remeasurements due to changes in loss expectations or stage migrations are recorded in Provision for credit losses. Write-offs and recoveries of amounts previously written off are recorded against ACL.

The ACL represents an unbiased estimate of expected credit losses on our financial assets as at the balance sheet date. Judgment is required in making assumptions and estimations when calculating the ACL, including movements between the three stages and the application of forward looking information. The underlying assumptions and estimates may result in changes to the provisions from period to period that significantly affect our results of operations.

h. Measurement of expected credit losses

Expected credit losses are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument.

An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modeled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information.
Expected credit losses are discounted to the reporting period date using the effective interest rate.

i. Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) we have the contractual ability to demand repayment and cancel the undrawn commitment; and (c) our exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgement.

j. Assessment of significant increase in credit risk

The assessment of significant increase in credit risk requires significant judgment. The Bank's process to assess changes in credit risk is multifactor and has three main categories:

- Primary Indicators: this incorporates a quantitative element;
- Secondary Indicators (qualitative element);
- 'backstop' indicators.

i) Primary indicators: The quantitative element is the primary indicator of significant increases in credit risk, with the qualitative element playing a secondary role. The quantitative element is calculated based on:

a) the change in lifetime PDs by comparing:

- the remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

PD multiple and PD delta shall be considered based on the portfolio buckets. Justification shall also be provided for the use of either approach when applied.

b) Movement along the rating grades:

- the rating as at the reporting date; with
- the rating that was assigned at the time of initial recognition of the exposure:

The following shall indicate a significant increase in credit risk:

- For investment grade – Two rating grade movement within investment grade and one grade out of investment grade.
- For speculative grade – one rating grade movement.

ii) Secondary indicators: In general, qualitative factors that are indicative of an increase in credit risk are reflected in PD models on a timely basis and thus are included in the quantitative assessment

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and not in a separate qualitative assessment. However, if it is not possible to include all current information about such qualitative factors in the quantitative assessment, they are considered separately in a qualitative assessment as to whether there has been a significant increase in credit risk. If there are qualitative factors that indicate an increase in credit risk that have not been included in the calculation of PDs used in the quantitative assessment, the Bank recalibrates the PD or otherwise adjusts its estimate when calculating ECLs.

Regardless however, the Bank shall consider the following as evidence of significant increase in credit risk:

- Putting the loan on watch list status;
- Classification of the exposure by any of the licensed private credit bureaux or the credit risk management system;
- Deterioration of relevant credit risk drivers for an individual obligor (or pool of obligors);
- Expectations of forbearance or restructuring due to financial difficulties;
- Evidence that full repayment of principal or interest without realisation of collateral is unlikely, regardless of the number of days past due;
- Deterioration of credit worthiness due to factors other than those listed above.

iii) 'Backstop' indicators: Instruments which are more than 30 days past due may be credit-impaired. There is a rebuttable presumption that the credit risk has increased significantly if contractual payments are more than 30 days past due; this presumption shall be applied unless the Bank has reasonable and supportable information demonstrating that the credit risk has not increased significantly since initial recognition.

The following shall be considered as exception:

- Outstanding obligation is a result of an amount being disputed between the Bank and obligor where the dispute is not more than 90 days.

- Outstanding obligation is an insignificant amount compared to the total amount due. Any amount not more than 10% shall be considered insignificant. Only applicable where there is no significant increase in credit risk and analysed on a case by case basis.

The assessment is generally performed at the instrument level and it is performed at least on quartlerly basis. If any of the factors above indicate that a significant increase in credit risk has occurred, the instrument is moved from Stage 1 to Stage 2. The assessments for significant increases in credit risk since initial recognition and credit-impairment are performed independently as at each reporting period. Assets can move in both directions through the stages of the impairment model. After a financial asset has migrated to Stage 2, if it is no longer considered that credit risk has significantly increased relative to initial recognition in a subsequent reporting period, it will move back to Stage 1 after 90 days. Similarly, an asset that is in Stage 3 will move back to Stage 2 if it is no longer considered to be credit-impaired after 90 days. An asset shall not move back from stage 3 to stage 1 until after a minimum of 180 days, if it is no longer considered to be credit impaired. This is in line with Central Bank of Nigeria (CBN) IFRS 9 guidelines.
For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default, and the borrower has the ability to fulfill their contractual obligations both in the near term and in the longer term, including periods of adverse changes in the economic or business environment.

k. Definition of default

A default is considered to have occurred with regard to a particular obligor when either or both of the following events have taken place.

- The Bank considers that the obligor is unlikely to pay its credit obligations in full, without recourse by the Bank to actions such as realising security (if held).

- The obligor is past due more than 90 days on any material credit obligation to the Bank (principal or interest). Overdrafts will be considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than current outstanding.

- Interest payments equal to 90 days or more have been capitalized, rescheduled, rolled over into a new loan (except where facilities have been reclassified)

The elements to be taken as indications of unlikeliness to pay include:

- The Bank sells the credit obligation at a material credit-related economic loss.

- The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or (where relevant) fees.

- The Bank has filed for the obligor's bankruptcy or a similar order in respect of the obligor's credit obligation to the banking group.

The following shall be considered as exception:
a. Outstanding obligation is a result of an amount being disputed between the Bank and obligor where the dispute is not more than 150 days.

b. In the case of specialised loans, default shall be defined as where the obligor is past due more than 180 days on any material credit obligation to the Bank (principal or interest). This is consistent with CBN guidelines on IFRS 9. In addition, it is consistent with the Bank's historical default pattern on this category of loans. The specialised loans to which this shall be applicable are Project Financing, Object Financing, Income Producing Real Estate, Commercial Real Estate and Mortgage Loans.

c. Outstanding obligation is an insignificant amount compared to the total amount due. Any amount not more than 10% of amount due shall be considered insignificant. Only applicable where there is no significant increase in credit risk and analysed on a case by case basis.

d. Exposure is still in default due to a new debit when the initial debit has been

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cleared. Usually occurs when the debit that initiated the initial days past due has been paid but the days past due continues to reflect a debit.

l. Credit-impaired financial assets (Stage 3)

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. For impaired financial assets with drawn and undrawn components, expected credit losses also reflect any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument. When a financial asset is credit-impaired, interest ceases to be recognised on the regular accrual basis, which accrues income based on the gross carrying amount of the asset. Rather, interest income is calculated by applying the original effective interest rate to the amortised cost of the asset, which is the gross carrying amount less the related ACL.

Following impairment, interest income is recognised on the unwinding of the discount from the initial recognition of impairment. ACL for credit-impaired loans in Stage 3 are established at the borrower level, where losses related to impaired loans are identified on individually significant loans, or collectively assessed and determined through the use of portfolio-based rates, without reference to particular loans.

m. Individually assessed loans (Stage 3)

When individually significant loans are identified as impaired, we reduce the carrying value of the loans to their estimated realizable value by recording an individually assessed ACL to cover identified credit losses. The individually assessed ACL reflects the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and the impact of time delays in collecting principal and/or interest (time value of money). The estimated realisable value for each individually significant loan is the present value of expected future cash flows discounted using the original effective interest rate for each loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realisable amount may be determined using observable market prices for comparable loans, the fair value of collateral underlying the loans, and other reasonable and supported methods based on management judgement.

Individually-assessed allowances are established in consideration of a range of possible outcomes, which may include macroeconomic or non-macroeconomic scenarios, to the extent relevant to the circumstances of the specific borrower being assessed. Assumptions used in estimating expected future cash flows reflect current and expected future economic conditions and are generally consistent with those used in Stage 1 and Stage 2 measurement.

Significant judgement is required in assessing evidence of credit-impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the Provision for credit losses and may result in a change in the ACL.

n. Write-off of loans

Loans and the related ACL are written-off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, they are generally written-off after receipt of any proceeds from the realisation of collateral. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier.

o. Modifications

The credit risk of a financial asset will not necessarily decrease merely as a result of a modification of the contractual cash flows. If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, the Bank shall assess whether there has been a significant increase in the credit risk of the financial by comparing:

(1) the risk of a default occurring at the reporting date (based on the modified contractual terms); and

(2) the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

A modification shall however lead to derecognition of existing loan and recognition of a new loan 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.

The following shall be applicable to modified financial assets:

- The modification of a distressed asset shall be treated as an originated credit-impaired asset requiring recognition of life-time ECL after modification.
- The cumulative changes in lifetime expected credit losses since initial recognition shall be recognised as a loss allowance for purchase or originated credit-impaired financial asset at the reporting date.
- The general impairment model does not apply to purchased or originated credit-impaired assets.

The following situations (qualitative) may however not lead to a derecognition of the loan:

- Change in interest rate arising from a change in MPR which is the benchmark rate that drives borrowing rates in Nigeria;
- Change in financial asset's tenor (increase or decrease);
- Change in installment amount to higher or lower amount;

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- Change in the annuity repayment pattern, for example, from monthly to quarterly, half-yearly or yearly; and
- Change in the applicable financial asset fee.

Modification gain or loss shall be included as part of allowance for credit loss for each financial year.

p. Classification and measurement of financial liabilities

The Group recognises financial liabilities when it first becomes a party to the contractual rights and obligations in the relevant contracts.

Under IFRS 9, financial liabilities are either classified as financial liabilities at amortised cost or financial liabilities at FVTPL.

The Group classifies its financial liabilities as measured at amortised cost, except for:

i. Financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held-for-trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses from financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the Group's own credit risk, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the Group's credit risk are also presented in profit or loss;

ii. Financial guarantee contracts and commitments.

Borrowings and surbodinated liabilities are included as part of financial liabilities measured at amortised cost.

q. Embedded derivatives

As stated in Note 3.13, when derivatives are embedded in other financial instruments or host contracts, such combinations are known as hybrid instruments. Some of the cash flows of a hybrid instrument vary in a way similar to a stand-alone derivative. If the host contract is a financial asset within the scope of IFRS 9, the classification and measurement criteria are applied to the entire hybrid instrument as described in the section on classification and measurement of financial assets. If the host contract is a financial liability or an asset that is not within the scope of IFRS 9, embedded derivatives are separately recognised if the economic characteristics and risks of the embedded derivative are not clearly and closely related to the host contract, unless an election has been made to elect the fair value option. The host contract is accounted for in accordance with the relevant standards. When derivatives are used in trading activities, the realised and unrealised gains and losses on these derivatives are recognised in Net trading and foreign exchange income. Derivatives with positive fair values are presented as derivative assets and derivatives with negative fair values are reported as derivative liabilities. Valuation adjustments are included in the fair value of derivative assets and derivative liabilities. Premiums paid and premiums received are part of derivative assets and derivative liabilities, respectively.

3.28 New and amended standards adopted by the Group

Except for the following new standards, the Group has consistently applied the accounting policies as set out in Notes 3.1 - 3.27 to all periods presented in these consolidated and separate financial statements.

The Group has adopted the following new standards with initial date of application of January 1, 2019.

(i) IFRS 16: Leases

FBNQuest Merchant 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 disclosed in Note 45. FBNQuest Merchant Bank has applied IFRS 16 using the modified restropective approach explained in Note 45.

Leases - Accounting policy from 1 January 2019

At inception of a contract, the Group 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 Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group 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 Group has the right to direct the use of the asset if either:

- the Group has the right to operate the asset; or
- the Group 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.

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The Group primarily leases buildings for use as office space and car parks. Lease terms are negotiated on an individual basis and contain different terms and conditions, including extension and termination options. The lease terms range from 1 year to 5 years. On renewal of a lease, the terms may be renegotiated. The lease agreements do not impose any covenants, however, leased assets may not be used as security for borrowing purposes.

Contracts may contain both lease and non-lease components. The Bank has elected not to separate lease and non-lease components and and instead accounts for these as a single lease component.

Until the 2018 financial year, leases of property were classified as either finance or operating leases. 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.

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 Company. 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 the commencement date of a lease, the Group 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 payments that are based on an index or a rate;
- amounts expected to be payable by FBNQuest Merchant 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 FBNQuest Merchant 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 expenses in the period in which the event or condition that triggers the payment occurs.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the lessee 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. To determine the incremental borrowing rate, the Group uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by FBNQuest Merchant Bank and makes adjustments specific to the lease.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced by the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset where applicable.

Right of use assets

Right-of-use assets are initially measured at cost, comprising of 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 Group 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 assets

Short-term leases are those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Low-value assets are assets that have values less than $5,000 when new, e.g., small IT equipment and small items of office furniture, and depends on the nature of the asset. Lease payments on short-term leases and leases of low-value assets would be recognised as expenses in profit or loss on a straight-line basis over the lease term. The Group has no short-term or low value leases as at the reporting date.

Extension and termination options

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

Critical judgements

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).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).

- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).

- Otherwise, the Group 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 FBNQuest Merchant 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 Group.

3.29 Changes in accounting policies

i Impact of adoption of IFRS 16

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

The Group 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 Group 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.

- 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 Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics.

Impact on the financial statements

On adoption of IFRS 16, the Group 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 Group's incremental borrowing rate as of 1 January 2019. The incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 12.78%.

The Group had no leases previously classified as finance leases.

The following table summarises the impact of the transition to IFRS 16 on the statement of financial position as at 1 January 2019 for each affected individual line item. Line items that were not affected by the changes have not been included. The adoption of IFRS 16 had a nil impact on opening equity as at 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3.29 Changes in accounting policies continued

i Impact of adoption of IFRS 16 continued

	As at 31 December 2018	Impact of IFRS 16		As at 1 Jan 2019
		Reclassification	Remeasurement	
	₦'000	₦'000	₦'000	₦'000
Assets				
Right-of-use assets	-	211,693	102,330	**314,023**
Prepayment	211,693	(211,693)	-	**-**
Liabilities				
Non-current				
Lease liabilities	-	-	42,670	**42,670**
Current				
Lease liabilities	-	-	59,660	**59,660**

i) Reconciliation of lease liabilities as at 1 January 2019	
	1 Jan 2019 ₦'000
Operating lease commitments disclosed as at 31 December 2018	-
Add: adjustments as a result of a different treatment of extension and termination options	102,330
Lease liabilities recognised as at 1 January 2019	102,330

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 statement of financial position 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 leases for office space and car parks.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4.3 Financial risk management report cont'd

4.3a Financial risk factors

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), liquidity and credit risk.

The financial statements as at 31 December 2019 do not include all financial risk management information and disclosures required in the annual financial statements.

4.3b Market risk

Market risk is the risk that changes in market prices, such as interest rate, security prices and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

4.3c Foreign exchange risk

The Bank is exposed to foreign exchange risks due to fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2019. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Group						
31 December 2019						
In thousands of Nigerian Naira	Carrying amount	Naira	USD	GBP	EUR	Total
Financial assets						
Cash and balances with Central Bank of Nigeria	8,302,033	8,302,033				8,302,033
Due from other banks	7,377,521	5,293,684	2,026,990	4,709	52,138	7,377,521
Loans and advances to customers	46,448,173	33,228,234	13,209,205		10,734	46,448,173
Financial assets at FVTPL	2,902,292	2,611,956	290,336			2,902,292
Investment securities						-
- Fair value through OCI	16,684,696	11,575,073	5,109,623			16,684,696
- Amortised cost	2,914,249	2,914,249				2,914,249
Pledged assets	39,382,677	39,382,677				39,382,677
Other assets	8,469,157	8,469,157				8,469,157
Derivative assets	474,757	-	474,757			474,757
	132,955,557	111,777,065	21,110,911	4,709	62,872	132,955,557
Financial liabilities						
Due to banks	27,648,648	21,813,448	5,835,200			27,648,648
Due to customers	75,675,571	67,155,821	8,514,865	4,481	404	75,675,571
Other liabilities	10,090,784	4,646,201	5,380,612	-	63,971	10,090,784
Derivative liabilities	469,389	-	469,389			469,389
	113,884,391	93,615,470	20,200,066	4,481	64,375	113,884,391
Commitments and guarantees						
- Performance bonds and guarantees	3,642,420	3,642,420				3,642,420
- Letters of credits	10,310,436	-	10,154,920		155,516	10,310,436
	13,952,856	3,642,420	10,154,920	-	155,516	13,952,856

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4.3 Financial risk management report cont'd

4.3c Foreign exchange risk continued

Bank

31 December 2019

In thousands of Nigerian Naira	Carrying amount	Naira	USD	GBP	EUR	Total
Financial assets						
Cash and balances with Central Bank of Nigeria	8,302,033	8,302,033				8,302,033
Due from other banks	4,238,237	2,196,531	1,984,859	4,709	52,138	4,238,237
Loans and advances to customers	46,390,453	33,170,514	13,209,205		10,734	46,390,453
Financial assets at FVTPL	2,517,162	2,477,151	40,011			2,517,162
Investment securities						
- Fair value through OCI	16,026,386	11,267,113	4,759,273			16,026,386
- Amortised cost	2,914,249	2,914,249				2,914,249
Pledged assets	39,382,677	39,382,677				39,382,677
Other assets	8,517,527	8,517,527				8,517,527
Derivative assets	474,757	474,757				474,757
	128,763,482	108,702,553	19,993,348	4,709	62,872	128,763,482
Financial liabilities						
Due to banks	27,648,648	21,813,448	5,835,200			27,648,648
Due to customers	76,021,448	67,473,991	8,542,573	4,481	404	76,021,448
Other liabilities	9,112,503	3,667,920	5,380,612	-	63,971	9,112,503
Derivative liabilities	469,389	469,388.70				469,389
	113,251,988	93,424,747	19,758,385	4,481	64,375	113,251,988
Commitments and guarantees						
- Performance bonds and guarantees	3,642,420	3,642,420				3,642,420
- Letters of credits	10,310,436	-	10,154,920		155,516	10,310,436
	13,952,856	3,642,420	10,154,920	-	155,516	13,952,856

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4.3 Financial risk management report cont'd

4.3c Foreign exchange risk continued

Group 31 December 2018 *In thousands of Nigerian Naira*	Carrying amount	Naira	USD	GBP	EUR	Total
Financial assets						
Cash and balances with Central Bank of Nigeria	4,653,015	4,653,015	-	-	-	4,653,015
Due from other banks	17,337,847	3,448,898	13,457,570	54,421	376,958	17,337,846
Loans and advances to customers	35,413,635	30,788,672	4,624,963	-	-	35,413,636
Financial assets at FVTPL	1,876,368	806,146	1,070,222	-	-	1,876,368
Investment securities						
- Fair value through OCI	33,668,763	33,668,763	-	-	-	33,668,763
- Amortised cost	1,275,653	492,554	783,099	-	-	1,275,653
Pledged assets	21,099,602	21,099,602	-	-	-	21,099,602
Other assets	4,203,707	4,067,306	136,401	-	-	4,203,708
Derivative assets	219,954	-	219,954	-	-	219,954
	119,748,543	99,024,956	20,292,209	54,421	376,958	119,748,544
Financial liabilities						
Due to banks	8,003,945	8,003,945				8,003,945
Due to customers	90,858,472	74,489,497	16,042,057	-	326,918	90,858,473
Other liabilities	10,073,642	8,799,573	1,169,621	54,414	50,034	10,073,643
Derivative liabilities	219,954	-	219,954	-	-	219,954
	109,156,013	91,293,016	17,431,633	54,414	376,952	109,156,015

Bank 31 December 2018 *In thousands of Nigerian Naira*	Carrying amount	Naira	USD	GBP	EUR	Total
Financial assets						
Cash and balances with Central Bank of Nigeria	4,653,015	4,653,015	-	-	-	4,653,015
Due from other banks	14,221,127	328,209	13,788,463	54,421	50,034	14,221,127
Loans and advances to customers	35,342,825	30,718,233	4,624,592	-	-	35,342,825
Financial assets at FVTPL	1,302,217	535,956	766,261	-	-	1,302,217
Investment securities						-
- Fair value through OCI	33,592,365	33,592,365	-	-	-	33,592,365
- Amortised cost	1,275,653	492,554	783,099	-	-	1,275,653
Pledged assets	21,099,602	21,099,602	-	-	-	21,099,602
Other assets	4,574,807	4,538,798	36,009	-	-	4,574,807
Derivative assets	219,954	-	219,954	-	-	219,954
	116,281,565	95,958,733	20,218,378	54,421	50,034	116,281,565
Financial liabilities						
Due to banks	8,003,945	8,003,945	-	-	-	8,003,945
Due to customers	90,977,369	74,608,394	16,042,057	-	326,918	90,977,370
Other liabilities	8,841,693	7,567,624	1,169,621	54,414	50,034	8,841,693
Derivative liabilities	219,954	-	219,954	-	-	219,954
	108,042,961	90,179,963	17,431,633	54,414	376,952	108,042,962

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4.3d Foreign exchange risk sensitivity analysis

As shown in the table above, the Bank is primarily exposed to changes in NGN/US$ exchange rates.

The following table details the Bank's sensitivity to a 10% increase and decrease in Naira against the US dollar. Management believes that a 10% movement in either direction is reasonably possible on the Bank's portfolio. The sensitivity analyses below include outstanding US dollar denominated financial assets and liabilities. A positive number indicates an increase in profit where Naira weakens by 10% against the US dollar. For a 10% strengthening of Naira against the US dollar, there would be an equal and opposite impact on profit.

	Impact on profit			
	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
NGN/US$ exchange rate – increase 10%	**92,620**	286,049	**92,620**	288,742
NGN/US$ exchange rate – decrease 10%	**(92,620)**	(286,049)	**(92,620)**	(288,742)

Fair value measurement of financial instruments

Group

a. Financial instruments not measured at fair value

		31 December 2019		31 December 2018	
In thousands of Nigerian Naira		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash and balances with Central Bank of Nigeria	i	**8,302,033**	**8,302,033**	4,653,015	4,653,015
Due from other banks	ii	**7,377,521**	**7,377,521**	17,337,847	17,337,847
Investment securities:					
- Amortised cost	iii	**2,914,249**	**2,914,249**	1,275,653	1,275,653
Loans and advances to customers	iv	**46,448,173**	**46,448,173**	35,413,635	35,413,635
Other assets	v	**8,469,157**	**8,469,157**	4,203,707	4,203,707
Financial liabilities					
Due to banks	vi	**27,648,648**	**27,648,648**	8,003,945	8,003,945
Due to customers	vii	**75,675,571**	**75,675,571**	90,858,472	90,858,472
Other liabilities	viii	**10,090,784**	**10,090,784**	10,073,642	10,073,642

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4.3d Foreign exchange risk sensitivity analysis continued

Bank

a. Financial instruments not measured at fair value

		31 December 2019		31 December 2018	
In thousands of Nigerian Naira		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash and balances with Central Bank of Nigeria	i	**8,302,033**	**8,302,033**	4,653,015	4,653,015
Due from other banks	ii	**4,238,237**	**4,238,237**	14,221,127	14,221,127
Investment securities:					
-Amortised cost	iii	**2,914,249**	**2,914,249**	1,275,653	1,275,653
Loans and advances to customers	iv	**46,390,453**	**46,390,453**	35,342,825	35,342,825
Other assets	v	**8,517,527**	**8,517,527**	4,574,807	4,574,807
Financial liabilities					
Due to banks	vi	**27,648,648**	**27,648,648**	8,003,945	8,003,945
Due to customers	vii	**76,021,448**	**76,021,448**	90,977,369	90,977,369
Other liabilities	viii	**9,112,503**	**9,112,503**	8,841,694	8,841,694

i Cash and balances with Central Bank of Nigeria (CBN) include cash and deposits with the CBN. The carrying amount of the balances with CBN is a reasonable approximation of the fair value, which is the amount receivable on demand.

ii Due from other banks include balances with other banks within and outside Nigeria, and short-term placements. The carrying amount of the balance is a reasonable approximation of the fair value, which is the amount receivable on demand.

iii Investment securities at amortised cost includes treasury bills and commercial papers. The carrying amount is a reasonable approximation of the fair value.

iv Loans and advances to customers are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows, expected to be received. Expected cash flows are discounted using the effective interest rate to determine fair value as there is no active market.

v Carrying amounts of other assets are a reasonable expectation of their fair values which are payable on demand.

vi The estimated fair value of balances due to other banks is the amount repayable on demand as at 31 December 2019.

vii The estimated fair value of deposits from customers is the amount repayable on demand as at 31 December 2019.

viii Carrying amounts of other liabilities are a reasonable expectation of their fair values which are payable on demand.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4.3d Foreign exchange risk sensitivity analysis continued

Fair value measurement of financial instruments

Group

Fair value hierarchy - financial instruments not measured at fair value

In thousands of Nigerian Naira	Level 1	Level 2	Level 3	Total fair value	Carrying amount
31 December 2019					
Financial assets					
Cash and balances with Central Bank of Nigeria	-	8,302,033	-	8,302,033	8,302,033
Due from other banks	-	-	7,377,521	7,377,521	7,377,521
Loans and advances to customers	-	-	46,448,173	46,448,173	46,448,173
Investment securities					
- Amortised cost	2,914,249	-	-	2,914,249	2,914,249
Other assets	-	-	8,469,157	8,469,157	8,469,157
Financial liabilities					
Due to banks	-	-	27,648,648	27,648,648	27,648,648
Due to customers	-	-	75,675,571	75,675,571	75,675,571
Other liabilities	1,571,637	-	8,519,147	10,090,784	10,090,784

Bank

Fair value hierarchy - financial instruments not measured at fair value

In thousands of Nigerian Naira	Level 1	Level 2	Level 3	Total fair value	Carrying amount
31 December 2019					
Financial assets					
Cash and balances with Central Bank of Nigeria	-	8,302,033	-	8,302,033	8,302,033
Due from other banks	-	-	4,238,237	4,238,237	4,238,237
Loans and advances to customers	-	-	46,390,453	46,390,453	46,390,453
Investment securities					
- Amortised cost	2,914,249	-	-	2,914,249	2,914,249
Other assets	-	-	8,517,527	8,517,527	8,517,527
Financial liabilities					
Due to banks	-	-	27,648,648	27,648,648	27,648,648
Due to customers	-	-	76,021,448	76,021,448	76,021,448
Other liabilities	1,571,637	-	7,235,541	8,807,178	9,112,503

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4.3d Foreign exchange risk sensitivity analysis continued

Fair value measurement of financial instruments

Group

Fair value hierarchy - financial instruments not measured at fair value

In thousands of Nigerian Naira	Level 1	Level 2	Level 3	Total fair value	Carrying amount
31 December 2018					
Financial assets					
Cash and balances with Central Bank of Nigeria	-	4,653,015	-	4,653,015	4,653,015
Due from other banks	-	-	17,337,847	17,337,847	17,337,847
Loans and advances to customers	-	-	35,413,635	35,413,635	35,413,635
Investment securities					
- Amortised cost	1,246,651	-	-	1,246,651	1,275,653
Other assets	-	-	4,203,707	4,203,707	4,203,707
Financial liabilities					
Due to banks	-	-	8,003,945	8,003,945	8,003,945
Due to customers	-	-	90,858,472	90,858,472	90,858,472
Other liabilities	7,423,961	-	2,649,681	10,073,642	10,073,642

Bank

Fair value hierarchy - financial instruments not measured at fair value

In thousands of Nigerian Naira	Level 1	Level 2	Level 3	Total fair value	Carrying amount
31 December 2018					
Financial assets					
Cash and balances with Central Bank of Nigeria	-	4,653,015	-	4,653,015	4,653,015
Due from other banks	-	-	14,221,127	14,221,127	14,221,127
Loans and advances to customers	-	-	35,342,825	35,342,825	35,342,825
Investment securities					
- Amortised cost	1,246,651	-	-	1,246,651	1,275,653
Other assets	-	-	4,574,807	4,574,807	4,574,807
Financial liabilities					
Due to banks	-	-	8,003,945	8,003,945	8,003,945
Due to customers	-	-	90,977,369	90,977,369	90,977,369
Other liabilities	7,423,961	-	1,417,732	8,841,694	8,841,694

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4.3d Foreign exchange risk sensitivity analysis continued

Financial instruments measured at fair value.

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

Level 1
Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2
Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3
Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no movements within levels during the year.

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

Financial instruments in this category relates to unlisted instruments and since quoted market prices are not available, the fair values are estimated based on valuation techniques such as market approach (EV/EBITDA and EV/Revenue) where the adjusted price/earnings multiple of comparable companies is utilised.

Description of valuation methodology and inputs:

The steps involved in estimating the fair value of the Company's unquoted equity investments are as follows:

Step 1: The most appropriate valuation methodology was selected to value each of the unquoted equity investment

Step 2: Comparative multiples were sourced from S & P Capital IQ based on available comparable companies in Sub-Saharan Africa and Emerging Asia and an average multiple was computed.

Step 3: The enterprise value was derived by multiplying the average multiple to the relevant financial metric.

Step 4: Equity value of the firm was derived by deducting the value of the debt of the Company and adding the closing cash balance.

Step 5: A lack of illiquidity discount of 19.2% for equity stake below 24% and 15.7% for equity stake above 24% was applied to the equity value.

Step 6: The equity value was derived by multiplying the Company's equity value by FBN Funds equity stake.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4.3d Foreign exchange risk sensitivity analysis continued

Group

31 December 2019

In thousands of Nigerian Naira	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at FVTPL:				
- Treasury bills	2,404,878	-	-	2,404,878
- Pledged treasury bills	449,453		-	449,453
- Federal Government of Nigeria bonds	6,947	-	-	6,947
- Corporate bonds	105,338	-	-	105,338
- Unlisted equities	315,390	-	-	315,390
- Listed equities	69,740	-	-	69,740
Derivative assets	-	474,757	-	474,757
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivative liability	-	(469,389)	-	(469,389)
Investment securities at FVOCI				-
- Treasury bills	7,460,007	-	-	7,460,007
- Pledged treasury bills and bonds	38,933,224	-	-	38,933,224
- Federal Government of Nigeria bonds	3,349,296	-	-	3,349,296
- State bonds	-	-	-	-
- Corporate bonds	5,109,624	-	-	5,109,624
- Promissory notes	196,821	-	-	196,821
- Listed equities	17,164	-	-	17,164
- Unlisted equities	-	-	551,784	551,784

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4.3d Foreign exchange risk sensitivity analysis continued

Group

31 December 2019

In thousands of Nigerian Naira	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at FVTPL:				
- Treasury bills	2,404,878	-	-	2,404,878
- Pledged treasury bills	449,453	-	-	449,453
- Federal Government of Nigeria bonds	6,947	-	-	6,947
- Corporate bonds	105,337	-	-	105,337
Derivative assets	-	474,757	-	474,757
Liabilities				
Financial liabilities at fair value through profit or loss				
-Derivative liability	-	(469,389)	-	(469,389)
Investment securities at FVOCI				
- Treasury bills	7,460,007	-	-	7,460,007
- Pledged treasury bills and bonds	38,933,224	-	-	38,933,224
- Federal Government of Nigeria bonds	3,349,296	-	-	3,349,296
- Corporate bonds	4,956,094	-	-	4,956,094
- Promissory notes	196,821	-	-	196,821
- Listed equities	-	-	-	-
- Unlisted equities	-	-	260,988	260,988

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4.3d Foreign exchange risk sensitivity analysis continued

Group

31 December 2018

In thousands of Nigerian Naira	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at FVTPL:				
- Treasury bills	476,229	-	-	476,229
- Pledged treasury bills	-	-	-	-
- Federal Government of Nigeria bonds	324,815	-	-	324,815
- Corporate bonds	501,173	-	-	501,173
- Unlisted equities	-	303,961	-	303,961
- Listed equities	270,190	-	-	270,190
Investment securities at FVOCI				-
- Treasury bills	28,500,914	-	-	28,500,914
- Pledged treasury bills and bonds	21,099,602	-	-	21,099,602
- Federal Government of Nigeria bonds	2,239,107	-	-	2,239,107
- State bonds	5,941	-	-	5,941
- Corporate bonds	2,840,565	-	-	2,840,565
- listed equities	3,148	-	-	3,148
- Unlisted equities	-	-	81,665	81,665
Derivative assets	-	219,954	-	219,954
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivative liability	-	219,954	-	219,954

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4.3d Foreign exchange risk sensitivity analysis continued

Bank

31 December 2018

In thousands of Nigerian Naira	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at FVTPL:				
- Treasury bills	476,229	-	-	476,229
- Federal Government of Nigeria bonds	324,815	-	-	324,815
- Corporate bonds	501,173	-	-	501,173
Investment securities at FVOCI				
- Treasury bills	28,448,127	-	-	28,448,127
- Pledged treasury bills and bonds	21,099,602	-	-	21,099,602
- Federal Government of Nigeria bonds	2,239,107	-	-	2,239,107
- State bonds	5,941	-	-	5,941
- Corporate bonds	2,840,565	-	-	2,840,565
- listed equities	-	-	-	-
- Unlisted equities	-	-	58,865	58,865
Derivative assets	-	219,954	-	219,954
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivative liability	-	219,954	-	219,954

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FOR THE YEAR ENDED 31 DECEMBER 2019

4.3d Foreign exchange risk sensitivity analysis continued

(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 Bank is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily investments that are quoted on the Nigerian Stock Exchange (NSE) and Financial Market Dealers Quotation (FMDQ) Plc and on Bloomberg trading platforms which are classified as held for trading (HFT) or Fair value through OCI.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is 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:

- Quoted market prices or dealer quotes for similar instruments;

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;

- 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;

- 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

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cashflow models, comparison with similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rate, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4.3d Foreign exchange risk sensitivity analysis continued

	Group		Bank	
31 December 2019 *In thousands of Nigerian Naira*	Unlisted equities	Total	Unlisted equities	Total
Opening balance	81,666	81,666	58,865	58,865
Gain/(losses) recognised in the profit or loss	470,117	470,117	202,123	202,123
Acquisition	-	-	-	-
Closing balance	551,784	551,784	260,988	260,988
Total gain or losses for the period included in profit or loss for assets held at the end of the reporting period	470,117	470,117	202,123	202,123
31 December 2018				
Opening balance	89,423	89,423	75,838	75,838
Gains/(losses) recognised in the profit or loss	(7,757)	(7,757)	(16,973)	(16,973)
Acquisition	-	-	-	-
Closing balance	81,666	81,666	58,865	58,865
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(7,757)	(7,757)	(16,973)	(16,973)

The fair value of FBNQuest Merchant Bank's unquoted investment in FMDQ OTC was estimated using a market valuation approach. We applied a Price to Earnings multiple using comparable companies in SSA and Middle East.

We applied a Price to Earnings multiple using comparable companies in SSA and Middle East.

A discount for non-marketability of FMDQ OTC's shares of 14.9% was applied. The 14.9% non-marketability discount is based on a survey by PwC (used for FBN Funds' unquoted investments).

Unquoted equity investments held at fair value through OCI relates to ₦45million investment in Financial Markets Dealers Quotation (FMDQ) and ₦66,000 investment in Nigeria Inter-bank Settlement System. The markets where these securities could be traded are not readily ascertained hence the classification within level 3 of the fair value hierarchy.

The Bank has no current plans of disposing these securities.

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FOR THE YEAR ENDED 31 DECEMBER 2019

4.4 Exposure to market risks – Trading portfolios

The principal tools used to measure and control market risk exposure within the Group's trading portfolios are the position and loss limits. Specific limits have been set on overall position, individual security and losses to prevent undue exposure. Risk Management and Control Group ensures that these limits and triggers are adhered to by the Group.

The Group traded in the following financial instruments in the course of the year:

- Treasury Bills
- Bonds (Spot and Repo transactions)
- Money market products
- Foreign exchange products

4.4a Exposure to interest rate risks – Non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk in the non-trading portfolios of the Group is managed principally through the monitoring of Earnings-At-Risk (EAR) and interest rate gaps, as well as carrying out scenario analysis. The Asset and Liability Committee (ALCO) is the body charged with monitoring exposures to interest rate risks and is assisted by the Risk Management and Control Group.

The Group also performs regular stress tests on its trading and non-trading portfolios. In performing this, the Group ensures there are quantitative criteria in building the scenarios. The Group determines the effect of changes in interest rates on interest income; volatility in prices on trading income; and changes in funding sources and uses on the Group's liquidity. The key potential risks the Group was exposed to from these instruments were price risk, basis risk and risk to net margins. However, all potential risk exposures in the course of the year were successfully mitigated as mentioned above. Interest rate movements affect reported equity in the following ways:

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

- Fair value reserves arising from changes in the fair value of available-for-sale financial instruments reported directly in other comprehensive income.

- Overall non-trading interest rate risk positions are managed by the Treasury Group, which uses investment securities and intergroup takings to manage the overall position arising from the Group's non-trading activities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4.4a Exposure to interest rate risks – Non-trading portfolios continued

The tables below summarises the Group's interest rate gap position on all portfolios:

Group 31 December 2019 *In thousands of Nigerian Naira*	Carrying amount	Variable interest-bearing	Fixed interest-bearing	Non-interest bearing
Financial assets:				
Cash and balances with Central Bank of Nigeria	8,302,033			8,302,033
Due from other banks	7,377,521	-	4,847,484	2,530,037
Loans and advances to customers	46,448,173	-	40,275,863	6,172,310
Financial assets at FVTPL	2,902,292	-	2,517,162	385,130
Investment securities:				
- Fair value through OCI	16,684,696	-	16,115,748	568,948
- Amortised cost	2,914,249	-	2,914,249	-
Pledged assets - Fair Value through OCI	39,382,677	-	39,382,677	-
Other assets	8,469,157	-	-	8,469,157
Deposit with Nigeria Stock exchange	1,150	-	1,150	-
Derivatives assets	474,757	-	-	474,757
	132,956,707	-	106,054,334	26,902,373
Financial liabilities:				
Due to banks	27,648,648	-	27,648,648	-
Due to customers	75,675,571	-	75,675,571	-
Other liabilities	10,090,784	-	1,571,637	8,519,147
Derivative liabilities	469,389	-	-	469,389
	113,884,391	-	104,895,856	8,988,536

Bank 31 December 2019 *In thousands of Nigerian Naira*	Carrying amount	Variable interest-bearing	Fixed interest-bearing	Non-interest bearing
Financial assets:				
Cash and balances with Central Bank of Nigeria	8,302,033	-	-	8,302,033
Due from other banks	4,238,237	-	2,000,466	2,237,772
Loans and advances to customers	46,390,453	-	40,218,143	6,172,310
Financial assets at FVTPL	2,517,162	-	2,517,162	-
Investment securities				
- Fair value through OCI	16,026,386	-	15,765,398	260,988
- Amortised cost	2,914,249	-	2,914,249	-
Pledged assets - Fair Value through OCI	39,382,677	-	39,382,677	-
Other assets	8,517,527	-	-	8,517,527
Derivatives assets	474,757	-	-	474,757
	128,763,482	-	102,798,095	25,965,388
Financial liabilities:				
Due to banks	27,648,648	-	27,648,648	-
Deposit from customers	76,021,448	-	76,021,448	-
Other liabilities	9,112,503	-	1,571,637	7,540,866
Derivative liabilities	469,389	-	-	469,389
	113,251,988	-	105,241,733	8,010,255

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FOR THE YEAR ENDED 31 DECEMBER 2019

4.4a Exposure to interest rate risks – Non-trading portfolios continued

Group 31 December 2018 *In thousands of Nigerian Naira*	Carrying amount	Variable interest-bearing	Fixed interest-bearing	Non-interest bearing
Financial assets:				
Cash and balances with Central Bank of Nigeria	4,653,015	-	-	4,653,015
Due from other banks	17,337,847	-	12,017,642	5,320,205
Loans and advances to customers	35,413,635	28,668,449	5,482,221	1,262,965
Financial assets at FVTPL	1,876,368	-	1,302,217	574,151
Investment securities:				
- Fair value through OCI	33,668,763	-	33,583,949	84,814
- Amortised cost	1,275,653	-	1,275,653	-
Pledged assets - Fair Value through OCI	21,099,602	-	21,099,602	-
Other assets	4,203,707	-	-	4,203,707
Deposit with Nigeria Stock exchange	1,150	-	1,150	-
Derivatives assets	219,954	-	-	219,954
	119,749,693	28,668,449	74,762,433	16,318,811
Financial liabilities:				
Due to banks	8,003,945	-	8,003,945	-
Due to customers	90,858,472	-	90,858,472	-
Other liabilities	10,073,642	-	7,423,961	2,649,681
Derivative liabilities	219,954	-	-	219,954
	109,156,013	-	106,286,378	2,869,635

Bank 31 December 2018 *In thousands of Nigerian Naira*	Carrying amount	Variable interest-bearing	Fixed interest-bearing	Non-interest bearing
Financial assets:				
Cash and balances with Central Bank of Nigeria	4,653,015	-	-	4,653,015
Due from other banks	14,221,127	-	9,995,878	4,225,249
Loans and advances to customers	35,342,825	28,597,639	5,482,221	1,262,965
Financial assets at FVTPL	1,302,217	-	1,302,217	-
Investment securities:				
- Fair value through OCI	33,592,365	-	33,533,500	58,865
- Amortised cost	1,275,653	-	1,275,653	-
Pledged assets - Fair Value through OCI	21,099,602	-	21,099,602	-
Other assets	4,574,807	-	-	4,574,807
Deposit with Nigeria Stock exchange	-	-	-	-
Derivatives assets	219,954	-	-	219,954
	116,281,565	28,597,639	72,689,070	14,994,856
Financial liabilities:				
Due to banks	8,003,945	-	8,003,945	-
Due to customers	90,977,369	-	90,977,369	-
Other liabilities	8,841,694	-	7,423,961	1,417,733
Derivative liabilities	219,954	-	-	219,954
	108,042,962	-	106,405,275	1,637,687

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FOR THE YEAR ENDED 31 DECEMBER 2019

4.4a Exposure to interest rate risks – Non-trading portfolios continued

Exposure to market risks – Trading portfolios

The principal tools used to measure and control market risk exposure within the Group's trading portfolios are the position and loss limits. Specific limits have been set on overall position, individual security and losses to prevent undue exposure. Risk Management and Control Group ensures that these limits and triggers are adhered to by the Group.

The Group traded in the following financial instruments in the course of the year:

- Treasury Bills
- Bonds (Spot and Repo transactions)
- Money market products
- Foreign exchange products

4.4b Bond Price Sensitivity

The Group carried out the following in determining sensitivity of its profit to fluctuations in market prices of bonds:

- Daily bond prices were obtained and trended for the different series of bonds in issue as at the reporting date.

- A reasonably possible change was determined from one year daily fluctuation in bond prices which indicates that significant proportion of changes in price falls within the range of ± ₦1.

- The chosen reasonable change in market prices was then applied to the Group's bond trading portfolio as at end of the period.

As at 31 December 2019, the Group had ₦2.90bn in its trading position (2018: ₦1.87bn). If the price of instruments designated as financial assets held at fair value through profit or loss increased or decreased by 100bps with all variables held constant, the impact on potential profit or loss would be as shown in the table below:

	12 months to 31 December 2019			
	Group		Bank	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	1,129	1,005	1,129	1,005
Decrease	(1,129)	(1,005)	(1,129)	(1,005)

	12 months to 31 December 2018			
	Group		Bank	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	8,588	6,012	8,588	6,012
Decrease	(8,588)	(6,012)	(8,588)	(6,012)

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4.4c Treasury bills discount rate sensitivity

The Group carried out the following in determining sensitivity of its profit to fluctuations in market discount rates of treasury bills:

- Daily market discount rates were obtained and trended for the different maturities of treasury bills in issue as at the reporting date.

- A reasonably possible change was determined from one year daily fluctuation in discount rates of treasury bills. The exercise indicates that a significant proportion of changes in discount rates falls in the range of +/- 100 basis points.

- A ±100 basis points fluctuation in market discount rates was applied to the Group's treasury bills trading portfolio as at end of the period to determine the impact on its profit or loss position.

As at 31 December 2019, if discount rates on treasury bills increased or reduced by 100 basis points with all other variables held constant, the potential profit or loss would be as shown below:

	12 months to 31 December 2019		12 months to 31 December 2018	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	28,543	25,404	2,381	1,667
Decrease	(28,543)	(25,404)	(2,381)	(1,667)

Financial Instruments held through other comprehensive income (OCI)

The Group carried out the following in determining the sensitivity of its financial instruments position to fluctuations in market yields of financial instruments fair valued through OCI:

- Daily bond prices and treasury bills discount rates within the period were obtained, to determine actual volatility levels recorded.

- ±100 basis point and ± 300 basis point changes in market yields of bonds and treasury bills respectively were applied to the Group's holdings in bonds and treasury bills as at end of the period to determine the impact on the Group's Other Comprehensive Income (OCI) position.

Group Bonds held through OCI				
	12 months to 31 December 2019		12 months to 31 December 2018	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	136,908	121,848	53,156	37,209
Decrease	(136,908)	(121,848)	(45,762)	(37,209)

Treasury bills held through OCI				
	12 months to 31 December 2019		12 months to 31 December 2018	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	1,140,303	1,014,870	144,842	101,390
Decrease	(1,140,303)	(1,014,870)	(140,167)	(98,117)

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FOR THE YEAR ENDED 31 DECEMBER 2019

4.4c Treasury bills discount rate sensitivity continued

Bank Bonds held through OCI				
	12 months to 31 December 2019		12 months to 31 December 2018	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	133,404	129,402	53,156	37,209
Decrease	(133,404)	(129,402)	(45,762)	(32,033)

Treasury bills held through OCI				
	12 months to 31 December 2019		12 months to 31 December 2018	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	1,140,303	1,106,094	144,590	101,213
Decrease	(1,140,303)	(1,106,094)	(139,915)	(97,940)

4.4d Liquidity risk

Liquidity risk is the potential inability of the Group to meet its obligations as at when due. This includes the inability to quickly liquidate its assets with minimal loss in value.

4.4e Management of liquidity risk

A brief overview of the Group's liquidity management processes includes the following:

- Maintenance of minimum levels of liquid and marketable securities above the regulatory requirement of 20%. The Group has set for itself more conservative in-house limits above this regulatory requirement to which it adheres.

- Monitoring of its historical cash flows to ascertain in/outflow trends. The Group also makes forecasts of anticipated deposits and withdrawals to determine their potential effect on the Group.

- Regular measurement and monitoring of its liquidity position/ratios in line with regulatory requirements and in-house limits.

- Monitoring of deposit concentration, and ensuring diversification of its funding sources.

- Use of a Management authorisation process for purchases of financial instrument held as other comprehensive income and held to maturity (HTM) portfolios.

- Maturity gap analysis.

- Maintaining a contingency funding plan with committed funding lines established with specific financial institution(s).

The Group's Asset and Liability Committee (ALCO) is charged with the responsibility of managing the Group's liquidity position. This position is monitored daily, while stress tests covering a variety of scenarios are regularly conducted. All liquidity risk management policies and procedures are subject to review and approval by Board.

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4.4e Management of liquidity risk continued

A key measure used by the Group in controlling its liquidity risk is the ratio of liquid assets to deposits liabilities. Details of the Group's ratio of net liquid assets to deposit liabilities were as follows:

	Dec 2019	Dec 2018
At end of period	**37.73%**	59.74%
Average for the period	**56.78%**	53.66%
Maximum for the period	**72.95%**	69.55%
Minimum for the period	**34.81%**	36.74%

The regulatory benchmark given by CBN for merchant Banks during the year was 20% and the Group was well above this threshold throughout the year ended 31 December 2019.

4.4f Contractual maturity of financial assets and liabilities

The following tables show the undiscounted cash flows on the Group's financial statement 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 assets and liabilities:

Group	Carrying amount ₦'000	Gross nominal inflow/ (outflow) ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year and 3 years ₦'000	3 years and 5 years ₦'000	Over 5 years ₦'000
31 December 2019							
Financial assets							
Cash and balances with Central Bank	8,302,033	8,802,516	8,802,516	-	-	-	-
Due from other banks	7,377,521	7,406,414	7,406,414	-	-	-	-
Loans and advances to customers	46,448,173	46,662,338	17,773,583	9,428,153	7,855,604	10,235,278	1,369,720
Financial assets at FVTPL	2,902,292	2,928,994	791,465	1,632,737	119,662	-	385,130
Investment securities							
- Fair value through OCI	16,684,696	36,228,634	2,792,064	6,740,635	6,340,261	3,292,592	17,063,082
- Amortised cost	2,914,249	2,914,249	2,914,249	-	-	-	-
Pledged assets	39,382,677	39,382,677	16,179,248	17,974,188	2,957,845	-	2,271,396
Other assets	8,469,157	8,469,157		8,469,157	-	-	-
Derivative assets	474,757	474,757	317,117	157,640	-	-	-
	132,955,557	153,269,736	56,976,656	44,402,510	17,273,372	13,527,870	21,089,328
Financial liabilities							
Due to banks	27,648,648	27,648,648	27,648,648	-	-	-	-
Due to customers	75,675,571	76,339,002	75,231,200	1,107,802	-	-	-
Other liabilities	10,090,784	10,726,001	10,726,001	-	-	-	-
Derivative liabilities	469,389	469,389	312,700	156,689	-	-	-
	113,884,391	115,183,039	113,918,548	1,264,491	-	-	-
Liquidity gap	19,071,166	38,086,697	(56,941,892)	43,138,019	17,273,372	13,527,870	21,089,328
Assets held for managing liquidity risk	37,255,606	37,255,606	21,238,858	7,452,491	350,350	824,987	7,388,920

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4.4f Contractual maturity of financial assets and liabilities continued

Bank	Carrying amount ₦'000	Gross nominal inflow/ (outflow) ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year and 3 years ₦'000	3 years and 5 years ₦'000	Over 5 years ₦'000
31 December 2019							
Financial assets							
Cash and balances with Central Bank	8,302,033	8,763,484	8,763,484	-	-	-	-
Due from other banks	4,238,237	4,239,169	4,239,169	-	-	-	-
Loans and advances to customers	46,390,453	46,661,625	17,772,870	9,428,153	7,855,604	10,235,278	1,369,720
Financial assets at FVTPL	2,517,162	2,543,864	791,465	1,632,737	119,662		
Investment securities							
- Fair value through OCI	16,026,386	35,473,662	2,792,064	6,711,663	6,282,318	3,234,648	16,452,969
- Amortised cost	2,914,249	2,914,249	2,914,249	-	-	-	-
Pledged assets	39,382,677	39,382,677	16,179,248	17,974,188	2,957,845	-	2,271,396
Other assets	8,517,527	8,517,527	8,517,527		-	-	-
Derivative assets	474,757	474,757	317,117	157,640	-	-	-
	128,763,482	148,971,015	62,287,194	35,904,381	17,215,429	13,469,926	20,094,085
Financial liabilities							
Due to banks	27,648,648	27,648,648	27,648,648	-	-	-	-
Due to customers	76,021,448	76,007,996	74,900,194	1,107,802	-	-	-
Other liabilities	9,112,503	9,475,598	9,475,598	-	-	-	-
Derivative liabilities	469,389	469,389	312,700	156,689	-	-	-
	113,251,988	113,601,630	112,337,139	1,264,491	-	-	-
Liquidity gap	15,511,494	35,369,385	(50,049,945)	34,639,890	17,215,429	13,469,926	20,094,085
Assets held for managing liquidity risk	33,737,079	33,737,079	18,070,681	7,452,491	824,987	-	7,388,920

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4.4f Contractual maturity of financial assets and liabilities continued

Group	Carrying amount ₦'000	Gross nominal inflow/ (outflow) ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year and 3 years ₦'000	3 years and 5 years ₦'000	Over 5 years ₦'000
31 December 2018							
Financial assets							
Cash and balances with Central Bank	4,653,015	4,653,015	4,653,015	-	-	-	-
Due from other banks	17,337,847	17,344,988	17,344,988	-	-	-	-
Loans and advances to customers	35,413,635	35,413,635	16,992,284	9,429,799	7,244,858	1,316,472	430,222
Financial assets at FVTPL	1,876,368	2,277,308	262,900	353,104	124,144	509,443	1,027,717
Investment securities							
- Fair value through OCI	33,668,763	37,626,457	1,726,003	1,977,549	1,650,009	4,353,458	27,919,438
- Amortised cost	1,275,653	1,350,175	532,542	817,633	-	-	-
Pledged assets	21,099,602	26,777,421	2,901,572	4,074,216	1,805,304	3,461,734	14,534,595
Other assets	4,203,707	4,203,707	4,203,707	-	-	-	-
Derivative assets	219,954	219,954	6,870	213,084	-	-	-
	119,748,543	129,866,660	48,623,882	16,865,385	10,824,315	9,641,107	43,911,971
Financial liabilities							
Due to banks	8,003,945	8,744,164	4,621,068	4,123,096	-	-	-
Due to customers	90,858,472	90,780,252	79,041,078	11,817,394	-	-	-
Other liabilities	10,073,642	10,073,642	10,073,642	-	-	-	-
Derivative liabilities	219,954	219,954	6,870	213,084	-	-	-
	109,156,013	109,818,012	93,742,658	16,153,574	-	-	-
Liquidity gap	10,592,530	20,048,648	(45,118,776)	711,811	10,824,315	9,641,107	43,911,971
Assets held for managing liquidity risk	58,237,495	58,237,495	19,504,999	3,148,286	1,774,153	4,862,901	28,947,155

Bank	Carrying amount ₦'000	Gross nominal inflow/ (outflow) ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year and 3 years ₦'000	3 years and 5 years ₦'000	Over 5 years ₦'000
31 December 2018							
Financial assets							
Cash and balances with Central Bank	4,653,015	4,653,015	4,653,015	-	-	-	-
Due from other banks	14,221,127	14,228,267	14,228,267	-	-	-	-
Loans and advances to customers	35,342,825	35,342,825	16,954,782	9,428,153	7,227,915	1,303,680	428,295
Financial assets at FVTPL	1,302,217	1,703,157	262,900	353,104	124,144	509,443	453,566
Investment securities							
- Fair value through OCI	33,592,365	37,572,860	1,726,003	1,977,549	1,650,009	4,353,458	7,865,841
- Amortised cost	1,275,653	1,350,175	532,542	817,633	-	-	-
Pledged assets	21,099,602	26,777,421	2,901,572	4,074,216	1,805,304	3,461,734	14,534,595
Other assets	4,574,807	4,574,807	4,574,807	-	-	-	-
Derivative assets	219,954	219,954	6,870	213,084	-	-	-
	116,281,565	126,422,481	45,840,759	16,863,739	10,807,372	9,628,315	43,282,297
Financial liabilities							
Due to banks	8,003,945	8,744,164	4,621,068	4,123,096	-	-	-
Due to customers	90,977,369	90,899,149	78,158,825	12,818,544	-	-	-
Other liabilities	8,841,693	8,841,693	8,841,693	-	-	-	-
Derivative liabilities	219,954	219,954	6,870	213,084	-	-	-
	108,042,961	108,704,961	91,628,456	17,154,724	-	-	-
Liquidity gap	8,238,604	17,717,520	(45,787,697)	(290,985)	10,807,372	9,628,315	43,282,297
Assets held for managing liquidity risk	55,044,377	55,044,377	21,395,588	3,148,286	1,774,153	4,862,901	23,863,448

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4.4g Repricing period of financial assets and liabilities

Repricing maturities take into account the fact that terms of the underlying financial assets or liabilities of the Group can be varied, which in turn affects its liquidity exposure. The table below indicates the earliest time the Group can vary the terms of the underlying financial asset or liabilities and analyses the Group's interest rate risk exposure on assets and liabilities included at carrying amount and categorised by the earlier of the contractual re-pricing or maturity dates.

Group	Carrying amount ₦'000	Total ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year and 3 years ₦'000	3 years and 5 years ₦'000	Over 5 years ₦'000
31 December 2019							
Financial assets							
Due from other banks	7,377,521	7,377,521	7,377,521	-	-	-	-
Loans and advances to customers	46,448,173	46,662,338	17,773,583	9,428,153	7,855,604	10,235,278	1,369,720
Financial assets at FVTPL	2,902,292	2,902,292	793,390	1,618,434	105,338	-	385,130
Investment securities		-					
- Fair value through OCI	16,684,696	16,684,696	2,229,118	5,778,061	1,503,300	1,740,491	5,433,726
- Amortised cost	2,914,249	2,914,249	2,914,249	-	-	-	-
Pledged assets	39,382,677	39,382,677	16,179,248	17,974,188	2,957,845	-	2,271,396
Derivative assets	474,757	474,757	317,117	157,640	-	-	-
	116,184,368	116,398,531	47,584,226	34,956,476	12,422,087	11,975,768	9,459,973
Financial liabilities							
Due to Banks	27,648,648	27,648,648	27,648,648	-	-	-	-
Deposit from customers	75,675,571	76,339,002	75,231,200	1,107,802	-	-	-
Other liabilities	10,090,784	10,090,784	10,090,784	-	-	-	-
Derivative liabilities	469,389	469,389	312,700	156,689	-	-	-
	113,884,391	114,547,823	113,283,332	1,264,491	-	-	-
Repricing gap	2,299,976	1,850,708	(65,699,106)	33,691,985	12,422,087	11,975,768	9,459,973

Bank	Carrying amount ₦'000	Total ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year and 3 years ₦'000	3 years and 5 years ₦'000	Over 5 years ₦'000
31 December 2019							
Financial assets							
Due from other banks	4,238,237	4,238,237	4,238,237	-	-	-	-
Loans and advances to customers	46,390,453	46,661,625	17,772,870	9,428,153	7,855,604	10,235,278	1,369,720
Financial assets at FVTPL	2,517,162	2,517,162	793,390	1,618,434	105,338		
Investment securities	-	-					
- Fair value through OCI	16,026,386	16,026,386	2,229,118	5,427,711	1,503,300	1,740,491	5,125,766
- Amortised cost	2,914,249	2,914,249	2,914,249	-	-	-	-
Pledged assets	39,382,677	39,382,677	16,179,248	17,974,188	2,957,845	-	2,271,396
Derivative assets	474,757	474,757	317,117	157,640	-	-	-
	111,943,922	112,215,094	44,444,229	34,606,126	12,422,087	11,975,768	8,766,882
Financial liabilities							
Due to banks	27,648,648	27,648,648	27,648,648		-	-	-
Deposit from customers	76,021,448	76,007,996	74,900,194	1,107,802	-	-	-
Other liabilities	9,112,503	9,475,598	9,475,598	-	-	-	-
Derivative liabilities	469,389	469,389	312,700	156,689	-	-	-
	113,251,988	113,601,630	112,337,139	1,264,491	-	-	-
Repricing gap	(1,308,065)	(1,386,536)	(67,892,910)	33,341,635	12,422,087	11,975,768	8,766,882

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4.4g Repricing period of financial assets and liabilities continued

Group	Carrying amount ₦'000	Total ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year and 3 years ₦'000	3 years and 5 years ₦'000	Over 5 years ₦'000
31 December 2018							
Financial assets							
Due from other banks	17,337,847	17,337,847	17,337,847	-	-	-	-
Loans and advances to customers	35,413,635	35,413,635	16,992,284	9,429,799	7,244,858	1,316,472	430,222
Financial assets at FVTPL	1,876,368	1,876,368	257,928	292,618	52	437,981	887,789
Investment securities							
- Fair value through OCI	33,668,763	33,668,763	1,500,903	1,377,154	-	3,533,285	27,257,421
- Amortised cost	1,275,653	1,275,653	492,554	783,099	-	-	-
Pledged assets	21,099,602	21,099,602	2,590,197	3,482,939	-	2,066,180	12,960,286
Derivative assets	219,954	219,954	6,870	213,084	-	-	-
	110,891,821	110,891,821	39,178,583	15,578,693	7,244,910	7,353,919	41,535,717
Financial liabilities							
Due to Banks	8,003,945	8,003,945	4,502,219	3,501,726	-	-	-
Deposit from customers	90,858,472	90,858,472	79,041,078	11,817,394	-	-	-
Other liabilities	10,705,342	10,705,342	10,705,342	-	-	-	-
Derivative liabilities	219,954	219,954	6,870	213,084	-	-	-
	109,787,713	109,787,713	94,255,509	15,532,204	-	-	-
Repricing gap	1,104,108	1,104,108	(55,076,925)	46,489	7,244,910	7,353,919	41,535,717

Bank	Carrying amount ₦'000	Total ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year and 3 years ₦'000	3 years and 5 years ₦'000	Over 5 years ₦'000
31 December 2018							
Financial assets							
Due from other banks	14,221,127	14,093,534	14,093,534	-	-	-	-
Loans and advances to customers	35,342,825	35,342,825	16,954,782	9,428,153	7,227,915	1,303,680	428,295
Financial assets at FVTPL	1,302,217	1,302,217	257,928	292,618	52	437,981	313,638
Investment securities							
- Fair value through OCI	33,592,365	33,592,365	1,500,903	1,377,154	-	3,533,285	27,181,023
- Amortised cost	1,275,653	1,275,653	492,554	783,099	-	-	-
Pledged assets	21,099,602	21,099,602	2,590,197	3,482,939	-	2,066,180	12,960,286
Derivative assets	219,954	219,954	6,870	213,084	-	-	-
	107,053,743	106,926,149	35,896,768	15,577,047	7,227,967	7,341,127	40,883,242
Financial liabilities							
Due to banks	8,003,945	8,003,945	4,502,219	3,501,726	-	-	-
Deposit from customers	90,977,369	90,977,369	78,158,825	12,818,544	-	-	-
Other liabilities	9,454,939	9,454,939	9,454,939	-	-	-	-
Derivative liabilities	219,954	219,954	6,870	213,084	-	-	-
	108,656,207	108,656,207	92,122,853	16,533,354	-	-	-
Repricing gap	(1,602,465)	(1,730,058)	(56,226,085)	(956,307)	7,227,967	7,341,127	40,883,242

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5.0 Credit risk

The Group defines credit risk as the risk of counterparty's failure to meet the terms of any lending contracts with the Group or otherwise to perform as agreed. Credit risk arises anytime the Group's funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements.

The Group's specific credit risk objectives, as contained in the Risk Assets Acceptance Criteria (RAAC) and Credit Risk Policy, are:

- maintenance of an efficient risk assets portfolio;
- adequately diversify the Group's risk assets and minimise concentration risk;
- institutionalisation of sound credit culture in the Group; and
- achieve consistent and continuous income stream for the Group.

The risk assets creating units – Fixed Income and currency trading Division and Corporate Grouping Division - are required to implement all credit policies and procedures in line with the approval limits granted by the Board. The business units are responsible for the quality and performance of their risk assets portfolio and for monitoring and controlling all credit risks in their portfolio. Internal Audit undertakes regular audits of business units, while the Risk Management and Control Group carries out regular credit quality reviews.

The Group continues to focus attention on intrinsic and concentration risks inherent in its business to manage the Group's portfolio risk. It sets portfolio concentration limits that are measured under the following parameters: limits per obligor, industry/sector and maturity bucket. Sector and maturity limits reflect the risk appetite of the Group. Credit risks arising on trading securities is managed independently, but reported as a component of market risk exposure.

5.1a Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee. Management Credit and Underwriting Committee (MCUC), is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies for the Group, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Executive Committee and the Board Credit Committee/Board of Directors as appropriate.
- Reviewing and assessing credit risk in all credit exposures prior to making commitment to customers. Renewals and reviews of facilities are subject to the same review process.
- Developing and maintaining the Bank's criteria for categorising exposures, and to focus the Management on the attendant risks. The criteria as contained in the Risk Assets Acceptance Criteria (RAAC) and Credit Risk Policy takes care of exposures to Banks and related regulated institutions, and large quoted corporates, conglomerates and multinationals. The responsibility for approving and reviewing the Risk Assets Acceptance Criteria and Credit Risk Policy lies with the Board Credit Committee.
- Reviewing compliance of with exposure and concentration limits, and promotion of best practices throughout the Group in the management of credit risk.

5.1b Credit risk measurement

The Group undertakes lending activities after careful analysis of the borrowers' general character, capacity to repay, cash flow, credit history, organisational/ management quality, financial condition, market position, business operations, industry and other factors. The Group acknowledges that there are diverse intrinsic risks inherent in the vagaries of its business segments and, as a result, applies different parameters to adequately dimension the risks in each business segments.

The Bank currently adopts Moody's Analyst risk rating model for its assessment of obligor risk rating and Bank's rating grades as defined by its Risk Assets Acceptance Criteria (RAAC) deals with all credit risk counterparties, covering all the Bank's credit exposure to corporate, commercial, conglomerates and multinationals. It however excludes Banks and other financial institutions regulated by Central Bank of Nigeria (CBN). Obligor rating in the Group is handled by Relationship Managers with further review by Risk Management and Control before it goes through the approval process.

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5.1b Credit risk measurement continued

The relationship between the Group's category rating system and the Moody's rating system is shown below:

Moody's rating	Category	Description	Characteristics
AAA	A	Excellent-Very Low Credit Risk	· Highest investment quality · Lowest expectation of default risk · Exceptionally strong capacity for timely payment of financial commitments · Capacity is highly unlikely to be adversely affected by unforeseeable events · Top multinationals or corporations · Good track record · Strong equity and assets
AA+ AA AA-	B	Good Credit Risk Quality	· Very good investment quality · Very low expectation of default risk · Very strong capacity for timely payment of financial commitments · Capacity is not significantly vulnerable to unforeseeable events. · Typically large corporates in stable industries and with significant market share · Very strong balance sheets with high liquid assets
A+ A A-	C	Above Average Credit Risk Quality	· Above Average quality · Low expectation of default risk. · Capacity for timely payment of financial commitments is considered adequate · Adverse changes in circumstances and in economic conditions is more likely to impair capacity for payment · Typically in stable industries · Strong debt repayment capacity and coverage · Good asset quality and liquidity position · Very good management
BBB+ BBB BBB-	D	Average Credit Risk Quality	· Average credit quality · Possibility of default risk developing, particularly as the result of adverse economic changes over time · Category is acceptable as business or financial alternatives may be available to allow financial commitments to be met · Good character of owner · Good management but depth may be an issue · Typically good companies in cyclical industries
BB+ BB BB-	E	Below Average Credit Risk	· Below average risk quality · High probability of partial loss · Financial condition is weak but obligations are still being met as and when they fall due · Adverse changes in the environment will increase risk significantly · Very weak credit fundamentals which make full debt repayment in serious doubt · Bleak economic prospects · Lack of capacity to repay unsecured debt

The Group's operational measurements for credit risk are in conformity with the impairment allowances required under the applicable reporting standard - IFRS 9, and are based on losses that are expected at the date of the statement of financial position, that is the expected credit losses (ECL).

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the probability of defaults cashflow projections and collaterals pledged by counterparties.

The Group has developed ECL models to support the quantification of the credit risk. The model is in use for all key credit portfolios and form the basis for measuring impairment. In measuring credit risk of loan and advances at a counterparty level, the Group considers three components: (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'Exposure At Default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'Loss Given Default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

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5.2 Risk limit control and mitigation policies

FBNQuest Merchant Banking Group applies limits to control credit risk concentration and ensure proper diversification of its risk assets portfolio. The Group maintains limits for individual obligors, sectors and maturities/tenors.

The Group's internal single obligor limit which is set at a maximum of 35% of the its shareholders' funds (SHF), is within the stipulated regulatory single obligor limit currently prescribed at 50% of the Group's shareholders' funds. Although the Group is guided by its internal single obligor rating regulatory limit, it also applies additional parameters internally in determining the suitable limits that a single borrower should have. These include: obligor rating, position in the industry and perceived requirements of key players, financial analysis, etc.

The Group, based on guidelines set by the regulators, imposes industry/economic sector limits to guide against concentration risk. The industry/sector limits are arrived at after rigorous analysis of the risks inherent in the industry or economic sector. The limits are usually recommended by the Risk Management and Control Group and approved by the Board.

The Group also imposes limits on the maturity buckets of the risk assets portfolio. The maturity bucket limits are a reflection of the risk appetite and liquidity profile of the Group. During the year, limits can be reviewed and realigned (outright removal, reduction or increase) to meet the exigencies of the prevailing macroeconomic events.

FBNQuest Merchant Bank also sets internal credit approval limits in the credit process. Approval decisions are guided by the Bank's strategic focus as well as the stated risk appetite and the other limits established by the board or regulatory authorities. The current risk assets approval limits are as follows:

Approving Authority	Approval Limit
Board of Directors	No Limit but subject to regulatory limit
Board Credit Committee (BCC)	1. To note all non cash-collateralised credit facilities up to ₦1.5billion approved by the Management Credit and Underwriting Committee (MCUC). 2. To approve all non cash-collateralised credit facilities of between ₦1.5billion and ₦6.5billion. 3. To approve all non cash-collateralised credit facilities above ₦6.5billion. Such approvals are to be subsequently presented to the full Board for ratification.
Management Credit and Underwriting Committee (MCUC)	1. To approve all non cash-collateralised credit facilities up to ₦1.5billion. 2. To approve all cash-collateralised limits.

The Bank ensures that each credit is reviewed and granted based on the strength of the borrowers' repayment capacity, measured by its cash flow. However, the Group also ensures its risk assets are well secured as a second way out strategy. The policies that guide collateral for facilities are embedded within the Bank's Credit Risk Policy.

FBNQuest Merchant Bank maintains placement lines for its Bank counterparties and other financial institutions regulated by the Central Bank of Nigeria (CBN). The lines cover the settlement risks inherent in the Bank's activities with these counterparties. The limits are arrived at after conducting fundamental analysis of the counterparties, presentation of findings to, and approval by the Board. The lines are implemented by the Fixed income and currency trading group and monitored by the Risk Management and Control Group. Intergroup placement limits are also guided by the regulatory single obligor limit, which currently is 50% of the Bank's shareholders' funds.

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5.3 Maximum exposure to credit risk

The Group's credit risk exposures relating to on-balance sheet assets are as follows:

	Maximum exposure			
	Group		Bank	
Classification	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial assets:				
Cash and balances with Central Bank of Nigeria	**8,302,033**	4,653,015	**8,302,033**	4,653,015
Due from other banks	**7,377,521**	17,337,847	**4,238,237**	14,221,127
Loans and advances to customers	**46,448,173**	35,413,635	**46,390,453**	35,342,825
Financial assets at FVTPL	**2,902,292**	1,876,368	**2,517,162**	1,302,217
Investment securities				
- Fair value through OCI	**16,684,696**	33,668,763	**16,026,386**	33,592,365
- Amortised cost	**2,914,249**	1,275,653	**2,914,249**	1,275,653
Pledged assets - Fair Value through OCI	**39,382,677**	21,099,602	**39,382,677**	21,099,602
Other assets	**8,469,157**	4,203,707	**8,517,527**	4,574,807
Derivative financial assets	**474,757**	219,954	**474,757**	219,954
	132,955,557	119,748,543	**128,763,482**	116,281,565
Loans exposure to total exposure	**54.47%**	37.68%	**57.22%**	39.04%
Debt securities exposure to total exposure	**26.39%**	39.17%	**26.47%**	39.95%
Other exposures to total exposure	**19.14%**	23.15%	**16.32%**	21.01%
Commitments and guarantees				
Performance bonds and guarantees	**3,642,420**	2,588,750	**3,642,420**	2,588,750
Letters of credits	**10,310,436**	8,172,760	**10,310,436**	8,172,760
Total commitments and guarantees	**13,952,856**	10,761,510	**13,952,856**	10,761,510

Balances included in other assets above are those subject to credit risks. Items not subject to credit risk have been excluded. The table above shows a worse-case scenario of credit risk exposures to the Group at 31 December 2019 and 31 December 2018 without taking into consideration any of the collateral held or other credit enhancements attached, if any. The exposures set out above are based on gross amounts as reported in the statement of financial position.

As shown above, 54.47% of the Group's total maximum exposures are derived from loans exposure (2018: 37.68%), while 26.4% of the Group's total maximum exposures represents exposures to debt securities (2018: 39.17%). The Directors are confident in their ability to continue to control exposure to credit risk which can result from both its risk assets portfolio and debt securities.

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5.4 Credit risk concentration

IFRS 7 requires disclosures about concentrations of risk. Concentration of risk arises from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. This information has been provided along geographical areas and economic sectors.

5.5 Geographical concentration of risks of financial assets with credit risk exposure

The following table breaks down the Group's credit exposure (without taking into account any collateral held or other credit support), as categorised by geographical region as at the reporting date. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

Group	31 December 2019		
	Within Nigeria	Outside Nigeria	Total
Cash and balances with Central Bank of Nigeria	8,302,033	-	8,302,033
Due from other banks	6,330,478	1,047,043	7,377,521
Loans and advances to customers	46,448,173	-	46,448,173
Financial assets at FVTPL	2,902,292	-	2,902,292
Investment securities:		-	-
- Fair value through OCI	16,684,696	-	16,684,696
- Amortised cost	2,914,249	-	2,914,249
Pledged assets - FVOCI	39,382,677	-	39,382,677
Other assets	8,469,157	-	8,469,157
Derivative assets	474,757	-	474,757
	131,908,514	1,047,043	132,955,557
Commitments and guarantees			
Performance bonds and guarantees	3,642,420	-	3,642,420
Letters of credits	10,310,436	-	10,310,436
Total commitments and guarantees	13,952,856	-	13,952,856

Bank	31 December 2019		
	Within Nigeria	Outside Nigeria	Total
Cash and balances with Central Bank of Nigeria	8,302,033	-	8,302,033
Due from other banks	3,191,194	1,047,043	4,238,237
Loans and advances to customers	46,390,453	-	46,390,453
Financial assets at FVTPL	2,517,162	-	2,517,162
Investment securities:		-	-
- Fair value through OCI	16,026,386	-	16,026,386
- Amortised cost	2,914,249	-	2,914,249
Pledged assets - FVOCI	39,382,677	-	39,382,677
Other assets	8,517,527	-	8,517,527
Derivative assets	474,757	-	474,757
	127,716,439	1,047,043	128,763,482
Commitments and guarantees			
Performance bonds and guarantees	3,642,420	-	3,642,420
Letters of credits	10,310,436	-	10,310,436
Total commitments and guarantees	13,952,856	-	13,952,856

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5.5 Geographical concentration of risks of financial assets with credit risk exposure continued

Group	31 December 2018		
	Within Nigeria	Outside Nigeria	Total
Cash and balances with Central Bank of Nigeria	4,653,015	-	4,653,015
Due from other banks	15,905,550	1,432,297	17,337,847
Loans and advances to customers	35,413,635	-	35,413,635
Financial assets at FVTPL	1,876,368	-	1,876,368
Investment securities:			-
- Fair value through OCI	33,668,763	-	33,668,763
- Amortised cost	1,275,653	-	1,275,653
Pledged assets - FVOCI	21,099,602	-	21,099,602
Other assets	4,203,707	-	4,203,707
Derivative assets	151,597	68,357	219,954
	118,247,889	1,500,654	119,748,542
Commitments and guarantees			
Performance bonds and guarantees	2,588,750	-	2,588,750
Letters of credits	8,172,760	-	8,172,760
Total commitments and guarantees	10,761,510	-	10,761,510

Bank	31 December 2018		
	Within Nigeria	Outside Nigeria	Total
Cash and balances with Central Bank of Nigeria	4,653,015	-	4,653,015
Due from other banks	12,808,577	1,412,550	14,221,127
Loans and advances to customers	35,342,825	-	35,342,825
Financial assets at FVTPL	1,302,217	-	1,302,217
Investment securities:			-
- Fair value through OCI	33,592,365	-	33,592,365
- Amortised cost	1,275,653	-	1,275,653
Pledged assets - FVOCI	21,099,602	-	21,099,602
Other assets	4,574,807	-	4,574,807
Derivative assets	151,597	68,357	219,954
	114,800,658	1,480,907	116,281,564
Commitments and guarantees			
Performance bonds and guarantees	2,588,750	-	2,588,750
Letters of credits	8,172,760	-	8,172,760
Total commitments and guarantees	10,761,510	-	10,761,510

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5.6 Industry/sectoral exposure to credit risk

The Group's credit risk exposures at carrying amounts (without taking into account any collateral held or other credit support, if any), to the various industries or sectors of the Nigerian economy as follows:

Group 31 December 2019 Classification	Agriculture ₦'000	Construction and real estate ₦'000	Information and communication ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Cash and balances with Central Bank of Nigeria	-	-	-	-	8,298,518	-	-	3,515	-	8,302,033
Due from other banks	-	-	-	7,377,521	-	-	-	-	-	7,377,521
Loans and advances to customers	5,513,902	6,900,836	4,084,296	-	2,269,661	15,029,281	1,288,675	9,227,883	2,133,641	46,448,173
Financial assets at fair value through profit or loss	-	-	-	355,401	2,411,825	-	-	135,066	-	2,902,292
Investment securities- Fair value through OCI	-	819	1,515,686	3,352,151	11,092,142	441	-		-	16,684,698
Investment securities- Amortised cost	-	-	-	388,406	69,158	-	-	2,456,686	-	2,914,249
Pledged assets	-	-	-	-	39,382,677	-	-	-	-	39,382,677
Other assets	-	-	-	-		-	-	-	8,469,157	8,469,157
	5,513,902	6,901,655	5,599,982	11,473,478	63,523,981	15,029,722	1,288,675	11,823,149	10,602,798	132,480,800
Commitments and guarantees										
- Performance bonds and guarantees	-	1,088,750	-	-	-	-	-	2,553,670	-	3,642,420
- Letters of credits	-	-	-	-	-	1,189,834	-	8,280,883	839,719	10,310,436
	-	1,088,750	-	-	-	1,189,834	-	10,834,553	839,719	13,952,856

Bank 31 December 2019 Classification	Agriculture ₦'000	Construction and real estate ₦'000	Information and communication ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and Gas ₦'000	Transport and storage ₦'000	Manufactur-ing ₦'000	Others ₦'000	Total ₦'000
Cash and balances with Central Bank of Nigeria	-	-	-	-	8,298,518	-	-	3,515	-	8,302,033
Due from other banks	-	-	-	4,238,237	-	-	-		-	4,238,237
Loans and advances to customers	5,513,902	6,900,836	4,084,296	-	2,269,661	15,029,281	1,288,675	9,227,883	2,075,921	46,390,453
Financial assets at fair value through profit or loss	-	-		40,011	2,411,825	-	-	65,326	-	2,517,162
Investment securities- Fair value through OCI	-	-	1,515,482	2,720,963	11,070,292	-	-	-	-	16,026,387
Investment securities- Amortised cost	-	-	-	388,406	69,158	-	-	2,456,686	-	2,914,249
Pledged assets	-	-	-	-	39,382,677	-	-	-	-	39,382,677
Other assets	-	-	-	-		-	-	-	8,517,527	8,517,527
	5,513,902	6,900,836	5,599,778	7,387,617	63,502,131	15,029,281	1,288,675	11,753,409	10,593,448	128,288,726
Commitments and guarantees										
- Performance bonds and guarantees	-	1,088,750	-	-	-	-	-	2,553,670	-	3,642,420
- Letters of credits	-		-	-	-	1,189,834		8,280,883	839,719	10,310,436
	-	1,088,750	-	-	-	1,189,834	-	10,834,553	839,719	13,952,856

NOTES TO THE FINANCIAL STATEMENTS
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5.6 Industry/sectoral exposure to credit risk continued

Group 31 December 2018 Classification	Agriculture ₦'000	Construction and real estate ₦'000	Information and communication ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Cash and balances with Central Bank of Nigeria	-	-	-	-	4,653,015	-	-	-	-	4,653,015
Due from other banks	-	-	-	17,337,847	-	-	-	-	-	17,337,847
Loans and advances to customers	1,938,706	60,110	1,186,914	3,905,034	4,017,595	14,784,253	1,443,534	7,089,273	988,216	35,413,635
Financial assets held-for-trading	-	-	-	965,560	789,919	-	-	120,889	-	1,876,368
Investment securities	-	128	-	3,053,279	30,802,249	23	-	1,088,686	51	34,944,416
Pledged assets	-	-	-	-	21,099,602	-	-	-	-	21,099,602
Other assets	-	-	-	-	-	-	-	-	4,203,707	4,203,707
	1,938,706	60,238	1,186,914	25,261,721	61,362,379	14,784,276	1,443,534	8,298,847	5,191,974	119,528,589
Commitments and guarantees										
- Performance bonds and guarantees	-	1,088,750	-	-	-	-	-	1,500,000	-	2,588,750
- Letters of credits	-	-	-	-	-	77,215	71,325	8,024,220	-	8,172,760
	-	1,088,750	-	-	-	77,215	71,325	9,524,220	-	10,761,510

Bank 31 December 2018 Classification	Agriculture ₦'000	Construction and real estate ₦'000	Information and communication ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and Gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Cash and balances with Central Bank of Nigeria	-	-	-	-	4,653,015	-	-	-	-	4,653,015
Due from other banks	-	-	-	14,221,127	-	-	-	-	-	14,221,127
Loans and advances to customers	1,938,706	60,110	1,186,914	3,905,034	4,017,595	14,784,253	1,443,534	7,089,273	917,406	35,342,825
Financial assets held for trading	-	-	-	452,623	789,919	-	-	59,675	-	1,302,217
Investment securities	-	-	-	3,028,412.72	30,751,800	-	-	1,087,805.39	-	34,868,018
Pledged assets	-	-	-	-	21,099,602	-	-	-	-	21,099,602
Other assets	-	-	-	-	-	-	-	-	4,574,807	4,574,807
	1,938,706	60,110	1,186,914	21,607,197	61,311,930	14,784,253	1,443,534	8,236,753	5,492,213	116,061,611
Commitments and guarantees										
- Performance bonds and guarantees	-	1,088,750	-	-	-	-	-	1,500,000	-	2,588,750
- Letters of credits		-	-	-	-	77,215	71,325	8,024,220	-	8,172,760
	-	1,088,750	-	-	-	77,215	71,325	9,524,220	-	10,761,510

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

5.6a Credit quality of financial assets using staging classification/internal rating

The credit quality of the financial assets of the Group have been assessed by reference to the staging policy adopted by the Group as follows:

Group 31 December 2019 Classification	Agriculture ₦'000	Construction and real estate ₦'000	Information and communication ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Stages										
Stage 1	5,513,902	5,674,569	4,084,296	-	2,269,661	10,151,118	1,131,925	9,227,883	2,056,740	40,110,093
Stage 2	-	-	-	-	-	4,878,162	-	-	-	4,878,162
Stage 3	-	1,226,268	-	-	-	-	156,750	-	76,901	1,459,919
	5,513,902	6,900,837	4,084,296	-	2,269,661	15,029,281	1,288,675	9,227,883	2,133,641	46,448,174

Bank 31 December 2019 Classification	Agriculture ₦'000	Construction and real estate ₦'000	Information and communication ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and Gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Stages										
Stage 1	5,513,902	5,674,569	4,084,296	-	2,269,661	10,151,118	1,131,925	9,227,883	1,999,020	40,052,373
Stage 2	-	-	-	-	-	4,878,162	-	-	-	4,878,162
Stage 3	-	1,226,268	-	-	-	-	156,750	-	76,901	1,459,919
	5,513,902	6,900,837	4,084,296	-	2,269,661	15,029,281	1,288,674	9,227,883	2,075,921	46,390,453

Group 31 December 2018 Classification	Agriculture ₦'000	Construction and real estate ₦'000	Information and communication ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and Gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Stages										
Stage 1	1,938,706	60,110	1,186,914	3,905,034	4,017,595	14,784,253	1,301,505	7,089,273	988,216	35,271,606
Stage 2	-	-	-	-	-	-	142,028	-	-	142,028
Stage 3	-	-	-	-	-	-	-	-	-	-
	1,938,706	60,110	1,186,914	3,905,034	4,017,595	14,784,253	1,443,534	7,089,273	988,216	35,413,635

Bank 31 December 2018 Classification	Agriculture ₦'000	Construction and real estate ₦'000	Information and communication ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and Gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Stages										
Stage 1	1,938,706	60,110	1,186,914	3,905,034	4,017,595	14,784,253	1,301,505	7,089,273	917,406	35,200,796
Stage 2	-	-	-	-	-	-	142,028	-	-	142,028
Stage 3	-	-	-	-	-	-	-	-	-	-
	1,938,706	60,110	1,186,914	3,905,034	4,017,595	14,784,253	1,443,534	7,089,273	917,406	35,342,825

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5.7a IFRS 9: Expected credit losses

Expected credit losses are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument.

An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modelled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information.
Expected credit losses are discounted to the reporting period date using the effective interest rates.

5.7b Measurement of expected credit losses

The measurement of expected credit losses is based primarily on the product of the instrument's probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument.
An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modelled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information.

Expected credit losses are discounted to the reporting period date using the effective interest rate. The assessment of significant increase in credit risk requires significant judgement. The Bank's process to assess changes in credit risk is multifactor and has three main categories:

- Stage 1 – Assets that are performing. If credit risk is low as of the reporting date or the credit risk has not increased significantly since initial recognition, The Bank recognise a loss allowance at an amount equal to 12-month expected credit losses. This amount of credit losses is intended to represent lifetime expected credit losses that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.

- Stage 2 – Assets that have significant increases in credit risk. In instances where credit risk has increased significantly since initial recognition, the Bank measures a loss allowance at an amount equal to full lifetime expected credit losses. That is, the expected credit losses that result from all possible default events over the life of the financial instrument. For these debt instruments, interest income recognition will be based on the EIR multiplied by the gross carrying amount.

- Stage 3 – Credit impaired. For debt instruments that have both a significant increase in credit risk plus observable evidence of impairment.

5.7c Assessment of significant increase in credit risk

The assessment of significant increase in credit risk requires significant judgement. The Bank's process to assess changes in credit risk is multifactor and has three main categories:

- quantitative element, a quantitative comparison of PD at the reporting date and PD at initial recognition;
- qualitative elements; and
- 'backstop' indicators.

For individually significant exposures such as corporate and commercial risk assets, the assessment is driven by the internal credit rating of the exposure and a combination of forward-looking information that is specific to the individual borrower and forward-looking information on the macro economy, commercial sector (to the extent such information has not been already reflected in the rating process).

For other exposures, significant increases in credit risk is made on a collective basis that incorporates all relevant credit information, including forward-looking macroeconomic information. For this purpose, the Bank groups its exposures on the basis of shared credit risk characteristics.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
· the remaining lifetime probability of default (PD) as at the reporting date; with
· the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations, if any).

Write-off policy: The Bank writes off a risk asset or security balance (and any related allowances for impairment losses) when it determines that the risk assets or securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the full exposure. All write-offs are approved by the Board.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5.7d Categorisation of loans and advances to customers

The table below analyses the Bank's loans and advances to customers based on the categorisation of the loans and the allowances taken on them.

	Ex-Staff ₦'000	Staff ₦'000	Corporates ₦'000	Bank ₦'000	Government ₦'000	Total ₦'000
31 December 2019						
12 months ECL	-	501,892	38,895,876	-	2,269,661	41,667,428
Lifetime ECL not credit impaired	-	-	4,878,162	-	-	4,878,162
Credit impaired loans	76,901	-	1,383,018	-	-	1,459,919
Gross	76,901	501,892	45,157,056	-	2,269,661	48,005,510
Less allowances for impairment						
Stage 1	-	-	202,033	-	11,835	213,869
Stage 2	-	-	93,937	-	-	93,937
Stage 3	46,822	-	1,260,428	-	-	1,307,250
Total allowance	46,822	-	1,556,399	-	11,835	1,615,056
Net loans and advances	30,079	501,892	43,600,658	-	2,257,825	46,390,453
31 December 2018						
12 months ECL	-	578,852	27,973,396	2,703,790	4,033,563	35,289,601
Lifetime ECL not credit impaired	-	-	151,177	-	-	151,177
Credit impaired loans	67,023	-	1,262,965	-	-	1,329,988
Gross	67,023	578,852	29,387,538	2,703,790	4,033,563	36,770,767
Less allowances for impairment						
Stage 1	-	3,654	67,666	1,517	15,968	88,805
Stage 2	-	-	9,149	-	-	9,149
Stage 3	67,023	-	1,262,965	-	-	1,329,988
Total allowance	67,023	3,654	1,339,780	1,517	15,968	1,427,942
Net loans and advances	-	575,198	28,047,758	2,702,274	4,017,595	35,342,825

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5.8 Credit quality

The Group manages the credit quality of loans and advances using the Moody's Analyst risk rating model for its assessment of obligor risk rating and Bank's internal rating grades as defined by its Risk Assets Acceptance Criteria (RAAC) policy. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates a focused management of the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. The attributable risk ratings are assessed and updated regularly.

i). Credit quality of loans and advances to customers classified by Internal Rating Grade

The credit quality of loans and advances that were in Stage 1 can be assessed by reference to the internal rating system adopted by the Bank as follows:

Internal Rating Grades	Ex-Staff ₦'000	Staff ₦'000	Corporates ₦'000	Bank ₦'000	Government ₦'000	Total ₦'000
31 December 2019						
A	-	-	-	-	-	-
B	-	-	670,520	-	2,269,661	2,940,181
C	-	501,892	8,007,751	-	-	8,509,643
D	-	-	9,152,052	-	-	9,152,052
E	-	-	21,065,552	-	-	21,065,552
	-	501,892	38,895,876	-	2,269,661	41,667,428
31 December 2018						
A	-	-	-	-	-	-
B	-	-	-	-	-	-
C	-	-	27,973,396	-	4,033,563	32,006,959
D	-	-	-	2,703,790	-	2,703,790
E	-	578,852	-	-	-	578,852
	-	578,852	27,973,396	2,703,790	4,033,563	35,289,601

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5.8a Loans and advances to customers classified as Stage 2

The breakdown of the gross amount of individually impaired loans and advances classified as Stage 2, along with the fair value of related collateral held by the Bank as security, are as follows:

	Ex-Staff ₦'000	Staff ₦'000	Corporates ₦'000	Bank ₦'000	Government ₦'000	Total ₦'000
31 December 2019						
Gross loans	-	-	4,966,000	-	-	4,966,000
Impairment	-	-	(87,838)	-	-	(87,838)
Net amount	-	-	4,878,162	-	-	4,878,162
FV of collateral	-	-	-	-	-	-
Amount of under collateralisation	-	-	-	-	-	-
31 December 2018						
Gross loans	-	-	151,177	-	-	151,177
Impairment	-	-	(9,149)	-	-	(9,149)
Net amount	-	-	142,028	-	-	142,028
FV of collateral	-	-	179,999	-	-	179,999
Amount of under collateralisation	-	-	-	-	-	-

5.8b Loans and advances to customers classified as Stage 3

The breakdown of the gross amount of individually impaired loans and advances classified as Stage 3, along with the fair value of related collateral held by the Bank as security, are as follows:

	Ex-Staff ₦'000	Staff ₦'000	Corporates ₦'000	Bank ₦'000	Government ₦'000	Total ₦'000
31 December 2019						
Gross loans	76,901		1,459,919			1,536,820
Impairment	(46,822)		(1,260,428)			(1,307,250)
Net amount	30,079	-	199,491	-	-	229,569
FV of collateral	-	-	-	-	-	-
Amount of under collateralisation	-	-	-	-		-
31 December 2018						
Gross loans	67,023	-	1,262,965	-		1,329,988
Impairment	(67,023)	-	(1,262,965)	-		(1,329,988)
Net amount	-	-	-	-	-	-
FV of collateral	-	-	-	-	-	-
Amount of under collateralisation	-	-	-	-		-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

5.9 Sensitivity of exposure at default to changes in loan loss impairment

Exposure at default (EAD) constitutes the total exposure amount that is subject to provisioning process and it includes EAD for on-balance sheet and off-balance sheet exposures according to IFRS 9. The latter exposure is weighted by CCF (the credit conversion factor). EAD is divided into current EAD and lifetime EAD.

a). Sensitivity of exposure at default - probability at default (PD)

As at 31 December 2019 if the probability of default increased or decreased by 10%, with all other variables (exposure at default and loss given default) held constant, the impact on impairment charge, which ultimately affects profit before tax and exposure at default, would have been as set out in the tables below:

	31 December 2019		31 December 2018	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	(165,703)	(115,992)	(164,649)	(115,254)
Decrease	165,703	115,992	164,649	115,254

Credit collateral

The Bank ensures that every risk asset is reviewed and granted based on the strength of the borrowers' cash flow. However, the Bank also ensures its credit facilities are well secured as a second way out. The policies that guide collateral for facilities are embedded within the Bank's collateral policy. All collateral offered must have the following attributes:

- There must be good legal title
- The title must be easy to transfer
- It should be easy and relatively cheap to value
- The value should be appreciating or at least stable
- The security must be easy to sell.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Cash
- Treasury Bills/bonds
- Charges over financial instruments such as debt securities and equities
- Bank guarantees
- Mortgages over landed properties.

The Bank ensures that every risk asset is reviewed and granted based on the strength of the borrowers' cash flow. However, the Bank also ensures its credit facilities are well secured as a second way out. The policies that guide collateral for facilities are embedded within the Bank's collateral policy. All collateral offered must have the following attributes:

- There must be good legal title
- The title must be easy to transfer
- It should be easy and relatively cheap to value
- The value should be appreciating or at least stable
- The security must be easy to sell.

In order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5.9 Sensitivity of exposure at default to changes in loan loss impairment continued

Summary of collaterals held against loans and advances to customers

An estimate of the fair value of any collateral and other security enhancements held against loans and advances to customers is shown below:

Group		
31 December 2019		
In thousands of Nigerian naira	Gross amount	Collateral
Stage 3	1,459,919	-
Stage 2	-	-
Stage 1	46,859,451	33,309,904
	48,319,370	33,309,904

Bank		
31 December 2019		
In thousands of Nigerian naira	Gross amount	Collateral
Stage 3	1,459,919	-
Stage 2	-	-
Stage 1	46,858,738	33,309,904
	48,318,657	33,309,904

Type of collateral	Stage 1	Stage 2	Stage 3
Cash/Treasury bills	1,448,380	-	-
Government guarantee	-	-	-
Bank guarantee	5,800,000	-	-
Mortgage property	13,218,885	-	-
Asset debentures	9,437,335	-	-
Asset financed	1,787,649	-	705,206
Corporate guarantee	-	-	-
Insurance and receivables	912,449	-	-
	32,604,698	-	705,206

NOTES TO THE FINANCIAL STATEMENTS
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5.9 Sensitivity of exposure at default to changes in loan loss impairment continued

Group		
31 December 2018		
In thousands of Nigerian naira	Gross amount	Collateral
Stage 3	1,329,988	-
Stage 2	151,177	179,999.29
Stage 1	33,932,470	29,265,036
	35,413,636	29,445,036

Bank		
31 December 2018		
In thousands of Nigerian naira	Gross amount	Collateral
Stage 3	1,329,988	-
Stage 2	151,177	179,999.29
Stage 1	33,861,660	29,265,036
	35,342,826	29,445,036

Type of collateral	Stage 1	Stage 2	Stage 3
Cash/treasury bills	1,079,300	-	-
Government guarantee	-	-	-
Bank guarantee	2,896,775	-	-
Mortgage property	3,170,805	-	-
Asset debentures	5,100,000	-	-
Asset financed	1,787,650	-	-
Corporate guarantee	2,828,187	-	-
Insurance and receivables	7,073,123	179,999	-
	23,935,840	179,999	-

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5.9 Sensitivity of exposure at default to changes in loan loss impairment continued

Investment securities

The table below shows analysis of investment securities into the different classifications:

31 December 2019	Investment securities-(Fair value through OCI)	Investment securities -(Amortised cost)	Investment securities -Financial assets at FVTPL	Total
Federal government bonds	3,349,296	-	6,947	3,356,243
Corporate bonds	5,109,624	388,406	105,337	5,603,366
Treasury bills	7,460,007	69,158	2,720,268	10,249,433
Others	196,821	2,456,685	69,740	2,723,245
Pledged assets	35,777,867	3,155,357	449,453	39,382,677
	51,893,615	6,069,605	3,351,744	61,314,965
31 December 2018				
Federal government bonds	2,238,866	-	324,815	2,563,680
State government bonds	5,941	-	-	5,941
Corporate bonds	2,840,565	783,099	501,173	4,124,837
Treasury bills	28,498,576	-	476,229	28,974,806
Eurobond	-	-	-	-
Others	84,814	492,554	574,151	1,151,519
Pledged assets - Fair value through OCI	21,099,602	-	-	21,099,602
	54,768,363	1,275,653	1,876,368	57,920,384

The Group's investment in risk-free Government securities constitutes 95.70% of debt instruments portfolio (31 December 2018: 94.95%). Investment in corporate bond accounts for the outstanding 4.30% (31 December 2018: 5.05%).

5.10 Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trade. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a settlement clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

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5.11 Capital management

The Bank's objectives in managing capital are (i) to comply with the capital requirements set by the Central Bank of Nigeria, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain an optimal capital structure suitable for the Group's business strategy.

The Bank is directly supervised by its regulator, the Central Bank of Nigeria (CBN), who sets and monitors capital requirements for the Group. In 2015, CBN revised the Capital Adequacy Ratio (CAR) reporting template and existing guidance notes on regulatory capital, credit risk, market risk and operational risk disclosure requirement for Basel II implementation in the Industry. The Apex Bank directed all Nigerian Banks and Bankiing groups to re-compute capital adequacy ratio in line with the revised guidance notes. To this end, the Bank's Capital Adequacy Ratio (CAR) under Basel II has been re-computed in accordance to the new guidelines.

The CBN specifies approaches for quantifying the risk weighted assets for credit, market and operational risk for the purpose of determining regulatory capital. In compliance with CBN, the Bank adopted the Standardised Approach (SA) in determining capital charge for credit risk and market risk while capital charge for operational risk was determined using the Basic Indicator Approach (BIA).

The Bank's policy is to maintain a strong capital base so as to maintain investor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the advantages and security afforded by a sound capital position. The Bank has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the year.

5.11a Capital adequacy ratio

The capital adequacy ratio, which is the quotient of the capital base of the Bank's risk weighted asset base, has been computed using the Basel II implementation guidelines provided by the Central Bank of Nigeria (CBN). In accordance with extant Central Bank of Nigeria regulations, a minimum ratio of 10% is to be maintained.

CAR is measured as:	Total regulatory capital
	(Credit Risk Weighted Assets + Market Risk Weighted Assets + Operational Risk Weighted Assets)

The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital includes ordinary share capital, share premium, retained earnings and statutory reserves. Intangible assets and deferred tax asset were also deducted from Tier I capital for capital adequacy purposes.

Tier 2 capital comprises fair value reserves.

The Bank complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the period.

The Bank throughout the review period, operated above its targeted capitalization range and well over the CBN mandated regulatory minimum of 10% for Merchant Banks. As at 31st December 2019, the Bank's capital adequacy ratio was 17.67% (31 December 2018: 12.10%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

5.11a Capital adequacy ratio continued

The following table shows the composition of regulatory capital and risk weighted assets for the Bank:

Capital adequacy ratio		
In thousands of Nigerian Naira	31 December 2019	31 December 2018
Tier 1 capital		
Share capital	**4,301,577**	4,301,577
Share premium	**3,904,731**	3,904,731
Retained earnings	**11,261,008**	9,516,426
Statutory reserve	**7,878,899**	7,482,866
Tier 1 capital before regulatory deduction	**27,346,215**	25,205,600
Regulatory deductions		
Deferred tax asset	**9,113,548**	9,113,548
Other intangible assets	**810,031**	1,758,235
Investment in Subsidiaries	**1,313,329**	1,381,773
Total regulatory deduction	**(11,236,908)**	(12,253,555)
Eligible tier 1 capital	**16,109,306**	12,952,045
Tier 2 capital		
Fair value reserves	**(315,728)**	(2,086,380)
Eligible tier 2 capital	**(315,728)**	(2,086,380)
Total eligible capital	**15,793,578**	10,865,665
Risk-weighted assets		
Credit risk	**68,329,477**	69,602,842
Operational risk	**19,959,214**	17,562,816
Market risk	**1,111,355**	2,648,328
Total risk-weighted assets	**89,400,046**	89,813,985
Capital adequacy ratio	**17.67%**	12.10%
Tier 1 capital ratio	**18.02%**	14.42%

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6 Critical accounting estimates and judgements

The preparation of the Group's financial statements requires the Management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, Management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below.

These disclosures supplement the commentary on financial risk management (see Notes 4 and 5).

(a) Key sources of estimation uncertainty

(i) Measurement of the expected credit loss allowance

The measurement of the expected credit loss(ECL) allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Details of the inputs, assumptions and estimation methodologies used in measuring ECL are described in Note 3.26(ii), which also sets out the sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; Significant assumptions include the Probability of default (PD), Loss given default (LGD) and Discount rate;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing groups of financial assets for the purposes of measuring ECL.

Expected credit losses are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument.
An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modeled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information.

Expected credit losses are discounted to the reporting period date using the effective interest rate.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of techniques as described in accounting policy. Further disclosures on the Group's valuation methodology have been made on Note 4.3(d). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(iii) Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies. In determining the timing and level of future taxable profits together with future tax planning strategies, the Group assessed the probability of expected future taxable profits based on expected revenues for the next five years. Details of the Group's recognised and unrecognised deferred tax assets and liabilities are as disclosed in Note 30.

(iv) Valuation of derivative contracts

The fair value of the Group's derivatives is determined by using valuation techniques. Inputs to the valuation models are all based on market conditions existing at the end of each reporting period. The Group has used interest rate parity method discounted for passage of time in the valuation of its foreign exchange derivative contracts. These derivative contracts are not traded in active markets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(b) Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

(i) Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see the Group's accounting policy on valuation of financial instruments in Note 3.26.

(ii) Allowance for credit losses

Allowances for credit losses are calculated on debt instruments measured at amortised cost and fair value through OCI. In estimating credit losses, the Group considers the character and capacity of the obligor, the probability that an obligor or counterparty will default over a given period (probability of default -PD), the portion of the loan expected to be irrecoverable at the time of loan default (loss given default - LGD) and expected amount that is outstanding at the point of default.

(iii) Determination of exchange rate used for translation

The Group translates and records its foreign currency transactions and balances based on the exchange rate at which the future cash flows represented by the transactions or balances could have been settled, if those cash flows had occurred at the reporting date. The Central Bank official rate has been used for the translation of foreign currency balances as this remains the main source of foreign currencies for the Bank's transactions.

7 Interest income

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Loans and advances to customers at amortised cost	**4,863,191**	6,198,135	**4,899,126**	6,256,737
Due from other banks	**1,448,289**	1,733,183	**1,139,948**	1,465,528
Investment securities at amortised cost	**1,046,274**	164,245	**1,046,274**	164,245
	7,357,754	8,095,563	**7,085,348**	7,886,510
Investment securities				
- Fair value through other comprehensive income	**7,174,463**	8,534,594	**7,147,204**	8,502,877
	14,532,217	16,630,157	**14,232,552**	16,389,387

8 Interest expense

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Due to banks	**1,931,646**	1,272,910	**1,931,646**	1,272,910
Due to customers	**8,883,738**	10,999,469	**8,927,943**	11,060,153
	10,815,384	12,272,379	**10,859,589**	12,333,063

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9 Impairment charge

Impairment charge on financial assets

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Loans and advances to staff (24)				
12-month ECL	3,141	(3,654)	3,141	(3,654)
Lifetime ECL not credit impaired	-	-	-	-
Lifetime ECL credit impaired	20,201	-	20,201	-
Loans and advances to customers (24)				
12-month ECL	(134,304)	(33,372)	(134,304)	(33,372)
Lifetime ECL not credit impaired	(78,689)	(9,149)	(78,689)	(9,149)
Lifetime ECL credit impaired	2,537	(67,023)	2,537	(67,023)
	(187,114)	(113,198)	(187,114)	(113,198)
Other assets (25)				
Amount written-off during the year as uncollectible - Financial Advisory Fee	-	(3,000)	-	(3,000)
Net impairment charge on financial assets	(187,114)	(116,198)	(187,114)	(116,198)
Impairment charge on non-financial assets				
Impairment writeback/(charge) on Investment in subsidiaries	-	-	(68,444)	(355,333)
Impairment writeback/(charge) on other financial and non-financial assets	135,726	-	135,726	-
Net Impairment writeback/(charge) on non-financial assets	135,726	-	67,282	(355,333)
	(51,388)	(116,198)	(119,832)	(471,531)

10 Fees and commission income

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Credit-related fees	1,504,600	555,002	1,504,600	555,002
Brokerage and structuring fees	2,470,798	2,678,030	2,466,747	2,654,392
Letters of credit commissions and fees	367,840	180,819	367,840	180,819
Other fees and commissions	335,916	351,808	163,455	80,689
Fund Management fees	3,418,857	2,954,831	-	-
	8,098,011	6,720,490	4,502,642	3,470,902

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FOR THE YEAR ENDED 31 DECEMBER 2019

11 Net gains on foreign exchange

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Gain on foreign currency translation	**325,587**	766,813	**323,210**	668,077
	325,587	766,813	**323,210**	668,077

11a Net gains on financial assets at FVTPL

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Trading gain	**820,082**	778,077	**850,245**	757,130
Interest income	**-**	76,808	**-**	76,808
Unrealised gain/(loss)	**938,208**	315,883	**934,358**	325,270
	1,758,290	1,170,768	**1,784,603**	1,159,208

12 Other operating income

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Sundry income	53,294	39,141	35,767	59,878
Dividend Income	92,567	51,196	-	655,327
	145,861	90,337	35,767	715,205

13 Other operating expenses

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Auditors' remuneration	**78,683**	78,683	**60,000**	60,000
Directors' emoluments (Note 42)	**463,965**	397,008	**350,632**	336,086
Administration and general expenses	**40,209**	821,587	**8,387**	299,413
Insurance	**393,076**	783,839	**393,076**	465,574
Rent and rates	**48,920**	418,621	**48,920**	194,154
Travelling	**106,414**	316,801	**106,414**	210,771
Donations	**14,320**	10,300	**14,320**	10,300
Corporate development	**282,264**	532,553	**252,725**	266,125
Other operating expenses	**2,695,989**	491,878	**701,353**	256,777
Consultancy	**443,218**	542,618	**410,876**	474,002
Loss on sale of property and equipment	**-**	6,015	**-**	6,015
Training	**162,014**	541,682	**127,992**	396,176
License fees	**-**	1,022	**-**	474
Bank charges	**184,852**	187,527	**184,852**	187,527
Repairs and maintenance	**301,688**	114,660	**297,850**	83,672
	5,215,612	5,244,794	**2,957,398**	3,247,066

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14 Personnel expenses

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Wages and salaries	**2,603,909**	3,018,704	**2,283,735**	2,391,497
Pension costs:				
- Defined contribution plans to PFAs	**183,266**	185,677	**178,446**	181,543
	2,787,175	3,204,381	**2,462,181**	2,573,040

15 Taxation

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Corporate tax	**704,391**	651,240	**183,602**	212,100
Prior year over provision	**(43,951)**	-	**(43,951)**	-
	660,440	651,240	**139,651**	212,100
Deferred tax	**(15,232)**	(167,840)	**-**	-
Income tax (credit)/expense	**556,888**	483,400	**139,651**	212,100

	Group				Bank			
Reconciliation of effective interest rate	31 December 2019	%	31 December 2018	%	31 December 2019	%	31 December 2018	%
Profit before income tax	**4,149,945**		2,801,080		**2,779,875**		2,270,112	
Income tax using the domestic corporation tax rate	**1,244,984**	**30%**	840,323	30%	**833,963**	**30%**	681,034	30%
Minimum tax	**104,972**	**3%**	398,659	14%	**104,972**	**4%**	-	-
Dividend tax	**-**	**0%**	212,100	8%	**-**	**0%**	212,100	9%
Technology tax	**30,660**	**0.7%**	13,971	0%	**30,660**	**1.1%**	-	0%
Income not subjected to tax	**(2,896,674)**	**(70%)**	(3,126,055)	(112%)	**(2,902,890)**	**(104%)**	(2,811,967)	(124%)
Expenses not deductible for tax purposes	**2,072,947**	**50%**	2,144,402	77%	**2,072,947**	**75%**	2,130,933	94%
Income tax expense	**556,888**	**13.42%**	483,400	17.26%	**139,651**	**5.02%**	212,100	9.30%

15b Current income tax liabilities

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
At start of period	**716,309**	2,249,412	**212,353**	1,579,252
Prior year over provision	**(43,951)**	-	**(43,951)**	-
Payments made during the period	**(610,078)**	(2,184,343)	**(168,402)**	(1,578,999)
Current period's provision	**704,391**	651,240	**183,602**	212,100
At end of period	**766,671**	716,309	**183,602**	212,353

Income tax expense is recognised based on Management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the Year to 31 December 2019 is 5%, compared to 9% for the year ended 31 December 2018.

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16 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Profit attributable to equity holders	**3,593,057**	2,317,680	**2,640,224**	2,058,012
Weighted average number of ordinary shares in issue (in '000s)	**4,301,577**	4,301,577	**4,301,577**	4,301,577
Basic earnings per share (expressed in Kobo per share)	**84**	54	**61**	48

(b) Diluted

The Bank does not have potential ordinary shares with convertible options and therefore there is no dilutive impact on the profit attributable to the equity holders of the parent (31 December 2018: Nil).

17 Cash and balances with Central Bank of Nigeria

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Cash	**3,515**	2,249	**3,515**	2,249
Balances with central banks excluding mandatory reserve deposits	**298,183**	770,901	**298,183**	770,901
Included in cash and cash equivalents	**301,698**	773,150	**301,698**	773,150
Mandatory reserve deposits with Central Bank of Nigeria	**8,000,335**	3,879,865	**8,000,335**	3,879,865
	8,302,033	4,653,015	**8,302,033**	4,653,015

18 Due from other banks

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Current account balances with banks within Nigeria	**1,484,248**	3,991,835	**1,190,728**	2,908,081
Current account balances with banks outside Nigeria	**1,047,043**	1,432,297	**1,047,043**	1,412,550
Placements with financial institutions within Nigeria	**4,846,229**	11,913,715	**2,000,466**	9,900,496
	7,377,520	17,337,847	**4,238,237**	14,221,127
Current	**7,377,520**	17,337,847	**4,238,237**	14,221,127

NOTES TO THE FINANCIAL STATEMENTS

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19 Cash and cash equivalents

Cash and cash equivalents for purposes of the cash flow statements comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities less than three months. Excluded from loans and advances to banks are cash collateral balance.

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Cash and balances with Central Bank of Nigeria	**301,698**	773,150	**301,698**	773,150
Treasury bills with original maturities less than 3 months	**19,557,244**	15,137,700	**19,557,244**	15,137,700
Due from other banks with original maturities less than 3 months	**7,377,520**	17,337,846	**4,238,237**	14,221,127
	27,236,462	33,248,696	**24,097,179**	30,131,977

20 Financial assets At FVTPL

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Federal Government of Nigeria (FGN) bonds	**6,947**	324,815	**6,947**	324,815
Corporate bonds	**105,337**	501,173	**105,337**	501,173
Treasury bills	**2,404,878**	476,229	**2,404,878**	476,229
Unlisted equity investments	**315,390**	303,961	**-**	-
Listed equity investments	**69,740**	270,190	**-**	-
	2,902,292	1,876,368	**2,517,162**	1,302,217
Current	**2,411,825**	550,827	**2,411,825**	550,827
Non-current	**490,467**	1,325,541	**105,337**	751,390
	2,902,292	1,876,368	**2,517,162**	1,302,217

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21 Investments securities

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Fair value through OCI				
Debt securities				
Treasury bills	7,460,007	28,498,576	7,460,007	28,448,127
Federal Government of Nigeria Bonds	3,349,296	2,238,867	3,349,296	2,238,867
State bonds	-	5,941	-	5,941
Corporate bonds	5,109,624	2,840,565	4,759,273	2,840,565
Promisory note	196,821	-	196,821	-
	16,115,748	33,583,949	15,765,398	33,533,500
Equity securities at FVOCI				
Listed equity investments	17,164	3,148	-	-
Unlisted equity investments	551,784	81,666	260,988	58,865
	568,948	84,814	260,988	58,865
Total investments securities	16,684,696	33,668,763	16,026,386	33,592,365

The Group has designated at FVOCI, investments in a small portfolio of quoted equity securities and investments in the following unquoted equity securities;

- Nigeria Inter-Bank Settlement System Plc
- FMDQ OTC Securities Exchange
- Central Securities Clearing System Plc

The Group chose this measurement basis because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

The fair value of these investments is ₦16.7billion as at 31 December 2019.

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Current	7,656,829	28,504,517	7,656,829	28,454,068
Non-current	9,027,867	5,164,246	8,369,557	5,138,297
	16,684,696	33,668,763	16,026,386	33,592,365

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22 Debt securities at Amortised cost

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Treasury Bills	**69,158**	-	**69,158**	-
Commercial papers	**2,456,685**	492,554	**2,456,685**	492,554
Corporate Bonds	**388,406**	783,099	**388,406**	783,099
	2,914,249	1,275,653	**2,914,249**	1,275,653
Total	**2,914,249**	1,275,653	**2,914,249**	1,275,653
Current	**2,914,249**	1,275,653	**2,914,249**	1,275,653

23 Pledged assets

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Treasury bills	**34,153,436**	16,153,676	**34,153,436**	16,153,676
Federal Government of Nigeria Bonds	**5,229,241**	4,945,926	**5,229,241**	4,945,926
	39,382,677	21,099,602	**39,382,677**	21,099,602

Treasury bills are pledged to other financial institutions as collateral for inter-bank takings (OBB takings).

Current	**34,153,436**	16,153,676	**34,153,436**	16,153,676
Non-current	**5,229,241**	4,945,926	**5,229,241**	4,945,926
	39,382,677	21,099,602	**39,382,677**	21,099,602

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

24 Loans and advances to customers

	Group	Bank
In thousands of Nigerian Naira	31 December 2019	31 December 2019
Loans and advances to customers	47,503,617	47,503,617
Staff loans	559,612	501,892
Gross Loans	48,063,229	48,005,509
Impairment on 12-month ECL	-	-
Loans and advances to customers	(1,614,543)	(1,614,543)
Staff loans	(513)	(513)
Impairment on Lifetime ECL not credit impaired	(1,615,056)	(1,615,056)
Loans and advances to customers	(1,614,543)	(1,614,543)
Staff loans	(513)	(513)
Total impairment	(1,615,056)	(1,615,056)
Loans and advances to customers	45,889,074	45,889,074
Staff loans	559,099	501,378
Net carrying amount	46,448,173	46,390,453

	Group	Bank
In thousands of Nigerian Naira	31 December 2019	31 December 2019
Loans and advances to customers	36,191,915	36,191,915
Staff loans	649,662	578,852
Gross loans	36,841,577	36,770,767
Loans and advances to customers	(85,151)	(85,151)
Staff loans	(3,654)	(3,654)
Specific Impairment	(88,805)	(88,805)
Loans and advances to customers	(9,149)	(9,149)
Staff loans	-	-
Impairment on Lifetime ECL not credit impaired	(9,149)	(9,149)
Loans and advances to customers	(1,329,988)	(1,329,988)
Staff loans	-	-
	(1,329,988)	(1,329,988)
Loans and advances to customers	(1,424,288)	(1,424,288)
Staff loans	(3,654)	(3,654)
Total impairment	(1,427,942)	(1,427,942)
Loans and advances to customers	34,767,627	34,767,627
Staff loans	646,008	575,198
Net carrying amount	35,413,635	35,342,825

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

24 Loans and advances to customers continued

Group 2019	Total			
	31-Dec-19			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2019	88,805	9,149	1,329,988	1,427,942
Derecognised	-	-	-	-
Impairment recognised during the year	209,852	-	(22,738)	187,114
Transfer between stages	(78,689)	78,689	-	-
Balance at 31 December 2019	219,968	87,838	1,307,250	1,615,056

	Loans to customers			
	31-Dec-19			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2019	85,151	9,149	1,262,965	1,357,265
Derecognised	-	-	-	-
Impairment recognised during the year	212,993	-	(2,537)	210,456
Transfer between stages	(78,689)	78,689	-	-
Balance at 31 December 2019	219,455	87,838	1,260,428	1,567,721

	Staff loans			
	31-Dec-19			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2019	3,654	-	67,023	70,677
Derecognised	-	-	-	-
Impairment recognised during the year	(3,141)	-	(20,201)	(23,342)
Transfer between stages	-	-	-	-
Balance at 31 December 2019	513	-	46,822	47,335

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

24 Loans and advances to customers continued

Bank 2019	Total			
	31-Dec-19			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2019	88,805	9,149	1,329,988	1,427,942
Derecognised	-	-	-	-
Impairment recognised during the year	209,852	-	(22,738)	187,114
Transfer between stages	(78,689)	78,689	-	-
Balance at 31 December 2019	219,968	87,838	1,307,250	1,615,056

	Loans to customers			
	31-Dec-19			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2019	85,151	9,149	1,262,965	1,357,265
Derecognised	-	-	-	-
Impairment recognised during the year	212,993	-	(2,537)	210,456
Transfer between stages	(78,689)	78,689	-	-
Balance at 31 December 2019	219,455	87,838	1,260,428	1,567,721

	Staff loans			
	31-Dec-19			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2019	3,654	-	67,023	70,677
Derecognised	-	-	-	-
Impairment recognised during the year	(3,141)	-	(20,201)	(23,342)
Transfer between stages	-	-	-	-
Balance at 31 December 2019	513	-	46,822	47,335

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

24 Loans and advances to customers continued

Group 2018	Total			
	31-Dec-18			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2018	51,779	-	1,262,965	1,314,744
Derecognised	-	-	-	-
Impairment recognised during the year	40,680	-	134,047	174,726
Transfer between stages	-	9,149	-	9,149
Balance at 31 December 2018	92,459	9,149	1,397,012	1,498,620

	Loans to customers			
	31-Dec-18			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2018	51,779	-	1,262,965	1,314,744
Derecognised	-	-	-	-
Impairment recognised during the year	37,026	-	67,023	104,049
Transfer between stages	-	9,149	-	9,149
Balance at 31 December 2018	85,151	9,149	1,262,965	1,427,942

	Staff loans			
	31-Dec-18			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2018	-	-	-	-
Derecognised	-	-	-	-
Impairment recognised during the year	3,654	-	67,023	70,677
Transfer between stages	-	-	-	-
Balance at 31 December 2018	3,654	-	67,023	70,677

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

24 Loans and advances to customers continued

Bank 2018	Total			
	31-Dec-19			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2018	51,779	-	1,262,965	1,314,744
Derecognised	11,634	-	-	11,634
Impairment recognised during the year	25,396	9,144	67,023	101,564
Transfer between stages	(5)	5	-	-
Balance at 31 December 2018	88,805	9,149	1,329,988	1,427,942

	Loans to customers			
	31-Dec-18			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2018	51,779	-	1,262,965	1,314,744
Derecognised	11,634	-	-	11,634
Impairment recognised during the year	21,742	9,144	-	30,887
Transfer between stages	(5)	5	-	-
Balance at 31 December 2018	85,151	9,149	1,262,965	1,357,265

	Staff loans			
	31-Dec-18			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2018	-	-	-	-
Derecognised	-	-	-	-
Impairment recognised during the year	3,654	-	67,023	70,677
Transfer between stages	-	-	-	-
Balance at 31 December 2018	3,654	-	67,023	70,677

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

25 Other assets

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Other financial assets:				
Fees receivable	4,120,346	4,400,156	3,247,210	4,216,322
AGSMEIS Investment Fund	552,115	449,215	552,115	449,215
SMIS foreign exchange intervention receivable	2,702,445	-	2,702,445	-
Dividends receivable	-	-	-	655,327
Intercompany receivable	606,941	966,914	1,975,804	966,914
Other receivable	571,702	136,401	486,945	36,008
	8,553,549	5,952,686	8,964,519	6,323,786
Less allowances for impairment of other financial assets	(1,500,171)	(1,748,979)	(1,500,171)	(1,748,979)
	7,053,378	4,203,707	7,464,348	4,574,807
Non-financial assets:				
Withholding tax receivable	1,524,550	1,299,252	1,183,225	1,102,395
Prepayments	597,054	1,061,695	567,519	1,061,695
	9,174,982	6,564,654	9,215,092	6,738,897
Less allowances for impairment	(705,825)	(587,483)	(697,565)	(587,483)
	8,469,157	5,977,171	8,517,527	6,151,414
The allowance for impairment relates to fees receivable as at 31 December 2019.				
Current	7,917,042	5,482,998	7,965,412	5,657,241
Non-current	552,115	494,173	552,115	494,173
	8,469,157	5,977,171	8,517,527	6,151,414
Allowance for impairment on financial asset				
Balance at 1 January	1,748,979	143,209	1,748,979	143,209
Additional/(write-back of) provision	(248,808)	1,605,770	(248,808)	1,605,770
Balance at 31 December	1,500,171	1,748,979	1,500,171	1,748,979
Allowance for impairment on non financial asset				
Balance at 1 January	587,483	587,483	587,483	587,483
Additional provision	118,342	-	110,082	-
Balance at 31 December	705,825	587,483	697,565	587,483

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

26 Investment in subsidiaries

	Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018
Investment in FBNQuest Securities Limited	1,448,100	1,448,100
investment in FBNQuest Assets Management Limited	289,006	289,006
	1,737,106	1,737,106
Less allowances for impairment	(423,777)	(355,333)
	1,313,329	1,381,773
Allowance for impairment on investment in subsidiaries		
Balance at 1 January	(355,333)	-
Additional provision	(68,444)	(355,333)
	(423,777)	(355,333)

The Bank owns 100% shareholding of each of the subsidiaries

26.1 Group entities

Set out below are the Group's subsidiaries. Unless otherwise stated, the subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by the Group. The country of incorporation is also their principal place of business.

There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of any member of the Group to the extent that regulation does not inhibit the Group from having access, and in liquidation scenario, this restriction is limited to its level of investment in the entity.

	Group
In thousands of Nigerian Naira	31 December 2019
FBNQuest Securities Limited	1,024,323
FBNQuest Asset Management Limited	289,006
	1,313,329

The Group consolidates its subsidiary undertakings. The nature of the business of all the subsidiaries involve the provision of asset management services.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

26.2 The summarised financial information of the subsidiaries is as follows

i Condensed statement of comprehensive income

	FBNQAM	FBNQSEC
In thousands of Nigerian Naira	31 December 2019	31 December 2019
Operating income	3,872,131	153,265
Total operating expenses	(2,322,126)	(401,639)
Net impairment gain/(loss) on financial assets	-	-
Profit/(loss) before income tax	1,550,005	(248,374)
Income tax expense	(505,058)	87,821
Profit/(loss) for the period	1,044,947	(160,554)

ii Condensed statement of financial position as at 31 December 2019

In thousands of Nigerian Naira	31 December 2019	31 December 2019
Assets		
Cash and cash equivalents	2,947,864	938,094
Fair value through profit and loss	315,390	69,740
Fair value through other comprehensive income	350,350	307,961
Amortised cost	1,317,037	61,176
Property and equipment	47,715	14,983
Intangible assets	7,103	46,002
Deferred tax assets	-	396,024
Deposit with NSE	-	1,150
	4,985,459	1,835,130
Financed by:		
Accruals and other liabilities	1,868,986	477,450
Customer deposits	-	400,795
Tax payable	581,574	1,495
Deferred tax liabilities	83,035	-
Total equity	2,451,865	955,390
	4,985,459	1,835,130

27 Deposit with Nigerian Stock Exchange

In thousands of Nigerian Naira	1 December 2019	31 December 2018
FBNQuest Securities Limited	1,150	1,150
	1,150	1,150

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

28 Property and equipment (Group)

2019 *In thousands of Nigerian Naira*	Freehold building	Land	Motor vehicle	Office improvement	Furniture fittings	Office equipment	Computer equipment	Total
Cost								
At 1 January	675,355	200,000	1,101,768	95,669	111,118	86,059	603,343	2,873,311
Addition during the period	-	-	149,131	8,559	3,803	1,154	11,761	174,408
Disposals during the period	-	-	(205,627)	-	(1,617)	(2,109)	(2,510)	(211,863)
Reclassifications	-	-	42,447	-	10,924	(16,614)	8,006	44,763
At 31 December	675,355	200,000	1,087,719	104,228	124,228	68,490	620,600	2,880,620
Depreciation								
At 1 January	114,321	-	559,075	22,677	65,252	53,618	298,919	1,113,862
Charge for period	15,890	-	255,838	23,074	16,779	9,958	172,837	494,376
Disposals during the period	-	-	(154,657)	-	(1,613)	(2,050)	(2,510)	(160,831)
Reclassifications	(4,643)	-	47,871	(10,422)	11,791	(804)	972	44,763
At 31 December	125,568	-	708,126	35,329	92,209	60,722	470,217	1,492,170
Net book value								
At 31 December, 2019	549,786	200,000	379,593	68,899	32,018	7,768	150,383	1,388,450
2018								
Cost								
At 1 January	675,355	200,000	872,957	70,832	105,779	121,601	536,241	2,582,765
Addition during the period	-	-	319,918	24,837	9,298	24,518	96,533	475,104
Disposals during the period	-	-	(91,107)	-	(3,960)	(60,060)	(29,431)	(184,558)
At 31 December 2018	675,355	200,000	1,101,768	95,669	111,118	86,059	603,343	2,873,311
Depreciation								
At 1 January	94,637	-	286,474	7,493	66,181	104,738	147,735	707,258
Charge for period	19,684	-	332,865	15,184	2,923	8,480	180,597	559,734
Disposals during the period	-	-	(60,263)	-	(3,853)	(59,602)	(29,413)	(153,130)
At 31 December	114,321	-	559,075	22,677	65,252	53,618	298,919	1,113,862
Net book value								
At 31 December 2018	561,033	200,000	542,692	72,991	45,866	32,441	304,424	1,759,449

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

28 Property and equipment (Bank)

2019 *In thousands of Nigerian Naira*	Freehold building	Land	Motor vehicle	Office improvement	Furniture fittings	Office equipment	Computer equipment	Total
Cost								
At 1 January	675,355	200,000	980,589	95,669	111,055	84,599	603,344	2,750,610
Addition during the period	-	-	107,465	8,559	3,192	956	11,059	131,231
Disposals during the period	-	-	(154,612)		(1,617)	(2,109)	(2,510)	(160,848)
Reclassifications	-	-	42,447	-	10,924	(16,614)	8,006	44,763
At 31 December	675,355	200,000	975,888	104,228	123,554	66,833	619,899	2,765,757
Depreciation								
At 1 January	114,321	-	512,916	22,677	65,252	53,290	298,919	1,067,374
Charge for period	15,890	-	225,740	23,074	16,643	9,554	172,660	463,562
Disposals during the period	-	-	(129,522)	-	(1,613)	(2,050)	(2,510)	(135,696)
Reclassifications	(4,643)	-	47,871	(10,422)	11,791	(804)	972	44,764
At 31 December	125,568	-	657,005	35,329	92,073	59,990	470,040	1,440,005
Net book value								
At 31 December 2019	549,786	200,000	318,884	68,900	31,481	6,843	149,858	1,325,752
2018								
Cost								
At 1 January	675,355	200,000	779,336	70,832	105,716	120,447	536,241	2,487,927
Addition during the year	-	-	292,360	24,837	9,298	24,213	96,533	447,241
Disposals during the year	-	-	(91,107)		(3,960)	(60,060)	(29,431)	(184,558)
At 31 December 2018	675,355	200,000	980,589	95,669	111,055	84,599	603,344	2,750,610
Depreciation								
At 1 January	94,637	-	276,622	7,493	66,181	104,642	147,735	697,310
Charge for Year	19,684		296,154	15,184	2,923	8,249	180,597	522,791
Disposals during the year	-		(59,861)	-	(3,853)	(59,602)	(29,413)	(152,728)
At 31 December 2018	114,321	-	512,916	22,677	65,252	53,290	298,919	1,067,373
Net book value								
At 31 December 2018	561,033	200,000	467,674	72,991	45,803	31,309	304,426	1,683,237

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

29 Intangible assets

Group 2019			
In thousands of Nigerian Naira	Computer software	Work in progress	Total
Cost			
At 1 January	3,494,295	140,769	3,635,064
Additions for the year	-	170,051	170,051
Transfers	245,405	(245,405)	-
At 31 Dec 2019	3,739,699	65,416	3,805,115
Amortisation			
At 1 January	1,734,709	-	1,734,709
Charge for Year	1,207,270	-	1,207,270
At 31 Dec 2019	2,941,979	-	2,941,979
	797,720	65,416	863,136
2018			
Cost			
At 1 January	3,439,425	395,002	3,834,427
Acquired on business combination	214,335	62,247	276,582
Additions for the year	(159,465)	-	(159,465)
Transfers	-	(316,480)	(316,480)
At 31 December 2018	3,494,295	140,769	3,635,064
Amortisation			
At 1 January	713,523	-	713,523
Charge for Year	1,179,999	-	1,179,999
Disposals during the year	(158,814)		(158,814)
At 31 December 2018	1,734,709	-	1,734,709
	1,759,586	140,769	1,900,355

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

29 Intangible assets continued

Bank
2019

In thousands of Nigerian Naira	Computer software	Work in progress	Total
Cost			
At 1 January	3,101,363	139,141	3,240,504
Additions for the year	-	149,319	149,319
Disposals	-	-	-
Transfers	245,405	(245,405)	-
At 31 Dec 2019	3,346,768	43,055	3,389,823
Amortisation			
At 1 January	1,482,269	-	1,482,269
Charge for Year	1,097,522	-	1,097,522
Disposals during the year	-	-	-
At 31 Dec 2019	2,579,792	-	2,579,792
	766,976	43,055	810,031

2018			
Cost			
At 1 January	3,103,458	393,374	3,496,832
Additions for the year	157,370	62,247	219,617
Disposals	(159,465)	-	(159,465)
Transfers	-	(316,480)	(316,480)
At 31 December 2018	3,101,363	139,141	3,240,504
Amortisation			
At 1 January	655,908	-	655,908
Charge for Year	985,176	-	985,176
Disposals during the year	(158,815)	-	(158,815)
At 31 December 2018	1,482,269	-	1,482,269
	1,619,094	139,141	1,758,235

NOTES TO THE FINANCIAL STATEMENTS

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30 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2018: 30%).

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

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deferred tax liabilities				
Property, plant and equipments and intangible assets	-	-	-	-
Deferred tax assets				
Tax loss carry forward	**(9,426,538)**	(9,322,285)	**(9,113,548)**	(9,113,548)
Net	**(9,426,538)**	(9,322,285)	**(9,113,548)**	(9,113,548)
Deferred tax assets				
- Deferred tax asset to be recovered after more than 12 months	**(9,426,538)**	(9,322,285)	**(9,113,548)**	(9,113,548)
- Deferred tax asset to be recovered within 12 months	-	-	-	-
Deferred tax liabilities				
- Deferred tax liability to be recovered after more than 12 months	-	-	-	-
- Deferred tax liability to be recovered within 12 months	-	-	-	-

Movements in temporary differences during the period:

	1 January 2019	Recognised in profit and loss	Recognised in OCI	31 December 2019
Tax losses	9,162,295	104,252	-	9,266,548
Unabsorbed capital allowance	648,287	-	-	648,287
Unrealised exchange difference	(69,361)	-	-	(69,361)
Impairment charge	174,151	-	-	174,151
Property and equipment and intangible assets	(606,541)	-	-	(606,541)
Tax loss carried forward	13,454	-	-	13,454
	9,322,285	104,252	-	9,426,538

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. The Group has a recognized a deferred tax assets amounting to ₦9.43billion as at 31 December 2019 (31 December 2018: ₦9.32million). Based on management assessment, the deferred tax asset is recoverable against future tax profits.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

31 Due to banks

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Due to banks comprise:				
Tenored interbank deposit	7,843,697	-	7,843,697	-
Open buy back - Treasury bills	19,804,951	8,003,945	19,804,951	8,003,945
	27,648,648	8,003,945	27,648,648	8,003,945
Current	27,648,648	8,003,945	27,648,648	8,003,945
Non-current	-	-	-	-
	27,648,648	8,003,945	27,648,648	8,003,945

32 Due to customers

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Call deposits	1,157,495	3,404,895	1,503,373	3,523,792
Intermediation money	32,691,368	36,881,228	32,691,368	36,881,228
Fixed deposits	41,826,706	50,572,349	41,826,706	50,572,349
	75,675,571	90,858,472	76,021,448	90,977,369
Current	75,675,571	90,858,472	76,021,448	90,977,369
	75,675,571	90,858,472	76,021,448	90,977,369

Due to customers only include financial instruments classified as liabilities at amortised cost.

33 Other liabilities

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial liabilities:				
Customer deposits for letters of credit	4,832,216	469,929	4,832,216	469,930
Accounts payable	3,734,428	7,770,646	3,400,198	8,000,797
Uncleared effects	1,500	2,000	1,500	2,000
Intercompany Balances	510	558,572	-	-
	8,568,654	8,801,147	8,233,914	8,472,727
Non financial liabilities:				
Accrued liabilities	1,522,130	1,272,495	878,589	368,967
	10,090,783	10,073,643	9,112,503	8,841,694
Current	10,090,783	10,073,643	9,112,503	8,841,694
Non-current	-	-	-	-
	10,090,783	10,073,643	9,112,503	8,841,694

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

34 Share capital

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
(i) Authorised				
4.5 billion ordinary shares of ₦1 each	**4,500,000**	4,500,000	**4,500,000**	4,500,000
(ii) Issued and fully paid				
4.301577 billion ordinary shares of ₦1 each	**4,301,577**	4,301,577	**4,301,577**	4,301,577

35 Share premium and reserves

The nature and purpose of the reserves in equity are as follows:

Share premium: Premiums from the issue of shares are reported in share premium.

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

Statutory reserve: Undistributable earnings required to be kept by the Central Bank of Nigeria.

Credit risk reserve: Non-distributable regulatory reserve for the excess between the impairment reserve on loans and advances determined using the prudential guidelines issued by the Central Bank of Nigeria over the impairment reserves calculated under IFRS.

36 Dividends

No dividend was proposed or paid during the period.

37 Fair value reserve

The fair value reserve shows the effects of the fair value measurement of financial instruments classified as FVOCI. Gains or losses are not recognised in the condensed income statement until the asset has been sold or impaired.

Below is the movement in available for sale reserves.

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
FVOCI				
At beginning of the period	**(2,099,650)**	(414,564)	**(2,086,380)**	(420,731)
Fair value movement during the period (unrealised net (loss)/gain)	**1,817,759**	(1,663,954)	**1,770,651**	(1,665,649)
Transfers		(21,133)		
At end of the period	**(281,892)**	(2,099,650)	**(315,728)**	(2,086,380)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

38 Reconciliation of profit before tax to cash generated from operations

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Profit before income tax	**4,149,945**	2,801,080	**2,779,875**	2,270,112
Adjustments for:				
- Depreciation (Notes 28 and 45)	**633,192**	559,734	**602,377**	522,791
- Amortisation (Note 29)	**1,207,270**	1,179,999	**1,097,522**	985,176
- (Gain) / Loss on disposal of property and equipment	**(2,029)**	6,015	**(2,029)**	6,015
- Impairment charge for credit losses (Note 9)	**51,388**	116,198	**119,832**	471,531
- Net gains from financial assets at FVTPL (Note 11a)	**(1,758,290)**	(1,170,768)	**(1,784,603)**	(1,159,208)
- Net (gain)/loss on derivative financial instruments (Note 44b)	**(5,369)**	-	**(5,369)**	-
- Unrealised foreign exchange gain on revaluation (Note 11)	**(325,587)**	(766,813)	**(323,210)**	(668,077)
- Net interest income	**(3,716,833)**	(4,357,778)	**(3,372,963)**	(4,056,324)
	233,687	(1,632,334)	**(888,567)**	(1,627,984)
Changes in working capital :				
- Due from other banks	**9,960,327**	-	**9,982,890**	-
- Restricted deposit	**(4,120,470)**	(1,707,067)	**(4,120,470)**	(1,707,067)
- Loans and advances to customers	**(11,034,539)**	3,810,410	**(11,047,628)**	3,810,410
- Financial assets held for trading	**(1,025,924)**	1,876,368	**(1,214,945)**	2,017,484
- Pledged assets	**(18,283,076)**	14,276,458	**(18,283,076)**	14,276,458
- Other assets	**(2,667,194)**	5,977,170	**(2,541,320)**	2,158,369
- Due to banks	**19,644,703**	(3,635,603)	**19,644,702**	(3,635,603)
- Due to customers	**(15,182,901)**	3,486,385	**(14,955,920)**	3,486,385
- Other liabilities	**17,143**	(2,553,191)	**270,809**	(2,765,589)
Cash generated from operations	**(22,458,244)**	19,898,595	**(23,153,525)**	16,012,864

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

39 Contingent liabilities and commitments

Litigation

The Bank is party to three (3) legal actions arising out of its normal business operations. The Directors believe that based on currently available information and advise of counsel, none of the outcomes that result from such proceedings will have a material adverse effect on the financial position. Contingent liability that may arise from the cases is estimated at nil (31 December 2018: Nil).

In addition, the Group is also engaged in a tax dispute, and has challenged the proposed liability based on the relevant sections of the tax laws of the Federation. Total Contingent liability that may arise from the cases is estimated at ₦43.2mn (31 December 2018: Nil).

Contingent liabilities and commitments

In common with other banks, the Group conducts business involving transaction related bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. Contingent liabilities and Commitments comprise guarantees and letters of credit.

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Performance bonds and guarantees	**3,642,420**	2,588,750	**3,642,420**	2,588,750
Letters of credits	**10,310,436**	8,172,760	**10,310,436**	8,172,760
	13,952,856	10,761,510	**13,952,856**	10,761,510

Capital commitments

At the end of the year, the Bank had no capital commitments (31 December 2018: Nil).

40 Related party transactions

The Bank is controlled by FBN Holdings Plc incorporated in Nigeria, which owns 99.9% of the ordinary shares.

A number of transactions were entered into with related parties in the normal course of business. These include loans and deposits.

The volumes of related-party transactions, outstanding balances at the period end, and relating expense and income for the period are as follows:

40.1 Loans and advances to related parties

The Bank granted various credit facilities to its key management personnel during the year. The rates and terms agreed are comparable to other facilities being held in the Bank's portfolio. Details of these are described below:

	Key management personnel	
In thousands of Nigerian Naira	31 December 2019	31 December 2018
Loans and advances to customers		
Loans outstanding at 1 January	**155,754**	212,961
Loans issued during the period	**98,233**	36,062
Loan repayments during the period	**(121,166)**	(93,269)
Balance	**132,822**	155,754
Interest income earned	**11,323**	7,993

The loans issued to key management personnel during the year of ₦98.23mn (2018: ₦36.06m) are repayable monthly over a period of between two to twenty years and have interest rates of 8% (2018: 8%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

40.2 Deposits from related parties

Year ended 31 December 2019	Entities controlled by the parent (₦'000)	Key management personnel (₦'000)
Deposit from customers		
Deposits at 1 January	110,516	4,598
Movement during the year	2,752,032	(3,809)
	2,862,548	789
Due to banks	1,300,000	-
Deposits at 31 December	4,162,548	789
Interest expenses on deposits	690,073	-
Year ended 31 December 2018		
Deposit from customers		
Deposits at 1 January	6,032,127	3,068
Movement during the year	(5,921,611)	1,530
	110,516	4,598
Due to banks	14,379,518	-
Deposits at 31 December	14,490,034	4,598
Interest expenses on deposits	756,122	-

40.3 Other transactions and balances with related parties

Year ended 31 December 2019	Nature of transaction	31 December 2019	31 December 2018
FBNQuest Capital	Interest expense	**279,624**	109,348
FBNQuest Asset Management	Interest expense	**33,014**	1,234
FBNQuest Securities	Interest expense	**11,191**	-
FBNQuest Trustees	Interest expense	**43,963**	-
FBN Holdings Plc	Interest expense	**322,281**	645,539
FBNQuest Securities	Deposit liabilities	**1,255**	-
FBNQuest Capital	Fees and other receivables	**606,941**	1,016,259
FBNQuest Capital	Deposit liabilities	**1,983,983**	-
FBNQuest Asset Management	Deposit liabilities	**754,708**	-
FBNQuest Trustees	Deposit liabilities	**878,565**	-
FBN Holdings Plc	Deposit liabilities	**547,787**	-
FBN Ltd	Due to banks	**1,300,000**	-
FBN Ltd	Loans and advances to banks	**875,090**	2,894,503
FBNQuest Asset Management	Other receivables	**1,197,482**	1,028,970
FBNQuest Securities	Other receivables	**168,934**	229,682
Taiwo Okeowo	Securities Lending	**387,575**	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

40.4 Key management compensation

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Salaries and other short-term employee benefits	**637,846**	535,400	**548,202**	535,400
Defined contribution costs	**54,672**	45,891	**46,988**	45,891
	692,518	581,291	**595,191**	581,291

The definition of key management includes the close members of family of key personnel and any entity over which key management exercise control. The key management personnel have been identified as the Executive and Non-Executive Directors of the Bank and the Senior Management. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with FBNQuest Merchant Limited.

41 Employees

The number of persons employed by the Bank as at end of period is as follows:

	Bank				
	Total No.	Male	Female	Male	Female
		Number		Percentage	
Employees	157	96	61	61%	39%
Gender Analysis of Board and Management 2019					
Board	9	7	2	78%	22%
Top Management (AGM to GM)	16	7	9	44%	56%
	25	14	11	56%	44%
Gender Analysis of Board and Management 2019					
Assistant General Manager	8	5	3	63%	38%
Deputy General Manager	4	1	3	25%	75%
General Manager	4	1	3	25%	75%
Deputy Managing Director	1	1	0	100%	0%
Managing Director	1	1	0	100%	0%
Non-Executive Directors	7	5	2	71%	29%
	25	14	11	56%	44%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

41 Employees continued

Compensation for the above staff excluding Executive Management:

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Wages and salaries	**2,603,909**	3,018,704	**2,283,735**	2,391,497
Other pension costs	**183,266**	185,677	**178,446**	181,543
	2,787,175	3,204,381	**2,462,181**	2,573,040

The number of employees of the Bank, other than Directors, who received emoluments in the following ranges (excluding pension contributions and certain benefits) were:

	Number			
	Group		Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
₦350,001 - ₦600,000	-	-	-	-
₦600,001 - ₦700,000	-	-	-	-
₦700,001 - ₦1,150,000	-	-	-	-
₦1,150,001 - ₦1,600,000	1	1	1	1
₦1,600,001 - ₦2,100,000	1	1	1	1
₦2,100,001 - ₦2,500,000	-	-	-	-
₦2,500,001 - ₦3,500,000	25	25	21	19
₦3,500,001 - ₦5,500,000	30	32	23	25
₦5,500,001 - ₦10,500,000	58	57	48	51
₦10,500,001 and above	89	87	80	76
	204	203	174	173

In accordance with the provisions of the Pensions Reform Act 2014, the Bank commenced a contributory pension scheme in January 2005. The contribution by the Bank is 10% of the employees' basic salary, housing and transport allowances. The contribution paid by the Bank during the period was ₦178.45million (31 December 2018: ₦181.54million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

42 Directors' emoluments

Remuneration paid to the Bank's Directors was:

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Fees and sitting allowances	**130,857**	116,385	**130,857**	116,385
Executive compensation	**328,959**	264,239	**215,626**	203,317
Terminal benefits	**-**	-	**-**	-
Other Director expenses	**4,150**	16,384	**4,150**	16,384
	463,965	397,008	**350,632**	336,086
Fees and other emoluments disclosed above include amounts paid to:				
Chairman	**22,868**	18,517	**22,868**	18,517
Highest paid Director	**74,250**	67,500	**74,250**	67,500

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

	Number			
	Group		Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
₦5,000,001 and above	8	8	8	8
	8	8	8	8

43 Compliance with regulatory bodies

During the period ended 31 December 2019, the Bank had two contraventions of regulatory provisions and had since paid the attending penalties thereon. Below is the analysis of the contravention:

Contraventions	Regulatory provisions	Penalties ₦'000
Breach of Net Open Position Limit	Section 60(i) of BOFIA, 1991, as amended	**2,000**
Being breach of CBN AML/CFT (Administrative Sanctions) Regulations 2018	Section 60(i) of BOFIA, 1991, as amended	**16,000**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

44 Derivative financial instruments

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Derivative assets				
Instrument type: Forwards	330,894	-	330,894	-
Instrument type: OTC foreign exchange futures	143,863	219,954	143,863	219,954
The movement in derivative asset is as follows:				
Balance, beginning of the period	219,954	32,562	219,954	32,562
Fair value of derivatives acquired in the year	474,757	219,954	474,757	219,954
Fair value of derivatives derecognised in the year	(219,954)	(32,562)	(219,954)	(32,562)
Balance, end of the period	474,757	219,954	474,757	219,954
Derivative liabilities				
Instrument type: Forwards	(325,526)	-	(325,526)	-
Instrument type: OTC foreign exchange futures	(143,863)	(219,954)	(143,863)	(219,954)
The movement in derivatives liability is as follows:				
Balance, beginning of the period	(219,954)	(32,562)	(219,954)	(32,562)
Fair value of derivatives acquired in the year	(469,389)	(219,954)	(469,389)	(219,954)
Fair value of derivatives derecognised in the year	219,954	32,562	219,954	32,562
Balance, end of the period	(469,389)	(219,954)	(469,389)	(219,954)

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	Notional value	Fair value	Notional value	Fair value
Derivative assets				
Instrument type: Forwards	3,995,012	330,894	-	-
Instrument type: OTC FX futures	38,036,956	143,863	17,481,100	219,954
Derivative liabilities				
Instrument type: Forwards	(3,994,656)	(325,526)	-	-
Instrument type: OTC FX futures	(38,036,956)	(143,863)	(17,481,100)	(219,954)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

44 Derivative financial instruments continued

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	Notional value	Fair value	Notional value	Fair value
Derivative assets				
Instrument type: Forwards	3,995,012	330,894	-	-
Instrument type: OTC FX futures	38,036,956	143,863	17,481,100	219,954
Derivative liabilities				
Instrument type: Forwards	(3,994,656)	(325,526)	-	-
Instrument type: OTC FX futures	(38,036,956)	(143,863)	(17,481,100)	(219,954)

Maturity analysis						
Group 2019	**0 - 30 days**	**31 - 90 days**	**91 - 180 days**	**181 - 270 days**	**271 - 365 days**	**Total**
Derivatives assets	185,692	131,425	155,709	1,077	854	474,757
Derivatives liabilities	(182,237)	(130,463)	(154,757)	(1,077)	(854)	(469,389)
Group 2018						
Derivatives assets	-	6,870	-	-	213,084	219,954
Derivatives liabilities	-	(6,870)	-	-	(213,084)	(219,954)

Bank 2019						
Maturity analysis	**0 - 30 days**	**31 - 90 days**	**91 - 180 days**	**180 - 270 days**	**270 - 365 days**	**Total**
Derivatives assets	185,692	131,425	155,709	1,077	854	474,757
Derivatives liabilities	(182,237)	(130,463)	(154,757)	(1,077)	(854)	(469,389)
Bank 2018						
Derivatives assets	-	6,870	-	-	213,084	219,954
Derivatives liabilities	-	(6,870)	-	-	(213,084)	(219,954)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

45 Right of use assets

Group	Land	Building	Total
Cost			
As at 1 January 2019	47,936	266,087	314,023
Additions	-	-	-
As at 31 December 2019	47,936	266,087	314,023
Depreciation			
As at 1 January 2019	-	-	-
Depreciation for the year	-	138,815	138,815
As at 31 December 2019	-	138,815	138,815
Carrying amount as at 31 December 2019	47,936	127,272	175,208

Bank			
Cost			
As at 1 January 2019	47,936	266,087	314,023
Additions	-	-	-
As at 31 December 2019	47,936	266,087	314,023
Depreciation			
As at 1 January 2019	-	-	-
Depreciation for the year	-	138,815	138,815
As at 31 December 2019	-	138,815	138,815
Carrying amount as at 31 December 2019	47,936	127,272	175,208

46 Lease liabilities

	Group		Bank	
In thousands of Nigerian Naira	31 December 2019	31 December 2018	31 December 2019	31 December 2018
As at 1 January 2019	102,330	-	102,330	-
Charges for the year	12,904	-	12,904	-
Lease liabilities as at 31 December 2019	115,233	-	115,233	-

47 Subsequent events

The new Finance Act signed into law on January 2020 and was the basis upon which the Bank's tax was calculated, there were no other events subsequent to the financial position date which require adjustment to or disclosure in these financial statements.

STATEMENT OF VALUE ADDED

FOR THE YEAR ENDED 31 DECEMBER 2019

GROUP	Dec 2019 ₦'000	%	Dec 2018 ₦'000	%
Gross earnings	24,859,966		25,378,566	
Interest expense	(10,815,384)		(12,272,379)	
	14,044,582		13,106,186	
Impairment loss on financial assets	(51,388)		(116,198)	
	13,993,194		12,989,988	
Bought in materials and services	(5,215,612)		(5,244,793)	
Value added	8,777,582	100	7,745,196	100
Distribution of value added				
To government:				
Taxes	556,889	6	483,400	6
To employees:				
Salaries and benefits	2,787,175	33	3,204,381	41
The future:				
For replacement of fixed assets/intangible assets (depreciation and amortisation)	1,840,461	21	1,739,733	22
To augument reserves	3,593,057	41	2,317,680	30
	8,777,581	100	7,745,194	100

This statement shows the distribution of wealth created by the Group during the period.

STATEMENT OF VALUE ADDED

FOR THE YEAR ENDED 31 DECEMBER 2019

BANK	Dec 2019 ₦'000	%	Dec 2018 ₦'000	%
Gross earnings	20,878,775		22,402,779	
Interest expense	(10,859,589)		(12,333,063)	
	10,019,186		10,069,716	
Impairment loss on financial assets	(119,832)		(471,531)	
	9,899,353		9,598,185	
Bought in materials and services	(2,957,398)		(3,247,066)	
Value added	6,941,955	100	6,351,118	100
Distribution of value added				
To government:				
Taxes	139,651	2	212,100	3
To employees:				
Salaries and benefits	2,462,181	35	2,573,040	41
The future:				
For replacement of fixed assets/intangible assets (depreciation and amortisation)	1,699,900	24	1,507,967	24
To augument reserves	2,640,224	39	2,058,012	32
	6,941,956	100	6,351,119	100

This statement shows the distribution of wealth created by the Bank during the period.

OTHER NATIONAL DISCLOSURES

FIVE-YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2019

BANK	31 Dec 2019 ₦'000	31 Dec 2018 ₦'000	31 Dec 2017 ₦'000	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Statement of financial position					
ASSETS					
Cash and balances with Central Bank of Nigeria	**8,302,033**	4,653,015	3,072,985	65,701	277,266
Loans and advances to banks	**4,238,237**	14,221,127	14,020,829	5,650,754	7,962,268
Loans and advances to customers	**46,390,453**	35,342,825	39,153,234	41,684,102	36,649,753
Financial assets held-for-trading	**2,517,162**	1,302,217	3,319,701	17,677,609	10,695,464
Investment securities:					
- Fair value through OCI	**16,026,386**	33,592,365	-	-	-
- Available-for-sale	**-**	-	48,888,808	20,836,198	41,042,494
- Amortised cost	**2,914,249**	1,275,653	-	-	-
- Loans and receivable/held-to-maturity	**-**	-	3,902,759	-	-
Pledged assets	**39,382,677**	21,099,602	6,823,144	36,286,655	-
Derivative financial assets	**474,757**	219,954	32,562	-	-
Other assets	**8,517,527**	6,151,414	3,993,045	4,644,967	865,860
Investment in subsidiaries	**1,313,329**	1,381,773	1,737,106	-	-
Property and equipment	**1,325,752**	1,683,237	1,790,618	1,056,192	963,896
Intangible assets	**810,031**	1,758,235	2,840,915	972,585	19,879
Right of use assets	**175,208**	-	-	-	-
Deferred tax assets	**9,113,548**	9,113,548	9,113,547	8,397,897	8,083,415
TOTAL ASSETS	**141,501,349**	131,794,965	138,689,253	137,272,660	106,560,295
LIABILITIES					
Due to banks	**27,648,648**	8,003,945	11,639,548	38,863,965	5,600,186
Due to customers	**76,021,448**	90,977,369	87,490,984	64,727,659	71,631,378
Current income tax liability	**183,602**	212,353	1,579,252	363,559	128,264
Other liabilities	**9,112,503**	8,841,694	11,607,283	4,358,420	900,970
Lease liabilities	**115,233**	-	-	-	-
Derivative financial liabilities	**469,389**	219,954	32,562	-	367,041
Deferred tax liability	**-**	-	-	-	88,921
TOTAL LIABILITIES	**113,550,823**	108,255,316	112,349,629	108,313,603	78,716,760
NET ASSETS	**27,950,526**	23,539,649	26,339,624	28,959,057	27,843,535

FIVE-YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2019

BANK	31 Dec 2019 ₦'000	31 Dec 2018 ₦'000	31 Dec 2017 ₦'000	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
CAPITAL AND RESERVES					
Share capital	**4,301,577**	4,301,577	4,301,577	4,301,577	4,301,577
Share premium	**3,904,731**	3,904,731	3,904,731	3,904,731	3,904,731
Retained earnings	**11,261,008**	9,516,426	9,570,194	14,013,717	9,235,023
Statutory reserve	**7,878,899**	7,482,866	7,174,165	6,561,495	5,826,521
Credit risk reserve	**920,039**	420,430	1,809,688	2,594,371	4,256,212
Fair value reserve	**(315,728)**	(2,086,380)	-	-	-
Available-for-sale (AFS) reserve	**-**	-	(420,731)	(2,416,834)	319,471
SHAREHOLDERS' FUNDS	**27,950,526**	23,539,651	26,339,624	28,959,057	27,843,535
Income statement					
Operating income	**9,899,352**	9,598,185	11,591,642	8,083,209	6,088,826
Operating expenses	**(7,119,477)**	(7,328,073)	(6,643,577)	(3,167,299)	(2,262,516)
Profit before tax	**2,779,875**	2,270,112	4,948,065	4,915,910	3,826,310
Tax	**(139,651)**	(212,100)	(863,601)	(16,083)	2,739,201
Profit after tax	**2,640,224**	2,058,012	4,084,464	4,899,827	6,565,511
Earnings per share - basic (kobo)	**61**	48	95	109	153

OTHER NATIONAL DISCLOSURES

STATEMENT OF PRUDENTIAL ADJUSTMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

	31 December 2019 ₦'000	31 December 2018 ₦'000
Prudential guidelines provision:		
Balance brought forward:		
- Specific provisions	3,070,431	2,194,185
- General provisions	849,510	778,373
	3,919,941	2,972,558
Charge for the year:		
- Specific provisions	1,081,668	876,246
- General provisions	151,652	71,137
	1,233,321	947,383
Balance carried forward:		
- Specific provisions	4,152,099	3,070,431
- General provisions	1,001,162	849,510
	5,153,262	3,919,941
IFRS impairment provisions:		
- Allowance for impairment	1,615,056	1,427,942
- Other assets: impairment	2,621,513	2,691,795
	4,236,570	4,119,737
Required credit risk reserve at end of the year	920,039	-
Balance at beginning of the year	420,430	1,809,689
Addition/(reversal) to credit risk reserve	499,609	(1,389,259)
Balance at end of the period	920,039	420,430

Credit risk reserves*: Provisioning is made in accordance with the Prudential Guidelines for Deposit Money Banks in Nigeria issued by the Central Bank of Nigeria for each account that is deemed not performing (specific) in accordance with the following terms; (1) 90 days but less than 180 days (10%); (2) 180 days but less than 360 days (50%) and over 360 days (100%). In addition, a minimum of 2% general provision is made on all risk assets which are deemed performing and have not been specifically provided for. The excess of the impairment under the Prudential Guidelines over the impairment under IFRS has been designated to a non-distributable reserve in line with the regulatory requirements of the Central Bank of Nigeria.

ABBREVIATIONS

ALCO	Asset and Liability Committee
AML	Anti-Money Laundering
BAC	Board Audit Committee
BCC	Board Credit Committee
BCM	Business Continuity Management
BGHC	Board Governance/HR Committee
BRMC	Board Risk Management Committee
CBG	Corporate Banking Group
CIBN	Chartered Institute of Bankers
CBN	Central Bank of Nigeria
CEO	Chief Executive Officer
CD	Compact Disc
CFT	Countering the Financing of Terrorism
EAD	Exposure At Default
ECB	European Central Bank
ERM	Enterprise-wide Risk Management
FBNH	FBN Holdings Plc
FBNQ MB	FBNQuest Merchant Bank
FCY	Foreign Currency
FICT	Fixed Income, Currencies and Treasury
FMCG	Fast Moving Consumer Goods
FMDQ OTC	Financial Markets Dealers Quotes Over-The-Counter
FOMC	Federal Open Market Committee
FSS	Financial System Strategy
GBSI	Government Bond Secured Investment
HNWI	High Net Worth Individuals
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IT	Information Technology

ICT	Information and Communications Technology
ITSC	Information Technology Steering Committee
KERA	Kakawa Easy Retirement Account
KYC	Know Your Customer
LIBOR	London Inter-Bank Offered Rate
LGD	Loss Given Default
LMS	Liquidity Multiplier Service
MCIC	Management Credit and Investment Committee
MCUC	Management Credit and Underwriting Committee
MPC	Monetary Policy Committee
NAFEX	Nigerian Autonomous Foreign Exchange Rate Fixing
NCP	National Council on Privatisation
NDDC	Niger Delta Development Commission
NIBOR	Nigerian Inter-Bank Offered Rate
NITTY	Nigerian Inter-bank Treasury Bills' True Yields
PBT	Profit Before Tax
PD	Probability of Default
PDMM	Primary Dealer and Market Maker
PEP	Politically Exposed Persons
PNBI	Promissory Note Backed Investment
QPR	Quarterly Performance Review
RAAC	Risk Asset and Acceptance Criteria
RMC	Risk Management Committee
RM&C	Risk Management and Control
ROAE	Return on average equity
SEC	Securities and Exchange Commission
SME	Small and Medium Enterprise
TBBI	Treasury Bills Backed Investment
TBills	Treasury Bills
UHNWI	Ultra High Net Worth Individuals

NOTES

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Merchant Bank

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