FBNQuest
Merchant Bank

FBNQuest Merchant Bank Limited

Annual Report and Accounts 2020

PREMIUM BOARD LISTED

For over a century, we have remained committed to delivering a diverse range of innovative products and services while creating opportunities that provide sustainable value over the long term. In line with this avowed commitment and focus to lead in the digital age, we are leveraging cutting-edge technology to develop and deliver mutually beneficial innovative financial solutions to our customers in an environmentally friendly and sustainable manner. Consequently, we re-organised our workforce, revamped our processes, and currently overhauling, upgrading, and re-modelling our IT infrastructure as an enabler of our digital initiatives.

Our ability to reach the hitherto unbanked and underbanked to seamlessly deliver tailor-made financial solutions, provide multiple financial access and inclusion, even at the height of the debilitating and rampaging COVID-19 pandemic, while embedding flexible working arrangements to improve overall employee experience and productivity, is a testament to the Group's current transformation.

Confident of the on-going improvements in our business, following continuous investments in innovative financial solutions, resulting in improving financial metrics despite the challenges, we continue to forge ahead with vigor and unwavering commitment towards a brighter future.

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Financial Statements

The FBNQuest Merchant Bank Nigeria Limited Audited Financial Statements in this Annual Report have been prepared under the International Financial Reporting Standards (IFRS), and unless otherwise stated, the income statement compares the 12 months of December 2020 to the corresponding 12 months of 2019, while the statements of financial position comparison represents the corresponding position as at 31 December 2019. Except as otherwise disclosed, all the balances and figures relate to continuous operations. Relevant terms that are used in this document, but not defined under applicable regulatory guidance or the IFRS, are explained in the abbreviation section of this Report.

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.

FBNQuest at a Glance

At FBNQuest Merchant Bank, we are wealth managers with strong corporate and 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 – which include high net worth 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 client's investment goals and portfolios. Our rich culture, local insights and unrivalled network make us a trusted partner to our clients.

Our strong Investment Banking capabilities enable us to arrange finance through the banking and capital markets and provide financial advisory services to clients across the public and private sectors. Over the years, we have built a strong track record advising, structuring, and raising debt products for clients across all the key sectors of the Nigerian economy. Our advisory business leverages its deep industry knowledge and product expertise to assist clients in achieving their strategic objectives.

Our world-class team ensures that we empower and inspire good investment decisions by providing uniquely tailored products, real-time 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.

OUR VISION, MISSION AND VALUES

Vision

We believe in setting our own standard, embracing a pioneering spirit that pushes boundaries and opens 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

- **In-Sync**
  We work united as one firm, we raise our collective game to become an inspiring and trusted partner to clients
- **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 add value to our colleagues, customers and society, everyday.

OUR STRUCTURE

Our businesses provide financial services to a variety of customers across commercial banking, merchant banking, capital markets, trusteeship and insurance brokerage.

FBNHoldings

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

The Group's core business is providing financial services to individuals, corporate customers, and public institutions. This business segment includes the domestic, international, and representative offices offering commercial banking services in 10 countries.

The Flagship, First Bank of Nigeria Limited founded 1894.

MERCHANT BANKING

FBNQuest Merchant Bank Limited

- FBNQuest Asset Management Limited
- FBNQuest Securities Limited

CAPITAL MARKETS

FBNQuest Capital Limited

- FBNQuest Funds Limited

TRUSTEESHIP

FBNQuest Trustees Limited

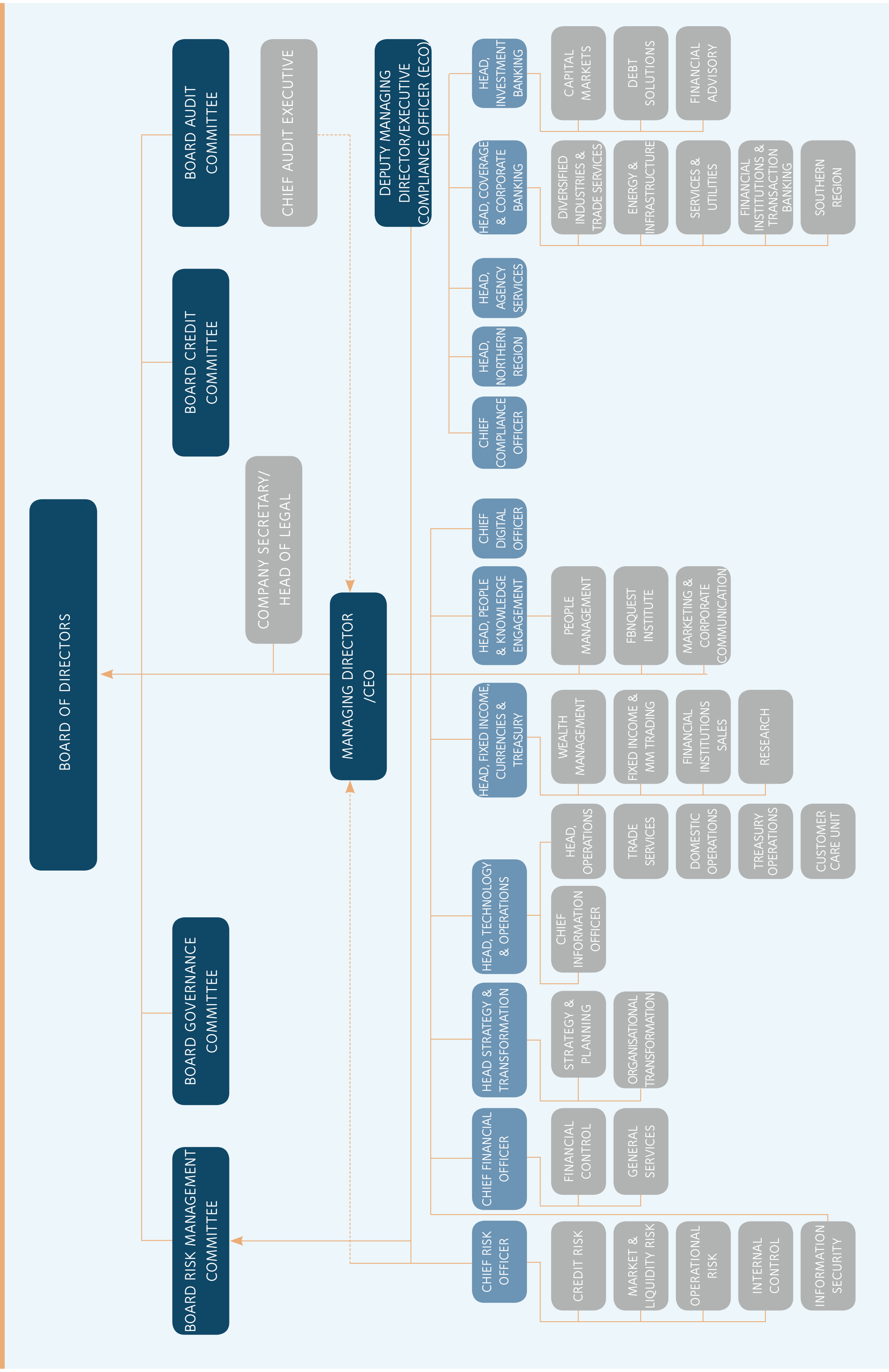
These businesses comprise corporate banking, investment banking, asset and wealth management, fixed income securities trading structured products and trust services, serving a diverse customer base of corporates, banks, public institutions, institutional investors, high net worth individuals (HNIs) and the retail market.

INSURANCE BROKERAGE

FBN Insurance Brokers Limited

This Company offers expert risk management and insurance brokerage as well as advisory services in life and general insurance businesses.

FBNQUEST MERCHANT BANK LIMITED - ORGANOGRAM



PERFORMANCE HIGHLIGHTS – FINANCIAL HIGHLIGHTS

OPERATING INCOME

28.8%

₦12.75bn

2019: ₦9.90bn

OPERATING EXPENSES

7.6%

₦7.66bn

2019: ₦7.12bn

PROFIT BEFORE TAX

26.7%

₦5.09bn

2019: ₦2.78bn

COST-TO-INCOME RATIO

11.8%

60.1%

2019: 71.9%

PERFORMANCE HIGHLIGHTS – NON-FINANCIAL HIGHLIGHTS

People

During the year we delivered a number of critical initiatives in line with our objective to Elevate the People Agenda. They include:

- **The Employee Assistance Programme:** Amidst the demands of work, family, economy and the reality of the pandemic, our mental and emotional wellbeing are sometimes undermined. The Employee Assistance programme was launched in partnership with Grey Insights to give employees an exclusive and confidential platform to discuss personal worries around their health, finance, relationships, etc with renowned professionals towards reaching a workable solution.
- **FBNQuest Mentoring Programme:** The FBNQuest Mentoring Programme was designed to build capacity and drive engagement amongst mentors and mentees, aimed at supporting the process of helping staff achieve their career goals.

  Also, to ensure the mentors are equipped to deliver on their role, a series of one-on-one Mentor Development Support sessions (anchored by a mentoring specialist) was rolled out for each mentor.
- **The FBNQuest Virtual Fitness Programme:** A series of virtual instructor-led fitness classes was launched to drive physical wellness and healthy living. Classes held three days a week with different sets of unique routines (Pilates, Yoga and Aerobics) that speak to our posture, stamina, heart and body fitness.
- **Performance Management Enhancement:** The process of setting performance management for enhance productivity was overhauled in line with SMART principles. A performance management application was launched to facilitate improvements in the performance management life cycle, from KPI setting to reviews, appraisals and feedback.
- **The Buddy Programme for new hires:** To enhance the on-boarding experience of new hires, particularly under remote working conditions, the buddy programme was introduced. Nominated buddies are given a detailed guide designed to ensure they help their assigned new hires settle into the system seamlessly to drive the preservation and propagation of our culture.

Technology

We enhanced our customer-facing solutions like the:

Corporate Internet Banking (CIB) platform:

- Clients can conveniently transfer funds from their homes or offices
- Efficient and faster processing for all payment types (bill payments and transfers)
- Cutting edge security using OneSpan hardware or electronic token device which secures the system by providing time synchronous security and end to end encryption.
- Available globally and 24-hours because it is a web-based solution.
- Multi-user access and role specific privileges structured to fit the customer's business model.

FBNEdge version 2: The mobile app was enhanced with additional features to include historical fund performance, market data and target savings.

Customer Survey Platform: We launched a new platform to collect real time feedback from customers across the group to improve customer experience.

RECOGNITION OF OUR PERFORMANCE

At FBNQuest, we work diligently towards achieving our goal of being the leading merchant banking and asset management firm; we are constantly recognised in the financial services industry for our excellence in service delivery, innovative products and an uncompromising work ethic.

Deal of the Year in Africa
THE BANKER

FBNQuest Merchant Bank won the Award in recognition of its leading role in the restructuring and re-denomination of the Sahara Power Asset Facilities.

Exceptional People Managers
GREAT PLACE TO WORK

The Award was in recognition of FBNQuest Merchant Bank's culture of diversity and inclusivity in its work environment.

Gold Certification as a Great Workplace
GREAT PLACE TO WORK

The certification was in recognition of FBNQuest Merchant Bank's excellence in workplace ethics, culture and values.

Debt Deal of the Year
BANK AND OTHER FINANCIAL INSTITUTIONS

FBNQuest Merchant Bank won the Award in recognition of the Company's exceptional capabilities and strong expertise in providing innovative financial solutions.

Recognised as one of the Best Workplace in the Medium-sized Companies Category
GREAT PLACE TO WORK

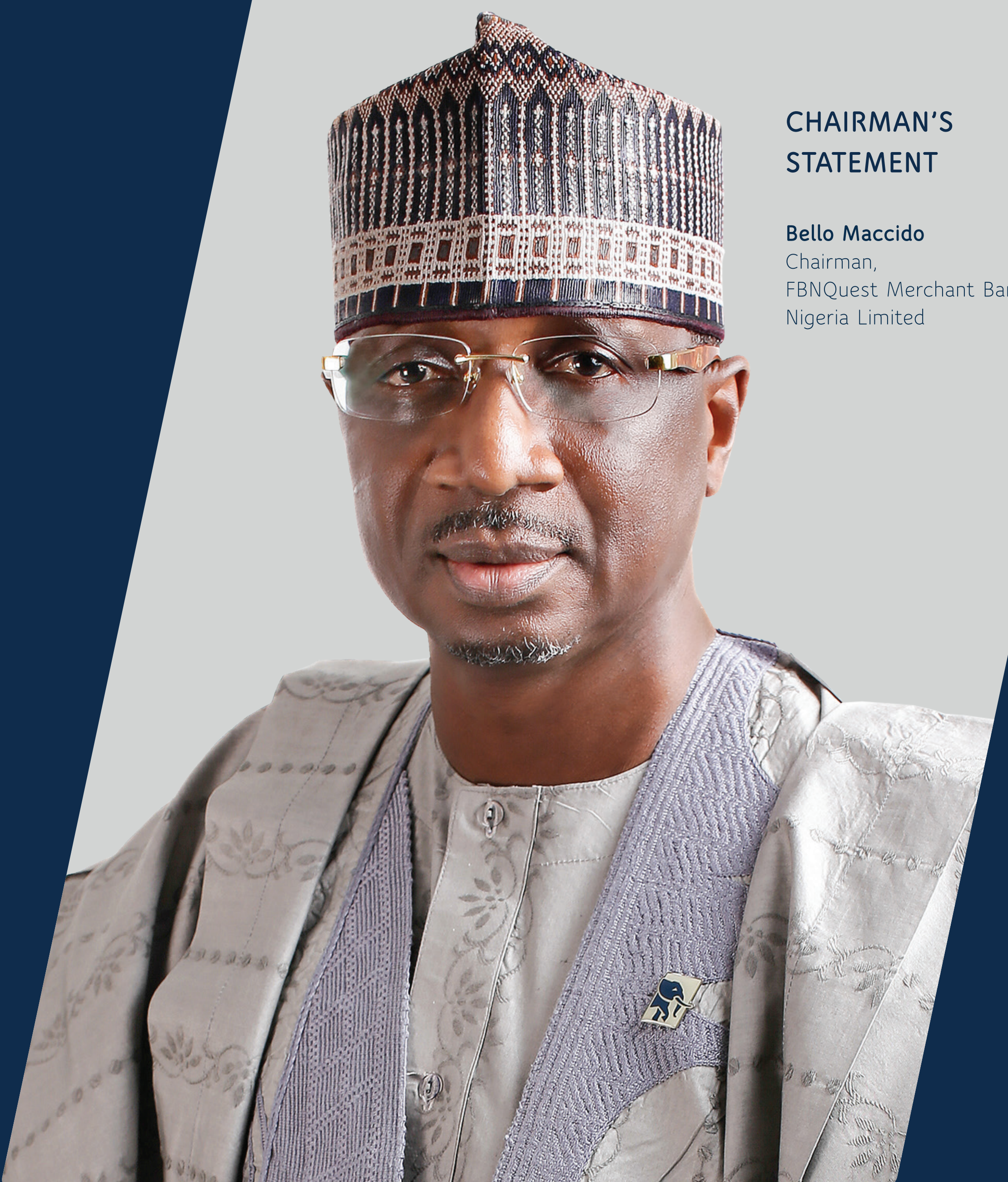
The Award reflects FBNQuest Merchant Bank's exceptional commitment to providing an enabling environment for its employees.

Best Asset Manager in Nigeria
EMEA FINANCE AFRICAN BANKING AWARDS

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

Strategic Report

> The Group remains committed to delivering optimum returns to its valued shareholders with consideration for the growth and capital requirements of the Group.



CHAIRMAN'S STATEMENT

Bello Maccido
Chairman,
FBNQuest Merchant Bank
Nigeria Limited

CHAIRMAN'S STATEMENT

Distinguished ladies and gentlemen,

It is my pleasure to present to you the Annual Report and Financial Statements of the FBNQuest Merchant Bank Limited Group ('Group') for the year ended 31 December 2020.

Macroeconomic Overview

According to the World Bank, before the COVID-19 pandemic, the Nigerian economy was projected to grow by 2.1% in 2020. However, as global economies dealt with the ravaging effects of the COVID-19 pandemic, Nigeria had to deal with its own fair share of economic, business and commercial disruptions. The country experienced a contraction in GDP in the second and third quarters of 2020, signalling the country's entry into a recession. Inflation continued to trend upwards: moving from 12.13% in January to 15.75% at December, a 33-month high, largely as a result of supply chain disruptions, closed land borders, insecurity and a weakened currency. External reserves remained heavily dependent on crude oil sales, even though crude oil prices suffered a mixed fortune. Prices floated around $40/barrel in the third and fourth quarters of 2020, following the significant decline recorded in the second quarter of 2020. The announcement of successful vaccine trials contributed to a boost in crude oil prices towards the end of the year.

On the regulatory front, the Central Bank of Nigeria (CBN) increased the Cash Reserve Ratio (CRR) of merchant banks from 2% to 27.5% in the first quarter of 2020. This was the most significant regulatory action affecting the profitability of merchant banks in 2020. In addition, the minimum loan to deposit ratio (LDR) requirement introduced by the CBN in 2019 led to more intense competition among banks for quality risk assets, and, in turn, downward pressure on margins.

Performance

Notwithstanding these headwinds, the businesses within the Group remained resilient, recording improved performance when compared to previous years, and exceeding financial targets. The Group recorded profit before tax (PBT) of ₦6.529bn, an increase of 57.3% year on year. While the Bank continued its cost optimisation drive which commenced in 2019, however, inflationary pressures and exceptional expenses within the year contributed to a 12% increase in year-on-year operating costs.

The Bank is now in the second year of its updated 2020-2024 five-year strategic planning cycle and the effectiveness of the strategy has been reinforced by the Bank's 2020 performance. I am of the firm view that despite the inclement macroeconomic environment, the Group is poised for an even better performance in 2021.

I would like to express appreciation to the Management and staff of the Bank whose drive and unwavering commitment ensured the delivery of this improved financial performance. The same appreciation is extended to my colleagues on the Board, whose valuable insights and guidance contributed in no small measure to this positive performance. I congratulate my colleagues on the Board for coming through a very unprecedented year. The task ahead demands total commitment and expert navigation, and I charge members of the Board to rise to the occasion as always. Together, and in consonance with Management, we will continue to move purposefully towards our goal of becoming Africa's leading investment bank and asset manager.

Interim Dividend

The Group remains committed to delivering optimum returns to its valued shareholders with consideration for the growth and capital requirements of the Group. In this regard, based on the strong performance of the Group and following a review of the nine-months' audited financial statements for the period ended 30 September 2020, the Directors declared an interim dividend of ₦1.5bn out of the Bank's profit after tax for the period.

Governance

A robust governance structure remains essential to ensuring that the Bank can perform sustainably in the long term. As a result, the Board continued in its path of good governance, strengthening and improving our corporate governance structures, and bringing them in line with the Nigerian Corporate Governance Code 2018 and other sectoral corporate

CHAIRMAN'S STATEMENT

governance guidelines to ensure that the needs of the business, shareholders and customers are delivered.

The Board remains committed to the Bank's corporate culture and strategy, and has the experience, knowledge and dedication required to accomplish the Bank's mission. The Board also continued its practice of conducting an independent assessment of the Board. The 2020 Board appraisal report confirmed that the Board and Management of FBNQuest Merchant Bank Limited continues to give preference to best corporate governance practices. A copy of the comprehensive Board appraisal report conducted by KPMG Professional Services in respect of the 2020 financial year will be presented to shareholders at the 2021 General Meeting.

During the year, we conducted a number of impactful training programmes for Directors spanning key governance areas, including cybersecurity and digital innovations. Regular corporate governance returns were also filed to ensure accountability. No corporate governance breaches were recorded by the Bank in the period under review.

The Bank has two subsidiaries: FBNQuest Asset Management Limited and FBNQuest Securities Limited. The governance of these subsidiaries is a key part of the Bank's risk management and compliance framework. The governance framework is implemented through the creation of robust systems and processes which ensure that subsidiary entities reflect similar values, ethics, processes and controls as the parent company, while remaining independent in the conduct of their business.

There were no changes to the constitution of the Board of Directors in 2020. The size and constitution of the Board continues to reflect best practices.

Outlook

We are not unmindful of headwinds in the external operating environment; however, the Board is committed to growing the businesses within the Group in a sustainable and innovative way by taking advantage of opportunities in order to sustain earnings and improve profitability.

The outlook for 2021 is anchored on three important pillars: Optimisation, Innovation and Partnerships. Optimisation will focus on more value extraction from staff due to our renewed people agenda. It will also focus sharply on the revenue strategy with emphasis on annuity income. Innovation, on the other hand, will focus on transforming our operations through automation as well as giving priority to digital transformation.

Finally, we will be bullish and deliberate in driving internal partnerships for better internal collaboration, while forging external partnerships to accelerate client growth and product development.

We look forward to implementing our core strategy for 2021 based on the above pillars. We assure you of our support in providing proper guidance, direction, the necessary tools to deliver on your promises as well as consistent strategy implementation monitoring. Together, we look to surpass the performance of 2020, and continue a steady journey of profitability and enterprise growth and development.

Conclusion

The Board is grateful to its majority shareholders whose tremendous support has helped the Bank to consistently deliver value and retain customers' confidence and loyalty. Once again, I thank the members of the Board. I am pleased to be one of you and acknowledge your support and cooperation during the year. I look forward to a successful financial year in 2021.

Thank you.

Bello Maccido
Chairman
FBNQuest Merchant Bank Limited

Notwithstanding the unprecedented operating conditions, FBNQuest Merchant Bank Group attained a commendable financial performance in 2020, achieving a 60% increase year on year in profit before tax, driven primarily by the Fixed Income Trading, Corporate Banking and Asset Management businesses.

MANAGING DIRECTOR'S REVIEW

Kayode Akinkugbe
Managing Director,
FBNQuest Merchant Bank
Nigeria Limited

MANAGING DIRECTOR'S REVIEW

Introduction

The year 2020 was full of unimaginable twists and turns with the COVID-19 pandemic and the resultant global and macroeconomic challenges.

We began the year with optimism, given the positive momentum from the fourth quarter of 2019, setting clear objectives and aspirations founded on the premise of a benign macroeconomic operating environment. Unbeknown to us, unprecedented change was afoot, first with the almost 14-fold increase in the minimum CRR for merchant banks from 2% to 27.5%, followed quickly by the most significant event to have impacted the global economy in many decades. The COVID-19 pandemic irreversibly altered the global economy and resulted in a global lockdown.

I was genuinely impressed by our people's resilience and creativity demonstrated in 2020. We swiftly implemented our business continuity plan, and everyone adapted remarkably well. Notwithstanding the unprecedented operating conditions, FBNQuest Merchant Bank Group attained a commendable financial performance in 2020, achieving a 60% increase year on year in profit before tax, driven primarily by the Fixed Income Trading, Corporate Banking and Asset Management businesses.

Compared to 2019, operating income increased by 24% as we ramped up earnings from non-interest sources. This impacted key performance ratios favourably, with CIR declining by 8.5% to close at 61.9% and RoAE increasing from 13.1% in 2019 to 17.2% in 2020. In addition, we continued to operate above the requisite regulatory ratios; the capital adequacy ratio grew to 25.4% (compared to a capital adequacy ratio (CAR) of 12.2% in 2019) fuelled by higher profit retention, while our liquidity ratio was 64.42% by the end of 2020 (compared to 37.73% in 2019), reflecting the strength and stability of the balance sheet and our business.

Financial and Non-Financial Highlights

We commenced a new three-year strategy cycle in 2020, having set clear objectives and aspirations founded on the premise of a temperate macroeconomic and operating environment. As we can all agree, the year 2020 can be best described as a 'VUCA' (volatile, uncertain, complex and ambiguous) year, and our diversified business platform enabled us to withstand the shocks, remain competitive and mitigate downside risks posed to any single business line.

Amid significant market volatility, FBNQuest Merchant Bank remained resilient and performed well, particularly against our financial targets. While the challenging macroeconomic conditions and the highly competitive landscape continued to impact our Investment Banking and Securities businesses, the Fixed Income Currencies and Trading (FICT), Asset Management and Corporate Banking businesses performed strongly in 2020. Details of this success include:

- The FICT business capitalised on pronounced interest rate volatility and the significant appreciation in the value of fixed-income assets to grow revenues significantly in 2020, surpassing 2019 financial year revenues by 60%.
- As a leading asset manager, our reputation enabled us to grow assets under management (AUM) by 33% in the 2020 financial year as more clients turned to us for investment advice.
- The Coverage and Corporate Banking business grew the risk asset portfolio by 19% year on year, in a responsible manner that also supports economic growth, while the non-performing loans ratio declined by 0.4%.

In 2020, notwithstanding our cost-containment initiatives, inflationary pressures and exceptional expenses fuelled an increase in operating costs year on year. As a result, operating expenses ended the year 3% above budget and 9% above the prior year.

At the start of the year, we set out our mission to 'Reset our Group for sustainable growth', anchored on three strategic pillars:

- Elevating the People Agenda
- Accelerating Growth through Partnerships
- Reaching our Full Potential

MANAGING DIRECTOR'S REVIEW

An important group of stakeholders in our business is our people. We take great pride in creating a conducive and safe working environment. Health and safety rules and practices are reviewed regularly and monitored closely to ensure strict adherence. Following the Bank's policy of continuous growth and development, in-house and on-the-job learning interventions are deployed alongside the use of digital platforms. Furthermore, we assessed our total rewards philosophy and strategy for competitiveness, recognising performance and rewarding positive behaviours, and we implemented a salary review in an OPEX-neutral way.

Among the key strategic initiatives that led to increased staff productivity and improved morale was the launching of the Employee Assistance Programme (EAP), the FBNQuest Virtual Fitness Programme, the revamped Performance Management process, the Buddy Programme for new hires, and the second cycle of the FBNQuest Mentoring Programme.

To harness the possible opportunities from external partnerships, a cross-divisional Partnership Committee was constituted to drive our partnership agenda and ensure the right level of focus. At the end of 2020, we had commenced a total of 16 partnerships spanning various industries and specialties. These partnerships are expected to drive the required growth across our businesses in 2021 and beyond.

We identified three key priorities to reach the full potential of our business: maximise revenue, drive cost and capital efficiencies, and optimise the client experience.

At the end of 2020, we completed a Tier 2 capital raise to build on the progress made in repositioning the Coverage and Corporate Banking (CCB) business. We also created several products for customers during the year, which include:

- Trade execution only services (Equities)
- Short Duration Bond Note, FBN Halal Fund, FBN Endowment Fund (Asset Management)
- Nigerian Eurobond Repo and Liquid Asset Borrowing

We enhanced our customer-facing solutions like the Corporate Internet Banking (CIB) platform. In addition, we deployed FBNEdge version 2 with additional features, including historical fund performance, market data and target savings as an option.

We also launched a platform to collect real-time feedback from customers across the Group to improve customer experience.

As a further demonstration and independent recognition of our capabilities, we received the following awards in 2020:

- The Banker: Deals of the Year Awards – Deal of the Year-Africa – Restructuring (Sahara Power Group financing restructure and redenomination).
- EMEA Finance African Banking Awards: Nigeria – Best Asset Manager (Nigeria).
- BusinessDay Banking and Other Financial Institutions Awards (BAFI) – Debt Deal of the Year – Refinancing and ₦150bn Debt Sales on behalf of the Lagos State Government.
- BusinessDay Banking and Other Financial Institutions Awards (BAFI) – Investment Banker of the Year – Patrick Mgbenwelu, Head of Investment Banking, FBNQuest Merchant Bank Limited.
- Great Place to Work Awards – Best Workplaces 2019/2020 (mid-size corporate organisation) – 4th Place – FBNQuest Merchant Bank Limited.
- Great Place to Work Awards (Certification) – Gold Category - FBNQuest Merchant Bank.
- Great Place to Work Awards (Exceptional People Managers) – Kayode Akinkugbe – Managing Director/CEO, FBNQuest Merchant Bank Limited.

Our Strategy

Our medium-term business strategy was guided by the three-year strategic plan (2020–2022), which focused on achieving specific targets that include an RoAE of 19%, RotE of 25%, and a cost to income ratio of 62% and being top 3 in our core businesses. We achieved most of the targets we set during the period.

In 2021, we will be redefining how we choose to play – not as mere participants but as pioneers creating new revenue streams. In effect, we must take further steps on this journey towards elevating and propelling ourselves towards becoming an agile, high-performance organisation.

MANAGING DIRECTOR'S REVIEW

Outlook

The year 2020 was a challenging year globally due to changes in the operating environment. At the start of this year, we identified some of the risks we would face, such as increased regulatory risk, low market interest rates, the resulting pressure on net interest spreads and net interest margins (NIM), reinvestment risk as investment portfolios mature and downward pressure on non-interest income arising from regulatory-induced fee cuts on a few bank charges.

With the COVID-19 pandemic still a threat to global and emerging market economies, the outlook for 2021 remains uncertain as global lockdown measures may not be fully eased until the latter part of the year, following the roll-out of the COVID-19 vaccines. Global income yields are expected to remain extremely low over the next few years; investors and asset managers are likely to seek alternative asset classes and equities and emerging markets assets to enhance yields. This is expected to benefit countries like Nigeria, subject to our ability to create a conducive environment.

Despite the uncertainty, we remain resolute and are forging ahead with bold aspirations for the year. Our performance in 2021 will be impacted by our ability to reimagine our business and operating model, and aggressively take advantage of opportunities to stay relevant. The pipeline looks strong in some of our businesses. The expected increased volatility across asset classes globally and locally should continue to present opportunities for some of our businesses.

We expect to see a remodelling of the operating structure for many financial players as they look to take advantage of the socio-economic trends, and reposition themselves to capture additional market share. We anticipate the need to pivot to enable us to compete with new players like fintechs, which requires that we build significant agility into our processes as we look to defend our leadership positions and continue to win market share.

Thank you.

Kayode Akinkugbe
Managing Director
FBNQuest Merchant Bank Limited

OUR BUSINESS MODEL

FBNQuest is the Merchant Banking and Asset Management (MBAM) group of FBNHoldings Group. Our businesses include Coverage and Corporate Banking, Investment Banking, Fixed Income, Currencies and Treasury, Wealth Management, Facility Agency Services, Asset Management and Securities Trading. We are committed to providing innovative banking solutions for our diverse customer base, which comprises corporate organisations, government, institutional investors, financial institutions, affluents, emerging affluents and high net worth individuals. We create value for our clients and shareholders by providing financial advice, raising finance, offering investment and risk management products, managing funds, administering assets and trading securities.

Our structure is as below:

BUSINESS GROUPS	CORPORATE AND INVESTMENT BANKING GROUP		INSTITUTIONAL SECURITIES GROUP		INVESTMENT MANAGEMENT GROUP	
BUSINESS UNITS	**Investment Banking**	**Coverage & Corporate Banking**	**Fixed Income, Currencies and Treasury**	**Equities**	**Asset Management**	**Agency Services**
	• Capital Markets • Debt Solutions • Financial Advisory	• Liability Products • Trade Services • Loans and Credit Products	• Wealth Management • Financial Institutions Sales • Asset and Liability Management • Fixed Income Treasury Bills • Fixed Income FGN Bonds • Currencies Foreign Exchange • Correspondent Banking	• Brokerage Trading	• Mutual Funds (NGN, USD) • Cash Management (NGN, USD) • Structured investment solutions (NGN, USD) • Discretionary Portfolio Management (NGN, USD)	• Facility agents on syndicated lending transactions, club deals and project finance transactions
Target Customers and Focus Sectors	Large or mid-tier corporates, government, institutional investors, ultra high net worth individuals, high net worth individuals, family offices, affluent, emerging affluent					
Locations	Lagos, Port-Harcourt and Abuja					

OUR BUSINESS MODEL

Our world-class team, significant financial capacity, rich heritage as part of the FBNHoldings Group, local insights and unrivalled network put us in a unique leadership position within the merchant banking space. Our broad product platform enables us to cater to the diverse business needs of our clients. Our focus on customer centricity as well as leveraging technology and digital platforms, also differentiates us from our peers as we anticipate and proactively meet our customers' requirements.

We continue to transform our business in line with the ever-evolving operating environment, as we aim to achieve our goal of being the leading Investment Bank and Asset Management firm in Nigeria. To this end, the MBAM group provides the following products and services:

Investment Banking: Arranges finance through banks and capital markets, including providing financial advisory services.

Corporate Banking: Offers a platform providing a full range of bespoke investment and wholesale banking services (lending, trade services and transaction banking) to mid-size and large institutions.

Fixed Income, Currencies and Trading: Manages the FBNQuest Merchant Bank's balance sheet and liquidity position. The Wealth Management and Financial Institutional Sales teams within the FICT group manage the investment portfolios for ultra high net worth and high net worth individuals as well as a broad segment of investors including pension fund administrators (PFAs), insurance companies, banks and financial institutions, local and offshore portfolio managers and cooperative societies.

Agency Services: Serves as the primary point of contact between transaction parties to a syndicated loan, manages communication between parties, handles the flow of funds and provides ongoing transaction support.

Securities Trading: Provides clients with strong products and sector expertise through our equities and fixed income teams.

Asset Management: Assists individuals and institutional investors with strategies best suited for their investment goals and portfolios through various solutions, including mutual funds, independent portfolio management and treasury management.

OPERATIONAL OVERVIEW

The Operations department consists of the following units: Trade Services, Treasury Operations, Domestic Operations, Transaction Support and Customer Experience. The department is responsible for ensuring transactions are executed correctly, accurately and timely; thus minimising risk to the Bank and maximising quality of service delivery to our esteemed customers.

The team is also responsible for identifying optimisation gaps and working with relevant stakeholders to deploy technologies to improve operational efficiency and productivity, optimise cost and enhance revenue.

Operations is instrumental to align appropriate processing from customer onboarding (undertaken by the customer care unit), adhering to compliance standards and regulatory requirements on Know Your Customer (KYC) due diligence, while ensuring timely rendition of returns to relevant regulatory authorities. Once the customer is onboarded, the team applies appropriate due diligence while executing customer's request in line with relevant regulatory guidelines and standard operating procedures (SOP) defined by the bank. Thereafter, the unit responsible within the Operations department executes the transaction by reviewing documentation, seek approvals where necessary, and initiate postings and authorisation.

Requests from customers are initiated through our digital platforms. This includes, and is not limited to, investments, subscriptions, redemptions, payments and transfers (local & international) and remittances.

A. Trade Services

The Trade Services team is responsible for processing all import and export trade transactions for FBNQuest Merchant Bank.

Essentially, import and export trades are registered with authorised dealer banks as required by the Federal Government of Nigeria (FGN) through the CBN. Trade Services works with the various business teams to identify target customers onboarded for processing eligible trade transactions, from registration of items of import and export to facilitating trade correspondence with offshore banks through issuance of trade instruments such as Letters of Credit, Bills for Collection, Offshore Bank Guarantees etc.

Upon registration of the intention to import or export and acceptance of the Import Finance Facility-based instrument by suppliers overseas, the Trade Services team works with the Treasury and Coverage and Corporate Banking divisions to source foreign exchange for settlement of the trade offshore once the obligation falls due for payment. The team is also responsible for control checks in line with regulatory guidelines as stipulated by the CBN in the foreign exchange manual. Periodically, the team attends to scheduled and spot check audits in line with extant regulations by the CBN.

B. Transaction Support

- **Investment Operations:** The Investment Operations unit is responsible for the settlement of counter-party trades, corporate actions, processing of payments and transfer requests, reconciliation of in-house asset positions with custodians positions, daily review of valuation reports processing of fee income and expenses (management fees, custodian fees, etc.).

- **Fund Administration:** This unit supports FBNQuest Asset Management and is responsible for the following: identification of inflows, unitisation (unit creation) of identified inflows, redemption and cancellation of units, payment of redemption proceeds (cash) to beneficiary registered bank accounts through the custodian bank, preparation and publishing of daily prices/yield, periodic reconciliation of unit holders' positions with the registrar's records, periodic processing and payment of returns on investments in line with each investor's mandate, booking and liquidation of investments for the structured notes i.e., Private Banking notes, Liquidity Management notes, First notes, etc,.

- **Reconciliation and Operations Control:** This unit supports FBNQuest Asset Management's business and performs the following activities: reconciliation of bank statement/ asset positions on the core business application. The unit also executes End of Day processes, creates portfolio and instrument positions on the core business application.

- **Securities Operations:** Supports the FBNQuest Securities Limited business. The team is responsible for the execution of clients mandates (i.e. purchase and sale orders), process clients payments and transfers, reconciliation of bank statement, attends to customer inquiries, handling of inter-member transfers, Central Securities Clearing

System (CSCS) correspondence, processing of signature lodgements, change of name/address, account opening (CSCS/NASD) and processing of IPO/Right issue/FGN savings bond.

C. Domestic Operations

The Domestic Operations team is responsible for processing of local transfers and payments for FBNQuest Merchant Bank. Core responsibilities include:

- Execution of funds transfer requests (internal and external);
- Booking of invoices, income recognition and receipting of funds;
- Daily inflow identification in liaison with the relationship managers;
- Transaction postings;
- Cheque processing;
- Reconciliation of internal accounts and local correspondent bank accounts; and
- Collaborating with stakeholders to continuously improve service efficiency.

D. Treasury Operations

Treasury Operation supports the activities of the Fixed Income, Currencies and Treasury business.. The team is responsible for ensuring timely processing and accurate settlement of all counter-party trades. The unit carries out the following functions:

- Settlement of bonds, both Federal Government and non Federal Government bonds;
- Settlement of Treasury Bills and Open Market Operations (OMO);
- Settlement of Foreign Exchange (FX) transactions;
- Settlement of Eurobond transactions;
- Settlement of Money Market, Naira transactions;
- Reconciliation of securities position;
- Reconciliation of foreign currency and Money Market Naira position;
- Rendition of all regulatory returns;
- Regulatory engagements; and
- Liaising with and attending to both External and Internal Auditors.

E. Customer Experience

The Customer Experience unit oversees three client facing functions across the Operations division, namely:

- Customer Care;
- Contact Centre; and
- Customer Service.

The Customer Experience team has the ultimate responsibility for ensuring improved service across all touchpoints. The team acts as a bridge between the organisation and the customers with the goal to improve customer experience and deliver excellent service at every interaction.

- **Customer Service:** The Customer Service team is responsible for onboarding customers in line with relevant regulatory guidelines and Standard Operating Procedures. The unit attends to all internal and external customer enquiries and collaborates with specific internal stakeholders to resolve customer issues, while providing timely feedback to customers. The unit renders appropriate reports on customers activities to regulatory authorities and internally.

  The team manages customer data/information and other aspects of customer administration matters. The tasks carried out by the team are set out below:

  - Account opening;
  - Custody of customers files;
  - Management of customer database;
  - Issuance of operative account withdrawal booklets/ cheque books;

OPERATIONAL OVERVIEW

- Referencing of operative accounts
- Signature verification; and
- E-banking administration.

- **Customer Care:** The Customer Care team is responsible for providing accurate information on the Bank's product & services and resolving customers' complaints, while maintaining confidentiality. The unit provides services to customers through the following channels:

  - Walk-ins;
  - Email;
  - Website;
  - Telephone; and
  - Social media platforms.

  The front desk officers are grouped under the Customer Care unit.

- **Contact Centre:** The Contact Centre team is a sub unit within the customer experience unit that manages inbound and outbound calls for the organisation. They carry out the following functions:

  - Handling and resolving customer enquiries, requests and complaints with regard to FBNQuest Merchant Bank products and services to satisfy, grow and build customer loyalty;
  - Upselling and cross-selling the Company's products and services;
  - Tracking and ensuring all pending issues are consistently followed up, resolved or escalated to the respective relationship manager or unit;
  - Ensuring customers are given timely feedback on the status of their complaints and inform them of final resolutions for issues that are managed by the team; and
  - Collating feedback from customers.

Information Technology

In 2020, FBNQuest Merchant Bank focused on stable, secure and reliable technology service delivery to drive the Bank's high-performance growth. Part of this drive was the sustained momentum of the digital agenda of the Bank. This provided a platform for digitalisation of core business processes and the release of digital platforms to improve service delivery to customers.

We continued our collaboration with the FBNHoldings Group to optimise technology deployment cost, drive innovation and leverage strategic platform and partnership opportunities. In addition, several strategic digital partnerships were established during the year and existing relationships were enhanced to drive transaction processing and other business growth levers. Some of these partnerships are the outcome of the Bank's Entrepreneur in Residence programme which focuses on the promotion of external third-party collaboration to foster disruptive innovation.

The Information Technology department, in collaboration with the business, also delivered initiatives and enhanced electronic channels ensuring that digital platforms were stable and secure for delivering exceptional customer experience. The key initiatives delivered include:

- Trade Information System
- Revamped CIB platform
- A new version of the Bank's flagship Mobile App (FBNEdge version 2)
- FBNQuest Trustees Customer Web Portal upgrades.

Confronted with the challenges of the year 2020, including the COVID-19 pandemic, the Bank responded by deploying technology solutions to enable staff to work ubiquitously for the provision of optimal service to customers.

The department continued to strengthen the information technology governance and security posture of the Bank in collaboration with Risk, Compliance and Audit teams, ensuring the retention of the ISO 22301 Business Continuity Management and ISO 27001: Information Security Management System certifications. This positions the Bank to provide robust, scalable and secure solutions that will support leveraging digital for driving the Bank's high-performance growth objective.

OPERATIONAL OVERVIEW

Building Supplier Relationships

The world continues to weather the worst pandemic outbreak in over a century, which has caused unprecedented economic and social disruption across all business sectors, with FBNQuest Merchant Bank not exempted. However, through the General Services department, we effectively maintained and nurtured a commendable relationship with our vendors and suppliers throughout the year.

Despite the COVID-19 crisis and setback in 2020, the scheduled biennial Vendor Engagement Forum was held successfully virtually. The event created a medium for collaboration and communication with our suppliers and an opportunity to showcase our products and services.

Outlook

As the evolution and consequences of the COVID-19 outbreak are still unfolding, we envisage the effect of the pandemic will be with us for the foreseeable future. Thus, a key imperative for us at FBNQuest Merchant Bank is to accelerate our automation agenda to engender improved efficiency in vendor payment processing and enhanced vendor management.

FBNQuest Merchant Bank will continue to enforce a culture of cost optimisation by implementing cost savings initiatives, enhance collaboration with suppliers and leverage the FBNHolding's Group Shared Service Initiative for competitive prices and product quality in the procurement of goods and services.

As our Company responds to the COVID-19 pandemic, the health and safety of our employees and customers remains our top priority, hence we will continue to monitor, observe and ensure compliance of all directives from the NCDC and from Federal and State Governments on the COVID-19 pandemic safety protocols. Based on the foregoing, we have implemented strict guidelines (in the interest of everyone) to regulate customers and vendors' visitation to our premises.

DIVISIONAL OPERATING REVIEW

INVESTMENT BANKING

Patrick Mgbenwelu
Head, Investment Banking

Introduction

The Investment Banking (IB) division is comprised of three main business verticals, each structured to address and execute IB activities within the Nigerian market: Debt Solutions, Capital Markets (Debt and Equity) and Financial Advisory.

The IB team therefore provides debt arranging and advisory services, equity advisory services and strategic financial advisory services to clients across the public and private sectors.

FBNQuest Merchant Bank has built an unrivalled track record in terms of size of transactions closed, speed of deal execution, complexity of assignments, unique structuring and distribution capabilities. The team has built strong relationships with local and international banks as well as other specialist fund providers and has in-depth knowledge of the key industry sectors. The depth of the IB team's structuring experience and track record across a range of sectors has enabled it to maintain its position amongst the top three across its business verticals.

> "FBNQuest Merchant Bank has built an unrivalled track record in terms of size of transactions closed, speed of deal execution, complexity of assignments, unique structuring and distribution capabilities."

We have advised on and raised financing for 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, structuring, execution and distribution.

Business Units

- The Debt Solutions (DS) team is responsible for advising, structuring and raising bank debt financing for private and public sector clients, which include sub nationals, government parastatals and agencies across all the key sectors of the Nigerian economy. Since 2012, the DS team has raised over USD12bn for landmark deals in the country and continues to leverage on its strong sector specific knowledge and structuring abilities to execute and achieve closure of the most complex financings. DS has become increasingly involved in Public-Private Partnerships (PPP), advising clients across railways, roads, bridges and power projects which all contribute towards infrastructural development in the country.

- The Financial Advisory (FA) team provides mergers and acquisitions advisory services as well as restructuring and transaction advisory services to public and private sector clients across various sectors. The team leverages its deep industry knowledge and product expertise to assist clients in achieving their overall 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. The FA team also assists incorporated companies to structure and raise capital from private sources by issuing equity or equity-linked products.

DIVISIONAL OPERATING REVIEW

- The Capital Markets (CM) team is responsible for public debt and equity issuances in the domestic and international capital markets. For debt issuances, the team creates solutions to meet the financing needs of both private and public sector clients, including the FGN, 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.

Our products include:

Capital Markets

- Government and agency bonds
- Corporate bonds
- Ratings advisory
- Asset-backed securities
- Sukuk
- Commercial papers
- Securitisation
- 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)
- Privatisation advisory

Debt Solutions

- Project financing (green and brownfield)
- Debt structuring and arranging
- Global facility coordination
- Restructuring and refinancing
- Technical bank and financial modelling
- Bookrunner and documentation bank services
- Leverage and acquisition financing
- Reserve-based lending
- PPP advisory and pre-bid debt advisory
- Syndications
- Bankability assessment, project advisory and due diligence

COVERAGE AND CORPORATE BANKING

Afolabi Olorode

Head, Coverage and Corporate Banking

Introduction

Our CCB business focuses on five industry verticals: diversified industries, services and utilities, energy and infrastructure, public sector, and financial institutions.

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 Developments

- Impact of COVID-19: This affected the ability of the Bank to grow the loan books, to the extent that a number of facilities amounting to ₦2bn were restructured following the receipt of CBN's approval during the year.

> 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.

- Foreign exchange market: the general market conditions, most especially the dearth of foreign exchange, limited the volume of trade business (such as Letters of Credits) the Bank offered to customers during the year. There was also a decline in the amount of bid at the retail SMIS window, while the NAFEX window was not liquid enough to accommodate all the outstanding LC obligations.

- CRR debits: The Bank also witnessed special CRR debits from CBN, which affected the amount of funds available for the Bank to deploy to yielding assets. The group will continue to identify bankable projects to deploy some of the CRR debits.

- Cost of funding: The cost of funding declined significantly during the year as a result of the reduction in yields from government securities, among other variables. This resulted to a better net interest margin on risk assets during the period.

- Increased competition from commercial banks: The impact of the 65% LDR by the CBN continued to result 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.

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, whilst also mitigating risk effectively with our range of treasury products. The group is also tasked with effectively managing the Bank's investment in securities, foreign exchange and cash instruments. Our main focus is the optimal management of the consolidated funds of the Bank and ensuring its profitability within acceptable levels of risk.

FICT comprises seven sub units: Asset and Liability Management Unit, Fixed Income FGN Bonds Unit, Fixed Income Treasury Bills Unit, Foreign Exchange Unit, Correspondent Banking Unit, Financial Institutional Sales Unit and Wealth Management Unit.

The Asset and Liability Management Unit is tasked with manging 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 to reduce funding cost by capitalising on arbitrage opportunities.

> "Our main focus is the optimal management of the consolidated funds of the Bank and ensuring its profitability within acceptable levels of risk."

As one of the authorised Primary Dealer and Market Marker (PDMM) in Federal Government of Nigerian Bonds, the Fixed Income FGN Bonds Unit is responsible for ensuring the Bank meets its obligation as stipulated by the Debt Management Office (DMO) 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 unit is also responsible for executing trades and identifying trading strategies and investment opportunities in the various classes of local denominated bonds.

As one of the pioneer Primary Dealer and Market Maker in FGN Treasury Bills as appointed by the CBN, the Fixed Income Treasury Bills Unit is charged with ensuring the Bank meets its money market dealer obligations as stipulated by the CBN by actively participating in auctions conducted by CBN and serving as a first point of contact for primary treasury bills issues. The unit is also responsible for trading in the secondary market on behalf of the Bank and its customers, providing relevant information and advice to help the Bank and its customers effectively manage their treasury bills portfolio.

The Foreign Exchange Unit offers a broad range of foreign exchange products and services to the Bank's customers to help them manage their needs, including international trade and cross-border payments as well as payments for invisibles, among others. The unit is also responsible for providing bespoke hedging solutions to help the Bank customers manage their foreign risks. In addition, the unit is tasked with the management of the Bank's foreign exchange liquidity position as well as the Bank's foreign currency balance sheet, while also being involved in trading of Eurobond securities on behalf of the Bank and offering as a veritable investment solution to our clients.

DIVISIONAL OPERATING REVIEW

The Correspondent Banking Unit renders specialised services in association with financial institutions worldwide and monitors the various exposures of the bank while offering the entire range of international trade finance solutions. The unit's functions include continuously developing and maintaining relationship with banks and financial institutions in across the globe and sourcing, structuring and managing trade finance as well as other lines of credit from international financial institutions.

Wealth Management

Our Wealth Management unit is anchored around providing financial planning and effective portfolio management, delivered through the following products and services:

- Local Currency and Foreign Currency Fixed deposits (including a retiree investment plan for generational transfer of wealth);
- Fixed income securities (Treasury bills and bonds including FGN bonds, Corporate bonds and Eurobonds);
- Commercial papers;
- Mutual funds;
- Equities brokerage;
- Extended services (e.g. financial planning sessions, pre-retirement workshops, etc); and
- Transactional banking.

The Wealth Management units' core functions of sales, marketing and relationship management are segmented along the major geographical lines covering the following locations and their environs:

- Lagos
- Abuja
- Port Harcourt.

Financial Institutions Sales

The financial institutions sales unit was set up to service a broad segment of investors (including PFAs, insurance companies, banks and financial institutions, local and offshore portfolio managers and cooperative societies) with the main aim of managing their investment portfolio, while also identifying areas of opportunities and growth.

SUBSIDIARY OPERATING REVIEW

FBNQUEST ASSET MANAGEMENT

Ike Onyia
Managing Director, FBNQuest Asset Management Limited

The 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 Limited, 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.

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

Using pooled vehicles, independently managed portfolios and other structured solutions, this business serves the needs of various client segments, which include 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 (SEC) of Nigeria. They include the FBN Money Market Fund, the FBN Eurobond Fund and the FBN Smart Beta Equity Fund, which is the first factor-based fund in Nigeria and uses simple, transparent, rule-based strategies as a basis for portfolio construction. We have recently launched the FBN Halal Fund, our first foray into ethical and investment solutions. 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.

SUBSIDIARY OPERATING REVIEW

- **Structured products:** In collaboration with a variety of specialist teams within the MBAM 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, which include 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 AUM of SEC-regulated offerings, which have grown from ₦73.78bn as at 31 December 2011 to ₦1.57tn as at 31 December 2020.

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. Almost 90% of the total AUM as at the end of 2020 was in fixed income solutions. Historically high yields in the fixed-income market amid relatively soft equity markets 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. 2020, however, saw a significant decline in fixed income yields driven by excess system liquidity. This drove an equity market rally in fourth quarter of 2020 as more investors allocated resources to equity 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 to demonstrate a strong appetite for our solutions, particularly the FBN Money Market Fund, the FBN Eurobond Fund and the FBN Fixed Income Fund, all in either pure or blended forms.

In 2020, the FBN Balanced Fund, the FBN Halal Fund and the FBN Fixed Income Fund were the top performing funds in their peer groups, with total returns of 27.8%, 11.5% and 18.4% respectively.

Other key opportunities evolving in the financial services industry are the 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 the face of a growing number of resourceful digital asset managers.

In 2020, FBNQuest Asset Management began implementing its digital strategy road map and is enroute to becoming future-proof and well positioned to face new realities. We upgraded our mobile application, FBNEdge, to improve the convenience factor, enrich customer experience and enable us to commence our plan to evolve into an omni-channel platform. Improvements included the expansion of the suite of solutions listed on the App as well as the inclusion of target savings, market data, historical Fund performance data and the 'gift a mutual fund' scheme.

SUBSIDIARY OPERATING REVIEW

Strategies and Outlook for 2021

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 achievements thus far and establishing its status as a leading asset and wealth management firm. In 2020, we maintained our position as 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 for the second consecutive year.

In 2021, 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 they 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

Managing Director, FBNQuest Securities Limited

Introduction

FBNQuest Securities Limited is a wholly-owned subsidiary of FBNQuest Merchant Bank and a member of the FBNHoldings Group. It specialises in the provision of excellent equities brokerage services to a broad range of customers, which include PFAs, 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 Limited currently ranks as one of the top 10 Trading License Holder firms on the The Nigerian Exchange (NGX) value league table and has consistently been a top six 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.

> FBNQuest Securities Limited currently ranks as one of the top 10 Trading License Holder firms on the Nigerian Exchange (NGX) value league table and has consistently been a top six locally-owned broker for the last five years.

We are also a licensed Participating Institution on the NASD OTC Exchange, the regulated marketplace for OTC transactions and a centralised source of liquidity and price discovery on unlisted public companies in Nigeria.

FBNQuest Securities Limited 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 Limited 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.

SUBSIDIARY OPERATING REVIEW

Strategies and Outlook for 2021

As global economies continue to recover from the negative impact of COVID-19 with more vaccination roll out and gradual pick up of economic activities, the Nigerian economy is also expected to improve although investors will continue to monitor the FGN and other regulatory policy pronouncements. We expect among other factors that, interest rates will trend upward as the CBN strives to make Nigeria an investment destination for FPIs and FDIs. While this poses a big challenge to the equities market as investors may switch their equities portfolios to less risky securities, we will continue to leverage our brand strength, formidable market presence and expertise to deliver good services to all client categories and further deepen the retail segment of the business, by building on online trading as a platform for reaching out to existing and potential clients.

Corporate Responsibility & Sustainability

EMPOWERING OUR PEOPLE FOR SUCCESS

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 2020, FBNQuest Merchant Bank's workforce remained 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 considering 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. We launched the FBNQuest Employee Assistance Programme (EAP), under which we offer counselling services to our employees and dependents to support emotional health and wellbeing in partnership with Grey Insights (a service provider under our Health Insurance Scheme). The service recorded a high uptake throughout the COVID-19 lockdown and continues to be used by employees.

Through the year, we had various wellness initiatives such as virtual fitness sessions and virtual webinars on emotional wellness, while our health insurance provided employees with telemedicine services during the lockdown, with virtual access to doctors and home delivery services where applicable. In addition, employee education and counselling programmes are conducted periodically to raise staff awareness of general health and wellbeing. Of significant importance were the commemoration of International Women's Day and International Men's Day, when educational health webinars on Breast and Prostate Cancers were facilitated for each gender group.

Fire prevention and firefighting equipment are installed at strategic locations within the Bank's premises. The Bank has Group Life & Personal Accident Insurance and contributions to the Employees' Compensation Fund in place for the benefit of employees. It also operates a contributory pension plan in line with the Pension Reform Act.

Employee Engagement and Development

At the beginning of the year, we set out with a mission to elevate our people agenda with focus on reinforcing a high-performance mindset and building high employee engagement.

In the course of the year, regular townhall meetings with the CEO and other senior management staff were held. The People Management team also ensured quarterly virtual check-in meetings with all teams, and specific roadshows aimed at ensuring supporting improved employee productivity, communication and engagement were organised regularly.

The year ended with an engaging year-end virtual event, and the success of the mission was validated by the recognition received at the 2020 Great Place to Work Awards, where the Bank was ranked as a 'Gold Certified Organisation' among the mid-sized corporates that participated in the survey.

In line with the Bank's policy of continuous growth and development, specific in-house and on-the-job learning interventions were deployed to employees by leveraging on technology, in view of the virtual/remote work model due

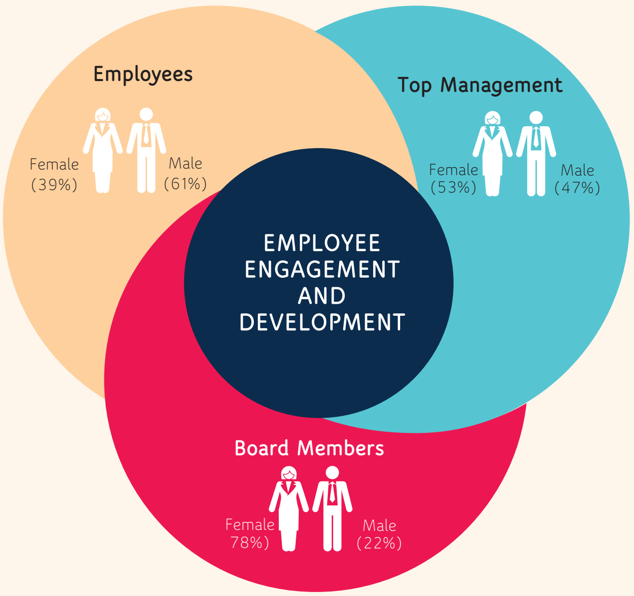
EMPOWERING OUR PEOPLE FOR SUCCESS

to the impact of the pandemic. FBNQuest Merchant Bank's proactive response to the opportunities created by the remote work model resulted in a 97% learning coverage for all employees at year end (including outsourced staff). In addition, we launched our fit-for-purpose digital e-learning platform which hosts numerous programs relevant to developing skills for the present and the future of work.

FBNQuest Merchant Bank continues to demonstrate its commitment to building a culture that encourages career development and growth through mentoring across all levels, targeted career development and coaching across all grades. In addition to focused and value-driven technical training, we keenly invest in strategic leadership programmes at senior management level and capability development at middle management.

Our FBNQuest Women's Interactive Network (FBNQuest WIN) successfully organised virtual events to further strengthen the core ideals and objectives of supporting women across the organisation, and women in leadership.

We continue to improve on our maternity-friendly employee policies, as we remain dedicated to supporting all our employees to reach their full potential.



OUR ROLE IN THE COMMUNITY

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;
- 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	Workplace	Marketplace	Environment	Community
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.	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.	This focuses on partners and customers, raising their awareness of corporate responsibility and sustainability and encouraging their involvement in key initiatives.	The protection of the environment is an essential concern for all stakeholders; therefore, the focus is environmental sustainability.	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.

OUR ROLE IN THE COMMUNITY

Community Support

Our 2020 activities focused on:

- Strengthening existing partnerships to drive stakeholder engagement and social impact.
- Supporting the health community through the COVID-19 pandemic.

Some of the highlights include:

Donation to the Private Sector Coalition against COVID-19 (CACOVID): A donation was made to the account set up at the CBN under the auspices of the Private Sector Coalition against COVID-19 (CACOVID). The objective of CACOVID is to mobilise private sector leadership and resources in the fight against COVID-19.

Collaboration with the Citizen for Citizen Initiative: A donation was made to the Citizen for Citizen Initiative, a citizen-driven initiative with a goal to mobilise and generate a substantial pool of funds for Nigerians during the pandemic. The funds were deployed towards the establishment of a drive through testing centre in Oyo State by LifeBank, where free COVID-19 tests were conducted.

Collaboration with the Young Presidents' Organisation (YPO): A contribution was made to the Young Presidents' Organisation (Lagos Chapter). YPO worked with the Lagos State Government to establish an isolation and infection centre in Eti-Osa Local Government Area. The Centre ran for a few months providing care and treatment to COVID-19 patients.

Relief Initiative for Residents of Keffi/Obalende: A relief initiative was conducted for our host community in Keffi/ Obalende. Relief materials including food and sanitary items were distributed to residents of the community to help cushion the adverse effect of the lockdown on their daily income. The distribution was managed by the Ikoyi-Obalende Local Council Development Area.

Relief Initiative in Abuja and Port Harcourt: We also provided relief food and sanitary items to vulnerable communities such as orphanages in Abuja and Port Harcourt. This was also in a bid to help cushion the effect of the lockdown on the communities.

Eti-Osa Isolation Centre By Young Presidents Organisation (YPO), Lagos Chapter.

OUR ROLE IN THE COMMUNITY

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.

Incubation Hub Pitch Event: We supported the TFN Incubation Hub Pitch event. The Incubation Hub Program is aimed at empowering TFN alumni who are in the social innovation space with the skills, resources and support they require to drive their various initiatives focused on improving quality of education and quality of life for children and families in low-income communities. Two of the innovators were awarded seed funding to set up and expand their initiatives.

Mentoring Program: The TFN Mentoring programme is aimed at empowering second-year Fellows with professional development as they transition from the Fellowship programme, and with support as they implement their social impact project themed 'Be The Change' in their placement schools. Employees ranging from mid-senior and executive management volunteered to mentor the Fellows under our employee volunteering program.

Winners at the Teach For Nigeria Incubation Hub Pitch Contest Event.

Teach For Nigeria 2018-2020 Fellowship Cohort at the Pre-Service Training Institute.

Women's Economic Empowerment

Capacity Building for Female Employees: As part of our Women's Economic Empowerment initiatives, female employees were sponsored to attend the 2020 Women in Management, Business and Public Service (WIMBIZ) annual conference, and the Women in Successful Careers (WISCAR) annual conference.

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.

Financial Literacy for Women: We partnered with Leading Ladies Africa, a women-focused non-profit organisation, on a financial literacy session for women, aimed at equipping women with the information they require to make sound financial decisions. The session focused on the basics of financial planning as a starting point for the journey to wealth creation.

Governance

CHAIRMAN'S INTRODUCTION

The Board of Directors is responsible for the governance of the Bank and is accountable to shareholders for creating and delivering sustainable value through the management of the Bank's business. The Board operates in line with its responsibilities in the extant Corporate Governance Code and sectoral guidelines, the Bank's Articles of Association, and the Companies and Allied Matters Act.

The Board is composed of nine Directors consisting of seven Non-Executive Directors and two Executive Directors led by a Non-Executive Chairman. The Board comprises individuals who have attained the highest achievement in their respective fields and bring high levels of competency and experience to the business.

The Board Audit and Board Risk Management Committees are chaired by Independent Non-Executive Directors, while the Board Governance and Human Resources Committee is composed solely of Non-Executive Directors. In line with extant corporate governance codes and leading practices, 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.

Furthermore, Directors confirm that they are not in conflict with any of the matters on the agenda for each Board meeting. This further establishes the objectivity and neutrality of Board deliberations.

> I am pleased to inform you that no sanctions were imposed on the Bank during the year, and the Bank was not required to pay any penalties as a result of breaches in corporate governance.

The Board ensures a formal and transparent process for the selection and appointment of Directors. The Board Governance and Human Resources Committee plays a major role in selecting candidates for appointment to the Board.

Non-Executive Directors receive letters of appointment that detail their tenure, remuneration, duties, obligations, guiding laws and the CBN regulations to guide them on the expectations of the Bank and the other stakeholders, particularly the regulators of the Bank.

As a result of the Bank's robust corporate governance practices, it is no surprise that the Board continues to receive commendable ratings in the annual performance review and appraisal of Board members.

I am pleased to inform you that no sanctions were imposed on the Bank during the year, and the Bank was not required to pay any penalties as a result of breaches in corporate governance. In addition, the size and constitution of the Board have continued to satisfy leading practices. Every year, I emphasise that the strength of the Board remains the candour and experience of the members, their commitment to the Bank's growth, and their passion.

I commend my colleagues on the Board for standing strong through a challenging year. We are on the cusp of a formidable horizon, and the task ahead requires even greater effort, commitment and sacrifice. I trust the Board members to rise to the occasion with their usual tenacity. Together, and in accord with Management, we will achieve our goal of becoming the leading investment bank and asset manager in Africa.

LEADERSHIP

Board of Directors

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

Bello Maccido
Chairman
FBNQuest Merchant Bank Limited

Knowledge and Skills:

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, which include Ecobank Nigeria Plc, New Africa Merchant Bank Limited and FSB International Bank Plc, where he rose to become acting Managing Director/ Chief Executive Officer, Legacy Pensions. He was the founding Managing Director and Chief Executive Officer, First Bank of Nigeria Limited and Executive Director, Retail Banking, North Group, from where he was appointed the Group Managing Director of FBNHoldings. He retired from FBNHoldings effective 1 January 2016, when he became the Chairman of FBNQuest Merchant Bank Limited. 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 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
- 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

Knowledge and Skills:

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 USD9bn of structured debt, project finance and equity financing across banks and capital markets, advised on over USD5bn 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. Subsequently, he 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
- 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
- Treasury/Money Market Unit, EcoSecurities Limited
- Treasury, Credit and Marketing, Ecobank Nigeria Plc

LEADERSHIP

Taiwo Okeowo
Deputy Managing Director

Knowledge and Skills:

Taiwo Okeowo 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 Limited 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 and Trust Company Limited (now Stanbic IBTC Plc)
- System Analyst and Programmer, NAL Merchant Bank Limited

LEADERSHIP

Oluyele Delano, SAN
Independent Non-Executive Director

Knowledge and Skills:

Oluyele Delano, SAN, 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 (MCI Arb), 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
Non-Executive Director

Knowledge and Skills:

U.K. Eke, MFR, assumed office as Group Managing Director (GMD), FBN Holdings Plc on 1 January 2016. He joined the Board of First Bank of Nigeria Limited, a subsidiary of FBNHoldings, 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 FirstBank and FBNQuest Merchant Bank Limited as a Non-Executive Director. In 2017, he was appointed to the Board of Nigeria Sovereign Investment Authority. He was also Executive Director, Regional Business, Lagos & West, Diamond Bank Plc. His other work experience includes Deloitte Haskins & 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 Chartered Institute of Bankers, Institute of Management Consultants, Institute of Directors, Institute of Chartered Accountants of Nigeria and holds a first 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 programmes at Harvard Business School, USA; Stanford Business School, USA; IESE Business School, Barcelona; International Institute for Management and Development, Lausanne, Switzerland; Wharton Business School, USA; and Lagos Business School, Nigeria.

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

Knowledge and Skills:

Dr Omobola Johnson is Nigeria's first 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

Non-Executive Director

Knowledge and Skills:

Akin Osinbajo, SAN 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

LEADERSHIP

Babatunde Odunayo

Non-Executive Director

Knowledge and Skills:

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 moved to the international accounting firm, Coopers & Lybrand, where he was involved in the audit of accounts of client companies for four years. He was later appointed as consultant in the management consulting unit of the firm where he managed consulting assignments for another four 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.

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 (FCA).

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

LEADERSHIP

Oyinkansade Adewale
Non-Executive Director

Knowledge and Skills:

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 restating 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, LaFarge Africa Plc
- 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 Limited (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

EXECUTIVE LEADERSHIP COMMITTEE

KAYODE AKINKUGBE
Managing Director

TAIWO OKEOWO
Deputy Managing Director

PATRICK MGBENWELU
Head, Investment Banking

AWELE AJIBOLA
Chief Risk Officer

IKE ONYIA
Managing Director, FBNQuest Asset Management Limited

ADETOUN DOSUNMU
Head, Fixed Income, Currencies and Treasury

AFOLABI OLORODE
Head, Coverage and Corporate Banking

FIONA AHIMIE
Managing Director, FBNQuest Securities Limited

EMILY ATEBE*
Chief Financial Officer

FUNKE LADIMEJI**
Head, Technology and Services

*Resigned May 2020

**Resigned November 2020

EFFECTIVENESS

At FBNQuest Merchant Bank Limited, 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 the inclusion of all stakeholders. The Board is resolute that by 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 Roles and Responsibilities

Responsibilities

The Board of FBNQuest Merchant Bank Limited is accountable and responsible for the performance of the Bank. The Board discharges its oversight functions and provides FBNQuest Merchant Bank Limited 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

- 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.

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 related matters.
- 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.

EFFECTIVENESS

Independent Non-Executive Director

- Employ neutral, specialised/expert skills towards achieving a balance of knowledge, skills, judgement and other directional resources.
- Serve as a 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 2020 is shown below:

Name	10 March	14 April	24 June	24 July	28 October	9 December
Bello Maccido	✓	✓	✓	✓	✓	✓
Kayode Akinkugbe	✓	✓	✓	✓	✓	✓
Taiwo Okeowo	✓	✓	✓	✓	✓	✓
Dr Omobola Johnson	✓	✓	✓	✓	✓	✓
Oluyele Delano, SAN	X	✓	✓	✓	✓	✓
U.K. Eke, MFR	✓	✓	✓	✓	✓	✓
Akin Osinbajo, SAN	✓	✓	✓	✓	✓	✓
Babatunde Odunayo	✓	✓	✓	✓	✓	✓
Oyinkansade Adewale	✓	✓	✓	✓	✓	✓

Board Focus Areas for 2021

The Board will focus on profitability and reduction of operational expenses in 2021, in accordance with the updated 2020-2024 strategic planning cycle, while sustaining strict compliance with corporate governance codes and banking regulations.

Board Changes During 2020

There was no change to the composition of the Board of Directors during the year.

Board Activities

The Board met six 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 2020 to engender interaction between the Board and Senior Management, and to chart the input into the FBNHoldings Group strategic planning cycle for the years 2020-2024.

The Board appraisal assessment was very positive for the 2019 financial year and the single observation made by the Board appraisal consultants, KPMG advisory services, was monitored and resolved within 2020.

EFFECTIVENESS

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 2020 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 CBN's 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. They ensure 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 Bank had a nine-member Board as at 31 December 2020, 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 FBNHoldings. Two of the seven Non-Executive Directors are Independent Non-Executive Directors, in compliance with the CBN'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.

The Directors are nominees of FBNHoldings. 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 Bank demand such appointment be made.

EFFECTIVENESS

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.

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.

Performance Monitoring

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

- Establishing the Bank's strategic direction and priorities;
- Interacting with the key stakeholders in order to inform them of the Bank's achievements and ensure that they make inputs into determining the strategic goals and directions;
- Regularly scanning the external operating environment in order to ensure that the Bank's strategic direction remains both appropriate and achievable;
- Establishing the policy framework from which all operational policies and actions are developed for governing the Company;
- Appointing, setting targets for evaluating the performance of, and rewarding, as appropriate, the Managing Director; and
- Monitoring the Managing Director's and the Bank's compliance with the relevant Federal, State and local legislation and with the Bank's own policies.

Committee Reports

The effectiveness of FBNQuest Merchant Bank Risk Management Committee (RMC) 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 BAC is to drive the Board's strategic and oversight functions in the areas of financial reporting, internal and external audits.

Financial Reporting

The BAC ensures that financial disclosures made by the Management reasonably portray the Bank 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.

EFFECTIVENESS

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.
- 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

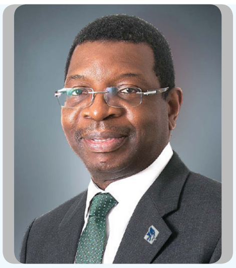
- Reviews the systems of internal control to ascertain their adequacy and effectiveness.
- Reviews and discusses any previously identified material weaknesses in controls and deficiencies in system and, if considered necessary, recommends additional procedures to enhance the system.
- Identifies any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

EFFECTIVENESS

Attendance at BAC meetings in 2020

Members:

- Oluyele Delano, SAN – Chairman
- Dr Omobola Johnson
- U.K Eke, MFR
- Babatunde Odunayo
- Oyinkansade Adewale



Name	21 January	25 February	7 April	14 July	15 October	7 December
Oluyele Delano, SAN	✓	✓	✓	✓	✓	✓
Dr Omobola Johnson	✓	✓	✓	✓	✓	✓
U.K Eke, MFR	✓	✓	✓	✓	✓	✓
Babatunde Odunayo	✓	✓	✓	✓	✓	✓
Oyinkansade Adewale	✓	✓	✓	✓	✓	✓

EFFECTIVENESS

Board Credit Committee (BCC)

The BCC was chaired by Babatunde Odunayo. The terms of reference of the BCC 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 2020

Members:

- Babatunde Odunayo – Chairman
- Akin Osinbajo, SAN
- Dr Omobola Johnson
- Kayode Akinkugbe
- Taiwo Okeowo

Name	3 March	9 April	25 June	15 July	24 August	16 October	16 December
Babatunde Odunayo	✓	✓	✓	✓	✓	✓	✓
Akin Osinbajo, SAN	✓	✓	✓	✓	✓	✓	✓
Dr Omobola Johnson	✓	✓	✓	×	✓	✓	✓
Kayode Akinkugbe	✓	✓	×	×	✓	✓	✓
Taiwo Okeowo	×	✓	✓	✓	✓	✓	✓

EFFECTIVENESS

Board Governance/HR Committee (BGC)

The BGC was chaired by Dr Omobola Johnson. The purpose of the BGC 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 Bank to the Board of Directors;
- developing, updating and making recommendations to the Board on corporate governance principles and policies as applicable to the Bank;
- 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 they 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 BGC from the resolutions of the Executive Leadership committee or other matters as the Board shall refer to the BGC for consideration.

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

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

The BGC is composed of only Non-Executive Directors.

Attendance at BGC meetings in 2020

Members:

- Dr Omobola Johnson – Chairperson
- Oluyele Delano, SAN
- U.K Eke, MFR
- Akin Osinbajo, SAN

Name	23 March	21 July	15 October	17 December
Dr Omobola Johnson	✓	✓	✓	✓
Oluyele Delano, SAN	✓	✓	✓	✓
U.K Eke, MFR	✓	✓	✓	✓
Akin Osinbajo, SAN	✓	✓	✓	✓

EFFECTIVENESS

Board Risk Management Committee (BRMC)

The BRMC was chaired by Oyinkansade Adewale. The overall purpose of the BRMC is to protect the interest of shareholders and other stakeholders by overseeing the following:

- 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 BRMC 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 Bank'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 BRMC include, but are not limited to, the following:

- reviewing and recommending to the Board for approval the Enterprise-wide Risk Management (ERM) Framework;
- reviewing and recommending to the Board for approval the risk philosophy, risk appetite and tolerance levels;
- monitoring the Bank's plans and progress in meeting regulatory risk-based supervision requirements and migration to Basel II compliance;
- dealing with the Bank'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 BAC;
- monitoring the Bank'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.

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

- effectiveness of risk management systems;
- adequacy of internal controls; and
- assessment and supervision of the Chief Risk and Compliance Officers.

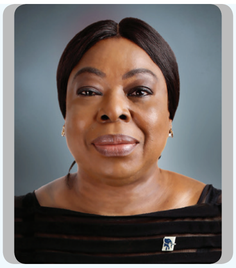
iii. **Ensuring Compliance by:**

- ensuring that the Bank 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 Limited;
- 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 Limited'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 Limited regarding money laundering and financial crimes;
- ensuring the effectiveness of the Bank'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 cybersecurity risk regime.

Attendance at BRMC meetings in 2020

Members:

- Oyinkansade Adewale – Chairman
- Akin Osinbajo, SAN
- Oluyele Delano, SAN
- Kayode Akinkugbe



Name	9 April	21 July	16 October	7 December
Oyinkansade Adewale	✓	✓	✓	✓
Akin Osinbajo, SAN	✓	✓	✓	✓
Oluyele Delano, SAN	✓	✓	✓	✓
Kayode Akinkugbe	✓	×	×	✓

EFFECTIVENESS

Management Committees

The Executive Leadership Committee is the body delegated by the Board of Directors of the Bank to manage the day-to-day business of the Bank. It is the Bank'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 the Bank's 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 ALCO 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)

EFFECTIVENESS

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 ITSC will monitor and review the project status, as well as provide 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 ITSC 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 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)

EFFECTIVENESS

Risk Management Committee (RMC)

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

The objectives of the RMC 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 Limited, while balancing the cost of managing those risks and the anticipated benefits;
- improving the financial performance of the Bank by establishing a positive relationship between an effective risk management system and profitability;
- protecting the Bank 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 inbuilt capabilities for minimal disruption should mission-critical threats arise as well as evaluating its adequacy in relation to FBNQuest Merchant Bank Limited's business and regulatory requirements.

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 2020 were ₦395,447,743.15, broken down as follows:

	AMOUNT ₦
Fees and sitting allowances	143,294,144.00
Executive compensation	235,613,572.44
Other Director expenses	16,540,026.71
Total	**395,447,743.15**

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;
- Promote attention to maximising personal contribution, contribution to the business in which the individual works and contribution to FBNQuest Merchant Bank Limited as a whole; and
- Ensure that both internally and externally, remuneration policies and programs are transparent, well communicated, easily understood, and aligned with the interests of shareholders.

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 its practices. The internal control and operating procedures in the Bank are intended to detect, 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.

The Bank's Whistleblowing Policy was 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:

- The disclosure is made in good faith and about issues within the scope;
- The disclosure raises concerns internally; and
- 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 has put in place a Whistleblowing Policy with the aim 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;
- 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;
- Develop a culture of openness, accountability and integrity; and
- 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 Chief Audit Executive.

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

- Dedicated telephone lines;
- Dedicated email address; and
- 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 2020.

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

REPORT OF THE INDEPENDENT CONSULTANTS ON BOARD APPRAISAL

FOR THE PERIOD ENDED 31 DECEMBER 2020

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') and Section 14.1 of the Nigerian Code of Corporate Governance 2018 ('the NCCG'), FBNQuest Merchant Bank Limited ('FBNQuest' 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 2020. The CBN Code and the NCCG 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 in respect of the appraisal of the Board in accordance with the provisions of the CBN Code and the NCCG. 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 Codes of Corporate Governance mentioned above. Specific recommendations to further improve the Bank's governance practices have been articulated and included in our detailed report to the Board. These include recommendations to improve succession planning, remuneration policies, information technology oversight and information management processes.

Tolu Odukale
Partner, KPMG Advisory Services
FRC/2018/ICAN/00000018175
19 April 2021

Risk Overview

CHIEF RISK OFFICER'S REPORT

The acuity of risks and opportunities is essential to business performance and 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.

During the year 2020, FBNQuest Merchant Bank improved 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 is in alignment with our vision of becoming a world-class investment bank and creating value for all stakeholders in a sustainable manner.

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

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

Consequently, we continue to monitor the identified risks and strive to mitigate them to ensure we return consistent value to 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.

FBNQuest Merchant Bank's Key Risks

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 BRMC regularly.

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, monitor risks and adhere to limits. These policies are subject to review at least once a year, but more frequent reviews may be conducted as directed by 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 aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations, and this is achieved through its training, management standards and procedures.

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:

- Board Risk Management Committee (BRMC);
- Board Credit Committee (BCC);
- Board Audit Committee (BAC); and
- Board Governance/HR Committee.

These committees are responsible for developing and monitoring risk policies in their specified areas and reporting their activities regularly to the Board of Directors. All Board committees are made up of 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);
- Information Security Steering Committee (ISSC); and
- Other ad hoc Committees.

All established committees meet either monthly and/or quarterly, while ad hoc committees are constituted based on 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 the 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.

FBNQuest Merchant Bank recognises that it is in the business of managing risks to derive optimal returns for the benefit of all of its stakeholders. Therefore, it approaches 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) Policy;
- Environmental and Social Risk Policy;
- Information Security Policy;
- Market and Liquidity Risk Policy;
- Operational Risk Policy;
- Performance Management Framework;
- Related Parties Policy;
- Standard Manuals of Operations; and
- Whistleblowing Policy,

RISK MANAGEMENT

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

FBNQuest Merchant Bank has a robust and functional ERM policy 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:

RISK GOVERNANCE FRAMEWORK

The risk governance and strategy of FBNQuest Merchant Bank comprises the following:

- A risk management governance and responsibilities definition, including the risk committee structure and the risk organisation for the Bank.
- A risk appetite statement, including qualitative and quantitative statements under normal conditions and under stressed conditions.
- A capital adequacy management approach, including capital demand and supply as well as capital planning process.
- An internal control approach, following a 'three lines of defence' method.

Risk Management Governance and Responsibilities

Risk Management Model

FBNQuest Merchant Bank has a risk committee structure organisation with clear roles and responsibilities that constitute the basis of its risk governance.

Risk Committee Structure

The committee structure defined for the Bank is as follows:

The high-level responsibilities of these committees with regards to enterprise risk management are:

- Board of Directors: The Board has ultimate responsibility for the Bank's overall strategic direction for the Business, its risk strategy and the level of risk to be taken. The roles can be classified into general and specific roles.

General roles

- Approve and periodically review risk strategy and policies;
- Approve the Bank's risk appetite and monitor the risk profile against this appetite;
- Ensure Executive Management takes steps necessary to monitor and control risks;
- Ensure that Management maintains an appropriate system of internal control and reviews its effectiveness;
- Ensure the risk strategy reflects the Bank's tolerance for risk;
- Approve the Bank's cybersecurity programme that promptly identifies and addresses risk;
- Review and approve changes or amendments to the risk management framework;
- Review and approve risk management procedures and control for new products and activities; and
- Periodically receive risk reports from Management, highlighting key risk areas, control failures and remedial action steps taken. This shall be done at least once every quarter.

Specific roles

Credit Risk

- Approve the Bank's overall risk tolerance in relation to credit risk based on the recommendation of the CRO;
- Ensure that the Bank's overall credit risk exposure is maintained at prudent levels and is consistent with the available capital through quarterly review of various types of credit exposure;
- Ensure that Management, as well as individuals responsible for credit risk management, possess the requisite expertise and knowledge to accomplish the risk management function;
- Ensure that the Bank implements a sound methodology that facilitates the identification, measurement, monitoring and control of credit risk;
- Ensure that detailed policies and procedures for credit risk exposure creation, management and recovery are in place; and

RISK MANAGEMENT

- Appoint credit officers and delegate approval authorities to individuals and committees.

Market and Liquidity Risk

- Define the Bank's overall risk appetite in relation to market risk;
- Ensure that the Bank's overall market risk exposure is maintained at levels consistent with the available capital;
- Ensure that Management as well as individuals responsible for market risk management possess sound expertise and knowledge to accomplish the risk management function;
- Approve the Bank's strategic direction and tolerance level for liquidity risk;
- Ensure that Management have the ability and required authority to manage liquidity risk;
- Approve the Bank's liquidity risk management policy; and
- Ensure that liquidity risk is identified, measured, monitored and controlled.

Operational Risk

- Define the Bank's overall risk appetite in relation to operational risk;
- Ensure that the Bank's overall operational risk exposure is maintained at levels consistent with the available capital;
- Ensure that Management as well as individuals responsible for operational risk management possess sound expertise and knowledge to accomplish the risk management function;
- Approve the Bank's operational risk management framework;
- Ensure that the Bank's operational risk management framework is subject to effective and comprehensive internal audit by operationally independent, appropriately trained and competent staff; and
- Ensure that operational risk is identified, measured, monitored and controlled.

Information Security

- Approve the Bank's overall Information Security framework and policy;
- Ensure that the Bank's information security posture is maintained in line with its risk appetite and commensurate to the risks associated with information assets;
- Establish strategy, policy and objectives for information security in accordance with the Bank's needs, as part of its overall information security risk management strategy; and
- Ensure cyber-risk management is incorporated into Bank-wide risk management and security expectations are defined and met across the Company.

Reputational Risk Management

- The Board shall set down appropriate guidelines to Management, including an explicit statement of a zero-tolerance policy for all unethical behaviour;
- The Board shall live up to its statutory responsibilities and members shall comply with all regulatory guidelines in their relationship with the Bank. Directors will make every effort to avoid all conflict-of-interest situations;
- The Board shall review all exception reports by external parties such as regulators and auditors; ensure that appropriate sanctions are applied to erring officers; demand from Management appropriate explanations for all exceptional items; ensure that Management puts in place effective and remedial actions and reports on progress to the Board on an ongoing basis; and
- The Board shall ensure at all times that only fit and proper persons are appointed to Senior Management positions in the Bank. Clear guidelines are be set and all staff are expected to comply with the Bank's Code of Conduct.

Money Laundering/Financing Terrorism (AM/FT) Risk

- The Board shall set down appropriate framework to Management for Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT);
- The policy shall meet the requirements of the CBN, Circular on Minimum Account Opening Requirements, CBN Know-Your-Customer Manual, the Money Laundering (Prohibition) Act 2011 (as amended), and the Terrorism (Prevention) Act 2011;

RISK MANAGEMENT

- The Board shall ensure the training of its staff in AML/CFT as well as sustaining high ethical and professional standards in its operations at all times;

- The Board shall ensure that the highest standards of AML/CFT compliance are adhered to at all times; and

- The Board shall ensure a policy is developed for AML/CFT compliance with best practices and regulatory requirements and is aimed at providing guidance to compliance officers, relationship officers and all control operations in the process of client profiling and monitoring, customer due diligence (CDD), record keeping requirements, reporting of suspicious transactions in accordance with relevant laws and regulations.

Board Risk Management Committee (BRMC)

This is the standing committee of the Supervisory Board responsible for oversight of all risks, and exercises the powers delegated to it by the Board. The role of the BRMC includes:

- Providing oversight over the risk management function to achieve an integrated view of risks faced by the Bank, and to effectively implement approved strategies for risk management;

- Regularly monitoring adequacy of capital maintained based on the capital policy of the Bank;

- Making recommendations to the Board as it deems fit, and examining any other matter referred to it by the Board;

- Reviewing of issues raised by internal audit that impact on risk management and make recommendations to the Board; and

- Reviewing and recommending changes to risk policies to the Board based on changes in regulations, unexpected changes in business scenario, etc.

Board Audit Committee (BAC)

This committee reflects the independent reporting line of the internal audit function covering the Bank. The role of the BAC includes:

- Assisting the Board in exercising oversight with the Bank's financial reporting, application of accounting policies and establishment of procedures for compliance with regulatory and legal requirements;

- Approving audit plans, charters and other programs of the internal audit function;

- Improve the effectiveness of the internal and external audit functions and communication between the Board, the external and internal auditors;

- Ensuring compliance with established policies through periodic review of reports provided by Management, internal and external auditors, and the supervisory authorities; and

- Facilitating the independence of the external auditor, provide a structural reporting line for internal audit, and facilitate the maintenance of internal audit's objectivity.

Board Credit Committee (BCC)

This is the most senior committee responsible for the approval of risk asset creation and underwriting, including the credit approval authority and policies on approval process, as delegated to the Management Credit and Underwriting Committee. The role of the BCC includes:

- Implementing the Board strategies on risk assets creation and underwriting, and report at regular intervals to the Board;

- Reviewing and recommending of credit risk management policies, limits and thresholds to the Board for approval;

- Making decisions and providing guidance to the Management on the management of credits and exposures to credit risk;

- Reviewing and recommending the Bank's credit rating methodology to the Board for approval and ensure its implementation; and

- Receiving reports periodically and, based on those reports, direct and advise on the management of identified risks.

Board Governance Committee (BGC)

This is the Board committee responsible for:

- Overseeing the Board's evaluation of the performance of Senior Management;

- Considering and making recommendations to the Board on the appointment of Senior Management staff; and

- Identifing and making recommendations to the Board on staff welfare, conditions of service, administrative and ethical issues as may arise.

RISK MANAGEMENT

Executive Leadership Committee (ELCO)

This is the Management committee responsible for the execution of the business strategy for the Bank.

Risk Management Committee (RMC)

This is the management committee responsible for establishing and ensuring compliance with the risk policies of the Bank. The RMC is also responsible for the definition and approval of policies specific to risk types. The role of RMC includes:

- Establishing and implementing the Bank's Operational and Credit Risk Management framework based on criteria and standards set by the Board;
- Implementing and monitoring various indicators and tools put in place by the Board for effective management of the Bank's exposure to credit, market and operational risks;
- Ensuring that risk issues that can have material and significant impact are promptly managed, and where appropriate, promptly escalated to the Board;
- Periodically reviewing reports on material risk factors and events;
- Recommending relevant reviews to existing policies, limits and methodologies from to time to the Board, in line with changes in operating environment;
- Putting in place relevant manuals of operations, procedures and guidelines for all functional units in the Bank, and review such from time to time in line with structural and operational changes;
- Recommending relevant reviews to existing product programs to the Board, and propose new ones as appropriate, in order to improve and strengthen operational efficiency;
- Establishing and periodically review, appropriate systems of controls and procedures for all functional units in line with regulatory guidelines and best practices; and
- Periodically reviewing and strengthening the Bank's business continuity management plan in line with changes in technology, operating environment, operational risk factors and regulatory requirements.

Asset and Liabilities Committee (ALCO)

This committee is responsible for the management of the Bank's liquidity and day-to-day management of market and liquidity risks. From a strategic view, this committee has the responsibility of aligning the risk appetite, capital requirements and funding needs of the Bank. ALCO also has the responsibility for reviewing and approving new models and methodologies used in market and liquidity risk for appropriateness, including independent model validation for risk models and methodologies, which it delegates to the New Product Approval Committee. The role of ALCO includes:

- Responsibility for the management of market and liquidity risks;
- Performing regular review and assessment of the Bank's exposure to market and liquidity risks, relevant risk factors, market and environmental outlook;
- Taking appropriate steps to minimise the potential impact of identified risk factors to portfolio exposures;
- Reviewing the implementation of strategic initiatives, and making appropriate changes when required;
- Taking appropriate steps to ensure the achievement of performance targets and benchmarks in line with the Bank's strategic thrust;
- Carrying out relevant stress and scenario tests on the various portfolios using identified risk factors and other variables;
- Reviewing appropriate risk models used for market risk management; and
- Periodically reviewing reports received from various SBUs and the Risk Management group.

ICT Steering Committee (ITSC)

This is the management committee responsible for the initiation and implementation of an ICT infrastructure for the Bank. The role of ICTSC includes:

- Assessing the feasibility and implementation of ICT projects;

RISK MANAGEMENT

- Monitoring and reviewing ongoing projects at regular meetings;
- Providing assistance to the project when required;
- Controlling project scope based on emerging risks and issues, while ensuring that scope aligns with the agreed business requirements;
- Resolving project conflicts and disputes, including differences of opinion and approach.;
- Being responsible for formal acceptance of project deliverables; and
- Ensuring due diligence is followed in the selection and recommendation of service vendors for IT projects.

This committee also serves as the Information Security Steering Committee (ISSC) responsible for providing strategic direction and information and cybersecurity governance. They also provide governance of the information and cybersecurity programme; ensure the alignment of policy and processes with business objectives; evaluate, approve and sponsor institution-wide security investment; and enforce the implementation of policies for prioritising investment and security risk management.

New Product Approval Committee (NPAC)

This committee has the responsibility of reviewing and approving new products, including the review and approval of corresponding new models and methodologies for appropriateness, which is delegated from the ALCO.

ELCO Audit Committee (EAC)

EAC has the responsibility of reviewing and evaluating internal audit reports and assessing the adequacy, or otherwise, of responses by the Bank's department or units to the internal audit reports. The committee also make recommendations to ELCO on the adequacy of internal audit, internal controls and internal risk management and compliance procedures.

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

Credit risk: This is 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: This is 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: This is 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: This is the 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.

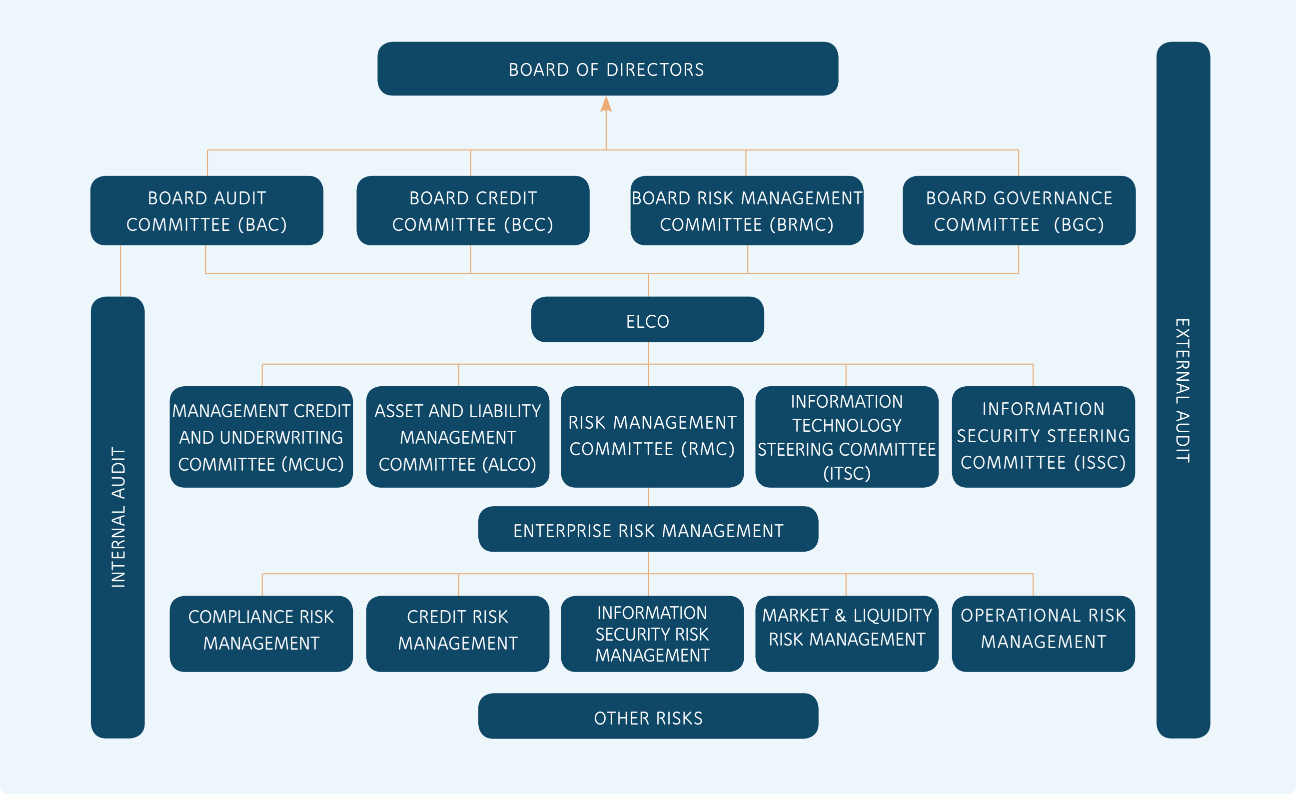
Market risk: This is losses in on- and off-balance sheet positions as a result of adverse changes in market prices.

Operational risk: This is 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 and for their management.

RISK MANAGEMENT

RISK GOVERNANCE ORGANOGRAM



Philosophy

FBNQuest Merchant Bank's risk management philosophy is drawn from its mission statement, and aims 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 assess and may have a high loss potential.

INFORMATION AND CYBERSECURITY RISK

Cyber threats and cyberattacks remain the bane of many organisations, with consequences sufficiently serious to threaten or even end the existence of compromised organisations.

Cybersecurity risk is the probability of loss or harm related to technical infrastructure, the use of technology or reputation of an organisation. Information security risk, on the other hand, is the possibility of loss arising from a breach or attack on an information technology.

FBNQuest Merchant Bank has a set of policies and procedures in place 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. The following are specific steps taken by the Bank with regards to its ISMS.

Information and Cybersecurity Management

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

In addition, external consultants and other experts are employed periodically 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 the Bank's information assets (hardware, software, documents, backup media, etc.) are continuously reviewed and monitored, and the key risks identified are reported to key stakeholders.

Controls are executed by relevant stakeholders where applicable, and are also tracked and reported on. External consultants and other experts are employed periodically to review, assess and audit the Bank's IT infrastructure, to ensure that the information assets are secured and protected.

EMERGING RISKS

REGULATORY RISK

Regulatory risk is the risk that a change in regulations or legislation will affect a security, company or industry. In FBNQuest Merchant Bank, we acknowledge that the Nigerian financial services industry evolves continuously with the attendant regulations from various regulatory bodies. Consequently, we will continue to:

- Ensure new and revised legal and regulatory requirements are identified, monitored and reflected in the rule book;
- Ensure there are competent and experienced compliance teams to drive and implement the Group's compliance framework;
- Effectively monitor the Group's compliance with laws and regulations, its code of conduct and corporate governance practices;
- Ensure the regulatory requirements are incorporated in the operational procedures manual and the manual is kept up-to-date;
- Promptly submit the regulatory returns and reports;
- Promptly comply with regulatory directives;
- Promptly implement recommendations from various regulatory examinations;
- Constantly engage with the regulators, SROs and industry colleagues to clarify grey areas; and
- Follow sound corporate governance practices and 'set the right tone at the top' with respect to regulatory compliance across the businesses.

PRINCIPAL RISKS

FBNQuest Merchant Bank 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, strategy and information security risks.

The importance of each risk to the Bank has been determined by its effects on capital, earnings, 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 regularly.

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 extent of our exposure to these risks drives our regulatory capital requirements.

The business model we have adopted means that the risks listed are very important to us, and it is therefore critical that they are effectively and properly managed.

CREDIT RISK

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

Thus, on the back of its lending and other related activities, the Bank has placed commensurate emphasis on the 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, and is thus reviewed periodically (at least annually).

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

FBNQuest Merchant Bank Limited continues to focus attention on basic and concentration risks inherent in its business to manage the Bank's portfolio risk. Portfolio concentration limits are measured under the following parameters:

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

PRINCIPAL RISKS

The Credit Committee (BCC) is responsibility for the management of credit risk as delegated by the Board of Directors. 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 or 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, large quoted corporates, large conglomerates and multinationals. The responsibility for approving RAAC and Credit Policy lies with the 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 2020.

FBNQuest Merchant Bank recognises that loan assets constitute a significant portion of its assets. Thus, we strive to proactively protect and 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. The Bank 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 that measures the probability of default (PD) on a credit obligation over a defined time frame 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 to 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

PRINCIPAL RISKS

and advances at a counterparty level, the Bank considers two components:

- the PD by the client or counterparty on its contractual obligations, from which the Group derives the exposure at default (EAD); and
- 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, FBNQuest Merchant 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 imposes industry or economic sector limits to guard against concentration risk based on guidelines set by the regulators.

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. The Bank's strategic focus as well as the stated risk appetite guide approval decisions 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 has in place clearly defined guidelines and processes for the acceptance, evaluation, inspection and management of collateral 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. These lines cover the settlement risks inherent in trading with these counterparties. The limits are determined following fundamental analysis of the counterparties and the presentation of findings 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. FBNQuest Merchant 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 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.

PRINCIPAL RISKS

- 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.

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 Environmental and Social Risk Policy seeks to ensure that the Bank is not actively enabling entities, individuals or activities that negatively impact our local communities or the environment.

PRINCIPAL RISKS

LIQUIDITY AND MARKET RISK

The nature of the Bank's activities exposes it to liquidity and market risks, and 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 Bank uses the following processes to manage this class of risk:

- Daily valuation of securities;
- Position limits;
- Factor-sensitive limits, including duration;
- Loss limits;
- Stress testing: sensitivity and scenario analysis;
- Value at risk; 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, and 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 standard function of FBNQuest Merchant Bank, necessitating the implementation of sound liquidity management practices. The Asset and Liability Committee (ALCO) is responsible for effective management of the Bank's liquidity.

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.

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

PRINCIPAL RISKS

SETTLEMENT RISK

The Bank's activities may give rise to risk during 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

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

Risk Incident Reporting

There is an internally developed, web-based risk incident reporting system called the risk register. It is deployed through the FBNQuest Merchant Bank intranet for logging of operational risk incidents 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, the Bank has collated operational risk event data over the years. Information gathered is used to support identification of risk concentrations, process improvements and the 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 executed 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.

PRINCIPAL RISKS

Business Continuity Management

To ensure the resilience of FBNQuest Merchant Bank's business to any disruptive eventuality, the Bank has a robust Business Continuity Management (BCM) Policy, which assures timely resumption of its business with minimal financial losses or reputational damage, and the 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 responsible for 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 continually.

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 when required.

Operational Risk Management Governance Structure

The Board oversees the Bank's operational risk function through the BRMC. 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 quarterly. The 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.

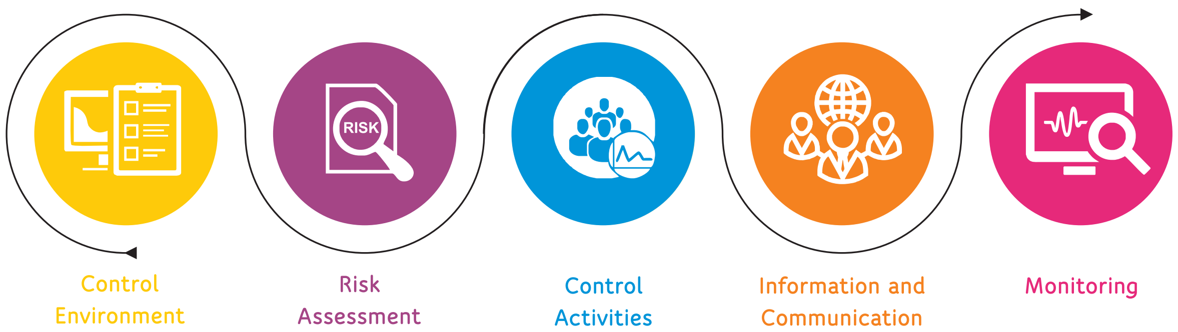
PRINCIPAL RISKS

INTERNAL CONTROL

FBNQuest Merchant Bank's internal control framework is based on internal control guidelines as recommended by the Committee of Sponsoring Organisations 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 ERM framework, 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. These outline procedures for the identification, management and documentation of relevant processes and sub-processes.

The control function of FBNQuest Merchant Bank 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 touchpoints 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

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

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or reputational damage 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 are as follows:

- 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.
- Ensure that new and changed regulatory requirements are identified and reflected in our processes where appropriate.
- Ensure that the Bank and its employees are complying with regulatory requirements, internal and external policies and procedures as well as relevant international developments, practices and trends.
- 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.
- Facilitate the formation 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 in the Bank:

- Compliance shall be a component of the Bank's culture, starting at the top and with the Board of Directors and Executive Management leading by example. It shall be viewed as an integral part of the Bank's business activities and concerns every employee of the Bank.
- FBNQuest Merchant Bank shall hold itself up to high standards when carrying on business and always strive to observe the spirit and uphold the letter of the law. 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.
- Good compliance risk management builds trust and protects the Bank's brand.
- The identification of compliance risk, its assessment and appropriate risk response shall be elements to consider in any due diligence process, as compliance is an integral part of the Bank's business activities.
- The Bank shall promote an appropriate compliance culture throughout the organisation which will include desired ethical behaviour. The compliance function shall assist with the entrenchment 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 is carried out in conjunction with the Senior Management, Risk Management group and all other divisions, departments and units of the Bank covers:

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

- **Reports to Senior Management and the Board:** Submitting monthly and quarterly reports on AML/CFT measures and other compliance issues to Senior Management and the Board respectively. These reports provide the Board and Senior Management with information to enable them evaluate 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 and CFT risk management.

- **Know-Your-Customer (KYC) Procedures:** The foundation and bedrock for onboarding a customer in FBNQuest Merchant Bank entails a duly completed account opening form, and the collection of identification and other relevant information and documents. Customer Due Diligence (CDD) is conducted prior to establishing any banking relationship with a customer. This includes 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, which include PEP, with the approval of Senior Management and compliance required prior to the commencement of banking relationships with such high-risk customers.

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

  FBNQuest Merchant Bank has made it mandatory for customers to acquire a Bank Verification Number (BVN) prior to onboarding and making transactions on their accounts, and before they have access to loans and can purchase foreign exchange. This is regulatory requirement from the Central Bank of Nigeria.

- **Transaction Monitoring:** All transactions are monitored either manually or through automation. The former is executed by all members of staff as they are regularly updated with the information regarding the red flags to look out for in customers' transactions, while automated transaction monitoring is a function of the Compliance unit. All members of staff are aware that suspicious activities and transactions should immediately be referred to the Compliance unit.

  The SWIFT transaction monitoring sanctions screening and SoftAML solutions have been utilised to properly monitor transactions passing through the Bank's systems. Both AML tools have been fully deployed in the Bank, providing an advancement in the means by which transactions are monitored and investigated.

- **Transaction Reporting:** Regulatory and statutory requirements necessitate 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 Transaction Report (FTR); and
  - Suspicious Transaction Report (STR).

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

- **Relationship with Regulators and Law Enforcement Agencies:** FBNQuest Merchant 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, promptly complies with all directives pursuant to the law, and provides information to all regulators and other relevant agencies when requested.

COMPLIANCE RISK

- **Sanctions Compliance Management:** As a matter of policy, FBNQuest Merchant Bank 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 with the Bank, or plan to 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. As part of the Bank's policy, employees are required 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.

- **Politically Exposed Persons (PEPs):** PEPs are individuals who have been entrusted with prominent public functions, and the 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.

  FBNQuest Merchant Bank has in place the domestic PEP database and World-Check One to identify the PEP status of customers at onboarding, and employs the use of an automated monitoring tool in identifying and monitoring PEP transactions in line with recommendations from the FATF. This is achieved through the thorough review of information provided by customers and their transaction trends. The establishment of new accounts for PEPs as well as continuity of existing accounts is subject to the approval of Senior Management of the Bank in line with the AML/CFT policy.

- **AML/CFT Principles for Correspondent Banking:** FBNQuest Merchant Bank only enters and maintains correspondent banking relationships with financial institutions that have implemented sufficient AML/CFT policies and procedures. To ease this process, the 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 periodically on our correspondent relationships to avoid AML/CFT risks.

- **AML/CFT and Compliance Training:** The Bank places a high value on the training of its employees. Training sessions are conducted to ensure employees are conversant with the AML/CFT laws, KYC principles and other information on compliance/corporate governance. An annual compliance training session is a minimal mandatory requirement for all members of staff, including Senior Management and Directors, which is done via e-learning or face-to-face media. Ad hoc training also takes place through the dissemination of topical national and international issues to employees.

- **AML/CFT Audits:** The internal audit of the AML/CFT function is conducted on a biannual basis in adherence to regulations and to ensure an ever-evolving, fit-for-use compliance function. 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 and the Board. A follow-up to the audits takes place to ensure that the relevant issues are addressed and highlighted recommendations implemented.

- **Record Retention:** 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 as required by the Act. The Bank has opted to maintain customers' records as regulatorily required.

- **Subsidiaries:** In compliance with regulatory requirement, FBNQuest Merchant 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

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 2020.

(a) Legal Form

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 Limtied 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, portfolio 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	
	2020 ₦'000	2019 ₦'000	2020 ₦'000	2019 ₦'000
Gross earnings	**24,398,976**	24,858,487	**19,794,151**	20,877,296
Profit before tax	**6,625,361**	4,149,945	**5,088,394**	2,779,877
Tax expense	**(884,686)**	(556,888)	**(207,784)**	(139,651)
Profit after tax	**5,740,675**	3,593,057	**4,880,610**	2,640,226

(d) Directors' Shareholding

The Directors do not have any direct and indirect interests in the issued share capital of the Bank (2019: 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, 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.

(g) Shareholding Analysis

The shareholding pattern of the Bank as at 31 December 2020 (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

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

(h) Substantial Interest in Shares

According to the register of members as at 31 December 2020, two shareholders hold the issued share capital of the Bank:

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

(i) Customer Complaints

In compliance with the 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 2020.

(j) Donations and Charitable Gifts

The Group made contributions to charitable and non-political organisations amounting to ₦131.59million (2019: ₦14.32million) during the year.

Donations to Charitable Organisations:	Group		Bank	
	2020 ₦'000	2019 ₦'000	2020 ₦'000	2019 ₦'000
COVID-19 Relief Fund	100,000	-	100,000	-
Citizen for Citizen Initiative	10,000	-	10,000	-
YPO COVID-19 Initiative	10,000	-	10,000	-
Widow Trust Fund	-	1,491	-	1,491
Bethesda Child Support Agency	-	500	-	500
Literacy Week Sponsorship	-	133	-	133
Treasure Chidi's Participation in Olympics	-	500	-	500
	120,000	2,625	120,000	2,625

Donations to Other Organisations and Individuals:	Group		Bank	
	2020 ₦'000	2019 ₦'000	2020 ₦'000	2019 ₦'000
Dorlton BW COVID-19 Relief Initiative	7,513	-	7,513	-
Contribution to CBN Financial Literacy Program	1,043	-	1,043	-
Berraki Partners	502	-	502	-
Covid-19 Relief Initiatives (various)	2,537	-	2,537	-
Nigeria Stock Exchange	-	1,600	-	1,600
Women in Management and Business -WIMBIZ	-	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
	11,594	11,696	11,594	11,696
Total	131,594	14,320	131,594	14,320

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

(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 2020 and on the profit for the year ended 31 December 2020.

(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

In line with Corporate Governance requirements, PricewaterhouseCoopers will cease to be the Bank's auditors in 2020. The Board has also approved the appointment of KPMG as the Bank's auditors effective 2021 financial year, and this appointment is subject to approval at the Bank's Annual General Meeting.

BY ORDER OF THE BOARD

Kayode Akinkugbe
FRC/2013/IODN/00000003063
Managing Director/CEO
4 March 2021

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 Licensed 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
4 March 2021

Kayode Akinkugbe
Managing Director/CEO
FRC/2013/IODN/00000003063
4 March 2021

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 financial statements for the year ended 31 December 2020 as follows:

(a) We have exercised our statutory functions under Section 359(6) of the Companies and Allied Matters Act, and acknowledge the cooperation of 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 2020 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 Management in the course of the audit and are satisfied with 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
2 March 2021

Members of the Board Audit Committee

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

CORPORATE RESPONSIBILITY FOR FINANCIAL REPORTS

The Chief Executive officer and Chief Financial Officer of FBNQuest Merchant Bank Limited have reviewed the audited financial statements and accept responsibility for the financial and other information within the financial statements.

The following certifications and disclosures regarding the true and fair view of the financial statements as well as the effectiveness of the Internal Controls established within the Bank are hereby provided below:

Financial information

(a) The audited financial statements do not contain any untrue statement of material fact or omit to state a material fact, which would make the statements misleading.

(b) The audited financial statements and all other financial information included in the statements fairly present, in all material respects, the financial condition and results of operation of the Bank as of and for the year ended 31 December 2020.

Effective internal controls

(a) Effective internal controls have been designed to ensure that material information relating to the Bank are made known by the relevant staff, particularly during the period in which the audited financial statement report is being prepared.

(b) The effectiveness of the Bank's internal controls have been evaluated within 90 days prior to 31 December 2020.

(c) The Bank's internal controls are effective as at 31 December 2020.

Disclosures

(a) There were no significant deficiencies in the design or operation of internal controls which could adversely affect the Bank's ability to record, process, summarise and report financial data. Furthermore, there were no identified material weaknesses in the Bank's internal control systems.

(b) There were no fraud events involving Senior Management or other employees who have a significant role in the Bank's internal control.

(c) There were no significant changes in internal controls or in other factors that could significantly affect internal controls.

Olamide Adeosun
Chief Financial Officer
FRC/2020/001/00000022332
4 March 2021

Kayode Akinkugbe
Managing Director/CEO
FRC/2013/IODN/00000003063
4 March 2021

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of FBNQuest Merchant Bank Limited ('the Bank') and its subsidiaries (together 'the Group') as at 31 December 2020, 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 (IFRS) 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 consolidated and separate financial statements comprise:

- the consolidated and separate statements of comprehensive income for the year ended 31 December 2020;
- the consolidated and separate statements of financial position as at 31 December 2020;
- 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 esponsibilities for the audit of the consolidated and separate financial statements section of our report.

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

Independence

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

PricewaterhouseCoopers Chartered Accountants, Landmark Towers, 5B Water Corporation Road,
Victoria Island, Lagos, Nigeria

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

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 audit matter	How our audit addressed the key audit matter
Impairment allowance on loans and advances to customers-₦1.47 billion (refer to notes 3.27, 6, and 24) We focused on this area because the Directors exercise significant judgement, using subjective assumptions when determining both the timing and the amounts to recognise as an impairment. Areas where significant judgement was exercised includes: • Defining credit impaired facilities in consideration of default (as presumed in IFRS 9) and other events that impact estimated cash flows; • Determining the criteria for assessing significant increase in credit risk (SICR); • The valuation of collaterals and other evidence of 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 ECL model. This is considered a key audit matter in both the consolidated and separate financial statements	We adopted a substantive approach in assessing the allowance for impairment made by the directors. We evaluated Directors criteria applied in assessing significant increase in credit risk. We checked that it is consistent with IFRS 9 qualitative default criteria and days past due backstop indicator. We applied a target testing approach in selecting a sample of credit facilities for detailed review of customer files and account statements. Our review included the nature of the facility and other factors that could indicate deterioration in the financial condition of borrowers and their capacity to repay. This formed our basis of challenging Directors allocation of loans into the different stages which reflect the credit risk of the loan, the significant increase in credit risk and determination of defaults. In testing 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. Using our credit modelling experts, we: • tested the assumptions and methodology applied in the ECL model assessed for reasonableness and compliance with the requirements of IFRS 9. • 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. • evaluated the reasonableness of Loss Given Default (LGD) calculation by testing the computation of recovery amount. We tested the LGD assumptions and checked that LGD assumptions have been appropriately applied. • 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 on the financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

Key audit matter	How our audit addressed the key audit matter
Recoverability of deferred tax assets- Group ₦9.43 billion and Bank ₦9.11 billion (refer to notes 3.10, 6 and 30) 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 utilised 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 depende future taxable profits enough to utilise the carried forward tax losses. Therefore, the Directors have made estimates based on assumptions of expected growth rates of revenue streams that would generate future taxable income for the Group. 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 director deferred tax assets. We then challenged the cash flow forecast and deferred tax utilisation computations. Specifically, we: • tested the reasonableness of director future taxable profits. • compared the base numbers of the projections used in estimation of the recoverability of the deferred tax assets to the actual numbers of the base period. We reviewed the disclosures for compliance with relevant standards

Other information

The Directors are responsible for the other information. The other information comprises the Corporate Board Audit Committee, Corporate Responsibility for Financial Reports, Statement of Value Added and Five-Year Financial Summary, but does not include the consolidated and separate and financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

Those charge with governance are responsibilities 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 as a whole are free from material mismanagement, 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 the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matter. We describe these matters in our auditor's report unless law or reguulation 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.

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

Report on other legal and regulatory requirements

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

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

ii) the Bank has kept proper books of account, so far as appears from our examination of those books and returns adequate for our audit have been received from branches not visited by us;

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

iv) the information required by Central Bank of Nigeria Circular BSD/1/2004 on insider related credits is disclosed in Note 40.1 to the consolidated and separate financial statements; and

v) as disclosed in Note 43 to the consolidated and separate financial statements, the Bank did not pay penalties in respect of contraventions of the Banks and Other Financial Institutions Act and relevant circulars issued by the Central Bank of Nigeria during the year ended 31 December 2020.

For: **PricewaterhouseCoopers**
Chartered Accountants
Lagos, Nigeria
Engagement Partner: Samule Abu
FRC/2013/ICAN/00000001495

1 April 2021

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

		Group		Bank	
In thousands of Nigerian Naira	Note	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Interest income on financial assets at amortised cost	7	**8,081,873**	7,357,754	**7,970,677**	7,085,348
Interest income on financial assets at FVOCI	7	**3,515,516**	7,174,463	**3,458,315**	7,147,204
Interest expense	8	**(6,685,044)**	(10,815,384)	**(6,704,013)**	(10,859,589)
Net interest income		**4,912,345**	3,716,833	**4,724,979**	3,372,963
Impairment charges	9	**(339,026)**	(49,909)	**(339,026)**	(118,353)
Net interest income after impairment charge for credit losses		**4,573,319**	3,666,924	**4,385,953**	3,254,610
Fee and commission income	10	**8,284,732**	8,098,011	**3,863,028**	4,502,642
Net gains on foreign exchange	11	**81,945**	325,587	**22,040**	323,210
Net gains on financial assets at FVTPL	11a	**3,750,216**	1,756,810	**3,701,236**	1,783,124
Other operating income	12	**684,694**	145,861	**778,855**	35,767
Operating income		**17,374,906**	13,993,193	**12,751,112**	9,899,353
Personnel expenses	14	**(3,793,936)**	(2,787,175)	**(3,134,239)**	(2,462,181)
Depreciation of property, plant and equipment	28	**(450,523)**	(494,376)	**(420,318)**	(463,562)
Depreciation of right-of-use assets	45	**(45,022)**	(138,815)	**(45,022)**	(138,815)
Amortisation of intangible assets	29	**(675,784)**	(1,207,270)	**(659,163)**	(1,097,522)
Other operating expenses	13	**(5,784,280)**	(5,215,612)	**(3,403,976)**	(2,957,396)
Operating expenses		**(10,749,545)**	(9,843,248)	**(7,662,718)**	(7,119,476)
Profit before tax		**6,625,361**	4,149,945	**5,088,394**	2,779,877
Income tax expense	15	**(884,686)**	(556,888)	**(207,784)**	(139,651)
Profit for the year		**5,740,675**	3,593,057	**4,880,610**	2,640,226
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	**2,346,452**	1,817,759	**2,252,673**	1,770,651
Other comprehensive (loss)/income for the year		**2,346,452**	1,817,759	**2,252,673**	1,770,651
Total comprehensive income for the year		**8,087,127**	5,410,816	**7,133,283**	4,410,877
Basic/diluted earnings per share (kobo)	16	**133**	84	**113**	61

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

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

		Group		Bank	
In thousands of Nigerian Naira	Note	31 December 2020	31 December 2019	31 December 2020	31 December 2019
ASSETS					
Cash and balances with Central Bank of Nigeria	17	**43,690,655**	8,302,033	**43,690,655**	8,302,033
Due from other banks	18	**25,718,491**	7,377,521	**22,233,202**	4,238,237
Financial assets at fair value through profit or loss	20	**1,910,800**	2,902,292	**1,379,915**	2,517,162
Investment securities:					
- Fair value through OCI	21	**29,041,247**	16,684,696	**26,986,180**	16,026,386
- Amortised cost	22	**7,583,938**	2,914,249	**7,583,938**	2,914,249
Pledged assets	23	**16,742,200**	39,382,677	**16,742,200**	39,382,677
Derivative financial assets	44	**417,669**	474,757	**417,669**	474,757
Loans and advances to customers	24	**55,689,216**	46,448,173	**55,589,727**	46,390,453
Other assets	25	**6,627,396**	8,469,156	**5,265,056**	8,517,527
Investment in subsidiaries	26	**-**	-	**1,313,329**	1,313,329
Deposit with Nigerian Stock Exchange	27	**1,150**	1,150	**-**	-
Property and equipment	28	**1,348,756**	1,388,451	**1,295,560**	1,325,752
Intangible assets	29	**218,778**	863,136	**197,499**	810,031
Right-of-use assets	45	**56,886**	175,208	**56,886**	175,208
Deferred tax asset	30	**9,429,283**	9,426,538	**9,113,548**	9,113,548
Total assets		**198,476,465**	144,810,037	**191,865,364**	141,501,349
LIABILITIES					
Due to banks	31	**28,475,932**	27,648,648	**28,475,932**	27,648,648
Due to customers	32	**100,136,570**	75,675,570	**100,137,825**	76,021,448
Current income tax liability	15b	**945,860**	766,671	**259,193**	183,602
Other liabilities	33	**31,878,608**	10,090,784	**28,999,979**	9,112,503
Lease liabilities	46	**25,100**	115,233	**25,100**	115,233
Derivative financial Liabilities	44	**383,526**	469,389	**383,526**	469,389
Total liabilities		**161,845,596**	114,766,295	**158,281,555**	113,550,823
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		**15,587,647**	13,293,789	**12,694,799**	11,261,008
Statutory reserve		**8,610,990**	7,878,900	**8,610,990**	7,878,900
Credit risk reserve		**2,134,767**	920,039	**2,134,767**	920,039
Fair value reserve	37	**2,064,559**	(281,892)	**1,936,945**	(315,729)
General reserve		**26,598**	26,598	**-**	-
Total equity		**36,630,869**	30,043,742	**33,583,809**	27,950,526
Total equity and liabilities		**198,476,465**	144,810,037	**191,865,364**	141,501,349

Signed on behalf of the Board of Directors on 4 March 2021 by:

Bello Maccido
Chairman
FRC/2013/CISN/00000002366

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

Olamide Adeosun
Chief Financial Officer
FRC/2020/001/00000022332

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020	4,301,577	3,904,731	(281,893)	13,293,791	7,878,899	920,039	26,598	30,043,742
Profit for the year	-	-	-	5,740,675	-	-	-	5,740,675
Other comprehensive income								
Fair value movement on financial asset at FVOCI	-	-	2,346,452	-	-	-	-	2,346,452
Total comprehensive income	-	-	2,346,452	5,740,675	-	-	-	8,087,127
Dividend proposed	-	-	-	(1,500,000)	-	-	-	(1,500,000)
Transfers during the period	-	-	-	(1,946,819)	732,091	1,214,728	-	-
At 31 December 2020	4,301,577	3,904,731	2,064,559	15,587,647	8,610,990	2,134,767	26,598	36,630,869
Balance at 1 January 2019	4,301,577	3,904,731	(2,099,651)	10,596,375	7,482,866	420,430	26,598	24,632,926
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	-	-	-	5,410,816
Transfers during the period	-	-		(895,643)	396,034	499,609	-	-
At 31 December 2019	4,301,577	3,904,731	(281,892)	13,293,789	7,878,900	920,039	26,598	30,043,742

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020	4,301,577	3,904,731	(315,728)	11,261,008	7,878,899	920,039	27,950,526
Profit for the year	-	-	-	4,880,610	-	-	4,880,610
Other comprehensive income							
Fair value movement or gain on FVOCI	-	-	2,252,673	-	-	-	2,252,673
Total comprehensive income on financial assets	-	-	2,252,673	4,880,610	-	-	7,133,283
Dividend declared	-	-	-	(1,500,000)	-	-	(1,500,000)
Transfers during the period	-	-	-	(1,946,819)	732,091	1,214,728	-
At 31 December 2020	4,301,577	3,904,731	1,936,945	12,694,799	8,610,990	2,134,767	33,583,809
Balance at 1 January 2019	4,301,577	3,904,731	(2,086,380)	9,516,425	7,482,866	420,430	23,539,649
Profit for the year	-	-	-	2,640,226	-	-	2,640,226
Other comprehensive income							
Fair value movement on financial asset at FVOCI	-	-	1,770,651	-	-	-	1,770,651
Total comprehensive income on financial assets	-	-	1,770,651	2,640,226	-	-	4,410,876
Transfers during the period	-	-	-	(895,643)	396,034	499,609	-
At 31 December 2019	4,301,577	3,904,731	(315,729)	11,261,008	7,878,900	920,039	27,950,526

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

		Group		Bank	
In thousands of Nigerian Naira	Note	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Operating activities					
Cash generated from operations	38	**13,011,144**	(22,458,244)	**11,422,870**	(23,153,525)
Interest received		**12,128,666**	13,758,928	**11,941,300**	13,415,058
Interest paid		**(7,958,150)**	(10,842,547)	**(7,958,150)**	(10,842,547)
Income tax paid	15b	**(705,497)**	(610,078)	**(132,193)**	(168,402)
Net cash generated from operating activities		**16,476,163**	(20,151,942)	**15,273,827**	(20,749,416)
Investing activities					
Proceeds from redemption of investment securities		**39,134,870**	26,255,083	**39,134,870**	26,791,963
Purchase of investment securities		**(33,618,928)**	(12,145,157)	**(32,783,301)**	(12,145,157)
Purchase of property and equipment	28	**(391,191)**	(174,408)	**(370,488)**	(131,231)
Proceeds from sale of property and equipment		**40,390**	51,031	**40,390**	25,152
Purchase of intangible asset	29	**(89,686)**	(170,051)	**(89,686)**	(149,319)
Net cash generated from investing activities		**5,075,455**	13,816,498	**5,931,785**	14,391,408
Increase/(decrease) in cash and cash equivalents		**21,551,618**	(6,335,444)	**21,205,612**	(6,358,008)
Cash and cash equivalents at beginning of year		**27,236,462**	33,248,696	**24,097,179**	30,131,977
Effect of exchange rate fluctuations on cash held		**22,040**	323,210	**22,040**	323,210
Cash and cash equivalents at 31 December	19	**48,810,120**	27,236,462	**45,324,831**	24,097,179

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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, portfolio 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 2020 were authorised for issue by the Board of Directors on 4 March 2021.

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 2020 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 (₦) 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 2020

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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.

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 in 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 in 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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 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.

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(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.

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.

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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 CEO 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 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

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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 realised. 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 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 recognized 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.

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g. Allowance for credit losses

An allowance for credit losses (ECL) 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 ECL on the Consolidated Statement of Financial Position. ECL on loans is presented in Allowance for credit losses - loans and advances. ECL 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, ECL is separately calculated and included in Other Liabilities – Provisions.

We measure the ECL 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 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 ECL 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 ECL 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 ECL.

The ECL represents an unbiased estimate of expected credit losses on our financial assets as at the balance sheet date. Judgement is required in making assumptions and estimations when calculating the ECL, 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 judgement. The Bank's process to assess changes in credit risk is multi-factor 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 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 bureau 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:

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

2. 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 quarterly 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.

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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 capitalised, 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 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 ECL.

Following impairment, interest income is recognised on the unwinding of the discount from the initial recognition of impairment. ECL 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 realisable value by recording an individually assessed ECL to cover identified credit losses. The individually assessed ECL 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

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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 ECL.

n. Write-off of loans

Loans and the related ECL 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;

- Change in the annuity repayment pattern, for example, from monthly to quarterly, half-yearly or yearly

- 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 surbordinated 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

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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.

(r) 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

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.

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

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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).

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.

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4.3 Financial risk management report

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 2020 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 2020. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Group						
31 December 2020						
In thousands of Nigerian Naira	Carrying amount	Naira	USD	GBP	EUR	Total
Financial assets						
Cash and balances with Central Bank of Nigeria	43,690,655	43,690,655	-	-	-	43,690,655
Due from other banks	25,718,491	5,930,644	20,335,239	39,010	(586,402)	25,718,491
Loans and advances to customers	55,689,216	51,547,071	4,142,145	-	-	55,689,216
Financial assets at FVTPL	1,910,800	1,835,598	75,202	-	-	1,910,800
Investment securities		-	-	-	-	-
- Fair value through OCI	29,041,247	27,807,808	1,233,439	-	-	29,041,247
- Amortised cost	7,583,938	7,583,938	-	-	-	7,583,938
Pledged assets	16,742,200	16,742,200	-	-	-	16,742,200
Other assets	6,627,396	6,627,396	-	-	-	6,627,396
Derivative assets	417,669	-	417,669	-	-	417,669
	187,421,612	161,765,310	26,203,694	39,010	(586,402)	187,421,612
Financial liabilities						
Due to banks	28,475,932	11,858,094	16,617,838	-	-	28,475,932
Due to customers	100,136,570	84,342,185	15,754,855	38,658	872	100,136,570
Other liabilities	31,878,608	31,840,457	38,093	-	58	31,878,608
Derivative liabilities	383,526	-	383,526	-	-	383,526
	160,874,636	128,040,736	32,794,312	38,658	930	160,874,636
Commitments and guarantees						
- Performance bonds and guarantees	3,642,420	3,642,420	-	-	-	3,642,420
- Letters of credits	11,884,579		11,288,970	-	595,609	11,884,579
	15,526,999	3,642,420	11,288,970	-	595,609	15,526,999

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4.3c Foreign exchange risk (continued)

Bank						
31 December 2020						
In thousands of Nigerian Naira	Carrying amount	Naira	USD	GBP	EUR	Total
Financial assets						
Cash and balances with Central Bank of Nigeria	43,690,655	43,690,655				43,690,655
Due from other banks	22,233,202	2,445,356	20,335,239	39,010	(586,402)	22,233,202
Loans and advances to customers	55,589,727	51,447,582	4,142,145	-	-	55,589,727
Financial assets at FVTPL	1,379,915	1,304,713	75,202	-	-	1,379,915
Investment securities						
- Fair value through OCI	26,986,180	25,752,742	1,233,439	-	-	26,986,180
- Amortised cost	7,583,938	7,583,938	-	-	-	7,583,938
Pledged assets	16,742,200	16,742,200	-	-	-	16,742,200
Other assets	5,265,056	5,265,056	-	-	-	5,265,056
Derivative assets	417,669	-	417,669	-	-	417,669
	179,888,543	154,232,241	26,203,694	39,010	(586,402)	179,888,543
Financial liabilities						
Due to banks	28,475,932	11,858,094	16,617,838	-	-	28,475,932
Due to customers	100,137,825	84,343,440	15,754,855	38,658	872	100,137,825
Other liabilities	28,999,979	28,961,827	38,093	-	58	28,999,979
Derivative liabilities	383,526	-	383,526	-	-	383,526
	157,997,261	125,163,361	32,794,312	38,658	930	157,997,261
Commitments and guarantees						
- Performance bonds and guarantees	3,642,420	3,642,420	-	-	-	3,642,420
- Letters of credits	11,884,579	-	11,288,970	-	595,609	11,884,579
	15,526,999	3,642,420	11,288,970	-	595,609	15,526,999

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4.3c Foreign exchange risk (continued)

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 - FVOCI	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

Bank						
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	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 - FVOCI	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	469,389	-	-	-	469,389
	113,251,988	93,424,747	19,758,385	4,481	64,375	113,251,988

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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		Impact on profit	
	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
NGN/US$ exchange rate – increase 10%	**73,750**	92,620	**19,836**	92,620
NGN/US$ exchange rate – decrease 10%	**(73,750)**	(92,620)	**(19,836)**	(92,620)

Fair value measurement of financial instruments

Group

a. Financial instruments not measured at fair value

	31 December 2020		31 December 2019	
In thousands of Nigerian Naira	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and balances with Central Bank of Nigeria	**43,690,655**	**43,690,655**	8,302,033	8,302,033
Due from other banks	**25,718,491**	**25,718,491**	7,377,521	7,377,521
Investment securities:				
- Amortised cost	**7,583,938**	**7,583,938**	2,914,249	2,914,249
Loans and advances to customers	**55,689,216**	**55,689,216**	46,448,173	46,448,173
Other assets	**6,627,396**	**6,627,396**	8,469,156	8,469,156
Financial liabilities				
Due to banks	**28,475,932**	**28,475,932**	27,648,648	27,648,648
Due to customers	**100,136,570**	**100,136,570**	75,675,570	75,675,570
Other liabilities	**31,878,608**	**31,878,608**	10,090,784	10,090,784
Financial assets				
Cash and balances with Central Bank of Nigeria	**43,690,655**	**43,690,655**	8,302,033	8,302,033
Due from other banks	**22,233,202**	**22,233,202**	4,238,237	4,238,237
Investment securities:				
- Amortised cost	**7,583,938**	**7,583,938**	2,914,249	2,914,249
Loans and advances to customers	**55,589,727**	**55,589,727**	46,390,453	46,390,453
Other assets	**5,265,056**	**5,265,056**	8,517,527	8,517,527
Financial liabilities				
Due to banks	**28,475,932**	**28,475,932**	27,648,648	27,648,648
Due to customers	**100,137,825**	**100,137,825**	76,021,448	76,021,448
Other liabilities	**28,999,979**	**28,999,979**	9,112,503	9,112,503

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4.3d Foreign exchange risk sensitivity analysis (continued)

Fair value measurement of financial instruments (continued)

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 2020.

vii The estimated fair value of deposits from customers is the amount repayable on demand as at 31 December 2020.

viii Carrying amounts of other liabilities are a reasonable expectation of their fair values which are payable on demand.

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 2020					
Financial assets					
Cash and balances with Central Bank of Nigeria	-	43,690,655	-	43,690,655	43,690,655
Due from other banks	-	-	25,718,491	25,718,491	25,718,491
Loans and advances to customers	-	-	55,689,216	55,689,216	55,689,216
Investment securities					
- Amortised cost	7,583,938	-	-	7,583,938	7,583,938
Other assets	-	-	6,627,396	6,627,396	6,627,396
Financial liabilities					
Due to banks	-	-	28,475,932	28,475,932	28,475,932
Due to customers	-	-	100,136,570	100,136,570	100,136,570
Other liabilities	-	-	31,878,608	31,878,608	31,878,608

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4.3d Foreign exchange risk sensitivity analysis (continued)

Fair value measurement of financial instruments (continued)

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 2020					
Financial assets					
Cash and balances with Central Bank of Nigeria	-	43,690,656	-	43,690,656	43,690,655
Due from other banks	-	-	22,233,203	22,233,203	22,233,202
Loans and advances to customers	-	-	55,589,727	55,589,727	55,589,727
Investment securities					
- Amortised cost	7,583,938	-	-	7,583,938	7,583,938
Other assets	-	-	5,265,058	5,265,058	5,265,056
Financial liabilities					
Due to banks	-	-	28,475,932	28,475,932	28,475,932
Due to customers	-	-	100,137,825	100,137,825	100,137,825
Other liabilities	-	-	28,999,979	28,999,979	28,999,979

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4.3d Foreign exchange risk sensitivity analysis (continued)

Fair value measurement of financial instruments (continued)

Group

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

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

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 of unquoted equities:

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 FBNQuest Merchant Bank equity stake.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4.3d Foreign exchange risk sensitivity analysis (continued)

Fair value hierarchy - Financial instruments measured at fair value

Group

31 December 2020

In thousands of Nigerian Naira	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at FVTPL:				
- Treasury bills	400	-	-	400
- Pledged treasury bills	-	-	-	-
- Federal Government of Nigeria bonds	1,729,384	-	-	1,729,384
- Corporate bonds	19,062	-	-	19,062
- Unlisted equities	-			-
- Listed equities	161,954			161,954
Derivative assets	-	417,669	-	417,669
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivative liability	-	(383,526)	-	(383,526)
				-
Investment securities at FVOCI				-
- Treasury bills	19,936,532	-	-	19,936,532
- Pledged treasury bills and bonds	14,281,074	-	-	14,281,074
- Federal Government of Nigeria bonds	144,829	-	-	144,829
- State bonds	-	-	-	-
- Corporate bonds	6,982,666	-	-	6,982,666
- Promissory notes	-	-	-	-
- Listed equities	20,999	-	-	20,999
- Unlisted equities	-	-	1,956,221	1,956,221

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4.3d Foreign exchange risk sensitivity analysis (continued)

Fair value hierarchy - Financial instruments measured at fair value

Bank

31 December 2020

In thousands of Nigerian Naira	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at FVTPL:				
- Treasury bills	400	-	-	400
- Pledged treasury bills		-	-	-
- Federal Government of Nigeria bonds	1,360,453	-	-	1,360,453
- Corporate bonds	19,062	-	-	19,062
Derivative assets	-	417,669	-	417,669
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivative liability	-	(383,526)	-	(383,526)
Investment securities at FVOCI				
- Treasury bills	19,936,532	-	-	19,936,532
- Pledged treasury bills and bonds	14,281,074	-	-	14,281,074
- Federal Government of Nigeria bonds	144,829	-	-	144,829
- Corporate bonds	5,582,235	-	-	5,582,235
- Promissory notes	-	-	-	-
- Listed equities	-	-	-	-
- Unlisted equities	-	-	1,322,584	1,322,584

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4.3d Foreign exchange risk sensitivity analysis (continued)

Fair value hierarchy - Financial instruments measured at fair value

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 FVTPL:				
- 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 2020

4.3d Foreign exchange risk sensitivity analysis (continued)

Fair value hierarchy - Financial instruments measured at fair value

Bank

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		
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	4,956,094	-	-	4,956,094
- Promissory notes	196,821			
- listed equities	-	-	-	-
- Unlisted equities	-	-	260,988	260,988
Derivative assets	-	-	-	-

(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;

4.3d Foreign exchange risk sensitivity analysis (continued)

- 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 market approach using comparable company analysis and precedent transaction analysis. Assumptions and inputs used in the valuation techniques include market multiples of comparable publicly traded companies, country risk discount, size discount,minority discount and marketability discount.

	Group		Bank	
In thousands of Nigerian Naira	Unlisted equities	Total	Unlisted equities	Total
31 December 2020				
Opening balance	551,784	551,784	260,988	260,988
Gain/(Losses) recognized in the profit or loss	1,404,438	1,404,438	1,061,596	1,061,596
Acquisition	-	-	-	-
Closing balance	1,956,221	1,956,221	1,322,584	1,322,584
Total gain or losses for the period included in profit or loss for assets held at the end of the reporting period	1,404,438	1,404,438	1,061,596	1,061,596
31 December 2019				
Opening balance	81,666	81,666	58,865	58,865
Gains /(Losses) recognised in the profit or loss	470,117	470,117	202,123	202,123
Acquisition	-	-	-	-
Closing balance	551,784	551,784	260,988	58,865
Total gains 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

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.

Unquoted equity investments held at fair value through OCI relates to investment in Financial Markets Dealers Quotation (FMDQ) and 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.

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 2020

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 2020	Carrying amount	Variable interest-bearing	Fixed interest-bearing	Non-interest bearing
Financial assets:				
Cash and balances with Central Bank of Nigeria	43,690,655	-	-	43,690,655
Due from other banks	25,718,491	-	13,202,469	2,530,037
Loans and advances to customers	55,689,216	-	55,689,216	
Financial assets at FVTPL	1,910,800	-	1,748,846	161,954
Investment securities:				
- Fair value through OCI	29,041,247	-	27,064,027	1,977,220
- Amortised cost	7,583,938	-	7,583,938	-
Pledged assets - Fair Value through OCI	16,742,200	-	16,742,200	-
Other assets	6,627,396	-	-	6,627,396
Deposit with Nigeria Stock exchange	1,150	-	1,150	-
Derivatives assets	417,669	-	-	417,669
	187,422,762	-	122,031,845	55,404,932
Financial liabilities:				
Due to banks	28,475,932	-	28,475,932	-
Due to customers	100,136,570	-	100,136,570	-
Other liabilities	31,878,608	-	23,280,651	8,597,957
Derivative liabilities	383,526	-	-	383,526
	160,874,636	-	151,893,153	8,981,483

Bank 31 December 2020	Carrying amount	Variable interest-bearing	Fixed interest-bearing	Non-interest bearing
Financial assets:				
Cash and balances with Central Bank of Nigeria	43,690,655	-	-	43,690,655
Due from other banks	22,233,202	-	11,035,369	11,197,833
Loans and advances to customers	55,589,727	-	55,589,727	-
Financial assets at FVTPL	1,379,915	-	1,379,915	-
Investment securities				
- Fair value through OCI	26,986,180	-	25,663,596	1,322,584
- Amortised cost	7,583,938	-	7,583,938	-
Pledged assets - Fair Value through OCI	16,742,200	-	16,742,200	-
Other assets	5,265,056	-	-	5,265,056
Derivatives assets	417,669	-	-	417,669
	179,888,543	-	117,994,744	61,893,798
Financial liabilities:				
Due to banks	28,475,932		28,475,932	-
Deposit from customers	100,137,825	-	100,137,825	-
Other liabilities	28,999,979	-	23,280,651	5,719,328
Derivative liabilities	383,526	-	-	383,526
	157,997,261	-	151,894,407	6,102,854

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FOR THE YEAR ENDED 31 DECEMBER 2020

4.4a Exposure to interest rate risks – Non-trading portfolios (continued)

Group 31 December 2019	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	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	2,237,771
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
Deposit with Nigeria Stock exchange	-	-	-	-
Derivatives assets	474,757	-	-	474,757
	128,763,482	-	102,798,095	25,965,387
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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020, the Group had ₦1.90bn in its trading position (2019: ₦2.90bn). 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 2020			
	Group		Bank	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	17,484	12,239	13,795	9,657
Decrease	(17,484)	(12,239)	(13,795)	(9,657)

	12 months to 31 December 201 9			
	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)

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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 2020, 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 2020		12 months to 31 December 2019	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	4	3	28,543	25,404
Decrease	(4)	(3)	(28,543)	(25,404)

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 2020		12 months to 31 December 2019	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	95,886	67,120	136,908	121,848
Decrease	(95,886)	(67,120)	(136,908)	(121,848)

Treasury bills held through OCI

	12 months to 31 December 2020		12 months to 31 December 2019	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	342,176	239,523	1,140,303	1,014,870
Decrease	(342,176)	(239,523)	(1,140,303)	(1,014,870)

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FOR THE YEAR ENDED 31 DECEMBER 2020

4.4c Treasury bills discount rate sensitivity (continued)

Bank

Bonds held through OCI

	12 months to 31 December 2020		12 months to 31 December 2019	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	81,882	57,317	133,404	129,402
Decrease	(81,882)	(57,317)	(133,404)	(129,402)

Treasury bills held through OCI

	12 months to 31 December 2020		12 months to 31 December 2019	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	342,176	239,523	239,523	1,106,094
Decrease	(342,176)	(239,523)	(239,523)	(1,106,094)

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 at amortised cost (AC) 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 the Board.

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 2020	Dec 2019
At end of period	64.42%	37.73%
Average for the period	51.35%	56.78%
Maximum for the period	70.73%	72.95%
Minimum for the period	15.98%	34.81%

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 2020.

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FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020							
Financial assets							
Cash and balances with Central Bank	43,690,655	43,690,655	43,690,655	-	-	-	-
Due from other banks	25,718,491	25,718,491	25,718,491	-	-	-	-
Loans and advances to customers	55,689,216	57,118,716	7,366,067	16,847,953	9,194,614	23,710,082	-
Financial assets at FVTPL	1,910,800	1,910,800	530,885	514,527	19,062	68,183	778,143
Investment securities							
- Fair value through OCI	29,041,247	29,041,247	25,837,492	-	1,335,712	1,868,044	-
- Amortised cost	7,583,938	7,583,938	-	-	5,475,040	2,108,898	-
Pledged assets	16,742,200	16,742,200	16,742,200	-	-	-	-
Other assets	6,627,396	6,627,400	6,627,396	-	-	-	-
Derivative assets	417,669	417,669	391,670	25,999	-	-	-
	187,421,612	188,851,116	126,904,856	17,388,479	16,024,427	27,755,207	778,143
Financial liabilities							
Due to banks	28,475,932	28,475,932	28,475,932	-	-	-	-
Due to customers	100,136,570	100,136,570	80,798,111	19,338,459	-	-	-
Other liabilities	31,878,608	31,878,608	8,597,957	-	12,735,481	208,878	10,336,291
Derivative liabilities	383,526	383,526	357,527	25,999	-	-	-
	160,874,636	160,874,636	118,229,527	19,364,458	12,735,481	208,878	10,336,291
Liquidity gap	26,546,977	27,976,480	8,675,329	(1,975,979)	3,288,946	27,546,328	(9,558,148)
Assets held for managing liquidity risk	15,556,999	15,556,999	10,453,204	1,761,375	1,088,750	2,253,670	-

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 2020							
Financial assets							
Cash and balances with Central Bank	43,690,655	43,690,655	43,690,655	-	-	-	-
Due from other banks	22,233,202	22,233,202	22,233,202	-	-	-	-
Loans and advances to customers	55,589,727	57,019,554	7,358,468	16,756,390	9,194,614	23,710,082	-
Financial assets at FVTPL	1,379,915	1,379,915	-	514,527	19,062	68,183	778,143
Investment securities		-					
- Fair value through OCI	26,986,180	26,986,180	19,936,532	-	1,335,712	1,868,044	3,845,893
- Amortised cost	7,583,938	7,583,938	7,583,938	-	-	-	-
Pledged assets	16,742,200	16,742,200	16,742,200	-	-	-	-
Other assets	5,265,056	5,265,058	5,265,058	-	-	-	-
Derivative assets	417,669	417,669	391,670	25,999	-	-	-
	179,888,543	181,318,371	123,201,723	17,296,916	10,549,387	25,646,309	4,624,036
Financial liabilities							
Due to banks	28,475,932	28,475,932	28,475,932	-	-	-	-
Due to customers	100,137,825	100,137,825	80,799,366	19,338,459	-	-	-
Other liabilities	28,999,979	28,999,979	5,719,328	-	12,735,481	208,878	10,336,291
Derivative liabilities	383,526	383,526	357,527	25,999	-	-	-
	157,997,261	157,997,261	115,352,153	19,364,458	12,735,481	208,878.15	10,336,290.95
Liquidity gap	21,891,281	23,321,109	7,849,570	(2,067,542)	(2,186,094)	25,437,431	(5,712,255)
Assets held for managing liquidity risk	15,556,999	15,556,999	10,453,204	1,761,375	1,088,750	2,253,670	-

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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 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	21,089,327
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	21,089,327
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

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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4.4g 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 2020							
Financial assets							
Due from other banks	25,718,491	25,718,491	25,718,491	-	-	-	-
Loans and advances to customers	55,689,216	57,118,716	7,366,067	16,847,953	9,194,614	23,710,082	-
Financial assets at FVTPL	1,910,800	1,910,800	530,885	514,527	19,062	68,183	778,143
Investment securities		-					
- Fair value through OCI	29,041,247	29,041,247	25,837,492	-	1,335,712	1,868,044	-
- Amortised cost	7,583,938	7,583,938	-	-	5,475,040	2,108,898	-
Pledged assets	16,742,200	16,742,200	16,742,200	-	-	-	-
Derivative assets	417,669	417,669	391,670	25,999	-	-	-
	137,103,562	138,533,061	76,586,805	17,388,479	16,024,427	27,755,207	778,143
Financial liabilities							
Due to banks	28,475,932	28,475,932	28,475,932	-	-	-	-
Deposit from customers	100,136,570	100,136,570	80,798,111	19,338,459	-	-	-
Other liabilities	31,878,608	31,878,608	8,597,957	-	12,735,481	208,878	10,336,291
Derivative liabilities	383,526	383,526	357,527	25,999	-	-	-
	160,874,636	160,874,636	118,229,527	19,364,458	-	-	-
Repricing gap	(23,771,074)	(22,341,575)	(41,642,722)	(1,975,979)	16,024,427	27,755,207	778,143

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 2020							
Financial assets							
Due from other banks	22,233,202	22,233,202	22,233,202	-	-	-	-
Loans and advances to customers	55,589,727	57,019,554	7,358,468	16,756,390	9,194,614	23,710,082	-
Financial assets at FVTPL	1,379,915	1,379,915	-	514,527	19,062	68,183	778,143
Investment securities	-	-					
- Fair value through OCI	26,986,180	26,986,180	19,936,532	-	1,335,712	1,868,044	3,845,893
- Amortised cost	7,583,938	7,583,938	-	-	5,475,040	2,108,898	-
Pledged assets	16,742,200	7,583,938		-	-	5,475,040	2,108,898
Derivative assets	417,669	417,669	391,670	25,999	-	-	-
	130,932,831	123,204,396	49,919,872	17,296,916	16,024,427	33,230,246	6,732,933
Financial liabilities							
Due to banks	28,475,932	28,475,932	28,475,932		-	-	-
Deposit from customers	100,137,825	100,137,825	80,799,366	19,338,459	-	-	-
Other liabilities	28,999,979	28,999,979	5,719,328	-	12,735,481	208,878	10,336,291
Derivative liabilities	383,526	383,526	357,527	25,999	-	-	-
	157,997,261	157,997,261	115,352,153	19,364,458	-	-	-
Repricing gap	(27,064,429)	(34,792,865)	(65,432,281)	(2,067,542)	16,024,427	33,230,246	6,732,933

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FOR THE YEAR ENDED 31 DECEMBER 2020

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 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	-	-	-
	116,184,367	116,398,530	47,584,226	34,956,476	12,422,087	11,975,769	9,459,972
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	2,299,975	1,850,707	(65,699,105)	33,691,985	12,422,087	11,975,769	9,459,972

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	112,215,093	44,444,229	34,606,126	12,422,087	11,975,769	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	(1,308,066)	(1,386,537)	(67,892,910)	33,341,635	12,422,087	11,975,769	8,766,882

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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 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 group 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/corporations · Strong equity and assets · Good track record · Strong cash flows
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.

NOTES TO THE FINANCIAL STATEMENTS

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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 2020	31 December 2019	31 December 2020	31 December 2019
Financial assets				
Cash and balances with Central Bank of Nigeria	**43,690,655**	8,302,033	**43,690,655**	8,302,033
Due from other banks	**25,718,491**	7,377,521	**22,233,202**	4,238,237
Loans and advances to customers	**55,689,216**	46,448,173	**55,589,727**	46,390,453
Financial assets at FVTPL	**1,910,800**	2,902,292	**1,379,915**	2,517,162
Investment securities				
- Fair value through OCI	**29,041,247**	16,684,696	**26,986,180**	16,026,386
- Amortised cost	**7,583,938**	2,914,249	**7,583,938**	2,914,249
Pledged assets - Fair Value through OCI	**16,742,200**	39,382,677	**16,742,200**	39,382,677
Other assets	**6,627,396**	8,469,157	**5,265,056**	8,517,527
Derivative financial assets	**417,669**	474,757	**417,669**	474,757
	187,421,612	132,955,557	**179,888,543**	128,763,482
Loans exposure to total exposure	**43.85%**	54.47%	**46.54%**	57.22%
Debt securities exposure to total exposure	**30.35%**	26.39%	**30.09%**	26.47%
Other exposures to total exposure	**25.80%**	19.14%	**23.37%**	16.32%
Commitments and guarantees				
Performance bonds and guarantees	**3,672,420**	3,642,420	**3,672,420**	3,642,420
Letters of credits	**11,884,579**	10,310,436	**11,884,579**	10,310,436
Total commitments and guarantees	**15,556,999**	13,952,856	**15,556,999**	13,952,856

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 2020 and 31 December 2019 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, 46.54% of the Group's total maximum exposures are derived from loans exposure (2019: 57.22%), while 30.29% of the Group's total maximum exposures represents exposures to debt securities (2019: 26.47%). 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 2020		
	Within Nigeria	Outside Nigeria	Total
Cash and balances with Central Bank of Nigeria	43,690,655	-	43,690,655
Due from other banks	24,145,605	1,572,886	25,718,491
Loans and advances to customers	55,689,216	-	55,689,216
Financial assets at FVTPL	1,910,800	-	1,910,800
Investment securities:			
- Fair value through OCI	29,041,247	-	29,041,247
- Amortised cost	7,583,938	-	7,583,938
Pledged assets - FVOCI	16,742,200	-	16,742,200
Other assets	6,627,396	-	6,627,396
Derivative assets	417,669	-	417,669
	185,848,726	1,572,886	187,421,612
Commitments and guarantees			
Performance bonds and guarantees	3,672,420	-	3,672,420
Letters of credits	11,884,579	-	11,884,579
Total commitments and guarantees	15,556,999	-	15,556,999

Bank	31 December 2020		
	Within Nigeria	Outside Nigeria	Total
Cash and balances with Central Bank of Nigeria	43,690,655	-	43,690,655
Due from other banks	20,660,316	1,572,886	22,233,202
Loans and advances to customers	55,589,727	-	55,589,727
Financial assets at FVTPL	1,379,915	-	1,379,915
Investment securities:			
- Fair value through OCI	26,986,180	-	26,986,180
- Amortised cost	7,583,938	-	7,583,938
Pledged assets - FVOCI	16,742,200	-	16,742,200
Other assets	5,265,056	-	5,265,056
Derivative assets	417,669	-	417,669
	178,315,657	1,572,886	179,888,543
Commitments and guarantees			
Performance bonds and guarantees	3,672,420	-	3,672,420
Letters of credits	11,884,579	-	11,884,579
Total commitments and guarantees	15,556,999	-	15,556,999

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5.5 Geographical concentration of risks of financial assets with credit risk exposure (continued)

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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5.6 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 2020 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	-	-	-	-	43,690,655	-	-	-	-	43,690,655
Due from other banks	-	-	-	25,718,491	-	-	-	-	-	25,718,491
Loans and advances to customers	-	7,311,889	4,864,201	2,244,907	-	20,734,040	141,432	18,637,765	1,754,981	55,689,215
Financial assets at fair value through profit or loss	-	-	-	-	1,910,795	-	-	-	-	1,910,795
Investment securities- Fair value through OCI	-	-	-	-	29,041,247	-		-	-	29,041,247
Investment securities- Amortised cost	-	-	-	-	7,583,938	-	-	-	-	7,583,938
Pledged assets	-	-	-	-	16,742,200	-	-	-	-	16,742,200
Other assets	-	-	-	-	-	-	-	-	4,997,452	4,997,452
	-	7,311,889	4,864,201	27,963,398	98,968,835	20,734,040	141,432	18,637,765	6,752,433	185,373,993
Commitments and guarantees										
- Performance bonds and guarantees	-	1,088,750	-	-	-	-	-	2,583,670	-	3,672,420
- Letters of credits	-	-	-	-	-	726,256	659,204	9,287,583	1,211,535	11,884,578
	-	1,088,750	-	-	-	726,256	659,204	11,871,253	1,211,535	15,556,998

Bank 31 December 2020 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	-	-	-	-	43,690,656	-	-	-	-	43,690,656
Due from other banks	-	-	-	22,233,203	-	-	-	-	-	22,233,203
Loans and advances to customers	-	7,311,889	4,864,201	2,244,907	-	20,734,040	141,432	18,637,765	1,655,079	55,589,727
Financial assets at fair value through profit or loss	-	-	-	-	1,360,853	-	-	19,062	-	1,379,915
Investment securities- Fair value through OCI	-	-	-	1,322,584	19,461,666	-	-	5,482,280	-	26,986,180
Investment securities- Amortised cost	-	-	-	-	9,750,000	-	-	-	-	9,750,000
Pledged assets	-	-	-	-	16,742,200	-	-	-	-	16,742,200
Other assets	-	-	-	-	-	-	-	-	4,697,682	4,697,682
	-	7,311,889	4,864,201	25,800,694	91,005,374	20,734,040	141,432	24,139,107	6,352,761	181,069,562
Commitments and guarantees										
- Performance bonds and guarantees	-	1,088,750	-	-	-	-	-	2,583,670	-	3,672,420
- Letters of credits	-	-	-	-	-	726,256	659,204	9,287,583	1,211,535	11,884,578
	-	1,088,750	-	-	-	726,256	659,204	11,871,253	1,211,535	15,556,998

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5.6 Industry/sectoral exposure to credit risk (continued)

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	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Cash and balances with Central Bank of Nigeria	-	-	-	-	8,298,518	-	-	3,515.16	-	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	-	-	1,515,482.00	2,720,963.00	11,070,292	-	-	-	-	16,026,387
Investment securities- Amortised cost	-	-	-	388,405.50	69,158	-	-	2,456,685.52	-	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

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 2020 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	-	7,311,889	4,864,201	2,244,907	-	20,734,040	6,280	18,637,765	1,754,981	55,554,063
Stage 2	-	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	135,152	-	-	135,152
	-	7,311,889	4,864,201	2,244,907	-	20,734,040	141,432	18,637,765	1,754,981	55,689,215

Bank 31 December 2020 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	-	7,311,889	4,864,201	2,244,907	-	20,734,040	6,280	18,637,765	1,655,493	55,454,575
Stage 2	-	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	135,152	-	-	135,152
	-	7,311,889	4,864,201	2,244,907	-	20,734,040	141,431	18,637,765	1,655,493	55,589,727

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	1,288,675	9,227,883	2,075,921	46,390,454

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 multi-factor 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.

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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 2020						
12 months ECL	-	530,056	55,039,104	-	-	55,569,159
Lifetime ECL not credit impaired	-	-		-	-	-
Credit impaired loans	41,762	-	1,450,807	-	-	1,492,570
Gross	41,762	530,056	56,489,911	-	-	57,061,729
Less allowances for impairment						
Stage 1	-	1,427	129,429	-		130,856
Stage 2	-	-		-	-	-
Stage 3	25,492	-	1,315,655	-	-	1,341,147
Total allowance	25,492	1,427	1,445,084	-	-	1,472,003
Net loans and advances	16,270	528,629	55,044,827	-	-	55,589,726
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

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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 2020						
A	-	-	-	-	-	-
B	-	-	37,226	-	-	37,226
C	-	530,056	15,332,156	-	-	15,862,212
D	-	-	29,991,750	-	-	29,991,750
E	-	-	9,677,558	-	-	9,677,558
	-	530,056	55,038,690	-	-	55,568,746
31 December 2019						
A	-	-	-	-	-	-
B	-	-	670,520	-	2,269,661	-
C	-	501,892	8,007,751	-	-	32,006,959
D	-	-	9,152,052	-	-	2,703,790
E	-	-	21,065,552	-	-	578,852
	-	501,892	38,895,876	-	2,269,661	35,289,601

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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 2020						
Gross loans	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Net amount	-	-	-	-	-	-
FV of collateral	-	-	-	-	-	-
Amount of under collateralisation	-	-	-	-	-	-
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	-	-	-	-	-	-

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 2020						
Gross loans	41,762	-	1,450,807	-	-	1,492,569
Impairment	(25,492)	-	(1,315,655)	-	-	(1,341,147)
Net amount	16,270	-	135,152	-	-	151,422
FV of collateral	-	-	219,250	-	-	219,250
Amount of under collateralisation	-	-	-	-	-	-
31 December 2019						
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	-	-	-	-	-	-

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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 of default (PD)

As at 31 December 2020 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 2020		31 December 2019	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	**(148,555)**	**(103,989)**	(165,703)	(115,992)
Decrease	**148,555**	**103,989**	165,703	115,992

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
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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	Gross amount	Collateral
In thousands of Nigerian naira	Pre-tax	Post-tax
31 December 2020		
Stage 3	1,492,570	219,250
Stage 2	-	-
Stage 1	55,668,649	68,244,461
	57,161,219	68,463,711

Bank	Gross amount	Collateral
In thousands of Nigerian naira	Pre-tax	Post-tax
31 December 2020		
Stage 3	1,492,570	219,250
Stage 2	-	-
Stage 1	55,569,159	68,244,461
	57,061,729	68,463,711

Type of collateral	Stage 1	Stage 2	Stage 3
Cash/Treasury bills	1,670,000	-	-
Government guarantee	-	-	-
Bank guarantee	5,274,683	-	-
Mortgage property	12,836,580	-	-
Asset debentures	48,463,199	-	-
Asset financed	-	-	219,250
Corporate guarantee	-	-	-
Insurance and receivables	-	-	-
	68,244,462	-	219,250

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

5.9 Sensitivity of exposure at default to changes in loan loss impairment (continued)

Group	**Gross amount**	**Collateral**
In thousands of Nigerian naira	**Pre-tax**	**Post-tax**
31 December 2019		
Stage 3	1,459,919	-
Stage 2	-	-
Stage 1	46,859,451	33,309,904
	48,319,370	33,309,904

Bank	**Gross amount**	**Collateral**
In thousands of Nigerian naira	**Pre-tax**	**Post-tax**
31 December 2019		
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

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020	Investment securities - (Fair value through OCI)	Investment securities - (Amortised cost)	Investment securities - Financial assets at FVTPL	Total
Federal Government bonds	144,829	-	1,729,379	1,874,208
Corporate bonds	6,982,666	-	19,062	7,001,728
Treasury bills	19,936,532	-	400	19,936,932
Others	-	-	161,954	161,954
Pledged assets	16,742,200			16,742,200
	43,806,227	-	1,910,795	45,717,021

31 December 2019	Financial assets held to maturity	Financial assets held for trading	Assets pledged as collateral	Total
Federal Government bonds	3,349,296	-	6,947	3,356,243
State Government bonds	-	-	-	-
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
Eurobond	-	-	-	-
Others	196,821	2,456,685	69,740	2,723,245
Pledged assets - Fair Value through OCI	35,777,867	3,155,357	449,453	39,382,677
	51,893,615	6,069,605	3,351,744	61,314,965

The Group's investment in risk-free Government securities constitutes 84.68% of debt instruments portfolio (31 December 2019: 95.70%). Investment in corporate bond accounts for the outstanding 15.32% (31 December 2019: 4.3%).

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.

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 Banking 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 capitalisation range and well over the CBN mandated regulatory minimum of 10% for Merchant Banks. As at 31 December 2020, the Bank's capital adequacy ratio was 25.43% (31 December 2019: 17.67%).

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FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020	31 December 2019
Tier 1 capital		
Share capital	4,301,577	4,301,577
Share premium	3,904,731	3,904,731
Retained earnings	12,694,799	11,261,008
Statutory reserve	8,610,990	7,878,899
Tier 1 capital before regulatory deduction	29,512,097	27,346,215
Regulatory deductions		
Deferred tax asset	9,113,548	9,113,548
Other intangible assets	197,499	810,031
Investment in subsidiaries	1,313,329	1,313,329
Total regulatory deduction	(10,624,376)	(11,236,907)
Eligible tier 1 capital	18,887,721	16,109,307
Tier 2 capital		
Sub-ordinated debt	4,929,046	-
Fair value reserves	1,936,945	(315,728)
Eligible tier 2 capital	6,865,991	(315,728)
Total eligible capital	25,753,712	15,793,579
Risk-weighted assets		
Credit risk	78,422,592	68,329,477
Operational risk	20,813,826	19,959,214
Market risk	2,047,876	1,111,355
Total risk-weighted assets	101,284,294	89,400,046
Capital adequacy ratio	25.43%	17.67%
Tier 1 capital ratio	18.65%	18.02%

6 Critical accounting estimates and judgements

The preparation of the Group's financial statements requires 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 judgement 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.

6 Critical accounting estimates and judgements (continued)

(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 2020	31 December 2019	31 December 2020	31 December 2019
Loans and advances to customers at amortised cost	**5,995,082**	4,863,191	**6,004,379**	4,899,126
Due from other banks	**666,216**	1,448,289	**545,723**	1,139,948
Investment securities at amortised cost	**1,420,575**	1,046,274	**1,420,575**	1,046,274
	8,081,873	7,357,754	**7,970,677**	7,085,348
Investment securities				
- Fair value through other comprehensive income	**3,515,516**	7,174,463	**3,458,315**	7,147,204
	11,597,389	14,532,218	**11,428,992**	14,232,553

8 Interest expense

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Due to banks	**1,645,738**	1,931,646	**1,645,738**	1,931,646
Due to customers	**5,035,506**	8,870,834	**5,054,475**	8,915,039
Lease liabilities	**3,800**	12,904	**3,800**	12,904
	6,685,044	10,815,384	**6,704,013**	10,859,589

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9 Impairment charge

Impairment (charge)/write-back on risk assets

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Loans and advances to staff (24)				
12-month ECL	**(913)**	3,141	**(913)**	3,141
Lifetime ECL not credit impaired	**-**	-	**-**	-
Lifetime ECL credit impaired	**21,331**	20,201	**21,331**	20,201
Loans and advances to customers (24)				
12-month ECL	**90,026**	(134,304)	**90,026**	(134,304)
Lifetime ECL not credit impaired	**87,838**	(78,689)	**87,838**	(78,689)
Lifetime ECL credit impaired	**(55,227)**	2,537	**(55,227)**	2,537
Impairment charge on off balance sheet engagements	**(9,799)**	-	**(9,799)**	-
Net impairment charge on financial assets	133,255	(187,114)	133,255	(187,114)
Impairment (charge)/write-back on debt securities	**(18,253)**	1,479	**(18,253)**	1,479
Impairment on non-financial assets				
Impairment charge on investment in subsidiaries	**-**	-	**-**	(68,444)
Impairment (charge)/writeback on other (financial and non-financial) assets	**(454,028)**	135,726	**(454,028)**	135,726
Net Impairment (charge)/writeback on other (financial and non-financial) assets	**(454,028)**	135,726	**(454,028)**	67,282
	(339,026)	(49,909)	**(339,026)**	(118,353)

10 Fees and commission income

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Credit-related fees	**1,537,199**	1,504,600	**1,537,199**	1,504,600
Brokerage and structuring fees	**2,218,397**	2,470,798	**2,033,251**	2,466,747
Letters of credit commissions and fees	**159,669**	367,840	**159,669**	367,840
Other fees and commissions	**132,909**	335,916	**132,909**	163,455
Fund Management fees	**4,236,558**	3,418,857	**-**	-
	8,284,732	8,098,011	**3,863,028**	4,502,642

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FOR THE YEAR ENDED 31 DECEMBER 2020

11 Net gains on foreign exchange

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Gain on foreign currency translation	81,945	325,587	22,040	323,210
	81,945	325,587	22,040	323,210

11a Net gains on financial assets at FVTPL

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Trading gain	1,148,381	820,082	1,099,401	850,245
Unrealised gain/(loss)	2,601,835	936,729	2,601,835	932,878
	3,750,216	1,756,810	3,701,236	1,783,124

12 Other operating income

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Sundry income	682,911	53,294	174,855	35,767
Dividend Income	1,783	92,567	604,000	-
	684,694	145,861	778,855	35,767

13 Other operating expenses

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Auditors' remuneration	80,289	78,683	60,000	60,000
Directors' emoluments (Note 42)	417,398	463,965	320,197	350,632
Administration and general expenses	1,508,961	1,862,301	217,965	8,387
Insurance	333,787	393,076	312,313	393,076
Rent and rates	167,114	48,920	130,604	48,920
Travelling	42,095	106,414	27,101	106,414
Donations	131,594	14,320	131,594	14,320
Corporate development	284,825	282,264	137,067	252,725
Other operating expenses	1,756,978	873,897	1,207,687	701,353
Consultancy	627,196	443,218	456,655	410,876
Training	222,564	162,014	220,066	127,992
Bank charges	167,212	184,852	167,212	184,852
Repairs and maintenance	44,268	301,688	15,515	297,850
	5,784,280	5,215,612	3,403,976	2,957,396

NOTES TO THE FINANCIAL STATEMENTS

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14 Personnel expenses

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Wages and salaries	**3,568,263**	2,603,909	**2,943,964**	2,283,735
Pension costs:				
- Defined contribution plans to PFAs	**225,674**	183,266	**190,275**	178,446
	3,793,936	2,787,175	**3,134,239**	2,462,181

15 Taxation

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Corporate tax	**936,095**	704,391	**259,193**	183,602
Prior year over provision	**(51,409)**	(132,270)	**(51,409)**	(43,951)
	884,686	572,121	**207,784**	139,651
Deferred tax	**-**	(15,232)	**-**	-
Income tax (credit)/expense	**884,686**	556,888	**207,784**	139,651

Reconciliation of effective tax rate	Group				Bank			
	31 December 2020	%	31 December 2019	%	31 December 2020	%	31 December 2019	%
Profit before income tax	**6,625,361**		**4,149,945**		**5,088,394**		2,779,877	
Income tax using the domestic corporation tax rate	**1,987,608**	30%	**1,244,984**	30%	**1,526,518**	**30%**	833,963	30%
Minimum tax	**122,445**	2%	**104,972**	3%	**122,445**	**2%**	104,971.66	4%
Dividend tax	**-**	-	**-**	-	**-**	**-**	-	-
Technology tax	**49,728**	1%	**30,660**	1%	**49,728**	**1%**	30,660	1%
Income not subjected to tax	**(3,564,241)**	(54%)	**(2,896,674)**	(70%)	**(3,780,052)**	**(74%)**	(2,902,890)	(104%)
Expenses not deductible for tax purposes	**2,289,145**	35%	**2,072,947**	50%	**2,289,145**	**45%**	2,072,947	75%
Income tax expense	**884,686**	13%	**556,887**	13%	**207,784**	**4%**	139,651	5%

15b Current income tax liabilities

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
At start of period	**766,671**	716,309	**183,602**	212,353
Prior year over provision	**(51,409)**	(43,951)	**(51,409)**	(43,951)
Payments made during the period	**(705,497)**	(610,078)	**(132,193)**	(168,402)
Current period's provision	**936,095**	704,391	**259,193**	183,602
At end of period	**945,860**	766,671	**259,193**	183,602

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 2020 is 2.57%, compared to 5% for the year ended 31 December 2019.

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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 2020	31 December 2019	31 December 2020	31 December 2019
Profit attributable to equity holders	**5,740,675**	3,593,057	**4,880,610**	2,640,226
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)	**133**	84	**113**	61

(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 2019: Nil).

17 Cash and balances with Central Bank of Nigeria

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Cash	**1,434**	3,515	**1,434**	3,515
Balances with central banks excluding mandatory reserve deposits	**4,319,160**	298,183	**4,319,160**	298,183
Included in cash and cash equivalents	**4,320,594**	301,698	**4,320,594**	301,698
Mandatory reserve deposits with Central Bank of Nigeria	**39,370,061**	8,000,335	**39,370,061**	8,000,335
	43,690,655	8,302,033	**43,690,655**	8,302,033

18 Due from other banks

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Current account balances with banks within Nigeria	**10,943,136**	1,484,248	**9,624,947**	1,190,728
Current account balances with banks outside Nigeria	**1,572,886**	1,047,043	**1,572,886**	1,047,043
Placements with financial institutions within Nigeria	**13,202,469**	4,846,229	**11,035,369**	2,000,466
	25,718,491	7,377,520	**22,233,202**	4,238,236
Current	**25,718,491**	7,377,520	**22,233,202**	4,238,236

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 2020	31 December 2019	31 December 2020	31 December 2019
Cash and balances with Central Bank of Nigeria	**4,320,594**	301,698	**4,320,594**	301,698
Treasury bills with original maturities less than 3 months	**18,771,035**	19,557,244	**18,771,035**	19,557,244
Due from other banks with original maturities less than 3 months	**25,718,491**	7,377,520	**22,233,202**	4,238,237
	48,810,120	27,236,462	**45,324,831**	24,097,179

20 Financial assets at FVTPL

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Federal Government of Nigeria (FGN) bonds	**1,729,384**	6,947	**1,360,453**	6,947
Corporate bonds	**19,062**	105,337	**19,062**	105,337
Treasury bills	**400**	2,404,878	**400**	2,404,878
Unlisted equity investments	**-**	315,390	**-**	-
Listed equity investments	**161,954**	69,740	**-**	-
	1,910,800	2,902,291	**1,379,915**	2,517,161
Current	**400**	2,479,475	**400**	2,479,475
Non-current	**1,910,400**	422,816	**1,379,515**	37,686
	1,910,800	2,902,291	**1,379,915**	2,517,161

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21 Investments securities

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Fair value through OCI				
Debt securities				
Treasury bills	**19,936,532**	7,460,007	**19,936,532**	7,460,007
Federal Government of Nigeria Bonds	**144,829**	3,349,296	**144,829**	3,349,296
Corporate bonds	**6,982,666**	5,109,624	**5,582,235**	4,759,273
Promisory note	**-**	196,821	**-**	196,821
	27,064,027	16,115,748	**25,663,596**	15,765,398
Equity securities at FVOCI				
Listed equity investments	**20,999**	17,164	**-**	-
Unlisted equity investments	**1,956,221**	551,784	**1,322,584**	260,988
	1,977,220	568,948	**1,322,584**	260,988
Total investments securities	**29,041,247**	16,684,696	**26,986,180**	16,026,386

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 ₦1.32billion as at 31 December 2020.

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Current	**19,936,532**	7,656,829	**19,936,532**	7,656,829
Non-current	**9,104,715**	9,027,867	**7,049,648**	8,369,557
	29,041,247	16,684,696	**26,986,180**	16,026,386

22 Debt securities at amortised cost

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Treasury bills	-	69,158	-	69,158
Commercial papers	-	2,456,685	-	2,456,685
Corporate bonds	-	388,406	-	388,406
Government bonds	**7,583,938**		**7,583,938**	
	7,583,938	2,914,248	**7,583,938**	2,914,248
Total	**7,583,938**	2,914,248	**7,583,938**	2,914,248
Current	**7,583,938**	2,914,248	**7,583,938**	2,914,248

23 Pledged assets

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Treasury bills	**14,281,074**	34,153,436	**14,281,074**	34,153,436
Federal Government of Nigeria Bonds	**2,461,126**	5,229,241	**2,461,126**	5,229,241
	16,742,200	39,382,677	**16,742,200**	39,382,677

Treasury bills are pledged to other financial institutions as collateral for inter-bank takings and FX transactions.

Current	**14,281,074**	34,153,436	**14,281,074**	34,153,436
Non-current	**2,461,126**	5,229,241	**2,461,126**	5,229,241
	16,742,200	39,382,677	**16,742,200**	39,382,677

NOTES TO THE FINANCIAL STATEMENTS
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24 Loans and advances to customers

	Group	Bank
In thousands of Nigerian Naira	31 December 2020	31 December 2020
Loans and advances to customers	56,489,498	56,489,498
Staff loans	671,720	572,231
Gross loans	57,161,218	57,061,729
Impairment on 12-month ECL	-	-
Loans and advances to customers	(1,445,084)	(1,445,084)
Staff loans	(26,918)	(26,918)
Impairment on Lifetime ECL not credit impaired	(1,472,002)	(1,472,002)
Loans and advances to customers	(1,445,084)	(1,445,084)
Staff loans	(26,918)	(26,918)
Total impairment	(1,472,002)	(1,472,002)
Loans and advances to customers	55,044,414	55,044,414
Staff loans	644,802	545,313
Net carrying amount	55,689,216	55,589,727

	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
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	46,390,452

24 Loans and advances to customers (continued)

Group 2020	Total			
	31 December 2020			
In thousands of Nigerian Naira	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	219,968	87,838	1,307,250	1,615,056
Impairment recognised during the year	(176,951)	-	33,897	(143,054)
Transfer between stages	87,838	(87,838)	-	-
Balance at 31 December 2020	130,855	-	1,341,147	1,472,002

	Loans to customers			
	31 December 2020			
In thousands of Nigerian Naira	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	219,455	87,838	1,260,428	1,567,721
Impairment recognised during the year	(177,864)	-	55,227	(122,637)
Transfer between stages	87,838	(87,838)	-	-
Balance at 31 December 2020	129,429	-	1,315,655	1,445,084

	Staff loans			
	31 December 2020			
In thousands of Nigerian Naira	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	513	-	46,822	47,336
Impairment recognised during the year	913	-	(21,331)	(20,417)
Balance at 31 December 2020	1,427	-	25,492	26,918

24 Loans and advances to customers (continued)

Bank 2020	Total			
	31 December 2020			
In thousands of Nigerian Naira	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	219,968	87,838	1,307,250	1,615,056
Impairment recognised during the year	(176,951)	-	33,897	(143,054)
Transfer between stages	87,838	(87,838)	-	-
Balance at 31 December 2020	130,855	-	1,341,147	1,472,002

	Loans to customers			
	31 December 2020			
In thousands of Nigerian Naira	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	219,455	87,838	1,260,428	1,567,721
Impairment recognised during the year	(177,864)	-	55,227	(122,637)
Transfer between stages	87,838	(87,838)	-	-
Balance at 31 December 2020	129,429	-	1,315,655	1,445,084

	Staff loans			
	31 December 2020			
In thousands of Nigerian Naira	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	513	-	46,822	47,336
Impairment recognised during the year	913	-	(21,331)	(20,417)
Balance at 31 December 2020	1,427	-	25,492	26,918

NOTES TO THE FINANCIAL STATEMENTS

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24 Loans and advances to customers (continued)

Group 2019	Total			
	31 December 2019			
In thousands of Nigerian Naira	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
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 December 2019			
In thousands of Nigerian Naira	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
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 December 2019			
In thousands of Nigerian Naira	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2019	3,654	-	67,023	70,677
Impairment recognised during the year	(3,141)	-	(20,201)	(23,342)
Balance at 31 December 2019	513	-	46,822	47,335

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24 Loans and advances to customers (continued)

Bank 2019	Total			
	31 December 2019			
In thousands of Nigerian Naira	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
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 December 2019			
In thousands of Nigerian Naira	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
Impairment recognised during the year	212,993	-	(2,537)	210,456
Transfer between stages	(78,689)	78,689	-	-
Balance at 31 December 2019	85,151	9,149	1,262,965	1,567,721

	Staff loans			
	31 December 2019			
In thousands of Nigerian Naira	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2019	3,654	-	67,023	70,677
Impairment recognised during the year	(3,141)	-	(20,201)	(23,342)
Balance at 31 December 2019	513	-	46,822	47,336

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25 Other assets

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Other financial assets:				
Fees receivable	3,277,538	4,120,346	2,096,218	3,247,210
AGSMEIS Investment Fund	684,115	552,115	684,115	552,115
SMIS FX Intervention Receivable	-	2,702,445	-	2,702,445
Dividends Receivable	-	-	604,000	-
Intercompany receivable	651,008	606,941	1,268,869	1,975,804
Other receivable	384,789	571,702	44,480	486,945
	4,997,450	8,553,548	4,697,682	8,964,519
Less allowances for impairment of other financial assets	(819,738)	(1,500,171)	(819,738)	(1,500,171)
	4,177,712	7,053,377	3,877,944	7,464,348
Non-financial assets:				
Withholding tax receivable	1,990,733	1,524,550	1,209,491	1,183,225
Prepayments	1,169,340	597,054	879,751	567,519
	7,337,785	9,174,981	5,967,186	9,215,092
Less allowances for impairment	(710,389)	(705,825)	(702,130)	-697,565
	6,627,396	8,469,156	5,265,056	8,517,527
The allowance for impairment relates to fees receivable as at 31 December 2020.				
Current	5,943,281	7,917,042	4,580,941	7,965,412
Non-current	684,115	552,114	684,115	552,115
	6,627,396	8,469,156	5,265,056	8,517,527
Allowance for impairment on financial asset				
Balance at 1 January	1,500,171	1,748,979	1,500,171	1,748,979
Trade receivables written-off	(1,129,897)	-	(1,129,897)	-
Additional/(write-back of) provision	449,463	(248,808)	449,463	(248,808)
Balance at 31 December	819,738	1,500,171	819,738	1,500,171
Allowance for impairment on non financial asset				
Balance at 1 January	705,825	587,483	697,565	587,483
Additional/(write-back of) provision	4,564	118,342	4,565	110,082
	710,389	705,825	702,130	697,565

26 Investment in subsidiaries

	Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019
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)**	(423,777)
	1,313,329	1,313,329
Allowance for impairment on investment in subsidiaries		
Balance at 1 January	**(423,777)**	(355,333)
Additional provision	**-**	(68,444)
	(423,777)	(423,777)

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.

In thousands of Nigerian Naira	31 December 2020
FBNQuest Securities Limited	**1,024,323**
FBNQuest Asset Management Limited	**289,006**
	1,313,329

NOTES TO THE FINANCIAL STATEMENTS

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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 2020	31 December 2020
Operating income	5,010,999	216,794
Total operating expenses	(2,715,016)	(371,813)
Profit/(loss) before income tax	2,295,982	(155,019)
Income tax expense	(679,837)	2,935
Profit/(loss) for the period	1,616,146	(152,084)

ii Condensed statement of financial position

as at 31 December 2020

In thousands of Nigerian Naira	31 December 2020	31 December 2020
Assets		
Cash and cash equivalents	2,379,804	1,106,740
Prepayments	282,061	7,528
Financial assets:		
Fair value through profit and loss	444,821	86,059
Fair value through other comprehensive income	1,293,933	761,134
Loans and receivables	872,481	348,560
Property and equipment	41,740	11,456
Intangible assets	3,680	17,599
Deferred tax assets	-	399,563
Deposit with NSE	-	1,150
	5,318,521	2,739,790
Financed by:		
Accruals and other liabilities	2,193,589	1,906,907
Tax payable	686,064	603
Deferred tax liabilities	83,828	-
Total equity	3,534,132	824,021
	6,497,613	2,731,530

27 Deposit with Nigerian Stock Exchange

In thousands of Nigerian Naira	31 December 2020	31 December 2019
FBN Securities Limited	1,150	1,150
	1,150	1,150

NOTES TO THE FINANCIAL STATEMENTS

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28 Property and equipment (Group)

2020 *In thousands of Nigerian Naira*	Freehold building	Land	Motor vehicle	Office improvement	Furniture fittings	Office equipment	Computer equipment	Work-in progress	Total
Cost									
At 1 January	675,355	200,000	1,087,719	104,228	124,228	68,490	620,600	-	2,880,620
Addition during the period	-	-	285,082	-	1,400	6,784	42,113	55,812	391,191
Disposals during the period	-	-	(190,052)	-	-	-	(216)	-	(190,268)
Reclassifications	-	-	-	-	-	-	-	41,588	41,588
At 31 December	675,355	200,000	1,182,749	104,228	125,628	75,274	662,497	97,400	3,123,131
Depreciation									
At 1 January	125,568	-	708,126	35,329	92,209	60,722	470,217	-	1,492,172
Charge for period	21,590	-	243,134	20,312	14,797	6,722	143,966	-	450,521
Disposals during the period	-	-	(168,102)	-	-	-	(216)	-	(168,318)
Reclassifications	-	-	-	11,010	-	(11,010)	-	-	-
At 31 December	147,158	-	783,158	66,651	107,006	56,434	613,967	-	1,774,375
Net book value									
At 31 December, 2020	528,197	200,000	399,591	37,577	18,622	18,840	48,530	97,400	1,348,756

2019									
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 2019	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)	-	(160,830)
Reclassifications	(4,643)	-	47,871	(10,422)	11,791	(804)	972	-	44,764
At 31 December	125,568	-	708,126	35,329	92,209	60,722	470,217	-	1,492,172
Net book value									
At 31 December 2019	549,786	200,000	379,592	68,899	32,018	7,768	150,383	-	1,388,448

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28 Property and equipment (Bank)

2020 *In thousands of Nigerian Naira*	Freehold building	Land	Motor vehicle	Office improvement	Furniture fittings	Office equipment	Computer equipment	Work-in progress	Total
Cost									
At 1 January	675,355	200,000	975,888	104,228	123,554	66,833	619,899	-	2,765,757
Addition during the period	-	-	278,000	-	796	6,784	29,097	55,812	370,488
Disposals during the period	-	-	(190,052)	-	-	-	(216)		(190,268)
Reclassifications	-	-	-	-	-	-	-	41,588	41,588
At 31 December	675,355	200,000	1,063,836	104,228	124,350	73,617	648,780	97,399	2,987,564
Depreciation									
At 1 January	125,568	-	657,005	35,329	92,073	59,990	470,040	-	1,440,005
Charge for period	21,590	-	215,998	20,312	14,513	6,403	141,502	-	420,318
Disposals during the period	-	-	(168,102)	-	-	-	(216)	-	(168,318)
Reclassifications	-	-	-	11,010	-	(11,010)	-	-	-
At 31 December	147,158	-	704,901	66,651	106,586	55,383	611,326	-	1,692,004
Net book value									
At 31 December, 2020	528,197	200,000	358,936	37,577	17,764	18,234	37,454	97,399	1,295,560

2019									
Cost									
At 1 January	675,355	200,000	980,589	95,669	111,055	84,599	603,344	-	2,750,610
Addition during the year	-	-	107,465	8,559	3,192	956	11,059	-	131,231
Disposals during the year	-	-	(154,612)		(1,617)	(2,109)	(2,510)	-	(160,848)
Reclassifications	-	-	42,447	-	10,924	(16,614)	8,006	-	44,763
At 31 December 2019	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 Year	15,890	-	225,740	23,074	16,643	9,554	172,660	-	463,562
Disposals during the year	-	-	(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 2019	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	318,885	68,899	31,481	6,843	149,859	-	1,325,752

29 Intangible assets

Group 2020			
In thousands of Nigerian Naira	Computer software	Work-in progress	Total
Cost			
At 1 January	3,739,699	65,416	3,805,115
Additions for the year	87,713	1,973	89,686
Transfers	(15,205)	(43,055)	(58,260)
At 31 December 2020	3,812,207	24,334	3,836,541
Amortisation			
At 1 January	2,941,979	-	2,941,979
Charge for Year	675,784	-	675,784
At 31 December 2020	3,617,763	-	3,617,763
	194,445	24,334	218,778
2019			
Cost			
At 1 January	3,494,295	140,769	3,635,064
Acquired on business combination	-	-	-
Additions for the year	-	170,051	170,051
Transfers	245,405	(245,405)	-
At 31 December 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
Disposals during the year	-		-
At 31 December 2019	2,941,979	-	2,941,979
	797,720	65,416	863,136

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29 Intangible assets (continued)

Bank
2020

In thousands of Nigerian Naira	Computer software	Work-in progress	Total
Cost			
At 1 January	3,346,768	43,055	3,389,823
Additions for the year	87,713	1,973	89,686
Disposals	-	-	-
Transfers	-	(43,055)	(43,055)
At 31 December 2020	3,434,481	1,973	3,436,453
Amortisation			
At 1 January	2,579,792	-	2,579,792
Charge for Year	659,163	-	659,163
Disposals during the year	-	-	-
At 31 December 2020	3,238,955	-	3,238,954
	195,526	1,973	197,499

2019

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 December 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 December 2019	2,579,792	-	2,579,792
	766,976	43,055	810,031

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

30 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2019: 30%).

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

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Deferred tax liabilities				
Property, plant and equipments and intangible assets	-	-	-	-
Deferred tax assets				
Tax loss carry forward	(9,429,283)	(9,426,538)	(9,113,548)	(9,113,548)
Net	(9,429,283)	(9,426,538)	(9,113,548)	(9,113,548)
Deferred tax assets				
- Deferred tax asset to be recovered after more than 12 months	(9,429,283)	(9,426,538)	(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: *In thousands of Nigerian Naira*	1 January 2020	Recognised in profit and loss	Recognised in OCI	31 December 2020
Tax losses	9,266,548	2,745	-	9,269,293
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 carry forward	13,454	-	-	13,454
	9,426,538	2,745	-	9,429,283

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 recognized a deferred tax assets amounting to ₦9.43billion as at 31 December 2020 (31 December 2019: ₦9.43billion). 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 2020

31 Due to banks

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Due to banks comprise:				
Tenored interbank deposit	26,431,637	7,843,697	26,431,637	7,843,697
Open buy back - Treasury bills	2,044,295	19,804,951	2,044,295	19,804,951
	28,475,932	27,648,648	28,475,932	27,648,648
Current	28,475,932	27,648,648	28,475,932	27,648,648
Non-current	-	-	-	-
	28,475,932	27,648,648	28,475,932	27,648,648

32 Due to customers

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Call deposits	445,004	1,157,495	446,259	1,503,373
Tenored deposits	99,691,566	74,518,075	99,691,566	74,518,075
	100,136,570	75,675,570	100,137,825	76,021,448
Current	100,136,570	75,675,570	100,137,825	76,021,448
	100,136,570	75,675,570	100,137,825	76,021,448

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 2020	31 December 2019	31 December 2020	31 December 2019
Financial liabilities:				
Customer deposits for letters of credit	96,073	4,832,216	96,073	4,832,216
Accounts payable	5,827,231	3,041,527	3,756,629	2,707,297
Corporate bonds issued	13,235,587	-	13,235,587	-
Borrowings	10,045,063	387,575	10,045,063	387,575
Uncleared effects	-	1,500	-	1,500
Intercompany balances	-	510	-	-
	29,203,954	8,263,328	27,133,352	7,928,588
Non financial liabilities:				
Accrued liabilities	2,674,654	1,827,456	1,866,627	1,183,915
	31,878,608	10,090,784	28,999,979	9,112,503
Current	31,878,608	10,090,784	28,999,979	9,112,503
Non-current	-	-	-	-
	31,878,608	10,090,784	28,999,979	9,112,503

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FOR THE YEAR ENDED 31 DECEMBER 2020

34 Share capital

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
(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

The Board of Directors approved an Interim Dividend of ₦1.5billion for the 9-month period ended September 30, 2020. No additional dividend has been recommended for the full year ended December 31, 2020.

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 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 2020	31 December 2019	31 December 2020	31 December 2019
FVOCI				
At beginning of the period	**(281,892)**	(2,099,650)	**(315,728)**	(2,086,380)
Fair value movement during the period (unrealised net (loss)/gain)	**2,346,452**	1,817,759	**2,252,673**	1,770,651
Transfers				
At end of the period	**2,064,560**	(281,892)	**1,936,945**	(315,728)

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FOR THE YEAR ENDED 31 DECEMBER 2020

38 Reconciliation of profit before tax to cash generated from operations

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Profit before income tax	**6,625,361**	4,149,945	**5,088,394**	2,779,875
Adjustments for:				
- Depreciation (Notes 28 and 45)	**495,544**	633,192	**465,339**	602,377
- Amortisation (Note 29)	**675,784**	1,207,270	**659,163**	1,097,522
- (Gain)/Loss on disposal of property and equipment	**(62,341)**	(2,029)	**(62,341)**	(2,029)
- Impairment charge for credit and other losses (Note 9)	**339,026**	51,388	**339,026**	119,832
- Net gains from financial assets at FVTPL (Note 11a)	**(3,750,216)**	(1,758,290)	**(3,701,236)**	(1,784,603)
- Net (gain)/loss on derivative financial instruments (Note 44b)	**(34,144)**	(5,369)	**(34,144)**	(5,369)
- Unrealised foreign exchange gain on revaluation (Note 11)	**(81,945)**	(325,587)	**(22,040)**	(323,210)
- Net interest income	**(4,912,345)**	(3,716,833)	**(4,724,979)**	(3,372,963)
	(705,275)	233,687	**(1,992,818)**	(888,567)
Changes in working capital:				
- Due from other banks	**(18,340,971)**	9,960,327	**(17,994,965)**	9,982,890
- Restricted deposit	**(31,369,727)**	(4,120,470)	**(31,369,727)**	(4,120,470)
- Loans and advances to customers	**(9,241,043)**	(11,034,539)	**(9,199,274)**	(11,047,628)
- Financial assets held-for-trading	**991,492**	(1,025,924)	**1,137,247**	(1,214,945)
- Pledged assets	**22,640,477**	(18,283,076)	**22,640,477**	(18,283,076)
- Other assets	**1,960,082**	(2,667,194)	**3,370,793**	(2,541,320)
- Due to banks	**827,284**	19,644,703	**827,284**	19,644,702
- Due to customers	**24,461,000**	(15,182,901)	**24,116,376**	(14,955,920)
- Other liabilities	**21,787,824**	17,143	**19,887,476**	270,809
Cash generated from operations	**13,011,144**	(22,458,244)	**11,422,870**	(23,153,525)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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 2019: 3).

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 typically comprise guarantees and letters of credit.

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Performance bonds and guarantees	**3,672,420**	3,642,420	**3,672,420**	3,642,420
Letters of credits	**11,884,579**	10,310,436	**11,884,579**	10,310,436
	15,556,999	13,952,856	**15,556,999**	13,952,856

Capital commitments

At the end of the year, the Bank had no capital commitments (31 December 2019: 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 2020	31 December 2019
Loans and advances to customers		
Loans outstanding at 1 January	**132,821**	155,754
Loans issued during the period	**305,988**	98,233
Loan repayments during the period	**(19,855)**	(121,166)
	418,954	132,821
Loans and advances to banks	**-**	-
Balance as at 31 December	**418,954**	132,821
Interest income earned	**20,873**	11,323

The loans issued to key management personnel during the year of ₦305.99mn (2019: ₦98.23mn) are repayable monthly over a period of between two to twenty years and have interest rates of 8% (2019: 8%).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

40.2 Deposits from related parties

Year ended 31 December 2020	Entities controlled by the parent (₦'000)	Key management personnel (₦'000)
Deposit from customers		
Deposits at 1 January	2,862,548	789
Movement during the year	8,216,431	56,449
	11,078,979	57,238
Due to banks	-	-
Deposits at 31 December	11,078,979	57,238
Interest expenses on deposits	226,231	-
Year ended 31 December 2019		
Deposit from customers		
Deposits at 1 January	110,517	4,598
Movement during the year	2,752,031	(3,809)
	2,862,548	789
Due to banks	-	-
Deposits at 31 December	2,862,548	789
Interest expenses on deposits	690,073	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

40.3 Other transactions and balances with related parties

Year ended 31 December 2020 *In thousands of Nigerian Naira*	**Nature of transaction**	31 December 2020	31 December 2019
FBNQuest Capital Group	Interest expense	**149,822**	279,624
FBNQuest Asset Management	Interest expense	**18,969**	33,014
FBNQuest Securities	Interest expense	**-**	11,191
FBNQuest Trustees	Interest expense	**15,296**	43,963
FBNHoldings	Interest expense	**42,145**	322,281
FBNQuest Securities	Deposit liabilities	**1,255**	1,255
FBNQuest Capital Group	Fees and other receivables	**631,941**	606,941
FBNQuest Capital Group	Deposit liabilities	**7,929,680**	1,983,983
FBNQuest Asset Management	Deposit liabilities	**-**	754,708
FBNQuest Trustees	Deposit liabilities	**206,872**	878,565
FBNHoldings	Deposit liabilities	**2,942,427**	547,787
FBN Ltd	Due to banks	**-**	1,300,000
FBN Ltd	Loans and advances to banks	**-**	875,090
FBNQuest Asset Management	Other receivables	**589,828**	1,197,482
FBNQuest Asset Management	Dividend receivable	**604,000**	-
FBNQuest Securities	Other receivables	**28,033**	168,934
Taiwo Okeowo	Securities lending	**-**	387,575

40.4 Key management compensation

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Salaries and other short-term employee benefits	**637,846**	637,846	**548,202**	548,202
Defined contribution costs	**54,672**	54,672	**46,988**	46,988
	692,518	692,518	**595,191**	595,191

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 Bank Limited.

NOTES TO THE FINANCIAL STATEMENTS

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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	**151**	**89**	**62**	**59%**	**41%**
Gender Analysis of Board and Management 2019					
Board	9	7	2	78%	22%
Top Management (AGM to GM)	15	10	5	67%	33%
	24	17	7	71%	29%
Gender Analysis of Board and Management 2020					
Assistant General Manager	**8**	**2**	**6**	**25%**	**75%**
Deputy General Manager	**4**	**2**	**2**	**50%**	**50%**
General Manager	**3**	**1**	**2**	**33%**	**67%**
Deputy Managing Director	**1**	**1**	**-**	**100%**	**0%**
Managing Director	**1**	**1**	**-**	**100%**	**0%**
Non-Executive Directors	**7**	**5**	**2**	**71%**	**29%**
	24	**12**	**12**	**50%**	**50%**

Compensation for the above staff excluding executive management:

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Wages and salaries	**3,568,263**	2,603,909	**2,943,964**	2,283,735
Other pension costs	**225,674**	183,266	**190,275**	178,446
	3,793,937	2,787,175	**3,134,239**	2,462,181

41 Employees (continued)

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 2020	31 December 2019	31 December 2020	31 December 2019
₦350,001	-	₦600,000	-	-	-	-
₦600,001	-	₦700,000	-	-	-	-
₦700,001	-	₦1,150,000	1	-	1	-
₦1,150,001	-	₦1,600,000	7	1	7	1
₦1,600,001	-	₦2,100,000	8	1	5	1
₦2,100,001	-	₦2,500,000	-	-	-	-
₦2,500,001	-	₦3,500,000	4	25	-	21
₦3,500,001	-	₦5,500,000	60	30	45	23
₦5,500,001	-	₦10,500,000	50	58	42	48
₦10,500,001 and above			54	89	51	80
			184	204	151	174

In accordance with the provisions of the Pensions Reform Act 2014, the Bank commenced a contributory pension scheme in January 2015. 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 ₦190.27million (31 December 2019: ₦165.92million).

42 Directors' emoluments

Remuneration paid to the Bank's Directors was:

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Fees and sitting allowances	114,635	130,857	114,635	130,857
Executive compensation	302,763	328,959	205,563	215,626
Terminal benefits	-	-	-	-
Other Director expenses	-	4,150	-	4,150
	417,397	463,965	320,197	350,632

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

42 Directors' emoluments (continued)

Fees and other emoluments disclosed above include amounts paid to:

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Chairman	22,172	22,868	22,172	22,868
Highest paid Director	74,250	74,250	74,250	74,250

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 2020	31 December 2019	31 December 2020	31 December 2019
₦5,000,001 and above	7	8	7	8
	7	8	7	8

43 Compliance with regulatory bodies

The Bank recorded no regulatory infractions in the financial year ended 31 December 2020, and no fines or penalties were paid.

44 Derivative financial instruments

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Derivative assets				
Instrument type: Forwards	**86,653**	330,894	**86,653**	330,894
Instrument type: OTC FX futures	**331,017**	143,863	**331,017**	143,863
The movement in derivative asset is as follows:				
Balance, beginning of the period	**474,757**	219,954	**474,757**	219,954
Fair value of derivatives acquired in the year	**417,669**	474,757	**417,669**	474,757
Fair value of derivatives derecognised in the year	**(474,757)**	(219,954)	**(474,757)**	(219,954)
Balance, end of the period	**417,669**	474,757	**417,669**	474,757
Derivative liabilities				
Instrument type: Forwards	**(52,509)**	(325,526)	**(52,509)**	(325,526)
Instrument type: OTC FX futures	**(331,017)**	(143,863)	**(331,017)**	(143,863)
The movement in derivatives liability is as follows:				
Balance, beginning of the period	**(469,389)**	(219,954)	**(469,389)**	(219,954)
Fair value of derivatives acquired in the year	**(383,526)**	(469,389)	**(383,526)**	(469,389)
Fair value of derivatives derecognised in the year	**469,389**	219,954	**469,389**	219,954
Balance, end of the period	**(383,526)**	(469,389)	**(383,526)**	(469,389)

	Group			
In thousands of Nigerian Naira	31 December 2020 Notional Value	31 December 2020 Fair Value	31 December 2019 Notional Value	31 December 2019 Fair Value
Derivative assets				
Instrument type: Forwards	**4,082,852**	**86,653**	3,995,012	330,894
Instrument type: OTC FX futures	**13,566,966**	**331,017**	38,036,956	143,863
Derivative liabilities				
Instrument type: Forwards	**(4,075,297)**	**(52,509)**	(3,994,656)	(325,526)
Instrument type: OTC FX futures	**(13,566,966)**	**(331,017)**	(38,036,956)	(143,863)

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44 Derivative financial instruments (continued)

	Bank			
In thousands of Nigerian Naira	31 December 2020 Notional Value	31 December 2020 Fair Value	31 December 2019 Notional Value	31 December 2019 Fair Value
Derivative assets				
Instrument type: Forwards	4,082,852	86,653	3,995,012	330,894
Instrument type: OTC FX futures	13,566,966	331,017	38,036,956	219,954
Derivative liabilities				
Instrument type: Forwards	(4,075,297)	(52,509)	(3,994,656)	(325,526)
Instrument type: OTC FX futures	(13,566,966)	(331,017)	(38,036,956)	(219,954)

Maturity analysis						
Group 2020	0 - 30 days	31 - 90 days	91 - 180 days	181 - 270 days	271 - 365 days	Total
Derivatives assets	363,308	28,363	25,999	-	-	417,670
Derivatives liabilities	(345,891)	(11,636)	(25,999)	-	-	(383,526)

Group 2019						
Maturity analysis	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)

Bank 2020						
Maturity analysis	0 - 30 days	31 - 90 days	91 - 180 days	180 - 270 days	270 - 365 days	Total
Derivatives assets	363,308	28,363	25,999	-	-	417,670
Derivatives liabilities	(345,891)	(11,636)	(25,999)	-	-	(383,526)

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)

NOTES TO THE FINANCIAL STATEMENTS

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45 Right-of-use assets

In thousands of Nigerian Naira	Land	Building	Total
Group			
Cost			
As at 1 January 2020	47,936	266,087	314,023
Additions	-	62,896	62,896
Reversals due to lease modifications		(136,196)	(136,196)
As at 31 December 2020	47,936	192,787	240,723
Depreciation			
As at 1 January 2020	24,612	114,203	138,815
Depreciation for the year	-	45,022	45,022
As at 31 December 2020	24,612	159,225	183,837
Carrying amount as at 31 December 2020	23,323	33,562	56,886
Gain/(Loss) on lease modification for the year ended 31 December 2020	-	(17,823)	(17,824)
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	24,612	114,203	138,815
As at 31 December 2019	24,612	114,203	138,815
Carrying amount as at 31 December 2019	23,323	151,884	175,208

Bank			
Cost			
As at 1 January 2020	47,936	266,087	314,023
Additions	-	62,896	62,896
Reversals due to lease modifications	-	(136,196)	(136,196)
As at 31 December 2020	47,936	192,787	240,723
Depreciation			
As at 1 January 2020	24,612	114,203	138,815
Depreciation for the year	-	45,022	45,022
As at 31 December 2020	24,612	159,225	183,837
Carrying amount as at 31 December 2020	23,323	33,562	56,886
Gain/(Loss) on Lease Modification for the year ended 31 December 2020	-	(17,824)	(17,824)
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	24,612	114,203	138,815
As at 31 December 2019	24,612	114,203	138,815
Carrying amount as at 31 December 2019	23,323	151,884	175,208

NOTES TO THE FINANCIAL STATEMENTS
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46 Lease liabilities

	Group		Bank	
In thousands of Nigerian Naira	31 December 2020	31 December 2019	31 December 2020	31 December 2019
As at 1 January 2020	115,233	102,330	115,233	102,330
Additions	24,439	-	24,439	-
Reversals due to lease modifications	(118,373)	-	(118,373)	-
Charges for the year	3,800	12,904	3,800	12,904
Lease liabilities as at 31 December 2020	25,100	115,233	25,100	115,233

47 Subsequent events

The new Finance Act signed into law 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 2020

GROUP	Dec 2020 ₦'000	%	Dec 2019 ₦'000	%
Gross earnings	24,398,976		24,858,487	
Interest expense	(6,685,044)		(10,815,384)	
	17,713,932		14,043,103	
Impairment loss on financial assets	(339,026)		(49,909)	
	17,374,906		13,993,194	
Bought in materials and services	(5,784,280)		(5,215,612)	
Value added	11,590,626	100	8,777,582	100
Distribution of value added				
To government:				
Taxes	884,687	8	556,888	6
To employees:				
Salaries and benefits	3,793,936	33	2,787,175	32
The future:				
For replacement of fixed assets/intangible assets (depreciation and amortisation)	1,171,328	10	1,840,461	21
To augment reserves	5,740,675	49	3,593,057	41
	11,590,626	100	8,777,582	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 2020

BANK	Dec 2020 ₦'000	%	Dec 2019 ₦'000	%
Gross earnings	19,794,151		20,877,296	
Interest expense	(6,704,013)		(10,859,589)	
	13,090,138		10,017,707	
Impairment loss on financial assets	(339,026)		(118,353)	
	12,751,112		9,899,354	
Bought in materials and services	(3,403,976)		(2,957,396)	
Value added	9,347,136	100	6,941,958	100
Distribution of value added				
To government:				
Taxes	207,784	2	139,651	2
To employees:				
Salaries and benefits	3,134,239	33	2,462,181	35
The future:				
For replacement of fixed assets/intangible assets (depreciation and amortisation)	1,124,503	12	1,699,900	24
To augument reserves	4,880,610	53	2,640,226	38
	9,347,136	100	6,941,958	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 2020

BANK	31 Dec 2020 ₦'000	31 Dec 2019 ₦'000	31 Dec 2018 ₦'000	31 Dec 2017 ₦'000	31 Dec 2016 ₦'000
Statement of financial position					
ASSETS					
Cash and balances with Central Bank of Nigeria	**43,690,655**	8,302,033	4,653,015	3,072,985	65,701
Loans and advances to banks	**22,233,202**	4,238,237	14,221,127	14,020,829	5,650,754
Loans and advances to customers	**55,589,727**	46,390,453	35,342,825	39,153,234	41,684,102
Financial assets held for trading	**1,379,915**	2,517,162	1,302,217	3,319,701	17,677,609
Investment securities:		-	-	-	
- Fair value through OCI	**26,986,180**	16,026,386	33,592,365	-	-
- Available-for-sale	**-**	-	-	48,888,808	20,836,198
- Amortised cost	**7,583,938**	2,914,249	1,275,653	-	-
- Loans and receivable/Held-to-maturity	**-**	-	-	3,902,759	-
Pledged assets	**16,742,200**	39,382,677	21,099,601	6,823,144	36,286,655
Derivative financial assets	**417,669**	474,757	219,954	32,562	-
Other assets	**5,265,056**	8,517,527	6,151,414	3,993,045	4,644,967
Investment in subsidiaries	**1,313,329**	1,313,329	1,381,773	1,737,106	-
Deposit with Nigerian Stock Exchange	**-**	-	-	-	-
Property and equipment	**1,295,560**	1,325,752	1,683,237	1,790,618	1,056,192
Intangible assets	**197,499**	810,031	1,758,235	2,840,915	972,585
Right of use assets	**56,886**	175,208	-	-	-
Deferred tax assets	**9,113,548**	9,113,548	9,113,548	9,113,547	8,397,897
TOTAL ASSETS	**191,865,364**	141,501,349	131,794,965	138,689,253	137,272,660
LIABILITIES					
Due to banks	**28,475,932**	27,648,648	8,003,945	11,639,548	38,863,965
Due to customers	**100,137,825**	76,021,448	90,977,369	87,490,984	64,727,659
Current income tax liability	**259,193**	183,602	212,353	1,579,252	363,559
Other liabilities	**28,999,979**	9,112,503	8,841,694	11,607,283	4,358,420
Lease liabilities	**25,100**	115,233	-	-	-
Derivative financial instrument	**383,526**	469,389	219,954	32,562	-
Deferred tax liability	**-**	-	-	-	-
TOTAL LIABILITIES	**158,281,555**	113,550,823	108,255,315	112,349,629	108,313,603
NET ASSETS	**33,583,809**	27,950,526	23,539,650	26,339,624	28,959,057

FIVE-YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2020

BANK	31 Dec 2020 ₦'000	31 Dec 2019 ₦'000	31 Dec 2018 ₦'000	31 Dec 2017 ₦'000	31 Dec 2016 ₦'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	**12,694,799**	11,261,008	9,516,426	9,570,194	14,013,717
Statutory reserve	**8,610,990**	7,878,900	7,482,866	7,174,165	6,561,495
Credit risk reserve	**2,134,767**	920,039	420,430	1,809,688	2,594,371
Fair value reserve	**1,936,945**	(315,729)	(2,086,380)	-	-
Available-for-sale (AFS) reserve	**-**	-	-	(420,731)	(2,416,834)
SHAREHOLDERS' FUNDS	**33,583,809**	27,950,526	23,539,650	26,339,624	28,959,057
Income statement					
Operating income	**12,751,112**	9,899,353	9,598,185	11,591,642	8,083,209
Operating expenses	**(7,662,718)**	(7,119,476)	(7,328,073)	(6,643,577)	(3,167,299)
Profit before tax	**5,088,394**	2,779,877	2,270,112	4,948,065	4,915,910
Tax	**(207,784)**	(139,651)	(212,100)	(863,601)	(16,083)
Profit after tax	**4,880,610**	2,640,226	2,058,012	4,084,464	4,899,827
Earnings per share - basic (kobo)	**113**	61	48	95	109

OTHER NATIONAL DISCLOSURES

STATEMENT OF PRUDENTIAL ADJUSTMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

	31 December 2020 ₦'000	31 December 2019 ₦'000
Prudential guidelines provision:		
Balance brought forward:		
- Specific provisions	4,152,099	3,070,431
- General provisions	1,001,162	849,510
	5,153,261	3,919,941
Charge for the year:		
- Specific provisions	315,924	1,081,668
- General provisions	115,836	151,652
	431,760	1,233,321
Balance carried forward:		
- Specific provisions	4,468,023	4,152,099
- General provisions	1,116,998	1,001,162
	5,585,021	5,153,262
IFRS impairment provisions:		
- Allowance for impairment (Loans, Contingents and Debt securities)	1,504,610	1,615,056
- Other impairment (Other assets and subsidiaries)	1,945,644	2,621,513
	3,450,254	4,236,570
Required credit risk reserve at end of the year	2,134,767	920,039
Balance at beginning of the year	920,039	420,430
Addition/(reversal) to credit risk reserve	1,214,728	499,609
Balance at end of the period	2,134,767	920,039

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.

Contact Information

Buisness Address		Telephone Number
	Merchant Bank and Asset Management	
Entity	**Address**	**Contact Number**
FBNQuest Merchant Bank Limited	10 Keffi Street, Off Awolowo Road, S.W. Ikoyi, Lagos, Nigeria.	+234 708 062 6000-4
	First Bank Building (3rd Floor), 22/24, Aba Road, Port Harcourt, Rivers, Nigeria	+234 8129934624
	18, Mediterranean Street, Imani Estate, Maitama. Abuja, Nigeria	+234 8129934620
FBNQuest Capital Limited	16 Keffi Street, Off Awolowo Road, S.W. Ikoyi, Lagos, Nigeria	+234 708 062 6000-4
FBNQuest Asset Management Limited	16 Keffi Street, Off Awolowo Road, S.W. Ikoyi, Lagos, Nigeria	+234 708 062 6000-4
	First Bank Building (3rd Floor), 22/24, Aba Road, Port Harcourt, Rivers, Nigeria	+234 812 993 4624
	18, Mediterranean Street, Imani Estate, Maitama, Abuja, Nigeria	+234 9062927731
FBNQuest Trustees Limited	10, Keffi Street, Off Awolowo Road, S.W. Ikoyi, Lagos, Nigeria	+234 708 062 6000-4
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FBNQuest Funds Limited	16 Keffi Street, Off Awolowo Road, South/West, Ikoyi, Lagos, Nigeria	+234 708 062 6000-4
FBNQuest Securities Limited	16 Keffi Street, Off Awolowo Road, South/West, Ikoyi, Lagos, Nigeria	+234 708 062 6000-4

Abbreviations

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

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

FBNQuest Merchant Bank

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